


# TRUSTED PARTNER IN POWER



## 2020 ANNUAL REPORT

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**SPARKPOWER**  
GROUP INC

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# OUR PURPOSE IS TO BE OUR CUSTOMERS' TRUSTED PARTNER IN POWER™



## WE ARE INDEPENDENT

- Right ideas and solutions
- Service and install all makes of electrical equipment



## WE ARE LOCAL

- Local service with continent-wide expertise
- Certified, well-trained, non-union



## WE HAVE SCALE

- Award-winning Health & Safety Programs
- Pole-To-Product™ Services

# WE DELIVER ON OUR PURPOSE BY LIVING OUR VALUES:

## **SUSTAINABILITY**

Take responsibility for the future

## **TRUST**

Earn it from our customers and teams

## **EXCELLENCE**

Elevate our trade

## **COMMUNITY**

Bring positive impact to our communities

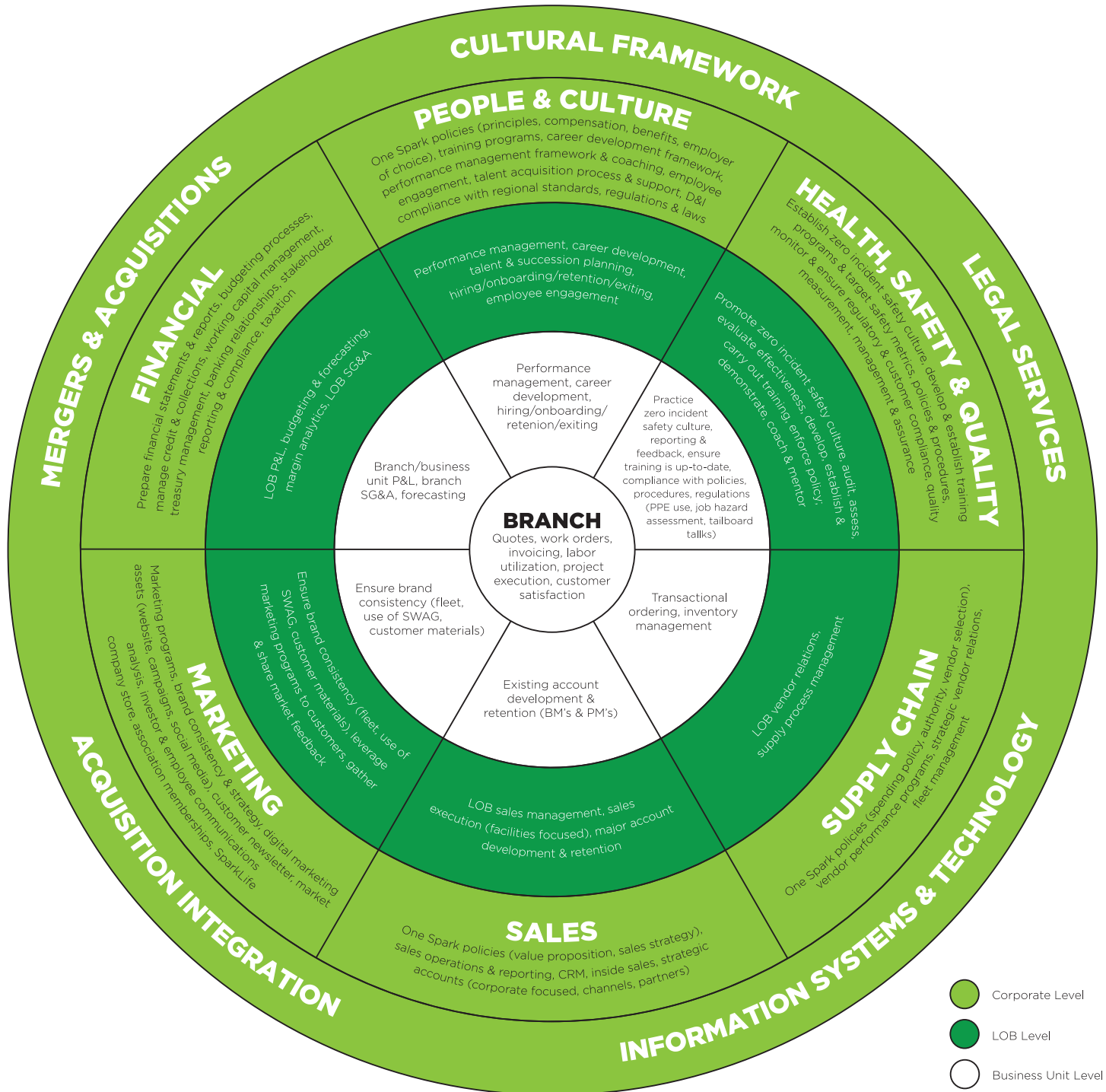
## **TEAM**

Empower each other

# SHIFT TO SCALABLE FIELD FOCUSED OPERATING MODEL

**Building a scalable network of local branch operations in all markets we serve across North America to:**

- Emphasize operational excellence
- Prioritize health and safety
- Guide capital allocation & strategic planning





# CEO'S MESSAGE TO SHAREHOLDERS

## Dear fellow shareholders,

This past year has been like no other. The COVID-19 pandemic has created unprecedented challenges globally. While Spark Power has not been exempted from these unique circumstances, our entire organization has remained resilient and performed exceptionally well under adversity, while prioritizing safety and the protection of our employees, customers, and business. As I reflect upon 2020, I am reminded that it was a year of change but also a year of progress as we continue to execute our growth strategy.

Our diversified customer base, with a focus on essential industry segments such as food and beverage suppliers, utilities, and warehousing, provided the organization with a stabilized level of work throughout 2020 with major impacts felt early in the pandemic through the second quarter.

Following a robust demand for renewable energy, with particularly strong opportunities from the U.S. market, we made the decision to migrate our U.S. corporate headquarters from Raleigh, North Carolina to Dallas, Texas to better support our U.S. expansion strategy. Our U.S. Renewables business will share headquarters with the restructured management team for our U.S. Technical Services operations, as that business transitions from start-up mode to a steadier run state. Across our North American renewables segment in 2020, we saw a revenue increase of \$35.7 million to \$64.5 million, driven by organic growth of \$13.4 million or 46.4% and acquisition-related growth of \$22.4 million or 77.6%.

In our Canadian market, we achieved significant milestones by winning a \$2.6 million design-build substation for a wind farm in Alberta and completing an intensive shutdown at a major data center with no third-party contractors. In response to the destruction of Hurricane Laura in September 2020, we also sent our Eastern High Voltage storm restoration team to support affected communities throughout the U.S. Our Bullfrog Power division partnered with RBC in a power purchase agreement (PPA) and brought CIBC on board as a customer, marking a further shift towards large corporations greening their energy. This is an area we anticipate will grow this year and beyond.

Although I officially stepped into my new role as President and CEO in January 2021, a shift in the organization's management was set in motion towards the end of 2020. This included the appointment of a new senior leadership team, with a diverse skillset, aimed at flattening the business' structure and streamlining business decisions. This change in management supports our scalable Field Focused Operating Model that concentrates resources on our field operations and emphasizes operational excellence.

Further improving our operations, we are also on track to open the new Spark head office – the Spark Campus – in 2022. This centralized building will provide a state-of-the-art training facility and help to ensure our technicians have the best possible skills and safety instruction.

As we progress through 2021, we are confident that this approach will continue to provide positive results – particularly in a recovering economy. I am pleased to share that in 2020 the revenue growth of 40.0 million was driven by acquisitions of 17.9% and organic growth of 3.0%, the latter of which was significantly impacted by the pandemic in the second quarter of 2020.

We completed the year with a record annual adjusted EBITDA of \$32.4 million or 14.2% of revenue in fiscal 2020, as compared to \$25.2 million or 13.3% of revenue in fiscal 2019, representing an increase of \$7.2 million or 28.8%. On a proforma basis, Adjusted EBITDA increased by \$0.7 million or 2.4%.

Thank you to our employees, customers, Board of Directors, suppliers, banking partners, institutional investors, and analysts for your ongoing support. We look forward to moving into a post-pandemic world and continuing to grow across North America while remaining our customers' Trusted Partner in Power™.

**Sincerely,**

**Richard Jackson**  
President & CEO



# CHAIRMAN'S MESSAGE TO SHAREHOLDERS

**Dear fellow shareholders,**

2020 was an unusual year at Spark Power, hampered by COVID-19 related challenges.

The Board focused on Spark's employee and customer safety efforts, financial stability and operational excellence. The Spark leadership team has shown incredible adaptability, whether adhering to rapidly changing public health protocols on site or ensuring essential workers, who needed to travel, were able to do so safely.

Spark continued to earn the right to be our customers' Trusted Partner in Power™.

As Board Members, we bring a broad scope of financial, operational, and leadership backgrounds. This enables us to offer collective insight into Spark's senior leadership team. This past year involved a leadership transition that saw Richard Jackson become CEO, and Co-Founders Jason Sparaga and Andrew Clark become Board Members as Executive Board Chair and Vice Chair respectively.

I also would like to acknowledge the ongoing extraordinary contributions of Board members Lucio di Clemente, Daniel Peloquin, and Joe Quarin.

Despite global uncertainty created by the pandemic, I speak on behalf of the Board when I say that we are more confident than ever in the Company's ability to diversify and meet new challenges with skill, tact, and excellence. The team's expertise and dedication to employees extends to the delivery of high-quality customer service for which the Company is known.

For you, the shareholders, I am certain that Spark's senior leadership team's dedication to strategic long-term growth and end-to-end service will continue to create shareholder value across North America's power industry.

**Sincerely,**

**Larry D. Taylor,**  
Chairman





# ONLY ZERO IS ACCEPTABLE HEALTH & SAFETY CULTURE

Safety is our top priority with zero compromises, zero short-cuts, and zero excuses

## 2.34

Total Recordable Injury Frequency

## 0.39

Lost Time Frequency

## 22813

Inspections

## 31656

Meetings

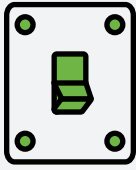
## 3557

Hazard Observations



# SPARK POWER SERVICES:

Spark Power provides services for:



## ELECTRICAL PROJECTS

- Construction
- Equipment installation
- System integration



## ENGINEERING SERVICES

- Engineering studies
- Engineering design



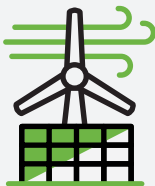
## FACILITY SERVICES

- Preventative maintenance
- Ongoing support services
- Automation & control



## POWER EQUIPMENT

- Sales and rentals
- Custom control panels
- Modular buildings
- Electronic repair



## RENEWABLE ASSET SERVICES

- Solar operations & maintenance
- Wind operations & maintenance
- Battery energy storage systems
- EV charging infrastructure



## SUSTAINABILITY SOLUTIONS

- Green energy procurement
- Power purchase agreements (PPAs)
- Energy efficiency



## EMERGENCY RESPONSE

24/7 emergency response from Spark Power delivers prompt service to control damage, minimize downtime, and mitigate lost revenue.



# OUR SCALE CREATES DIFFERENTIATION

## Ability to:

- Invest in our commitment to health and safety
- Be responsive to our customers' needs at any time across all our services
- Scale to serve our customers – geographically and for jobs of any size
- Provide both electrical and renewable energy services across North America
- Invest in understanding markets, technology and products to help our customers identify the right solutions
- Invest in recruiting, hiring, training and retaining high quality people

**5500**

Customers

**10000+**

Technical skilled workers

**500+**

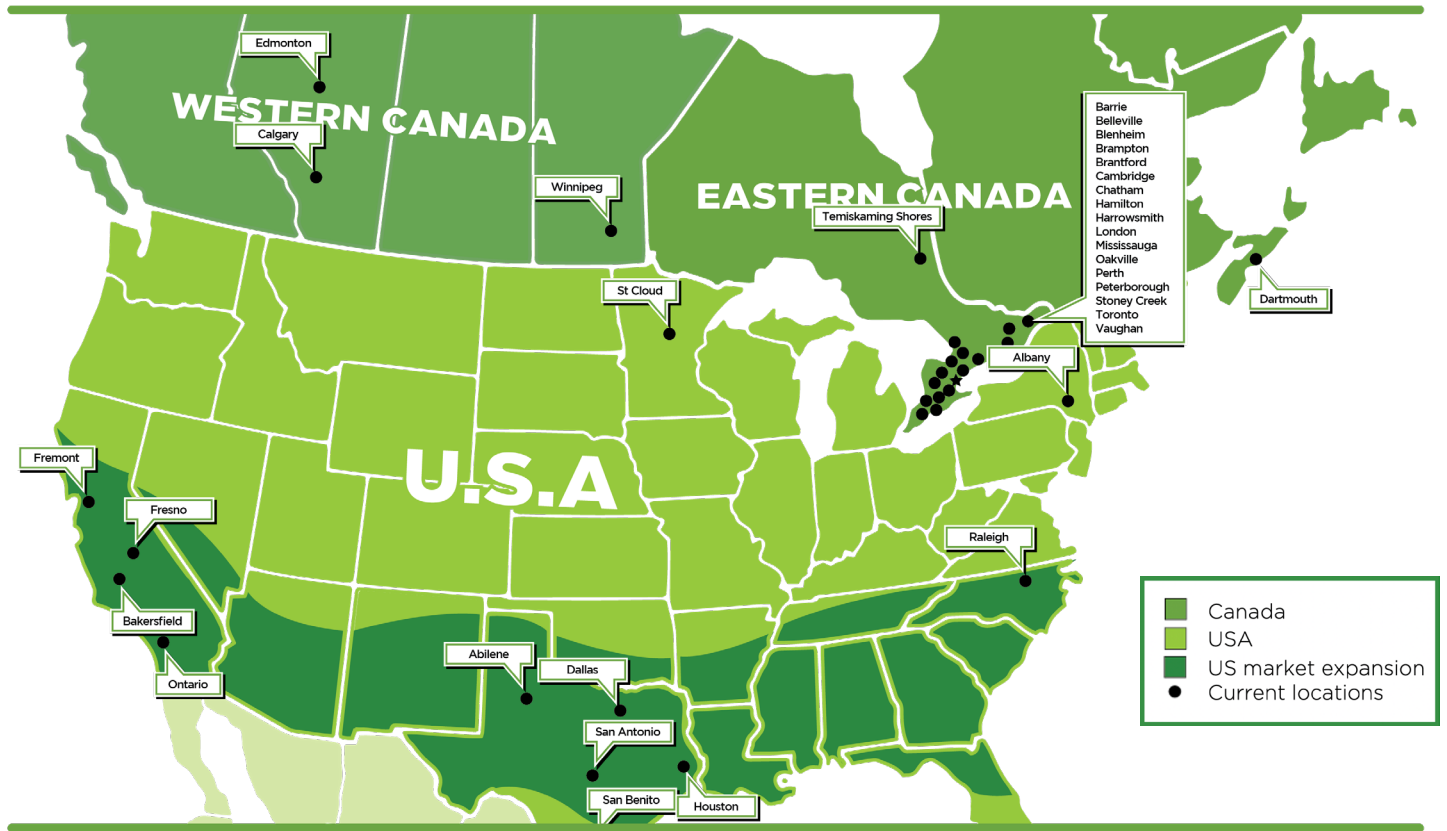
Fleet vehicles

**22812+**

Safety inspections

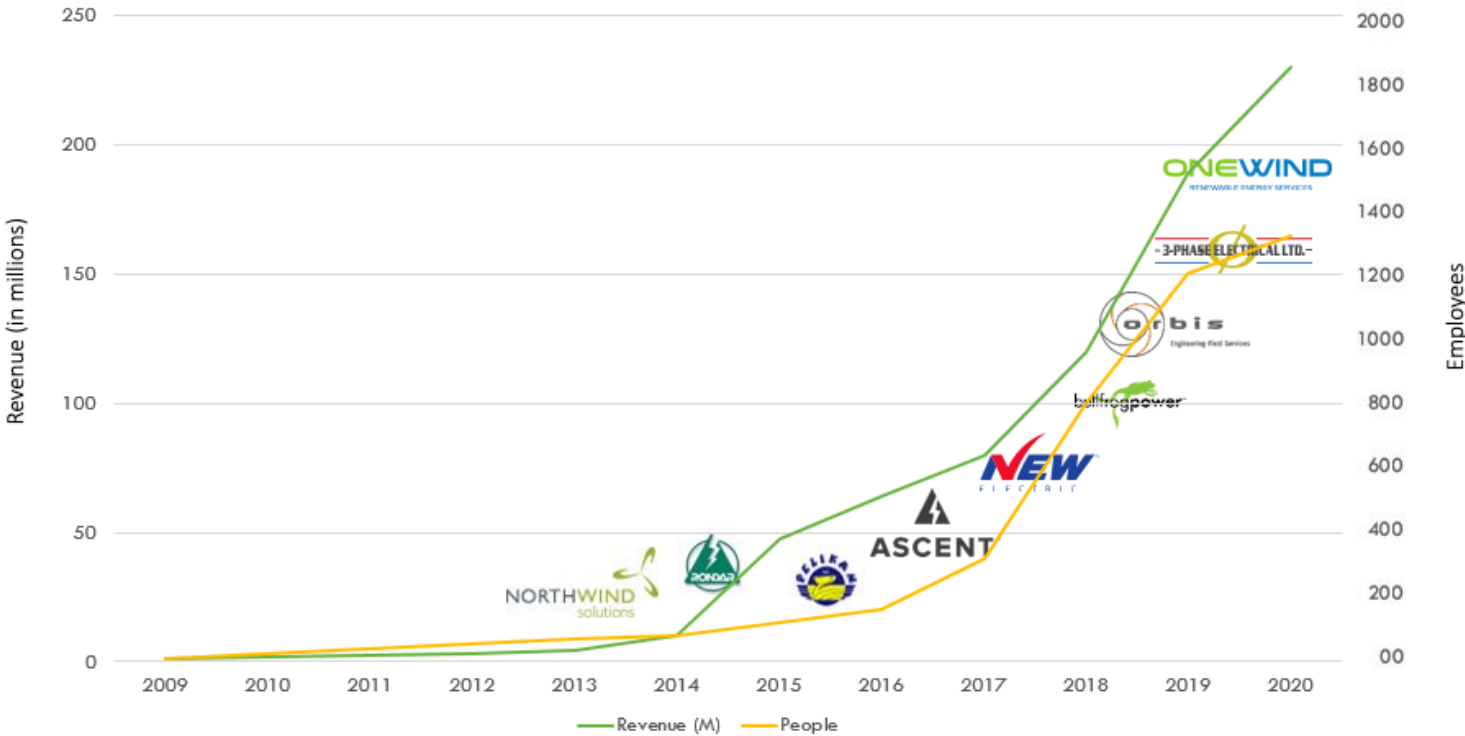
**6500+MW**

Renewable assets serviced & supported



# GROWING NORTH AMERICAN FOOTPRINT

# A HISTORY OF GROWTH

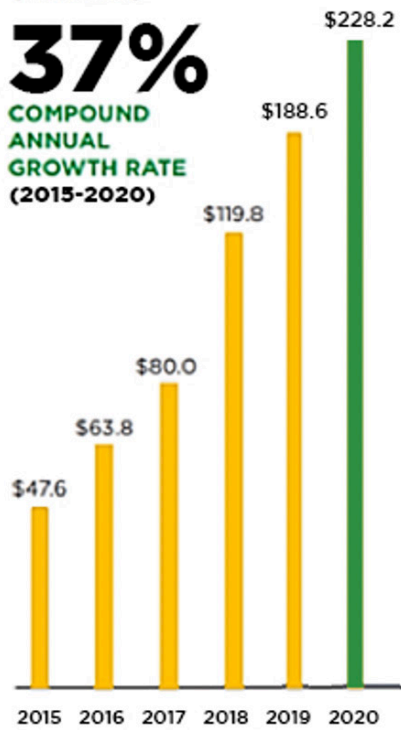


# STRONG FINANCIAL PERFORMANCE

REVENUE  
(MILLIONS)

**37%**

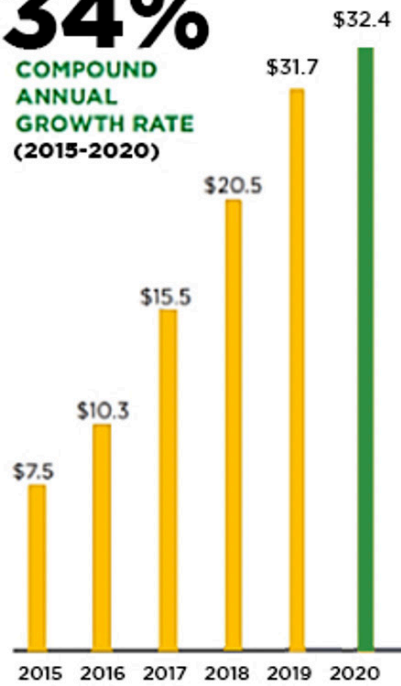
COMPOUND  
ANNUAL  
GROWTH RATE  
(2015-2020)



ADJUSTED EBITDA<sup>3</sup>  
(MILLIONS)

**34%**

COMPOUND  
ANNUAL  
GROWTH RATE  
(2015-2020)



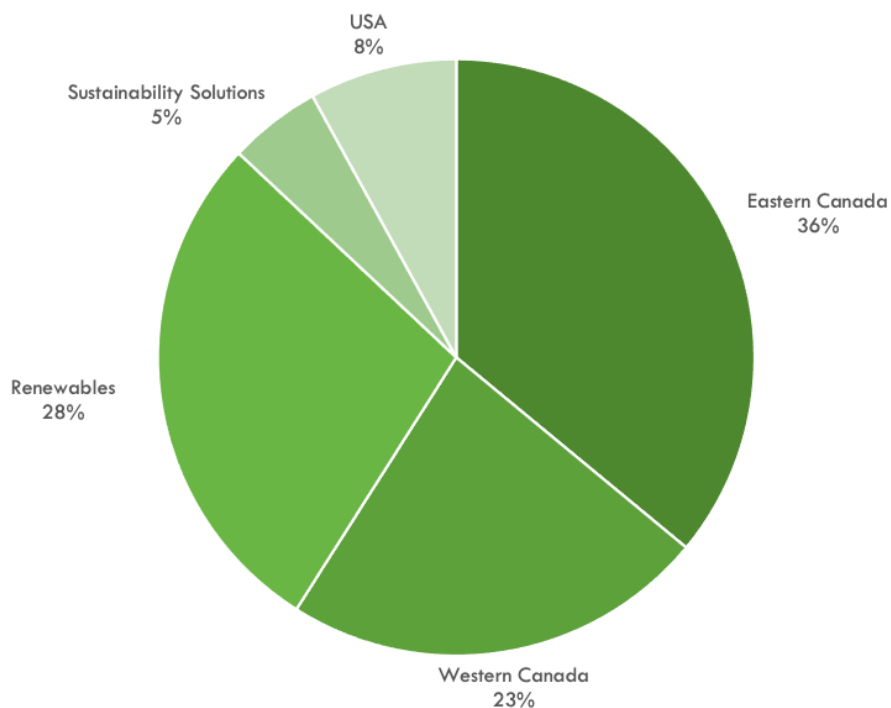
**33.7%**

GROSS MARGIN<sup>4</sup>  
(2020)

**14.2%**

ADJUSTED EBITDA MARGIN<sup>3</sup>  
(2020)

Segmented 2020 Revenue



■ Eastern Canada ■ Western Canada ■ Renewables ■ Sustainability Solutions ■ USA

# SENIOR LEADERSHIP TEAM



## **Richard Jackson**

President & CEO

Richard is Spark Power's President & Chief Executive Officer with over 20 years of leadership experience in industrial companies across North America. Richard leads all operations within Spark including designing the organization for long term scalable growth, formulating and leading the execution of Spark's corporate strategy, and driving functional and operating performance across the organization.



## **Dan Ardila**

Executive Vice President & CFO

Dan is Spark Power's Executive Vice President & Chief Financial Officer with over 30 years of financial leadership experience in the industrial, commercial, and consumer packaged goods industry. Dan oversees all financial aspects of Spark Power; working closely and providing strategic recommendations to Spark Power's senior leadership team and the Company's Board of Directors.



## **Eric Waxman**

Co-Founder & Chief Investment Officer

Eric is Spark Power's Co-Founder & Chief Investment Officer with over 20 years of extensive experience with M&A, investment banking, and private equity deal structures. A strong leader, Eric focuses on driving an ownership and safety-first culture within the Company and leading acquisition transactions and their integration to accelerate Spark Power's North American-wide expansion.



## **Roland Van Olst**

Executive Vice President, Eastern Canada Technical Services

Roland is Spark Power's Executive Vice President, Eastern Canada, and responsible for overseeing all Spark Power operations in Ontario and east to the Maritimes.



## **Cody Zaitsoff**

Executive Vice President, U.S. & Western Canada Technical Services

Cody is Spark Power's Executive Vice President, U.S. & Western Canada, and responsible for overseeing all Spark Power operations across the U.S. and in Canada from Manitoba west to British Columbia, and Canada's North.



## **Grayson Swan**

Executive Vice President, Renewables

Grayson is Spark Power's Executive Vice President, Renewables and is responsible for overseeing wind and solar O&M, battery energy storage systems (BESS), electric vehicle (EV) infrastructure, and on-site solar across North America.



## **Sean Drygas**

Vice President, Sales, Marketing, Strategy & Sustainability

Sean is Spark Power's Vice President, Sales, Marketing, Strategy & Sustainability, and responsible for Spark Power's sales and marketing functions, as well as its Sustainability Solutions (including Bullfrog Power) and new product introductions across North America.



## **Morgan Cowl**

Vice President, Operations

Morgan is Spark Power's Vice President, Operations with over 25 years of experience in executive and project management, as well as operations, in the infrastructure, construction, engineering and energy sectors.



## **Najlaa Rauf**

Vice President, People & Culture

Najlaa is Spark Power's Vice President of People & Culture (Human Resources) and is responsible for leading the organization in the areas of culture, and talent attraction, retention and development.



## **Courtney Quinn**

Vice President, Finance

Courtney is Spark Power's Vice President of Finance and has over 15 years of experience in the industrial and renewable energy sectors. She supports the CFO while guiding a strong team through accounting, tax and reporting work for the consolidated North American operations of Spark. Courtney also aids in the improvement of processes, controls and internal communications.



## **Michael Mah**

Vice President, Information Technology

Michael is Spark Power's Vice President of Information Technology with over 20 years of experience in technology leadership across many different industry sectors including energy and utilities, financial services and real estate. He is responsible for leading Spark's Information Technology and Systems team in the management and delivery of technology services for the organization.

# BOARD OF DIRECTORS



## **Jason Sparaga**

Co-founder and Executive Board Chair

Jason is Spark Power's Co-Founder & Executive Board Chair with over 20 years of experience in private company M&A, corporate finance, and merchant banking, with a history of closing more than 100 transactions.



## **Andrew Clark**

Co-founder and Vice Board Chair

Andrew is Spark Power's Co-Founder & Vice Board Chair with over two decades of experience in the industrial manufacturing, merchant banking, and advanced energy sectors.



## **Larry D. Taylor**

Chairman (1,2,3)

Larry previously held senior executive positions in financial services and management consulting and is currently a CEO Group Leader for CEO Global Network.



## **Daniel Peloquin**

Director (1,2,3)

Daniel is a management consultant and was previously the President of Schneider Electric Canada Inc.



## **Lucio Di Clemente**

Director and Chairman of the Audit Committee (2,3)

Lucio Di Clemente is an experienced executive, corporate director, and business advisor who brings a wealth of operational excellence and experience in closing deals with an aggregate value of over \$3B.



## **Joseph Quarin**

Director (1,2,3)

Joe is President and CEO of Q5 Capital Inc., and former President and CEO of Progressive Waste.



# DESCRIPTION OF THE BUSINESS

## Overview

The Corporation is a leading provider of end-to-end electrical services, operations and maintenance services, and energy sustainability solutions to the industrial, commercial, utility, and renewable asset markets in Canada and the United States. Spark is focused on becoming its customers' Trusted Partner in Power™, taking advantage of the opportunities presented by a dynamic market:

We have focused our business on serving three major customer types: commercial and industrial customers; regulated utilities; and renewable asset owners. In addition, we have worked to develop longstanding relationships with customers focused on industries less likely to be impacted by recession or displacement (such as offshoring) – including food & beverage, warehousing for ecommerce and data centres. We manage concentration risk by ensuring that no customer represents more than 10% of our revenue.

The business of the Corporation was commenced in 2009 with the incorporation of Spark Solar Management Inc., to capitalize on the Ontario provincial government's then newly implemented Green Energy Act. Spark Power was formed in 2014 in connection with a corporate reorganization of Spark Solar Management Inc.

The Corporation's business is most mature in Eastern Canada, accounting for the largest part of our revenue. The Corporation's 'branch model' has been proven over many years, including by our wholly-owned subsidiary, New Electric. Under this model, branch managers have full profit and loss responsibility, supported by corporate services better provided centrally because of scale (such as financial reporting, marketing, supply chain management, information technology, systems and engineering). As the Corporation expands, replicating this model, particularly by expanding in regions in which a presence has already been established, has proven to be a repeatable successful model for expansion.

