



## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 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 six months ended June 30, 2020, dated August 12, 2020, should be read in conjunction with the December 31, 2019 Consolidated Annual Financial Statements and related notes thereto and the 2019 Management Information Circular. 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.sparkpowercorp.com](http://www.sparkpowercorp.com). Unless otherwise specified all amounts are expressed in Canadian dollars.

## FORWARD-LOOKING INFORMATION

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.

## PRESENTATION OF FINANCIAL INFORMATION

The condensed consolidated interim financial statements ("financial statements"), including the required comparative information, have been prepared in accordance with International Financial Reporting Standards ("IFRS") for Interim Financial Reporting (IAS 34), 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.

## 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 and reorganization costs, 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 period for the period prior to acquisition.

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

**"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 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.

**"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.

**"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 Net Comprehensive Income (Loss)"** means net 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") 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 is focused on becoming its customers' Trusted Partner in Power™, taking advantage of the opportunities presented by a dynamic market.

Spark is working to become our customers' first and only call for all their power services needs. Our customers value that we 'keep them up and running' at a competitive price and they value the consistency and quality of service they receive by having a strategic relationship with Spark Power. We compete by:

- offering a complete set of solutions for our customers;
- by being truly independent of any equipment or solutions provider;
- by being 'local', where our employees live and work in the communities we serve; and
- by offering scale – to provide the breadth of services required for any job, no matter how complex, and being able to provide the expertise and advice our customers require.

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.

We have 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.

In order to create a more scaleable business platform, Spark implemented a regional operating model. The Corporation now operates in five key lines of business, and will be reporting its financial statements on this basis from January 1, 2020.

The Technical Services business has been split into the three regions (Eastern Canada, Western Canada, USA). In addition, the Solar operations and maintenance ("O&M") and Wind O&M businesses have been moved from the Technical Services business into a new division called Renewables. We have also moved the Battery Energy Storage Systems ("BESS") business, previously part of Power Advisory & Sustainability Solutions, into the Renewables division. The Equipment Sales business is now embedded in the Eastern Canada business, effectively as part of the business' supply chain. Finally, Power Advisory & Sustainability Solutions is now referred to as Sustainability Solutions.

Beginning in the fall of 2019, and fully effective as of January 1, 2020, the Corporation operates the following five lines of business:



## SUMMARY FINANCIAL INFORMATION

The selected information presented below has been derived from and should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2020 and 2019.

(in \$000's)

|                                              | Three months ended June 30, |                   | Six months ended June 30, |                   |
|----------------------------------------------|-----------------------------|-------------------|---------------------------|-------------------|
|                                              | 2020                        | 2019              | 2020                      | 2019              |
| Revenue                                      | \$ 46,340                   | \$ 44,274         | \$ 99,852                 | \$ 78,547         |
| Cost of sales                                | 30,359                      | 29,687            | 70,548                    | 52,497            |
| <b>Gross profit</b>                          | <b>15,981</b>               | <b>14,587</b>     | <b>29,304</b>             | <b>26,050</b>     |
| Selling, general and administrative expenses | 11,615                      | 11,872            | 24,990                    | 22,627            |
| <b>Income from operations</b>                | <b>4,366</b>                | <b>2,715</b>      | <b>4,314</b>              | <b>3,423</b>      |
| Finance costs                                | (1,608)                     | (1,308)           | (3,398)                   | (2,597)           |
| Transaction costs                            | -                           | (536)             | -                         | (536)             |
| Reorganization and other non-recurring costs | (1,119)                     | (1,000)           | (1,119)                   | (1,000)           |
| Earn-out                                     | -                           | (2,100)           | -                         | (2,100)           |
| Foreign exchange gain (loss)                 | (294)                       | 14                | 87                        | (28)              |
|                                              | (3,021)                     | (4,930)           | (4,430)                   | (6,261)           |
| <b>Income (loss) before income taxes</b>     | <b>1,345</b>                | <b>(2,215)</b>    | <b>(116)</b>              | <b>(2,838)</b>    |
| Income tax recovery (expense):               |                             |                   |                           |                   |
| Current                                      | (982)                       | 960               | (1,696)                   | 1,436             |
| Deferred                                     | 869                         | (886)             | 1,369                     | (1,257)           |
|                                              | (113)                       | 74                | (327)                     | 179               |
| <b>Net income (loss)</b>                     | <b>1,232</b>                | <b>(2,141)</b>    | <b>(443)</b>              | <b>(2,659)</b>    |
| Cumulative translation adjustment            | 216                         | -                 | (442)                     | -                 |
| <b>Comprehensive income (loss)</b>           | <b>\$ 1,448</b>             | <b>\$ (2,141)</b> | <b>\$ (885)</b>           | <b>\$ (2,659)</b> |
| EBITDA                                       | 7,993                       | 1,852             | 13,373                    | 5,079             |
| EBITDA margin                                | 17.2%                       | 4.2%              | 13.4%                     | 6.5%              |
| Adjusted EBITDA                              | 9,112                       | 5,488             | 14,492                    | 8,715             |
| Adjusted EBITDA margin                       | 19.7%                       | 12.4%             | 14.5%                     | 11.1%             |
| Pro-forma Adjusted EBITDA                    | 9,112                       | 8,039             | 14,492                    | 12,793            |
| Pro-forma Adjusted EBITDA margin             | 19.7%                       | 14.6%             | 14.5%                     | 13.0%             |
| Pro-forma Revenue                            | \$ 46,340                   | \$ 55,211         | \$ 99,852                 | \$ 98,485         |

## EBITDA, Adjusted EBITDA and Pro-forma EBITDA

The following table provides a reconciliation of our EBITDA measures:

