



**Clear Blue Technologies International Inc.  
Interim Management's Discussion & Analysis  
Quarterly Highlights  
For the nine months ended September 30, 2019 and 2018**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
IN CONNECTION WITH THE FINANCIAL STATEMENTS OF  
CLEAR BLUE TECHNOLOGIES INTERNATIONAL INC.  
FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2019 AND 2018**

This management's discussion and analysis of the results of operations and financial condition (the "MD&A") of Clear Blue Technologies International Inc. ("Clear Blue" or "Company") should be read in conjunction with the interim consolidated financial statements of Clear Blue and the related notes thereto for the interim period ended September 30, 2019. This MD&A is presented as of November 27, 2019 and is current to that date unless otherwise stated. The financial information presented in this MD&A is derived from Clear Blue's unaudited interim consolidated financial statements for the interim period ended September 30, 2019, prepared in accordance with IFRS.

**Caution Regarding Forward Looking Information**

*This management's discussion and analysis contains certain "forward-looking information" within the meaning of applicable Canadian securities legislation and may also contain statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking information and forward-looking statements are not representative of historical facts or information or current condition, but instead represent only Clear Blue's beliefs regarding future events, plans or objectives, many of which, by their nature, are inherently uncertain and outside of Clear Blue's control. Generally, such forward-looking information or forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved". By identifying such information and statements in this manner, Clear Blue is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Clear Blue to be materially different from those expressed or implied by such information and statements.*

An investment in securities of Clear Blue is speculative and subject to several risks including, without limitation, the risks discussed under the heading "Risk Factors" in Clear Blue's listing application dated July 12, 2018. Although Clear Blue has attempted to identify important factors that could cause actual results to differ materially from those contained in the forward-looking information and forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended.

In connection with the forward-looking information and forward-looking statements contained in this management's discussion and analysis, Clear Blue has made certain assumptions. Although Clear Blue believes that the assumptions and factors used in preparing, and the expectations contained in, the forward-looking information and statements are reasonable, undue reliance should not be placed on such information and statements, and no assurance or guarantee can be given that such forward-looking information and statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information and

statements. The forward-looking information and forward-looking statements contained in this management's discussion and analysis are made as of the date of this management's discussion and analysis, and Clear Blue does not undertake to update any forward-looking information and/or forward-looking statements that are contained or referenced herein, except in accordance with applicable securities laws. All subsequent written and oral forward-looking information and statements attributable to Clear Blue or persons acting on its behalf are expressly qualified in their entirety by this notice.

## **Our Business**

Clear Blue delivers clean managed wireless power – anytime and anywhere. It does this by developing and selling "Smart Off-Grid" power solutions to power, control, monitor, manage, and proactively service solar and hybrid-powered systems such as streetlights, security systems, telecommunications systems, emergency power, and Internet of Things ("IoT") devices. Under the Illumient brand, Clear Blue also sells solar and wind-powered outdoor lighting systems. Clear Blue provides ongoing power and energy delivery and management services with our Illumience service. In Q2 2019, Clear Blue also launched its Energy as a Service offering which provides a higher level of ongoing service to its customers and earns Clear Blue long-term recurring revenues in excess of revenues received for a pure hardware sale.

In July 2018, Clear Blue Technologies Inc. ("CBTI"), completed a business combination with Dagobah Ventures Ltd. ("Dagobah"), pursuant to which Dagobah acquired all the issued and outstanding securities of CBTI (the "Transaction"). Under the terms of an amalgamation agreement among Dagobah, 2621388 Ontario Ltd. (a wholly-owned subsidiary of Dagobah) and CBTI, all the outstanding securities of CBTI were exchanged for equivalent securities of Dagobah on a one-for-one basis, such that former securityholders of CBTI continued as security holders of Dagobah. The Transaction constituted a reverse take-over ("RTO"), with the resulting issuer being named "Clear Blue Technologies International Inc.", also referred to herein as "Clear Blue" or the "Company".

## **How We Analyze and Report Our Results**

Because our sales involve discrete projects with a wide range of order sizes, we experience high variability of results on a quarter by quarter basis. A trailing four-quarter ("TFQ") analysis therefore provides more relevant perspective on the progress and the potential growth of the Company. The table below presents the Company's trailing four-quarter financial results for the periods ending September 30, 2019 and September 30, 2018, respectively. The TFQ analysis is provided in addition to traditional quarterly and year-to-date analyses.

### **Key Financial Results (all figures in Canadian dollars)**

- Revenue for the three months (Q3) ended Sept 30, 2019 was \$670,159, an increase of 5% over Q3 2018 revenue of \$636,944.
- Gross profit was \$264,334 for the three-month period ended Sept 30, 2019, a decline of 24% compared to gross profit of \$346,984 during the same period in 2018. Gross margin percentage declined to 39% in the quarter as compared to 54% in Q3 2018.

