Clear Blue Technologies International Inc.

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

Crowe Soberman | Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Clear Blue Technologies International Inc.

Opinion
We have audited the consolidated financial statements of Clear Blue Technologies International Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information
We draw attention to Note 6 to the consolidated financial statements, which explains that certain comparative information presented:

- for the year ended December 31, 2017 has been restated; and
- as at January 1, 2017 has been derived from the consolidated statement of financial position as at December 31, 2016 (not presented herein).

Our opinion is not modified in respect of this matter.

The financial statements for the years ended December 31, 2017 and 2016 (not presented herein but from which the comparative information as at January 1, 2017 has been derived), excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on July 12, 2018.

As part of our audit of the consolidated financial statements for the year ended December 31, 2018, we also audited the adjustments that were applied to restate certain comparative information:

- for the year ended December 31, 2017; and
- as at January 1, 2017.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements:

- for the year ended December 31, 2017;
- for the year ended December 31, 2016 (not presented herein); and
- as at January 1, 2017.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Material Uncertainty Related to Going Concern
We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of $8,098,567 during the year ended December 31, 2018. As stated in Note 2, this event or condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Jonathan Breido.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 31, 2019

Clear Blue Technologies International Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2018	Restated - Note 6 December 31, 2017	Restated - Note 6 January 1, 2017
Assets				
Current assets				
Cash		$ 767,116	$ 396,601	$ 496,657
Accounts receivable and other receivables	8	1,788,138	1,057,220	707,227
Research and development tax credits receivable	9	–	634,478	462,016
Inventory	10	1,638,951	807,253	377,491
Prepaid expenses and deposits		73,166	38,993	18,898
Subscription receivable		–	451,972	400,690
Total current assets		4,267,371	3,386,517	2,462,979
Non-current assets				
Long-term accounts receivable	8	115,976	319,801	–
Property and equipment	11	105,260	34,540	27,199
Total assets		$ 4,488,607	$ 3,740,858	$ 2,490,178
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	18	$ 1,283,610	$ 2,072,361	$ 593,565
Short-term loan	12	–	200,000	–
Current portion of deferred revenue	13	128,550	177,517	276,899
Current portion of capital lease obligation		4,873	4,100	3,708
Current portion of long-term debt	14	72,395	62,399	56,238
Derivative liability - warrants	17	–	65,745	81,489
Total current liabilities		1,489,428	2,582,122	1,011,899
Non-current liabilities				
Deferred revenue	13	162,146	199,612	153,635
Capital lease obligation		–	3,358	7,458
Royalty funding	15	375,000	375,000	375,000
Long-term debt	14	516,988	553,816	364,606
Total liabilities		2,543,562	3,713,908	1,912,598
Shareholders' equity				
Share capital	16	14,506,319	6,484,855	3,787,516
Accumulated deficit		(15,638,285)	(7,539,718)	(4,081,791)
Contributed surplus		3,077,011	1,081,813	871,855
Total shareholders' equity		1,945,045	26,950	577,580
Total liabilities and shareholders' equity		$ 4,488,607	$ 3,740,858	$ 2,490,178

Going concern uncertainty (note 2)
Commitments and contingencies (note 23)
Subsequent events (note 25)

Approved on behalf of the Board

"Huge Rogers"
Director

"Miriam Tuerk"
Director

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

Clear Blue Technologies International Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Note		Restated - Note 6
		Years ended December 31	
		2018	2017
Revenue	24	$ 3,780,176	$ 2,295,811
Cost of sales	10	2,840,934	2,231,045
Gross profit		939,242	64,766
Operating expenses			
Salaries, wages and benefits		1,629,296	951,625
Research and development (net of tax credits and government grants of $319,236 (2017 – $302,083))		1,625,570	862,011
General and administrative		701,324	402,396
Bad debt (recovery)		(75,030)	330,039
Stock-based compensation	17	183,019	200,224
Travel		321,501	201,675
Business development and marketing (net of government grants of $nil (2017 – $4,750))		949,165	294,333
Rent		220,287	118,109
Professional fees		191,010	82,270
Total operating expenses		5,746,142	3,442,682
Loss before undernoted items		(4,806,900)	(3,377,916)
Other income (expense)			
Gain on derivative liability - warrants		–	15,744
Loss on extinguishment of derivative liability - warrants	17	(422,591)	–
Interest income		16,344	–
Interest on long-term debt	14	(99,793)	(42,732)
Interest on royalty funding	15	(39,889)	(23,107)
Foreign exchange gain (loss)		58,368	(13,890)
Depreciation of property and equipment	11	(29,696)	(13,433)
Amortization of deferred financing fees		(2,593)	(2,593)
Listing expense	7	(2,771,817)	–
Net loss and comprehensive loss		(8,098,567)	(3,457,927)
Net loss per share			
Basic and diluted	19	(0.29)	(0.19)
Weighted average number of common shares			
Outstanding - basic and diluted	19	27,522,049	18,258,396

Clear Blue Technologies International Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Note	Number of common shares*	Share capital	Contributed surplus	Accumulated deficit	Total shareholders' equity
Balance at December 31, 2016 Restated - Note 6		**16,258,550**	**$ 3,787,516**	**$ 871,855**	**$ (4,081,791)**	**$ 577,580**
Share issuance	16	4,481,448	2,880,880	(962)	–	2,879,918
Issuance costs - settled in cash	16	–	(183,541)	–	–	(183,541)
Stock-based compensation	17	–	–	200,224	–	200,224
Options issued - agent fees	16	–	–	10,696	–	10,696
Net loss and comprehensive loss		–	–	–	(3,457,927)	(3,457,927)
Balance December 31, 2017 Restated - Note 6		**20,739,998**	**6,484,855**	**1,081,813**	**(7,539,718)**	**26,950**
Share issuance - private placement	16	8,569,000	$ 5,552,361	$ 1,302,839	–	6,855,200
Share issuance - agent fees	16	38,743	25,000	–	–	25,000
Share issuance - consultant fees	16	750,000	486,006	–	–	486,006
Options issued - agent fees	16	–	–	229,958	–	229,958
Issuance costs - settled in options/shares		–	(740,964)	–	–	(740,964)
Issuance costs - settled in cash	16	–	(484,764)	–	–	(484,764)
Stock-based compensation	17	–	–	183,019	–	183,019
Clear Blue Technologies International Inc. shares outstanding prior to reverse takeover	7	4,560,549	–	–	–	–
Warrants issued to extinguish derivative liability - warrants	17	–	–	488,336	–	488,336
Shares issued on completion of reverse takeover	7	30,289,804	2,955,275	–	–	2,955,275
Elimination of Clear Blue Technologies Inc. shares outstanding prior to reverse takeover	7	(30,289,804)	–	–	–	–
Exercise of options	17	405,014	228,550	(208,954)	–	19,596
Net loss and comprehensive loss		–	–	–	(8,098,567)	(8,098,567)
Balance at December 31, 2018		**35,063,304**	**$ 14,506,319**	**$ 3,077,011**	**$ (15,638,285)**	**$ 1,945,045**