(in \$000's)

| Reconciliation of net income (loss) to<br>EBITDA, Adjusted EBITDA and<br>Pro-forma Adjusted EBITDA | Three months ended June 30, |                   | Six months ended June 30, |                   |
|----------------------------------------------------------------------------------------------------|-----------------------------|-------------------|---------------------------|-------------------|
|                                                                                                    | 2020                        | 2019              | 2020                      | 2019              |
| <b>Net income (loss)</b>                                                                           | <b>\$ 1,232</b>             | <b>\$ (2,141)</b> | <b>\$ (443)</b>           | <b>\$ (2,659)</b> |
| Adjustments:                                                                                       |                             |                   |                           |                   |
| Finance expense                                                                                    | 1,608                       | 1,308             | 3,398                     | 2,597             |
| Income tax expense (recovery)                                                                      | 113                         | (74)              | 327                       | (179)             |
| Amortization and depreciation                                                                      | 5,040                       | 2,759             | 10,091                    | 5,320             |
| <b>EBITDA</b>                                                                                      | <b>\$ 7,993</b>             | <b>\$ 1,852</b>   | <b>\$ 13,373</b>          | <b>\$ 5,079</b>   |
| <b>EBITDA Margin</b>                                                                               | <b>17.2%</b>                | <b>4.2%</b>       | <b>13.4%</b>              | <b>6.5%</b>       |
| Adjustments:                                                                                       |                             |                   |                           |                   |
| Transaction costs                                                                                  | -                           | 536               | -                         | 536               |
| Reorganization and other non-recurring costs                                                       | 1,119                       | 1,000             | 1,119                     | 1,000             |
| Earn-out                                                                                           | -                           | 2,100             | -                         | 2,100             |
| <b>Adjusted EBITDA</b>                                                                             | <b>\$ 9,112</b>             | <b>\$ 5,488</b>   | <b>\$ 14,492</b>          | <b>\$ 8,715</b>   |
| <b>Adjusted EBITDA Margin</b>                                                                      | <b>19.7%</b>                | <b>12.4%</b>      | <b>14.5%</b>              | <b>11.1%</b>      |
| Other adjustments:                                                                                 |                             |                   |                           |                   |
| Pre-acquisition EBITDA for acquisitions                                                            | -                           | 2,551             | -                         | 4,078             |
| <b>Pro-forma Adjusted EBITDA</b>                                                                   | <b>\$ 9,112</b>             | <b>\$ 8,039</b>   | <b>\$ 14,492</b>          | <b>\$ 12,793</b>  |
| <b>Pro-forma Adjusted EBITDA Margin</b>                                                            | <b>19.7%</b>                | <b>14.6%</b>      | <b>14.5%</b>              | <b>13.0%</b>      |

## EXECUTIVE SUMMARY

We entered 2020 with strong momentum and maintained that performance through most of the first quarter of 2020. Our operations were exceeding expectations in comparison to our forecasts during the first ten weeks of the quarter. We were experiencing organic growth in addition to the growth from our 2019 acquisitions. However, when COVID-19 hit in the second half of March, and as government-mandated closures began to take effect, demand declined in many areas of the economy and had a direct and/or indirect impact on all of our business segments.

We continue to be in the midst of a serious health care crisis that is impacting our business in both Canada and the United States. The uncertainty that remains about the future, both locally and globally, is still strong and prevalent and continuing to impact 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 the second quarter as April and May 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.

Management began having conversations on COVID-19 as early as January 2020, beginning 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, many other companies were not as fortunate. Management began assessing the potential impact of COVID-19 on our business as early as January 2020, beginning with the development of plans on how we should approach any possible impacts. As the virus spread, our efforts intensified, 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;
- monitored cash flow and liquidity on a daily basis with a concerted effort by all functional groups to support the objective that cash in would exceed cash out on a weekly basis.

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. Sourced and purchased additional PPE, in some cases seeking alternative global suppliers.

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.
- successfully obtained government support for employee wages in both Canada and the United States securing \$8.0 million in funding under the Canada Emergency Wage Subsidy ("CEWS") program and an additional USD\$1.8 million (CAD\$2.5 million) under the Paycheck Protection Program ("PPP") during the second quarter. These funds 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 with employees to keep them informed of developments and how were working to navigate the pandemic successfully.
- initiated daily operating reviews, to maintain a detailed understanding of impacts on our business, with a focus on monitoring current and forecasted liquidity.

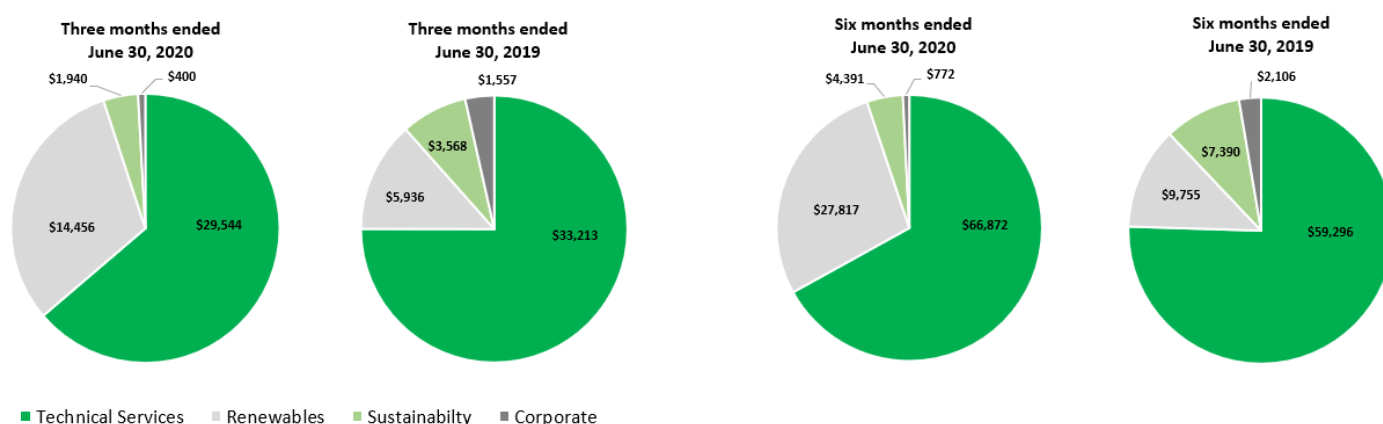
As we move forward into the third quarter and beyond, our focus will remain on maintaining maximum liquidity to support our business, managing costs and maintaining or increasing revenues with our customers, and working closely with our banking institution to identify opportunities to enhance our lending facilities in order to support future growth opportunities. Once the economy recovers and we return to some level of normality we will be well positioned to come out strong and work with our customers to satisfy their pent-up demands to expedite projects that were delayed due to the crisis.