The Corporation's long-term North American growth and diversification strategy includes a focus on expansion opportunities in the United States. The Corporation intends to increase its presence in the United States market through a combination of new branch openings and acquisitions. The Corporation will prioritize branch openings in locations where opportunities exist to grow synergistically with its Canadian industrial-commercial-institutional customers that also have U.S. operations by expanding existing relationships with these customers into new regions and leveraging business start-up costs.

In 2018, the Corporation advanced its U.S. strategy by (a) establishing a corporate head office in Raleigh, North Carolina, (b) opening its first location in Minnesota under the Northwind brand, focused on renewable energy operation and maintenance services to the commercial and industrial sector and (c) acquiring the California operations of New Electric, including branches in Fresno, California and Fremont, Nevada, establishing a presence in the western United States.

In 2019, the Corporation opened a new operating branch in Raleigh, North Carolina alongside its corporate head office, offering high and low voltage technical services in the region. In addition, the Corporation established branches in San Antonio, Dallas and Los Angeles to complement existing branches in Fremont and Fresno, California.

In 2020, the Corporation migrated its U.S. Corporate Office to Dallas, Texas and began the management transition from 'start-up state' to 'run state'. This change included the appointment of a new Executive Vice President to oversee the U.S. Line of Business. In early 2021, the Corporation also announced its increasing investment in its Storm Restoration services. This business unit will grow as the U.S. branch network grows over the next several years and is designed to provide emergency support to the increasing weather disasters occurring in the Southeast, Southwest and Northeast regions of the U.S.

To date in 2021, the Corporation has announced new branch openings in Houston, Texas, Bakersfield, California and Albany, New York.

The Corporation has grown through a mix of acquisition and organic growth. Spark has made twelve acquisitions over the past seven years, and coupled with post-acquisition organic growth, this has led to substantial scale in our operations. The following chart highlights the Corporation's growth, in terms of both revenue and employees over the past 10 years.

Operating within our field focused operating model, Spark Power is structured and financially reports the organization in four specific business segments: Technical Services, Renewables, Sustainability Solutions and Corporate. The Technical Services business segment is managed in three geographic, operational regions, Western Canada, Eastern Canada and U.S.A.



**Technical Services  
Western Canada**



**Technical Services  
Eastern Canada**



**Technical Services  
USA**



**Renewables**



**Sustainability  
Solutions**

Spark’s integrated suite of services across North America are as follows:

## Technical Services

Centred around its branch network, Spark’s Technical Services business segment operates out of several locations in the U.S. and Canada and focuses on pole-to-product electrical services. With highly responsive and local technical teams, Spark offers a wide variety of services and solutions to a wide range of customers including:

### Low Voltage

- Electrical contracting services
- Custom control panel design and assembly
- Industrial automation
- Systems integration
- Electronic repair
- 24/7 emergency services

### Medium & High Voltage

- Power ‘On’ services
- Sub-station construction and maintenance
- Power line construction and maintenance
- Equipment installation
- Commissioning
- Thermography services
- Transformer maintenance

### Engineering

- Power systems engineering
- Protection and control engineering
- Substation engineering
- SCADA engineering
- Arc flash studies

### Power Equipment

- Buy, refurbishment and resale of used electrical equipment
- Sales and rentals of power transformers
- Sale of medium voltage electrical switchgear
- Full fabrication shop/ paint line capabilities

## Renewables

Spark Power’s Renewables business segment is one of the largest independent renewables operations and maintenance providers in North America. Operating in many centres and remote locations in the U.S. and Canada, Spark’s Renewables business is primarily focused on Wind, Solar, Storage and Electric Vehicle assets. Spark Power’s Renewables services include:

### Solar

- 24/7 monitoring and analytics from central operating centre
- Fence to fence, onsite operations and maintenance to wide range of solar sites

### Wind

- In-construction services
- Asset monitoring
- Operations and maintenance
- Commissioning

### Battery Energy Storage Systems (BESS)

- Engineering, procurement, and construction
- Operations and maintenance
- Commissioning

### Electrical Vehicle (EV)

- Construction
- Operations and maintenance

## Sustainability Solutions

Through our Bullfrog brand, Spark Power is well positioned to deliver unique Sustainability Solutions to help its customers adapt to the rapidly changing construct of the power grid. The Company has its roots in renewable and community power and, through its Bullfrog Power subsidiary, is the de-facto leader in sustainability in Canada. As a result, the Company has both the deep technical expertise and the key regulatory and government relationships required to deliver on these new commercial models. Our Sustainability Solutions business segment offers our Technical Services and current Sustainability Solutions customers the opportunity to build upon their own ESG mandates by providing them access to Renewable Energy Credits (REC’s), Power Purchase Agreements (PPA’s) and a variety of energy efficiency services.

# CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEARS ENDED DECEMBER 31*

**2020 & 2019**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying consolidated financial statements for Spark Power Group Inc. were prepared by management in accordance with International Financial Reporting Standards (IFRS). Management acknowledges responsibility for the fair preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Richard Jackson  
President & Chief Executive Officer

Dan Ardila  
Executive Vice President & Chief Financial Officer

March 30, 2021  
Oakville, Ontario



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## Independent Auditor's Report

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To the Shareholders of Spark Power Group Inc.

### Opinion

We have audited the consolidated financial statements of Spark Power Group Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years 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 Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that as at December 31, 2020, \$37,030 and \$23,734 of the Company's long term debt are both due and payable on September 30, 2021 and that the Company is also required to comply with certain covenants, terms and conditions under the credit facilities. These events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

#### *Impairment of Long-Lived Assets*

##### *Description of the key audit matter*

The Company has long-lived assets which includes property and equipment and intangible assets totalling \$64,984 thousand which are subject to impairment testing whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Long-lived assets also include goodwill of \$43,863 thousand that is required to be tested for impairment on an annual basis or more frequently if



events or changes in circumstances indicate their carrying amounts may not be recoverable. As a result of the broad-based and global economic slowdown, including project delays and government restrictions resulting from the outbreak of COVID-19, the Company concluded that impairment testing was required for all cash generating units. The impairment testing conducted by management did not result in the recognition of impairment on any of the Company's cash generating units in the current period. Refer to notes 2, 3 and 10 to the consolidated financial statements.

This area was important to our audit due to the significance of the estimates involved in the determination of the recoverable amount of each cash generating unit. The significant estimates included discount rates, revenue growth rates and margin realizations.

#### *How the key audit matter was addressed in the audit*

Our audit approach involved the assistance of our internal valuation professionals. Our audit procedures included, but were not limited to, the following:

- Assessing discount rates used by management against discount rate ranges independently developed from publicly available data sets and consideration of comparable company metrics.
- Assessing management's assumptions about revenue growth rate forecasts, expected margin realization rates and terminal growth rates in light of historical results and projected future economic and market conditions.
- Challenging management's assumptions and performing additional sensitivity and stress tests for cash generating units where the impairment assessments were more sensitive to changes in estimated inputs.
- Reviewing the disclosures on the assumptions and the outcomes of the impairment testing, and the sensitivity analysis presented in the consolidated financial statements.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis for the year ended December 31, 2020 filed with the relevant Canadian Securities Commissions.

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 identified above 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.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.



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

### **Auditor's 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 auditor's 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 Company 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.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jeanny Gu.

*BDO Canada LLP*

BDO Canada LLP  
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 30, 2021



**SPARK POWER GROUP INC.**

## Consolidated Statements of Financial Position

Presented in thousands of Canadian dollars, except share and per share amounts

<b>As at December 31</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>Current assets</b>		
Short-term investments	\$ -	\$ 252
Accounts receivable (Note 4)	51,443	48,876
HST receivable	1,586	642
Inventory (Note 6)	7,703	6,901
Contract asset (Note 4)	28,809	21,758
Current portion of lease receivable (Note 7)	149	-
Government grant receivable (Note 5)	379	-
Prepaid expenses and deposits	4,889	3,532
	<b>94,958</b>	<b>81,961</b>
<b>Non-current assets</b>		
Lease receivable (Note 7)	230	-
Property and equipment (Note 8)	28,253	31,376
Intangible assets (Note 9)	36,731	45,416
Goodwill (Note 10)	41,963	41,955
	<b>\$ 202,135</b>	<b>\$ 200,708</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 11)	\$ 25,444	\$ 21,597
Accounts payable and accrued liabilities	37,758	32,451
Current portion of long-term debt (Note 12)	66,572	9,006
Current portion of promissory notes (Note 13)	3,750	4,325
Current portion of lease liability (Note 14)	5,800	6,149
Income taxes payable (Note 16)	1,849	1,189
Contract liability (Note 4)	3,723	4,068
	<b>144,896</b>	<b>78,785</b>
<b>Non-current liabilities</b>		
Long-term debt (Note 12)	-	54,201
Promissory notes (Note 13)	6,988	11,888
Lease liability (Note 14)	11,485	12,768
Deferred taxes (Note 16)	1,412	4,006
	<b>164,781</b>	<b>161,648</b>
<b>Shareholders' equity</b>		
Share capital (Note 17)	132,946	132,946
Contributed surplus	1,017	591
Accumulated other comprehensive (loss) income	(407)	46
Deficit	(96,202)	(94,523)
	<b>37,354</b>	<b>39,060</b>
	<b>\$ 202,135</b>	<b>\$ 200,708</b>

Subsequent events (Note 31)

See accompanying notes to the consolidated financial statements.

**SPARK POWER GROUP INC.**

## Consolidated Statements of Comprehensive (Loss) Income

Presented in thousands of Canadian dollars, except share and per share amounts

<b>For years ended December 31</b>	<b>2020</b>	<b>2019 (Note 32)</b>
<b>Revenue (Note 4 and 21)</b>	<b>\$ 228,153</b>	<b>\$ 188,591</b>
<b>Cost of sales (Notes 5, 6 and 21)</b>	<b>162,417</b>	<b>128,066</b>
<b>Gross profit</b>	<b>65,736</b>	<b>60,525</b>
<b>Expenses</b>		
Selling, general and administrative (Notes 5 and 21)	53,969	47,714
Provision for expected credit loss (Notes 4 and 26)	1,458	100
Reorganization and other non-recurring costs (Note 29)	3,178	2,992
<b>Income from operations</b>	<b>7,131</b>	<b>9,719</b>
<b>Other income (expenses)</b>		
Finance expense (Note 27)	(6,762)	(5,271)
Transaction costs (Note 28)	-	(2,073)
Earn-out (Note 20)	(1,900)	(2,100)
Other	-	13
Foreign exchange gain	305	-
	<b>(8,357)</b>	<b>(9,431)</b>
<b>Income (loss) before income taxes</b>	<b>(1,226)</b>	<b>288</b>
Current income tax expense (Note 16)	(3,047)	(1,190)
Deferred income tax recovery (Note 16)	2,594	2,078
Income taxes recovery	(453)	888
<b>Net (loss) income</b>	<b>(1,679)</b>	<b>1,176</b>
Cumulative translation adjustment	(453)	160
<b>Comprehensive (loss) income</b>	<b>\$ (2,132)</b>	<b>\$ 1,336</b>
<b>Earnings (loss) per share attributable to equity holders</b>		
Basic (Note 24)	\$ (0.03)	\$ 0.03
Diluted (Note 24)	\$ (0.03)	\$ 0.02

See accompanying notes to the consolidated financial statements.

## SPARK POWER GROUP INC.

### Consolidated Statements of Changes in Equity

Presented in thousands of Canadian dollars, except share and per share amounts



	Common shares		Warrants	Non-controlling	Contributed	Accumulated other	Shareholders'	
	Number	Amount	Amount	interest	surplus	comprehensive (loss) income	Deficit	equity
<b>Balance at December 31, 2018</b>	<b>44,920,313</b>	<b>\$ 121,315</b>	<b>\$ 2,662</b>	<b>\$ (181)</b>	<b>\$ 422</b>	<b>\$ -</b>	<b>\$ (95,699)</b>	<b>\$ 28,519</b>
Net income	-	-	-	-	-	-	1,176	1,176
Issuance of common shares	2,888,230	3,490	-	-	-	-	-	3,490
Issuance of common shares from Rights Offering	5,687,105	5,278	-	-	-	-	-	5,278
Exercise of stock options (Note 17)	54,000	72	-	-	-	-	-	72
Issuance of restricted share units (Note 17)	100,000	129	-	-	-	-	-	129
Stock-based compensation (Note 17)	-	-	-	-	169	-	-	169
Cumulative translation adjustment	-	-	-	-	-	160	-	160
Acquisition of non-controlling interest	-	-	-	199	-	-	-	199
Settlement of non-controlling interest	-	-	-	(18)	-	(114)	-	(132)
<b>Balance at December 31, 2019</b>	<b>53,649,648</b>	<b>\$ 130,284</b>	<b>\$ 2,662</b>	<b>\$ -</b>	<b>\$ 591</b>	<b>\$ 46</b>	<b>\$ (94,523)</b>	<b>\$ 39,060</b>
Net loss	-	-	-	-	-	-	(1,679)	(1,679)
Stock-based compensation (Note 17)	-	-	-	-	426	-	-	426
Cumulative translation adjustment	-	-	-	-	-	(453)	-	(453)
<b>Balance at December 31, 2020</b>	<b>53,649,648</b>	<b>\$ 130,284</b>	<b>\$ 2,662</b>	<b>\$ -</b>	<b>\$ 1,017</b>	<b>\$ (407)</b>	<b>\$ (96,202)</b>	<b>\$ 37,354</b>

See accompanying notes to the consolidated financial statements.

**SPARK POWER GROUP INC.**

**Consolidated Statements of Cash Flows**

Presented in thousands of Canadian dollars, except share and per share amounts

	2020	2019 (Note 32)
<b>Cash flows from operating activities</b>		
Net (loss) income for the period	\$ (1,679)	\$ 1,176
Adjustments for non-cash items		
Amortization and depreciation	20,206	12,364
Amortization of deferred financing fees	124	61
Provision for expected credit losses (Note 4)	1,458	100
Unrealized foreign exchange (gain) loss	(453)	164
Stock-based compensation (Note 17)	426	169
Deferred income taxes (Note 16)	(2,594)	(1,964)
Gain on sale of fixed assets	(147)	(81)
Gain on settlement of promissory note (Note 13)	(197)	-
Earn-out (Note 20)	1,900	1,848
Reorganization costs (Note 29)	-	1,000
Changes in non-cash working capital balances		
Accounts receivable	(4,025)	(2,461)
HST receivable	(944)	(354)
Inventory	(802)	(744)
Contract asset	(7,051)	(10,496)
Lease receivable (Note 7)	(379)	-
Prepaid expenses and deposits	(1,311)	(789)
Government grant receivable (Note 5)	(379)	-
Accounts payable and accrued liabilities	3,477	2,757
Income taxes	660	(22)
Contract liabilities	(345)	151
	<b>7,945</b>	<b>2,879</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment (Note 8)	(3,916)	(8,659)
Cash paid to acquire businesses (Note 20)	-	(18,552)
Proceeds on sale of fixed assets	-	32
Sale of short-term investments	207	-
Gain on settlement of non-controlling interest	-	114
	<b>(3,709)</b>	<b>(27,065)</b>
<b>Cash flows from financing activities</b>		
Issuance of share capital (Note 17)	-	5,593
Exercise of warrants and options (Note 17)	-	72
Proceeds from long-term debt (Note 12)	9,907	23,340
Repayment of long-term debt (Note 12)	(6,217)	(5,074)
Repayment of promissory notes (Note 13)	(5,100)	(4,369)
Repayment of lease liability (Note 14)	(6,224)	(5,143)
Increase in deferred financing fees	(449)	(163)
	<b>(8,083)</b>	<b>14,256</b>
<b>Net change in bank indebtedness during the year</b>	<b>(3,847)</b>	<b>(9,930)</b>
<b>Bank indebtedness, beginning of year</b>	<b>(21,597)</b>	<b>(11,667)</b>
<b>Bank indebtedness, end of year</b>	<b>\$ (25,444)</b>	<b>\$ (21,597)</b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 6,215	\$ 4,892

See accompanying notes to the consolidated financial statements.

# SPARK POWER GROUP INC.



## Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

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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 and solutions 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 consolidated financial statements (“Financial Statements”) of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the reporting period ended December 31, 2020.

The Board of Directors approved these consolidated financial statements on March 30, 2021.

#### Going Concern

In the preparation of Financial Statements, management is required to identify events or conditions that could have a significant impact on the Company’s ability to continue as a going concern. When the Company identifies these conditions or events, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

As described in Note 12, Long-term debt, the Company’s non-revolving term loan and revolving acquisition line, totaling \$37,030 and \$23,734, are both due and payable within the next 12 months on September 30, 2021. As such, the full amounts drawn under these facilities are presented as current liabilities as at December 31, 2020. See Note 12 of the Financial Statements for details. The Company is also required to comply with certain covenants, terms and conditions under the credit facilities. As a result management has determined that it would be prudent to disclose that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

On March 11, 2021 the Company’s lender agreed to extend the maturity date of the Company’s non-revolving term loan and revolving acquisition line totaling \$37,030 and \$23,734 respectively to mature on June 30, 2022. As a result the non-revolving term loan and the revolving acquisition line will be presented as long-term liabilities in the Company’s financial statements for periods ended after the date of this extension, to the extent repayments are not due within twelve months.

The Company commenced discussions with its lender on a syndication of its debt in early 2020. With the outbreak of the pandemic this process was put on hold through the balance of 2020. During this time the Company worked with its lender in successfully securing amendments to its existing credit facility to support the Company through challenging times brought on by the pandemic. The objective of the syndication process is to re-finance the above noted non-revolving term loan and revolving acquisition line into a long-term facility and expand the Company’s borrowing facilities to support future growth opportunities.

#### Basis of Measurement

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments and short-term investments that are carried at fair value with changes in fair value recognized in comprehensive (loss) income, as described in the accounting policies below.

#### 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 our US subsidiaries; New Electric Fresno, LLC, Northwind Solutions Group (USA) Inc., Bullfrog Solutions USA Inc., One Wind Services (USA) Inc., Spark Power (Midwest USA) Corp., Spark Power (Northeast USA) Corp., Spark Power (West USA) Corp., Spark Power (Southeast USA) Corp., Spark Power (Southwest USA) Corp., and Spark Power Services (USA) Corp., whose functional currency is US dollars

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

### 2. BASIS OF PREPARATION (Continued)

("US") and Orbis SPA whose functional currency is the Chilean Peso ("Peso").

#### Basis of Consolidation

These Financial Statements include the accounts of Spark and its subsidiaries. The Financial Statements present the results of the Company and its subsidiaries as if they formed a single entity. All inter-company transactions and balances between the entities have been eliminated.

The Financial Statements incorporate the results of business combinations using the acquisition method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values as at the acquisition date. During the year, 10052630 Manitoba Ltd., 5440981 Manitoba Ltd., 5450731 Manitoba Ltd. and 5450749 Manitoba Ltd. were all amalgamated with 3-Phase Electrical Ltd. As well New Electric Services Inc. was amalgamated with New Electric Enterprises Inc. and Spark Power Energy Solutions Inc. was dissolved.

Subsidiary	Ownership %
1625704 Alberta Inc.	100%
2552095 Ontario Inc.	100%
3-Phase Electrical Ltd.	100%
Bullfrog Power Inc.	100%
Canadian REC Wholesale Inc.	100%
Less Emissions Inc.	100%
Lizco Sales & Rentals Group Inc.	100%
New Electric Enterprises Inc.	100%
New Electric Fresno, LLC	100%
Northwind Solutions Corp.	100%
Northwind Solutions Group Inc.	100%
Northwind Solutions Group (USA) Inc.	100%
One Wind Services Inc.	100%
One Wind Services (USA) Inc.	100%
Orbis Engineering Field Services Ltd.	100%
Orbis SPA	100%
Sibro Technologies Ltd.	100%
Spark Power Corp.	100%
Spark Power Group Inc.	100%
Spark Power High Voltage Services Inc.	100%
Spark Power Services Corp.	100%
Spark Power Solutions Inc.	100%
Spark Power Solutions Ltd.	100%
Spark Solar Management Inc.	100%
Spark Solar Services Corp.	100%
Spark Power (USA) Corp.	100%
Spark Power (Midwest USA) Corp.	100%
Spark Power (Northeast USA) Corp.	100%
Spark Power (West USA) Corp.	100%
Spark Power (Southeast USA) Corp.	100%
Spark Power (Southwest USA) Corp.	100%

**2. BASIS OF PREPARATION (Continued)****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 and estimates in recognizing revenue, determination of appropriate provisions, useful lives of assets, valuation of equity transactions, valuation of business combinations, discount rate of lease liabilities, valuation of derivative financial instruments, impairment of property and equipment and intangible assets, and impairment of goodwill. By their nature, these judgments and 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 long-term construction contracts, as they are long-term in nature and contain consideration that is variable based on a number of uncertain factors, such as change orders, reserves set up for additional costs/overruns, etc. Also, the Company estimates progress towards completion and gross margins to be earned at the end of these construction contracts, where a change in these estimates may have a material impact on the overall revenue recognized for the period.

*Construction contracts* – The Company determines the extent to which the estimate of variable consideration is constrained (and therefore excluded from the measurement of revenue) by considering historical trends and the lowest levels of annual incentive fees earned in the past (Note 3).

*Management contracts* – 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.

*Expected credit losses* – Expected credit losses associated with accounts receivable and contract assets 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 year-end. (Notes 4, 18 and 26)

*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.

*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 and amortization rates. (Notes 8 and 9)

*Valuation of business combinations* - Significant estimates and assumptions are required to determine the purchase price allocation of business combinations including determination and the valuation of intangible assets acquired. (Note 20)

*Lease liability* – The lease liabilities associated with all property, equipment 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 estimates 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. Additionally, management makes certain assumptions regarding the extension and termination options available within its lease arrangements to determine the overall lease term. This requires significant estimates and assumptions from management that may have an impact on the Financial Statements. (Note 14)

**2. BASIS OF PREPARATION (Continued)**

*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, including power purchase arrangements, 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 12 and 18)

*Impairment of property and equipment and intangible assets* – At the end of each reporting period, the Company reviews the carrying amounts of property and equipment to determine whether there is any indication of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset in order to determine the extent of the impairment loss, if any. The Company generally assesses impairment at the level of cash-generating units ("CGU"), which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of cash inflows from other assets. Impairment is assessed by comparing the CGU's carrying value with its net recoverable amount. The preparation of future cash flows requires management to make estimates and assumptions with respect to expected revenues and expenses, which are subject to change.

*Impairment of goodwill* – The annual test of impairment of goodwill is completed based on management's estimates of future performance of the related CGU based on past history and economic trends, plus estimates of the weighted average cost of capital. When circumstances warrant, impairment testing will be completed on a quarterly basis. (Note 10)

For the purpose of impairment testing, goodwill that is allocated to CGUs is compared to the net recoverable value of the CGU. The recoverable amount of each CGU was determined based on value-in-use calculations calculated using a discounted cash flow model based on a reasonable forecast of operations for each CGU.

Various assumptions are used in forecasting the business the most significant of which include:

- **Discount rates** – The discount rates reflect appropriate adjustments relating to market risk and risk factors specific to the business in general.
- **Revenue growth rates** – Revenue growth rates assumed consider historical trends in the business unit, the general economic environment and managements views on business risks and opportunities that may exist that will impact the relevant CGUs.
- **Gross margin realizations** – Gross margin realizations assumed for each CGUs consider historical trends, recent trends impacted by current economic environment and business mix within the CGUs. Outside factors considered include the state of the general economy in the region and the impact of competitive forces on pricing and levels of investment in our customers' businesses.

The estimate of the recoverable amount for the CGUs is most sensitive to the assumptions noted above. Changes in any of these key inputs/assumptions could result in a significant change to the determination of goodwill impairment.

**3. SIGNIFICANT ACCOUNTING POLICIES****Revenue Recognition**

The Company derives revenue from the provision of services and sale of equipment, as segregated in primarily five revenue streams:

- *Service contracts* for the inspection, testing, repair and maintenance of electrical generating equipment. Contracts are typically short-term in nature (ie., less than 3 weeks). Payment is due upon completion of the contract.



## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Construction contracts* for the development, construction and procurement of electrical generating equipment. Contracts may last for several months to more than one year. Payment is due in milestones as the contract is completed.
- *Contracts for the management* of client electrical generating equipment, including the procurement of maintenance services, recordkeeping and day-to-day operations. Contracts are long term in nature and are typically for the period of time equal to the energy contract held by the client. Payment is due based on a fixed amount annually per-site monitored plus, an incentive fee as performance metrics are achieved on an annual basis.
- *Equipment sales* contracts for the fabrication of custom electrical equipment used in low, medium and high voltage applications. Contracts may last from several days to several months depending on material lead times. Advance payment is due on larger contracts based on completed milestones, and on smaller contracts when the product is shipped.
- *Retirement of green energy certificates* (including green electricity certificates, green natural gas certificates and green fuel certificates) for green energy certificate customers. Contracts may last for several months to more than one year, where payments are due at the end of each contracted month.

The Company offers limited time warranties on the quality of its work being free from material defects. In accordance with IFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the cost of satisfying these “assurance-type” warranties in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

## SPARK POWER GROUP INC.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Applying the five-step model required by IFRS 15, *Revenue from Contracts with Customers*, revenue is recognized as follows for these contracts:

Step in Model	Service	Construction	Management	Equipment Sales	Green Energy Certificates
<b>Identify the contract</b>	The contractual arrangement executed with the client, specifying the timing, scope and compensation.	The contractual arrangement executed with the client, specifying the timing, scope and compensation.	The contractual arrangement executed with the client, specifying the timing, scope and compensation.	The contractual arrangement executed with the client, specifying the timing, scope and compensation.	The contractual arrangement executed with the client, specifying the timing, scope and compensation.
<b>Identify distinct performance obligations</b>	Single performance obligation to provide services with combined inputs from applicable labour and materials.	Single performance obligation to provide construction services with combined inputs from applicable labour and materials.	Single performance obligation to provide management services for customer-owned photovoltaic systems.	Contract may include multiple performance obligations.	Single performance obligation to retire green energy certificates against usage by green energy certificate customer.
<b>Estimate transaction price</b>	Fixed fee established in contract. Change orders due to changes in scope or unexpected costs are accounted for as contract modifications prospectively.	Fixed fee established in contract. Change orders due to changes in scope or unexpected costs are accounted for as contract modifications prospectively.	Consideration receivable by the Company is variable and is based on a set fee per site that is managed, plus a management incentive fee based on a percentage of cash flows above certain thresholds. As the consideration is variable, an estimate is made based on the cash flow forecasts, which incorporate estimates of sites over the contract term, the amount of electricity to be produced and the overall economic performance of the sites. The estimation is subject to a constraint where only the amount up to which it is highly unlikely that a material reversal of revenue will occur in the future is included in the transaction price. This estimate is revised at each reporting period, with the cumulative effect of the change in estimate being recorded in revenue.	Contract price is the transaction price.	Consideration receivable is based on a set fee per megawatt/kilojoule of energy contracted by the customer.

## SPARK POWER GROUP INC.

### Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Step in Model	Service	Construction	Management	Equipment Sales	Green Energy Certificates
<b>Allocate transaction price to performance obligations</b>	Total revenue is allocated to the single performance obligation.	Total revenue is allocated to the single performance obligation.	Total revenue is allocated to the single performance obligation.	The transaction price is clearly identified in the contract and is allocated to each performance obligation linked to customer commitments for each obligation under goods arrangement.	Total revenue is allocated to the single performance obligation.
<b>Recognize revenue as performance obligations are satisfied</b>	<p>Revenue is recognized over time, as the work performed enhances assets controlled by the customer (e.g. electrical systems on the customers' premises). Progress towards completion is based on costs incurred as a percentage of total expected costs to complete the project.</p> <p>Consideration received in advance of the progress made to satisfy the performance obligation is recognized as a contract liability. Further, progress made towards the satisfactions of performance obligation at a period end in advance of milestone achieved for billing purposes is recognized as a contract asset.</p>	<p>Revenue is recognized over time, as the work performed enhances assets controlled by the customer (e.g. electrical systems on the customers' premises). Progress towards completion is based on costs incurred as a percentage of total expected costs to complete the project.</p> <p>Consideration received in advance of the progress made to satisfy the performance obligation is recognized as a contract liability. Further, progress made towards the satisfaction of performance obligation at a period end in advance of milestone achieved for billing purposes is recognized as a contract asset.</p>	<p>Revenue is recognized over time based on an estimate of total sites monitored as a percentage of total site measurements required over the term of the contract, as the number of sites under management is used as the base for estimating the progress in satisfying the overall performance obligation.</p> <p>Contract asset is recognized when there are discrepancies between the timing of payment and recognition of revenue, as the Company is only contractually eligible to receive payment for its services upon meeting certain financial metrics in the project.</p>	Revenue is recognized at a point in time once control passes to the customer (i.e. when products are delivered).	Revenue is recognized over time throughout the life of the contract, as the customer is able to simultaneously consume benefits as the Company performs. Contract asset or liability is recognized when the billing cycle does not coincide with the period end.

Contract liabilities relate to pre-payments received for on-going projects for which the related performance obligation is expected to be completed in the next 12 months. Contract assets related to work in progress and unbilled accounts receivable for which the related performance obligation has been completed, and amounts remain to be billed as at the end of the reporting period.

# SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed, and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. Direct costs of acquisitions are recognized immediately as an expense. Goodwill is capitalized as an asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive (Loss) Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess representing the bargain purchase is credited in full to the consolidated statement of comprehensive (loss) income on the acquisition. The Company has had no bargain purchase on its acquisitions during the current or prior year.

