



Clear Blue Technologies International Inc. Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

**(Expressed in Canadian dollars)
(Unaudited)**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Financial Position

As at September 30, 2022 and December 31, 2021

(Unaudited - Expressed in Canadian Dollars)

	Note	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash		\$ 647,899	\$ 2,116,612
Accounts receivable and other receivables	5	1,633,975	1,681,918
Research and development tax credits receivable	6	120,000	170,703
Inventory	7	2,965,847	3,343,605
Prepaid expenses		244,669	301,700
Current portion of deferred costs	7	80,449	154,844
Total current assets		5,692,839	7,769,382
Non-current assets			
Long-term account receivable	5	144,859	194,613
Deferred costs	7	175,473	194,457
Property and equipment	8	348,686	152,468
Intangible Assets	9	4,145,559	2,856,835
Total assets		\$ 10,507,416	\$ 11,167,755
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 1,631,068	\$ 1,781,988
Customer deposits	11	44,577	24,510
Short-term loans	12	750,000	924,227
Current portion of deferred revenue	11	494,703	488,814
Current portion of lease liability - office lease	9	74,170	62,004
Current portion of convertible debenture	14	658,107	588,397
Current portion of long-term debt	13	991,430	472,720
Total current liabilities		4,644,055	4,342,660
Non-current liabilities			
Deferred revenue	11	297,534	461,752
Lease liability	9	208,677	–
Royalty funding	15	375,000	375,000
Convertible debenture	14	3,334,446	3,091,877
Long-term debt	13	3,877,209	3,111,707
Total liabilities		12,736,921	11,382,996
Shareholder's Equity (Deficiency)			
Share capital	16	21,399,686	20,618,806
Reserves	17	7,260,760	6,129,311
Equity portion of convertible debenture	14	879,035	879,035
Accumulated deficit		(32,768,986)	(27,842,393)
Total shareholders' equity		(2,229,505)	(215,241)
Total liabilities and shareholders' equity		\$ 10,507,416	\$ 11,167,755

Nature of operations (Note 1)

Commitments (Note 22)

On behalf of the Board:

“Miriam Tuerk”

President and Director

“Steve Parry”

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months and nine months ended September 30, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended September 30th		Nine months ended September 30th	
		2022	2021	2022	2021
Revenue		\$ 451,421	\$2,247,857	\$ 2,458,628	\$ 6,517,270
Cost of sales	7	315,846	1,365,718	1,538,258	4,579,685
Gross profit		135,575	882,139	920,370	1,937,585
Operating expenses					
Salaries, wages and benefits	16,24	327,506	465,035	1,458,674	1,306,532
Research and development	6	287,948	67,272	581,230	292,906
General and administrative		377,738	246,434	935,924	769,484
Bad debt expense	5	–	–	13,689	–
Stock-based compensation	17, 18	99,069	157,931	263,047	293,864
Travel		38,292	3,857	199,356	11,161
Business development and marketing		48,976	158,095	264,004	376,832
Rent	25	20,048	71,835	108,060	118,342
Professional fees		63,909	73,448	164,162	185,661
Amortization of Intangible Assets	9	88,929	–	266,785	–
Depreciation of property and equipment	8	36,821	34,597	115,466	106,481
Total operating expenses		1,389,236	1,278,504	4,370,397	3,461,263
Loss before other items		(1,253,661)	(396,365)	(3,450,027)	(1,523,678)
Other items:					
Write down of inventory	7	(112,022)	(3,721)	(244,287)	(25,082)
Interest income, net	5	4,656	11,038	14,651	18,089
Interest and accretion on convertible debenture	14	(191,956)	(28,646)	(559,634)	(95,465)
Interest on short-term loan	12	(24,658)	(7,973)	(38,900)	(11,809)
Interest on lease liability	8	(2,568)	(2,603)	(4,838)	(9,628)
Interest and accretion on long-term debt	13	(133,236)	(100,819)	(407,116)	(278,489)
Interest on royalty funding	15	(7,444)	(20,230)	(22,431)	(58,655)
Foreign exchange gain (loss)		41,415	(46,443)	(24,782)	(23,133)
Amortization of deferred financing fees	11	–	(649)	(432)	(1,945)
Government grant	13, 24	811,203	–	811,203	–
Net loss before taxes		(868,271)	(596,411)	(3,926,593)	(2,009,795)
Net loss and comprehensive loss		(868,271)	(596,411)	(3,926,593)	(2,009,795)
Loss per share		(0.01)	(0.01)	(0.04)	(0.03)
Weighted average number of shares outstanding					
Basic and Diluted		96,822,976	64,857,177	101,312,867	64,080,175

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended September 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

Note	Three months ended September 30 th		Nine months ended September 30 th	
	2022	2021	2022	2021
Cash provided by (used in):				
Operating activities				
Net loss for the year	\$ (868,271)	\$ (596,411)	\$ (3,926,593)	\$ (2,009,795)
Depreciation of property and equipment	36,821	34,597	115,466	106,481
Amortization of intangible assets	88,929	–	266,785	–
Amortization of deferred financing fees	–	1,944	432	1,944
Stock-based compensation	99,069	157,931	263,047	293,864
Foreign exchange	(41,415)	–	24,782	–
Bad debt expense	–	–	13,689	–
Interest income	(4,656)	(11,038)	(14,651)	(18,089)
Interest on short-term debt	16,684	7,973	38,900	11,809
Interest on long-term debt	(1,313)	47,911	124,336	132,098
Interest on royalty funding	(4,102)	16,980	14,457	58,655
Interest on convertible debenture	124,878	13,466	372,233	65,975
Accretion of long-term debt	146,056	56,412	282,741	146,391
Accretion of lease liability	2,566	2,603	4,838	9,628
Accretion of convertible debenture	66,691	15,180	187,015	29,490
Finder's warrants	–	–	47,945	–
Write down of inventory	112,020	(3,721)	244,287	(25,082)
	(226,043)	(256,173)	(1,940,293)	(1,196,631)
Changes in non-cash working capital:				
Accounts receivables and other receivables	144,124	(237,187)	74,849	6,104
R&D tax credits receivable	(40,000)	(90,301)	50,703	(34,884)
Inventory	85,443	(527,712)	226,852	(1,482,170)
Prepaid expenses	53,371	366,869	57,029	329,522
Accounts payable and accrued liabilities	(144,937)	250,156	(206,193)	379,955
Customer deposits	38,178	(86,355)	20,067	(388,173)
Deferred revenue	(2,708)	27,261	(158,329)	46,306
Deferred cost	(14,457)	15,181	(14,457)	47,572
	(107,029)	(357,659)	(1,889,772)	(2,222,631)
Interest received	4,656	11,039	14,648	18,089
Interest paid	(127,786)	(150,286)	(294,214)	(454,046)
Cash used in operating activities	(230,158)	(496,906)	(2,169,335)	(2,658,588)

