

**SPARK POWER GROUP INC.**

**Condensed Consolidated Interim Financial Statements  
For the 3 and 6 Months Ended June 30, 2019 and 2018**

**SPARK POWER GROUP INC.**

Condensed Consolidated Interim Statements of Financial Position  
 Unaudited, Presented in Canadian dollars

	June 30, 2019	December 31, 2018
<b>Assets</b>		<b>(Audited)</b>
<b>Current assets</b>		
Short-term investments	\$ 252,241	\$ 251,161
Accounts receivable (Note 3)	36,554,214	35,410,600
Inventory	5,768,863	5,697,836
Contract asset (Note 3)	13,471,096	11,262,340
Income taxes receivable	2,198,334	-
Prepaid expenses and deposits	3,521,364	2,464,152
	<b>61,766,112</b>	<b>55,086,089</b>
<b>Non-current assets</b>		
Property and equipment (Note 4)	28,771,742	21,990,687
Intangible assets (Note 5)	32,872,480	34,231,754
Goodwill	28,407,921	28,407,921
	<b>\$ 151,818,255</b>	<b>\$ 139,716,451</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 6)	\$ 16,384,925	\$ 11,666,604
Accounts payable and accrued liabilities	26,045,682	22,056,355
Current portion of long-term debt (Note 6)	5,536,000	1,625,000
Current portion of promissory notes (Note 6)	2,282,496	1,282,496
Current portion of lease liability (Note 7)	4,399,483	4,234,216
Contract liability	3,596,319	3,745,131
Income taxes payable	-	615,444
	<b>58,244,905</b>	<b>45,225,246</b>
<b>Non-current liabilities</b>		
Long-term debt (Note 6)	40,170,827	43,418,475
Promissory notes (Note 6)	10,799,476	8,951,031
Deferred taxes	3,352,033	2,094,664
Lease liability (Note 7)	13,237,272	11,507,343
	<b>125,804,513</b>	<b>111,196,759</b>
<b>Shareholders' equity</b>		
Share capital (Note 8)	124,054,149	123,977,289
Contributed surplus	497,845	422,116
Deficit	(98,556,265)	(95,698,926)
	<b>25,995,729</b>	<b>28,700,479</b>
Non-controlling interest	18,013	(180,787)
	<b>26,013,742</b>	<b>28,519,692</b>
	<b>\$ 151,818,255</b>	<b>\$ 139,716,451</b>

See accompanying notes to the condensed consolidated interim financial statements.

# SPARK POWER GROUP INC.



## Condensed Consolidated Interim Statements of Comprehensive Loss Unaudited, Presented in Canadian dollars

	3 Months Ended June 30,		6 Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue</b> (Note 3)	\$ 44,274,318	\$ 23,846,670	\$ 78,546,697	\$ 43,581,089
<b>Cost of sales</b>	28,683,996	15,313,647	50,546,556	27,755,965
<b>Gross Profit</b>	15,590,322	8,533,023	28,000,141	15,825,124
<b>Expenses</b>				
Selling, general and administrative	12,874,448	6,316,820	24,577,003	13,010,073
<b>Income from operations</b>	2,715,874	2,216,203	3,423,138	2,815,051
<b>Other expenses</b>				
Finance expense	(1,307,642)	(897,481)	(2,596,808)	(1,995,553)
Increase in value of puttable class A and class 1 special shares	-	(8,509,940)	-	(27,117,200)
Transaction costs	(536,245)	(1,112,234)	(536,245)	(1,112,234)
Reorganization costs (Note 10)	(1,000,000)	-	(1,000,000)	-
Earn-out (Note 10)	(2,100,000)	-	(2,100,000)	-
Other	13,750	45,469	(27,257)	35,519
	(4,930,137)	(10,474,186)	(6,260,310)	(30,189,468)
<b>Income (loss) before income taxes</b>	(2,214,263)	(8,257,983)	(2,837,172)	(27,374,417)
<b>Current income taxes (recovery)</b>	(960,238)	334,123	(1,436,002)	795,821
<b>Deferred income taxes (recovery)</b>	885,945	(535,603)	1,257,369	(865,880)
<b>Income tax recovery</b>	(74,293)	(201,480)	(178,633)	(70,059)
<b>Net and comprehensive loss</b>	\$ (2,139,970)	\$ (8,056,503)	\$ (2,658,539)	\$ (27,304,358)
<b>Earnings per share attributable to equity holders</b>				
Basic	\$ (0.05)	\$ (2.66)	\$ (0.06)	\$ (9.01)
Diluted	\$ (0.05)	\$ (2.66)	\$ (0.06)	\$ (9.01)

See accompanying notes to the condensed consolidated interim financial statements.