### Intangible Assets

The Company has certain externally acquired intangible assets through business combinations (Note 20) that are initially recognized at their fair values, using appropriate valuation techniques, and subsequently amortized on a straight-line basis over their useful economic lives when they have a finite useful life.

Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

Management estimates the useful life of its finite life intangible assets as follows:

Customer contracts	-	1.5 years
Customer relationships	-	10 years
Non-competition agreements	-	5 years
Sales backlog	-	4 years
Tradename	-	3 years

Intangible assets determined to have an indefinite useful life are recorded at cost and not subject to amortization. The Company does not have significant indefinite life intangible assets.

### Property and Equipment

Property and equipment are recorded at cost net of accumulated depreciation and write-downs for impairment, if any. Depreciation is calculated on a declining balance, except for the depreciation of our leased assets which are calculated on a declining basis over their estimated useful lives as follows:

Computer hardware	-	30% - 100%
Computer software	-	55%
Equipment	-	20% - 30%
Furniture and fixtures	-	20%
Right of use assets and leaseholds	-	over the lease term
Vehicles	-	20% - 30%

### Impairment of Non-Financial Assets

Impairment tests on goodwill and indefinite life intangible assets are undertaken annually at the financial year end. Other non-financial assets are subject to the impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Recent events have given rise to significant judgement and estimation uncertainty, such as project delays and government restrictions. As such, impairment tests on goodwill are being performed on a quarterly basis. See Note 2 – Impairment of Goodwill.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its CGU's. Goodwill is allocated on initial recognition to each of the Company's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in Other Comprehensive (Loss) Income. The Company evaluates impairment losses for potential reversals on assets other than goodwill when management has made the judgement that events or circumstances warrant such consideration. An impairment loss recognized for goodwill is not reversed.

**Foreign Currency**

Foreign currency monetary assets and liabilities are translated into the Company's functional currency using the closing rate at the end of each reporting period. Non-monetary assets and liabilities are translated at the rates on the date the fair value was determined or at historical cost using the rate at the date of the transaction. Revenues and expenses arising from foreign currency denominated transactions are translated at the average exchange rates in effect during the month of the transaction. Translation gains and losses are included in the Consolidated Statement of Comprehensive (Loss) Income.

**Financial Instruments*****Financial Assets***

All financial assets are initially recorded at fair value and designated upon inception into one of the following three categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive (loss) income. The Company does not have any financial instruments classified as fair value through other comprehensive (loss) income.

***Amortized cost***

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely the payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for accounts receivables and contract assets are recognized based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During the process of reviewing accounts receivable and contract assets for impairment, the probability of the non-payment of the accounts receivable or contract asset is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for accounts receivables and contract assets. For accounts receivable and contract assets, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within operating expenses in the Consolidated Statement of Comprehensive (Loss) Income. On confirmation that a certain accounts receivables and contract assets will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's financial assets measured at amortized cost comprise of accounts receivable, government grants receivable, and contract assets.

***Fair value through profit or loss***

These assets are carried in the Consolidated Statement of Financial Position at their fair value with changes in fair value recognized in the Consolidated Statement of Comprehensive (Loss) Income in the finance expense line. Transaction costs associated with financial instruments measured at fair value through profit or loss are expensed as incurred.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company's financial instruments classified at fair value through profit or loss include derivative financial instruments such as interest rate swaps, power purchase arrangements and hedge arrangements.

The Company entered into a power purchase agreement for the purchase and sale of renewable energy and environmental attributes for a period of seven years with an expected start date in the second quarter of 2021. The Company entered into a Hedge arrangement ("Hedge") to manage the fluctuations related to the power purchase agreement entered into (Note 15). Under these agreements, the Company is responsible for any excess risk in the current market. While this agreement economically hedges the risk of changes in cash flows due to fluctuations in power rates, hedge accounting has not been applied for these instruments. The fair value of the Hedge is based on the current market value of similar contracts with similar remaining durations as if the contract had been entered into on December 31, 2020.

***Financial Liabilities***

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

***Fair value through profit or loss***

This category comprises of contingent consideration for the earn-out related to the acquisition of One Wind Services Inc. and One Wind Services (US) Inc. Refer to Note 20 for further details.

***Other financial liabilities***

Other financial liabilities include bank indebtedness, accounts payable and accrued liabilities, contract liabilities, long-term debt, promissory notes, and lease liabilities, which are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position.

**Share-Based Payment Transactions**

Employees, directors, and service providers of the Company may receive a portion of their compensation in the form of share-based payment transactions, whereby services are rendered as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the fair value of goods or services received by the entity as consideration cannot be estimated reliably, they are measured at fair value of the equity instruments granted. The costs of equity settled transactions are measured by reference to the fair value of the equity instrument at the date on which they are granted.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant party becomes fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date and reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options and warrants is reflected as additional dilution in the computation of earnings per share. (Note 24)

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Leases**

All leases are accounted for by recognizing a right-of-use asset in property and equipment and a lease liability except for leases of low value assets and leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent 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 similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. Further, lease terms are based on assumptions regarding extension terms that allow for operational flexibility and favorable future market conditions.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to exercise that option;
- any penalties payable for terminating the leases, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset, whichever is shorter.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that was applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use assets, with the revised carrying amount being amortized over the remaining lease term.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease. That is, the Company does not allocate any amount of the contractual payment to, and account separately for, any services provided by the supplier as part of the lease contract.

**Income Taxes**

Income tax expense represents the sum of current income taxes and deferred income taxes. Current and deferred taxes are recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive (loss) income or directly in equity. Under these circumstances, the taxes are recognized in other comprehensive (loss) income or directly in equity.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***Current income taxes*

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at tax rates which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

*Deferred income taxes*

Deferred income taxes are provided using the asset and liability method applied to temporary differences at the date of the Consolidated Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, and carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the Consolidated Statement of Financial Position.

Deferred income tax assets and deferred income tax liabilities are offset if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.



## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are initially recognized at cost (with the exception of inventories acquired as part of a business combination which are initially recognized at fair market value), and subsequently at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Costs of inventories of items that are segregated for specific projects are assigned by using specific identification of their individual costs. Inventory includes all costs to purchase, convert, and bring the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

#### Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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

	2020		2019	
Trade	\$	53,162	\$	49,137
Less: Provision for expected credit losses		(1,719)		(261)
	\$	51,443	\$	48,876

	2020		2019	
Contract asset	\$	21,758	\$	11,262
Additions during the year		36,016		29,363
Amount recognized during the year		(28,965)		(18,867)
	\$	28,809	\$	21,758

	2020		2019	
Contract liability	\$	4,068	\$	3,745
Additions during the year		90,096		69,528
Amount recognized during the year		(90,441)		(69,205)
	\$	3,723	\$	4,068

The provision for expected credit losses was determined based on historical loss rates and payment behavior from customers by major staging 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 staging categories to determine the expected credit losses on accounts receivable and contract assets using the simplified approach.

# SPARK POWER GROUP INC.



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

The balance of contract asset as at December 31, 2020 is current and has no provision recorded.

### Summary of provision by aging category:

2020					
		Current	31-90 Days	>90 Days	Total
Balance	\$	27,150	\$ 17,933	\$ 8,079	\$ 53,162
Provision for expected credit losses	\$	206	\$ 338	\$ 1,175	\$ 1,719

2019					
		Current	31-90 Days	>90 Days	Total
Balance	\$	19,005	\$ 23,277	\$ 6,855	\$ 49,137
Provision for expected credit losses	\$	-	\$ -	\$ 261	\$ 261

The Company determines there to be a significant increase in credit risk when balances are outstanding for more than 60 days past the customers' contractual payment terms.

Management determines whether there is any objective evidence of impairment 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.

### Summary of movements in provision:

	2020		2019
Opening balance	\$	(261)	\$ (161)
Increase during the year		(1,463)	(119)
Amounts written off during the year		5	19
Ending balance	\$	(1,719)	\$ (261)

### Revenue Disaggregation by Stream:

2020						
		Technical Services	Renewables	Sustainability	Corporate	Total
Service	\$	144,913	\$ 64,538	\$ -	\$ -	\$ 209,451
Construction		2,562	-	-	-	2,562
Management		-	-	-	1,618	1,618
Equipment		6,104	-	-	-	6,104
Retirement of green energy certificates		-	-	8,418	-	8,418
<b>Total</b>	<b>\$</b>	<b>153,579</b>	<b>\$ 64,538</b>	<b>\$ 8,418</b>	<b>\$ 1,618</b>	<b>\$ 228,153</b>

# SPARK POWER GROUP INC.



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

### Revenue Disaggregation by Stream (Continued):

2019 (Note 32)								
	Technical Services		Renewables		Sustainability		Corporate	Total
Service	\$	126,147	\$	28,804	\$	-	\$	154,951
Construction		9,315		-		-		9,315
Management		-		-		-	3,139	3,139
Equipment		8,216		-		-	-	8,216
Retirement of green energy certificates		-		-		12,970	-	12,970
<b>Total</b>	<b>\$</b>	<b>143,678</b>	<b>\$</b>	<b>28,804</b>	<b>\$</b>	<b>12,970</b>	<b>\$</b>	<b>188,591</b>

Further details related to the Company segments can be found in Note 21.

## 5. COVID-19 PANDEMIC & GOVERNMENT GRANTS

The outbreak of COVID-19 has resulted in worldwide emergency measures to combat the spread of the virus. These measures, including significant restrictions on commercial activity, have caused massive disruption to businesses globally, resulting in a broad-based and global economic slowdown.

The Company has also introduced its own measures, procedures, and protocols to foster the health and safety of its employees, vendors, and customers. These measures are based on the Company's health and safety policies as well as the recommendations from the public health authorities. These enhanced protocols include travel restrictions, workplace hygiene practices, employee case tracking, additional personal protective equipment for our operations workers, limited access to facilities, and alternative work options for employees where possible.

The Company's operations are exposed to a variety of business and financial risks as a result of a public threat, such as COVID-19. These risks include but are not limited to, decline in customer demand, increase in operating costs, interruption of project work, credit risk associated with customer non-payment, access to financing and change in the timing of cash flows.

During the year, the Company's operations were temporarily impacted in segments of the business that were not considered to be essential services. These impacts were short-term in nature and not significant to the strength of the business. The extent to which COVID-19 may further impact the Company's operations, its consolidated financial position, and performance remains uncertain, and will depend on further developments, including the duration and spread of the outbreak, its impact on the Company's customers, suppliers and employees and actions taken by governments. Management continues to closely monitor the situation in the jurisdictions in which the Company operates.

	Technical Services		Renewables		Sustainability Solutions		Corporate	Total
<i>Canadian Emergency Wage Subsidy</i>								
Cost of sales	\$	6,620	\$	1,432	\$	-	\$	8,052
Selling, general and administrative		1,078		370		268	1,102	2,818
	<b>\$</b>	<b>7,698</b>	<b>\$</b>	<b>1,802</b>	<b>\$</b>	<b>268</b>	<b>\$</b>	<b>10,870</b>
<i>Paycheck Protection Program</i>								
Cost of sales	\$	637	\$	1,408	\$	-	\$	2,045
Selling, general and administrative		233		158		-	-	391
	<b>\$</b>	<b>870</b>	<b>\$</b>	<b>1,566</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>2,436</b>
<b>Total</b>	<b>\$</b>	<b>8,568</b>	<b>\$</b>	<b>3,368</b>	<b>\$</b>	<b>268</b>	<b>\$</b>	<b>13,306</b>

### Canada Emergency Wage Subsidy

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers keep and/or return Canadian-based employees to payrolls in response to challenges posed by the COVID-19 pandemic.

## SPARK POWER GROUP INC.



### Notes to the Consolidated Financial Statements

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#### 5. COVID-19 PANDEMIC & GOVERNMENT GRANTS (Continued)

During the year, management determined that it met the employer eligibility criteria and applied for the CEWS. The Company recognized \$10,915 in government grants under the payroll support program which has been recorded against the segmented cost of sales and selling, general and administrative expenses to which they are related.

Of the amount recognized in the period, \$379 was receivable as at December 31, 2020.

##### *Paycheck Protection Program*

In March 2020, the United States Government announced the Paycheck Protection Program (“PPP”) in order to help employers keep and/or return US-based employees to payrolls in response to challenges posed by the COVID-19 pandemic.

In the second quarter of 2020, the Company received US\$1,835 in funding related to this program for our US based operations. This funding came in the form of a loan payable which was due in full on the second anniversary of its receipt, bearing an interest rate of 1% per annum, with the possibility of absolute forgiveness if eligible. Subsequent to December 31, 2020, the Company received forgiveness on US\$1,696 of its loans and believes that it has met the criteria for forgiveness on the remaining balance. This funding has been recognized against the segmented cost of sales and selling, general and administrative expenses to which they are related.

#### 6. INVENTORY

	2020	2019
Equipment and supplies	\$ 7,703	\$ 6,901
	\$ 7,703	\$ 6,901

During the year, \$40,141 (2019 - \$27,352) of inventory was recognized in cost of sales. There were no material amounts of inventory that were written down to their net realizable value in the current or prior year.

#### 7. LEASE RECEIVABLE

	2020	2019
Property and office space lease bearing interest at an approximate rate of 6%. The lease extends through fiscal 2023.	\$ 379	\$ -
	379	-
Less: current portion	149	-
<b>Lease receivable</b>	<b>\$ 230</b>	<b>\$ -</b>

On June 1, 2020, the Company relocated its Bullfrog operations and entered into a 3-year sublease agreement for their previous premises, resulting in a lease receivable. Offset against finance expense is \$12 (2019 - \$nil) of interest revenue earned on the lease receivable. Total cash inflows relating to the sublease consist of principal payments in the amount of \$68 (2019 - \$nil).

# SPARK POWER GROUP INC.



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### 8. PROPERTY AND EQUIPMENT

	Computer Hardware	Computer Software	Furniture and Fixtures	Right of Use Assets and Leaseholds	Equipment	Vehicles	Total
<b>Cost:</b>							
Balance at December 31, 2018	\$ 809	\$ 3,293	\$ 1,344	\$ 14,092	\$ 4,476	\$ 10,707	\$ 34,721
New leases acquired during the period	-	-	-	2,777	656	5,081	8,514
Additions	630	1,499	175	2,100	3,381	873	8,658
Additions from business combinations (Note 20)	79	82	65	309	758	349	1,642
Disposals	(22)	(11)	(1)	(1)	(169)	(376)	(580)
<b>Balance at December 31, 2019</b>	<b>\$ 1,496</b>	<b>\$ 4,863</b>	<b>\$ 1,583</b>	<b>\$ 19,277</b>	<b>\$ 9,102</b>	<b>\$ 16,634</b>	<b>\$ 52,955</b>
New leases acquired during the year	-	-	-	3,651	37	1,238	4,926
Additions	388	760	217	651	1,504	396	3,916
Disposals - Leases	-	-	-	(845)	-	(521)	(1,366)
Disposals	-	(82)	-	(19)	(4)	(248)	(353)
<b>Balance at December 31, 2020</b>	<b>\$ 1,884</b>	<b>\$ 5,541</b>	<b>\$ 1,800</b>	<b>\$ 22,715</b>	<b>\$ 10,639</b>	<b>\$ 17,499</b>	<b>\$ 60,078</b>
<b>Accumulated depreciation:</b>							
Balance at December 31, 2018	\$ 338	\$ 988	\$ 925	\$ 3,311	\$ 2,503	\$ 4,665	\$ 12,730
Depreciation for the year	255	737	147	3,728	1,061	2,996	8,924
Disposals	(7)	-	-	-	(9)	(59)	(75)
<b>Balance at December 31, 2019</b>	<b>\$ 586</b>	<b>\$ 1,725</b>	<b>\$ 1,072</b>	<b>\$ 7,039</b>	<b>\$ 3,555</b>	<b>\$ 7,602</b>	<b>\$ 21,579</b>
Depreciation for the year	346	1,758	134	3,894	1,815	3,574	11,521
Disposals - Leases	-	-	-	(589)	-	(378)	(967)
Disposals	-	(81)	-	(18)	-	(209)	(308)
<b>Balance at December 31, 2020</b>	<b>\$ 932</b>	<b>\$ 3,402</b>	<b>\$ 1,206</b>	<b>\$ 10,326</b>	<b>\$ 5,370</b>	<b>\$ 10,589</b>	<b>\$ 31,825</b>
<b>Net carrying amounts:</b>							
December 31, 2019	\$ 910	\$ 3,138	\$ 511	\$ 12,238	\$ 5,547	\$ 9,032	\$ 31,376
<b>December 31, 2020</b>	<b>\$ 952</b>	<b>\$ 2,139</b>	<b>\$ 594</b>	<b>\$ 12,389</b>	<b>\$ 5,269</b>	<b>\$ 6,910</b>	<b>\$ 28,253</b>

The net carrying amount of property and equipment includes the following amounts held under leases:

• Equipment	\$196	(2019 - \$476)
• Computer Hardware	\$4	(2019 - \$6)
• Right of Use assets and Leaseholds	\$10,163	(2019 - \$10,015)
• Vehicles	\$5,650	(2019 - \$7,602)

The related amortization for amounts held under leases has been recognized as follows:

• Equipment	\$317	(2019 - \$340)
• Computer Hardware	\$2	(2019 - \$2)
• Right of Use Assets and Leaseholds	\$3,219	(2019 - \$2,853)
• Vehicles	\$3,028	(2019 - \$2,876)

# SPARK POWER GROUP INC.



## Notes to the Consolidated Financial Statements

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### 9. INTANGIBLE ASSETS

	Customer contracts	Customer relationships	Non-competition agreement	Sales backlog	Tradenname	Total
<b>Cost:</b>						
Balance at December 31, 2018	\$ -	\$ 27,699	\$ 213	\$ 845	\$ 11,163	\$ 39,920
Additions from acquisition of						
3-Phase Electrical Ltd. (Note 20)	1,846	4,410	-	-	1,087	7,343
One Wind Services Inc. and One Wind Services (US) Inc. (Note 20)	-	5,339	-	-	1,943	7,282
Balance at December 31, 2019	\$ 1,846	\$ 37,448	\$ 213	\$ 845	\$ 14,193	\$ 54,545
Removal of fully amortized asset	-	-	-	(593)	-	(593)
<b>Balance at December 31, 2020</b>	<b>\$ 1,846</b>	<b>\$ 37,448</b>	<b>\$ 213</b>	<b>\$ 252</b>	<b>\$ 14,193</b>	<b>\$ 53,952</b>
<b>Accumulated Amortization:</b>						
Balance at December 31, 2018	\$ -	\$ 4,767	\$ 128	\$ 793	\$ -	\$ 5,688
Amortization for the period	513	2,896	43	(11)	-	3,441
Balance at December 31, 2019	\$ 513	\$ 7,663	\$ 171	\$ 782	\$ -	\$ 9,129
Amortization for the period	1,231	3,598	28	63	3,765	8,685
Removal of fully amortized asset	-	-	-	(593)	-	(593)
<b>Balance at December 31, 2020</b>	<b>\$ 1,744</b>	<b>\$ 11,261</b>	<b>\$ 199</b>	<b>\$ 252</b>	<b>\$ 3,765</b>	<b>\$ 17,221</b>
<b>Net carrying amounts:</b>						
December 31, 2019	\$ 1,333	\$ 29,785	\$ 42	\$ 63	\$ 14,193	\$ 45,416
<b>December 31, 2020</b>	<b>\$ 102</b>	<b>\$ 26,187</b>	<b>\$ 14</b>	<b>\$ -</b>	<b>\$ 10,428</b>	<b>\$ 36,731</b>

Due to a change in management strategy with relation to the rebranding efforts occurring within the Company, starting January 1, 2020, management initiated the amortization of Tradenames over a three-year term related to the rebranding efforts occurring within the Company. This is a prospective change to the process as the Company's rebranding efforts began in the first quarter of 2020 and the changes will occur over time.

### 10. GOODWILL

	2020	2019
Spark Power Solutions Ltd.	\$ 1,554	\$ 1,554
Spark Power High Voltage Services Inc.	3,633	3,633
New Electric Enterprises Inc.	13,847	13,847
Orbis Engineering Services Ltd.	2,456	2,456
Bullfrog Power Inc.	6,633	6,633
New Electric Fresno, LLC	284	284
3-Phase Electrical Ltd. (Note 20)	8,449	8,449
One Wind Services Inc. and One Wind Services (US) Inc. (Note 20)	5,107	5,099
	<b>\$ 41,963</b>	<b>\$ 41,955</b>

The Company is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate to calculate the present value of the cash flows.

Based on the events in the current economic environment, management has performed a calculation on a quarterly basis to determine whether goodwill has suffered any impairment. During the year, the outbreak of COVID-19 has resulted in the worldwide emergency measures to combat the spread of the virus (see Note 5 for further discussion). Based on management's estimated changes in projections, taking into account the possible duration and impact of the COVID-19, there is has been no impairment recorded on goodwill. Management will continue to monitor the impact of COVID-19 on a quarterly basis.

# SPARK POWER GROUP INC.



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### 10. GOODWILL (Continued)

The recoverable value of each CGU was based on value in use. The value in use was calculated using unobservable (Level 3) inputs such as the budgeted and projected 2021-2025 revenues and EBITDA margin. The EBITDA is defined as net (loss) income before finance expense, income taxes, depreciation and amortization. The Company considered past experience, economic trends as well as industry and market trends in assessing if the level of EBITDA can be maintained in the future. The Company also used discount rates in the range of 11% and 12% (2019 – 13% and 18%), which represents the weighted average cost of capital (“WACC”). The WACC is an estimate of the overall rate of return required by debt and equity holders on their investment. Determining the WACC requires analyzing the cost of equity and debt separately and takes into account a risk premium that is based on each CGU. The change in the discount rate in the current year as compared to the prior year is related to the change in operational strength each CGU has seen in operations since acquisition. Growth rates ranging between 1% and 5% (2019 – 1% and 3%) have been used to estimate future cash flows of each of the CGUs. The change in the growth rate range in the current year as compared to the prior year is related to the organic growth the Company has seen in the CGU’s since acquisition. The above inputs include those that were used in the most recent detailed calculation made in a preceding period of the recoverable amount of a CGU which meet the requirements within *IAS 36 - Impairment of assets*, to be carried forward and used in the impairment test for that CGU in the current period.

### 11. BANK INDEBTEDNESS

	2020	2019
\$30,000 demand revolving credit facility, subject to borrowing base limits, bearing interest at prime plus 0.50% - 2.50% per annum payable monthly. The loan is due and repayable on demand at the request of the lender. The lender has general security over the Company.	\$ 20,965	\$ 17,396
\$5,000 demand revolving credit facility to finance growth capital expenditures, bearing interest at prime plus 0.50% - 2.50% per annum payable monthly. Quarterly principal payments commenced December 31, 2019. The loan is due and repayable at the request of the lender. The lender has general security over the Company. (i)	4,479	4,201
<b>Bank Indebtedness</b>	<b>\$ 25,444</b>	<b>\$ 21,597</b>

- (i) Quarterly principal payments commenced on December 31, 2019. During the period ended June 30, 2020 the Company amended its credit agreement with its lending institution resulting in the deferral of principal payments due on or before March 31, 2020, June 30, 2020, and September 30, 2020 to recommence on December 31, 2020. The reinstatement of principal payments was amended to September 30, 2020 in relation to the deferral of the Covid loan as discussed in Note 12(iii).

During the year ended December 31, 2020, the Company drew an additional \$799 on the Capital Expenditure line and paid \$519 in principal payments.

As at December 31, 2020, the Company was in compliance with all covenants, terms and conditions under the credit facilities.

During the year, the Company paid \$1,208 (2019 - \$787) of interest related to bank indebtedness which has been included in finance expense.

# SPARK POWER GROUP INC.



## Notes to the Consolidated Financial Statements

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### 12. LONG TERM DEBT

	2020	2019
Non-revolving term loan with Bank of Montreal bearing interest at prime plus 1.00% - 3.00% per annum, payable monthly. Principal payments of \$1,234 per quarter commenced December 31, 2019. The loan matures on September 30, 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% (Note 18). The lender has general security over the Company. (i)	\$ 37,030	\$ 39,500
Revolving Reducing Acquisition Line with Bank of Montreal bearing interest at prime plus 1.00% - 3.00% and standby fees calculated daily and payable quarterly. Each drawdown shall amortize quarterly over 10 years and will be repaid in quarterly installments of principal plus interest with balance due and payable September 30, 2021. (ii)	23,734	23,016
Covid Loan with Bank of Montreal bearing interest at prime plus 1.00% - 3.00%. Due on demand and repayable in quarterly installments of \$1,981 plus interest through September 2021. (iii)	5,942	-
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; 2021 - \$750. The loan matures on April 30, 2021 and is secured by a General Security Agreement.	750	1,250
	<b>67,456</b>	63,766
Less: current portion	<b>66,572</b>	9,006
Less: financing fees, net of amortization	<b>884</b>	559
<b>Long-term debt</b>	<b>\$ -</b>	<b>\$ 54,201</b>

- (i) Principal payments of \$1,234 per quarter commenced December 31, 2019. The first principal payment was delayed and paid January 2, 2020. During the period ended June 30, 2020, principal payments due on or before March 31, 2020, June 30, 2020 and September 30, 2020 were deferred in accordance with requirements under the Company's amended credit agreement with its lending institution, with principal payments to recommence on December 31, 2020. The reinstatement of the principal payments was amended to September 30, 2020 in relation to the deferral of the Covid Loan as discussed in (iii). The payment due on December 31, 2020 was delayed and made on January 4, 2021, subsequent to year end.

During the year ended December 31, 2020, the Company paid \$2,470 in principal payments against the term loan (2019 - \$nil).

- (ii) Principal payments of \$633 per quarter commenced December 31, 2019. During the period ended June 30, 2020, principal payments due on or before March 31, 2020, June 30, 2020 and September 30, 2020 were deferred in accordance with requirements under the Company's amended credit agreement with its lending institution, with principal payments to recommence on December 31, 2020. The reinstatement of the principal payments was amended to September 30, 2020 in relation to the deferral of the Covid Loan as discussed in (iii). See note 13 for further discussion.

During the year ended December 31, 2020, the Company drew an additional \$1,984 on the Acquisition Line (2019 - \$23,340) and paid \$1,266 in principal payments (2019 - \$324).

- (iii) During the second quarter of 2020, the Company finalized a term sheet for a \$4,000 Covid Loan due and payable in full on September 30, 2020. The facility was subsequently restructured to increase the balance of the loan to \$7,923 with quarterly payments of principal interest to commence on December 31, 2020 with the balance due in full on September 30, 2021.



## SPARK POWER GROUP INC.



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#### 12. LONG TERM DEBT (Continued)

During the year ended December 31, 2020, the Company paid \$1,981 in principal payments on the Covid loan (2019 - \$nil).

During the year, the Company paid \$3,093 (2019 - \$2,371) of interest related to the long-term debt which has been included in finance expense.

The Company is also required to comply with certain covenants, terms and conditions under the credit facilities. These covenants include a fixed charge coverage ratio, a minimum monthly defined EBITDA, a total funded debt to defined EBITDA and a total senior debt to defined EBITDA covenant calculated on a rolling quarterly or monthly basis. Requirements under these covenants are as follows:

- (i) Minimum fixed charge covenant ratio of 1.10 as at December 31, 2020 and increasing to 1.25 commencing the quarter ended March 31, 2021 and beyond;
- (ii) Maximum total senior debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.00:1.00 for December 2020, decreasing to 3.50:1.00 for March and June 2021 and 3.00:1.00 for each fiscal quarter ended thereafter;
- (iii) Maximum total funded debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.75:1.00 for December 2020, decreasing to 4.25:1.00 for March and June 2021 and 3.75:1.00 for each fiscal quarter thereafter;
- (iv) A minimum monthly EBITDA to \$1,500 for the months ended December 31, 2020.

As at December 31, 2020, the Company was in compliance with all covenants, terms and conditions under the credit facilities.

#### 13. PROMISSORY NOTES

	2020	2019
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.	\$ 988	\$ 988
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 was settled in full during the year ended December 31, 2020. (i)	-	2,725
Issued July 1, 2018 and bears interest at 6% per annum paid quarterly. Principal payments to be made on each anniversary as follows: 2020 - \$1,000; 2021 - \$2,000; 2022 - \$2,000.	4,000	5,000
Issued August 1, 2019 and bears interest at 4%. Principal payments of \$1,250 plus accrued interest are to be paid in equal annual installments on each anniversary. (Note 20 – 3-Phase)	2,500	3,750
Issued November 1, 2019 and bears interest at 5%. Principal payments are to be made on each anniversary as follows: 2020 - \$500; 2021 - \$500; 2022 - \$2,750. Principal amount plus accrued interest is due and payable on each anniversary. (Note 20 – One Wind) (ii)	3,250	3,750
	<b>10,738</b>	16,213
Less: current portion	<b>3,750</b>	4,325
<b>Promissory notes</b>	<b>\$ 6,988</b>	<b>\$ 11,888</b>

## SPARK POWER GROUP INC.



### Notes to the Consolidated Financial Statements

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#### 13. PROMISSORY NOTES (Continued)

- (i) During the year ended December 31, 2020, the note issued upon acquisition of Orbis was settled in full for cash proceeds of \$2,350. Legal fees and an offset of advances receivable were applied against the gain resulting in a net gain on settlement of \$197.
- (ii) As of December 31, 2020, management has determined an earn-out of \$4,000 related to the One Wind acquisition and has included it in accrued liabilities based on the terms of the purchase agreement (Note 20).