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Cash Flows (cont'd...)
For the three and nine months ended September 30, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended September 30th		Nine months ended September 30th	
		2022	2021	2022	2021
Financing activities					
Proceeds from exercise of warrants and options		–	–	–	740,106
Share issuance costs		–	–	(143,257)	(24,592)
Proceeds from short-term loan		–	64,786	–	(73,450)
Repayment of short-term loan		(176,073)	–	(174,227)	–
Proceeds from Issuance of shares		–	–	1,643,277	–
Proceeds from long-term loan		1,075,662	–	1,075,662	–
Repayment of long-term loan		–	–	(74,621)	–
Addition to lease liability		294,658	–	300,266	–
Advance of long-term debt		–	1,051,067	–	1,058,639
Repayment of lease liability - office premise		(28,269)	(27,467)	(84,258)	(72,771)
Cash from financing activities		1,165,978	1,088,386	2,542,842	1,529,088
Investing activities					
Additions to Intangible Assets		(408,183)	(623,788)	(1,555,509)	(1,770,245)
Repayment of other receivable		53,279	–	24,973	–
Acquisition of computer and equipment		(297,018)	(27,003)	(311,684)	(69,455)
Cash used in investing activities		(651,922)	(650,791)	(1,842,220)	(1,839,700)
Net Increase (decrease) in cash during the period					
		283,898	(59,311)	(1,468,713)	(2,969,200)
Cash, beginning of period		364,001	597,360	2,116,612	3,507,249
		\$ 647,899	\$ 538,049	\$ 647,899	\$ 538,049

Clear Blue Technologies International Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

As at September 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

	Number of common shares	Share capital	Contributed Reserves	Equity portion of convertible debenture	Accumulated deficit	Total shareholders' equity (deficiency)
Balance at December 31, 2020	62,876,662	\$ 19,455,976	\$ 6,253,945	\$ 99,728	\$ (24,564,422)	\$ 1,245,227
Exercise of Warrants	1,230,053	682,076	(102,173)	–	–	579,903
Exercise of Options	43,468	20,923	(16,952)	–	–	3,971
Reserves transferred on expired options	–	–	(133,409)	–	133,409	–
Share issuance costs	–	(24,592)	–	–	–	(24,592)
Maturity of Restricted Share Units	2,429,058	559,571	(559,571)	–	–	–
Conversion of debenture	375,000	65,847	1,986	(10,446)	–	57,387
Convertible debenture - equity portion, net of tax	–	–	–	789,753	–	789,753
Finder's warrant	–	–	41,403	–	–	41,403
Stock-based compensation	–	–	644,082	–	–	644,082
Shares withheld for payroll taxes	–	(222,995)	–	–	–	(222,995)
Sale of shares withheld for payroll taxes	–	82,000	–	–	–	82,000
Net loss and comprehensive loss	–	–	–	–	(3,411,380)	(3,411,380)
Balance at December 31, 2021	66,954,241	\$ 20,618,806	\$ 6,129,311	\$ 879,035	\$ (27,842,393)	\$ (215,241)
Share issuance - private placement	9,666,336	1,643,277	–	–	–	1,643,277
Share issuance costs	–	(143,257)	–	–	–	(143,257)
Finder's warrant	–	–	47,945	–	–	47,945
Maturity of RSUs	94,173	70,911	(70,911)	–	–	–
Warrants issued	–	(850,773)	850,773	–	–	–
Stock-based compensation	–	–	263,047	–	–	263,047
Debt to shares	439,260	60,721	–	–	–	60,721
Net loss and comprehensive loss	–	–	40,595	–	(3,926,593)	(3,885,998)
Balance at September 30, 2022 (unaudited)	77,154,010	\$ 21,399,685	\$ 7,260,760	\$ 879,035	\$ (31,768,986)	\$ (2,229,505)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

1. Nature of Operations

Clear Blue Technologies International Inc. (the “Company” or “CBLU”) was incorporated on November 11, 2014 under the laws of British Columbia, Canada. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the ticker symbol “CBLU”.

The Company is in the business of developing and selling “Smart Off-Grid” power solutions and management services to the power, control, monitor, manage, and proactively service solar and hybrid-powered systems such as streetlights, security systems, telecommunications systems, emergency power, satellite Wi-Fi, and Internet of Things (“IoT”) devices.

The Company’s head office is located at 30 Lesmill Road, Unit #7, Toronto, Ontario, Canada, M3B 2T6.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

2. Basis of Presentation

Statement of compliance

The Company's consolidated financial statements (the "Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), applicable to a going concern, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

These Financial Statements were recommended for approval by the Company's Board of Directors and were approved by the Board of Directors on November 28, 2022.

Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as described in the significant accounting policies. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the functional and presentation currency of the Company and its subsidiaries.

Basis of consolidation

The Financial Statements consolidate the parent company, Clear Blue Technologies International Inc., and its subsidiaries, Clear Blue Technologies Inc., Clear Blue Technologies Kenya Ltd. and Clear Blue Technologies US Corp., as of the date that control was obtained over those subsidiaries. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Amounts reported in the financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Net loss and comprehensive loss of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements:

Intangible assets arising from development

Intangible assets acquired separately are carried at cost at the time of initial recognition. Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Research expenditures and development expenditures that do not meet the criteria for capitalization are recognized as an expense as incurred.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Development costs that are directly attributable to the design and testing of identifiable new product designs controlled by the Company are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the project so that it will be available for use;
- Management intends to complete the project and use or sell the product;
- There is an ability to use or sell the product;
- It can be demonstrated how the project will generate probable future economic benefits;
- Adequate technical, financial, and other resources to complete the development and to use or sell the project are available; and
- The expenditure attributable to the project during its development can be reliably measured.

The Company capitalizes development costs for its Smart off-grid technology (“technology”) developed for internal use. The Company capitalizes costs for its technology to be used internally during the development stage. This occurs when the preliminary project stage is complete, management authorizes and commits to funding the projects, and it is feasible that the projects will be completed, and the technology will perform the intended function. Capitalization of costs related to the technology project is ceased when it enters the post-implementation and operation stage. If different determinations are made with respect to the state of development of technology project, then the amount capitalized, and the amounts charged to expense for that project could differ materially.

Costs capitalized during the development stage consist of payroll and related costs for employees who are directly associated with, and who devote time to, a project to develop or implement the technology for internal use. The Company capitalizes the direct costs of materials and services, which generally include outside contractors. The Company does not capitalize any general and administrative costs, or costs incurred during the development stage related to training. Costs related to upgrades and enhancements to internal-use technology, if those upgrade and enhancements result in additional functionality, are capitalized.

The Company amortizes capitalized technology with respect to development projects for internal-use technology when the technology is ready for use. The capitalized technology development costs are generally amortized using the straight-line method over a three-year period. In determining and re-assessing the estimated useful life over which the cost incurred for the technology should be amortized, the Company considers the effects of obsolescence, technology, competition, and other economic factors. If different determinations are made with respect to the estimated useful life of the technology, the amount of amortization charged in a particular period could differ materially.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the periods and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

Judgments

The judgments that management has applied in the application of accounting policies and related estimates that have the most significant effect on the amounts recognized in these consolidated financial statements are discussed below.