**On June 14, 2018, the common shares were subdivided on a 2.63452:1 basis. All references to share numbers reflect this subdivision.*

Clear Blue Technologies International Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

		Restated - Note 6
	Years ended December 31	
	2018	2017
Cash provided by (used in):		
Operating activities		
Net loss for the period	$ (8,098,567)	$ (3,457,927)
Depreciation of property and equipment	29,696	13,433
Adjustment to fair value non-interest bearing long-term debt	–	(148,392)
Amortization of deferred financing fees	2,593	2,593
Stock-based compensation	183,019	200,224
Gain on derivative liability - warrants	–	(15,744)
Loss on extinguishment of derivative liability - warrants	422,591	–
Bad debt expense (recovery)	(75,030)	330,039
Research and development tax credits accrued	–	(240,000)
Listing expense	2,771,817	–
Interest income	(16,344)	–
Interest on long-term debt	58,512	42,732
Interest on royalty funding	39,889	23,107
Debt accretion	41,281	–
	(4,640,543)	(3,249,935)
Changes in non-cash working capital:		
Accounts receivable and other receivables	(452,063)	(1,400,523)
Research and development tax credits receivable	634,478	67,538
Inventory	(831,698)	(429,762)
Prepaid expenses and deposits	(34,173)	(20,095)
Accounts payable and accrued liabilities	(780,037)	1,478,803
Deferred revenue	(86,433)	(53,405)
	(6,190,469)	(3,607,379)
Interest received	16,344	–
Interest paid	(140,482)	(65,846)
Cash used in continuing operations	(6,314,607)	(3,673,225)
Financing activities		
Exercise of options	19,596	–
Advances of short-term loan	–	200,000
Advances of long-term debt	–	400,000
Paid issuance costs	(484,764)	(183,541)
Receipt of share subscriptions	6,855,200	2,839,332
Receipt of subscription receivable	451,972	400,690
Repayment of long-term debt	(54,942)	(58,830)
Repayment of capital lease obligation	(2,585)	(3,708)
Cash from financing activities	6,784,477	3,593,943
Investing activities		
Cash received on acquisition of Clear Blue Technologies Inc.	1,061	–
Purchase of property and equipment	(100,416)	(20,774)
Cash used in investing activities	(99,355)	(20,774)
Net increase (decrease) in cash during the period	370,515	(100,056)
Cash, beginning of period	396,601	496,657
Cash, end of period	$ 767,116	$ 396,601

1. Nature of Operations

Clear Blue Technologies International Inc. (formerly Dagobah Ventures Ltd.) (the "Company" or "CBLU") was incorporated on November 11, 2014 under the laws of British Columbia, Canada. On November 30, 2017, the Company entered into a non-binding letter of intent with Clear Blue Technologies Inc. ("CBTI"), a private Ontario company incorporated on September 8, 2011, whereby the Company would acquire all of the issued and outstanding common shares in the capital of CBTI (the "Transaction").

On July 13, 2018, the Company completed the transaction with CBTI by issuing 30,289,804 common shares to the shareholders of CBTI on the basis of one common share of the Company for every one CBTI common share. Upon completion of the Transaction, the shareholders of CBTI held a majority of the common shares of the Company and the Company would continue CBTI's existing business. CBTI is considered to have acquired the Company on an accounting basis, and the Transaction was accounted for as a reverse takeover ("RTO") (see Note 7).

Accordingly, the Company is now in the business of developing and selling "Smart Off-Grid" power solutions and management services to power, control, monitor, manage, and proactively service solar and hybrid-powered systems such as street lights, security systems, telecommunications systems, emergency power, and Internet of Things ("IoT") devices.

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

2. Going Concern Uncertainty

The Company's consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") 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. During the year ended December 31, 2018, the Company incurred a net loss in the amount of $8,098,567 (2017 – $3,457,927) and generated negative cash flows from operations of $6,314,607 (2017 – $3,673,225). These conditions cast significant doubt as to the ability of the Company to continue as a going concern.

Historically, the Company has been able to raise sufficient funds to finance its operations through private placements and government grants. The Company's ability to continue as a going concern is dependent upon its ability to achieve and maintain profitable operations and its ability to obtain future funds either in the form of additional equity, debt, research and development grants, and or large sales orders. The outcome of these matters cannot be predicted at this time. Subsequent to year end, the Company closed two tranches of private placements and secured an operating line of credit with a Canadian bank (see Note 25).

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 to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications; such adjustments could be material.

3. Basis of Presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved for issuance by the Company's Board of Directors on May 31, 2019.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis as described in the significant accounting policies.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

Basis of consolidation

The consolidated financial statements consolidate those of the parent company, Clear Blue Technologies International Inc., and its subsidiary and its indirect subsidiary, Clear Blue Technologies Inc. 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.

4. Significant Accounting Policies

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

a. Newly adopted accounting standard

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments ("IFRS 9") to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard uses a principle-based approach for the classification and measurement of financial assets and financial liabilities: amortized cost and fair value. Additional amendments include a single "expected loss" impairment method and a substantially reformed approach to hedge accounting. This standard was adopted on its effective date of January 1, 2018.