## RESULTS OF OPERATIONS

Results for the three and six months ended June 30, 2020 were significantly impacted by the COVID-19 pandemic that began impacting the business in late March and continued through the end of the second quarter with the largest impact being realized in April and May.

## Revenue

Revenue is broken down by segment as follows (\$000's):



Revenue for the three-months ended June 30, 2020 was \$46.3 million, compared with \$44.3 million in the second quarter of 2019, representing an increase of \$2.0 million or 4.7%. On a pro-forma basis Q2 2020 revenue was \$55.2 million, representing a decrease of \$8.9 million or 16.1%. The acquisition of 3-Phase completed in August 2019, and included in the Technical Services segment, contributed \$4.9 million, and the acquisition of One Wind, completed in November 2019, and included in the Renewables segment, contributed \$9.1 million offsetting the declines in revenue in the other business units. The revenue declines for the balance of the business in the second quarter of 2020 of \$11.0 million was attributable to the impacts of COVID-19 on our operations.

Revenue for the six-months ended June 30, 2020 was \$99.9 million, compared with \$78.6 million in the same period in 2019, representing an increase of \$21.3 million or 27.1%. On a pro-forma basis Q2 2020 year to date revenue was \$99.9 million representing an increase of \$1.4 million or 1.4% compared to the second quarter in 2019.

Organic and acquisition revenue growth is broken down as follows:

| Three months ended June 30 |           |           |            |          |           | \$ Growth   |         | % Growth    |         |
|----------------------------|-----------|-----------|------------|----------|-----------|-------------|---------|-------------|---------|
|                            | 2020      | 2019      | \$ Growth  | % Growth |           | Acquisition | Organic | Acquisition | Organic |
| Technical Services         | \$ 29,544 | \$ 33,213 | \$ (3,669) | (11.0%)  | \$ 4,919  | \$ (8,587)  |         | 14.8%       | (25.9%) |
| Renewables                 | 14,456    | 5,936     | 8,520      | 143.5%   | 6,017     | 2,503       |         | 101.4%      | 42.2%   |
| Sustainability             | 1,940     | 3,568     | (1,628)    | (45.6%)  | -         | (1,628)     |         | -           | (45.6%) |
| Corporate                  | 400       | 1,557     | (1,157)    | (74.3%)  | -         | (1,157)     |         | -           | (74.3%) |
| Total                      | \$ 46,340 | \$ 44,274 | \$ 2,066   | 4.7%     | \$ 10,935 | \$ (8,869)  |         | 24.7%       | (20.1%) |

| Six months ended June 30 |           |           |           |          |           | \$ Growth   |         | % Growth    |         |
|--------------------------|-----------|-----------|-----------|----------|-----------|-------------|---------|-------------|---------|
|                          | 2020      | 2019      | \$ Growth | % Growth |           | Acquisition | Organic | Acquisition | Organic |
| Technical Services       | \$ 66,872 | \$ 59,296 | \$ 7,576  | 12.8%    | \$ 8,943  | \$ (1,366)  |         | 15.1%       | (2.3%)  |
| Renewables               | 27,817    | 9,755     | 18,062    | 185.2%   | 10,995    | 7,067       |         | 112.7%      | 72.4%   |
| Sustainability           | 4,391     | 7,390     | (2,999)   | (40.6%)  | -         | (2,999)     |         | -           | (40.6%) |
| Corporate                | 772       | 2,106     | (1,334)   | (63.3%)  | -         | (1,334)     |         | -           | (63.3%) |
| Total                    | \$ 99,852 | \$ 78,547 | \$ 21,305 | 27.1%    | \$ 19,937 | \$ 1,368    |         | 25.4%       | 1.6%    |

## Government Grants

During the first quarter of 2020, the outbreak of COVID-19 resulted in worldwide emergency measures to combat the spread of the virus. During the three months ended June 30, 2020, the Company experienced a disruption in its operations due to restrictions implemented by the federal, state and provincial governments in relation to this outbreak. Both the Canadian and US governments responded to the expected economic crisis this would lead to by announcing payroll subsidies.