- Trailing Four Quarter revenue for the period ended Sept 30, 2019 was \$2,699,182, a decrease of 39% over revenue of \$4,435,330 in the TFQ period ended Sept 30, 2018.
- On a TFQ basis, gross margin was \$715,912, a decrease of 1% from \$721,678 during the previous equivalent TFQ period. TFQ gross margin percentage was 27%, compared to 16% in the previous equivalent TFQ period.
- Net loss of \$(6,513) for the three months ended September 30, 2019 compared to a net loss of \$(1,391,783) for the comparable quarter of 2018. This represents the first near-breakeven quarter in the Company's history and reflects both positive SRED accruals booked in the quarter and reduced business development and marketing expense.
- Net loss of \$(7,826,361) for the TFQ ended September 30, 2019 compared to \$(4,390,742) for the previous equivalent TFQ period. \$3,550,997 of the September 30 2019 loss relates to one-time RTO costs.
- Energy as Service recurring revenue increased by 25% to \$39,022 for the three months ended Sept 30, 2018 compared to \$31,330 in the comparable period in 2018.

\*One-time listing costs related to the reverse takeover transaction of \$2,771,817 (2017 – \$nil) and a related loss on extinguishment of derivative liability - warrants in the amount of \$422,591 in 2018. The two amounts are part of the other expenses. The operating expenses also included \$356,589 one-time incremental public issuer costs in 2018.

## Subsequent Events

The period following the quarter end on Sept 30, 2019 was notable for the Company with the following outcomes:

- Subsequent to quarter end, on November 12, 2019, one major global telecom operator announced the award of large Rollout contracts to multiple Clear Blue partners. Clear Blue is currently in the late stages of the sales process for the power portion of this project.
- Closing on streetlighting order with a purchase price of approximately \$1.2 million. This is the first million-dollar order in the Company's history.
- During Q3/Q4, four new POCs and two new First Install telecom order was closed bringing the totals to 12 POCs and 5 FIs in progress exceeding prior guidance.
- Subsequent to quarter end, the Company's auditor resigned. The Company is currently interviewing new auditors that will meet Clear Blue's long-term term needs.

## Financial highlights

Results of operations for the three months and nine months ended September 30, 2019 and 2018 are:

Results from Operations	Three Months Ended			%	Nine Months Ended			%
	September 30, 2019	September 30, 2018	Change		September 30, 2019	September 30, 2018	Change	
Revenue	\$ 670,159	\$ 636,944	5%	\$ 1,578,462	\$ 2,659,456	-41%		
Cost of Sales	405,825	289,960	40%	1,082,487	1,940,151	-44%		
Gross Margin	264,334	346,984	-24%	495,975	719,305	-31%		
Gross Margin %	39%	54%		31%	27%			
Operating Expenses	354,278	1,777,600	-80%	3,566,858	4,114,185	-13%		
Operating Loss	(89,944)	(1,430,616)	-94%	(3,070,883)	(3,394,880)	-10%		
Other Expenses	83,431	38,833	115%	(79,448)	(27,658)	187%		
Net Comprehensive Loss	(6,513)	(1,391,783)	-100%	(3,150,331)	(3,422,538)	-8%		

Over the last 3 years, the first half of the Company's fiscal year has traditionally been a small portion of full year revenue, ranging from 14% to 39% of fiscal year full revenue. 2018 was at the high end of this range due to a single large order in Q2 of 2018. In Q3 2019 we generated increased revenues relative to quarterly revenues in the first half of 2019 consistent with this trend.

<b>Results from Operations</b>	<b>TFQ</b>		<b>% Change</b>
	<b>Ended September 30, 2019</b>	<b>Ended September 30, 2018</b>	
Revenue	\$ 2,699,182	\$ 4,435,330	-39%
Cost of Sales	1,983,270	3,713,651	-47%
Gross Margin	715,912	721,678	-1%
Gross Margin %	27%	16%	
Operating and Other Income/Expenses	8,542,273	5,112,421	67%
Net Comprehensive Loss	(\$7,826,361)	(\$4,390,742)	78%

Clear Blue had a \$1,736,148 TFQ revenue decline to September 30, 2019 reflecting the absence of a large order in the first nine months of 2019 relative to the first nine months of 2018. Management is able to confirm that it has P.O.s in hand which should result in a strong Q4 2019.