The Company's consolidated financial statements were not affected by the adoption of IFRS 9. The Company applied the requirements of the standard retrospectively with no restatement of comparative periods. As a result of the adoption of IFRS 9 there was no impact to the Company's consolidated financial statements.

b. Revenue recognition

Revenue is measured based on the consideration specified in the related contract with the customer. The Company recognizes revenue when it transfers control of the product to the customer and persuasive evidence of an arrangement exists and collection is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue.

The Company enters into contracts with multiple performance obligations, such as the sale of solar or hybrid streetlight systems, the sale of power pack solutions for other IoT devices such as telecommunication systems, and the provision of ongoing energy management services.

The Company accounts for the sale of individual products or services separately if they are distinct, meaning when the product or service is separately identifiable and has stand-alone value to the customer. The total arrangement consideration is allocated to each separate performance obligation (product or service) based on the Company's expected cost of each performance obligation plus the Company's targeted profit margin ("Target Margin") other than for ongoing energy management services revenue. Discounts from the Target Margin are allocated proportionately to all the performance obligations in the sales contract based on the expected cost of each performance obligation other than for ongoing energy management services revenue. For performance obligations related to ongoing energy management services, revenue is recognized ratably over the contract term.

In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met: (i) there is a substantive reason for the arrangement; (ii) the equipment is separately identified as belonging to the customer; (iii) the Company is no longer able to use the equipment or direct it to another customer; and (iv) the equipment is currently ready for physical transfer to the customer.

c. Inventory

Inventory is comprised of raw materials and finished goods. Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out method. Costs are those amounts incurred in bringing each product to its present location and condition. The cost of raw materials and finished goods are based on the supplier's cost-plus freight and duties.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to complete and sell the inventory. Inventory is recorded net of any obsolescence provisions estimated by management.

d. Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Repair and maintenance expenditures that do not improve or extend the life are expensed in the period incurred.

Depreciation is recognized to write off the cost of property and equipment less its residual value over its useful life, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Estimated useful lives for the principal asset categories are as follows:

- Computer and equipment: 3 years
- Furniture and fixtures: 5 years
- Leasehold improvements: lease term

e. Impairment of long-lived assets

Long-lived assets are comprised of property and equipment. The Company assesses, at each reporting date, whether there is an indication that a long-lived asset may be impaired. If any indication exists, the Company estimates the recoverable amount. For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or “CGU”). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use.

Fair value less costs of disposal is the amount obtainable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statements of loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

f. Income taxes

Income tax expense is comprised of current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss. Current income tax expense represents the amount of income taxes payable based on tax law that is enacted or substantively enacted at the reporting date and is adjusted for changes in estimates of tax expense recognized in prior periods. A current tax liability is recognized for income tax payable and a current tax asset is recognized for income tax paid but recoverable in respect of all periods to date.

The Company uses the deferred tax method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statements carrying amounts of assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the consolidated statements of loss and comprehensive loss in the period in which the enactment or substantive enactment occurs. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

g. Stock-based compensation

The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option pricing model. Stock-based compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. The Company estimates the number of units expected to vest at the grant date and revises the estimate if subsequent information indicates that the actual number of units to vest differs significantly from the original estimate. The stock-based compensation cost is recognized directly in the consolidated statements of loss and comprehensive loss over the vesting period, with the corresponding credit recorded to contributed surplus. When stock options are exercised, the consideration and related contributed surplus are recorded in share capital.

h. Financial instruments

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (“FVOCI”), or fair value through profit or loss (“FVTPL”).

The classification of financial assets at initial recognition that are debt instruments depends on the financial assets’ contractual cash flow characteristics and the Company’s business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument and are measured initially at fair value plus transactions costs. Accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the “SPPI test” and is performed at an instrument level.

The Company’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The financial assets are subsequently measured at amortized cost using the effective interest method (“EIR”) and are subject to impairment. Interest received is recognized as part of interest and other income. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Discounting is omitted where the effect of discounting is immaterial.

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company’s financial liabilities include accounts payable and accrued liabilities, long-term debt, and royalty funding.

After initial recognition, the financial liabilities are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statements of loss and comprehensive loss when the liabilities are derecognized, as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statements of loss and comprehensive loss.

Financial assets and liabilities that are subsequently measured at amortized cost include cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt, and royalty funding.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Impairment of financial assets

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired using a forward-looking expected credit loss ("ECL") model. Loss allowances will be measured on either of the following bases:

i. 12-month ECLs which are ECLs that result from possible default events within 12 months after the reporting date (stage 1); and
ii. Lifetime ECLs which are ECLs that result from all possible default events over the expected life of a financial instrument (stage 2 and 3).

The Company applies the simplified approach to measuring expected credit losses which uses lifetime ECLs for all of its financial assets. For financial assets carried at amortized cost, the loss is the difference between the amortized cost of the receivable and the present value of the estimated future cash flows, discounted using the effective interest rate. All accounts receivable and other receivables and long-term accounts receivable are stage 1.

i. Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company at the exchange rate in effect at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Differences arising on settlement or translation of monetary items are recognized in the consolidated statements of loss and comprehensive loss.

j. Research and development

Research expenditures and development expenditures that do not meet the criteria for capitalization are recognized as an expense as incurred. 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 did not have any development expenditures that met the capitalization criteria for the years ended December 31, 2018 and 2017.

k. Government grants

Government grants are not recognized until there is reasonable assurance that they will be received and that the Company will be in compliance with any conditions associated with the grant. Grants that compensate the Company for expenses are recognized in the consolidated statements of loss and comprehensive loss with the same classification as the related expense and in the same period in which the expense is recognized.

l. Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued.

m. Future accounting pronouncements

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are listed below. This list is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

i) IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, Leases (“IFRS 16”) which will replace IAS 17, Leases. The Company will be required to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The new 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, Leases, while requiring enhanced disclosures to be provided by lessors.

The Company will adopt the standard on the effective date of January 1, 2019 and has selected the modified retrospective transition approach. The Company has also elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease under IAS 17, Leases or IFRIC 4, Determining Whether an Arrangement Contains a Lease.