### 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.

In the second quarter of 2020, management determined that it met the employer eligibility criteria and applied for the CEWS for the programs' second, third, and fourth periods. During the three months ended June 30, 2020, the Company recognized \$8.0 million 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 as follows:

(in \$000's)

|                                     | Technical Services |              | Renewables |              | Sustainability |            | Corporate |            | Total        |
|-------------------------------------|--------------------|--------------|------------|--------------|----------------|------------|-----------|------------|--------------|
| Cost of sales                       | \$                 | 4,867        | \$         | 965          | \$             | -          | \$        | -          | 5,832        |
| Selling, general and administrative |                    | 805          |            | 328          |                | 194        |           | 786        | 2,113        |
| <b>Total</b>                        | <b>\$</b>          | <b>5,672</b> | <b>\$</b>  | <b>1,293</b> | <b>\$</b>      | <b>194</b> | <b>\$</b> | <b>786</b> | <b>7,945</b> |

### 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 (CAD\$2.5 million) in funding related to this program 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. Management is currently working on its determination of its eligibility for forgiveness. We expect to have results and confirmation of any debt forgiveness by the end of the third quarter.

## Cost of Sales and Gross Profit

For the three months ended June 30, 2020, gross profit increased \$1.4 million or 9.6% to \$16.0 million as compared to \$14.6 million in the same period in 2019. Gross profit margins were 34.5%, up from 33.0% in the second quarter of 2019 resulting in an improvement in gross margin realization of 0.5%.

For the six months ended June 30, 2020, gross profit increased \$3.2 million or 12.5% to \$29.3 million as compared to \$26.1 million in the same period in 2019. Gross profit margins were 29.4% down from 33.2% in the same period in 2019 resulting in a decline in gross margin realizations of 3.8%.

(in \$000s)

|                     | Three months ended June 30 |               |           |               | Six months ended June 30 |               |           |               |
|---------------------|----------------------------|---------------|-----------|---------------|--------------------------|---------------|-----------|---------------|
|                     | 2020                       |               | 2019      |               | 2020                     |               | 2019      |               |
|                     | \$                         | %             | \$        | %             | \$                       | %             | \$        | %             |
| Revenue             | \$                         | 46,340        | \$        | 44,274        | \$                       | 99,852        | \$        | 78,547        |
| Total Cost of Sales |                            | 30,359        |           | 29,687        |                          | 70,548        |           | 52,497        |
|                     |                            | 65.5%         |           | 67.1%         |                          | 70.7%         |           | 66.8%         |
| <b>Gross Profit</b> | <b>\$</b>                  | <b>15,981</b> | <b>\$</b> | <b>14,587</b> | <b>\$</b>                | <b>29,304</b> | <b>\$</b> | <b>26,050</b> |
|                     |                            | 34.5%         |           | 32.9%         |                          | 29.3%         |           | 33.2%         |

Gross margin realizations over the three and six months ended June 30, 2020 were impacted by the following factors:

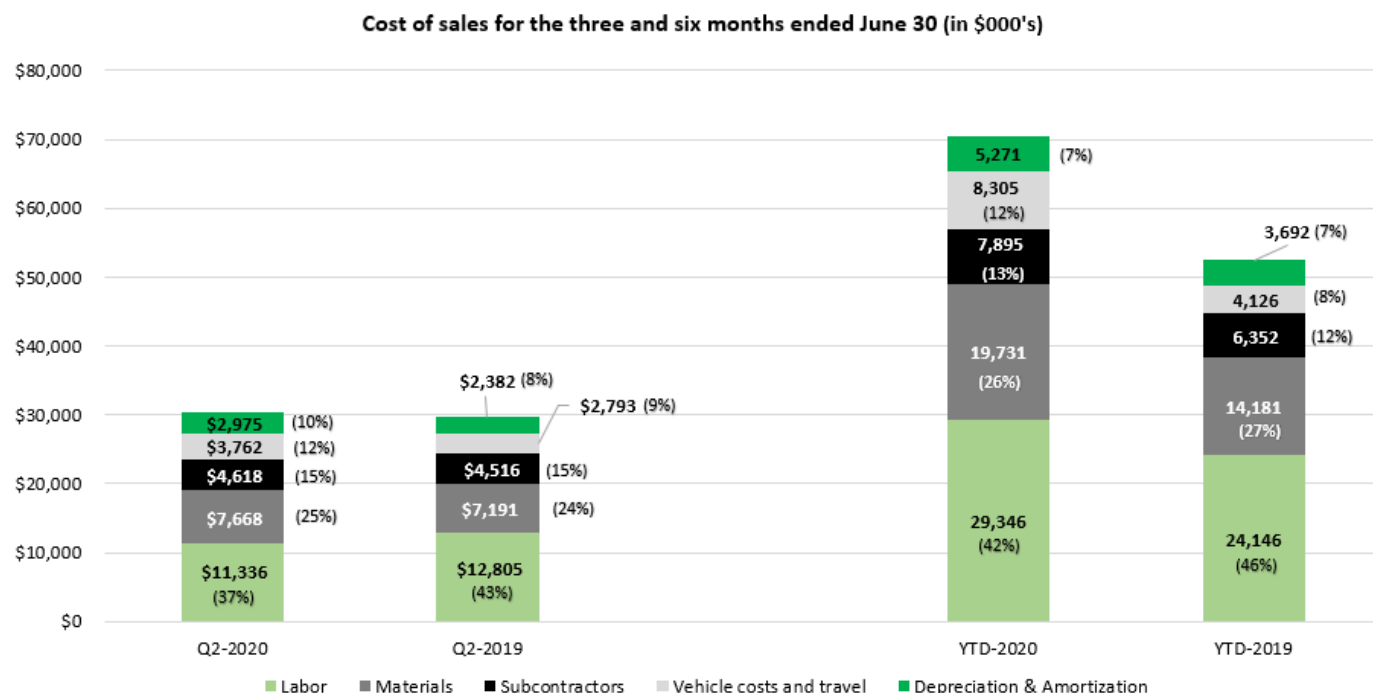
- (i) The impact of government-imposed restrictions related to the outbreak of COVID-19 resulting in a decline of our operations, specifically our high and low voltage operations in the East;
- (ii) The receipt of government grants through the CEWS program, which allowed us to recognize \$5.8 million in payroll assistance that offset against significant labour costs maintained by the company during the pandemic period being the three months ended June 30, 2020;
- (iii) The impact of reduced gross margin in the three and six months ended June 30, 2020 of \$2.2 million and \$4.4 million, respectively, due to the loss of a large Bullfrog Power customer in July of 2019, and the impact of an accounting change



related to renewable energy certificates. This resulted in a negative impact on gross margin realizations of 4.8% and 4.5% in the two periods;