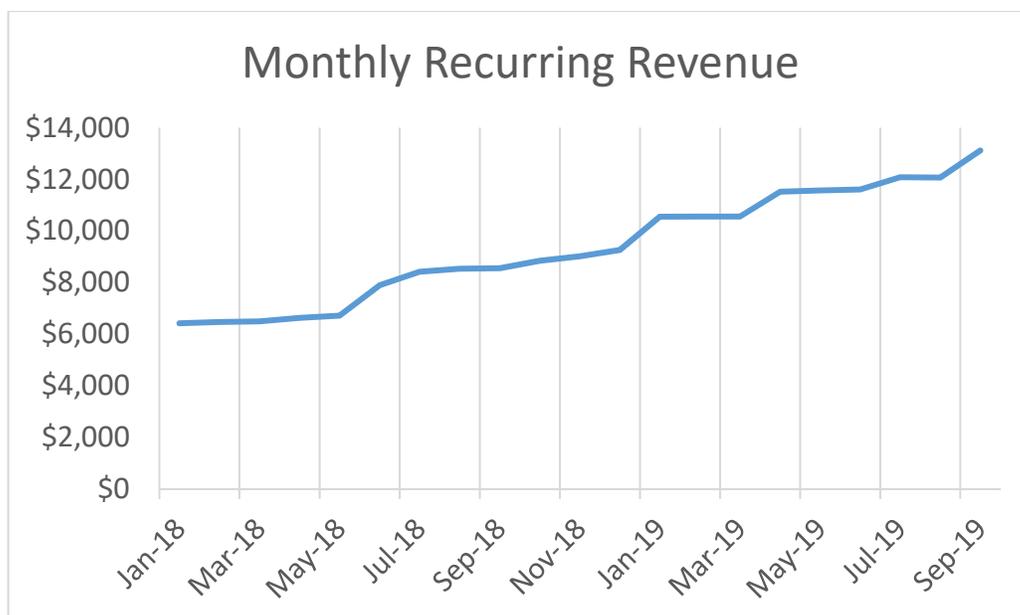
Short term fluctuations in order timing resulted in the highly variable gross margin percentage seen for Q3 2019 relative to Q3 2018 however the increase in TFQ gross margin percentage to 27% in Q3 2019 compared to 16% in Q3 2018 is more indicative of improving profitability of the business measured over longer time frames.

The 67% growth in TFQ operating and other expenses in September 30, 2019 compared to 2018 is primarily a result of non-recurring reporting issuer and going public costs in the amount of \$3,550,997. Fiscal 2019 TFQ results will post date these extraordinary one-time costs. The decline in TFQ net comprehensive loss from \$(4,390,742) ended September 30 2018 to \$(7,826,361) for the nine months ended September 2019 reflects these one-time costs.

## Revenue

Clear Blue delivers clean managed wireless power – anytime and anywhere. It does this by developing and selling "Smart Off-Grid" power solutions to power, control, monitor, manage, and proactively service solar and hybrid-powered systems such as streetlights, security systems, telecommunications systems, emergency power, and Internet of Things ("IoT") devices.

Clear Blue generates product revenue through the sale of our core smart off-grid controllers and systems including several optional accessories, electrical subsystems (including batteries, solar panels, wind turbines, cabling and lights) or full Illumient mechanical system solutions (including pole, lighting arms, solar panel arm, external battery/electronic cabinets). In addition, the Company generates recurring revenue through the provision of our ongoing remote (cloud-based) Illumience and EaaS power and energy management services. Revenue received at the time of sale related to these services is deferred and recognized rateably over the contract term. Recurring revenue per month or MRR helps diversify our revenue mix with a high gross margin offering.



Clear Blue's revenue by category, for the three months ended September 30, 2019 and 2018, was:

Revenue by Category	Three Months Ended		TFQ Ended Sept 30	
	Sept 30, 2019	Sept 30, 2018	2019	2018
<b>Product Revenue</b>				
Smart off-grid controllers and systems	\$ 537,272	\$ 333,809	\$ 1,629,917	\$ 2,332,136
Illumient smart off-grid lighting	93,865	271,805	920,461	1,970,778
Recurring Revenue - Illumience	39,022	31,330	148,804	132,417
<b>Total Revenue</b>	<b>670,159</b>	<b>636,944</b>	<b>2,699,182</b>	<b>4,435,330</b>
Number of Units Deployed	4,009	3,344		
Average Contract Size	\$ 57,014	\$ 27,450		

Clear Blue's revenue distribution by industry vertical is:

Revenue by Vertical	Three Months Ended Sept 30				TFQ Ended Sept 30			
	2019	%	2018	%	2019	%	2018	%
Lighting	\$132,206	20%	\$571,288	90%	\$1,802,973	67%	\$3,941,481	89%
Telecommunications	537,953	80%	61,656	10%	733,732	27%	461,230	10%
Security/IoT/Other	-	0%	4,000	1%	162,477	6%	32,619	1%
<b>Total Revenue</b>	<b>\$670,159</b>		<b>\$636,944</b>		<b>\$2,699,182</b>		<b>\$4,435,330</b>	

Clear Blue's revenue distribution by geography is:

Revenue by Geography	Three Months Ended Sept 30				TFQ Ended Sept 30			
	2019	%	2018	%	2019	%	2018	%
Canada	\$ 73,279	11%	\$ 228,954	36%	\$ 413,279	15%	\$ 1,016,343	23%
USA	55,421	8%	311,867	49%	968,203	36%	1,197,584	27%
MEA	2,274	0%	85,573	13%	640,857	24%	2,198,709	50%
Other	539,186	80%	10,550	2%	676,843	25%	22,694	1%
<b>Total Revenue</b>	<b>\$670,159</b>		<b>\$ 636,944</b>		<b>\$ 2,699,182</b>		<b>\$ 4,435,330</b>	

The reduction in revenue for TFQ ended September 30 2019 shows the lack of any larger orders in H1 2019 to offset one large MEA order in TFQ 2018. This is the main factor behind the lower TFQ results to September 30 2019 versus the comparable period in 2018. The Company believes this is a short-term, single project timing issue and is not indicative of the growth prospects for the Company.