# SPARK POWER GROUP INC.

## Condensed Consolidated Interim Statements of Changes in Equity Unaudited, Presented in Canadian dollars



	Common shares		Warrants	Class A Common shares		Class B Common shares		Class 1 Special shares		Non-controlling interest	Contributed surplus	Shareholders' equity/	
	Number	Amount	Amount	Number	Amount	Number	Amount	Number	Amount			Deficit	(deficiency)
<b>Balance at December 31, 2017 (Audited)</b>	-	\$ -	\$ -	100,000	\$ 1	-	\$ -	1,946,384	\$ 321,008	\$ (180,787)	\$ 348,750	\$ (31,064,074)	\$ (30,575,102)
Net and comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(27,304,358)	(27,304,358)
Share capital addition	-	-	-	-	-	747,436	1,340,583	88,882	159,417	-	-	-	1,500,000
<b>Balance at June 30, 2018</b>	-	\$ -	\$ -	100,000	\$ 1	747,436	\$ 1,340,583	2,035,266	\$ 480,425	\$ (180,787)	\$ 348,750	\$ (58,368,432)	\$ (56,379,460)
<b>Balance at December 31, 2018 (Audited)</b>	44,920,313	\$ 121,315,767	\$ 2,661,522	-	\$ -	-	\$ -	-	\$ -	\$ (180,787)	\$ 422,116	\$ (95,698,926)	\$ 28,519,692
Net and comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(2,658,539)	(2,658,539)
Issuance of common shares (Note 8)	3,240	4,500	-	-	-	-	-	-	-	-	-	-	-
Exercise of stock options (Note 8)	54,000	72,360	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation (Note 8)	-	-	-	-	-	-	-	-	-	-	75,729	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	198,800	-	(198,800)	(198,800)
<b>Balance at June 30, 2019</b>	44,923,553	\$ 121,392,627	\$ 2,661,522	-	\$ -	-	\$ -	-	\$ -	\$ 18,013	\$ 497,845	\$ (98,556,265)	\$ 25,662,353

See accompanying notes to the condensed consolidated interim financial statements.

# SPARK POWER GROUP INC.

## Condensed Consolidated Interim Statements of Cash Flows Unaudited, Presented in Canadian dollars



	3 Months Ended June 30,		6 Months Ended June 30,	
	2019	2018	2019	2018
<b>Cash flows from operating activities</b>				
Net and comprehensive income (loss) for the period	\$ (2,139,970)	\$ (8,056,503)	\$ (2,658,539)	\$ (27,304,358)
Adjustments for non-cash items				
Amortization and depreciation	2,744,515	1,641,182	5,290,611	3,330,182
Amortization of deferred financing fees	14,266	-	28,533	-
Unrealized gain on short-term investments	69	-	(1,080)	-
Stock-based compensation	41,642	-	75,729	-
Deferred income taxes	885,945	(535,603)	1,257,369	(865,880)
Accrued interest on Class B Common and Class 1 Special shares	-	45,000	-	225,000
Accrued interest on Preference shares	-	97,950	-	195,900
Loss on sale of fixed assets	1,210	-	1,210	-
Increase in value of Puttable Class A Common and Class 1 Special shares	-	8,509,940	-	27,117,200
Earn-out	1,848,445	-	1,848,445	-
Reorganization costs	1,000,000	-	1,000,000	-
Changes in non-cash working capital balances				
Accounts receivable	(4,366,545)	(2,214,103)	(1,143,614)	(3,062,630)
Inventory	274,138	(57,957)	(71,027)	(227,664)
Contract asset	(3,166,582)	-	(2,208,756)	1,511,117
Prepaid expenses and deposits	132,790	(253,902)	(1,057,212)	(583,784)
Accounts payable and accrued liabilities	5,158,014	1,914,968	3,989,327	1,826,342
Income taxes	(1,725,137)	704,553	(2,813,778)	753,034
Contract liabilities	1,561,315	499,015	(148,812)	87,688
	<u>2,264,115</u>	<u>2,294,540</u>	<u>3,388,406</u>	<u>3,002,147</u>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment (Note 4)	(2,998,151)	(936,585)	(5,997,990)	(1,338,732)
Purchase of short-term investments	-	-	-	54,142
Proceeds on sale of fixed assets	32,102	-	32,102	-
Sale of short-term investments	-	(5,000)	-	-
	<u>(2,966,049)</u>	<u>(941,585)</u>	<u>(5,965,888)</u>	<u>(1,284,590)</u>
<b>Cash flows from financing activities</b>				
Bank indebtedness	1,722,693	-	4,718,321	-
Issuance of share capital (Note 8)	-	21,054	4,500	1,176,414
Exercise of stock options (Note 8)	72,360	-	72,360	-
Increase in long-term debt (Note 6)	911,000	-	911,000	-
Repayment of long-term debt (Note 6)	(250,000)	(638,043)	(250,000)	(1,445,740)
Repayment of lease liability (Note 7)	(1,727,938)	(518,126)	(2,852,518)	(1,117,310)
Increase in deferred financing fees	(26,181)	-	(26,181)	-
	<u>701,934</u>	<u>(1,135,115)</u>	<u>2,577,482</u>	<u>(1,386,636)</u>
<b>Net change in cash during the period</b>	-	217,840	-	330,921
<b>Cash, beginning of period</b>	-	3,239,698	-	3,126,617
<b>Cash, end of period</b>	\$ -	\$ 3,457,538	\$ -	\$ 3,457,538

See accompanying notes to the condensed consolidated interim financial statements.

# SPARK POWER GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the 3 and 6 Months Ended June 30, 2019 and 2018  
Unaudited, Presented in Canadian dollars

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## 1. BUSINESS DESCRIPTION

Spark Power Group Inc. (“Spark” or “the Company”) is incorporated under the laws of Ontario. The Company provides electrical power services to North American industrial, commercial, institutional, renewable and agricultural customers, as well as utility markets including municipalities, universities, schools and hospitals.

The Company’s head office, principal address, and registered office is located at 1315 North Service Road E, Suite 300, Oakville, Ontario L6H 1A7.

## 2. BASIS OF PREPARATION

### Statement of Compliance

These unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and 2018 (“Financial Statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”).

The Board of Directors approved these Interim Financial Statements on August 13, 2019.

### Basis of Measurement

These Financial Statements have been prepared on a historical cost basis, except for short-term investments which are carried at fair value with changes in fair value recognized in comprehensive loss.