- (iv) The impact of the acquisition of One Wind and 3-Phase that historically has lower gross margin realizations than the other business units. This negatively impacted gross margin realizations by 0.2% and 1.9% in the three and six months ended June 30, 2020, respectively;
- (v) The impact of an increase in amortization and depreciation of \$0.6 million in the quarter and \$1.6 million year-to-date that reduced gross margins by 2.5% and 1.6% respectively.

Components of cost of sales were as follows:



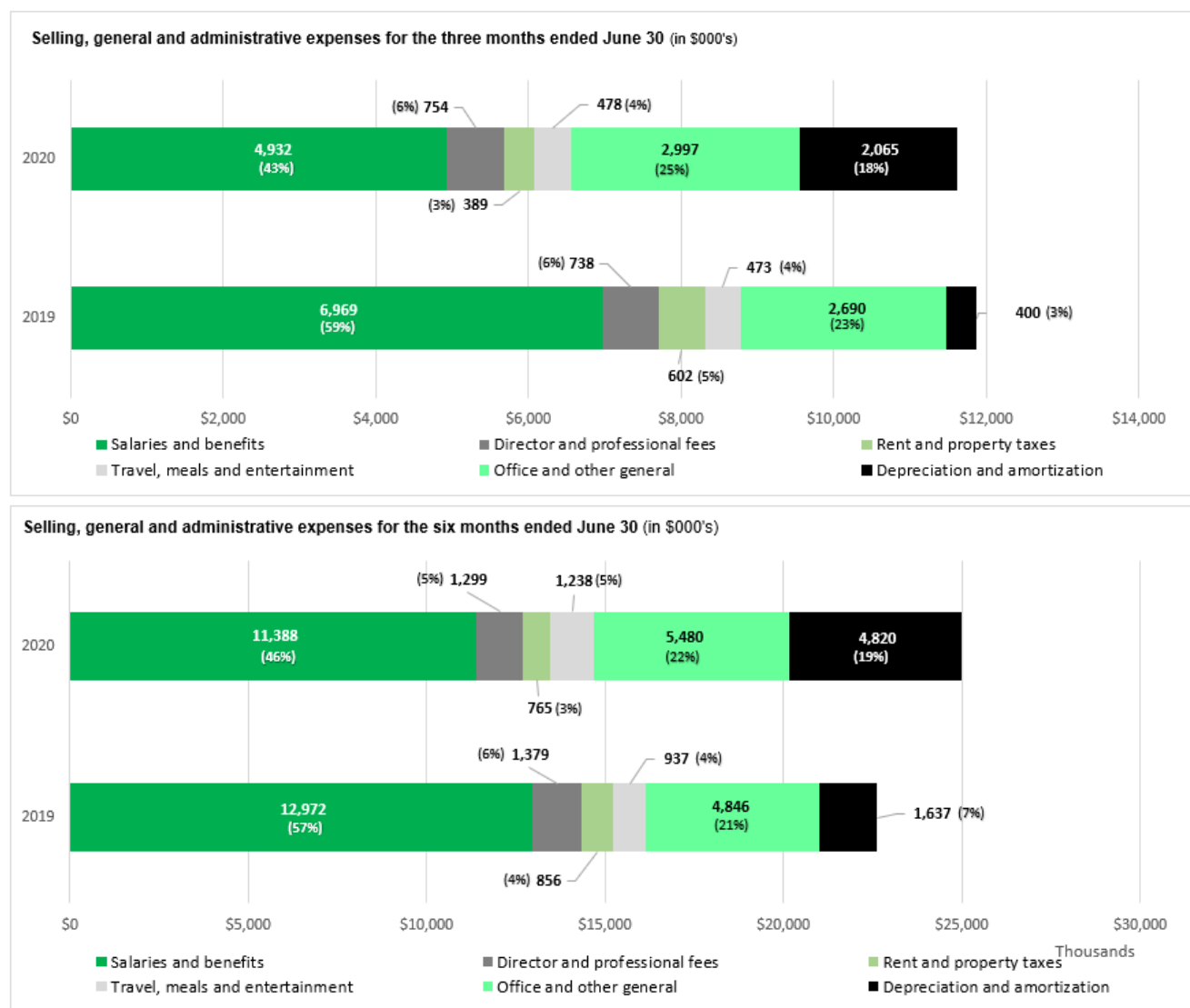
Percentages reflect costs as compared to revenue

During the three and six months ended June 30, 2020, labour costs were \$17.1 million and 35.1 million, respectively from \$12.8 million and \$24.1 million in the same periods in 2019. These costs in the current periods were offset by \$5.8 million in government grants under the CEWS program announced in April 2020 to reduce total labor costs to \$11.4 million and \$29.4 million during the three and six months ended June 30, 2020, respectively. 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 six months ended June 30, 2020, vehicle costs and travel increased to \$3.8 million or 12% of revenue, and \$8.3 million or 12% of revenue, respectively, from \$2.8 million or 9% of revenue, and \$4.1 million or 8% 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 basis, which as a result, excludes them from the accounting treatment under *IFRS-16 Leases*. Total travel and vehicles expenses during the three and six months ended June 30, 2020 in One Wind were \$2.1 million or 23.2% of revenue and \$4.6 million or 27.6% of revenue, respectively. Travel throughout the Company was restricted during the second quarter as a result of the Company's pandemic response resulting in lower than expected costs throughout the quarter. Our increased operations with the acquisition of 3-Phase and One Wind in 2019 have resulted in cost levels in the second quarter of 2020 that are similar to the same period in 2019, despite the downturn in operations throughout the company. All other components or gross margin remained relatively consistent with the same quarter in 2019 on a percentage of revenue basis.