Upon adoption of the new standard, the Company will recognize a lease liability at the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate. The Company will measure each right-of-use asset equal to the lease liability, adjusted by the amount of any prepaid payments recognized in the December 31, 2018 consolidated financial statements. As a result, the Company expects to recognize additional right-of-use assets and lease liabilities of approximately $356,000, as at January 1, 2019.

ii) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23, Uncertainty Over Income Tax Treatments (“IFRIC 23”) sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as a group; and

- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings;
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Entities can apply IFRIC 23 with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

Management does not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.

5. 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.

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) 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.

(iii) Deferred income taxes

The calculation of deferred income taxes is based on assumptions which 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.

(iv) Recoverability of accounts receivable

Accounts receivable are amounts due from customers for product 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 receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for 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 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 December 31, 2018, management has determined that a provision for ECL was required in the amount of $154,629 (2017 – $370,176).

(v) 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.

(vi) 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.

(vii) Fair value of common shares

The Company uses estimates to determine the fair value of common shares that were issued in the Transaction to acquire CBTI. The share price is calculated by allocating the subscription price received prior to becoming a public company between the half warrant and common share, where the fair value of the half warrant is calculated using the Black-Scholes model.

6. Correction of Errors

During the year ended December 31, 2018, management has made certain adjustments to the prior year financial statements. The impact of those adjustments on the consolidated statements of financial position as at January 1, 2017 and December 31, 2017, and the consolidated statements of loss and comprehensive loss for the year ended December 31, 2017, as well as the nature of those adjustments is explained below:

a) Royalty funding

As disclosed in Note 15, during 2013, the Company entered into a sales agreement with Grenville Strategic Royalty Corp. (now Flow Capital Corp.), which was recorded as a customer deposit. Management reviewed the sales agreement and determined that, in substance, the cash received was not a payment in advance for future sales. As a result, the Company has determined the royalty funding should have been accounted for as a financial liability and measured at its fair value of $375,000 at initial recognition. Subsequently, the royalty funding should have been reflected as perpetual debt for accounting purposes and payments made should have been treated as interest on royalty funding. The consolidated financial statements of the Company as at January 1, 2017 and for the year ended December 31, 2017 have therefore been restated.

(Expressed in Canadian dollars)

b) Accounts receivable

During the year, management determined that accounts receivable was overstated due to a duplicate invoice in 2016 in the amount of $26,971. Additionally, management identified that certain foreign currency balances were not correctly relieved from accounts receivable during 2017 resulting in an overstatement of $4,321. The consolidated financial statements of the Company as at January 1, 2017 and for the year ended December 31, 2017 have therefore been restated.

c) Bad debt expense

During the year, management determined that an amount of $40,137 was inappropriately recorded as bad debt expense. This amount pertained to a 2017 sales order that was invoiced but not yet earned and recorded in deferred revenue. The Company has determined that the deferred revenue should have been derecognized as it did not exist as at December 31, 2017. The consolidated financial statements of the Company for the year ended December 31, 2017 have therefore been restated.

d) Cost of sales

During the year, management determined that there were errors pertaining to the amount recorded as cost of sales. These errors were the result of the under accrual of accounts payable and accrued liabilities, the incorrect classification of certain general and administrative expenses, the incorrect costing of certain items of inventory, and the recognition of a deposit as an expense resulting in an understatement of cost of sales of $151,775. The consolidated financial statements of the Company for the year ended December 31, 2017 have therefore been restated.

Effects of these adjustments on the consolidated statement of financial position as at January 1, 2017 are as follows:

	January 1, 2017 As originally presented	Adjustments		January 1, 2017 Restated
Accounts receivable and other receivables	$ 734,198	$ (26,971)	b	$ 707,227
Accounts payable and accrued liabilities	581,422	12,143	a	593,565
Current portion of deferred revenue	314,399	(37,500)	a	276,899
Deferred revenue	458,020	(304,385)	a	153,635
Royalty funding	–	375,000	a	375,000
Accumulated deficit	(4,009,562)	(45,258)	a	
		(26,971)	b	(4,081,791)

(Expressed in Canadian dollars)

Effects of these adjustments on the consolidated statement of financial position as at December 31, 2017 are as follows:

	December 31, 2017 As originally presented	Adjustments		December 31, 2017 Restated
Accounts receivable and other receivables	$ 1,088,512	$ (26,971)	b	
		(4,321)	b	$ 1,057,220
Inventory	835,572	(28,319)	d	807,253
Accounts payable and accrued liabilities	1,993,015	7,796	a	
		71,550	d	2,072,361
Current portion of deferred revenue	279,529	(61,875)	a	
		(40,137)	c	177,517
Deferred revenue	452,322	(252,710)	a	199,612
Royalty funding	–	375,000	a	375,000
Accumulated deficit	(7,380,483)	(68,211)	a	
		(26,971)	b	
		(4,321)	b	
		40,137	c	
		(99,869)	d	(7,539,718)

Effects of these adjustments on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017 are as follows:

	December 31, 2017 As originally presented	Adjustments		December 31, 2017 Restated
Revenue	$ 2,323,111	$ (27,300)	a	$ 2,295,811
Cost of sales	2,079,270	151,775	d	2,231,045
General and administrative	454,302	(51,906)	d	402,396
Bad debt (recovery)	370,176	(40,137)	c	330,039
Royalties	27,454	(27,454)	a	–
Interest on royalty funding	–	23,107	a	23,107
Foreign exchange gain (loss)	(9,569)	(4,321)	b	(13,890)

The correction of errors did not have an impact on total cash used in continuing operations, total cash from financing activities, and total cash used in investing activities for the year ended December 31, 2017. However, during the year management reclassified the comparative consolidated statement of cash flows for the year ended December 31, 2017 to reflect the receipt of subscriptions receivable of $400,690 as a financing activity that was previously recorded within operating activities.

The correction of errors did not have an impact on basic or diluted loss per share.