### Functional and Presentation Currency

These Financial Statements are presented in Canadian dollars (“CDN\$”) which is also the functional currency of the Company and its subsidiaries except for New Electric Fresno, LLC, Northwind Solutions Group (USA) Inc. and Spark Power Services Corp. (USA whose functional currency is US dollars (“US\$”) and Orbis Spa whose functional currency is the Chilean Peso. (“Peso”).

These Financial Statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018 (“Annual Financial Statements”). These Interim Financial Statements have been prepared using the same accounting policies that were described in Note 4 to the fiscal 2018 Annual Financial Statements.

### Recent Accounting Pronouncements

At the date of authorization of these Financial Statements, the IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have not issued any new or revised Standards and Interpretations that will become effective for the Company in future years and are expected to have a material impact on the Company. The Company has early adopted IFRS 9, Financial Instruments, IFRS 15, Revenue from Contracts with Customers, and IFRS 16, Leases, as at January 1, 2017. IFRIC 23, Uncertainty over Income Tax Treatments, has been initially applied as at January 1, 2019. There has been no significant changes to disclosures or measurement of income taxes as a result of this application.

### Significant Accounting Judgments and Estimates

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and reported amount of revenues and expenses during the reporting period. Management is required to apply judgment in recognizing revenue, determination of appropriate provisions, determination of the useful lives of assets, valuation of reverse take-over transaction, determination of valuation of equity transactions, valuation of business combinations, discount rate of lease liability, valuation of derivative financial instruments, and impairment of goodwill. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results could differ from those estimates.

*Revenue recognition* - The most significant judgments and estimates in recognizing revenue relate to the management contracts, as they are long-term in nature and contain consideration that is variable based on a number of uncertain factors, such as estimated electrical production over many years, expense growth, and the number of sites to be monitored. The Company determines the extent to which the estimate of variable

## SPARK POWER GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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### 2. BASIS OF PREPARATION (Continued)

consideration is constrained (and therefore included in the measurement of revenue) by considering historical trends and the lowest levels of annual incentive fees earned in the past (Note 3). Key assumptions made in determining the estimate of the transaction price relating to management contracts include:

- Cash flow projections for the per-project and per-kilowatt hour capacity are uniform in each year going forward; and
- The number of licensees will not materially change over the remaining contract term.

Key assumptions made in determining the satisfaction of the performance obligation at the reporting period are the expected number of licensees over the term of the remaining contract. Spark does not expect the number of licensees to change materially over the remaining term of the contracts.

*Provisions* – Significant judgments and estimates are involved in determination of the expected credit losses associated with accounts receivable and onerous contracts, as follows:

*Expected credit losses* – Expected credit losses associated with accounts receivable require management to assess certain forward looking and macroeconomic factors to determine whether there is a significant increase in credit risk as well as the expected provision on the balance outstanding as at period end. This is further described in Notes 3 and 9 to the Financial Statements.

*Onerous contracts* – A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be derived from the contract. The determination of when to record a provision for an onerous contract is a complex process that involves management judgment about outcomes of future events and estimates concerning the nature, extent and timing of expected future cash flows and discount rates related to the contract.

*Warranties* – Significant judgements and assumptions may be involved in the determination of future obligations associated with certain services and equipment sales recognized in the current period.

*Useful lives of assets* - Significant estimates in connection with these Financial Statements include the determination of the useful lives of property and equipment and intangible assets based on their expected depreciation rates. (Notes 4 and 5)

*Determination of valuation of equity transactions* – Significant estimates are involved in the determination of the fair value of equity transactions such as equity-settled transactions and warrant valuation. (Note 8)

*Valuation of business combinations* - Significant estimates and assumptions are required to determine the purchase price allocation of business combinations including the valuation of intangible assets acquired. (Note 10)

*Discount rate of lease liability* – The lease liabilities associated with all property and vehicle leases are measured at the present value of expected lease payments and discounted using the interest rate implicit in the lease, unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. The Company determines its incremental borrowing rate as the rate of interest it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This requires significant estimates and assumptions from the management that may have an impact on the Financial Statements. (Note 7)

*Valuation of derivative financial instruments* – The estimated fair values of financial assets and liabilities are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Furthermore, the Company may use derivative instruments to manage commodity price, foreign currency and interest rate exposures. The fair value of these derivatives are determined using valuation models which require assumptions concerning the amount and timing of future cash flows, and discount rates. Management's assumptions rely on external observable market data including quoted forward commodity prices and volatility, interest rate yield curves and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and, as such, are subject to measurement uncertainty. (Notes 6 and 9)

## SPARK POWER GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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Unaudited, Presented in Canadian dollars



### 3. ACCOUNTS RECEIVABLE, CONTRACT ASSET AND REVENUE

	June 30, 2019	December 31, 2018 (Audited)
Trade	\$ 36,755,698	\$ 35,571,334
Less: Provision for doubtful accounts	(201,484)	(160,734)
	<b>\$ 36,554,214</b>	<b>\$ 35,410,600</b>

	June 30, 2019	December 31, 2018 (Audited)
Contract asset	\$ 11,262,340	\$ 3,001,618
Increase due to business combination	-	995,976
Additions during the period	13,471,096	11,262,340
Amount recognized during the period	(11,262,340)	(3,997,594)
	<b>\$ 13,471,096</b>	<b>\$ 11,262,340</b>

The provision for doubtful accounts was determined based on historical loss rates and payment behavior from customers by major aging category, updated for estimates of forward-looking factors that may differ from past experience such as credit quality and industry factors. These updated loss rates were applied to aging categories to determine the expected credit losses on accounts receivable.

Management through its review of outstanding balances, has identified no objective evidence of impairment of its current and 31-90 days past due balance which is based on indications that a debtor or a group of debtors are experiencing significant financial difficulty, delinquency in payments, probability that they will enter bankruptcy or any other financial reorganization. The Company does not have significant balances that are greater than 91 days past due. As such, probability of default has been assessed to be insignificant.