During the year ended December 31, 2020, the Company amended its credit agreement with its lending institution requiring no payment on account or in respect to any promissory note prior to September 30, 2020 nor during any period following September 30, 2020 when the Total Funded Debt to EBITDA ratio ("the ratio") as of the last day of the most recently completed fiscal quarter is greater than 3.75:1.00.

Prior to year end, the Company received agreement from its lending institution to make principal and interest payments on its promissory notes. In addition to the principal payment of \$2,350 mentioned in (i) above, the Company issued \$2,750 in principal payments on promissory notes.

Principal repayments for the next two years are as follows:

2021	\$	3,750
2022		6,988
	<u>\$</u>	<u>10,738</u>

During the year, the Company incurred \$879 (2019 - \$642) of interest related to the promissory notes which has been recorded to Finance expense.

#### 14. LEASE LIABILITY

	<u>2020</u>	<u>2019</u>
Property and office space leases bearing interest at an approximate rate range of 5% to 6%. The leases extend through fiscal 2030.	<b>\$ 10,880</b>	\$ 10,584
Motor vehicle leases bearing interest at an approximate rate range of 4% to 6%. The leases extend through fiscal 2025.	<b>6,202</b>	7,865
Equipment and hardware leases bearing interest at an approximate rate range of 4% to 6%. The leases extend through 2025.	<b>203</b>	468
	<u>17,285</u>	18,917
Less: current portion	<b>5,800</b>	6,149
<b>Lease liability</b>	<b><u>\$ 11,485</u></b>	<b><u>\$ 12,768</u></b>

Included in finance expense is \$1,116 (2019 - \$1,093) of interest expense on lease liabilities. Total cash outflows relating to leases consist of principal payments in the amount of \$6,292 (2019 - \$5,143). Short term and low value leases are not significant.

All of the leases are secured by the underlying assets. Future minimum lease payments for the next five years are as follows:

**SPARK POWER GROUP INC.**

Notes to the Consolidated Financial Statements

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**14. LEASE LIABILITY (Continued)**

2021	\$	6,873
2022		4,785
2023		2,795
2024		1,692
2025 and thereafter		3,301
		19,446
Less: imputed interest		2,161
	\$	17,285

**15. POWER PURCHASE AGREEMENT**

During the year the Company entered into a Power Purchase Agreement (“PPA”) for the purchase and sale of renewable energy and environmental attributes, including Certified Renewable Energy Certificates, for a period of seven years with an expected start date in the second quarter of 2021.

To offset any risk and volatility of this agreement, management entered into a related power swap arrangement to hedge the risk of changes in cash flows due to the fluctuations of power prices in the Alberta market. While this agreement economically hedges the risk of changes in cash flows due to fluctuations in power rates, hedge accounting has not been applied for these instruments. The fair value of the Hedge is based on the projected market values of similar contracts with similar remaining durations as if the contract had been entered into on December 31, 2020. The fair value of both the PPA and the related hedge are not significant.

In accordance with the terms of the PPA agreement and the Hedge agreement, the Company has issued Letters of Credit to the seller and hedge broker in the amount of \$508 and \$100, respectively, which have both been applied against the available balance of our demand revolving credit facility (Note 11).

**16. INCOME TAXES**

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 26.5% (2019 - 26.5%) to the income for the year and is reconciled as follows:

	2020	2019
Income (loss) before income taxes	\$ (1,226)	\$ 288
Statutory rate	26.5%	26.5%
Expected income tax (recovery) expense	\$ (325)	\$ 76
Increase (decrease) in income taxes due to:		
Permanent differences	174	601
Change in valuation allowance	267	(377)
True-up of prior year	590	(1,107)
Other	(253)	(81)
Income tax expense (recovery)	\$ 453	\$ (888)

**SPARK POWER GROUP INC.**

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**16. INCOME TAXES (Continued)**

The tax effects of significant components of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	2020		2019
Deferred tax assets			
Loss carryforwards	\$ 4,209	\$	3,165
Provision for expected credit losses	130		-
Property and equipment and right of use asset	337		217
Financing costs	368		653
Other	261		62
Deferred tax liabilities			
Intangible assets	\$ (4,663)	\$	(6,827)
Property and equipment	(555)		(392)
Other	(1,499)		(884)
<b>Net deferred tax liability</b>	<b>\$ (1,412)</b>	<b>\$</b>	<b>(4,006)</b>

The Company has non-capital losses available that can be utilized to reduce taxable income of future years. These losses expire as follows:

Non-capital losses			
2038		\$	888
2039			7,445
2040			9,779
			18,112
Valuation allowance			(2,228)
		<b>\$</b>	<b>15,884</b>

**17. SHARE CAPITAL****Authorized:**

Unlimited Common shares

**Issued:**

	Number		Amount
Balance, December 31, 2018	44,920,313	\$	121,316
Issuance of Common shares (i), (iii), (iv) & (v)	2,888,230		3,489
Issuance of Common shares related to exercise of RSUs (vii)	100,000		129
Issuance of Common shares related related to the Rights Offering (vi)	5,687,105		5,278
Exercise of stock options (ii)	54,000		72
<b>Balance, December 31, 2019 and December 31, 2020</b>	<b>53,649,648</b>	<b>\$</b>	<b>130,284</b>

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

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### 17. SHARE CAPITAL (Continued)

- (i) During the first quarter of 2019, 3,240 shares were issued for proceeds of \$4 pursuant to the Company's ESOP.
- (ii) During the second quarter of 2019, 54,000 stock options were exercised for an equal amount of the Company's Common shares at \$1.34 per share.
- (iii) During the third quarter of 2019, 887,574 shares were issued with a value of \$1,500 related to the purchase of 3-Phase.
- (iv) During the third quarter of 2019, 162,073 shares were issued for proceeds of \$235 pursuant to the Company's ESOP.
- (v) During the fourth quarter of 2019, 1,835,343 shares were issued with a value of \$1,750 related to the purchase of One Wind.
- (vi) During the fourth quarter of 2019, 5,687,105 Common shares of the Company were issued at a price of \$0.96 per common share for proceeds of \$5,460. Transaction costs of \$182 were netted against the proceeds.
- (vii) On November 19, 2019, the Company issued 100,000 Restricted Share Units at an exercise price of \$1.29 per unit that vested immediately and were converted into Common shares.

#### Omnibus Equity Incentive Plan

The Company has an Omnibus Equity Incentive Plan (the "Omnibus Plan") that provides for Stock Options, Restricted Share Units ("RSU"), or Deferred Share Units ("DSU") to be issued to directors, officers, employees and consultants, subject to certain conditions, so that they may participate in its growth and development.

As of December 31, 2020, there were 5,364,965 stock options or restricted share units that are available to be granted under the Omnibus Equity Incentive Plan (December 31, 2019 – 5,364,965). Options generally expire after ten years, with vesting provisions stated in the Omnibus Plan.

In addition, 1,735,980 options were part of a rollover when the Company completed the acquisition of Canaccord Genuity Acquisition Corp. and accordingly are not included against the total options available under the Omnibus Equity Incentive Plan.

#### Stock Options

Activity in the Company's stock option Omnibus Plan for the years ended December 31, 2020 and 2019 are summarized as follows:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of Options	Weighted Average Option Exercise Price \$	Number of Options	Weighted Average Option Exercise Price \$
Outstanding, beginning of year	2,688,480	1.32	1,991,980	1.40
Granted during the year	-	-	912,500	1.16
Forfeited during the year	-	-	(162,000)	1.45
Exercised during the year	-	-	(54,000)	1.34
<b>Outstanding, end of period</b>	<b>2,688,480</b>	<b>1.32</b>	<b>2,688,480</b>	<b>1.32</b>

## SPARK POWER GROUP INC.



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### 17. SHARE CAPITAL (Continued)

The weighted average fair value of options granted during 2019 was \$0.50. The Company used the Black-Scholes option pricing model to estimate the fair value of options granted. The following inputs were used to estimate the fair value of the options:

- Estimated Life - 10 years
- Volatility – 50%
- Dividend growth rate – 0%
- Risk-free interest rate – 2.10%

There were no options granted during the year ended December 31, 2020.

Of the total number of options outstanding as at December 31, 2020, 1,313,615 (2019 – 939,026) had vested and were exercisable. The weighted average remaining life of the options was 6.8 years.

#### Restricted Share Unit Plan

The Omnibus Equity Incentive Plan allows the Board of Directors to issue equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all stock-based compensation arrangements of the Company does not exceed 10% of the Company's outstanding Common shares.

Activity in the Company's RSU plan for the years ended December 31, 2020 and 2019 are summarized as follows:

	Number	Amount
Balance, December 31, 2018	-	\$ -
Granted during the period (viii), (ix) & (x)	654,870	327
Vested during the period (ix)	(100,000)	(50)
<b>Balance, December 31, 2019</b>	<b>554,870</b>	<b>\$ 277</b>
Granted during the period (xi)	53,571	30
<b>Balance, December 31, 2020</b>	<b>608,441</b>	<b>\$ 307</b>

- (viii) On August 22, 2019, the Company issued 129,870 RSUs with an exercise price of \$1.54 per unit. These units shall cliff vest on the third anniversary of the grant date.
- (ix) On November 19, 2019, the Company issued 100,000 RSUs with an exercise price of \$1.29 per unit. These units vested immediately on the date of the grant.
- (x) On December 18, 2019, the Company issued 425,000 RSUs with an exercise price of \$1.05 per unit. These units shall cliff vest on the third anniversary of the grant date.
- (xi) On May 19, 2020, the Company issued 53,571 RSUs with an exercise price of \$1.12 per unit. These units shall cliff vest on the third anniversary of the grant date.

The weighted average fair value of RSUs granted during 2020 is \$0.50 (2019 - \$0.50). The estimated fair value of the equity settled RSUs granted will be recognized as an expense over the vesting period of the RSUs. The following inputs were used to estimate the fair value of the RSUs:

- Estimated Life - 3 years
- Volatility – 70%
- Dividend growth rate – 0%
- Risk-free interest rate – 0.70%

# SPARK POWER GROUP INC.



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## 17. SHARE CAPITAL (Continued)

### Deferred Share Unit Plan

The Omnibus Equity Incentive Plan allows the Board of Directors to issue equity settled DSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all stock-based compensation arrangements of the Company does not exceed 10% of the Company's outstanding Common shares.

Activity in the Company's DSU plan for the years ended December 31, 2020 and 2019 are summarized as follows:

	Number	Amount
Balance, December 31, 2019	-	\$ -
Granted during the period (xii), (xiii) & (xiv)	56,654	35
<b>Balance, December 31, 2020</b>	<b>56,654</b>	<b>\$ 35</b>

(xii) On July 4, 2020, the Company issued 26,849 DSUs with an exercise price of \$1.16 per unit. These units shall cliff vest on the third anniversary of the grant date.

(xiii) On September 30, 2020, the Company issued 20,083 DSUs with an exercise price of \$1.50 per unit. These units shall cliff vest on the third anniversary of the grant date.

(xiv) On December 31, 2020, the Company issued 9,722 DSUs with an exercise price of \$1.35 per unit. These units shall cliff vest on the third anniversary of the grant date.

The weighted average fair value of deferred share units granted during 2020 is \$0.59 (2019 - \$nil). The estimated fair value of the equity settled DSUs granted will be recognized as an expense over the vesting period of the DSUs. The following inputs were used to estimate the fair value of the DSUs:

- Estimated Life - 3 years
- Volatility - 70%
- Dividend growth rate - 0%
- Risk-free interest rate - 0.56%

### Share-based compensation

During the year ended December 31, 2020, share-based compensation of \$426 (2019 - \$169) was recorded as an expense and added to contributed surplus.

### Warrants

The Company issued 873,333 warrants in connection with the August 2018 president's list raise stated previously that were converted to 943,333 warrants at a ratio of 1.00:1.08. Additionally, 10,833,333 warrants were issued in connection with the Spark Power Acquisition for a total amount of 11,776,666 warrants outstanding as at both December 31, 2019 and 2018 at a value of \$2,662.

On October 31, 2019 the Company completed a Rights Offering to its shareholders. Pursuant to the Warrant agreement, and in connection to this Rights Offering, the number of shares issuable upon exercise of each Warrant has been adjusted from 1 Common share to 1.028 Common shares at an exercise price of \$3.45 per share for a remaining term of 3.5 years.

These warrants have been measured using the Black-Scholes method using the following inputs:

- Stock price - \$3.00 per share
- Exercise price - \$3.45 per share
- Risk-free interest rate - 2.10%
- Volatility - 14%
- Term - 5 years
- Yield - 0%.

These inputs require management judgment and estimates and a change in such estimates could result in a material change to the valuation of these warrants.

**18. 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 December 31, 2020.

There were no transfers between levels during the period.

The financial instruments recorded at fair value are the Interest Rate Swap, derivative financial instruments such as power purchase agreements and hedge arrangements, 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 in the amount of (\$367) (2019 – (\$326)) has been recorded to finance expense using Mark-to-Market (“MtM”) information as at December 31, 2020 from a third party. The fair value of both the PPA and the Hedge arrangement are considered not material. Both are categorized as Level 2.

The Company does not have any instruments carried at fair value categorized in Level 3 as at period end.

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

The fair values of the borrowings approximate their carrying values as they 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 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, risk from infectious diseases, credit risk, interest rate risk, liquidity risk and foreign currency risk. Except for risks highlighted by the current pandemic, 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.

*Infectious diseases*

Outbreaks or the threat of outbreaks of viruses or other infectious diseases or similar health threats, including the COVID-19 outbreak, could have a material adverse effect on the Company by causing operational and supply chain delays and disruptions (including as a result of government regulation and prevention actions), labour shortages and shutdowns, decreased demand, declines in gross margin realizations, capital markets volatility, or other unknown but potentially significant impacts. At this time the Company cannot accurately predict what effects these conditions will have on its long-term operations or financial results, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of the travel restrictions and business closures that have been or may be imposed by the governments of



**18. FINANCIAL INSTRUMENTS (Continued)**

impacted countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in economic downturn that could result in a material adverse effect on the demand for the Company's services, investor confidence, and general financial market liquidity, all of which may adversely affect the Company's business and the market price of the Common Shares. Accordingly, any outbreak or threat of an outbreak of an epidemic disease or similar public health emergency could have a material adverse effect on the Company's business, financial condition, and results of operations.

*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. Amounts that are greater than 90 days old are not necessarily past their due date based on contractual payment terms. The Company determines there to be a significant increase in credit risk when balances are outstanding for more than 60 days past the customers' contractual payment terms.

The Company considers a receivable to be in default when contractual payments are 120 days past due, except when they are within terms. 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. A 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 4.

The Company's balances of bank indebtedness and short-term investments also subject the Company to credit risk. Bank indebtedness 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.

The revolving facilities (Note 11) bear interest at a variable rate; however, the balance of the lines is continually adjusted based on the balance held in the operating accounts, mitigating the Company's interest rate risk. Therefore, the interest rate risk and cash flow exposure are not significant. The long-term debt also bears interest at a variable rate. At December 31, 2020 if interest rates has been higher by 2% with all other variables held constant, net loss would have been \$1,349 higher. A decline in interest rates of 0.25% would have decreased the Company's net loss by \$169.

In November 2018, the Company entered into an Interest Rate Swap to effectively fix the interest rate on \$22,000 of its \$44,000 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%), where plus or minus 1% would not have a material impact on the statements. Notional amount of interest rate swaps outstanding at December 31, 2020 were \$19,250 (2019 - \$22,000). 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 year ended December 31, 2020, the Company incurred a loss of \$41 that has been included in finance expense (2019 – gain of \$76) as a result of this Interest

# SPARK POWER GROUP INC.



## Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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### 18. FINANCIAL INSTRUMENTS (Continued)

Rate Swap.

#### 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 quarterly information regarding cash balances and cash flow projections. The liquidity risk of each subsidiary is managed centrally by the treasury function. Additional information related to liquidity risk is found in Note 2 and 12.

The following table sets out the contractual maturities as at December 31, 2020 (representing undiscounted contractual cash flows) of financial liabilities:

2020								
	Carrying amount	Contractual cash flow	2021	2022	2023	2024	2025 and thereafter	
Bank indebtedness (Note 11)	\$ 25,444	\$ 25,444	\$ 25,444	\$ -	\$ -	\$ -	\$ -	
Accounts payable and accrued liabilities	37,758	37,758	37,758	-	-	-	-	
Long-term debt (Note 12)	66,572	68,301	68,301	-	-	-	-	
Promissory notes (Note 13)	10,738	11,418	4,227	7,191	-	-	-	
Lease liability (Note 14)	17,285	19,446	6,873	4,785	2,795	1,692	3,301	
Future lease commitment (Note 30)	-	15,020	-	904	904	904	12,308	
	\$ 157,797	\$ 177,387	\$ 142,603	\$ 12,880	\$ 3,699	\$ 2,596	\$ 15,609	

2019								
	Carrying amount	Contractual cash flow	2020	2021	2022	2023	2024 and thereafter	
Bank indebtedness (Note 11)	\$ 21,597	\$ 21,597	\$ 21,597	\$ -	\$ -	\$ -	\$ -	
Accounts payable and accrued liabilities	32,451	32,451	32,451	-	-	-	-	
Long-term debt (Note 12)	63,207	76,962	11,956	59	-	-	-	
Promissory notes (Note 13)	16,213	17,505	4,997	4,794	7,714	-	-	
Lease liability (Note 14)	18,917	21,305	6,998	5,903	3,689	1,854	2,861	
	\$ 152,385	\$ 169,820	\$ 77,999	\$ 10,756	\$ 11,403	\$ 1,854	\$ 2,861	

### 19. CAPITAL MANAGEMENT

The Company defines its managed capital as the total of long-term debt and shareholders' equity, including share capital, contributed surplus, accumulated other comprehensive (loss) income and retained earnings (deficit). As at December 31, 2020, total managed capital was \$103,926 (2019 - \$102,267).

The Company's objectives when managing capital are:

- i. To maintain balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage; and
- ii. To provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure within guidelines approved by the Board of Directors. The Company makes adjustments to its capital structure based on changes in economic conditions and the Company's planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to shareholders, and making adjustments to its capital expenditure program.

There were no changes in the Company's approach to capital management during the years ended December 31, 2020 or 2019.

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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### 20. BUSINESS COMBINATIONS

#### ***Orbis Engineering (“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”). As part of the sale and purchase agreement, there was an earn-out clause which became applicable when the entity had earnings above the earn out thresholds. The earn-out period ended on June 30, 2020. The earn-out was 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 Company accrued a \$1,000 earn-out and included it in the reorganization costs during the year ended December 31, 2019 (Note 29) and increased the balance of the promissory note based on the terms of the purchase agreement. (Note 13)

#### ***New Electric, Fresno (“NEF”)***

On July 1, 2018, Spark acquired all of the issued and outstanding common shares of NEF. As part of the sale and purchase agreement, there was an earn-out clause which became applicable when the company had earnings above the earn out thresholds. The earn-out period ended on December 31, 2020. During the second quarter of 2019 the Company determined that the earn-out required to be paid was \$1,848.

#### ***3-Phase Electrical Ltd. (“3-Phase”)***

On August 1, 2019, Spark acquired all the issued and outstanding common shares of 3-Phase in exchange for 887,574 Common shares of Spark for an amount of \$1,500 a cash payment of \$10,500 and a 3-year promissory note of \$3,750 at an interest rate of 4%. 3-Phase is engaged in the construction, service and maintenance of medium voltage industrial electrical systems. The principal reason for the acquisition was to enhance the Company’s 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:

<b><u>Assets acquired</u></b>	
Cash	\$ 539
Accounts receivable	4,893
Inventory	303
Prepaid expenses and deposits	3
Property and equipment	464
Customer relationships	4,410
Customer contracts	1,846
Trade name	1,087
	<hr/>
	\$ 13,545
<b><u>Liabilities Assumed</u></b>	
Accounts payable and accrued liabilities	\$ (3,018)
Lease obligation	(360)
Income taxes payable	(291)
Deferred taxes	(1,946)
	<hr/>
	\$ (5,615)
<b>Consideration</b>	<hr/>
	\$ 16,379
<b>Goodwill (Note 10)</b>	<hr/>
	\$ 8,449

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

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### 20. BUSINESS COMBINATIONS (Continued)

The consideration consists of the following components:

Cash	\$	10,500
Promissory note (Note 13)		3,750
Common shares (Note 17)		1,500
Additional cash related to working capital adjustment		629
	\$	16,379

The promissory note is a three year note with principal payments of \$1,250 due on each anniversary bearing interest at 4% payable annually. The promissory note is considered to approximate fair market value upon issuance. 887,574 Common shares of Spark were issued at a fair market value of \$1.6899 per share.

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.

During the year ended December 31, 2020, 3-Phase contributed \$18,964 (2019 - \$12,603) to Company revenues, and profit of \$2,814 (2019 - \$2,460) to net and comprehensive (loss) income.

#### ***One Wind Services Inc. and One Wind Services (US) Inc. ("One Wind")***

On November 1, 2019, Spark acquired all the issued and outstanding common shares of One Wind in exchange for 1,835,343 Common shares of Spark for an amount of \$1,750 a cash payment of \$8,000 and a 3-year promissory note of \$3,750 at an interest rate of 5%. One Wind specializes in delivering operations and maintenance ("O&M"), and construction related services to leading renewable asset owners, original equipment manufacturers, and developers. This acquisition will primarily complement the Company's existing renewables business and further expand its geographic coverage in the Southwestern US.

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

#### **Assets acquired**

Cash	\$	17
Accounts receivable		6,203
Inventory		156
Prepaid expenses and deposits		265
Property and equipment		1,178
Customer relationships		5,339
Trade name		1,943
	\$	15,101

#### **Liabilities Assumed**

Accounts payable and accrued liabilities	\$	(2,237)
Contract liability		(172)
Income taxes payable		(269)
Deferred taxes		(1,930)
	\$	(4,608)

<b>Consideration</b>	\$	15,600
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<b>Goodwill (Note 10)</b>	\$	5,107
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## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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### 20. BUSINESS COMBINATIONS (Continued)

The consideration consists of the following components:

Cash	\$	8,000
Promissory note (Note 13)		3,750
Contingent consideration - Earn-out		2,100
Common shares (Note 17)		1,750
	\$	15,600

The promissory note is a three year note with principal payments of \$500 in the first and second year and \$2,750 in the final year bearing interest at 5% payable annually. The promissory note is considered to approximate fair market value upon issuance. 1,835,343 Common shares of Spark were issued at a fair market value of \$0.9535 per share.

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 December 31, 2020. The amount of the earn-out is to be calculated as follows:

- (i) Up to \$1,000 to be earned based on achieving certain levels of revenue with a significant customer in 2020 compared to 2019
- (ii) Up to \$1,000 to be earned based on growth in revenue with customers other than the customer included in (i); and
- (iii) Up to \$2,000 to be earned based on achieving certain minimum gross profit targets in 2020 compared to that achieved in 2019

The Company has determined that the amount of the earn-out payable is \$4,000, which has been accrued as a liability. This estimate is based on results achieved to date and managements' best estimate as to future performance. Of this amount, \$2,100 was estimated as the earn-out at the time of acquisition and included in goodwill. An additional \$1,900 was determined to be payable during the current year and was recorded as an expense.

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.

During the year ended December 31, 2020, One Wind contributed \$42,067 (2019 - \$5,849) to Company revenues, and profit of \$6,546 (2019 - \$507) to net and comprehensive (loss) income.

### 21. SEGMENTED INFORMATION

The Company has four segments; Technical Services, Renewables, Sustainability Solutions 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.

The technical services segment includes the New Electric, Spark High Voltage, Orbis, Lizco and 3-Phase CGUs. The renewables segment includes both the One Wind, Northwind, and Spark Power Solutions CGUs. The sustainability solutions segment includes the Bullfrog Power CGU.

The Company evaluates segment performance on the basis of profit and loss from operations but excluding any non-recurring losses and share-based payments.

# SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

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## 21. SEGMENTED INFORMATION (Continued)

2020						
	Technical Services	Renewables	Sustainability Solutions	Corporate	Total	
Segment revenues	\$ 153,579	\$ 64,538	\$ 8,418	\$ 1,618	\$ 228,153	
Segment cost of sales	112,564	47,638	2,215	-	162,417	
Segment selling, general and administration expenses	27,928	8,392	3,298	16,251	55,869	
Segment provision for expected credit loss	1,290	-	110	58	1,458	
Segment reorganization and non-recurring cost	1,016	27	(61)	2,196	3,178	
Segment amortization and depreciation	15,336	1,517	644	2,833	20,330	
Segment profit (loss)	10,781	8,481	2,856	(16,887)	5,231	
Finance expense						(6,762)
Foreign exchange gain						305
Total Company loss before taxes						\$ (1,226)
Segment assets	\$ 132,667	\$ 26,083	\$ 17,940	\$ 25,445	\$ 202,135	
Segment liabilities	\$ 70,559	\$ 17,563	\$ 4,604	\$ 70,643	\$ 163,369	
Deferred income taxes						1,412
Long-term debt						-
Total Company liabilities						\$ 164,781
2019 (Note 32)						
	Technical Services	Renewables	Sustainability Solutions	Corporate	Total	
Segment revenues	\$ 143,678	\$ 28,804	\$ 12,970	\$ 3,139	\$ 188,591	
Segment cost of sales	102,538	21,894	3,634	-	128,066	
Segment selling, general and administration expenses	25,257	4,906	3,512	17,139	50,814	
Segment provision for expected credit loss	100	-	-	-	100	
Segment reorganization and non-recurring cost	888	269	104	731	1,992	
Segment amortization and depreciation	8,989	976	702	1,758	12,425	
Segment profit (loss)	14,895	1,735	5,720	(14,731)	7,619	
Finance expense						(5,271)
Transaction costs						(2,073)
Foreign exchange gain						13
Total Company income before taxes						\$ 288
Segment assets	\$ 138,968	\$ 20,820	\$ 13,219	\$ 27,701	\$ 200,708	
Segment liabilities	\$ 66,436	\$ 16,839	\$ 2,024	\$ 18,142	\$ 103,441	
Deferred income taxes						4,006
Long-term debt						54,201
Total Company liabilities						\$ 161,648

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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### 21. SEGMENTED INFORMATION (Continued)

The Company has locations in Canada and the US. Details of the Company's operations by geographical area are as follow:

2020			
	Canada	USA	Total
Regional revenues	\$ 182,288	\$ 45,865	\$ 228,153
Regional cost of sales	121,901	40,516	162,417
Regional selling, general and administration expenses	48,312	7,557	55,869
Regional provision for estimated credit losses	999	459	1,458
Regional reorganization and non-recurring expenses	2,799	379	3,178
Regional profit (loss)	\$ 8,277	\$ (3,046)	\$ 5,231
Property and equipment	\$ 24,494	\$ 3,759	\$ 28,253
Intangible assets	\$ 35,209	\$ 1,522	\$ 36,731
Goodwill	\$ 41,679	\$ 284	\$ 41,963
2019			
	Canada	USA	Total
Regional revenues	\$ 175,794	\$ 12,797	\$ 188,591
Regional cost of sales	118,277	9,789	128,066
Regional selling, general and administration expenses	44,178	3,536	47,714
Regional provision for estimated credit losses	100	-	100
Regional reorganization and non-recurring expenses	2,992	-	2,992
Regional profit (loss)	\$ 10,247	\$ (528)	\$ 9,719
Property and equipment	\$ 28,496	\$ 2,880	\$ 31,376
Intangible assets	\$ 43,894	\$ 1,522	\$ 45,416
Goodwill	\$ 41,671	\$ 284	\$ 41,955

### 22. RELATED PARTY TRANSACTIONS

No revenues were earned, nor expenses incurred from related parties in the year ended December 31, 2020 (2019 - \$nil). There were no amounts included in accounts payable and accrued liabilities owing to a former shareholder of a company acquired in Note 20, at both December 31, 2020 or 2019. Further, there were no other balances due to/from related parties and/or shareholders as at December 31, 2020 (December 31, 2019 - \$nil).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, comprised of the Company's directors and executive officers. Salaries and other benefits paid to the key management personnel in the year were \$3,097 (2019 - \$3,860).

# SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

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## 23. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Non-cash changes						
	2019	Cash flows	Deferred financing fees	Gain on settlement	New leases acquired during the year	2020	
Bank indebtedness	\$ 21,597	\$ 3,847	\$ -	\$ -	\$ -	\$ -	\$ 25,444
Long-term debt	63,207	3,690	(325)	-	-	-	66,572
Promissory notes	16,213	(5,278)	-	(197)	-	-	10,738
Lease liability	18,917	(7,088)	-	-	5,456	-	17,285
	\$ 119,934	\$ (4,829)	\$ (325)	\$ (197)	\$ 5,456	\$ -	\$ 120,039

	Non-cash changes						
	2018	Cash flows	Deferred financing fees	Acquisition (Note 20)	New leases acquired during the year	2019	
Bank indebtedness	\$ 11,666	\$ 9,931	\$ -	\$ -	\$ -	\$ -	\$ 21,597
Long-term debt	45,043	18,266	(102)	-	-	-	63,207
Promissory notes	10,234	(4,369)	-	10,348	-	-	16,213
Lease liability	15,742	(5,699)	-	360	8,514	-	18,917
	\$ 82,685	\$ 18,129	\$ (102)	\$ 10,708	\$ 8,514	\$ -	\$ 119,934

## 24. EARNINGS PER SHARE

The Company presents basic and diluted earnings per share data for its ordinary shares, being Common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted earnings per share is determined by dividing the profit or loss attributable to shareholders of ordinary shares by the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As the Company is in a Net and Comprehensive Loss position in the current year, the outstanding option, RSUs, DSUs and warrants are anti-dilutive.