(i) Determination of functional currency

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, management determined that the functional currencies of the Company and its subsidiaries is the Canadian dollar as this is the currency of the primary economic environment in which the Company operates.

(ii) Segment disclosures

The Company’s operations comprise a single reporting operating segment engaged in the provision of off-grid power solutions and related services. As the operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts. All of the Company’s operations and assets are located in Canada.

Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, residual values and patterns in which the assets’ future economic benefits are expected to be consumed, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

(ii) Impairment of non-financial assets

Non-financial assets are reviewed for an indication of impairment at each consolidated statement of financial position date upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, which requires significant judgement.

An impairment loss is recognized for the amount by which an asset’s or CGU’s carrying amount exceeds its recoverable amount, which is the higher of fair value less cost of disposal and value in use.

An intangible asset and related equipment that are not yet available for their intended use are tested for impairment at least annually, which also requires significant judgement. To determine the recoverable amount (value in use or fair value less cost to dispose of these assets), management estimates expected future cash flows from the asset and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows for intangible,

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

4. Significant Accounting Judgments, Estimates and Assumptions (cont'd...)

management makes assumptions about future operating results using the estimated forecasted prices obtained from various market sources. These key assumptions relate to future events and circumstances. The actual results will vary and may cause adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and to asset-specific risk factors.

By their nature, assets not yet available for intended use have a higher estimation uncertainty, as they depend on future market development and the Company's ability to commercialize and manufacture new products to realize forecasted earnings. For example new technology may not be scalable to industrial level within expected timeframe and new products might not receive sufficient market penetration. Management believes that the following assumptions are the most susceptible to change and impact the valuation of these assets in time: a) expected significant growth of the market for renewable energy products (demand), b) selling prices which have an impact on revenues and margins (pricing), and c) the discount rate associated with new technology and products (after considering a premium over the Company's weighted average cost of capital ("WACC") to reflect the additional uncertainty).

(iii) Stock-based compensation

The Company uses estimates, including but not limited to, the fair value of the Company, estimates of forfeitures, share price volatility at the time of issuance, the risk-free interest rates and expected lives of the options and warrants granted in the calculation of the stock-based compensation and issuance related costs, respectively.

(iv) Deferred income taxes

The calculation of deferred income taxes is based on assumptions that are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse as well as assumptions as to the extent and likelihood that the Company will be able to utilize its non-capital losses.

(v) Recoverability of accounts receivable

Accounts receivable are amounts due from customers for products and services delivered in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for expected credit loss ("ECL"). Provisions for expected credit losses are established using an ECL model. The provisions are based on a forward-looking ECL, which includes possible default events on the accounts receivable over the entire holding period of the accounts receivable, considering the occurrence of a significant increase in credit risk. Significant financial difficulties of a customer, such as the probability of bankruptcy, financial reorganization, default or delinquency in payments are considered indicators that recovery of the accounts receivable is doubtful. These provisions represent the difference between the accounts receivable's carrying amount in the consolidated statements of financial position and the estimated net collectible amount. Charges for ECLs are recorded as bad debt expense (recovery) in the consolidated statements of loss and comprehensive loss. As at September 30, 2022, management has determined that ECL was \$nil (2021 - \$23,443).

(vi) Recoverability of inventory

Determining whether the carrying value of inventory is recoverable requires management to exercise judgment in estimating the ability to sell the inventory on-hand for amounts in excess of its carrying value.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

4. Significant Accounting Judgments, Estimates and Assumptions (cont'd...)

(vii) Royalty funding

The Company's royalty funding agreement has been accounted for as a financial liability and measured at fair value at initial recognition. The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent advance payments for any future sales. The Company has valued the royalty agreement at fair value when it became party to the arrangement.

(viii) COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, supply chains, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

5. Accounts Receivable and Other Receivables

	September 30, 2022	December 31, 2021
Accounts receivable, net	\$1,004,264	\$1,495,726
Harmonized sales taxes receivable	47,566	101,648
Feddev – Job and Growth Fund (ii)	452,455	-
Loan receivable (i)	274,549	279,157
Less:		
Long-term loan receivable (i)	(144,859)	(194,613)
Total	\$ 1,633,973	\$ 1,681,918

- (i) On January 22, 2020, a loan agreement was executed to allow a customer to settle the receivable amounting to US\$309,910 in 60 equal consecutive monthly installments of US\$6,181 beginning on April 1, 2020. The loan receivable has an interest rate is 7.3% per annum and matures on June 30, 2025. As at September 30, 2022, the carrying value of the loan receivable amounts to \$274,549 of which \$129,689 relates to current portion. During the nine months ended September 30, 2022, the Company earned interest of \$14,062 (US \$11,012) (2021 - \$19,089 (US \$14,360)).
- (ii) On June 22, 2022, the Company signed a \$4,000,000 interest free loan facility with Federal Economic Development Agency for Southern Ontario ("Feddev") under the Jobs and Growth Fund. As at September 30, 2022, the Company had approved claims of \$452,455, receivable from Feddev.

During the nine months ended September 30, 2022, the Company recorded bad debts expense of \$13,689 (2021- \$nil).

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

6. Research and Development Tax Credits Receivable

The Company's research and development tax credits receivable balance is comprised of the following:

	September 30, 2022	December 31, 2021
Industrial Research Assistance Program	-	\$ 10,703
Ontario Innovation tax credits	\$ 120,000	160,000
Total	\$ 120,000	\$ 170,703

7. Inventory

	September 30, 2022	December 31, 2021
Raw materials	\$ 1,708,510	\$ 2,128,682
Finished goods	1,257,337	1,214,923
Total	\$ 2,965,847	\$ 3,343,605

Inventory included in cost of sales amounted to \$1,042,319 (2021 - \$4,051,119).

The Company recognizes deferred costs which all relate to the Company's EaaS revenue stream. The costs will be recognized as services are being rendered.

During the nine months ended September 30, 2022, the Company wrote down \$244,287 (2021 - \$163,991) in obsolete inventory.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

8. Property and Equipment

	Computer and equipment	Furniture and fixtures	Leasehold improvements	Right-of-use Assets	Total
Balance as of December 31, 2020	\$ 117,716	\$ 7,552	\$ 29,618	\$ 333,919	\$ 488,805
Additions	58,375	5,706	21,657	-	85,738
Disposals	(3,669)	-	-	-	(3,669)
Balance as of December 31, 2021	172,422	13,258	51,275	333,919	570,874
Additions	16,709	318	-	294,659	311,684
Disposals	(7,874)	-	-	-	(7,874)
Balance as of September 30, 2022	\$ 181,257	\$ 13,576	\$ 51,275	\$ 628,576	\$ 874,684
Accumulated Depreciation					
Balance as of December 31, 2020	\$ 71,213	\$ 4,656	\$ 17,564	\$ 182,138	\$ 275,571
Depreciation	38,704	1,847	14,884	91,069	146,504
Disposals	(3,669)	-	-	-	(3,669)
Balance as of December 31, 2021	106,248	6,503	32,448	273,207	418,406
Depreciation	23,767	3,974	18,827	68,898	115,466
Disposals	(7,874)	-	-	-	(7,874)
Balance as of September 30, 2022	\$ 122,141	\$ 10,477	\$ 51,275	\$ 342,105	\$ 525,998
Net book value as at:					
December 31, 2020	\$ 46,503	\$ 2,896	12,054	\$ 151,781	\$ 213,234
December 31, 2021	\$ 66,174	\$ 6,755	\$ 18,827	\$ 60,712	\$ 152,468
September 30, 2022	\$ 59,116	\$ 3,099	\$ 0	\$ 286,471	\$ 348,686