#### *Revenue Disaggregation by Stream*

The Technical Services, Power Equipment, Power Advisory and Sustainability and Corporate columns represent the segments that can be found in Note 11. The Company generates higher revenues in the second and third quarters as weather can impact of available outdoor work in the first and fourth quarters.

	6 Months Ended June 30, 2019					
	Technical Services	Power Equipment	Power Advisory & Sustainability	Corporate	Total	
Service	\$ 59,463,627	\$ -	\$ -	\$ -	\$ 59,463,627	
Construction	5,400,317	-	-	-	5,400,317	
Management	-	-	1,763,900	341,713	2,105,613	
Equipment	-	4,187,492	-	-	4,187,492	
Retirement of green energy certificates	-	-	7,389,648	-	7,389,648	
<b>Total</b>	<b>\$ 64,863,944</b>	<b>\$ 4,187,492</b>	<b>\$ 9,153,548</b>	<b>\$ 341,713</b>	<b>\$ 78,546,697</b>	

	6 Months Ended June 30, 2018					
	Technical Services	Power Equipment	Power Advisory & Sustainability	Corporate	Total	
Service	\$ 37,998,388	\$ -	\$ -	\$ -	\$ 37,998,388	
Construction	1,669,923	-	-	-	1,669,923	
Management	-	-	733,661	966,928	1,700,589	
Equipment	-	2,212,189	-	-	2,212,189	
<b>Total</b>	<b>\$ 39,668,311</b>	<b>\$ 2,212,189</b>	<b>\$ 733,661</b>	<b>\$ 966,928</b>	<b>\$ 43,581,089</b>	

## SPARK POWER GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the 3 and 6 Months Ended June 30, 2019 and 2018  
Unaudited, Presented in Canadian dollars



### 3. ACCOUNTS RECEIVABLE, CONTRACT ASSET AND REVENUE (Continued)

June 30, 2019

	Current	31-90 days Past Due	>90 days	Total
Balance	\$ 12,228,679	\$ 16,052,542	\$ 8,474,477	\$ 36,755,698
Provision for doubtful accounts	\$ -	\$ -	\$ 201,484	\$ 201,484

December 31, 2018 (Audited)

	Current	31-90 days Past Due	>90 days	Total
Balance	\$ 14,335,787	\$ 16,982,088	\$ 4,253,459	\$ 35,571,334
Provision for doubtful accounts	\$ -	\$ -	\$ 160,734	\$ 160,734

	June 30, 2019	December 31, 2018 (Audited)
Opening balance	\$ (160,734)	\$ (264,759)
Decrease (Increase) during the period	(40,750)	13,633
Amounts written off during the period	-	90,392
Ending balance	\$ (201,484)	\$ (160,734)

The balance of contract asset at June 30, 2019 is current and has no provision recorded.

### 4. PROPERTY AND EQUIPMENT

	Computer Hardware	Computer Software	Furniture & Fixtures	Right of Use Assets and Leaseholds	Equipment	Vehicles	Total
<b>Cost:</b>							
Balance at December 31, 2018 (Audited)	\$ 809,085	\$ 3,292,728	\$ 1,344,275	\$ 14,091,810	\$ 4,475,980	\$ 10,706,777	\$ 34,720,655
Disposals	(6,962)	-	-	-	-	(54,318)	(61,280)
New leases acquired during the period	-	-	-	1,583,923	329,188	2,834,603	4,747,714
Additions	434,370	863,273	641,234	2,339,670	1,322,679	396,763	5,997,990
Balance at June 30, 2019	\$ 1,236,493	\$ 4,156,001	\$ 1,985,509	\$ 18,015,403	\$ 6,127,847	\$ 13,883,825	\$ 45,405,079
<b>Accumulated Depreciation:</b>							
Balance at December 31, 2018 (audited)	\$ 338,013	\$ 988,339	\$ 925,298	\$ 3,310,698	\$ 2,503,216	\$ 4,664,404	\$ 12,729,968
Disposals	(6,962)	-	-	-	-	(21,006)	(27,968)
Depreciation for the period	88,395	320,341	77,689	1,920,948	412,016	1,111,948	3,931,337
Balance at June 30, 2019	\$ 419,446	\$ 1,308,680	\$ 1,002,987	\$ 5,231,646	\$ 2,915,232	\$ 5,755,346	\$ 16,633,337
<b>Net carrying amounts:</b>							
December 31, 2018 (Audited)	\$ 471,072	\$ 2,304,389	\$ 418,977	\$ 10,781,112	\$ 1,972,764	\$ 6,042,373	\$ 21,990,687
June 30, 2019	\$ 817,047	\$ 2,847,321	\$ 982,522	\$ 12,783,757	\$ 3,212,615	\$ 8,128,479	\$ 28,771,742

## SPARK POWER GROUP INC.

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Unaudited, Presented in Canadian dollars



### 5. INTANGIBLE ASSETS

	Customer relationships	Tradename	Sales backlog	Non-competition agreement	Total
<b>Cost:</b>					
Balance at December 31, 2018 (Audited) and June 30, 2019	\$ 27,699,027	\$ 11,162,805	\$ 845,000	\$ 213,000	\$ 39,919,832
<b>Accumulated Depreciation:</b>					
Balance at December 31, 2018 (Audited)	\$ 4,767,152	\$ -	\$ 793,126	\$ 127,800	\$ 5,688,078
Amortization for the period	1,311,722	-	33,352	14,200	1,359,274
Balance at June 30, 2019	\$ 6,078,874	\$ -	\$ 826,478	\$ 142,000	\$ 7,047,352
<b>Net carrying amounts:</b>					
December 31, 2018 (Audited)	\$ 22,931,875	\$ 11,162,805	\$ 51,874	\$ 85,200	\$ 34,231,754
June 30, 2019	\$ 21,620,153	\$ 11,162,805	\$ 18,522	\$ 71,000	\$ 32,872,480