*Basic and diluted earnings per share*

	2020		2019	
Numerator:				
Net (loss) income	\$	(1,679)	\$	1,176
Denominator:				
Basic shares outstanding		53,650		46,644
Diluted shares outstanding		53,650		60,504
(Loss) earnings per share:				
Basic	\$	(0.03)	\$	0.03
Diluted	\$	(0.03)	\$	0.02



**SPARK POWER GROUP INC.**

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**25. EXPENSE BY NATURE**

	2020	2019
Material, equipment and subcontractors	\$ 64,594	\$ 43,996
Other administration costs	27,332	16,141
Office and telephone	4,420	4,129
Salaries and wages	94,807	90,761
Occupancy costs	1,807	1,271
Advertising and promotion	560	1,132
Depreciation of property and equipment	11,517	8,985
Amortization of intangible assets	8,685	3,440
Professional fees	2,664	5,925
	<b>\$ 216,386</b>	<b>\$ 175,780</b>

**26. PROVISION FOR EXPECTED CREDIT LOSSES**

As of December 31, 2020, the Company recognized \$1,458 in Provision for extended credit losses (2019 - \$100).

**27. FINANCE EXPENSE**

	2020	2019
Interest on bank indebtedness (Note 11)	\$ 1,208	\$ 787
Interest on long-term debt (Note 12)	3,093	2,371
Interest on promissory notes (Note 13)	879	642
Interest on lease liabilities (Note 14)	1,116	1,093
Mark-to-Market interest loss (gain) (Note 18)	41	(76)
Other	425	454
	<b>\$ 6,762</b>	<b>\$ 5,271</b>

**28. TRANSACTION COSTS**

During the year ended December 31, 2019 the Company incurred \$2,073 in transactions costs comprised of \$1,770 in legal, accounting, and other professional fees and \$303 of other costs associated with the Qualifying Transactions, acquisition completed during the year, and other strategic initiatives. There were no such costs incurred in the year ended December 31, 2020.

**29. REORGANIZATION AND OTHER NON-RECURRING COSTS**

	2020	2019
Severances	\$ 2,781	\$ 1,992
Earn-out - Orbis acquisition (Note 20)	-	1,000
Non-recurring legal and consulting costs	357	-
Strategic review costs	237	-
Gain on settlement of promissory note (Note 13(i))	(197)	-
	<b>\$ 3,178</b>	<b>\$ 2,992</b>

Severance costs relate to the finalization of reorganization initiative that commenced in the fourth quarter of 2019 and the impact of leadership changes completed in December 2020. Non-recurring legal and consulting costs relate to costs associated with various legal matters. Strategic review costs relate to costs associated with the launch of the Company's strategic review process.

## SPARK POWER GROUP INC.



Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

Presented in thousands of Canadian dollars, except share and per share amounts

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### 30. COMMITMENTS AND CONTINGENT LIABILITY

- (i) From time to time, the Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period that a loss becomes probable.
- (ii) The Company has entered into a lease agreement for a 40,000 sq ft building intended to house the Company's new head office. The agreement is a custom build, with upfront liability for the build held by Spark, with reimbursement by the leasing company once the build is complete. Upon transfer to the leasing company, Spark will then be responsible for monthly lease payments on the location for a term of fifteen years. Completion of the build and possession of the leased location is expected in the second quarter of 2022.

### 31. SUBSEQUENT EVENTS

- (i) On March 11, 2021 the Company's lender agreed to extend the maturity date of the Company's non-revolving term loan and revolving acquisition line totaling \$37,030 and \$23,734 respectively to mature on June 30, 2022. As a result, the non-revolving term loan and the revolving acquisition line will be presented as long-term liabilities in the Company's Financial Statements for periods ended after the date of this extension, to the extent repayments are not due within twelve months. See Note 2 for further information.
- (ii) Subsequent to year end, management issued RSUs with a value of approximately \$1,800. The Board of Directors approved the issuance of RSUs vesting over a period of 18 to 36 months for senior management and employees.

### 32. COMPARATIVE FIGURES

These Financial Statements have been re-classified, where applicable, to conform to the presentation format used in the current year. These changes have had no impact on prior year earnings.



# MANAGEMENT DISCUSSION

&

# ANALYSIS

*FOR THE YEAR ENDED DECEMBER 31*

# 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of Spark Power Group Inc. ("Spark Power", the "Company", "we", "us", or "our") for the three and twelve-months ended December 31, 2020, dated March 30, 2021, should be read in conjunction with the December 31, 2020 Audited Consolidated Annual Financial Statements and related notes thereto, the December 31, 2019 Audited Consolidated Annual Financial Statements and related notes thereto, and the December 31, 2019 MD&A. Additional information related to Spark Power is available under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com) and on our website at [www.sparkpower.com](http://www.sparkpower.com). Unless otherwise specified all amounts are expressed in Canadian dollars.

## FORWARD-LOOKING INFORMATION AND GOING CONCERN

Some of the information contained in this Spark Power MD&A contains forward-looking statements. These statements are based on management's reasonable assumptions and beliefs in light of the information currently available to them and are made as of the date of this Spark Power MD&A. Spark Power does not undertake to update any such forward-looking statements as a result of new information, future events or otherwise, except as required by applicable securities laws in Canada. Actual results may differ materially from those indicated or underlying forward-looking statements as a result of various factors, including those described in this MD&A and in "Risk Factors" in the Company's annual information form filed on March 26, 2020 and available on SEDAR at [www.sedar.com](http://www.sedar.com). Spark Power cautions that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

Specifically, this MD&A contains forward-looking statements regarding (i) our ability to secure new financing on reasonable terms and continue to operate as a going concern; (ii) the success and profitability and our ability to support the services of our business; (iii) the impact of the trading patterns in our share price; (iv) the impact of regulators' actions, including the Toronto Stock Exchange and the Ontario Securities Commission, on our business; (v) the demand for our business; (vi) our ability to manage corporate growth and acquisitions; (vii) changes in interest rates; (viii) litigation; and (ix) general business and economic conditions.

In the preparation of financial statements, management is required to identify events or conditions that could have a significant impact on the Company's ability to continue as a going concern. When the Company identifies these conditions or events, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

As described in Note 12, Long-term debt, the Company's non-revolving term loan and revolving acquisition line, totaling \$37,030 and \$23,734, are both due and payable within the next 12 months on September 30, 2021. As such, the full amounts drawn under these facilities are presented as current liabilities as at December 31, 2020. See Note 12 of the Financial Statements for details. The Company is also required to comply with certain covenants, terms and conditions under the credit facilities. As a result management has determined that it would be prudent to disclose that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

On March 11, 2021 the Company's lender agreed to extend the maturity date of the Company's non-revolving term loan and revolving acquisition line totaling \$37,030 and \$23,734 respectively to mature on June 30, 2022. As a result the non-revolving term loan and the revolving acquisition line will be presented as long-term liabilities in the Company's financial statements for periods ended after the date of this extension, to the extent repayments are not due within twelve months.

The Company commenced discussions with its lender on a syndication of its debt in early 2020. With the outbreak of the pandemic this process was put on hold through the balance of 2020. During this time the Company worked with its lender in successfully securing amendments to its existing credit facility to support the Company through challenging times brought on by the pandemic. The objective of the syndication process is to re-finance the above noted non-revolving term loan and revolving acquisition line into a long-term facility and expand the Company's borrowing facilities to support future growth opportunities.

In developing the forward-looking statements in this amended and restated MD&A, we have applied several material assumptions, including those related to general business and economic conditions as well as our ability to attract new financing on reasonable terms.

As there can be no certainty as to the outcome of the above matters, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## PRESENTATION OF FINANCIAL INFORMATION

The financial statements, including the required comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Financial results, including historical comparatives contained in this MD&A, unless otherwise specified herein, are based on these financial statements. The Canadian dollar is the Company's reporting currency for purposes of preparing the financial statements given that the Company conducts most of its operations in that currency. Accordingly, all dollar references in this MD&A are in Canadian dollars, unless otherwise specified. The use of the term "prior period" refers to the three and twelve months ended December 31, 2019.

## KEY PERFORMANCE INDICATORS (NON-IFRS MEASURES)

This Spark Power MD&A makes reference to certain non-IFRS measures, including: "EBITDA", "EBITDA Margin", "Adjusted EBITDA", "Adjusted EBITDA Margin", Pro-forma Adjusted EBITDA", Pro-forma Adjusted EBITDA Margin", Pro-forma Adjusted LTM EBITDA, Pro-forma Revenue", Pro-forma LTM Revenue, "Adjusted Working Capital", and "Adjusted Net Comprehensive Income (Loss)". These non-IFRS measures are used to provide investors with supplemental measures of Spark Power's operating performance and highlight trends in Spark Power's business that may not otherwise be apparent when relying solely on IFRS measures. Spark also believes that providing such information to securities analysts, investors and other interested parties who frequently use non-IFRS measures in the evaluation of issuers will allow them to better compare Spark Power's performance against others in its industry. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. See "Selected Consolidated Financial Information" and "Management's Discussion and Analysis".

**"EBITDA"** means net income (loss) before amortization, finance costs, and provision for income taxes.

**"Adjusted EBITDA"** means EBITDA adjusted for any transaction costs, reorganization costs and expected credit losses, which management considers to be not representative of Spark Power's ongoing operating performance. Spark Power uses EBITDA and Adjusted EBITDA to evaluate the performance of its business as these measures reflect ongoing profitability and it believes these measures are useful in making comparisons between periods. Spark Power believes that EBITDA and Adjusted EBITDA provide analysts and investors with information about its income generating capabilities, and ability to service debt and meet other payment obligations. Management uses these measures to monitor and plan for the operating performance of Spark Power in conjunction with other data prepared in accordance with IFRS.

**"Pro-forma Adjusted EBITDA"** means Adjusted EBITDA adjusted for the impact of EBITDA earned by companies acquired during the year for the period prior to acquisition.

**"Pro-forma Revenue"** means revenue adjusted for the impact of revenue earned by companies acquired during the year for the period prior to acquisition.

**"Pro-forma LTM Revenue"** means the Company's last twelve months revenue adjusted for the impact of revenue earned by companies acquired during the period for the twelve months prior to the measurement date.

**"EBITDA Margin"** means EBITDA divided by revenue.

**"Adjusted EBITDA Margin"** means Adjusted EBITDA divided by revenue.

**"Pro-forma Adjusted EBITDA Margin"** means Pro-forma Adjusted EBITDA divided by Pro-forma revenue.

**"Pro-forma Adjusted LTM EBITDA"** means the Company's last twelve months EBITDA as at the measurement date adjusted for the impact of EBITDA earned by companies acquired during the twelve months prior to the measurement date.

**"Pro-forma Adjusted LTM EBITDA Margin"** means Pro-forma Adjusted LTM EBITDA divided by Pro-forma LTM revenue.

**"Adjusted Working Capital"** means working capital less the current portion of long-term debt and lease liability, and therefore provides management and investors with a more clear understanding of the efficiency of operational working capital needs absent working capital required as a result of capital structure.

**"Adjusted Comprehensive Income (Loss)"** means comprehensive income (loss) adjusted for the impact of certain items, including non-cash items, such as gain (loss) on investments, gains on business combinations and other costs which management considers to be not representative of Spark Power's ongoing operating performance, net of related tax effects.

## BUSINESS OVERVIEW

Headquartered in Oakville, Ontario, Canada, Spark Power Group Inc. ("Spark Power") (sparkpowercorp.com) is a leading provider of end-to-end electrical contracting, operations and maintenance services, and energy sustainability solutions to the industrial, commercial, utility, and renewable asset markets in Canada and the United States. Spark Power is focused on delivering our promise of being our customers' Trusted Partner in Power™.

Operating within our field focused operating model, Spark Power is structured and financially reports the organization in four specific business segments: Technical Services, Renewables, Sustainability Solutions and Corporate. The Technical Services business segment is managed in three geographic, operational regions, Western Canada, Eastern Canada and U.S.A.



Spark's integrated suite of services across North America are as follows:

### Technical Services

Centred around its branch network, Spark's Technical Services business segment operates out of several locations in the U.S. and Canada and focuses on pole-to-product electrical services. With highly responsive and local technical teams, Spark offers a wide variety of services and solutions to a wide range of customers including:

- |                                  |  |   |
|----------------------------------|--|---|
| <b>Low Voltage</b>               | <ul style="list-style-type: none"> <li>• Electrical contracting services</li> <li>• Industrial automation</li> <li>• Systems integration</li> </ul>                            | <ul style="list-style-type: none"> <li>• Custom control panel design and assembly</li> <li>• Electronic repair</li> <li>• 24/7 emergency services</li> </ul>            |
| <b>Medium &amp; High Voltage</b> | <ul style="list-style-type: none"> <li>• Power 'On' services</li> <li>• Sub-station construction and maintenance</li> <li>• Power line construction and maintenance</li> </ul> | <ul style="list-style-type: none"> <li>• Equipment installation</li> <li>• Commissioning</li> <li>• Thermography services</li> <li>• Transformer maintenance</li> </ul> |
| <b>Engineering</b>               | <ul style="list-style-type: none"> <li>• Power systems engineering</li> <li>• Protection and control engineering</li> </ul>  | <ul style="list-style-type: none"> <li>• Substation engineering</li> <li>• SCADA engineering</li> <li>• Arc flash studies</li> </ul>                                    |
| <b>Power Equipment</b>           | <ul style="list-style-type: none"> <li>• Buy, refurbishment and resale of used electrical equipment</li> <li>• Sales and rentals of power transformers</li> </ul>              | <ul style="list-style-type: none"> <li>• Sale of medium voltage electrical switchgear</li> <li>• Full fabrication shop/paint line capabilities</li> </ul>               |

### Renewables

Spark Power's Renewables business segment is one of the largest independent renewables operations and maintenance providers in North America. Operating in many centres and remote locations in the U.S. and Canada, Spark's Renewables business is primarily focused on Wind, Solar, Storage and Electric Vehicle assets. Spark Power's Renewables services include:

- |              |   |  |
|--------------|---|--|
| <b>Solar</b> | <ul style="list-style-type: none"> <li>• 24/7 monitoring and analytics from central operating centre</li> </ul> | <ul style="list-style-type: none"> <li>• Fence to fence, onsite operations and maintenance to wide range of solar sites</li> </ul> |
|--------------|---|--|

<b>Wind</b>	<ul style="list-style-type: none"> <li>• In-construction services</li> <li>• Asset monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Operations and maintenance</li> <li>• Commissioning</li> </ul>
<b>Battery Energy Storage Systems (BESS)</b>	<ul style="list-style-type: none"> <li>• Engineering, procurement, and construction</li> </ul>	<ul style="list-style-type: none"> <li>• Operations and maintenance</li> <li>• Commissioning</li> </ul>
<b>Electric Vehicle (EV)</b>	<ul style="list-style-type: none"> <li>• Construction</li> </ul>	<ul style="list-style-type: none"> <li>• Operations and maintenance</li> </ul>

### **Sustainability Solutions**

Through our Bullfrog brand, Spark Power is well positioned to deliver unique Sustainability Solutions to help its customers adapt to the rapidly changing construct of the power grid. The Company has its roots in renewable and community power and, through its Bullfrog Power subsidiary, is the de-facto leader in sustainability in Canada. As a result, the Company has both the deep technical expertise and the key regulatory and government relationships required to deliver on these new commercial models. Our Sustainability Solutions business segment offers our Technical Services and current Sustainability Solutions customers the opportunity to build upon their own ESG mandates by providing them access to Renewable Energy Credits (REC's), Power Purchase Agreements (PPA's) and a variety of energy efficiency services.

## **RECENT DEVELOPMENTS**

### **Executive Leadership Reorganization**

On January 5, 2021 the Company announced that co-CEO's Jason Sparaga and Andrew Clark would be stepping back from their roles in the day-to-day operations of the Company. Both are continuing as board members and major shareholders with Mr. Sparaga assuming a new role as Executive Board Chair and Mr. Clark as the Company's Vice Board Chair. The Company also announced that the Company's Chief Operating Officer, Richard Jackson would be appointed as the Company's new President and Chief Executive Officer.

Subsequently, on January 21, 2021 the Company announced a new senior leadership team and a renewed focus on the business operations. The decision will help flatten the Company's structure and continue to move the organization towards a Field Focused Operating Model that prioritizes field efforts and customer service. The impact of this focus and other organizational changes, along with declines in ancillary non-personnel related costs, are expected to reduce selling, general and administration costs by \$5.0 to \$6.0 million in fiscal 2021. The Company is expected to incur severance costs of approximately \$2.1 million of which \$1.3 million is accrued in the fiscal 2020 results. Management expects about \$1.5 million to be paid through salary continuance plans.

### **COVID-19 Pandemic**

Management began having conversations on COVID-19 as early as January 2020, we began the development of plans on how the company should approach any possible impacts. As the virus spread, our efforts intensified, and the Company put in place a variety of measures that focused on employee safety, assistance and employment, liquidity, communication, daily business updates and strategies, and proactive negotiations with our lenders on the potential impact of COVID-19 on our business.

While the challenges that were posed by the pandemic were significant, we are very pleased by our response and our success in minimizing the overall impact on our business. As the virus spread, our efforts intensified, and we put in place many measures that addressed our five key priorities being:

#### *1) Short-term and long-term liquidity*

- negotiated new credit terms with our lender to provide additional liquidity of \$4.0 million and covenant relief to support the business through the pandemic and provide a foundation for supporting a return to historical organic growth rates over the next several quarters;
- monitored cash flow and liquidity on a daily basis with a concerted effort by all functional groups to support liquidity objectives.

#### *2) Employee safety and well-being*

- implemented work-from-home measures where possible and created a COVID hotline and support team for our employees to help them navigate changes to their employment and work environment.

- ensured employees had the proper Personal Protective Equipment (“PPE”) to provide essential services to keep themselves and our customers safe.

3) *Support for our customers*

- communicated with our customers to let them know how we could support them, including the development of new offerings to address the new challenges associated with managing facilities.

4) *Cost optimization and government support opportunities*

- managed all variable and fixed costs with a goal of cost containment or payment deferral.
- assessed government support for employee wages in both Canada and the United States under the Canada Emergency Wage Subsidy (“CEWS”) program and under the U.S. Paycheck Protection Program (“PPP”). Funds received under these programs were used to avoid the requirement for the Company to implement significant lay offs. Upon receipt of these funds the company recalled any employees that were initially subject to lay-off and returned all employees, who initially had salaries reduced by 20%, to full salary.

5) *Communication*

- initiated regular and transparent communications, including daily operating reviews, with employees to keep them informed of developments and how were working to navigate the pandemic successfully.

The pandemic had the largest impact on the company in the second quarter of 2020 despite most of our business being deemed an essential service. The uncertainty that remained about the future, both locally and globally, was strong and prevalent and impacted our business decisions. Some of our customers shut their facilities to outside contractors and others deferred projects during the early phases of the pandemic. The impact of most of these customer decisions was evident in April and May as revenues declined approximately 26% on a pro-forma basis, with our Canadian revenues down 33%, partially offset by a pro-forma increase in revenues of 26% in our US business.

The third quarter was less impacted by the pandemic as revenues returned to historical levels in all of our business units with the exception of our low voltage business in our technical services east segment.

The fourth quarter came back strong as customers moved to catch up on work that was delayed during government mandated restrictions.

## **Reclassification of Long-term Debt and Filing of Amended & Restated Interim Financial Statements for Q3 2020**

Subsequent to year end the Company filed amended and restated interim financial statements for the three-and-nine month periods ended September 30, 2020 to reflect certain adjustments. The amendment and restatement included reclassifying certain amounts of long-term debt attributable to its credit facilities as current debt and updating note disclosure relating to the Company's debt and its maturity. This amendment and restatement did not change the results of operations during the period, or the total assets and liabilities for the period ended September 30, 2020.

On March 12, 2021 the Company announced that the Company's lender agreed to extend the maturity date of its existing non-revolving term loan and revolving acquisition line to June 30, 2022. As a result, all amounts outstanding on these loans will again be presented as long-term liabilities in the Company's financial statements in relation to periods ending after the date of the extension, to the extent repayments are not due within twelve months.



## SUMMARY FINANCIAL INFORMATION

The selected information presented below has been derived from and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the three months and years ended December 31, 2020 and 2019.

(in \$000's)

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Revenue	\$ 66,865	\$ 57,999	\$ 228,153	\$ 188,591
Cost of sales	48,342	40,868	162,417	128,066
<b>Gross profit</b>	<b>18,523</b>	<b>17,131</b>	<b>65,736</b>	<b>60,525</b>
Selling, general and administrative expenses	14,865	12,946	53,969	47,714
Provision for expected credit losses	1,405	35	1,458	100
Reorganization and other non-recurring costs	1,947	1,481	3,178	2,992
<b>Income from operations</b>	<b>306</b>	<b>2,669</b>	<b>7,131</b>	<b>9,719</b>
Finance costs	(1,793)	(1,394)	(6,762)	(5,271)
Transaction costs	-	(631)	-	(2,073)
Earn-out	(1,900)	-	(1,900)	(2,100)
Foreign exchange gain (loss)	31	(70)	305	13
	<b>(3,662)</b>	<b>(2,095)</b>	<b>(8,357)</b>	<b>(9,431)</b>
<b>(loss) income before income taxes</b>	<b>(3,356)</b>	<b>574</b>	<b>(1,226)</b>	<b>288</b>
Income tax recovery (expense):				
Current	(226)	(595)	(3,047)	(1,190)
Deferred	276	1,236	2,594	2,078
	<b>50</b>	<b>641</b>	<b>(453)</b>	<b>888</b>
<b>Net (loss) income</b>	<b>(3,306)</b>	<b>1,215</b>	<b>(1,679)</b>	<b>1,176</b>
Cumulative translation adjustment	8	160	(453)	160
<b>Comprehensive (loss) income</b>	<b>\$ (3,298)</b>	<b>\$ 1,375</b>	<b>\$ (2,132)</b>	<b>\$ 1,336</b>
EBITDA	3,621	6,100	25,866	17,984
EBITDA margin	5.4%	10.5%	11.3%	9.5%
Adjusted EBITDA	8,873	8,212	32,402	25,149
Adjusted EBITDA margin	13.3%	14.2%	14.2%	13.3%
Pro-forma Adjusted EBITDA	8,873	9,755	32,402	31,653
Pro-forma Adjusted EBITDA margin	13.3%	15.8%	14.2%	14.2%
Pro-forma Revenue	\$ 66,865	\$ 61,559	\$ 228,153	\$ 222,297

## HIGHLIGHTS

### For the three and twelve-months ended December 31, 2020

- Revenue increased by \$8.9 million in the fourth quarter or 15.3% over the same quarter in 2019. On an annual basis revenue increased by \$39.6 million or 21.0% over the same period in 2019. Revenue growth in both the fourth quarter and fiscal 2020 was driven by the impact of two acquisitions completed in the prior year and organic growth realized across its operating segments. On a pro-forma basis revenue increased \$5.3 million or 8.6% in the fourth quarter and \$5.9 million or 2.6% on annual basis.
- Gross profit increased by \$1.4 million or 8.1% in the fourth quarter and was driven by increased revenue in the period. Gross profit margins were 27.7% which was a decline from 29.5% in the fourth quarter of 2019. On an annual basis gross profit increased by \$5.2 million or 8.6% due to increased revenues. On an annual basis gross profit margins were 28.8% as compared to 32.1% in 2019. Excluding depreciation and amortization of \$11.0 million in fiscal 2020 and \$8.0 million in fiscal 2019, gross profit margins were 33.6% in 2020 as compared to 36.3% in 2019.

- Selling, general and administration expenses (“SG&A”) were \$14.9 million or 22.2% of revenue in the fourth quarter as compared to \$12.9 million or 22.3% of revenue in the fourth quarter in 2019. On an annual basis, SG&A expenses were \$54.0 million or 23.7% of annual revenue as compared to \$47.7 million or 25.3% of annual revenue in 2019. Increases in these expenses are primarily a result of acquisitions in 2019. Excluding depreciation and amortization of \$9.3 million in fiscal 2020 and \$4.4 million in fiscal 2019, SG&A was \$44.6 million or 19.5% of revenue in fiscal 2020 and \$43.3 million or 22.9% of revenue in fiscal 2019.
- Adjusted EBITDA was \$8.9 million in the fourth quarter or 13.3% of revenue as compared to \$7.1 million or 12.2% in the fourth quarter of 2019. On an annual basis, adjusted EBITDA was \$32.4 million or 14.2% of revenue as compared to \$25.2 million or 13.3% of revenue in 2019. On a pro-forma basis adjusted EBITDA was \$8.9 million in 2020 as compared to \$8.6 million in 2019 representing an increase of \$0.3 million or 3.5%. On an annual basis pro-forma adjusted EBITDA was \$32.4 million as compared to \$31.7 million in 2019 representing an increase of \$0.7 million or 2.4%.

## EBITDA, Adjusted EBITDA and Pro-forma EBITDA

The following table provides a reconciliation of our EBITDA measures:

(in \$000's)

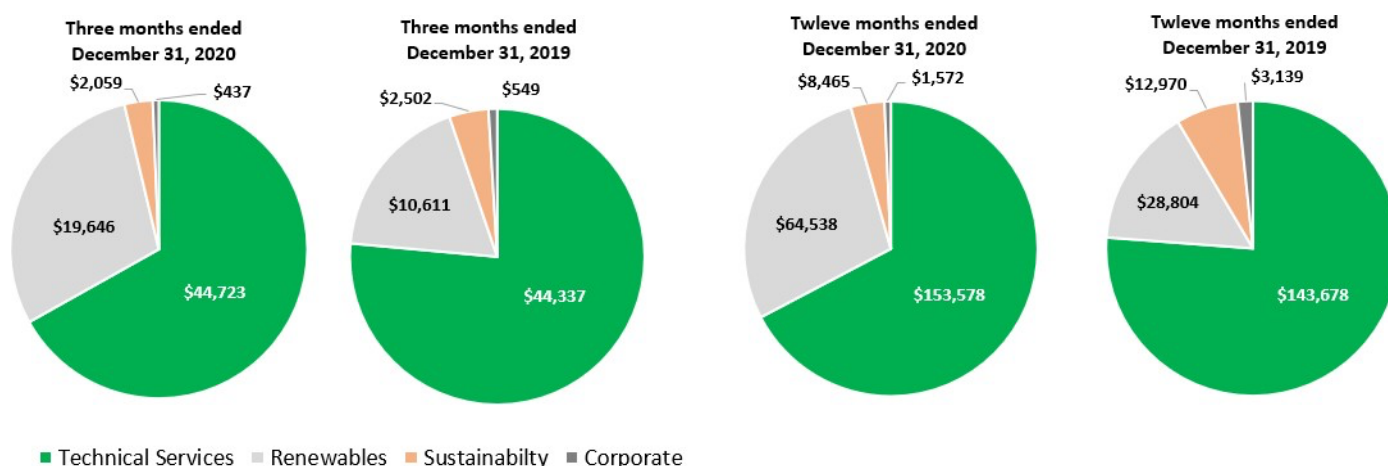
Reconciliation of net income to EBITDA, Adjusted EBITDA and Pro-forma Adjusted EBITDA	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
<b>Net (loss) income</b>	\$ (3,306)	\$ 1,215	\$ (1,679)	\$ 1,176
Adjustments:				
Finance expense	1,793	1,394	6,762	5,271
Income tax expense (recovery)	(50)	(641)	453	(888)
Amortization and depreciation	5,184	4,132	20,330	12,425
<b>EBITDA</b>	\$ 3,621	\$ 6,100	\$ 25,866	\$ 17,984
<b>EBITDA Margin</b>	5.4%	10.5%	11.3%	9.5%
Adjustments:				
Provision for expected credit loss	1,405	35	1,458	100
Transaction costs	-	631	-	2,073
Reorganization and other non-recurring costs	1,947	1,481	3,178	2,992
Earn-out	1,900	-	1,900	2,100
<b>Adjusted EBITDA</b>	\$ 8,873	\$ 8,247	\$ 32,402	\$ 25,249
<b>Adjusted EBITDA Margin</b>	13.3%	14.2%	14.2%	13.4%
Other adjustments:				
Pre-acquisition EBITDA for acquisitions	-	1,543	-	6,504
<b>Pro-forma Adjusted EBITDA</b>	\$ 8,873	\$ 9,789	\$ 32,402	\$ 31,753
<b>Pro-forma Adjusted EBITDA Margin</b>	13.3%	15.9%	14.2%	14.3%

## RESULTS OF OPERATIONS

Results for the three and twelve months ended December 31, 2020 have been impacted by the continuing COVID-19 pandemic that began impacting the business in late March and continued through the end of the fourth quarter with the largest impact, from a revenue perspective, being experienced in the second quarter. The impact of COVID protocols including quarantine requirements and site testing and questionnaires have continued to impact the operating and labor efficiencies through 2020 and into early 2021.