## Gross Margin

Gross margin was \$264,334 for the three months ended September 30, 2019, down by 24% compared to \$346,984 for the three months ended September 30, 2018. Gross margin percentage decreased from 54% to 39%, reflective of short term project timings relative to quarter end. On a TFQ basis, gross margins increased from 16% for TFQ ended September 30, 2019 to 27% for the equivalent period in 2018. Gross margins vary depending on the configuration of products sold, order size and location of sale. Product sales typically generate lower gross margins than recurring revenue. The cost of sales is greatly impacted by larger volume sales, which increases the efficiency of supply chain management, procurement and inventory management. Clear Blue's investments in these areas have begun to yield results as can be seen by the gross margin result on a TFQ basis. Management believes this gross margin improvement reflects the improving scalability of the business.

## Operating Expenses

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Operating expenses				
Salaries, wages and benefits	283,267	357,475	1,188,943	998,547
Research and development	(298,848)	207,585	743,276	864,454
General and administrative	123,190	662,652	448,991	901,190
Stock-based compensation	104,042	62,509	195,360	187,527
Travel	32,649	80,999	189,827	170,494
Business development and marketing	53,144	316,118	443,343	751,673
Rent	58,482	87,498	160,691	148,198
Professional fees	(1,648)	2,764	196,427	92,102
Total operating expenses	354,278	1,777,600	3,566,858	4,114,185

Operating expenses decreased to \$354,278 for the three-month period ended September 30, 2019 compared to \$1,777,600 for the same period in 2018. As the Company concluded its RTO in Q3 of 2018, the Q2 2018 period is prior to funding and Q2 2019 is post funding. The reduced cost on the quarter relates to reduced operating expenses.

Also, in Q3, the company was awarded an IRAP grant for \$467,000. Thus, the company booked two tax receivables for SR&ED and Industrial Research Assistance Program (IRAP) totalling 916,040. The Company historically has received SR&ED support from CRA that closely matched to the Company's estimation. Both receivables reduce R&D costs within the operating expenses.

## Outlook

Clear Blue competes in a marketplace where most competitors focus on large, on-grid systems or they focus only on one-time sales of hardware products. The Company's focus is on the wireless off-grid market and the company's business model is to provide an ongoing Energy as a Service ("EaaS") delivery model where customers receive long term assurance of reliable power and the Company is paid additional revenue over time for that reliability. As a result, Clear Blue holds a first mover advantage and leads the market as evidenced by deployment of our systems in more than 35 countries.

2018 was a year of 65% growth year over year. Although Q3 of 2019 showed only a small growth over Q3 2018, management believes the go forward growth plan supported by substantially enhanced gross margins will exceed the trajectory demonstrated in the past. We believe the telecom sector will lead that growth.

In the lighting vertical, the company's future growth prospects rely on three things:

- Continued robust year over year growth in its North American off-grid streetlight business
- Continued growth in the size and quantity of streetlight projects in emerging markets
- Full rollout and implementation of its EaaS offering which was launched at the end of May 2019.

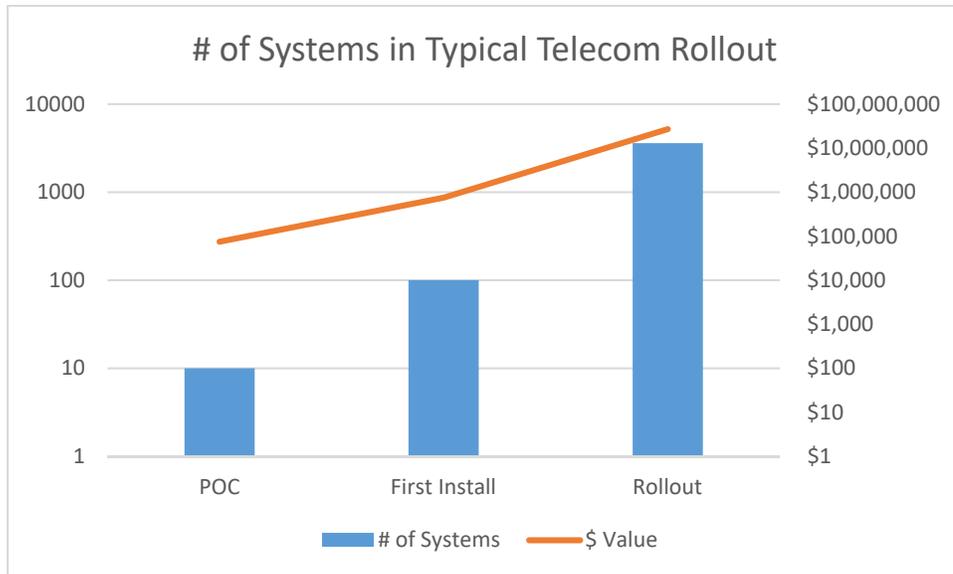
The company believes the EaaS program will have a significant impact on its future growth and profitability through generation of ongoing high gross margin recurring revenues. Clear Blue estimates that for each million of upfront sales, the ten-year value of the contract with EaaS is \$1.48 million. The involved nature of EaaS revenues is projected to further facilitate customer relationships for future contracts.