### 6. LOANS AND BORROWINGS

	June 30, 2019	December 31 2018 (Audited)
<b>Promissory Notes</b>		
Issued January 1, 2017 and bears interest at 6% per annum which is payable annually. The accrued interest is included in accounts payable and accrued liabilities. The note matures on January 1, 2022.	\$ 987,500	\$ 987,500
Issued July 1, 2018 and bears interest at 4% per annum. Principal amount plus interest shall be paid in equal annual installments of principal and accrued interest on each anniversary. The note matures on July 1, 2022. (Note 10 – Orbis)	3,245,042	2,245,042
Issued July 1, 2018 and bears interest at 6% per annum and is paid annually on the anniversary date. The note is payable on December 31, 2020. (Note 10 – NEF)	3,128,195	1,279,750
Issued July 1, 2018 and bears interest at 6% per annum paid quarterly. Principal payments to be made as follows: 2019 - \$721,235, 2020 - \$1,000,000, 2021 - \$2,000,000, 2022 – \$2,000,000. (Note 10 – Bullfrog)	5,721,235	5,721,235
	13,081,972	10,233,527
Less: current portion	2,282,496	1,282,496
	\$ 10,799,476	\$ 8,951,031

## SPARK POWER GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the 3 and 6 Months Ended June 30, 2019 and 2018  
Unaudited, Presented in Canadian dollars



### 6. LOANS AND BORROWINGS (Continued)

#### Term Debt

	June 30, 2019	December 31, 2018 (Audited)
Non-revolving term loan with Bank of Montreal loan bearing interest at prime plus 0.75% - 1.75% per annum payable monthly. Principal payments of \$1,375,000 per quarter commencing December 31, 2019. The loan matures on September 27, 2021. In November 2018, the Company entered into an Interest Rate Swap to hedge the interest payments over 50% of the term loan over the remaining term at a Banker's Acceptance rate of 2.97%, adjusted quarterly for credit spread of 2.00% - 3.00%, for an aggregate fixed interest rate of 4.97%. The lender has general security over the Company.	\$ 44,000,000	\$ 44,000,000
Revolving Reducing Acquisition Line with Bank of Montreal bearing interest at prime plus 0.75% - 1.75% per annum payable monthly. Due on demand. Principal payments of \$22,775 per quarter commencing September 30, 2019.	911,000	-
Loan bearing interest at 4.00% per annum and repayable in annual payments of principal plus accrued interest. Principal payments to be made as follows: 2020 - \$500,000, 2021 - \$750,000. The loan matures on April 30, 2021 and is secured by a General Security Agreement.	1,250,000	1,500,000
	<b>46,161,000</b>	45,500,000
Less: current portion	<b>5,536,000</b>	1,625,000
Less: financing fees, net of amortization	<b>454,173</b>	456,525
	<b>\$ 40,170,827</b>	\$ 43,418,475

#### Bank Indebtedness

The Company has a \$20.0 million revolving operating line bearing interest at prime plus 0.0% - 1.0%. At June 30, 2019, the Company had drawn \$16.4 million on this facility.

## SPARK POWER GROUP INC.

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### 7. LEASE LIABILITY

	<b>June 30 2019</b>	December 31 2018 (Audited)
Property and office space leases bearing interest at an estimated rate of 6%. The leases extend through fiscal 2028.	<b>\$ 9,294,011</b>	\$ 10,112,058
Motor vehicle leases bearing interest at an estimated rate of 6%. The leases extend through fiscal 2022.	<b>8,040,026</b>	5,534,230
Equipment and hardware leases bearing interest at an estimated rate of 6%. The leases extend through 2020.	<b>302,718</b>	95,271
	<b>17,636,755</b>	15,741,559
Less: current portion	<b>4,399,483</b>	4,234,216
	<b>\$ 13,237,272</b>	\$ 11,507,343

### 8. SHARE CAPITAL

#### Common Shares

Authorized:

Unlimited Common shares

Issued:

	<b>June 30 2019</b>	December 31 2018 (Audited)
44,977,553 Common shares (December 31, 2018 - 44,920,313)	<b>\$ 121,392,627</b>	\$ 121,315,767

During the second quarter 54,000 options were exercised at \$1.34 per share.

During the first quarter 3,240 shares were issued for proceeds of \$4,500 pursuant to the Company's Employee Share Ownership Plan.

#### Stock options

The Company has an incentive stock option plan. Under the terms of the plan, directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares of the Company. As at June 30, 2019, there were 4,452,356 (December 31, 2018 – 4,452,032) options that are available to be granted under the plan. Options generally expire after ten years, with vesting provisions stated in the plan.

Activity in the Company's stock option plan for the six months ended June 30, 2019 and 2018 are summarized as follows:

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### 8. SHARE CAPITAL (Continued)

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Opening outstanding	1,991,980	1.40	2,998,984	0.54
Granted during the period	-	-	778,786	1.79
Exercised during the period	(54,000)	1.34	-	-
Outstanding at June 30	1,937,980	1.40	3,777,770	0.80

Of the total number of options outstanding at June 30, 2019, 853,692 (December 31, 2018: 336,207) had vested and were exercisable. The weighted average remaining life of the options 7.96 years.