7. Reverse Takeover Transaction

On November 30, 2017, the Company entered into a non-binding letter of intent with CBTI, whereby the Company would acquire all of the issued and outstanding common shares in the capital of CBTI and apply for a listing on the TSX Venture Exchange (the “Exchange”). Upon completion, the Transaction constituted a reverse takeover of the Company by CBTI.

On February 16, 2018 the Company and CBTI entered into an amended and binding letter of intent with regards to the Transaction. As agreed, the Transaction was affected by way of a reverse triangular amalgamation under the laws of Ontario. 2621388 Ontario Ltd. ("Subco"), a wholly-owned subsidiary of the Company, was merged with and into CBTI. The separate corporate existence of Subco ceased and CBTI was the surviving corporation and wholly-owned by the Company.

On February 22, 2018 and March 14, 2018, CBTI completed equity financing by way of a brokered private placement in two tranches which resulted in the issuance of 8,569,000 subscription receipts at a price of $0.80 per subscription receipt for aggregate gross proceeds to CBTI of $6,855,200. Each subscription receipt would automatically be converted immediately prior to the closing of the Transaction into a CBTI unit comprised of one CBTI common share and one half of one CBTI common share purchase warrant. Each share purchase warrant would entitle the holder thereof to purchase one common share of CBTI at a price of $1.50 per common share for a period of 24 months following the closing of the private placement. Each CBTI common share and share purchase warrant issued in the private placement would automatically be converted into CBLU common shares and CBLU warrants upon the completion of the Transaction.

To facilitate the Transaction, CBTI underwent a split of its outstanding common shares on the basis of post-split 2.63452 common shares for each one pre-split common share prior to the completion of the Transaction (excluding the CBTI common shares issued on the conversion of the subscription receipts as described above).

On July 13, 2018, the Company completed the Transaction with CBTI, with the Company being renamed "Clear Blue Technologies International Inc." and trading on the Exchange under the symbol “TSXV:CBLU”. Pursuant to the terms of the Transaction, all of the outstanding securities of CBTI were exchanged for equivalent securities of the Company on a one-for-one basis (following the subdivision of CBTI’s common shares described above), such that the former securityholders of CBTI continued as securityholders of CBLU. In addition, all of the outstanding convertible securities of CBTI (including share purchase warrants and stock options) were, subject to the rules of the Exchange, exchanged for convertible securities of the Company on a one-for-one basis and on the same economic terms and conditions as previously issued. As a result, 30,289,804 CBLU common shares were issued to former CBTI shareholders, including 8,569,000 common shares issued pursuant to CBTI’s private placement completed on February 22, 2018 and March 14, 2018 described above.

As a result of the Transaction, the shareholders of CBTI held a majority of the common shares of the Company and the Company will continue CBTI’s existing business, CBTI is considered to have acquired the Company on an accounting basis, and the transaction has been accounted for as a reverse takeover.

At the time of the Transaction, the Company did not constitute a business as defined under IFRS 3, Business Combinations. Therefore, the Transaction is accounted for under IFRS 2, Share-based Payment, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense. CBTI, the legal subsidiary, has been treated as the accounting parent company, and the Company, the legal parent, has been treated as the accounting subsidiary in these consolidated financial statements. As CBTI was deemed to be the acquirer for accounting purposes, these consolidated financial statements present the historical financial information of CBTI to the date of the Transaction.

As a result of the completion of the Transaction, there were: (i) 34,850,353 common shares; (ii) 5,589,598 common share purchase warrants; (iii) 2,762,812 options to purchase common shares; and (iv) 597,205 compensation options outstanding.

The total consideration has been estimated based on $0.648 per common share. The total purchase price as described above results in a share capital increase of $2,955,275 which represents the fair value of the Company’s 4,560,549 common shares issued to the Dagobah Ventures Ltd. (“DVL”) shareholders to effect the Transaction.

(Expressed in Canadian dollars)

The acquisition has been accounted for as follows:

Net assets acquired		
Assets acquired		
Cash	$	1,061
Loan receivable		200,000
Liabilities assumed		
Accounts payable and accrued liabilities		(17,603)
Company's net assets as at July 13, 2018		183,458
Consideration paid		
4,560,549 common shares deemed issued to the Company's existing shareholders		2,955,275
Listing expense	$	2,711,817

The fair value of the consideration paid exceeds the fair value of the net assets acquired by $2,711,817 which is treated as a public company listing expense and has been recognized in the consolidated statements of loss and comprehensive loss.

8. Accounts Receivable and Other Receivables

		December 31, 2018		December 31, 2017
Accounts receivable	$	1,801,906	$	923,508
Harmonized sales taxes receivable		70,518		383,312
Miscellaneous tax refund receivable		7,060		–
Government grants receivable		–		44,583
Term accounts receivable (i)		179,259		395,794
Less:				
Long-term accounts receivable (i)		(179,259)		(319,801)
Expected credit loss – short-term		(91,346)		(370,176)
Total	$	1,788,138	$	1,057,220

(i) $422,788 of accounts receivable from a North American customer, of which $243,529 is receivable in 18 equal monthly payments beginning July 1, 2018 and $179,259 is receivable within 30 days of the earlier of: (a) December 31, 2019; (b) systems sold for temporary deployment in Puerto Rico are redeployed to another customer location; or (c) systems sold for temporary deployment in Puerto Rico are converted to a permanent installation in Puerto Rico. The Company's entire long-term accounts receivable relates to this transaction. The impact of discounting the receivable and related revenue was determined not to be material and is not reflected in these consolidated financial statements.

		December 31, 2018		December 31, 2017
Long-term accounts receivable	$	179,259	$	319,801
Expected credit loss – long-term		(63,283)		–
Total	$	115,976	$	319,801

(Expressed in Canadian dollars)

9. Research and Development Tax Credits Receivable

The Company's research and development tax credits receivable balance is comprised of the following amounts related to Scientific Research and Experimental Development tax credits:

	December 31, 2018	December 31, 2017
2017 Claims	$ 492,000	$ 492,000
2016 Claims	240,000	240,000
2015 Claims	118,688	118,688
2014 Claims	136,977	136,977
2013 Claims	86,351	86,351
Less:		
Amount refunded in 2017	(67,538)	(67,538)
Amount refunded in 2018	(953,714)	–
Valuation allowance:	(52,764)	(372,000)
Total	$ –	$ 634,478

The Company received refunds of $953,714 in 2018 (2017 – $67,538) related to these receivables. The excess of refunds has been reflected as a reduction of research and development expenditures in the Company's consolidated statements of loss and comprehensive loss.