With Clear Blue now able to demonstrate proven performance, long system life and ease of installation and operation, the adoption of our Smart Off-Grid systems is accelerating. While Solar lighting has been around for many years, it is only now where the performance and cost ratios have made them also viable on main streets and in northern climates, while historically being mainly used in parks and in warmer climates. Management expects this trend will continue to support revenue growth in 2019 and beyond.

With respect to the Telecom vertical, it is now two years since the Company did its first pilot project with its first telecom customer. As of the end of Q3 2019, the Company has delivered 146 systems over 8 Proof of Concept projects and 4 First Installs, and we have received purchase orders for an additional four POCs and one First Installs since the end of the quarter for a total of 12 POCs and 5 First Installs. These projects are in developing regions such as Africa, South America and South East Asia where off-grid powered telecom will be the primary communications network. This includes development of traditional tower infrastructure, satellite/Wi-Fi networks and, in the future, new 5G networks.

The development and sales process in the telecoms market is critical to Clear Blue's growth strategy. In the telecom industry, infrastructure projects follow a frequent pattern of:

- Proof of Concept pilots consisting of 1 – 10 systems, followed by,
- First Installs of 10 – 100 systems, followed by
- Large Rollout of hundreds to thousands of systems



As can be seen in the above graph, customers transition to the full rollout phase, the size and value of the contracts grows significantly with a single telecom cell tower generating \$5,000 to \$25,000 in revenue for Clear Blue. Because telecom projects are bid openly and have multiple parties engaged in each bid, and Clear Blue is often a participant in multiple bids for a project working with large, well-funded bid partners, management has judged that it is prudent to provide shareholders with the above description of magnitude of each phase of project development.

Based on the prior 8 Proof of Concepts and 4 First Install sales, management provided guidance in Q2 that we expect to win at least two more POC and one more First Install in 2019 for a total of 10 Proof of Concepts and 4 First Installs in 2018/2019. Subsequent to quarter end four more POCs and one additional First Install were in fact closed exceeding our previous year end guidance.

While there can be no assurance we will win a Rollout contract, the bid processes currently underway have progressed nicely and one operator announced contract awards to partners of Clear Blue on November 12<sup>th</sup>. Taking into consideration our caution regarding forward looking statements, the Company does see potential for one or more Rollout contracts to be successfully negotiated with its partners for a major Rollout contract. Currently we continue to make progress on all closed POCs and First Installs.

Clear Blue has chosen to initially focus on Africa for telecom. For the African market, Clear Blue believes that it is participating in more than 50% of the rural cell phone bids in the market. This is indicative of the Company's first mover advantage and the credibility of our deployment in 35 countries around the world. Key to our success is our historical data on performance for operating systems. To date we have an aggregate of over 4,000 systems deployed to 37 countries with more

than 2 million days of operating history. This data and our operational track record are important competitive advantages in the marketplace. Our next step in 2020 will be to work on expanding into other large global markets such as India and South East Asia.

The Company expects to continue to see variable quarterly revenue due to the variance in size and timing of new contracts and market expansion rates. Management's longer-term goal and strategy is to mitigate revenue variability through continued diversification into a balanced blend of developed and emerging markets, as well as to increase the recurring portion of our revenue.

### **Fund Raising – Equity Private Placement & Working Capital Line**

During the nine months ended September 30, 2019, the Company closed three private placement equity raise tranches for total cash consideration of \$2,669,875 representing 10,679,500 units. Under the terms of the offering, each unit is comprised of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable at a price of \$0.50 per share for a period of 36 months following the closing and will be subject to accelerated expiration if the 10-day volume weighted average trading price of the Company's common shares is, at any time, greater than \$0.80 per share.

Subsequent to quarter end on September 30, 2019 the Company also closed an \$811,000 convertible debenture financing. The debentures have a 36-month maturity and a 10% coupon paid annually. Holders can convert into units at a price of \$.20 per unit comprised of one common share and one-half common share warrant exercisable at \$.35 per share for three years. Four members of management contributed \$180,000 to the convertible debenture financing.

### **Liquidity and Capital Management**

The Company's objectives when managing capital are:

- To allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments;
- To provide sustained growth and value by increasing equity; and
- To maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company has financed its operations to date through the issuance of common shares, debentures and, government loan and grant programs and a \$1,000,000 revolving credit facility. The Company continues to seek capital through various means including the issuance of securities.

As of September 30, 2019, the Company had working capital of \$2,302,785 compared to working capital of \$2,777,943 as of December 31, 2018. The Company's working capital needs fluctuate due to multiple projects that place variable demands on resources and timing of expenditures. The Company anticipates receiving cash proceeds from future revenue, the exercise of options and warrants, and private placements; however, the Company cannot predict the timing or amount of additional options and warrants that may be exercised, if any.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and the success of Clear Blue’s Smart Off-Grid. Any quoted market for the Company's shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating new revenues, cash flows or earnings.