#### Warrants

The Company has 11,776,666 (December 31, 2018 – 11,776,666) warrants outstanding as at June 30, 2019, of which all are exercisable. These warrants give the right to purchase one-half share at an exercise price of \$3.45 for a remaining life of 4.1 years. These warrants have been classified as an equity instrument based on their estimated fair market value as at the date of issuance.

### 9. FINANCIAL INSTRUMENTS

The Company has classified its financial instruments in accordance with IFRS into various categories as described in its accounting policies.

The fair values of financial instruments are classified and measured according to the following three levels based on the fair value hierarchy.

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data. There were no financial instruments carried at fair value categorized in Level 3 as at June 30, 2019.

There were no transfers between levels during the period.

The financial instruments recorded at fair value are the Interest Rate Swap arrangement and short-term investments. Short-term investments include investments in active market instruments and are categorized as Level 1.

The fair value of the Interest Rate Swap arrangement has been recorded using Mark-to-Market ("MtM") information as at June 30, 2019 from a third party and is categorized as Level 2.

The Puttable Class A and Special shares were measured as a Level 3 financial instrument and had been recorded based on the estimated fair value of the Class A Common shares. In connection with the Spark Power Acquisition, all outstanding equity instruments of Spark Power were converted to Class A Common shares of Spark. As such, the Company does not have any instruments carried at fair value categorized in Level 3 as at period end.

The carrying values of cash, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term nature of these securities.

The fair values of the borrowings are calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest is determined

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### 9. FINANCIAL INSTRUMENTS (Continued)

by reference to similar liabilities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

#### **Risk management**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies while retaining ultimate responsibility for them. The Company is exposed to a variety of financial risks by virtue of its activities: market risk, credit risk, interest rate risk and liquidity risk. The Company's overall risk management program has not changed throughout the year and focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by the finance department under policies approved by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management.

#### *Credit risk*

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company is mainly exposed to credit risk from credit sales. Management of the Company monitors the credit worthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market and relationships with customers and other vendors. Further, management monitors the frequency of payments from Spark's ongoing customers and performs frequent reviews of outstanding balances. The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company considers a receivable to be in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

Provisions for outstanding balances are set based on forward looking information; when there is a change in the circumstances of a customer that would result in financial difficulties as indicated through a change in credit quality or industry factors and create doubt over the receipt of funds. Such reviews of a customer's circumstances are done on a continued basis through the monitoring of outstanding balances as well as the frequency of payments received. An accounts receivable is completely written off once management determines the probability of collection to be not present.

Further disclosures regarding accounts receivables are provided in Note 3.

The Company's balances of cash and short-term investments also subject the Company to credit risk. Cash is held with a major Canadian bank which the Company believes lessens the degree of credit risk.

#### *Interest rate risk*

Interest rate risk arises from the Company's use of floating interest rate bearing debt securities. The Company may increase debt levels depending on the balance of financing in the future. If cash balances are higher than required for immediate requirements, the Company invests with a low risk strategy in secure short-term deposits through major banks to earn interest income.

In November 2018, the Company entered into an Interest Rate Swap to effectively fix the interest rate on \$22.0 million of its \$44.0 million long-term debt at approximately 4.97% (Banker's Acceptance rate of 2.97% adjusted quarterly for the Company's credit risk spread between 2.00% - 3.00%), plus or minus 1% would not have a material impact on the statements. Interest Rate Swaps are classified as derivative financial assets and liabilities and measured at fair value through profit or loss, with gains and losses on re-measurement included as a component of finance expense in the period in which they arise. During the three and six months ended June 30, 2019, the Company incurred a gain (loss) of \$723 and (\$121,255), respectively that has been included in finance expense (2018 - \$nil) as a result of this Interest Rate Swap.

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### 9. FINANCIAL INSTRUMENTS (Continued)

#### *Liquidity risk*

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's policy is to ensure it will always have sufficient cash to allow it to meet its liabilities when they become due. The Board receives monthly information regarding cash balances and cash flow projections. The liquidity risk of each subsidiary is managed centrally by the treasury function.

### 10. BUSINESS COMBINATIONS

#### **Orbis**

On July 1, 2018, Spark acquired all of the issued and outstanding common shares of Orbis Engineering Field Services Ltd. and Sibro Technologies Ltd. ("Orbis") in exchange for 400,000 Class A Common shares of Spark, a cash payment of \$5,000,000 and a 4-year promissory note of \$2,300,000 at an interest rate of 4%. Orbis is engaged in the construction, service and maintenance of medium voltage industrial electrical systems. The principal reason for the acquisition was to establish a presence in the western Canadian electrical services market.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

#### **Assets acquired**

Accounts receivable	\$	7,391,830
Contract asset		995,976
Inventory		279,910
Prepaid expenses		514,354
Property, plant and equipment		4,741,617
Customer relationships		1,524,000
Trade name		2,024,000
	\$	<u>17,471,687</u>

#### **Liabilities Assumed**

Accounts payable and accrued liabilities	\$	(5,466,393)
Contract liabilities		(333,700)
Lease obligation		(4,301,162)
Deferred taxes		(571,220)
	\$	<u>(10,672,475)</u>

#### **Consideration**

\$ 9,255,538

#### **Goodwill**

\$ 2,456,326

The consideration consists of the following components:

Cash	\$	5,000,000
Promissory note (Note 10)		2,300,000
Common shares (Note 12)		1,200,000
Additional cash related to working capital		755,538
	\$	<u>9,255,538</u>

The sellers note bears interest at 4% and matures in four equal payments on the anniversary of closing. The sellers note is considered to approximate fair market value upon issuance. 400,000 Class A Common shares of Spark were issued at a fair market value of \$3 per share.