10. Inventory

	December 31, 2018	December 31, 2017
Raw materials	$ 479,182	$ 782,272
Finished goods	1,159,769	24,981
Total	$ 1,638,951	$ 807,253

The cost of inventory recognized as an expense and included in cost of sales amounted to $2,840,934 (2017 – $2,231,045). No provision for obsolescence was recognized as at December 31, 2018 (2017 – $nil).

(Expressed in Canadian dollars)

11. Property and Equipment

	Computer and equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance as of December 31, 2016	$ 32,178	$ 2,752	$ –	$ 34,930
Additions	13,222	7,552	–	20,774
Balance as of December 31, 2017	45,400	10,304	–	55,704
Additions	70,798	–	29,618	100,416
Balance as of December 31, 2018	$ 116,198	$ 10,304	$ 29,618	$ 156,120
Accumulated Depreciation				
Balance as of December 31, 2016	6,341	1,390	–	7,731
Depreciation	12,774	659	–	13,433
Balance as of December 31, 2017	19,115	2,049	–	21,164
Depreciation	24,227	2,339	3,130	29,696
Balance as of December 31, 2018	$ 43,342	$ 4,388	$ 3,130	$ 50,860
Net book value as at:				
December 31, 2017	26,285	8,255	–	34,540
December 31, 2018	$ 72,856	$ 5,916	$ 26,488	$ 105,260

Included in computer and equipment as at December 31, 2018 in the amount of $72,856 are assets under capital lease with a net book value of $7,440 (December 31, 2017 – $8,418).

12. Short-term Loan

In connection with the execution of the letter of intent disclosed in Note 7, the Company received $200,000 from DVL by way of an unsecured interest-free demand loan, provided however, that demand may only be made by DVL from and after the date on which the letter of intent is terminated being the earlier of: (i) the date of execution of a definitive agreement; (ii) February 28, 2018; and (iii) the date the contemplated transaction is rejected by the Exchange and all recourse or rights of appeal have been exhausted. This short-term loan from DVL has been eliminated on consolidation.

13. Deferred Revenue

	December 31, 2018	December 31, 2017
(i) Deposits and advance billings	$ –	$ 103,851
(ii) Energy management services	290,696	273,278
	290,696	377,129
Less: current portion of deferred revenue	128,550	177,517
	$ 162,146	$ 199,612

(i) Deposits and advance billings are comprised of upfront security deposits received from customers in advance of the related goods being shipped or the services provided, and on a specific project basis, the excess of amounts invoiced over revenue recognized.

(ii) Energy management services (formerly referred to as monitoring and communications) relate to the unearned revenue for software licenses and on-going remote power management services which are amortized into income on a straight-line basis over the life of the related contract.

(Expressed in Canadian dollars)

14. Long-term Debt

		December 31, 2018		December 31, 2017
(i) Eastern Ontario Futures Development Corporations Networks Inc.	$	304,704	$	375,410
(ii) Federal Economic Development Agency of Southern Ontario		292,889		251,608
	$	597,593	$	627,018
Less:				
Current portion		72,395		62,399
Deferred financing fees		8,210		10,803
	$	516,988	$	553,816

(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, maturing on September 30, 2022. The loan is secured by a general security agreement against all of the assets of the Company. For the year ended December 31, 2018, the Company recognized interest expense of $26,573 (2017 – $21,120).

(ii) Federal Economic Development Agency of Southern Ontario non-interest-bearing loan, repayable in monthly installments beginning January 1, 2019 and maturing on December 1, 2023. Monthly installments are $2,000, $3,000, $5,000, $8,000 and $15,000 for the years 2019 through 2023, respectively, with a final month payment of $19,000. 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.

The Company incurred interest expense related to its long-term debt of $99,793 for the year ended December 31, 2018 (2017 – $42,732).

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

2019	$	96,395
2020		115,976
2021		148,350
2022		159,983
2023		184,000
Total	$	704,704

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 – 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: March 31, 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 March 31, 2018 and was not exercised by the Company;

(Expressed in Canadian dollars)

b) Because the Initial Repurchase Right was not exercised, 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”);

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 $39,889 for the year ended December 31, 2018 (2017 – $23,107).

16. Share Capital

Authorized:

Unlimited number of Class A common shares without nominal or par value. Details of the issued and outstanding Class A common shares are outlined below:

	Number (pre-split)	Number	Amount
Balance as of December 31, 2016	**6,171,352**	**16,258,550**	**$ 3,787,516**
Shares issued	1,701,049	4,481,448	2,891,577
Issuance costs	–	–	(194,238)
Balance as of December 31, 2017	**7,872,401**	**20,739,998**	**$ 6,484,855**
Shares issued		14,323,306	9,247,192
Issuance costs		–	(1,225,728)
Balance as of December 31, 2018		**35,063,304**	**$ 14,506,319**

During the year ended December 31, 2018, the Company underwent a split of its outstanding common shares on the basis of post-split 2.63452 common shares for each one pre-split common share as part of the RTO transaction (see Note 7).

During the year ended December 31, 2018, the Company issued:

(i) 788,743 Class A post-split common shares valued at $511,006 as payment for services received related to private placements and the RTO transaction;
(ii) 4,560,549 Class A post-split common shares valued at $2,955,275 as part of the RTO transaction;

(Expressed in Canadian dollars)

(iii) 8,569,000 Class A post-split common shares at $0.80 per subscription unit for cash consideration of $6,855,200 as part of private placement equity transactions; and
(iv) 405,014 Class A post-split common shares at various exercise prices for cash consideration of $19,596 and the transfer of $208,954 from contributed surplus to share capital in respect of stock option exercises.