## Selling, General and Administration Expense

Components of selling, general and administration costs were as follows:



Selling, general and administration expenses for the three and six months ended June 30, 2020 were \$11.6 million or 25.1% of revenue and \$25.0 million or 25.0% of revenue, respectively, compared to \$11.9 million or 26.8% of revenue and \$22.6 million or 28.8% of revenue in the same periods in 2019. This represents a decrease of \$0.3 million or 2.2% over the second quarter of 2019 and an increase of \$2.4 million or 10.4% over the six months ended June 30, 2019. On a pro-forma basis, selling, general and administrative expenses were \$12.8 million and \$24.1 million for the three and six months ended June 30, 2019, respectively.

During the three and six months ended June 30, 2020, labour costs stayed relatively stable at \$7.0 million and \$13.5 million, respectively, from \$7.0 million and \$13.0 million in the same periods in 2019. These costs in the current periods were offset by \$2.1 million in government grants under the CEWS program announced in April 2020. 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.

Increase in travel, meals and entertainment reflect the increased 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. Travel throughout the Company was restricted during the second quarter as a result of the Company's pandemic response resulting in lower than expected costs throughout the quarter.

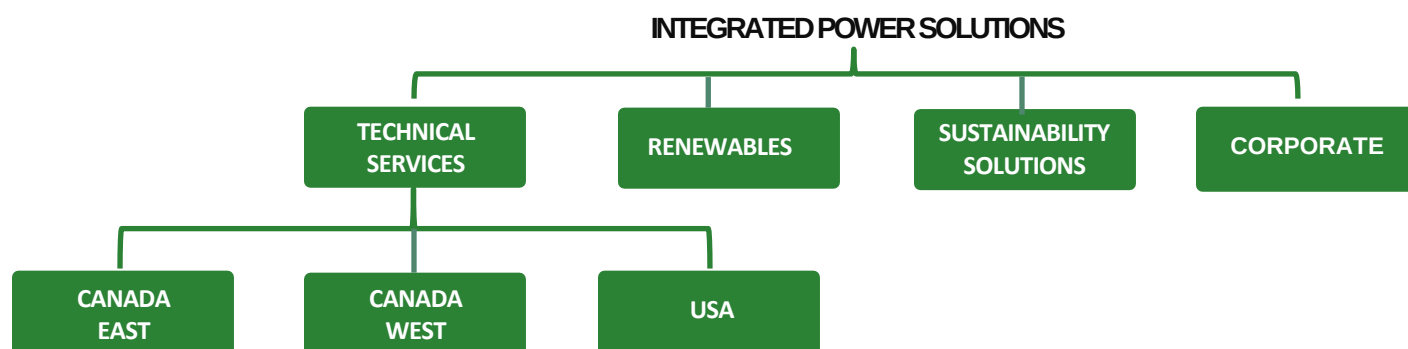
## Amortization and Depreciation and Finance Costs

Amortization and depreciation, included in Cost of goods sold and Selling, general and administration expenses, for the three and six months ended June 30, 2020 was \$5.0 million and \$10.1 million, respectively, compared with \$2.8 million and \$5.3 million over the same periods 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 additions of property and equipment and right of use vehicles and property. In addition, management revised the amortization of Tradenames in the first quarter of 2020 to over a three-year period to reflect the impact of rebranding efforts company wide.

Finance costs for the three and six months ended June 30, 2020 were \$1.6 million and \$3.4 million, respectively, as compared to \$1.3 million and \$2.6 million during the same periods of 2019. The increase in the period as compared to the same period in 2019 was due to higher debt levels in the period as well as the impact of mark-to-market losses on an interest rate swap of \$0.3 million as compared to \$0.1 million in the first six months of 2019. The mark-to-market losses were significant in the first quarter of 2020 due to the economic impact of the COVID-19 pandemic on interest rates. This is discussed further in the "Risk Management" section of this report.