Lease Liability

A reconciliation of the carrying amount of the lease liability to September 30, 2022 is as follows:

Balance as at December 31, 2020	160,265
Lease payments	(109,865)
Lease interest	11,604
Balance as of December 31, 2021	62,004
Addition	300,266
Lease payments	(84,258)
Lease interest	6,413
Balance as of September 30, 2022	\$ 284,425

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

8. Property and Equipment (cont'd...)

	September 30, 2022	December 31, 2021
Current portion of lease liability	\$ 83,325	\$ 62,004
Long term portion of lease liability	201,100	-
Total	\$ 284,425	\$ 62,004

Maturity analysis – contractual undiscounted cash flows:

2022	32,495
2023	129,978
2024	129,978
2025	85,417
Total undiscounted future lease payments	\$ 377,868

The Company did not have any short-term leases or leases of low-value assets included in statement of loss and comprehensive loss for the nine months ended September 30, 2022 and 2021.

9. Intangible Assets

Below is a continuity of internally generated Smart Off-Grid Technology:

Cost

Balance – December 31, 2021	\$ 2,856,835
Additions	1,555,509
Balance – September 30, 2022	\$ 4,412,344

Accumulated Amortization

Balance – December 31, 2021	\$ -
Additions	266,785
Balance – September 30, 2022	\$ 266,785

Net Book Value

Balance – December 31, 2021	\$ 2,856,835
Balance – September 30, 2022	\$ 4,145,559

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

10. Accounts payable and accrued liabilities

	September 30, 2022	December 31, 2021
Accounts payable	\$ 1,454,717	\$ 1,321,986
Accrued liabilities	176,351	460,002
Total	\$ 1,631,068	\$ 1,781,988

Interest accrued on convertible debentures, included in accounts payable, amounted to \$147,789 (2021 - \$nil).

11. Customer Deposits

Customer Deposits

Customer deposits of \$44,577 (2021 - \$24,510) pertain to the sale of solar or hybrid streetlight systems and power pack solutions that are paid by customers and billed by the Company in advance.

Deferred Revenue

Deferred revenue is comprised of ongoing energy management services paid in advance by customers:

	September 30, 2022	December 31, 2021
Deferred revenue	\$ 792,237	\$ 950,566
Less: Current portion	498,043	488,814
	\$ 297,534	\$ 461,752

The deferred revenue is amortized to profit or loss on a straight-line basis over the life of the related contract. As at September 30, 2022, expected revenue to be recognized over the term of the contracts are as follows:

2022	\$ 142,334
2023	411,464
2024	157,748
2025	80,691
	\$ 792,237

12. Short-term Loan

In 2019, the Company obtained a \$1,000,000 revolving credit facility, amended to \$750,000 starting August 30, 2022. The credit facility bears interest at a rate equivalent to the bank's prime lending rate plus 3%, is due on demand, and is secured by the assets of the Company. The outstanding balance as of September 30, 2022, is \$750,000 (December 31, 2021 - \$924,227). The Company incurred interest expense related to its short-term loan of \$38,900 during the nine months ended September 30, 2022 (2021 - \$11,807).

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

13. Long-term Debt

	September 30, 2022	December 31, 2021
(i) Eastern Ontario Futures Development Corporations Networks Inc.	\$ 62,578	\$ 122,056
(ii) Federal Economic Development Agency of Southern Ontario - Investing in Business Innovation	247,671	274,636
(iii) Business Development of Canada	3,367,393	3,188,167
(iv) Federal Economic Development Agency of Southern Ontario - Jobs and Growth Fund	1,191,429	-
	<u>\$ 4,869,071</u>	<u>\$ 3,584,859</u>
Less:		
Current portion	991,430	472,720
Deferred financing fees	432	432
	<u>\$ 3,877,209</u>	<u>\$ 3,111,707</u>

- (i) Eastern Ontario Community Futures Development Corporations Network Inc. loan bearing interest at 10% per annum, repayable in monthly blended principal and interest installments of \$8,301, was amended, as a result of the COVID-19 pandemic, on April 6, 2020, to defer the installments from March 1, 2020 to August 31, 2020 and extend the maturity date from September 30, 2022 to April 30, 2023. The amendment to the terms of the loan did not result in a gain or loss on modification of debt. The loan is secured by a general security agreement against all the assets of the Company. For the nine months ended September 30, 2022, the Company recognized interest expense of \$6,926 (2021 - \$13,351).
- (ii) Feddev non-interest-bearing loan, repayable in monthly installments beginning January 1, 2019 and maturing on December 1, 2023 was amended, as a result of the COVID-19 pandemic, on June 8, 2020 to: (i) extend the maturity date to December 1, 2024; (ii) defer monthly instalments from April 1, 2020 to September 1, 2020; (iii) reduce monthly instalments to \$2,000 from October 1, 2020 to December 31, 2020; and (iv) adjust the monthly installments to \$3,000, \$5,000, \$8,000 and \$14,000 for the years 2021 through 2024, respectively, with a final month payment of \$15,000. The face value of the loan is \$400,000. It was initially recorded on the consolidated statement of financial position at its fair market value of \$251,608 and is being accreted (through interest expense) back to its face value over the term of the loan with an effective interest rate of 9.54% per annum. For the nine months ended September 30, 2022, the Company recognized interest expense of \$18,035 (2021 - \$19,326).
- (iii) Business Development of Canada (“BDC”) loan of \$3,000,000 under a total facility of \$5,000,000. The loan facility matures on January 15, 2025 and consists of interest-only monthly payments through August 15, 2022, monthly principal payments of \$86,207 and interest payments from September 15, 2022 to and including December 15, 2024 (or earlier date if the loan facility is not fully drawn) and a balloon payment at the end of the term. Subject to meeting certain financial milestones, the Company has the option to draw down an additional \$2,000,000 in \$1,000,000 tranches. The loan is secured against the assets of the Company and carries an annual interest rate of BDC Capital Floating Base Rate plus 2.95%. In addition to the cash interest, a non-compounding payment in kind (“PIK”) interest of up to 9.5% per annum will accrue and be payable at the end of the term. The PIK interest rate will be reduced by 0.5% (to 9.0%) when the Company reaches a trailing 12 months of EBITDA greater than \$1,000,000, and a further 0.5% (to 8.5%) when the Company reaches a trailing 12 months of EBITDA greater than \$3,000,000. On August 15, 2021, the Company drew down an additional tranche of \$1,000,000 resulting in a cumulative drawdown as at September 30, 2022 of \$3,000,000. For the nine months ended September 30, 2022, the Company recognized interest expense of \$372,690 (2021 - \$243,079).