### Revenue

Revenue is broken down by segment as follows:



Revenue for the three-months ended December 31, 2020 was \$66.9 million, compared with \$58.0 million in the fourth quarter of 2019, representing an increase of \$8.9 million or 15.3%. The acquisition of One Wind completed in November 2019 contributed \$3.6 million or 40.2% of the growth in revenue in the period. The balance of the revenue growth in the fourth quarter of 2020 of \$5.3 million was attributable to organic growth representing an increase of 9.1% compared to the fourth quarter of 2019 and was driven primarily by organic growth in our renewables business unit that experienced organic growth of 51.6% in the fourth quarter.

Revenue for the twelve-months ended December 31, 2020 was \$228.2 million, compared with \$188.6 million during the same period in 2019, representing an increase of \$39.6 million or 21.0%. The acquisition of 3-Phase, completed in August 2019, contributed \$11.3 million or 28.7% of the growth in revenue in the year. The acquisition of One Wind contributed \$22.4 million or 56.53% of the revenue growth in the year. The balance of the revenue growth in 2020 of \$5.9 million was attributable to organic growth representing an increase of 14.8% compared to 2019. Organic growth in the renewables business unit of \$13.4 million or 46.4%, was partially offset by declines in technical services, sustainability and corporate segments that were more impacted by the pandemic. Technical service revenues reflect the impact of COVID-19 on this business that experienced revenue declines in excess of 30% in both April and May of 2020 during the initial phase of the pandemic. Declines in sustainability revenues was attributable to the lose of the large customer in the middle of 2019 and the impact of COVID-19 on new business development and deferrals in some contract renewals.

Organic and acquisition growth, for the three months and twelve months ended December 31, 2020 are broken down as follows:

	Three months ended December 31				\$ Growth		% Growth	
	2020	2019	\$ Growth	% Growth	Acquisition	Organic	Acquisition	Organic
Technical Services	\$ 44,723	\$ 44,337	\$ 386	0.9%	\$ -	\$ 386	0.0%	0.9%
Renewables	19,646	10,611	9,035	85.1%	3,559	5,476	33.5%	51.6%
Sustainability	2,059	2,502	(443)	(17.7%)	-	(443)	-	(17.7%)
Corporate	437	549	(112)	(20.4%)	-	(112)	-	(20.4%)
<b>Total</b>	<b>\$ 66,865</b>	<b>\$ 57,999</b>	<b>\$ 8,866</b>	<b>15.3%</b>	<b>\$ 3,559</b>	<b>\$ 5,307</b>	<b>6.1%</b>	<b>9.2%</b>

	Twelve months ended December 31				\$ Grc wth		% Growth	
	2020	2019	\$ Growth	% Growth	Acquisition	Organic	Acquisition	Organic
Technical Services	\$ 153,579	\$ 143,678	\$ 9,901	6.9%	\$ 11,340	\$ (1,439)	7.9%	(1.0%)
Renewables	64,538	28,804	35,734	124.1%	22,364	13,370	77.6%	46.4%
Sustainability	8,418	12,970	(4,552)	(35.1%)	-	(4,552)	-	(35.1%)
Corporate	1,618	3,139	(1,521)	(48.5%)	-	(1,521)	-	(48.5%)
Total	\$ 228,153	\$ 188,591	\$ 39,562	21.0%	\$ 33,704	\$ 5,858	17.9%	3.1%

## Government Grants

The outbreak of COVID-19 has resulted in worldwide emergency measures to combat the spread of the virus. These measures, including significant restrictions on commercial activity, have caused massive disruption to businesses globally, resulting in a broad-based and global economic slowdown.

The Company has also introduced its own measures, procedures, and protocols to foster the health and safety of its employees, vendors, and customers. These measures are based on the Company's health and safety policies as well as the recommendations from the public health authorities. These enhanced protocols include travel restrictions, workplace hygiene practices, employee case tracking, additional personal protective equipment for our operations workers, limited access to facilities, and alternative work options for employees where possible.

The Company's operations are exposed to a variety of business and financial risks as a result of a public threat, such as COVID-19. These risks include but are not limited to, decline in customer demand, increase in operating costs, interruption of project work, credit risk associated with customer non-payment, access to financing and change in the timing of cash flows.

During the year, the Company's operations were temporarily impacted in segments of the business that were not considered to be essential services. These impacts were short-term in nature and not significant to the strength of the business. The extent to which COVID-19 may further impact the Company's operations, its consolidated financial position, and performance remains uncertain, and will depend on further developments, including the duration and spread of the outbreak, its impact on the Company's customers, suppliers and employees and actions taken by governments. Management continues to closely monitor the situation in the jurisdictions in which the Company operates.

	Technical Services	Renewables	Sustainability Solutions	Corporate	Total
<i>Canadian Emergency Wage Subsidy</i>					
Cost of sales	\$ 6,620	\$ 1,432	\$ -	\$ -	\$ 8,052
Selling, general and administrative	1,078	370	268	1,102	2,818
	\$ 7,698	\$ 1,802	\$ 268	\$ 1,102	\$ 10,870
<i>Paycheck Protection Program</i>					
Cost of sales	\$ 637	\$ 1,408	\$ -	\$ -	\$ 2,045
Selling, general and administrative	233	158	-	-	391
	\$ 870	\$ 1,566	\$ -	\$ -	\$ 2,436
Total	\$ 8,568	\$ 3,368	\$ 268	\$ 1,102	\$ 13,306

### Canada Emergency Wage Subsidy

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers keep and/or return Canadian-based employees to payrolls in response to challenges posed by the COVID-19 pandemic.

During the year, management determined that it met the employer eligibility criteria and applied for the CEWS. The Company recognized \$10.9 million in government grants under the payroll support program which has been recorded against the segmented cost of sales and SG&A expenses to which they are related.

### Paycheck Protection Program

In March 2020, the United States Government announced the Paycheck Protection Program ("PPP") in order to help employers keep and/or return US-based employees to payrolls in response to challenges posed by the COVID-19 pandemic.

In the second quarter of 2020, the Company received US\$1.8 million in funding related to this program for our US based operations. This funding came in the form of a loan payable which was due in full on the second anniversary of its receipt, bearing an interest rate of 1% per annum, with the possibility of absolute forgiveness if eligible. Subsequent to December 31, 2020, the Company received formal notification of forgiveness on US\$0.5 million of its loans and believes that it has met the criteria for forgiveness on the remaining balance. This funding has been recognized against the segmented cost of sales and SG&A expenses to which they are related in the fiscal year ended 2020.

## Cost of Sales and Gross Profit

For the three months ended December 31, 2020, gross profit increased \$1.4 million or 8.1% to \$18.5 million as compared to \$17.1 million over the same period in 2019. Gross profit margins were 27.7%, down from 29.5% in 2019 resulting in a decline in gross margin realizations of 1.8%.

On a year-to-date basis gross profit increased \$5.2 million or 8.6% to \$65.7 million as compared to \$60.5 million over the same period in 2019. Gross profit margins were 28.8%, down from 32.1% in 2019 resulting in a decline in gross margin realizations of 3.3%. Excluding depreciation and amortization of \$11.0 million in fiscal 2020 and \$8.0 million in fiscal 2019, gross profit margins were 33.6% in 2020 as compared to 36.3% in 2019.

(in \$000s)

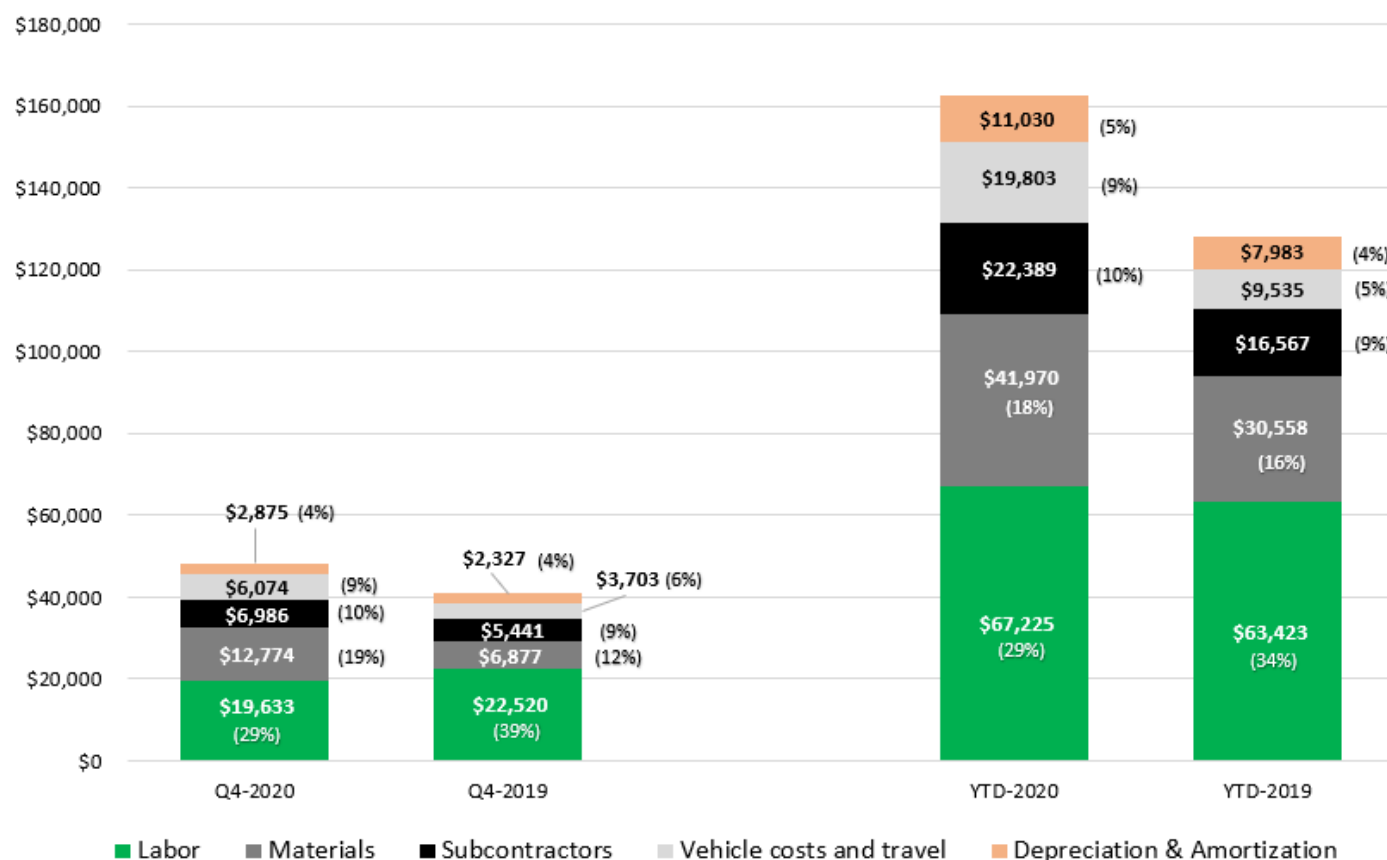
	Three months ended December 31				Twelve months ended December 31			
	2020		2019		2020		2019	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 66,865		\$ 57,999		\$ 228,153		\$ 188,591	
Total Cost of Sales	48,342	72.3%	40,868	70.5%	162,417	71.2%	128,066	67.9%
<b>Gross Profit</b>	<b>\$ 18,523</b>	<b>27.7%</b>	<b>\$ 17,131</b>	<b>29.5%</b>	<b>\$ 65,736</b>	<b>28.8%</b>	<b>\$ 60,525</b>	<b>32.1%</b>

Gross margin realizations declines were impacted by the following factors:

- (i) The impact of government-imposed restrictions related to the outbreak of COVID-19 resulted in a decline of our revenues, specifically our high and low voltage operations in the East, which negatively impacted gross margin realizations, primarily due to low labor utilization. The receipt of government grants through the CEWS and PPP programs offset significant labor costs maintained by the Company and other operating inefficiencies realized during the pandemic;
- (ii) The underperformance of a large job in our Technical Services Group which negatively impacted corporate gross margins in the third quarter of 2020;
- (iii) The impact of the loss of a large Bullfrog Power customer in July of 2019, compounded by the impact of an accounting change related to renewable energy certificates;
- (iv) The impact of the acquisition of One Wind and 3-Phase that historically have lower gross margin realizations than the other business units. These business units have also have lower selling, general and administration costs to offset the lower gross margin realizations;
- (v) The impact of an increase in amortization and depreciation of \$0.5 million in the quarter ended December 31, 2020 and \$3.0 million year-to-date that negatively impacted gross margins by 0.8% and 1.3% respectively as compared to the same periods in 2019.

Components of cost of sales were as follows:

**Cost of sales for the three and twelve months ended December 31 (in \$000's)**



Percentages reflect costs as compared to revenue

During the three and twelve months ended December 31, 2020, labour costs were \$22.1 million and \$77.3 million respectively compared to \$22.5 million and \$63.4 million in the same periods in 2019. These costs were offset by \$2.5 million and \$10.1 million, respectively, in government grants under the CEWS and PPP programs previously discussed resulting in a reduction in total labor costs to \$19.6 million and \$67.2 million during the three and twelve months ended December 31, 2020, respectively. During the economic downturn that resulted from the outbreak of COVID-19, these grants allowed the Company to maintain staffing levels even with the decline in company wide revenues.

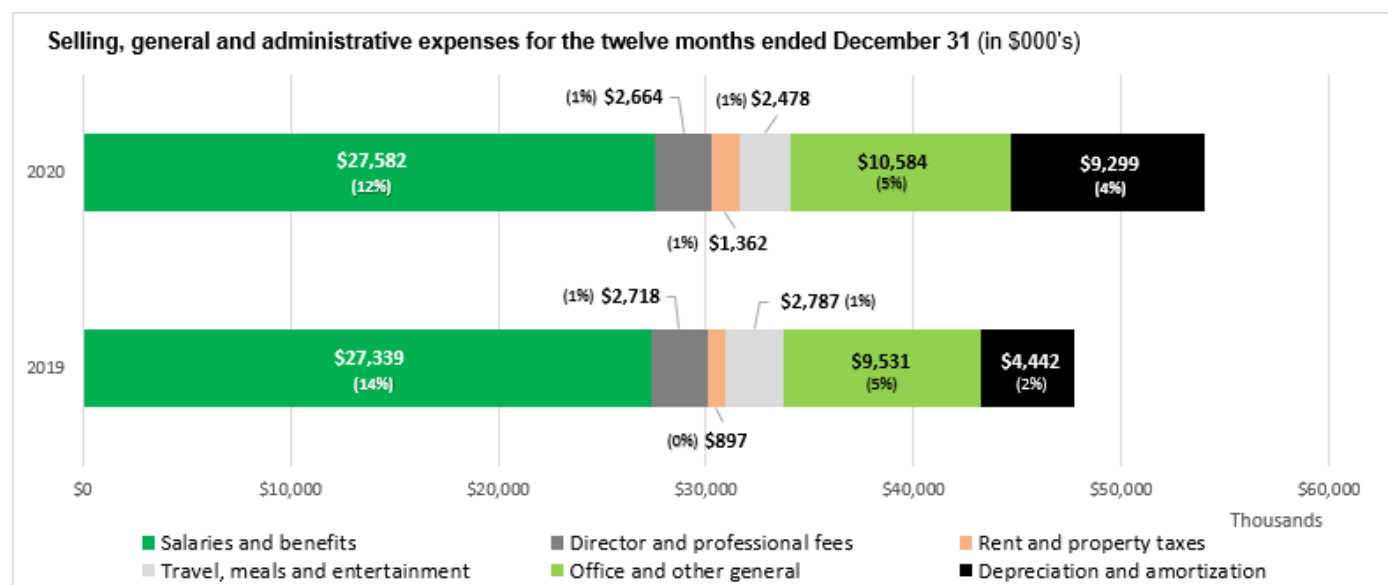
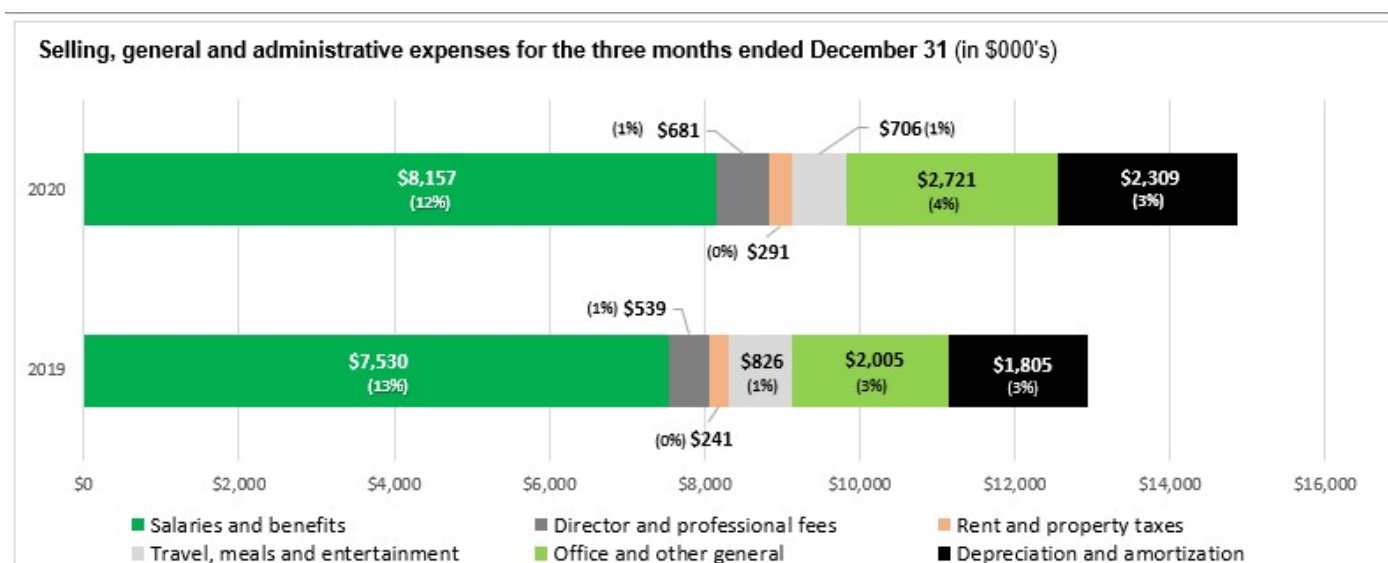
During the three and twelve months ended December 31, 2020, material costs increased to \$12.8 million or 19% of revenue, and \$42.0 million or 18% of revenue, respectively, from \$6.9 million or 12.0% of revenue and \$30.6 million or 16.0% of revenue in the same periods in 2019. The increase in the fourth quarter was driven by two high material jobs in the USA and solar equipment upgrade work supporting an aging customer infrastructure.

During the three and twelve months ended December 31, 2020, vehicle costs and travel increased to \$6.1 million or 9.1% of revenue, and \$19.8 million or 8.7% of revenue, respectively, from \$3.7 million or 6.4% of revenue, and \$9.5 million or 5.0% of revenue in the same periods of 2019. The key driver to this increase was the impact of One Wind acquisition that incurs extensive travel costs to support its operations in the US, and rents essentially all of its vehicles on a short term basis, which as a result, excludes them from the accounting treatment under *IFRS-16 Leases*. Travel throughout the Company was restricted during the second through fourth quarters as a result of the Company's pandemic response resulting in lower than expected costs throughout the periods.

All other components of gross margin remained relatively consistent with the same quarter in 2019 on a percentage of revenue basis.

## Selling, General and Administration Expense

Components of SG&A costs were as follows:



SG&A ("SG&A") expenses for the fourth quarter of 2020 were \$14.9 million, or 22.2% of revenue, compared with \$12.9 million, or 22.3% of revenue in the fourth quarter of 2019 representing an increase of \$1.9 million or 14.8%. The decrease in SG&A costs as a percentage of revenue in the quarter was attributable to a variety of factors including the impact of the 3-Phase and One Wind acquisitions that finalized in 2019.

SG&A expenses for the twelve-months ended December 31, 2020 were \$54.0 million, or 23.7% of revenue, compared with \$47.7 million, or 25.3% of revenue in 2019 representing an increase of \$6.3 million or 13.1%. The absolute dollar increase was attributable primarily to the impact of the 2019 acquisitions of One Wind and 3-Phase that accounted for \$4.0 million or 65% of the increase. The balance of the increase was attributable to increases in other business units and corporate costs, partially offset by savings from the fall 2019 reorganization activities. Excluding depreciation and amortization of \$9.3 million in fiscal 2020 and \$4.4 million in fiscal 2019, SG&A was \$44.6 million or 19.5% of revenue in fiscal 2020 and \$43.3 million or 22.9% of revenue in fiscal 2019.

During the three and twelve months ended December 31, 2020, labour costs increased to \$8.5 million and \$30.8 million, respectively, from \$7.5 million and \$27.3 million in the same periods in 2019. In the three and twelve months ended December 31, 2020, salaries and benefits were offset by \$0.4 million and \$3.2 million, respectively, by government grants under the CEWS and PPP programs discussed previously. During the economic downturn that resulted from the outbreak of COVID-19, the grant allowed the Company to maintain staffing levels even with the decline in company wide operations.

During the three and twelve months ended December 31, 2020, travel, meals and entertainment costs decreased to \$0.7 million and \$2.5 million, respectively, from \$0.8 million and \$2.8 million in the same periods in 2019. Decreases in costs reflect the impact of travel associated with a more geographically diverse business with the addition of 3-Phase, based in Winnipeg, and One Wind, based in Nova Scotia, along with increased travel in supporting an expanding US business, offset by travel restrictions during the second through fourth quarters as a result of the pandemic.

## **Provision for Expected Credit Losses**

Provision for expected credit losses for the three and twelve months ended December 31, 2020 was \$1.4 million and \$1.5 million, respectively, compared with approximately \$0.1 million over the same periods in 2019. During the fourth quarter the company accrued \$1.4 for expected credit losses related to trade receivables including receivables related to a job completed by our USA technical services group in the fourth quarter of 2020, and a job completed by our western technical services group in Chile in early 2020. The Company has filed claims and liens related to these two jobs, on both the general contractor and customer of the general contractor for the project in the USA, and has a favourable court ruling in Chilean courts regarding amounts due and payable to the Company. The courts in Chile are currently closed for non-essential matters and accordingly payment is currently not being enforced. Management is aggressively working on collecting the amounts outstanding and has recorded the provision as required under IFRS. Any amounts recovered related to these jobs will be included in income.

## **Reorganization and non-recurring costs**

Reorganization and non-recurring costs for the three and twelve months ended December 31, 2020 was \$1.9 million and \$3.2 million, respectively, compared to \$1.5 million and \$3.0 million over the same period in 2019. Reorganization costs relate to severances paid and accrued related to the Company's recently announced leadership reorganization and continuing costs from the Company's fiscal 2019 business integration.

## **Amortization and Depreciation and Finance Costs**

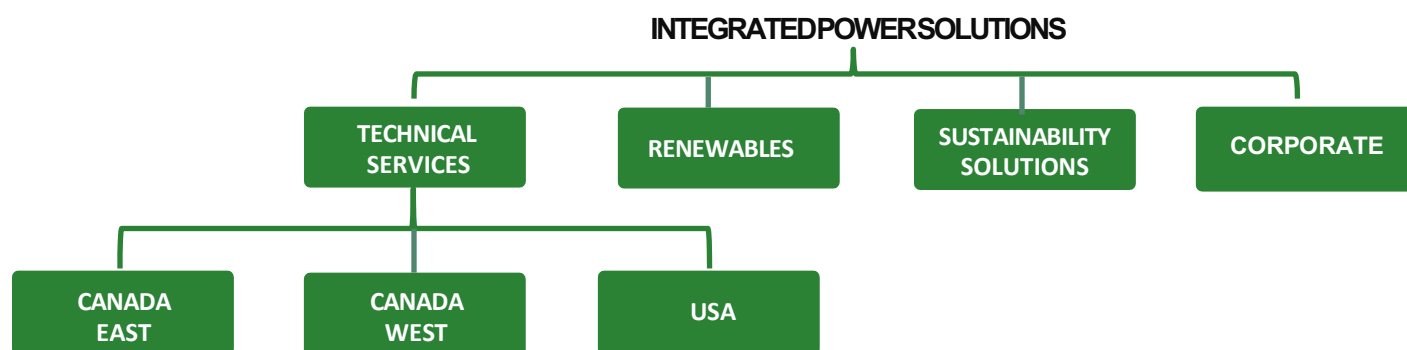
Amortization and depreciation for the three-months ended December 31, 2020 was \$5.2 million compared with \$4.1 million over the same period in 2019. Amortization and depreciation for the twelve-months ended December 31, 2020 was \$20.3 million compared with \$12.4 million over the same period in 2019. The increase reflects the impact of amortization and depreciation on fixed assets and intangible assets that arose from the acquisitions completed during 2019 with the balance of the increase was driven by the initiation of amortization on tradenames related to rebranding efforts planned by the Company.

Finance costs for the three-months ended December 31, 2020 were \$1.8 million as compared to \$1.4 million during the same period of 2019. Finance costs in the twelve-months ended December 31, 2020 were \$6.8 million as compared to \$5.3 million in 2019. The increase in the periods as compared to the same periods in 2019 was due primarily to the impact of interest on proceeds from additional debt facilities entered into during the later part of 2019, as a result of two acquisitions, and changes in debt during the current period.



## RESULTS OF OPERATIONS – By Reportable Business Segment

For fiscal 2020 the Company has revised its reportable business segments as detailed below. Management believes that this segmentation better reflects how the business is managed and provides a clearer understanding, for both management and other users of the financial information, of the businesses with different growth opportunities, revenue profiles and historical earnings performance and potential.



### Technical Services Segment

The technical services segment is segregated by region, Canada East, Canada West, and USA, and includes all low-voltage services (New Electric brand, Orbis, and 3-Phase), high-voltage services (Spark Power High Voltage) and all new and used equipment sales and service (Lizco brand).

The financial results for the Technical Services segment for the three and twelve months ended December 31, 2020 and 2019 were as follows:

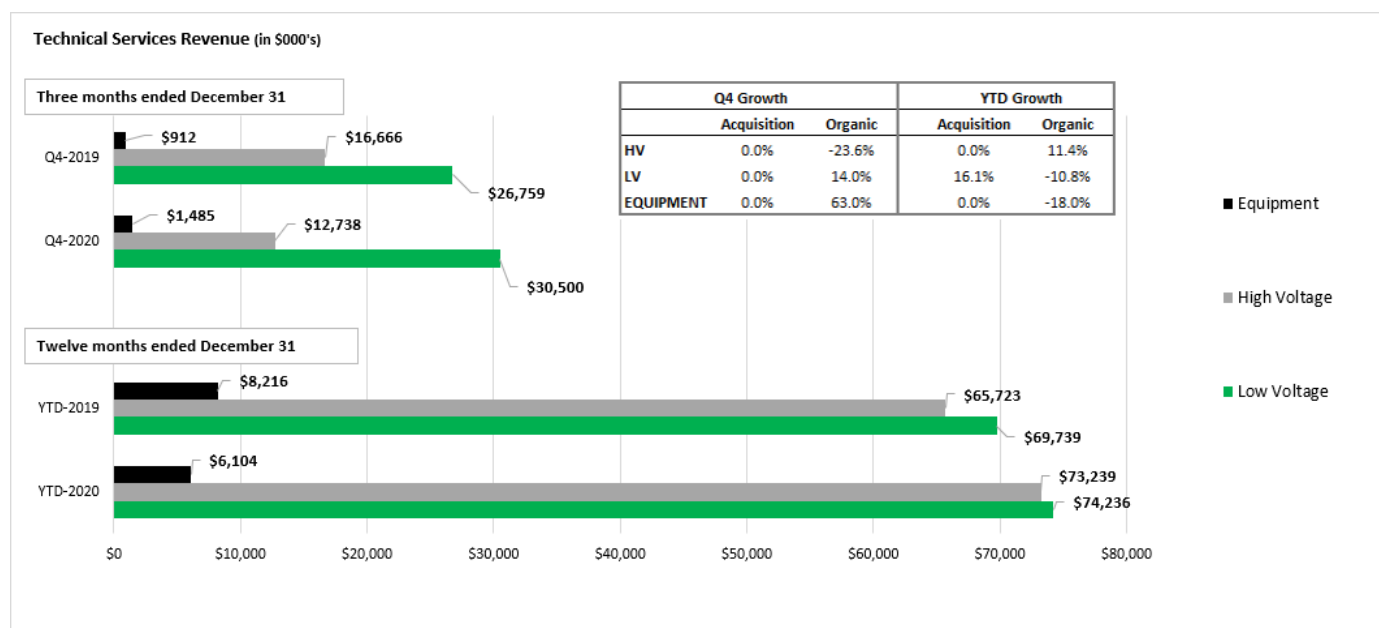
(in \$000's)

	<u>Three months ended December 31</u>			<u>Twelve months ended December 31</u>		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 44,723	\$ 44,337	\$ 386	\$ 153,579	\$ 143,678	\$ 9,901
Cost of sales	33,567	31,288	2,279	112,564	102,538	10,026
Gross profit	11,156	13,049	(1,893)	41,015	41,140	(125)
Gross profit margin	24.9%	29.4%	(490.3%)	26.7%	28.6%	-1.3%
Selling, general and administration	6,674	6,733	(59)	27,928	25,257	2,671
Provision for expected credit loss	1,290	35	1,255	1,290	100	1,190
Reorganization and non-recurring costs	227	803	(576)	1,016	889	127
Segment EBITDA	6,787	8,412	(1,626)	26,117	23,883	2,234
Segment EBITDA %	15.2%	19.0%	(421.3%)	17.0%	16.6%	22.6%
Segment profit	\$ 2,965	\$ 5,478	\$ (2,513)	\$ 10,781	\$ 14,894	(4,114)

#### Results for the three and twelve-months ended December 31, 2020

Revenue in the fourth quarter ended December 31, 2020 increased \$0.4 million or 0.9% over the same period in 2019. Increases in low voltage revenues of \$5.0 million were offset by a \$3.9 million decline in equipment revenue.