## 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.



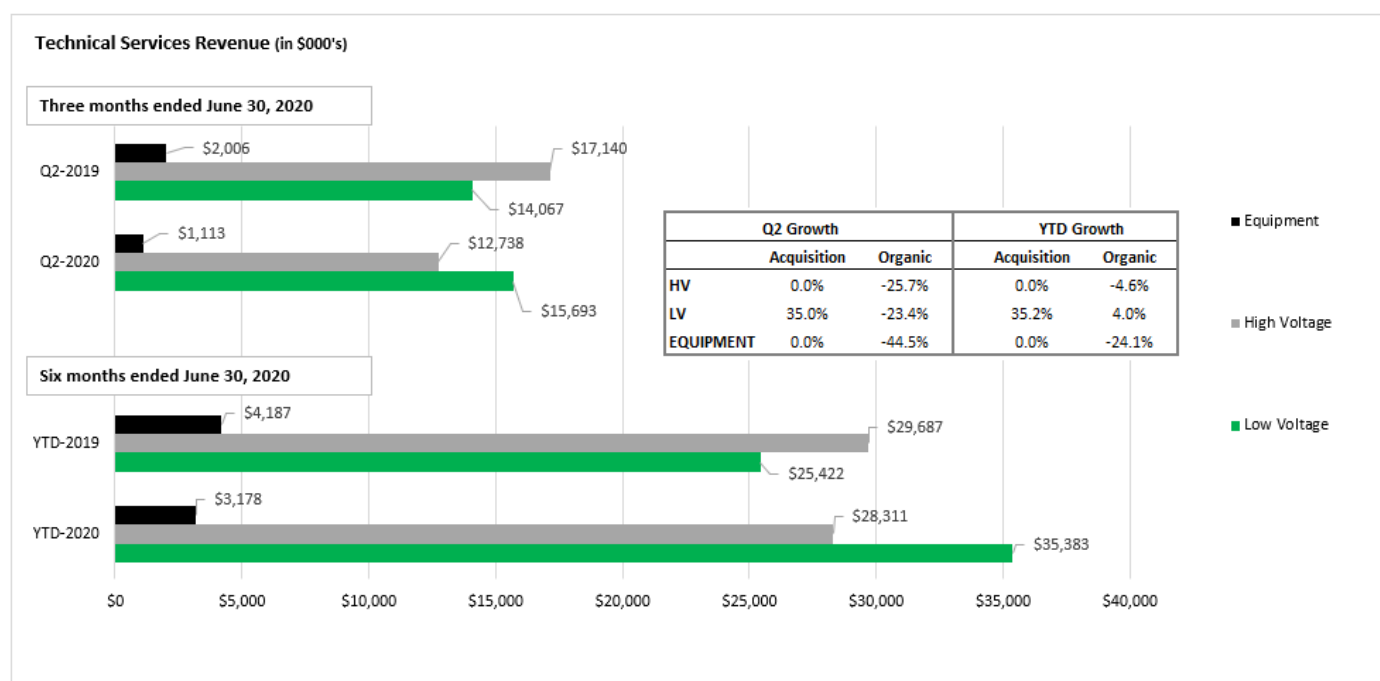
## Technical Services Segment

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 six months ended June 30, 2020 and 2019 were as follows:

(in \$000's)

|                                     | Three months ended June 30 |           |            | Six months ended June 30 |           |          |
|-------------------------------------|----------------------------|-----------|------------|--------------------------|-----------|----------|
|                                     | 2020                       | 2019      | Change     | 2020                     | 2019      | Change   |
| Revenue                             | \$ 29,544                  | \$ 33,213 | \$ (3,669) | \$ 66,872                | \$ 59,296 | \$ 7,576 |
| Cost of sales                       | 19,681                     | 24,540    | (4,859)    | 48,815                   | 43,807    | 5,008    |
| Gross profit                        | 9,863                      | 8,673     | 1,190      | 18,057                   | 15,489    | 2,568    |
| Gross profit margin                 | 33.4%                      | 26.1%     | (32.4%)    | 27.0%                    | 26.1%     | 33.9%    |
| Selling, general and administration | 5,911                      | 7,955     | (2,044)    | 12,110                   | 12,882    | (772)    |
| Segment EBITDA                      | 7,833                      | 2,722     | 5,111      | 13,656                   | 6,434     | 7,222    |
| Segment EBITDA %                    | 26.5%                      | 8.2%      | (139.3%)   | 20.4%                    | 10.9%     | 95.3%    |
| Segment profit                      | \$ 3,952                   | \$ 718    | \$ 3,234   | \$ 5,947                 | \$ 2,607  | \$ 3,340 |

**Results for the three and six months ended June 30, 2020**

Revenue during the three and six months ended June 30, 2020 decreased 11.0% and increased 12.8%, respectively, over the same periods in 2019. Effective August 1, 2019 the Company completed the acquisition of 3-Phase that is included in the Technical Services Group and contributed \$5.0 million and \$11.1 million during the three and six months ended June 30, 2020. This partially offsets the \$8.6 million and \$3.5 million decline in revenues throughout the rest of the segment due to the impact of the COVID-19 outbreak.

Gross profit during the three and six months ended June 30, 2020 increased by 13.7% and 16.6%, respectively, as compared to the same periods in 2019. The increase during the second quarter of 2019 was primarily due to the receipt of the government grant from the CEWS program. The increase during the first six months of 2020 was primarily attributable to volume increase realized and significant improvements in gross margins realized by Orbis due to higher volumes and improved margin realizations and the impact of the CEWS program.

Selling, general and administration expenses during the three and six months ended June 30, 2020 decreased \$2.0 million or 25.7% and \$0.8 million or 6.0%, respectively, over the same periods in 2019. The decrease is primarily due to the receipt of the government grant from the CEWS program which was offset against related labour costs. This was offset by the impact of the 2019 acquisition of 3-Phase as well as the opening of new branches in the low voltage segment.

For the three and six months ended June 30, 2020, Segment EBITDA increased 187.7% and 112.2%, respectively, over the same periods in 2019. The increase is primarily attributable to the receipt of the government grant from the CEWS program as well as improved performance by Technical Services West due to execution of significant contract work with Altalink, although at a lower margin, offset by the impact of the 3-Phase acquisition which contributed \$1.9 million and \$1.5 million in incremental EBITDA during the three and six months ended June 30, 2020.