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

13. Long-term Debt (cont'd...)

- (iv) On June 22, 2022, Clear Blue entered into a \$4,000,000 interest free facility from the Government of Canada through FedDev. The financing will be drawn upon over a 21-month period until March 2024. Repayment begins in 2025, continues to 2031, and carries 0% interest. Total amount claimed as at September 30, 2022 was \$1,993,206 under a total facility of \$4,000,000. Amounts drawn down up to September 30, 2022 were initially recorded on the consolidated statement of financial position at its fair market value of \$1,182,003 and is being accreted (through interest expense) back to its face value over the term of the loan with an effective interest rate of 10% per annum. The difference between the fair value of the loan liability and cash received from Feddev has been recognized as a government grant. Subsequent draws will be added to this facility and recorded at fair market value accordingly. For the nine months ended September 30, 2022, the Company recognized interest expense of \$9,425 (2021 - \$nil).

The future principal and interest payments required under the terms of the Company's long-term debt agreements are as follows:

2022	\$ 353,157
2023	1,330,617
2024	1,292,376
2025	839,207
2026 and later	1,744,055
Total	\$ 5,559,413

14. Convertible Debenture

On November 1, 2019, the Company issued 10% convertible notes in the principal amount of \$811,000. During the year ended December 31, 2020, \$95,000 of the Convertible Debenture was converted into 475,000 Common Shares valued at \$53,882 and 237,500 Warrant Shares. During the year ended December 31, 2021, \$75,000 Convertible Debenture was converted into 375,000 Common Shares and 187,500 Warrant Shares. Principal amount as at September 30, 2022 was \$641,000 (December 31, 2021: \$811,000).

The convertible notes mature on November 1, 2022, and are convertible at any point prior to maturity, at the option of the noteholders, into units comprised of: (i) one common share of the Company (each, a "Common Share"); and (ii) one-half of one Common Share purchase warrant (each whole warrant being a "Warrant"). Each Convertible Debenture is convertible into that number of units computed on the basis of the principal amount of the Convertible Debentures divided by the conversion price of \$0.20 per unit. Each Warrant entitles the holder thereof to purchase one Common Share of the Company (each a "Warrant Share") until November 1, 2022 at a price of \$0.35 per Warrant Share (subject to adjustment in certain circumstances). Interest on the principal amount outstanding is calculated and payable semi-annually in June and December each year and was first payable on December 31, 2019.

The Company has the right to require the Convertible Debenture holder to convert the principal outstanding on these debentures into units at the conversion price if, for any 10 consecutive VWAP days, the VWAP of the Common Shares on TSX-V is greater than \$0.70.

Upon initial recognition, the Company allocated the proceeds between the components based on the fair value of the debt and the residual to the equity component. Transaction costs were allocated proportionally to the liability and equity components. The fair value of the liability component of \$592,849, net of transaction costs of \$51,195, was determined using a market rate of 20%. The value of the equity component amounted to \$112,959, net of transaction costs of \$13,271, and deferred taxes of \$40,726.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

14. Convertible Debenture (cont'd...)

The transaction costs totaling \$64,466, as described above, comprised of finders' fees amounting to \$50,993 and 89,950 share purchase warrants issued to finders with a fair value of \$13,473. Each share purchase warrant entitled the holder for one common share at an exercise price of \$0.35 until November 1, 2022. The share purchase warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 3.0 years, risk-free rate of 1.58%, dividend yield of 0% and volatility of 109%.

During the year ended December 31, 2021, the Company issued 10% convertible notes in the principal amount of \$4,334,000. The convertible notes mature on October 27, 2025, and are convertible at any point prior to maturity, at the option of the noteholders, into units comprised of: (i) one common share of the Company (each, a "Common Share"); and (ii) one-half of one Common Share purchase warrant (each whole warrant being a "Warrant"). Each Convertible Debenture is convertible into that number of units computed on the basis of the principal amount of the Convertible Debentures divided by the conversion price of \$0.40 per unit. Each Warrant will be exercisable to acquire one Common Share at an exercise price of \$0.60 per Common Share, subject to adjustment in certain events, until the date that is the earlier of: (i) 48 months following the initial Closing Date; and (ii) the date specified in any Warrant Acceleration Notice.

Interest on the principal amount outstanding is calculated and payable semi-annually in June and December each year and was first payable on June 30, 2022. The Company did not make the interest payment of \$147,789 on September 30 but expects to pay the interest before December 31, 2022.

The Company has the right to require the Convertible Debenture holder to convert the principal outstanding on these debentures into units at the conversion price if, for any 10 consecutive VWAP days, the VWAP of the Common Shares on TSX-V is greater than \$1.20.

Upon initial recognition, the Company allocated the proceeds between the components based on the fair value of the debt and the residual to the equity component. Transaction costs were allocated proportionally to the liability and equity components. The fair value of the liability component of \$3,064,921, net of transaction costs of \$166,964, was determined using a market rate of 20%. The value of the equity component amounted to \$1,042,745, net of transaction costs of \$56,902, and deferred taxes of \$276,327.

The transaction costs totaling \$223,866, as described above, comprised of finders' fees amounting to \$131,180 and 319,200 share purchase warrants issued to finders with a fair value of \$41,403 and other cost of \$51,283. Each share purchase warrant entitled the holder for one common share at an exercise price of \$0.40 until October 27, 2025. The share purchase warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 4.0 years, risk-free rate of 1.28%, dividend yield of 0% and volatility of 109%.

During the nine months ended September 30, 2022, \$nil (December 31, 2021 - \$75,000) of the Convertible Debenture was converted into \$nil (December 31, 2021 – 375,000) Common Shares and \$nil (December 31, 2021 - 187,500) Warrant Shares.

As at September 30, 2022, the outstanding balances associated with the convertible debenture were as follows:

	September 30, 2022	December 31, 2021
Liability component of debenture	\$ 3,680,274	\$ 584,112
Addition	-	3,064,921
Accretion	187,014	72,763
Interest	372,233	146,069
Interest paid	(115,994)	(66,768)
Interest recorded in accounts payable and accrued liabilities	(130,975)	(63,798)
Fair value of the debenture converted	-	(57,025)
Balance	\$ 3,992,552	\$ 3,680,274
Less: Current portion	658,107	588,397

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

\$	3,334,446	\$	3,091,877
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15. Royalty Funding

On November 12, 2013, the Company entered into a sales agreement under which Flow Capital Corp., formerly known as Grenville Strategic Royalty Corp. (“Grenville”), advanced the Company \$375,000. In form, the amount received represents a prepaid deposit for future goods and services to be provided by the Company to Grenville to be drawn down based on Grenville's annual purchases from the Company.