### **Related Party Transactions**

The Company transacts with key individuals from management who have authority and responsibility to plan, direct, and control the activities of the Company. Key management personnel are defined as the executive officers of the Company and certain other key employees, including the Chief Executive Officer, Chief Power Officer, Chief Technology Officer, and Chief Financial Officer.

Remuneration to key management was as follows for the nine months ending:

	September 30, 2019	September 30, 2018
Salaries and benefits, including bonuses	\$ 422,000	\$ 363,000
Stock-based compensation	18,000	39,000
<b>Total</b>	<b>\$ 440,000</b>	<b>\$ 402,000</b>

The remuneration related to stock-based compensation in the table above represents the entire fair value of the stock options issued to key management during each year which will be recognized as expense over the related vesting periods.

Subsequent to quarter end, four members of management contributed \$180,000 to the previously announced convertible note financing closed on November 1<sup>st</sup>, 2019.

Accounts payable and accrued liabilities as at September 30, 2019 includes short-term amounts owing to a shareholder of the Company for reimbursement of business expenses totaling \$311,850 (December 31, 2018 – \$263,706).

### **Disclosure of Outstanding Share Data**

Clear Blue Technologies International Inc. common shares trade on the TSX Venture Exchange under the symbol “CBLU”. The Company is authorized to issue an unlimited number of common shares without par value. On November 27, 2019 there were 45,742,806 common shares issued and outstanding, 3,552,874 stock options outstanding with a weighted average exercise price of \$0.47 expiring between 2020 and 2027, 15,742,813 warrants outstanding with a weighted average exercise price of \$0.77 expiring between 2020 and 2025.

### **Changes in Accounting Policies**

IFRS 16, Leases (“IFRS 16”)

On January 1, 2019, the Company adopted IFRS 16, which was issued in January 2016 and it replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases-Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

#### IFRS 9, Financial Instruments (“IFRS 9”)

On January 1, 2018 the Company adopted IFRS 9, Financial Instruments, which sets out the accounting standards for the classification and measurement of financial instruments. IFRS 9 became effective for the annual periods beginning on or after January 1, 2018, and replaces IAS 39, Financial Instruments: Recognition and measurement. The new standard provides a model for the classification and measurement of financial instruments, a single forward-looking “expected loss” impairment model, and a reformed approach for hedge accounting. As most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward into IFRS 9, the Company’s accounting policy with respect to financial liabilities is unchanged.

#### IFRS 15, Financial Instruments (“IFRS 15”)

On January 1, 2018 the Company adopted IFRS 15, Revenue from Contract sand Customers, which sets out the accounting standards for the classification and measurement of revenue. IFRS 15 became effective for the annual periods beginning on or after January 1, 2018. The new standard provides a revenue model that has five steps: (i) Identify the contract with a customer; (ii) Identify all the individual performance obligations within the contract; (iii) Determine the transaction price; (iv) Allocate the price to the performance obligations; & (v) Recognize revenue as the performance obligations are fulfilled.

#### IFRIC 23, Uncertainty Over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax

losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

## **Risks and Uncertainties**

### *Liquidity risk*

As at September 30, 2019, the Company had a working capital surplus of 2,302,785, therefore is currently able to meet its current short-term obligations. The Company plans to realize our assets, increase revenues and gross profit margins, and raise further capital as necessary, to maintain sufficient liquidity. If the Company is unable to achieve some or all of these plans within a reasonable timeframe, the Company may not be able to continue as a going concern.

### *Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Cash is held at reputable financial institutions, from which management believes the risk of loss to be remote.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

#### (a) Interest rate risk

The Company has cash balances and the majority of debt with fixed interest rates and therefore is not significantly exposed to fluctuating interest rates. The Company's current policy is to invest some of excess cash in investment-grade highly liquid demand deposit certificates issued by its banking institutions.

#### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar; however, there are transactions in U.S. dollars and the Company keeps some of its cash in US currency. The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility in these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. A 10% change in the foreign exchange rate would have had an approximate \$16,000 impact on foreign exchange gain or loss.

### *Going concern risk*

These consolidated interim financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred losses as the Company continues invest

in research and development while expanding operations. Currently, revenues have not been enough to cover all costs, and may not be sufficient in the foreseeable future.

The Company's ability to continue as a going concern is dependent upon achieving sustained profitability through its business plan and the ability to raise additional debt or equity financing to fund its operations. Various risks and uncertainties affecting the Company's operations including, but not limited to, the rate of commercialization of the Company's offerings, the public policy environment for renewable energy solutions, the Company's ability to raise sufficient equity and/or debt financing, the ability of the Company to work with its bank to resolve any defaults of its loan agreement as they may arise, and general global economic conditions. There are no guarantees that the funds raised will be sufficient to sustain the Company's ongoing operations beyond twelve months or that additional debt or equity financing will be available to the Company or available at acceptable terms. Failure to implement the Company's business plan or the ability for the Company to raise sufficient funds could have a material adverse effect on the Company's financial condition and/or financial performance. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not found to be appropriate for these consolidated financial statements, adjustments might be necessary in the carrying amounts of assets and liabilities and the reported expenses and consolidated balance sheet classifications; such adjustments could be material.