During the year ended December 31, 2017, the Company issued:

(i) 4,463,351 Class A common shares at $0.54/share for cash consideration of $2,428,133 and $451,972 subscription receivable as part of private placement equity transactions; and
(ii) 18,097 Class A common shares at $0.58/share for cash consideration of $10,510 and the transfer of $962 from contributed surplus to share capital in respect of warrant exercises.

During the year ended December 31, 2018, $484,764 (2017 – $183,541) of cash consideration was paid for legal fees and commissions and compensation options with an estimated fair value of $229,958 (2017 – $10,696) were issued in relation to the private placement transactions.

17. Equity-based Settlements

a. Options

Under the Company's stock option plan, the Company may, at its discretion, grant stock options to its directors, officers, and employees. The options vest over periods ranging from upon issuance to four years. All of the options expire 10 years from the date of grant with expiry dates ranging from May 2024 to October 2027.

Below is a continuity of stock options outstanding. On July 13, 2018, the stock options were subdivided on a 2.63452:1 basis. All references to stock options reflect this subdivision.

Stock options outstanding - December 31, 2016	**2,206,031**
Stock options issued during year	748,862
Stock options outstanding - December 31, 2017	**2,954,893**
Stock options issued during year	1,280,205
Stock options exercised during year	(405,014)
Stock options forfeited during year	(255,073)
Stock options outstanding – December 31, 2018	**3,575,011**

As at December 31, 2018, 2,098,509 (2017 – 561,881) options were vested and exercisable. For the year ended December 31, 2018, the Company recognized $183,019 (2017 – $200,224) of stock-based compensation expense in relation to its stock option plan.

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

	December 31, 2018	**December 31, 2017**
Expected option life (years)	2 – 7	6
Volatility	71% – 126%	71%
Forfeiture rate	0.48% – 50%	–
Risk-free interest rate	0.81% – 2.27%	2%
Dividend yield	–	–

(Expressed in Canadian dollars)

Options outstanding at December 31, 2018 were comprised of the following:

Exercise price	Remaining contractual life (years)	Number of options*	Weighted average exercise price	Weighted average remaining contractual life (years)
$0.05	5.3	144,796	$0.05	5.3
$0.26	6.3-6.5	349,165	$0.26	6.4
$0.31	7.3	126,367	$0.31	7.3
$0.49	4.9	483,000	$0.49	4.9
$0.50	7.3-8.8	1,437,888	$0.50	7.8
$0.52	7.0	236,590	$0.52	7.0
$0.62	4.7	200,000	$0.62	4.7
$0.80	1.5	597,205	$0.80	1.5
	Total	3,575,011		5.9

*On July 13, 2018, the stock options were subdivided on a 2.63452:1 basis. All references to stock options reflect this subdivision.

Options outstanding at December 31, 2017 were comprised of the following:

Exercise price	Remaining contractual life (years)	Number of options*	Weighted average exercise price	Weighted average remaining contractual life (years)
$0.01	6.3	297,145	$0.01	6.3
$0.09	6.3	41,099	$0.09	6.3
$0.001	7.0-7.6	192,059	$0.001	7.4
$0.68	7.3-7.5	349,166	$0.68	7.4
$1.38	7.9	236,590	$1.38	7.9
$0.81	8.3	126,370	$0.81	8.3
$1.33	8.3-9.8	1,712,464	$1.33	9.0
	Total	2,954,893		8.3

*On July 13, 2018, the stock options were subdivided on a 2.63452:1 basis. All references to stock options reflect this subdivision.

On July 13, 2018, as part of the Transaction, the Company re-priced 338,239 stock options to have an exercise price of $0.05 per share to fulfill a minimum price requirement by the Exchange. The modification of options caused an increase in exercise price with the other terms and conditions remaining the same. This modification of stock options resulted in no incremental value and therefore no additional stock-based compensation expense was recognized for this modification.

b. Warrants

On February 22, 2018 and March 14, 2018, the Company completed equity financing by way of a brokered private placement in two tranches which resulted in the issuance of 8,569,000 subscription receipts. Each subscription receipt was automatically converted into one common share and one half of one common share purchase warrant upon completion of the Transaction (see Note 7) on July 13, 2018. Each share purchase warrant entitles the holder thereof to purchase one common share at a price of $1.50 per common share for a period of 24 months following the closing of the private placement.

As of December 31, 2018, there were 5,533,789 warrants outstanding, including 4,284,500 warrants from the private placements and 1,029,089 warrants issued to Ontario Centres of Excellence ("OCE"). The OCE warrants were issued on July 13, 2018 to settle warrants issued May 5, 2014 as part of a convertible debenture which were classified as a derivative liability. The difference between the carrying amount of the derivative liability extinguished and the consideration paid of $488,336 has been recognized in the consolidated statements of loss and comprehensive loss in the amount of $422,591.

(Expressed in Canadian dollars)

The following is a summary of changes in share purchase warrants from December 31, 2017 to December 31, 2018:

Share purchase warrants - December 31, 2016	**643,342**
Granted during year	41,766
Expired during year	(409,109)
Share purchase warrants - December 31, 2017	**275,999**
Granted during year	4,284,500
Expired during year	(55,799)
Warrants issued to extinguish the derivative liability	1,029,089
Share purchase warrants - December 31, 2018	**5,533,789**

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

	December 31, 2018	**December 31, 2017**
Expected option life (years)	1 – 7	6
Volatility	73% – 137%	71%
Risk-free interest rate	0.59% – 1.88%	2%
Dividend yield	–	–

On July 13, 2018, as part of the Transaction, the Company re-priced 26,082 warrants to have an exercise price of $0.05 per share to fulfill a minimum price requirement by the Exchange. The modification of warrants caused an increase in exercise price with the other terms and conditions remaining the same. This modification of warrants resulted in no incremental value and therefore no additional expense was recognized for this modification.