Grenville is entitled to a royalty of 1.125% (“Royalty Percentage”) of the Company's revenues, in perpetuity, unless partially or fully extinguished through the exercise of repurchase rights as described below. Under the terms of the agreement, the Company has the following options to extinguish its royalty payment obligation to Grenville:

- a) The Company may extinguish 50% of the Royalty Percentage by paying \$750,000 to Grenville during the period from November 12, 2017 to November 17, 2017 (the “Initial Repurchase Right”). In November 2017, the Company amended its agreement with Grenville to extend this right to the earlier of June 30, 2018, or within 30 days of the date on which the Company becomes a publicly listed company on a recognized exchange. This right expired on June 30, 2018 and was not exercised by the Company;
- b) The Company may extinguish 50% of the Royalty Percentage by paying \$1,125,000 during the period from November 12, 2020, and November 17, 2020 (the “Subsequent Repurchase Right”); This right expired on November 17, 2020 and was not exercised by the Company;
- c) If the Company has not exercised the Subsequent Repurchase Right, the Company may extinguish 100% of the Royalty Percentage at any point after November 12, 2023, by paying \$1,875,000 to Grenville (the “Final Repurchase Right”);
- d) If the Company exercises the Subsequent Repurchase Right, the Company may extinguish the remaining 50% of the Royalty Percentage under the same terms as the Final Repurchase Right, except that the buyout amount is \$750,000 instead of \$1,875,000.

The agreement meets the definition of financial liability under IAS 32, Financial Instruments: Presentation because it represents a contractual obligation to deliver cash or another financial asset to another entity.

The Company made this determination after reviewing the substance of the agreement and determining that the cash received at the inception of the arrangement did not represent a deposit for any future sales, but rather an obligation for future royalty payments that will remain payable at the original amount of \$375,000 until such time as the Company extinguishes all or part of the Royalty Percentage and the obligation for future royalty payments.

The Company incurred interest expense related to its royalty funding of \$22,431 for the nine months ended September 30, 2022 (2021 - \$61,930).

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

16. Share Capital

Authorized:

Unlimited number of common shares without nominal or par value.

Transactions during the nine months ended September 30, 2022

- (i) On January 4, 2022, the Company issued 60,000 common shares valued at \$12,825 pursuant to the maturity of RSUs. 15,000 common shares valued at \$4,275 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.
- (ii) On April 29, 2022, the Company completed a private placement through issuance of 5,822,554 units at \$0.17 per unit for gross proceeds of \$989,834. Each unit is comprised of one common share and one share purchase warrant, with each full share purchase warrant exercisable for one common share at \$0.22 per share until April 28, 2024. The common shares and share purchase warrants were valued at \$495,047 and \$494,787, respectively, using the relative fair value method. In connection with the private placement, the Company incurred share issuance costs of \$70,038 and issued 407,579 broker warrants valued at \$37,835. Each broker warrant is exercisable for one common share at \$0.17 per share until April 29, 2024. The stand-alone value of share purchase warrants and broker warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 2.0 years, risk-free rate of 0.26%, dividend yield of 0% and volatility of 124%.
- (iii) On May 20, 2022, the Company completed a private placement through issuance of 3,843,782 units at \$0.17 per unit for gross proceeds of \$653,443. Each unit is comprised of one common share and one share purchase warrant, with each full share purchase warrant exercisable for one common share at \$0.22 per share until May 19, 2024. The common shares and share purchase warrants were valued at \$297,457 and \$355,986, respectively, using the relative fair value method. In connection with the private placement, the Company incurred share issuance costs of \$17,052 and issued 100,303 broker warrants valued at \$10,110. Each broker warrant is exercisable for one common share at \$0.17 per share until May 20, 2024. The stand-alone value of share purchase warrants and broker warrants were valued using the Black-Scholes valuation model with the following assumptions: expected life of 2.0 years, risk-free rate of 0.26%, dividend yield of 0% and volatility of 125%.
- (iv) On June 1, 2022, the Company issued 15,000 common shares valued at \$2,100 pursuant to the maturity of RSUs. 3,750 common shares valued at \$525 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.
- (v) On June 30, 2022, the Company entered into debt settlement agreements with certain directors, officers and employees of the Company (the "Creditors") to settle aggregate indebtedness of \$61,496 owing by the Company to the Creditors. This debt will be converted into an aggregate of 439,255 common shares of the Company at a price per Common Share of \$0.14.
- (vi) On August 31, 2022, the Company issued 19,172 common shares valued at \$2,492 pursuant to the maturity of RSUs. 7,669 common shares valued at \$997 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.
- (vii) On September 30, 2022, the Company issued 93,585 common shares valued at \$11,230 pursuant to the maturity of RSUs. 37,434 common shares valued at \$4,492 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

16. Share Capital (cont'd...)

Transactions during the year ended December 31, 2021

- (viii) The Company issued 2,429,057 common shares valued at \$559,571 pursuant to the maturity of RSUs. 608,703 common shares valued at \$222,995 were withheld by the Company for settlement of payroll taxes on behalf of the RSU holders.
- (ix) The Company issued 43,468 common shares pursuant to exercise of stock options for gross proceeds of \$3,971. In connection with the exercise of options, the fair value of stock options amounting to \$16,592 was reclassified from reserves to share capital.
- (x) The Company issued 375,000 units pursuant to the conversion of convertible debenture amounting to \$75,000. Each unit is comprised of one common share and one-half share purchase warrant. Each full share purchase warrant is exercisable for \$0.35 per share until November 1, 2022, subject to early expiration if the 10-day weighted average trading price of the common shares of the Company is at any time greater than \$0.70 per share. In connection with the conversion, equity portion of convertible debenture amounting to \$10,446 was reclassified to share capital.
- (xi) During the year ended December 31, 2021, the Company issued 1,230,054 shares pursuant to exercise of share purchase warrants for gross proceeds of \$579,903. In connection with the exercise of share purchase warrants, the fair value of share purchase warrants amounting to \$102,173 was reclassified from reserves to share capital.

Treasury Shares

As at September 30, 2022, the Company holds 80,253 (December 31, 2021 – 80,253) treasury shares.

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

17. Reserves

a. Options

Under the Company's stock option plan, the Company may, at its discretion, grant stock options to its directors, officers, and employees. Unless specified within the option agreement, all stock options vest equally over 4 years. All stock options have a maximum term of 7 years from the date of the grant.

Below is a continuity of stock options outstanding:

	Number of Options	Weighted average exercise price
Stock options outstanding – December 31, 2020	3,015,723	\$ 0.37
Stock options exercised	(43,468)	0.09
Stock options issued	1,649,429	0.32
Stock Options forfeited	(159,515)	0.31
Stock options outstanding – December 31, 2021	4,462,169	0.35
Stock Options forfeited	(534,254)	0.38
Stock options outstanding – September 30, 2022	3,927,915	\$ 0.35

For the nine months ended September 30, 2022, the Company recognized \$72,082 (2021 - \$23,258) of stock-based compensation expense in relation to its stock option plan.