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### 10. BUSINESS COMBINATIONS (Continued)

During the quarter, Orbis contributed \$10,358,474 to the Company's revenues and a profit of \$851,941 to net and comprehensive loss.

As part of the sale and purchase agreement, there is an earn-out clause which would become applicable if the Company was to have earnings above the earn out thresholds. The earn out period ends June 30, 2020. The Company has determined that the earn-out due as of June 30, 2019 is \$1,000,000. The earn-out was to be based 75% on the first 12 months gross margin performance of the Orbis business against minimum targets and 25% based on new business development targets associated with other Spark businesses. While the criteria for each of these targets was not met, the earn-out has been accrued and included in reorganization costs based on the terms of the purchase agreement. The earn-out has been included in the Orbis promissory note. (See note 6).

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as assembled workforce, which do not qualify for separate recognition, and the fact that additional value is generated through the collective use of the acquired assets rather than individually. Goodwill is not deductible for tax purposes.

#### **NEF**

On July 1, 2018, Spark acquired all of the issued and outstanding common shares of NEF in exchange for 100,586 Class A Common shares of Spark, a cash payment of \$1,250,000 USD and a 4-year promissory note of \$1,000,000 USD at an interest rate of 6%. The principal reason for this acquisition was to establish an initial presence in the USA with an initial focus on western USA.

NEF was previously affiliated with New Electric Enterprises Inc., an entity acquired by Spark in 2017. NEF operates in California and its services include electrical contracting, electrical repair, industrial automation and preventative maintenance. The acquisition allows Spark to expand its operations into California. During the quarter, NEF contributed \$1,674,592 to Company revenues and profit of \$113,461 to net and comprehensive loss.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

#### **Assets acquired**

Accounts receivable	\$	1,475,661
Inventory		173,672
Prepaid expenses		38,013
Property, plant and equipment		164,145
Customer relationships		1,373,027
Trade name		737,805
	\$	<u>3,962,323</u>

#### **Liabilities Assumed**

Accounts payable and accrued liabilities	\$	(711,445)
Consideration	\$	<u>3,535,167</u>
Goodwill	\$	<u>284,289</u>

## SPARK POWER GROUP INC.

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### 10. BUSINESS COMBINATIONS (Continued)

The consideration consists of the following components:

Cash	\$	1,644,006
Promissory note (Note 6)		1,279,750
Common shares (Note 8)		328,651
Additional cash related to working capital		282,760
	\$	<u>3,535,167</u>

The sellers note bears interest at 6% and matures within 30 days after December 31, 2020. The sellers note is considered to approximate fair market value upon issuance.

As part of the sale and purchase agreement, there is an earn out clause which would become applicable if the Company was to have earnings above the present value of earn-out thresholds. The earn out period ends December 31, 2020. The Company has determined that the earn-out accrual as of June 30, 2019 is \$2,100,000. As of June 30, 2019, \$251,555 of the earn-out has been included in accrued liabilities and the remainder has been included in the sellers' note.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as assembled workforce, which do not qualify for separate recognition, and the fact that additional value is generated through the collective use of the acquired assets rather than individually. Goodwill is deductible for tax purposes.

#### ***Bullfrog***

On July 1, 2018, the Company acquired 100% of the voting equity of Bullfrog Power Inc. ("Bullfrog"). Bullfrog is Canada's 100% green energy provider, offering a 100% clean, renewable energy choice to Canadians. Each green electricity certificate, green natural gas certificate or green fuel certificate represents the environmental benefits created as a result of each unit of renewable energy generated or produced. Bullfrog retires all green energy certificates sold on behalf of its customers. The principal reason for the acquisition was to leverage Bullfrog's capabilities and brand into a leading power consultancy and sustainability focused business unit. During the quarter, Bullfrog contributed \$3,568,631 to the Company's revenues and a profit of \$1,340,994 to net and comprehensive loss.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

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### 10. BUSINESS COMBINATIONS (Continued)

#### Assets acquired

Cash	\$	353,319
Short term investment		100
Accounts receivable		3,639,094
Inventory		2,245,057
Prepaid expenses		533,636
Property, plant and equipment		742,283
Customer relationships		5,028,000
Trade name		2,897,000
		<u>15,438,489</u>

#### Liabilities Assumed

Accounts payable and accrued liabilities	\$	(1,498,696)
Contract liability		(54,911)
Lease obligation		(613,860)
Deferred taxes		(2,100,000)
		<u>(4,267,467)</u>

#### Consideration

\$ 17,804,897

#### Goodwill

\$ 6,633,875

The consideration consists of the following components:

Cash	\$	2,000,000
Short-term note		7,835,000
Promissory note (Note 6)		6,000,000
Management Retention Bonuses		2,250,000
Cash reduction related to working capital		(280,103)
		<u>\$ 17,804,897</u>

The short-term note bears interest at 8% and matures at the earlier of the completion of the Merger Transaction in accordance with the terms of the Merger Agreement, and November 15, 2018. The short-term note is considered to approximate fair market value upon issuance.

The promissory note bears interest at 6% and the principal amounts shall be repaid \$1,000,000 on the first and second anniversary of the note, and \$2,000,000 on the third and fourth anniversary of the note.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as assembled workforce, which do not qualify for separate recognition, and the fact that additional value is generated through the collective use of the acquired assets rather than individually. Goodwill is not deductible for tax purposes.

### 11. SEGMENTED INFORMATION

The Company has 4 segments, Technical Services, Power Equipment, Power Advisory & Sustainability and Corporate. Three of the segments are strategic business units that offer different products and services. The segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the management team including the co-Chief Executive Officers, Chief Operating Officer, and the Chief Financial Officer.