Customer concentration risk

#### *Sales risk*

Our sales efforts target medium and large organizations and the Company spends significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from three months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our backlog and pipeline and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our customers to better understand their needs and proactively manage incoming business levels effectively.

#### *Ability to Hire and Retain Key Personnel and Dependence on Management*

The business and technical expertise of its management is heavily relied by the Company for it to succeed. The contributions of the existing management team to the operations of the Company are vital.

The Company's success depends in large part on key personnel. The loss of such key personnel may have a material adverse effect on the Company's operations. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. It can take several months before a new salesperson is fully trained and productive. If the Company is unable to hire, develop and retain talented sales personnel or if new sales personnel are unable to achieve

desired productivity levels in a reasonable period of time, the Company may not be able to grow its business.

### *Additional Financing*

To date, the Company has funded losses by issuing additional equity and loans, and through government R&D grants. To the extent that the Company does not achieve or maintain positive cash flows from operations in the future, or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. These conditions raise significant doubt about the ability of the Company to continue as a going concern. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in the Company's financial statements.

In order to achieve profitability, make further investments, or take advantage of future opportunities, the Company will require additional financing. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions, as well as upon the business success of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of the Company may change, and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise respond to competitive pressures and remain in business.

### *Negative Cash Flows and Profitability*

During the nine months ended September 30, 2019, the Company had negative cash flow and since its inception has not been profitable. There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's business development and marketing activities. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

### *Significant Competition*

There are companies in competition with us in each of the markets that the Company or its subsidiaries operate in. There can be no guarantee that the Company will be able to effectively compete in the marketplace with such competition.

The renewable energy industry is competitive and continually evolving as participants strive to distinguish themselves within their markets. The Company's competitors can be expected to continue to develop competitive advantages and could cause a decline in market acceptance of the Company's services. In addition, the Company's competitors could cause a reduction in the prices for some services as a result of intensified price competition.

Also, the Company may be unable to effectively anticipate and react to new entrants in the marketplace competing with the Company's services.

### *Third Party Suppliers*

The Company's relies on subcontractors and may run into funding, supply chain, technical, and/or other difficulties. As a result, they could be unable to deliver essential services or components in time and could cause significant delays in the delivery of the Company's projects. Any significant delivery delays could negatively impact the Company's future revenue and may have a material adverse effect on the business, financial position or results of operations of the Company. In addition, it is possible that certain vendors may face high demand for their services or products and not be able to supply the Company with what it needs, and/or when it needs it. Trade barriers, such as tariffs imposed by governments on import, also have the potential to disrupt the Company's supply chain, necessitating the Company to find other suppliers, sometimes on short notice. Such tariffs could also impose additional costs on the Company, negatively impacting its profitability.

The declining cost of solar panels has been a driver in the pricing of the Company's projects and customer adoption of this form of renewable energy. If solar panel prices increase or do not continue to decline, the Company's growth could slow, and the Company's financial results could suffer. Such events could harm the Company's financial results by requiring it to pay higher prices.

### *Warranty*

The Company's business exposes it to potential liability risks. The Company sometimes provides warranty for its services, often for one year or more after the service is completed. If the Company experiences a greater number of warranty claims than budgeted in the normal course, the Company's gross margins could be negatively affected.

### *Commercial and Industrial Customers*

Projects with commercial and industrial customers may create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially impact the Company's quarterly or annual financial results. In addition, if operational issues arise on a larger project, or if the timing of such projects unexpectedly shifts for other reasons, such issues could have a material impact on the Company's financial results. If the Company is unable to successfully manage these significant projects in multiple markets, including related internal processes and external construction management, or if the Company is unable to continue to attract such significant customers and projects in the future, the Company's financial results would be harmed.

### *Dilution*

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the existing shareholders.

### *Damage to Reputation*

The Company depends significantly on its reputation for high-quality products, services, engineering abilities and exceptional customer service to attract new customers and grow its business. If the Company fails to continue to deliver its solutions within planned timelines, if products and services do not perform as anticipated, or if the Company damages any of its customers' properties or cancels projects, its brand and reputation could be significantly impaired. In addition, if the Company fails to deliver, or fails to continue to deliver, high-quality services to customers through long-term relationships, the Company's customers will be less likely to purchase future services from the Company, which is a key strategy to achieve desired growth. The Company also depends on referrals from existing customers for growth, in addition to other marketing efforts. Therefore, the Company's inability to meet or exceed current customers' expectations would harm the Company's reputation and growth through referrals.

### *Fluctuating Results of Operations*

The Company's quarterly operating results are difficult to predict and may fluctuate significantly in the future. Given that the Company is an early-stage company operating in a rapidly growing industry, fluctuations may be masked by recent growth rates and thus may not be readily apparent from historical operating results. As such, past quarterly operating results of the Company may not be good indicators of future performance.