Revenue for the twelve-months ended December 31, 2020 increased \$9.9 million or 6.9%. Effective August 1, 2019, the Company completed the acquisition of 3-Phase, the results of which are included in the Technical Services Segment and contributed \$6.4 million or 64.7% to the revenue increase in the period. The balance of the technical services segment had revenue growth was \$3.5 million or 2.7% and was significantly impacted by COVID-19 during April and May of 2020.



Gross profit in the fourth quarter of 2020 decreased by \$1.9 million or 14.5% as compared to the fourth quarter of 2019. The decrease was primarily attributable to the impact of COVID-19 protocols resulting in significant lost hours for exposed workers and other labor efficiencies on customer sites. Fourth quarter gross margins were also impacted by an abnormally low margin on a \$2.2 million project in the USA.

Gross profit for the twelve-months ended December 31, 2020 was flat with the same period in 2019. On a percentage basis gross profit margins fell 0.3% for the reasons noted earlier.

SG&A expenses for the fourth quarter of 2020 were flat with the fourth quarter of 2019. For the twelve-months ended December 31, 2020, SG&A expenses decreased by \$2.7 million. The decrease primarily due to the impact of the 2019 reorganization initiatives and lower costs as a result of the impact of the pandemic, partially offset by the impact of the 2019 acquisitions of 3-Phase.

For the three-months ended December 31, 2020, Segment EBITDA, excluding the impact expected credit losses of \$1.3 million, decreased by \$0.2 million or 2.4% over the same period in 2019. For the twelve-months ended December 31, 2020 Segment EBITDA, excluding the impact of expected credit losses, increased by \$1.3 million or 15.5% over the same period in 2019. The increase in the absolute dollar value can be attributed to the acquisitions completed in 2019.

## Renewables Segment

The Renewables segment includes all operations and maintenance services under the One Wind and Northwind brands.

(in \$000's)

	Three months ended December 31			Twelve months ended December 31		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 19,646	\$ 10,611	\$ 9,035	\$ 64,538	\$ 28,804	\$ 35,734
Cost of sales	14,305	8,866	5,439	47,638	21,894	25,744
Gross profit	5,341	1,745	3,596	16,900	6,910	9,990
Gross profit margin	27.2%	16.4%	39.8%	26.2%	24.0%	28.0%
Selling, general and administration	3,612	1,438	2,174	8,392	4,906	3,486
Provision for expected credit loss	-	-	-	-	-	-
Reorganization and non-recurring costs	66	262	(196)	27	269	(242)
Segment EBITDA	2,062	644	1,418	10,025	2,980	7,045
Segment EBITDA %	10.5%	6.1%	15.7%	15.5%	10.3%	19.7%
Segment profit	\$ 1,663	\$ 45	\$ 1,618	\$ 8,481	\$ 1,735	6,746

### Results for the three and twelve-months ended December 31, 2020

Revenue for the three and twelve months ended December 31, 2020 increased by \$9.0 million or 85.0% and \$35.7 million or 124.1%, respectively, as compared to the same periods in 2019. Effective November 1, 2019, the Company completed the acquisition of One Wind that is included in the Renewables Segment and contributed \$9.3 million, of which \$4.0 million or 43% was organic growth, of the revenue increase in the fourth quarter of 2020 and \$32.8 million of the revenue increase in the twelve months of 2020. On a pro-forma basis revenue generated by the One Wind operations increased by \$13.9 million or 49.3% in fiscal 2020 vs fiscal 2019. The One Wind operations, the majority of which are in the Southern USA, were not impacted in a significant way from the pandemic during the year, therefore resulting in significant improvements in this segment for the 2020 periods.

Revenues generated by the Company's Canadian Solar business, formerly the Northwind brand, increased \$1.0 million to \$16.3 million, representing an increase of 6.5%. Battery storage related revenues were \$5.9 million in fiscal 2020 as compared to \$7.8 million in fiscal 2019 representing a decrease of \$1.9 million or 24.3%.

Gross profit for the three and twelve months ended December 31, 2020 increased \$3.6 million or 206.0% and \$10.0 or 144.6%, respectively, as compared to the same periods in 2019. The increase in the absolute dollar value is related to the organic and pro-forma revenue growth discussed above.

SG&A expenses for the three and twelve months ended December 31, 2020 increased by \$2.2 million or 151.2% and \$3.9 million or 71.0%, respectively, over the same periods in 2019. The increase over the prior period is related to the \$1.9 million earn-out related to the acquisition of One Wind and the subsequent growth in that operation, offset by significant savings related to the existing entities in the group over the prior period.

### Sustainability Solutions Segment

The Sustainability Solutions segment consists of the operations of Bullfrog Power, a green energy provider, offering a 100% clean, renewable energy choice to Canadians.

(in \$000's)

	Three months ended December 31			Twelve months ended December 31		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 2,059	\$ 2,502	\$ (443)	\$ 8,418	\$ 12,970	\$ (4,552)
Cost of sales	470	714	(244)	2,215	3,634	(1,419)
Gross profit	1,589	1,788	(199)	6,203	9,336	(3,133)
Gross profit margin	77.2%	71.5%	44.9%	73.7%	72.0%	68.8%
Selling, general and administration	998	588	410	3,298	3,512	(214)
Provision for expected credit loss	110	-	110	110	-	110
Reorganization and non-recurring costs	(12)	85	(97)	(61)	104	(165)
Segment EBITDA	647	1,287	(640)	3,500	6,422	(2,922)
Segment EBITDA %	31.4%	51.4%	144.5%	41.6%	49.5%	64.2%
Segment profit	\$ 493	\$ 1,115	\$ (622)	\$ 2,856	\$ 5,720	(2,864)

### Results for the three and twelve-months ended December 31, 2020

Revenue for the three-month period ended December 31, 2020 decreased by \$0.4 million or 17.7% and by \$4.6 million or 35.1% for the twelve-months ended December 31, 2020 as compared to the same periods in 2019. The decrease in the twelve-month period represents the impact of a \$5.0 million lost customer midway through fiscal 2019, and the impact of COVID-19 on new customers and delays in customer renewals.

Gross profit for the three and twelve month periods ended December 31, 2020 decreased 11.1% and 33.6%, respectively as compared to the same periods in 2019. The decrease is related to the impact of the revenue declines noted above.

Selling, general and administration expenses in fiscal 2020 increased by \$0.4 million as compared to 2019 due to the impact of integration activities affected in the fourth quarter of 2019 and the impact of lower revenues.

For the three and twelve month periods ended December 31, 2020, Segment EBITDA decreased 49.7% and 45.5% over the same period in 2019 as a result of the impact of revenue declines noted above.

## Corporate Segment

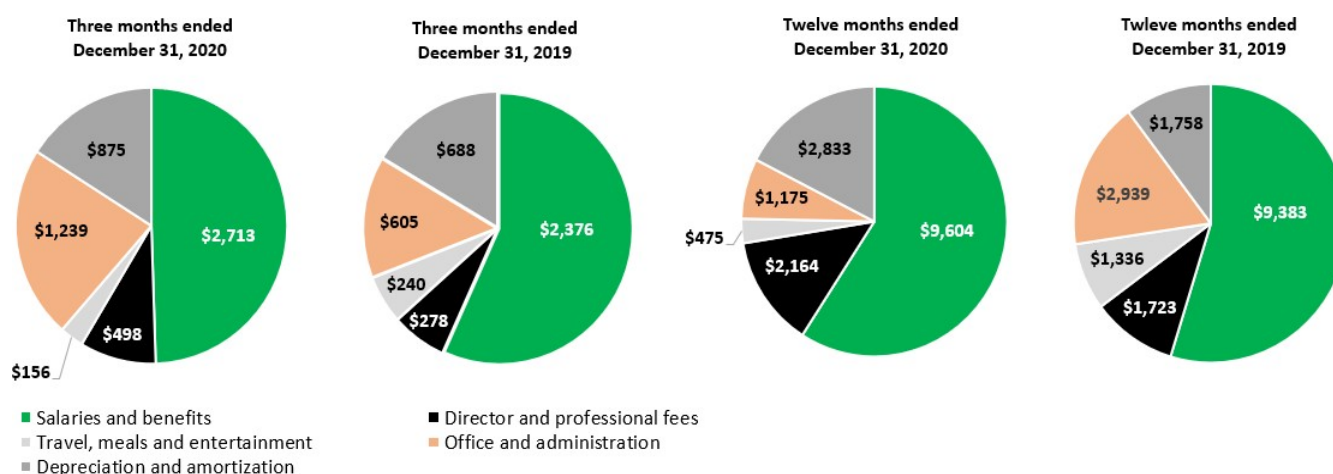
(in \$000's)

	Three months ended December 31			Twelve months ended December 31		
	2020	2019	Change	2020	2019	Change
Revenue	\$ 437	\$ 549	\$ (112)	\$ 1,618	\$ 3,139	\$ (1,520)
Gross profit	437	549	(112)	1,618	3,139	(1,520)
Gross profit margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Selling, general and administration	5,481	4,187	1,294	16,251	17,139	(888)
Provision for expected credit loss	5	-	5	58	-	58
Reorganization and non-recurring costs	1,666	331	1,335	2,196	731	1,465
Segment EBITDA	(5,840)	(3,279)	(2,561)	(14,054)	(12,975)	(1,079)
Segment profit	\$ (6,715)	\$ (3,969)	\$ (2,746)	\$ (16,887)	\$ (14,731)	\$ (2,157)

### Results for the three and twelve-months ended December 31, 2020

The segment incurs no costs related to revenues resulting in a gross profit that is equal to its revenue. The revenue relates to billings of management fees charged to the solar co-operatives managed by the company. For the three-month and twelve month periods ended December 31, 2020, both revenue and gross profit increased by 20.4% and 42.1% as compared to the same periods in 2019.

Corporate expenses are comprised of the following:



## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash and Borrowing Capacity

Bank indebtedness was \$25.4 million at December 31, 2020 and was comprised of \$20.9 million on the operating line and \$4.5 million on the capital expenditure line. This compares to bank indebtedness of \$21.6 million at December 31, 2019. At December 31, 2020 the Company had additional borrowing capacity under the revolving line of credit and capital expenditure line of \$10.2 million.

We monitor our liquidity principally through cash and cash equivalents and available borrowing capacity under our revolving operating line of credit. Our primary uses of funds are for operating expenses, working capital requirements, capital expenditures and debt service requirements.

During the year ended December 31, 2019 the Company expanded its revolving operating line to \$30.0 million, subject to borrowing base limits, and secured a revolving demand capital expenditure line of \$5.0 million, bringing total revolving bank indebtedness available to \$35.0 million.

During second quarter the Company completed a Second Amended and Restated Credit Agreement with its lender. A summary of the key changes to the credit facility are as follows:

- the addition of a \$4.0 million COVID Relief Term Loan to support the business through September 30, 2020 at which time the loan is due.
- deferral of all principal payments for the quarters ended June 30, 2020 and September 30, 2020. With the extension of the Covid loan, prior to quarter end, the deferral of the September 30, 2020 payment was cancelled;
- modifications to covenant requirements commencing June 30, 2020. Senior debt to EBITDA increased to 5.00:1.00 from 3.75:1.00 at Q1 2020, Total debt to EBITDA increased to 5.75 from 4.25 at Q1 2020, and a reduction in Fixed Charge Coverage Ratio to 1.10 from 1.25 at Q1 2020. The leverage covenants remain in place through Q3 2020 and then decrease 50bps per quarter until 3.50 and 4.25 for the quarters ended June 2021 and September 2021;
- approval to utilize the balance available on the acquisition line of \$1.9 million to settle the promissory note, at a discount, related to the Orbis acquisition;
- the cost of borrowing margin was revised from 1.0% to 3.0% on prime rate loans associated with the term facility and acquisition line, and 0.50% to 2.50% on the operating and capex line and the COVID loan. Pricing within the range is based the amount of total funded debt to EBITDA ratio

During the fourth quarter the Company completed First and Second Amending Agreements to its Second Amended and Restated Credit Agreement. A summary of the key changes are as follows:

- an increase in the COVID facility to \$7.9 million from \$4.0 million of which the increased may be used to pay principal or interest on account of or in respect of ant promissory note debt;
- An extension of the COVID facility maturity date to September 30, 2021 due on demand and repayable in quarterly payments of \$2.0 million for the period December 31, 2020 through September 30, 2021;
- Modifications to covenant requirements as follows:
  - (i) Minimum fixed charge covenant ratio of 1.10 as at December 31, 2020 and increasing to 1.25 commencing the quarter ended March 31, 2021 and beyond;
  - (ii) Maximum total senior debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.00:1.00 for December 2020, decreasing to 3.50:1.00 for March and June 2021 and 3.00:1.00 for each fiscal quarter ended thereafter;
  - (iii) Maximum total funded debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.75:1.00 for December 2020, decreasing to 4.25:1.00 for March and June 2021 and 3.75:1.00 for each fiscal quarter thereafter;
  - (iv) A minimum monthly EBITDA to \$1,500 for the three months ended December 31, 2020.
- An extension to the period for an enhanced borrowing base provision from November 30, 2020 to March 31, 2021;
- An increase in the applicable margin on the COVID facility by 0.50%.

## Debt and Capital Structure

The Company's lending facility is comprised of four main components with details and terms as follows:

(in \$000's)

	Operating Line	Capital Expenditure Line	Term Loan	Acquisition Line	Covid Loan	Total
Amount	\$30,000	\$5,000	\$37,030	\$25,000	\$5,942	\$102,972
Term	Uncommitted Prime +	Uncommitted Prime +	3 years Committed Prime +	Committed Prime +	Committed Prime +	
Interest rate (i)	0.50% - 2.5%	0.50% - 2.5%	1.00% - 3.00%	1.00% - 3.00%	1.00% - 3.00%	
Maturity date	On demand	On demand	September 30, 2021	September 30, 2021	On Demand	
Repayment terms	Revolving	5 Year amortization	8 year amortization thereafter	10 year amortization post drawdown	3 Quarterly Payments through September 30, 2021	
<b>Amount Drawn at December 31, 2020</b>	<b>\$20,965</b>	<b>\$4,479</b>	<b>\$37,030</b>	<b>\$23,734</b>	<b>\$5,942</b>	<b>\$92,150</b>
<b>Amount Available to be Drawn (ii)</b>	<b>\$9,035</b>	<b>\$521</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,556</b>

(i) - based on Debt:EBITDA ranges

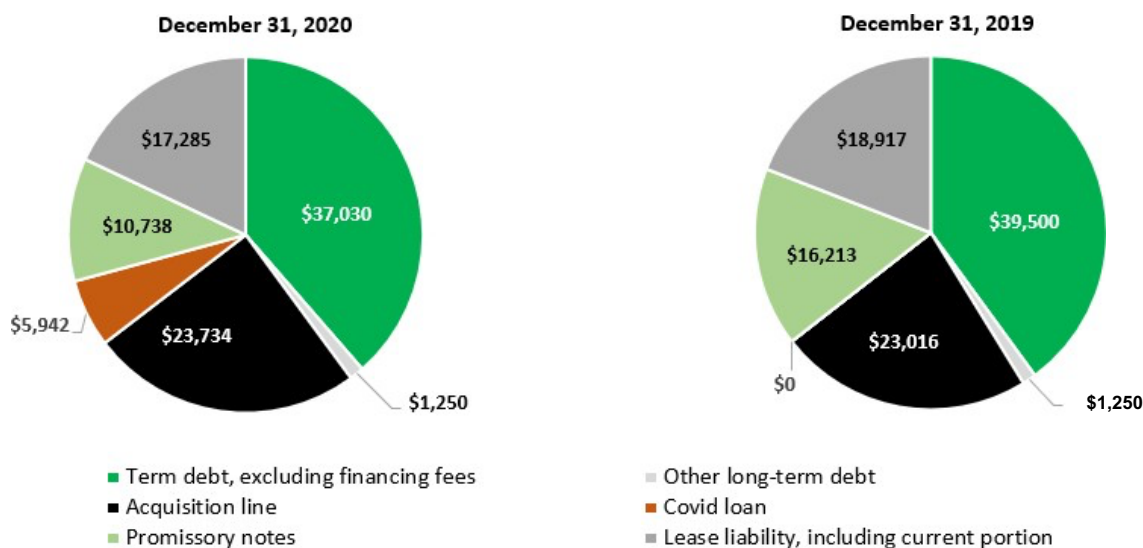
(ii) - assumes maximum borrowing base available

On March 11, 2021 the Company's lender agreed to extend the maturity date of the Company's non-revolving term loan and revolving acquisition line totaling \$37,030 and \$23,734 respectively to mature on June 30, 2022. As a result the non-revolving term loan and the revolving acquisition line will be presented as long-term liabilities in the Company's financial statements for periods ended after the date of this extension, to the extent repayments are not due within twelve months.

The Company commenced discussions with its lender on a syndication of its debt in early 2020. With the outbreak of the pandemic this process was put on hold through the balance of 2020. During this time the Company worked with its lender in successfully securing amendments to its existing credit facility to support the Company through challenging times brought on by the pandemic. In January 2021 the Company and its lenders re-commenced the syndication process and will be working to finalize the syndication process in the second quarter of 2021. The objective of the syndication process is to re-finance the above noted non-revolving term loan and revolving acquisition line into a long-term facility, expand the Company's borrowing capacity under its operating line of credit and provide additional capacity to support future growth opportunities. Management has had success in working with its lender to secure debt facilities that supports the business objectives of the Company, and Management is confident in its ability to extend its borrowing terms prior to expiry of the current agreement. Management is not aware of any reason why the current syndication process will not be successful, however acknowledges that the successful completion of the syndication process is not guaranteed. (see FORWARD-LOOKING INFORMATION AND GOING CONCERN on page 2).

In the second quarter of 2020, the Company received US\$1.8 million in funding through the Paycheck Protection Program ("PPP") for our US based operations. This funding comes in the form of a loan payable which is due in full on the second anniversary of its receipt, bearing an interest rate of 1% per annum, with the possibility of absolute forgiveness if eligible. During the fourth quarter management received confirmation that one of its loans had met the requirements for forgiveness and accordingly recorded the amounts received under this program in income from operations. Management is confident the remaining loan amounts will also be forgiven, and as such have applied the same recognition to those amounts in the current year.

Long-term indebtedness, including lease liabilities and the current portion of long-term debt, decreased to \$96.0 million from \$98.9 million at December 31, 2019. Long-term debt is comprised of the following components:



The decrease in long-term debt during 2020 was attributable primarily to the draw on the remaining balance of the Acquisition line and receipt of a Covid loan for \$7.9 million, offset by the initiation of principal repayments on the term loan and acquisition lines, as well as payment in full on one of the promissory notes and scheduled principal payments on the other promissory notes. The first term loan payment, originally scheduled for December of 2019, was delayed into January 2020. Due to the current economic situation related to COVID-19, as further discussed in the "Risk Management" section and elsewhere in this report, the Company's lending institution deferred the principal repayment that was due on or before March 31, 2020 and subsequently amended the credit facility providing for deferral of principal payments for the quarters ended June 30 and September 30, 2020. With the extension of the Covid Loan to November 30, 2020 reinstatement of principal payments on the acquisition line and capital expenditure line started September 30, 2020.

We monitor our capital structure in accordance with the covenants required under our credit facility and the available of long-term capital to support growth opportunities.

The outstanding balance under the revolving operating line fluctuates from quarter to quarter as it is drawn to finance working capital requirements, capital expenditures and acquisitions, and is repaid with funds from operations, dispositions or financing activities.

The Company is required to comply with certain covenants, terms and conditions under the credit facilities. These covenants include a fixed charge coverage ratio, a minimum monthly EBITDA, a total funded debt to EBITDA and a total senior debt to EBITDA covenant calculated on a rolling quarterly or monthly basis. Requirements under these covenants are as follows:

- (i) Minimum fixed charge covenant ratio of 1.10 as at December 31, 2020 and increasing to 1.25 commencing the quarter ended March 31, 2021 and beyond;
- (ii) Maximum total senior debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.00:1.00 for December 2020, decreasing to 3.50:1.00 for March and June 2021 and 3.00:1.00 for each fiscal quarter ended thereafter;
- (iii) Maximum total funded debt to EBITDA ratio at each month end, based on the most recently completed four fiscal quarters, during each of the fiscal quarters of 4.75:1.00 for December 2020, decreasing to 4.25:1.00 for March and June 2021 and 3.75:1.00 for each fiscal quarter thereafter;
- (iv) A minimum monthly EBITDA to \$1,500 for the three months ended December 31, 2020.

At December 31, 2020 we were in full compliance with covenants under the Second Amended and Restated Credit Agreement.

A condition to the original Credit Agreement is that the Company must enter into interest rate swaps for a minimum of 50% of the value of the term loan. 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 spreads of 1.00% - 3.00%, for an aggregate fixed interest rate of 4.97%. During the three and twelve months ended December 31, 2020 the Company recorded a mark-to-market gain of \$0.1 million and loss of less than \$0.1 million, respectively, related to this swap arrangement. The notional amount currently outstanding is \$19.3 million. The loss incurred in the first quarter of 2020 was significant due to the economic impact of COVID-19 on markets. Further discussion on this can be found in the "Risk Management" section of this report.

There can be no assurance that additional funding to replace the maturing facilities will be available on acceptable terms or at all, when and if required. If adequate funds are not available when required, the Company may have to substantially reduce or eliminate planned expenditures or delay programs designed to expand services of the Company. If the Company is unable to obtain additional funding when and if required, the Company may be unable to continue operations. As there can be no certainty as to the resolution of the above matters, there is material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern (see FORWARD-LOOKING INFORMATION AND GOING CONCERN on page 2).

## Summary of Cash Flows

The following table summarizes Spark Power's cash flows for the three and twelve-months ended December 31, 2020 and 2019:

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Operating activities	\$ 3,480	\$ (311)	\$ 7,945	\$ 2,879
Investing activities	(1,182)	(9,128)	(3,709)	(27,065)
Financing activities	(7,348)	7,974	(8,083)	14,256
<b>Increase in bank indebtedness</b>	<b>(5,050)</b>	<b>(1,465)</b>	<b>(3,847)</b>	<b>(9,930)</b>
Bank indebtedness, beginning of period	(20,394)	(20,132)	(21,597)	(11,667)
<b>Bank indebtedness, end of period</b>	<b>\$ (25,444)</b>	<b>\$ (21,597)</b>	<b>\$ (25,444)</b>	<b>\$ (21,597)</b>

**Cash flows from operating activities**

For the twelve-months ended December 31, 2020, cash generated by operating activities increased \$5.1 million compared to the same period in 2019. The increase in cash flow from operations was primarily attributable to a decrease in net income for the period of \$2.4 million compared to 2019, an increase in credit loss provision of \$3.4 million, an increase in amortization and depreciation of \$7.8 million, an decrease in amounts due from earn-out and reorganization costs of \$2.8 million, and an decreased investment in non-cash working capital of \$7.8 million.

**Cash flows from investing activities**

For the twelve-month period ended December 31, 2020, cash used in investing activities was \$3.7 million as compared to \$27.1 million the same period in 2019. The decrease of \$23.4 million was primarily attributable to a decrease in capital expenditures in 2020 of \$4.3 million and a decrease in cash invested in acquired businesses of \$18.6 million.

**Cash flows used for financing activities**

For the twelve-month period ended December 31, 2020 cash used related to financing activities increased to \$8.1 million as compared to cash generated of \$14.3 million in 2019. The change of \$22.4 million resulted from a reduction in share issuance proceeds of \$5.6 million and a reduction in proceeds of new debt of \$13.4 million and an increase in repayments of long-term debt, lease liability, deferred financing fees and promissory notes of \$3.4 million.

**External Factors Impacting Liquidity**

Please refer to the "Risks" section contained in the Spark Power Group Inc. Annual Information Form filed under the Company's profile at [www.sedar.com](http://www.sedar.com), for a description of circumstances that could affect our sources of funding.

**Working Capital and Adjusted Working Capital**

Working Capital includes short-term investments, accounts receivable, HST receivable, government grant receivable, current portion of lease receivable, contract assets, inventory, and prepaid expenses and deposits, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, contract liability, and the current portion of long-term debt, promissory notes and lease liability. Adjusted Working Capital excludes the current portion of long-term debt, promissory notes and lease liability, and therefore provides management and investors with a clearer understanding of the efficiency of operational working capital needs absent working capital required as a result of capital structure.

Spark Power's main sources of liquidity have been cash generated from operating activities and borrowings under its existing and previous credit facilities. At December 31, 2020 Working Capital (deficiency) and Adjusted Working Capital were (\$51.8) million and (\$42.3) million, respectively, compared with \$3.2 million and \$22.7 million, respectively at December 31, 2019. The change in adjusted working capital of \$64.9 million was due to impact of the non-revolving term loan and the revolving acquisition line being classified as a current liability at December 31, 2020.

The following table outlines how our working capital measures are determined:

(in \$000's)	December 31 2020	December 31 2019
<b>Working capital (deficiency)</b>	<b>\$ (49,937)</b>	<b>\$ 3,176</b>
Current portion of long-term debt	-	9,006
Current portion of promissory notes	3,750	4,325
Current portion of lease liability	5,800	6,149
<b>Adjusted working capital (deficiency)</b>	<b>\$ (40,387)</b>	<b>\$ 22,656</b>

The Company believes that adjusted working capital provides a better understanding of period-on-period comparisons of results as it reflects the results of operations of companies. See "NON-IFRS MEASURES" at the end of this report.



Adjusted working capital consists of the following:

(in \$000's)

	December 31 2020	December 31 2019
Non-cash working capital balances	\$ (14,943)	\$ 44,253
Operating line	(25,444)	(21,597)
<b>Adjusted working capital (deficiency)</b>	<b>\$ (40,387)</b>	<b>\$ 22,656</b>

### Contractual Obligations

The following table summarizes the Company's contractual maturities and carrying amounts of financial liabilities as at December 31, 2020:

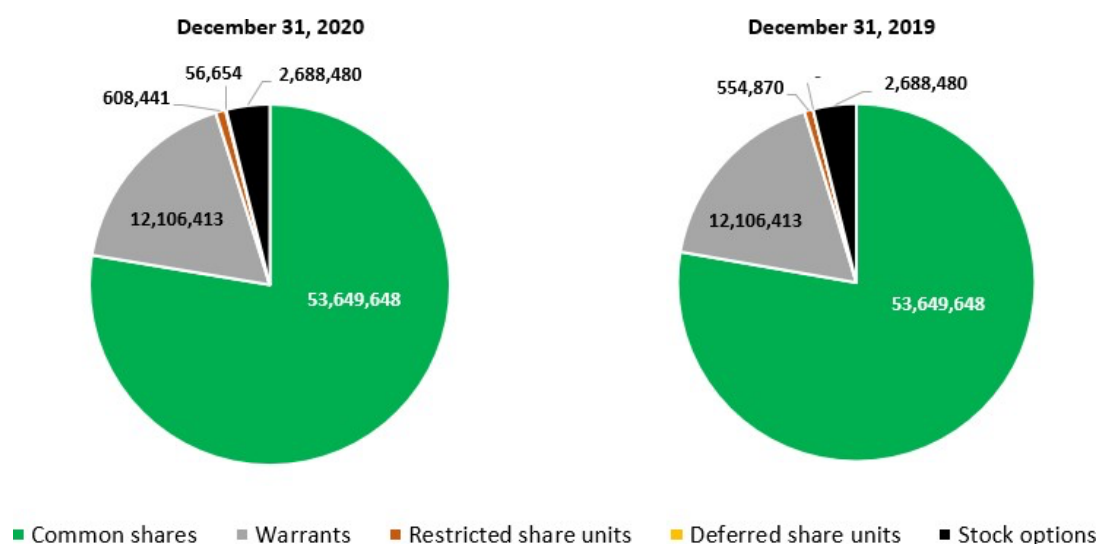
2020	Carrying amount	Contractual cash flow	2021	2022	2023	2024	2025
Bank indebtedness	\$ 25,444	\$ 25,444	\$ 25,444	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	37,758	37,758	37,758	-	-	-	-
Long-term debt	66,572	68,301	68,301	-	-	-	-
Promissory notes	10,738	11,418	4,227	7,191	-	-	-
Lease liability	17,285	19,446	6,873	4,785	2,795	1,692	3,301
Future lease commitment	-	15,020	-	904	904	904	12,308
	<b>\$ 157,797</b>	<b>\$ 177,387</b>	<b>\$ 142,603</b>	<b>\$ 12,880</b>	<b>\$ 3,699</b>	<b>\$ 2,596</b>	<b>\$ 15,609</b>

Spark Power manages its risks of failing to discharge its financial liabilities in a timely manner through cash forecasting and prudent management of its capital structure to ensure it has sufficient resources to meet contractual obligations as they become due.