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## 11. SEGMENTED INFORMATION (Continued)

The technical services segment includes the Spark High Voltage, Orbis, Northwind renewables operations and maintenance and New Electric CGU's. The power equipment segment includes Lizco and Orbis equipment sales. The power advisory and sustainability segment include Bullfrog Power and Asset Management operations CGU's.

The Company evaluates segment performance on the basis of profit and loss from operations calculated in accordance with IFRS but excluding any non-recurring losses and share-bases payments.

	Technical Services	Power Equipment	Power Advisory & Sustainability	Corporate	6 Months Ended June 30, 2019 Total
<b>Segment revenues</b>	\$ 64,863,945	\$ 4,187,492	\$ 9,153,548	\$ 341,713	\$ 78,546,698
<b>Segment cost of sales</b>	\$ 47,242,556	\$ 3,304,000	\$ -	\$ -	\$ 50,546,556
<b>Segment selling, general and administration expenses</b>	\$ 11,643,702	\$ 567,312	\$ 3,808,036	\$ 8,557,953	\$ 24,577,003
<b>Segment amortization and depreciation</b>	\$ 4,035,647	\$ 213,762	\$ 355,964	\$ 713,771	\$ 5,319,144
<b>Segment profit</b>	\$ 5,977,687	\$ 316,180	\$ 5,345,512	\$ (8,216,240)	\$ 3,423,138
Finance expense					(2,596,808)
Transaction Costs					(536,245)
Reorganization costs					(1,000,000)
Earn-out - New Electric Fresno					(2,100,000)
Other					(27,257)
Total Company income before taxes					\$ (2,837,172)
<b>Segment assets</b>	\$ 113,803,560	\$ 4,820,364	\$ 23,674,887	\$ 9,519,444	\$ 151,818,255
<b>Segment liabilities</b>	\$ 69,134,323	\$ 2,506,802	\$ 6,982,839	\$ 3,657,689	\$ 82,281,653
Deferred income taxes					3,352,033
Long-term debt					40,170,827
<b>Total Company liabilities</b>					\$ 125,804,513

  

	Technical Services	Power Equipment	Power Advisory & Sustainability	Corporate	6 Months Ended June 30, 2018 Total
<b>Segment revenues</b>	\$ 39,342,276	\$ 2,538,225	\$ 733,661	\$ 966,927	\$ 43,581,089
<b>Segment cost of sales</b>	\$ 25,721,617	\$ 2,034,348	\$ -	\$ -	\$ 27,755,965
<b>Segment selling, general and administration expenses</b>	\$ 7,793,911	\$ 209,323	\$ 7,861	\$ 4,998,978	\$ 13,010,073
<b>Segment amortization and depreciation</b>	\$ 2,672,197	\$ 68,605	\$ 486	\$ 588,894	\$ 3,330,182
<b>Segment profit</b>	\$ 5,826,748	\$ 294,554	\$ 725,800	\$ (4,032,051)	\$ 2,815,051
Finance expense					(1,995,553)
Increase in value of puttable Class A and Class 1 Special shares					(27,117,200)
Transaction costs					(1,112,234)
Other					35,519
Total Company loss before taxes					\$ (27,374,417)
<b>Segment assets</b>	\$ 74,781,416	\$ 1,613,723	\$ 14,574	\$ 7,811,264	\$ 84,220,977
<b>Segment liabilities</b>	\$ 35,184,883	\$ 1,237,822	\$ 1,194,152	\$ 1,447,886	\$ 39,064,743
Deferred income taxes					-
Increase in value of Puttable Class A shares					46,110,034
Redeemable Series C-1 Preference shares					19,418,286
Redeemable Class B Common and Class 1 Special shares					11,445,000
Long-term debt					24,562,374
<b>Total Company liabilities</b>					\$ 140,600,437

## **SPARK POWER GROUP INC.**

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### **12. RELATED PARTY TRANSACTIONS**

No revenues were earned or expenses incurred from related parties in three or six months ended June 30, 2019 (June 30, 2018 - \$nil). Further, there were no other balances due to/from related parties and/or shareholders as at June 30, 2019 (December 31, 2018- \$nil).

### **13. CONTINGENT LIABILITY**

A subsidiary of the Company has been named as one of the legal defendants in a legal proceeding filed by a customer. The subsidiary is actively defending this legal proceeding and has filed A Statement of Defense and a Notice of Claim Against Co-Defendants. Since the amount of the losses, if any, cannot be reasonably estimated, no provision has been recorded in these Financial Statements.

### **14. SUBSEQUENT EVENTS**

In July 2019 the Company and the seller of NEF and holder of \$3,128,195 in Promissory notes agreed to settle the notes for \$3,028,195. The payment will be funded by a drawdown on the Company's Acquisition line.

In July 2019 the Company entered into a term sheet outlining the details for an Amended and Restated Credit Agreement with its lender that provided for an increase of \$5.0 million in the demand margined revolving credit facility to \$25.0 million and the addition of a \$5.0 million revolving reducing credit facility for capital expenditures.

On August 1, 2019, the Company acquired all of the issued and outstanding common shares of 3-Phase Electrical Ltd. in exchange for 882,353 shares of Spark valued at \$1,500,000, a cash payment of \$10,500,000 and a 4-year promissory note of \$3,750,000 at an interest rate of 4% per annum. 3-Phase is an industrial and commercial electrical projects and services firm based in Winnipeg, Manitoba. Management is in the process of assessing the purchase price allocations associated with this acquisition.

### **15. COMPARATIVE FIGURES**

Certain comparative amounts presented in the condensed consolidated interim financial statements have been reclassified to conform to the current period's presentation. This reclassification has had no impact on the previously reported net and comprehensive loss figures.