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:

	December 31, 2018	**December 31, 2017**
Salaries and benefits, including bonuses	$ 687,573	$ 649,454
Stock-based compensation	67,936	41,832
Total	$ 755,509	$ 691,286

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 at December 31, 2018 includes short-term amounts owing to shareholders of the Company for reimbursement of business expenses totaling $263,706 (December 31, 2017 – $343,699).

(Expressed in Canadian dollars)

The Company paid consulting fees of $898 (2017 – $105,822) to a corporation of which a member of the corporation's senior management is a shareholder of the Company. The related contract expired in January of 2018.

Subsequent to year end, the Chief Financial Officer participated in the private placement that closed on February 22, 2019 (see Note 25). The Chief Financial Officer purchased 40,000 units for $10,000.

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:

	December 31, 2018	December 31, 2017
Stock options	3,575,011	2,954,893
Warrants	5,533,789	685,117
Total	9,108,800	3,640,010

Expenses related to the warrants 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 17. As at December 31, 2018 the warrants have a weighted average strike price of $0.51 (2017 – $0.71) per share.

20. Income Taxes

The Company pays income taxes according to the Canadian Income Tax Act. As at December 31, 2018, and December 31, 2017 there was no deferred tax asset or liability recognized.

The Company's income tax (recovery) expense is determined as follows:

	December 31, 2018	December 31, 2017
Loss before income taxes	$ (8,098,567)	$ (3,457,927)
Statutory income tax rate	26.50%	26.50%
Expected recovery at statutory income tax rate	(2,146,120)	(916,351)
Reconciling items:		
Non-deductible expenses		
Non-deductible listing fee	734,532	–
Meals and entertainment	5,748	–
Non-deductible loss on the extinguishment of the warrant liability	111,987	–
Stock-based compensation	48,500	56,000
Tax rate changes and other adjustments	2,373	(21,610)
Capitalized share issuance costs	–	(48,638)
Change in tax benefits not recognized	1,242,980	930,599
Income tax (recovery) expense	$ –	$ –

(Expressed in Canadian dollars)

The temporary differences that give rise to the deferred tax asset or deferred tax liability at the substantively enacted tax rate of 26.5% (2017 – 26.5%) are as follows:

	December 31, 2018	December 31, 2017
Non-capital losses carried-forward	$ 8,865	$ 118,843
Government assistance	(8,865)	(118,843)
Net deferred tax asset (liability)	$ –	$ –

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2018	December 31, 2017
Non-capital losses carried-forward	$ 10,190,747	$ 5,083,453
Property and equipment	34,750	–
Capital lease obligation	4,873	7,458
Deferred financing fees	1,178,686	292,730
Derivative liability	–	65,745
Research and development tax credits and other	898,950	1,102,355
Net deferred tax asset	$ 12,308,006	$ 6,551,741

The Canadian non-capital loss carry-forwards expire as noted below. Deferred financing fees will be fully amortized in 2020. The remaining deductible temporary differences may be carried forward indefinitely. The deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As at December 31, 2018, the Company has non-capital losses of approximately $10,220,000 (December 31, 2017 – $5,510,000) that will expire from 2034 to 2038.

21. Capital Risk Management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. At December 31, 2018, the Company's shareholders' equity was $1,945,045 (December 31, 2017 – $26,950) and the Company's debt was $969,256 (December 31, 2017 – $1,195,315).

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 year ended December 31, 2018.

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. The Company is not subject to any externally imposed capital requirements.

22. Fair Value Measurement

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.

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 December 31, 2018, the Company's financial instruments consist of cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt, and royalty funding. The fair values of cash, accounts receivable and other receivables, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt, and royalty funding approximate their carrying values due to their nature. The Company classifies its financial instruments as outlined in Note 4.

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 risk 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.

(ii) 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.

(iii) 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 revenue 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):

	December 31, 2018	December 31, 2017
Cash	$ 191,942	$ 235,676
Accounts receivable and other receivables	1,476,613	1,088,653
Accounts payable and accrued liabilities	382,340	683,955

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets would change by approximately $128,000 at December 31, 2018

(Expressed in Canadian dollars)

(December 31, 2017 – $66,000) due to the fluctuation and this would be recorded in the consolidated statements of loss and comprehensive loss.

(iv) 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 51% at December 31, 2018 (December 31, 2017 – three customers represented 77%) of the Company's accounts receivable balance. The Company performs credit assessments of potential customers and insures 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 December 31, 2018:

Current (not past due)	$	811,357
0 – 30 days past due		–
31 – 60 days past due		8,228
61 – 90 days past due		256,891
Over 90 days past due		725,430
Long-term accounts receivable		179,259
Expected credit loss		(154,629)
Total	$	1,826,536

The Company is also exposed to economic dependence risk with respect to its sources of revenue. For the year ended December 31, 2018, five customers represented 60% (December 31, 2017 – five customers represented 59%) of its total revenue.

(v) Liquidity risk

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, and royalty funding by ensuring sufficient cash is on hand from cash flows from operations and financing from investors. As at December 31, 2018, the Company's current assets exceeded its current liabilities by $2,777,943 (December 31, 2017 – $804,395).

Contractual maturities of the Company's long-term debt are outlined in Note 14 to the consolidated financial statements. Other financial liabilities, including accounts payable and accrued liabilities have maturities within 12 months of the Company's year-end.

23. Commitments and Contingencies

The Company has entered into a lease agreement for its premises with estimated minimum annual payments as follows:

2019	$	115,486
2020		115,486
2021		115,486
2022		76,991
Total	$	423,449

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).

(Expressed in Canadian dollars)

24. 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 Middle East and Africa ("MEA").

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

	December 31, 2018	December 31, 2017
Canada	$ 1,105,543	$ 308,535
USA	936,379	601,471
MEA	1,657,694	1,264,361
Other	80,560	121,444
Total	$ 3,780,176	$ 2,295,811

25. Subsequent Events

i) On February 22, 2019, the Company secured a $1.0 million revolving credit facility and a credit card facility of $150,000 to fund operating cash flow needs. The credit facility bears interest at a rate equivalent to the bank's prime lending rate plus 1.5% and is secured by the assets of the Company.

ii) On February 22, 2019, March 22, 2019, and March 28, 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 will be 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.