The weighted average fair value of all options granted was estimated at the date of grant using the Black-Scholes option-pricing model, using the following assumptions:

	September 30, 2022	December 31, 2021
Expected option life (years)	5	5
Volatility	116%	116%
Risk-free interest rate	0.36% – 0.39%	0.36% – 0.39%
Dividend yield	–	–

Options outstanding and exercisable at September 30, 2022 were comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of options	Number of options exercisable
\$0.05	2024-05-02	1.59	106,692	106,692
\$0.13	2025-05-29	2.66	100,000	100,000
\$0.16	2024-09-12	1.95	448,335	434,740
\$0.16	2025-09-30	3.00	49,000	46,467
\$0.17	2025-05-29	2.66	113,084	76,855
\$0.24	2026-11-17	4.22	20,000	-
\$0.26	2025-04-20	2.55	247,394	247,394
\$0.26	2025-06-30	2.75	94,242	94,242
\$0.28	2026-11-17	4.13	113,300	-
\$0.30	2024-09-08	1.94	650,000	650,000
\$0.31	2026-04-30	3.58	117,018	117,018
\$0.34	2026-08-31	3.92	313,706	108,117
\$0.49	2023-11-26	1.23	313,688	299,504
\$0.50	2026-04-30	3.58	864,804	864,804
\$0.50	2027-10-31	5.08	104,062	104,062
\$0.52	2025-12-11	3.20	236,590	236,590
\$0.54	2026-01-02	3.26	36,000	36,000
\$0.35		Total	3,927,915	3,522,485

Clear Blue Technologies International Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended September 30, 2022

(Unaudited – Expressed in Canadian dollars)

17. Reserves (cont'd...)

b. Share purchase warrants

The following is a summary of changes in share purchase warrants from December 31, 2021 to September 30, 2022:

	Number of Warrants	Weighted average exercise price
Share purchase warrants - December 31, 2020	18,936,877	\$ 0.51
Granted	506,700	0.38
Exercised	(1,230,054)	0.47
Share purchase warrants - December 31, 2021	18,213,523	0.51
Granted	10,174,218	0.38
Expired	(10,475,465)	0.50
Share purchase warrants – September 30, 2022	17,912,276	\$ 0.51

Share purchase warrants outstanding and exercisable at September 30, 2022 are comprised of the following:

Exercise price	Expiry date	Remaining contractual life (years)	Number of Warrants
\$0.35	2022-11-01	0.09	56,575
\$0.40	2023-10-27	1.08	319,200
\$0.55	2023-12-22	1.23	6,578,900
\$0.38	2023-12-22	1.23	750,217
\$0.50	2024-07-11	1.78	17,209
\$0.58	2025-02-11	2.37	15,957
\$0.22	2024-04-28	1.58	5,822,554
\$0.22	2024-05-19	1.64	3,843,782
\$0.17	2024-04-29	1.58	407,579
\$0.17	2024-05-20	1.64	25,963
\$0.17	2024-05-20	1.64	4,340
\$0.17	2024-05-20	1.64	70,000
Total:			17,912,276

c. Restricted Share Units (“RSU”)

Under the Company’s equity incentive compensation plan, the Company may, at its discretion, grant RSUs to its directors, officers, and employees, that give rights to receive shares or cash or a combination thereof upon settlement. Each RSU is subject to a Period of Restriction, during which time the RSU is subject to forfeiture based on the passage of time, the achievement of performance criteria, and/or upon the occurrence of other events as determined.

Transactions during the nine months ended September 30, 2022

On January 4, 2022, the Company granted 96,000 RSUs to directors. The RSUs vest on January 4, 2023.

On June 1, 2022, the Company granted 87,500 RSUs to employees. The RSUs vest on January 2, 2023.

Clear Blue Technologies International Inc.

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17. Reserves (cont'd...)

On June 30, 2022, the Company granted 499,942 RSUs to non-independent directors, officers and employees. The RSUs vest on January 2, 2024.

On June 30, 2022, the Company granted 1,164,148 RSUs to non-independent directors, officers and employees. The RSUs vest on June 30, 2023.

Transactions during the year ended December 31, 2021

On January 2, 2021, the Company granted 60,000 RSUs to directors. The RSUs vested on January 2, 2022.

On September 1, 2021, the Company granted 95,000 RSUs to directors and employee. The RSUs vest in three equal tranches, with each tranche vesting on August 31, 2022, August 31, 2023 and August 31, 2024, respectively.

On September 20, 2021, the Company granted 1,088,177 RSUs to directors, officers and employees. The RSUs vested on March 31, 2022.

On September 23, 2021, the Company granted 24,000 RSUs to directors. The RSUs vested on September 30, 2022.

On September 30, 2021, the Company granted 208,749 RSUs to directors, officers and employees. The RSUs vest in three equal tranches, with each tranche vesting on August 31, 2022, August 31, 2023 and August 31, 2024, respectively.

The fair value of all RSUs granted was based on the stock price at the date of grant. As of September 30, 2022, there were 2,225,082 (December 31, 2021 – 576,499) RSUs outstanding. For the nine months ended September 30, 2022, the company recognized \$190,007 (2021 - \$173,288) of stock-based compensation expense in relation to the RSU's.

18. 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:

	September 30, 2022	September 30, 2021
Salaries and benefits		
- Cash	\$ 380,796	\$ 443,030
Stock-based compensation	67,041	178,792
Total	\$ 447,837	\$ 621,822

Management has undertaken numerous measures in order to assist the company in managing its cash position, whereby the management is deferring part of its salaries, accepting shares for debt and delaying in expense reimbursements.

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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.

Accounts payable and accrued liabilities as of September 30, 2022 includes short-term amounts owing to key management of the Company for bonuses and convertible debenture interest, totaling \$143,256 (December 31, 2021 - \$395,847).

19. Loss Per Share

For all the periods presented, diluted net loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follows:

	September 30, 2022	December 31, 2021
Stock options	3,927,915	4,462,169
Warrants	17,912,276	18,213,523
RSUs	2,225,082	576,499
Total	24,065,273	23,252,191

Expenses related to the warrants and RSUs are included in stock-based compensation in the consolidated statements of loss and comprehensive loss or as an adjustment to share capital if the costs relate to the issuance of shares and are based on the same assumptions as disclosed in Note 15.

20. Capital Risk Management

Capital is comprised of the Company's shareholders' equity (deficiency) and any debt it may issue. At September 30, 2022, the Company's shareholders' deficiency was \$ 2,229,505 (December 31, 2021 – \$215, 241) and the Company's debt was \$10,060,362 (December 31, 2021 - \$8,625,932).

The Company's objective is to maintain a capital structure that supports its long-term growth strategy, maintains creditor and customer confidence, and maximizes shareholder value. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. No changes were made in the objectives, policies or processes of capital management during the three months ended September 30, 2022.

The Company is dependent on cash flows generated from its operations and from external financing to fund its activities. The Company will spend its existing working capital and raise additional amounts as needed.