Spark Power has no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on the Companies financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Outstanding Share Data

The total number of fully diluted outstanding and issuable Common Shares is as follows:



## **Warrants**

At December 31, 2020 the Company had 11,776,648 warrants outstanding of which 10,833,333 were issued in connection with the Spark Power Acquisition. Each whole warrant gives the right to purchase 1.028 Common shares at an exercise price of \$3.45 per Common share for a term of 5 years. These warrants have been measured using the Black-Scholes method.

## **Stock options, Restricted share units, and Deferred share units**

The Company has an Omnibus Equity Incentive Plan ("the Plan"). Under the terms of the plan, directors, officers, employees and consultants, subject to certain conditions, may be granted options to purchase common shares, Restricted Share Units ("RSU"), and Deferred Share Units ("DSU") of the Company. Options generally expire after ten years, with vesting provisions stated in the plan. RSU's generally vest over 3 years or cliff vest after 3 years and are granted in accordance with the plan and DSU's vest immediately.

The Plan provides for RSU's and DSU's to be issued to directors, officers, employees and consultants of the Company so that they may participate in its growth and development. Subject to the specific provisions of the RSU and DSU plans, eligibility, vesting period, terms of the RSU's and DSU's and the number of RSU's and DSU's granted are to be determined by the Board of Directors at the time of the grant. The Plan allows the Board of Directors to issue equity settled RSU's, provided that, when combined, the maximum number of common shares reserved for issuance under all stock-based compensation arrangements of the Company does not exceed amounts available for issuance under regulatory guidelines.

## **OUTLOOK**

The North American economy, which was relatively strong in early 2020, significantly contracted beginning in late March, following the onset of the COVID-19 pandemic. While many of the end markets served by the Company quickly deteriorated in March and April, such as our Canadian and US commercial and industrial services business, others remained relatively healthy, such as our renewables business in the US and utility focused business in Western Canada. As we moved into June and the third quarter, most end markets began to improve, and this trend has continued into the fourth quarter.

Spark remained fully operational, by leveraging its diverse customer base that includes revenue stability from our regulated utility and renewable asset customers and the availability of Government subsidies in Canada and the US to support our employees. While the re-opening of economies has commenced in many jurisdictions, the resurgence in infection rates could delay or even reverse these re-opening activities, adversely affecting some of our business. Our customers are taking a measured approach to future non-essential projects. In general, the future economic impact of COVID-19 remains unclear and the risk of multiple waves of Coronavirus-related economic disruption, which could further weaken the end markets served by Spark operating companies and cause decline.

Management believes the Company is well prepared to navigate any deterioration in the economic landscape that may arise, in part due to the measures enacted in March in response to the pandemic. These measures spanned all operating companies and the entire workforce, and included a reduction of wages for all executives, a workweek reduction for our salaried employees, and a reduction-in-force prior to the availability of government subsidies.

Management has approached all decisions during the pandemic in a manner that should enable the Company to respond to ever changing conditions and emerge even stronger and quickly return to historical organic growth rates once operating conditions fully normalize.

In early 2021, Spark has continued to experience positive momentum in new bookings and generally improved market conditions. However, COVID-19 impacts on gross margins related to continued job-site protocols are still being experienced through most of the business segments. Management remains cautiously optimistic that given revenues, new bookings and customer activity remain high, that improvements in margins related to softening of COVID-19 protocols will be realized as the year continues, and the general vaccination programs and business openings continue to improve.

In early 2020, Spark formulated its new strategy with its promise of being its customer's Trusted Partner in Power™. A key element of this strategy was an intentional 2020 rebranding of all its subsidiary brands to Spark Power, with the exception of Bullfrog Power. Bullfrog Power remains the Sustainability brand for Spark and continues to be a leading brand in the Canadian market. In addition to the rebranding of the Spark companies, management also created a plan to undertake the final integration of its acquisitions in an effort to build the platform for further scalability in order to execute on its long-term growth strategy. These changes culminated in the new executive management structure launched in January 2021 transitioning the business from being founder led into a professionally managed operating company. This new management structure is flatter and well positioned to execute on Spark's growth strategy while at the same time continuing to build on the current Spark platform.

Each year of Spark's 5-year strategy is supported by Strategic Imperatives that drive the annual operating plans and budgets for each of its corporate functions and lines of business.

In 2021, Spark's Strategic Imperatives are as follows:

- Integration (Operations, Brand, Culture) & Platform
- Predictable Operational Excellence
- Recapitalization for Stability & Growth

Internal projects and major initiatives established from the Strategic Imperatives have launched and are being lead by members of Spark's senior leadership team. Major initiatives include a 2-year technology transformation focused on streamlining and integrating Spark's field operating systems, standardizing its IT network and fleet, enhancing cybersecurity, and ultimately migrating to a tier 1, enterprise class, ERP system. In support of its operations and technology transformation and in driving more predictable operational excellence, Spark has launched an Operational Excellence function focused on standardizing key business processes, driving continuous improvement programs, and enhancing its acquisition/integration framework. Spark also launched a new set of values aligned with its strategy and brand promise. These values were finalized in Q4-2020 and launched in early 2021. They were established by conducting a 9-month Cultural Integration process starting with direct employee surveys and feedback on the topic of a desired 'One Spark' culture. Spark's new aspirational values in support of its strategy are: Team, Trust, Sustainability, Community and Excellence.

Successful execution of Spark's strategy relies heavily on management's focus on its field operations. In 2020, Spark launched its Field Focused Operating Model. The model supports the drive towards enhancing key business processes that foster more agility and speed in decision making in the field where Spark's direct interface with customers occur. The model is supported by a well-organized set of corporate functions that provide process ownership and support directly to the field operations of the company. Each line of business continues to be managed by a single leader and their dedicated leadership team who are in the market directly joined to the field.

To support its growth strategy, in 2020 Spark initiated a strategic review to evaluate and seek new sources of capital. Given the intense focus on managing through the pandemic, the review was paused for several months and re-initiated in Q4-2020. Management will continue to work with the special committee of the board to seek opportunities for fresh capital in order to execute its strategy.

Late in 2020 Spark finalized decisions on investments in its storm restoration businesses and new branch openings going into 2021. In early 2021, Spark has announced its enhanced storm restoration business unit. This growing business unit within Spark has added capacity to its fleet and manpower in support of its relationships with utility customers in the U.S. and Canada. Spark has already experienced growth of this business in 2021 and will continue to develop the business unit and operationalize it within its Canadian and U.S. branch network over the coming months. Spark also announced in early 2021 new branch openings in the U.S. in support of both its Technical Services and Renewables business segments. Locations in Bakersfield, CA, Houston, TX and in Albany, NY are now in various stages of opening and expect to be in full operation in H2-2021. Finally, Spark's Renewables business segment continues its strong growth. In 2020, Spark integrated its wind, solar and battery storage operations into one operating line of business. The Renewables business segment now includes four main offerings: wind O&M, Solar O&M, Battery Storage EPC and O&M, and Electrical Vehicle Infrastructure EPC & O&M. In 2020, Spark's wind services experienced major growth in the U.S. With the U.S. political administration change, management expects strong tail winds supporting market growth in the Renewables segment. In early 2021, Spark is already experiencing record growth in its U.S. solar operations. In light of the ongoing and expected growth, Spark's Renewables business segment will now be lead and managed from its corporate office in Dallas, TX.

## **OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES**

Spark Power has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company's financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

## SUMMARY QUARTERLY FINANCIAL INFORMATION

(in \$000's)

	For the three months ended							
	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
<b>Revenue</b>	\$ 66,865	\$ 61,436	\$ 46,340	\$ 53,512	\$ 57,999	\$ 52,045	\$ 44,274	\$ 34,272
Gross Profit	18,523	17,909	15,981	13,323	17,845	18,314	14,587	11,462
	27.7%	29.2%	34.5%	24.9%	30.8%	35.2%	32.9%	33.4%
<b>Income (Loss) from Operations</b>	306	3,742	4,366	(52)	4,150	5,138	2,715	707
Net income (loss)	(3,306)	2,070	1,232	(1,675)	1,215	2,620	(2,141)	(519)
<b>Adjusted Net Income (Loss)</b>	(3,306)	2,070	1,232	(1,675)	3,326	4,036	1,496	(519)
<b>Adjusted EBITDA</b>	8,873	8,984	9,112	5,380	8,212	8,229	5,483	3,225
<b>Adjusted EBITDA Margin</b>	13.3%	14.6%	19.7%	10.1%	14.2%	15.8%	12.4%	9.4%
<b>Pro-forma Revenue</b>	66,865	61,436	46,340	53,512	61,558	62,253	55,211	43,275
<b>Pro-forma Adjusted EBITDA</b>	8,873	8,984	9,112	5,380	8,933	9,772	8,034	4,751
<b>Pro-forma Adjusted EBITDA Margin</b>	13.3%	14.6%	19.7%	10.1%	14.5%	15.7%	14.6%	11.0%
<b>Pro-forma Adjusted LTM EBITDA</b>	32,407	32,568	33,196	32,118	31,489	30,173	28,882	30,078
<b>Pro-forma Adjusted LTM EBITDA Margin</b>	14.2%	14.6%	14.8%	13.8%	14.2%	14.6%	15.0%	16.3%
<b>Pro-forma LTM Revenue</b>	228,153	222,846	223,663	232,534	222,297	207,146	192,540	184,256

**Note:** (1) "Adjusted EBITDA", Adjusted EBITDA margin", "Adjusted Net Income (loss)", Pro-forma Revenue", "Pro-forma Adjusted EBITDA", "Pro-forma Adjusted LTM EBITDA", "Pro-forma Adjusted EBITDA margin", Pro-forma LTM Revenue" are non-IFRS measures. Refer to Non-IFRS Measures" for definitions of these terms

## SIGNIFICANT ACCOUNTING JUDGEMENTS 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 and estimates in recognizing revenue, determination of appropriate provisions, useful lives of assets, valuation of equity transactions, valuation of business combinations, discount rate of lease liabilities, valuation of derivative financial instruments, impairment of property and equipment and intangible assets, and impairment of goodwill. By their nature, these judgments and 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 long-term construction contracts, as they are long-term in nature and contain consideration that is variable based on a number of uncertain factors, such as change orders, reserves set up for additional costs/overruns, etc. Also, the Company estimates progress towards completion and gross margins to be earned at the end of these construction contracts, where a change in these estimates may have a material impact on the overall revenue recognized for the period.

*Construction contracts* – The Company determines the extent to which the estimate of variable consideration is constrained (and therefore excluded from the measurement of revenue) by considering historical trends and the lowest levels of annual incentive fees earned in the past (Note 3).

*Management contracts* – 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.

*Expected credit losses* – Expected credit losses associated with accounts receivable and contract assets 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 year-end. (Notes 4 and 18)

*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.

*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 and amortization rates. (Notes 8 and 9)

*Valuation of business combinations* - Significant estimates and assumptions are required to determine the purchase price allocation of business combinations including determination and the valuation of intangible assets acquired. (Note 20)

*Lease liability* – The lease liabilities associated with all property, equipment 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 estimates 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. Additionally, management makes certain assumptions regarding the extension and termination options available within its lease arrangements to determine the overall lease term. This requires significant estimates and assumptions from management that may have an impact on the Financial Statements. (Note 14)

*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, including power purchase arrangements, 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 12 and 18)

*Impairment of property and equipment and intangible assets* – At the end of each reporting period, the Company reviews the carrying amounts of property and equipment to determine whether there is any indication of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset in order to determine the extent of the impairment loss, if any. The Company generally assesses impairment at the level of cash-generating units ("CGU"), which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of cash inflows from other assets. Impairment is assessed by comparing the CGU's carrying value with its net recoverable amount. The preparation of future cash flows requires management to make estimates and assumptions with respect to expected revenues and expenses, which are subject to change.

*Impairment of goodwill* – The annual test of impairment of goodwill is completed based on management's estimates of future performance of the related CGU based on past history and economic trends, plus estimates of the weighted average cost of capital. When circumstances warrant, impairment testing will be completed on a quarterly basis. (Note 10)

For the purpose of impairment testing, goodwill that is allocated to CGUs is compared to the net recoverable value of the CGU. The recoverable amount of each CGU was determined based on value-in-use calculations calculated using a discounted cash flow model based on a reasonable forecast of operations for each CGU.

Various assumptions are used in forecasting the business the most significant of which include:

- **Discount rates** – The discount rates reflect appropriate adjustments relating to market risk and risk factors specific to the business in general.
- **Revenue growth rates** – Revenue growth rates assumed consider historical trends in the business unit, the general economic environment and managements views on business risks and opportunities that may exist that will impact the relevant CGUs.
- **Gross margin realizations** – Gross margin realizations assumed for each CGUs consider historical trends, recent trends impacted by current economic environment and business mix within the CGUs. Outside factors considered include the state of the general economy in the region and its impact of competitive forces on pricing and levels of investment in our customers' businesses.

The estimate of the recoverable amount for the CGUs is most sensitive to the assumptions noted above. Changes in any of these key inputs/assumptions could result in a significant change to the determination of goodwill impairment.

## SIGNIFICANT ACCOUNTING POLICIES

### Revenue Recognition

The Company derives revenue from the provision of services and sale of equipment, as segregated in primarily five revenue streams:

- *Service contracts* for the inspection, testing, repair and maintenance of electrical generating equipment. Contracts are typically short-term in nature (i.e., less than 3 weeks). Payment is due upon completion of the contract.
- *Construction contracts* for the development, construction and procurement of electrical generating equipment. Contracts may last for several months to more than one year. Payment is due in milestones as the contract is completed.
- *Contracts for the management* of client electrical generating equipment, including the procurement of maintenance services, recordkeeping and day-to-day operations. Contracts are long term in nature and are typically for the period of time equal to the energy contract held by the client. Payment is due based on a fixed amount annually per-site monitored plus, an incentive fee as performance metrics are achieved on an annual basis.
- *Equipment sales contracts* for the fabrication of custom electrical equipment used in low, medium and high voltage applications. Contracts may last from several days to several months depending on material lead times. Advance payment is due on larger contracts based on completed milestones, and on smaller contracts when the product is shipped.
- *Retirement of green energy certificates* (including green electricity certificates, green natural gas certificates and green fuel certificates) for green energy certificate customers. Contracts may last for several months to more than one year, where payments are due at the end of each contracted month.

The Company offers limited time warranties on the quality of its work being free from material defects. In accordance with IFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the cost of satisfying these "assurance-type" warranties in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

### **Goodwill**

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed, and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. Direct costs of acquisitions are recognized immediately as an expense. Goodwill is capitalized as an asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess representing the bargain purchase is credited in full to the consolidated statement of comprehensive income on the acquisition. The Company has had no bargain purchase on its acquisitions during the current or prior year.

### **Intangible Assets**

The Company has certain externally acquired intangible assets through business combinations (Note 20) that are initially recognized at their fair values, using appropriate valuation techniques, and subsequently amortized on a straight-line basis over their useful economic lives when they have a finite useful life.

Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

Intangible assets determined to have an indefinite useful life are recorded at cost and not subject to amortization. The Company does not have significant indefinite life intangible assets.

### **Property and Equipment**

Property and equipment are recorded at cost net of accumulated depreciation and write-downs for impairment, if any. Depreciation is calculated on a declining balance basis, except for the depreciation of our leased assets which are calculated on a straight-line basis over their estimated useful lives.

### **Impairment of Non-Financial Assets**

Impairment tests on goodwill are undertaken annually at the financial year end. Other non-financial assets are subject to the impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Recent events have given rise to significant judgement and estimation uncertainty, such as project delays and government restrictions. As such, impairment tests on goodwill are being performed on a quarterly basis. See Note 2 – Impairment of Goodwill.

## Leases

All leases are accounted for by recognizing a right-of-use asset in property and equipment and a lease liability except for leases of low value assets and leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent 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 similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. Further, lease terms are based on assumptions regarding extension terms that allow for operational flexibility and favorable future market conditions.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to exercise that option;
- any penalties payable for terminating the leases, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset, whichever is shorter.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that was applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use assets, with the revised carrying amount being amortized over the remaining lease term.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease. That is, the Company does not allocate any amount of the contractual payment to, and account separately for, any services provided by the supplier as part of the lease contract.

## 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 December 31, 2020.

There were no transfers between levels during the period.

The financial instruments recorded at fair value are the Interest Rate Swap arrangement, derivative financial instruments such as power purchase agreements and hedge agreements, 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 in the amount of (\$367) (2019 – (\$326)) has been recorded to finance expense using Mark-to-Market ("MtM") information as at December 31, 2020 from a third party. The fair value of both the PPA and the Hedge arrangement are considered not material. Both are categorized as Level 2.

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

The fair values of the borrowings approximate their carrying values as they 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.

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.

### **Financial Assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following three categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. The Company does not have any financial instruments classified as fair value through other comprehensive income.

#### *Amortized cost*

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely the payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issues and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for accounts receivables and contract assets are recognized based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During the process of reviewing accounts receivable and contract assets for impairment, the probability of the non-payment of the accounts receivable and contract assets is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for accounts receivables and contract assets. For accounts receivables and contract assets, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within operating expenses in the Consolidated Statement of Comprehensive Loss. On confirmation that a certain accounts receivable or contract assets will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's financial assets measured at amortized cost comprise of accounts receivable, government grants receivable, and contract assets.

#### *Fair value through profit or loss*

These assets are carried in the Consolidated Statement of Financial Position at their fair value with changes in fair value recognized in the Consolidated Statement of Comprehensive (Loss) Income in the finance income (expense) line. Transaction costs associated with financial instruments measured at fair value through profit or loss are expensed as incurred.

The Company's financial instruments classified at fair value through profit or loss include derivative financial instruments such as interest rate swaps, power purchase arrangements and hedge arrangements.

The Company has entered into an interest rate swap arrangement ("Interest Rate Swap") to manage interest rate exposures on a portion of its non-revolving term loan with Bank of Montreal. Under this arrangement, the Company receives a fixed Banker's Acceptance ("BA") rate (adjusted for credit spread of 2.00% - 3.00%) in exchange for a variable prime plus 0.75% - 1.75%. While this agreement economically hedges the risk of changes in cash flows due to fluctuations in interest rates, hedge accounting has not been applied for these instruments. The fair value of the Interest Rate Swap is based on the current market value of similar contracts with similar remaining durations as if the contract had been entered into on December 31, 2020.

The Company entered into a Hedge arrangement ("Hedge") to manage the fluctuations related to the power purchase agreement entered into with BluEarth Renewables. Under this arrangement, the Company is responsible for any excess risk in the current market. While this agreement economically hedges the risk of changes in cash flows due to fluctuations in power rates, hedge accounting has not been applied for these instruments. The fair value of the Hedge is based on the current market value of similar contracts with similar remaining durations as if the contract had been entered into on December 31, 2020.



## Financial Liabilities

The Company classifies its financial instruments into one of two categories, depending on the purpose for which the liability was acquired.

### *Fair value through profit or loss*

This category comprises of contingent consideration for the earn-out related to the acquisition of One Wind Services Inc. and One Wind Services (US) Inc.

### *Other financial liabilities*

Other financial liabilities include bank indebtedness, accounts payable and accrued liabilities, contract liabilities, long-term debt, promissory notes, and lease liabilities, which are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position.

## DISCLOSURE CONTROLS AND PROCEDURES (“DC&P”) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)

Management is responsible for the design and operational effectiveness of DC&P and ICFR in order to provide reasonable assurance regarding the disclosure of material information relating to the Company. This includes information required to be disclosed in the Company's annual filings, interim filings and other reports filed under securities legislation, as well as the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Consistent with *National Instrument 52-109*, the Company's Co-CEO's and CFO evaluate quarterly the DC&P and ICFR. As of December 31, 2019, the Company's Co-CEO's and CFO concluded that the Company's DC&P and ICFR were properly designed and were operating effectively. In addition, there were no material changes to ICFR during the year.

Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has identified the material weakness outlined below:

### *Material weakness*

The material weakness identified in our internal controls over financial reporting at September 30, 2020 is that we did not sufficiently design internal controls to provide the appropriate level of oversight regarding the review of the Company's financial reporting. This weakness will continue to be addressed into 2021. Consistent with our stage of development, we continue to rely on risk-mitigating procedures during our financial closing process in order to provide comfort that the financial statements are presented fairly in accordance with IFRS.

### *Changes in internal controls over financial reporting*

Management has evaluated whether there were changes to our internal controls over financial reporting during the period ended December 31, 2020 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting. No such changes were identified through evaluation of the Company. As the Company continues to improve its internal controls over financial reporting, it will resume the engagement of external counsel to provide additional oversight to the financial reporting review process.

## 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, risk from infectious diseases, credit risk, interest rate risk and liquidity risk. Except for the risks highlighted by the current pandemic, 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.

### *Infectious Diseases*

Outbreaks or the threat of outbreaks of viruses or other infectious diseases or similar health threats, including the novel coronavirus

(COVID-19) outbreak, could have a material adverse effect on the Company by causing operational and supply chain delays and disruptions (including as a result of government regulation and prevention actions), labour shortages and shutdowns, decreased demand, declines in gross margin realizations, capital markets volatility, or other unknown but potentially significant impacts. At this time the Company cannot accurately predict what effects these conditions will have on its long-term operations or financial results, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of the travel restrictions and business closures that have been or may be imposed by the governments of impacted countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in economic downturn that could result in a material adverse effect on the demand for the Company's services, investor confidence, and general financial market liquidity, all of which may adversely affect the Company's business and the market price of the Common Shares. Accordingly, any outbreak or threat of an outbreak of an epidemic disease or similar public health emergency could have a material adverse effect on the Company's business, financial condition, and results of operations.

### ***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. Amounts that are greater than 90 days old are not necessarily past their due date based on contractual payment terms. The Company determines there to be a significant increase in credit risk when balances are outstanding for more than 60 days past the customers' contractual payment terms.

The Company considers a receivable to be in default when contractual payments are 120 days past due, except when they are within terms. 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. A 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 4 of the financial statements.

The Company's balances of bank indebtedness and short-term investments also subject the Company to credit risk. Bank indebtedness 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.

The revolving facilities bear interest at a variable rate; however, the balance of the lines is continually adjusted based on the balance held in the operating accounts, mitigating the Company's interest rate risk. Therefore, the interest rate risk and cash flow exposure are not significant. The long-term debt also bears interest at a variable rate. At December 31, 2020, if interest rates had been higher by 2% with all other variables held constant, net loss would have been \$1.3 million higher. A decline in interest rates of 0.25% would have decreased the Company's net loss by \$0.2 million.

In November 2018, the Company entered into an Interest Rate Swap to effectively fix the interest rate on \$22,000 of its \$44,000 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%), where plus or minus 1% would not have a material impact on the statements. Notional amount of interest rate swaps outstanding at December 31, 2020 were \$19,250 (2019 - \$22,000). 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 year ended December 31, 2020, the Company incurred a loss of \$41 that has been included in finance expense (2019 – gain of \$76) as a result of this Interest Rate Swap.

### ***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 quarterly information regarding cash balances and cash flow projections. The liquidity risk of each subsidiary is managed centrally by the treasury function.

## RISKS AND UNCERTAINTIES

The following is a brief discussion of the risks and uncertainties facing the company which may have a material impact on the Company's future financial performance. Please refer to the "Risks" section contained in the Spark Power Group Inc. Annual Information Form ("AIF") which will be available on or before April 1, 2021 filed under the Company's profile at [www.sedar.com](http://www.sedar.com).

- Volatility in the electricity business and industry conditions – such as the demand for Spark Power's services may decline, which may reduce Spark Power's revenue and earnings
- Unionization of the Corporation's work force could drastically impact the Corporation's business model, which may reduce revenue and earnings
- Contract bidding risk
- Contractual factors
- Risks related to the credit facility
- Political risks with the federal, provincial and state governments
- The wind and solar power markets are still at a relatively early stage of development and future demand for wind and solar power services is uncertain
- The Federal, State and Provincial Governments may revise, reduce or eliminate subsidies and economic incentives for wind and solar power, which could cause demand for the Corporation's services to decline
- Availability of qualified employees
- Servicing projects for the power sectors exposes the Corporation to unique industry risks
- Changes in tax law may have a material adverse effect on the Corporation's business, financial condition and results of operations
- The Corporation faces a number of risks involving its customer agreements and project-level financing arrangements, including defaults by counterparties and contingent contractual terms such as price adjustment, termination, buy-out, acceleration or other clauses, all of which could materially and adversely affect the Corporation's financial condition, results of operations and cash flows
- Because the markets in which the Corporation competes are highly competitive and quickly evolving, because some of the Corporation's competitors have greater resources than the Corporation does or are more adaptive, and because the Corporation has a limited track record in the energy segment, the Corporation may not be able to compete successfully and may not be able to maintain or increase its market share in the provision of its services.
- The Corporation is subject to numerous laws and regulations at the federal, provincial and local levels of government in the markets where it does business. Any changes to these regulations and policies may present technical, regulatory and economic barriers to the Corporation's services, which may significantly reduce demand for its services or otherwise adversely affect the Corporation's financial performance
- The Corporation's quarterly operating results may fluctuate from period to period based on a number of factors, including:
  - the average selling prices of its power services,
  - the timing of completion of construction of its customer's energy and power projects,
  - the timing and pricing of its services,
  - the rate and cost at which the Corporation is able to expand its customer servicing capacity,
  - the availability and cost of goods from its suppliers and manufacturers,
  - changes in government incentive programs and regulations, particularly in the Corporation's key target markets,
  - the unpredictable volume and timing of customer orders,
  - the loss of one or more key customers or the significant reduction or postponement of orders,
  - the availability and cost of external financing for on-grid and off-grid power applications,
  - acquisition and investment costs,
  - foreign currency fluctuations, particularly in the U.S. dollar,
  - the Corporation's ability to establish and expand customer relationships,
  - the timing of new services or technology introduced or announced by the Corporation's competitors,

- allowances for doubtful accounts and advances to suppliers,
  - inventory write-downs,
  - long-lived asset impairment,
- Reputation and Financial Results Could be Harmed in the Event of Accidents or Incidents
- Litigation
- General global economic conditions may have an adverse impact on the Corporation's operating performance and results
- Seasonal variations in demand linked to construction cycles and weather conditions may influence the Corporation's results of operations
- If the Corporation's cash from operations is not sufficient to meet its current or future operating needs, expenditures and debt service obligations, its business, financial condition and results of operations may be materially and adversely affected.
- The loss of one or more significant customers may cause fluctuations or declines in the Corporation's revenues
- Failure to protect the Corporation's intellectual property rights may undermine its competitive position
- Delays and cost overruns in the design and construction of projects
- The Corporation may face health, safety and environmental risks
- The Corporation may become exposed to liabilities as a result of its consulting business
- May face difficulties in obtaining necessary permits to complete its services for its customers
- Equipment failure or unexpected operations and maintenance activity may unduly delay or disrupt the Corporation's energy and power projects
- The Corporation may face difficulties in social acceptance of its customers' renewable energy projects
- Customer may face adverse claims to its land title
- Customers may be hindered in their ability to secure appropriate land for the Corporation to provide its energy and power services
- Customers may not have reliable transmission and/or distribution systems for its electricity available
- The Corporation may experience breaches in its cybersecurity which may delay or disrupt its energy or power services or create losses in customer loyalty
- The Corporation must successfully maintain and upgrade its information technology systems, and its failure to do so could have a material adverse effect on its business, financial condition and results of operations
- If the Corporation fails to adopt new technologies or adapt its systems to changing consumer requirements or emerging industry standards, its business may be materially and adversely affected.
- Use of social media may materially and adversely affect the Corporation's reputation or subject it to fines or other penalties
- The Corporation is subject to insurance-related risks
- Parties with whom the Corporation does business with may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to the Corporation
- Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect the Corporation's reported financial results or financial condition
- The market price for Common Shares may be volatile and could decline in value
- If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about the Corporation or its business, the Common Share trading price and volume could decline
- The Corporation's equity compensation plans may adversely impact its financial results
- The Corporation's future business depends in part on its ability to make strategic acquisitions, investments and divestitures and to establish and maintain strategic relationships, and the Corporation's failure to do so could have a material and adverse effect on its market penetration and revenue growth
- Unexpected costs or liabilities related to future acquisitions

- No assurance of future performance of acquisitions
- The Corporation may fail to realize the anticipated benefits of its acquisitions
- Risks related to acquisition financing
- The Corporation may not be able to successfully implement and manage its growth

# CORPORATE INFORMATION

## SPARK POWER HEAD OFFICE

1315 North Service Road East – Suite 300  
Oakville, Ontario L6H 1A7 Canada

## LISTING

TSX:SPG  
SPG.WT

## AUDITORS

BDO Canada LLP

## TRANSFER AGENT

TSX Trust Company

## ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Wednesday June 23, 2021 at 10:00 am ET  
Spark Power Corp, 1315 North Service Road East – Suite 300  
Oakville, Ontario L6H 1A7 Canada

Additional information about Spark Power has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [sedar.com](http://sedar.com)