In addition to the other risks described in this "Risk Factors" section, the following factors could cause the Company's operating results to fluctuate:

- significant fluctuations in customer demand for the Company's offerings;
- market acceptance of the Company's new or existing offerings;
- the Company's ability to complete installations in a timely manner;
- the Company's ability to continue to expand operations, and the amount and timing of expenditures related to this expansion;
- announcements by the Company or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- changes in the Company's pricing policies or terms, or those of its competitors, including electric utilities; and
- actual or anticipated developments in the competitive landscape.

For these or other reasons, the results of any prior quarterly or annual periods of the Company should not be relied upon as indications of the Company's future performance. In addition, actual revenue, key operating metrics and other operating results in future quarters may fall short of the expectations of investors and financial analysts, which could have a severe adverse effect on the trading price of the Company's shares.

### *International Operations*

The Company has a customer base internationally. Risks inherent to international operations include the following:

- inability to work successfully with third parties with local expertise to co-develop or build international projects;
- multiple, conflicting and changing laws and regulations, including export and import restrictions, tax laws and regulations, labour laws and other government requirements, approvals, permits and licenses;
- changes in general economic and political conditions in the countries where the Company operates, including changes in government incentives relating to power generation;
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable; and
- inability to obtain, maintain or enforce intellectual property rights, including inability to apply for or register material trademarks in foreign countries.

Doing business in foreign markets requires the Company to be able to respond to rapid changes in market, legal, and political conditions in these countries. The success of the Company's business depends, in part, on its ability to succeed in differing legal, regulatory, economic, social and political environments.

The Company will continually and selectively consider new international markets. In other instances, the Company may rely on the efforts and abilities of foreign business partners in such markets. Certain international markets may be slower than domestic markets in adopting the Company's products and services, and operations in international markets may not develop at a rate that supports the Company's level of investment.

#### *Existing Industry Regulations*

Federal, state, provincial, and local government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. Governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing solar solutions.

In addition, any changes to government or internal utility regulations and policies that favour electric utilities could reduce the Company's competitiveness and cause a significant reduction in demand for its products and services.

#### *Drop in Retail Price of Utility-Generated Electricity and Improved Infrastructure*

The Company believes that a customer's decision to implement a renewable energy solution is driven largely by its desire to reduce its cost of electricity. A customer's decision may also be affected by the cost of other renewable energy sources. Decreases in the retail prices of electricity

from the utilities or from other renewable energy sources or improved distribution of electricity would harm the Company's ability to offer competitive pricing and could harm its business. The price of electricity from utilities could decrease as a result of:

- the construction of a significant number of new power generation plants, particularly in emerging markets, including nuclear, coal, natural gas or renewable energy;
- the construction of additional electric transmission and distribution lines which improve access, reliability and/or cost of electricity;
- a reduction in the price of natural gas or other fossil fuels; and
- development of new renewable energy technologies that provide less expensive energy.

If the retail price of energy available from utilities were to decrease due to any of these reasons, or others, or the distribution of electricity is improved as a result of improved infrastructure, the Company may be at a competitive disadvantage, limiting growth.

#### *Conflicts of Interest*

Certain directors of the Company are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions.

#### *Issuance of Debt*

From time to time, the Company may enter into transactions to acquire assets or the shares of other organizations or seek to obtain additional working capital. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for companies of similar size. Depending on future plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to the Company. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. As a result, the level of the Company's indebtedness from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

#### *No Guarantee of Active Liquid Market*

There may not be an active, liquid market for the Common Shares. There is no guarantee that an active trading market for the Common Shares will be maintained on the TSX Venture Exchange ("TSXV"). Investors may not be able to sell their Common Shares quickly, on satisfactory terms or at the latest market price if trading in the Common Shares is not active.

#### *Issues Related to Acquisitions*

With acquisitions there is a risk that integration will result in challenges that were not anticipated, such as key staff departures, diversion of management time and resources, or projected revenues that do not materialize. Should the future projected revenue attributed to any acquisition not

materialize, the Company's overall revenues will be negatively impacted, which may have a material adverse effect on the Company's revenues going forward. The Company may not be able to successfully overcome these risks and this may adversely affect the Company's financial condition, and ability to execute its business plan.

### *Government Policies*

The Company is subject to policies, laws, and regulations established by various levels of government and government agencies. These are subject to change by the government or their agencies or the courts and are administered by agencies that may have discretion in their interpretation. Future legal and regulatory changes or interpretations may have a material adverse effect on the Company.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

### **Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management is committed to delivering timely and accurate disclosure of all material information.

Disclosure controls and procedures ensure that reporting requirements are satisfied, and that material information is disclosed in a timely manner. Due to the limitation on the ability of the officers to design and implement cost-effective policies for disclosure controls and procedures and internal control over financial reporting, the officers are not making representations that such controls and procedures would identify and allow for reporting material information on a timely basis, nor are they representing that such procedures are in place that provide reasonable assurance regarding the reliability of financial reporting.

Additional information and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at [www.sedar.com](http://www.sedar.com).