21. Financial Instruments

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

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21. Financial Instruments (cont'd...)

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

As at September 30, 2022, the Company's financial instruments consist of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, debt, convertible debentures, and royalty funding. The fair values of cash, accounts receivable and other receivables, accounts payable and accrued liabilities, debt, and royalty funding approximate their carrying values due to their nature.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the period.

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and other price risks such as equity price. The Company's exposure to other price risk is low. Financial instruments affected by market risk include accounts receivable and other receivables, accounts payable and accrued liabilities, long-term debt, and royalty funding.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's long-term debt is subject to fixed interest rates and the risk of fluctuating future cash flows resulting from changes in market interest rates is limited.

Foreign currency risk

Foreign exchange risk arises when the Company enters into transactions denominated in a currency other than its functional currency. A significant portion of the Company's revenues are denominated in United States dollars ("USD") along with a portion of its purchases. To the extent possible, the Company uses cash received from sales to finance its USD purchases and limit its exposure to foreign currency risk.

The Company has the following balances denominated in USD (amounts in the table below are post-translation to Canadian dollars):

	September 30, 2022	June 30, 2021
Cash	\$ 384,766	\$ 559,918
Accounts receivable and other receivables	\$ 1,000,880	\$ 1,139,930
Accounts payable and accrued liabilities	\$ 685,094	\$ 483,587

A change in foreign currency exchange rates by 10% would change the foreign exchange gain or loss on the Company's net monetary assets by approximately \$70,000 at September 30, 2022 (December 31, 2021 - \$189,000).

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21. Financial Instruments (cont'd...)

(ii) Concentration of credit risk and economic dependence

The Company is exposed to credit risk with respect to the collectability of its customer accounts receivable. Credit risk is concentrated as three customers represented 68% at September 30, 2022 (December 31, 2021 – three customers represented 89%) of the Company's accounts receivable balance. The Company performs credit assessments of potential customers and ensures its accounts receivable where appropriate. Regular credit assessments are performed of customers' accounts receivable balances and allowances for potentially uncollectible accounts receivable are provided where appropriate. The following table provides information about the exposure to credit risk for accounts receivable as at September 30, 2022:

	September 30, 2022	December 31, 2021
Current (not past due)	\$ 556,876	\$ 1,042,674
0 – 30 days past due	26,096	27,651
31 – 60 days past due	-	5,682
61 – 90 days past due	-	5,804
Over 90 days past due	444,736	437,358
Total	<u>\$ 1,027,707</u>	<u>\$ 1,519,169</u>

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the three months ended September 30, 2022, five customers represented 65% (2021 - five customers represented 96%) of its total revenue.

(iii) Liquidity risk

During the nine months ended September 30, 2022, the Company incurred a net loss in the amount of \$4,030,640 (nine month ending September 30, 2021 – \$2,009,785) and generated negative cash flows from operations of \$2,194,989 (nine month ending September 30, 2021 – \$763,690). As at September 30, 2022, the Company had a working capital of \$1,048,784 (December 31, 2021 - \$3,426,722) and cash of \$647,899 (December 31, 2021 - \$2,116,612).

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk resulting from its accounts payable and accrued liabilities, long-term debt, convertible debentures, and royalty funding by ensuring sufficient cash is on hand from cash flows from operations and financing from investors. As of September 30, 2022, the Company's current assets exceeded its current liabilities by \$954,747 (December 31, 2021 - \$3,426,722).

The Company's revolving credit facility is amended to \$750,000 as at August 30, 2022 and contractual maturities of the Company's long-term debt and convertible debentures are outlined, respectively, in Note 13 and 14 to the consolidated financial statements. Other financial liabilities, including accounts payable and accrued liabilities have maturities within 12 months of the Company's period end.

On June 22, 2022, the Company signed an agreement to receive a \$4,000,000 interest free loan facility through Federal Economic Development Agency for Southern Ontario ("Feddev") under the Jobs and Growth Fund. Pursuant to the agreement, the Company has received \$1,540,752 on August 29, 2022 and subsequently to Quarter end, received another \$450,159. The company expects to draw down the \$4,000,000 facility through monthly installment to the end of March 2024.

On October 12, 2022, the Company reached an agreement with holders of its 10% unsecured convertible debentures (the "Debentures"), with a principal amount outstanding of \$641,000 to extend the maturity date of the Debentures from November 1, 2022 to November 1, 2024 and is pending TSXV approval. On

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approval, convertible debenture repayment included in short term liabilities will be reclassified to long term liabilities, improving working capital.

Pursuant to the \$4,000,000 interest free loan facility from Feddev, extension on the convertible debenture maturity and ability of the company to generate funds, management concludes that the Company has sufficient funds to fund its operations for the subsequent 12 months.

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22. Commitments

The Company is committed to pay Grenville annually an amount equal to 1.125% of its annual revenue unless the buyout options are exercised (see Note 15).

23. Segment Information

The Company has one reportable segment. This single reportable operating segment derives its revenues from the sale of off-grid solar power solutions and related services.

The Company operates in three principal geographical areas: Canada, the United States of America (“USA”), and the Middle East and Africa (“MEA”).

The Company’s revenue from external customers by location of operations is detailed below:

	September 30, 2022		September 30, 2021	
Canada	\$	243,977	\$	123,676
USA		274,124		649,190
MEA		1,310,214		5,736,164
Other		630,313		8,239
Total	\$	2,458,628	\$	6,517,269

All non-current assets are located in Canada.

24. Government Grants

The Government of Canada provides interest-free financing to Companies through Feddev and its job and growth fund. During the nine months ended September 30, 2022, the Company recognized \$811,203 (2021 - \$nil) as Government grants, being the difference between the fair value of the loan liability and cash received from Feddev.

25. Supplemental Cash Flow Information

During the nine months ended September 30, 2022, inventory reclassified to deferred costs amounted to \$93,379 (December 31, 2021 - \$127,891). There were no income taxes paid during the nine months ended September 30, 2022.

26. Subsequent events

Sustainable Development Technology Canada (“SDTC”)

On September 16, 2022, the company received from the Board of Directors of Sustainable Development Technology Canada (“SDTC”), an approval for funding on the Company’s project, subject to meeting established contracting requirements. The maximum approved SDTC contribution for your Project is (a) 33.5% of the Eligible Project Costs, and (b) \$5,000,000 the “SDTC Funding Limit”. The company expects to finalize the Project Funding Agreement (PFA) with SDTC, by December 15, 2022.

Convertible debenture – Amendments to outstanding 10% unsecured

On October 12, 2022, the Company reached an agreement with holders of its 10% unsecured convertible debentures (the “Debentures”), with a principal amount outstanding of \$641,000 to extend the maturity date of the Debentures from November 1, 2022 to November 1, 2024 and is pending TSXV approval. The agreement also adjusted the applicable interest rate from 10% to 12% per annum. Furthermore, for non-insiders the exercise price of the common share purchase warrants forming part of the units issuable on conversion of the Debentures from \$0.35 per common share to \$0.32 per common share.