## Renewables Segment

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

(in \$000's)

|                                     | <b>Three months ended June 30</b> |             |               | <b>Six months ended June 30</b> |             |               |
|-------------------------------------|-----------------------------------|-------------|---------------|---------------------------------|-------------|---------------|
|                                     | <b>2020</b>                       | <b>2019</b> | <b>Change</b> | <b>2020</b>                     | <b>2019</b> | <b>Change</b> |
| Revenue                             | \$ 14,456                         | \$ 5,936    | \$ 8,520      | \$ 27,817                       | \$ 9,755    | \$ 18,062     |
| Cost of sales                       | 10,080                            | 4,144       | 5,936         | 20,410                          | 6,740       | 13,670        |
| Gross profit                        | 4,376                             | 1,792       | 2,584         | \$ 7,407                        | \$ 3,015    | \$ 4,392      |
| Gross profit margin                 | 30.3%                             | 30.2%       | 30.3%         | 26.6%                           | 30.9%       | 24.3%         |
| Selling, general and administration | 1,281                             | 1,209       | 72            | 2,989                           | 2,429       | 560           |
| Segment EBITDA                      | 3,506                             | 805         | 2,701         | 5,238                           | 1,009       | 4,229         |
| Segment EBITDA %                    | 24.3%                             | 13.6%       | 31.7%         | 18.8%                           | 10.3%       | 23.4%         |
| Segment profit                      | \$ 3,095                          | \$ 583      | \$ 2,512      | \$ 4,418                        | \$ 586      | \$ 3,832      |

### Results for the three and six months ended June 30, 2020

Revenue for the three and six months ended June 30, 2020 increased 143.6% and 185.2%, 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 \$9.1 million to the revenue increase in the second quarter of 2020 and \$17.9 million to the revenue increase in the first six months of 2020. The One Wind operations, the majority of which are in the Southern USA, were not impacted in a significant way from the second quarter pandemic as the rest of the company due to the essential service nature of their business, therefore resulting in significant improvements in this segment for the 2020 periods.

Gross profit for the three and six months ended June 30, 2020 increased 144.2% and 145.7%, respectively, as compared to the same periods in 2019. The increase in the absolute dollar value is related to the growth discussed above. The increase is also offset by the government grant received under the CEWS program that is applied to the related costs in this segment. The decrease in the gross profit as a percentage of revenue is attributable to battery storage applications where the majority of the profitability is included in the other Spark segments as they provide the underlying services and equipment.

Selling, general and administration expenses for the three and six months ended June 30, 2020 increased by 6.0% and 23.1%, respectively, over the same periods in 2019. The increase over the prior period is 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. The increase is also offset by the government grant received under the CEWS program that is applied to the related costs in this segment.

## 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)

|                                     | <b>Three months ended June 30</b> |             |               | <b>Six months ended June 30</b> |             |               |
|-------------------------------------|-----------------------------------|-------------|---------------|---------------------------------|-------------|---------------|
|                                     | <b>2020</b>                       | <b>2019</b> | <b>Change</b> | <b>2020</b>                     | <b>2019</b> | <b>Change</b> |
| Revenue                             | \$ 1,940                          | \$ 3,568    | \$ (1,628)    | \$ 4,391                        | \$ 7,390    | \$ (2,999)    |
| Cost of sales                       | 598                               | 1,003       | (405)         | 1,323                           | 1,950       | (627)         |
| Gross profit                        | 1,342                             | 2,565       | (1,223)       | \$ 3,068                        | \$ 5,440    | \$ (2,372)    |
| Gross profit margin                 | 69.2%                             | 71.9%       | 75.2%         | 69.9%                           | 73.6%       | 79.1%         |
| Selling, general and administration | 485                               | 1,034       | (549)         | 1,403                           | 1,858       | (455)         |
| Segment EBITDA                      | 1,021                             | 1,714       | (693)         | 2,001                           | 3,938       | (1,938)       |
| Segment EBITDA %                    | 52.7%                             | 48.0%       | 42.6%         | 45.6%                           | 53.3%       | 64.6%         |
| Segment profit                      | \$ 857                            | \$ 1,531    | \$ (674)      | \$ 1,665                        | \$ 3,582    | \$ (1,917)    |

### Results for the three and six months ended June 30, 2020

Revenue for the three and six months ended June 30, 2020 decreased by 45.6% and 40.6%, respectively, as compared to the same periods in 2019. The decrease in both periods is related to the loss of a large customer in the second quarter of 2019.

Gross profit for the three and six months ended June 30, 2020 decreased 47.7% and 43.6%, respectively, as compared to the same periods in 2019. The decrease is related to the impact of the lost revenue noted above. The decrease is offset by the government grant received under the CEWS program that is applied to the related costs in this segment.

Selling, general and administration expenses in three and six months ended June 30, 2020 decreased by 53.1% and 24.5%, respectively, as compared to the same periods in 2019 due to restrictions enforced related to the COVID-19 pandemic. The decrease is compounded by the government grant received under the CEWS program that is applied to the related costs in this segment.

For the three and six months ended June 30, 2020, Segment EBITDA decreased 40.4% and 49.2%, respectively, over the same periods in 2019 as a result of the factors noted above.

## Corporate Segment

(in \$000's)

|                                     | Three months ended June 30 |            |            | Six months ended June 30 |            |            |
|-------------------------------------|----------------------------|------------|------------|--------------------------|------------|------------|
|                                     | 2020                       | 2019       | Change     | 2020                     | 2019       | Change     |
| Revenue                             | \$ 400                     | \$ 1,557   | \$ (1,157) | \$ 772                   | \$ 2,106   | \$ (1,334) |
| Gross profit                        | 400                        | 1,557      | (1,157)    | 772                      | 2,106      | (1,334)    |
| Gross profit margin                 | 100.0%                     | 100.0%     | 100.0%     | 100.0%                   | 100.0%     | 100.0%     |
| Selling, general and administration | 3,938                      | 4,774      | (836)      | 8,488                    | 8,558      | (69)       |
| Segment EBITDA                      | (2,954)                    | (2,854)    | (100)      | (6,490)                  | (5,738)    | (752)      |
| Segment profit                      | \$ (3,538)                 | \$ (3,217) | \$ (321)   | \$ (7,716)               | \$ (6,452) | \$ (1,263) |

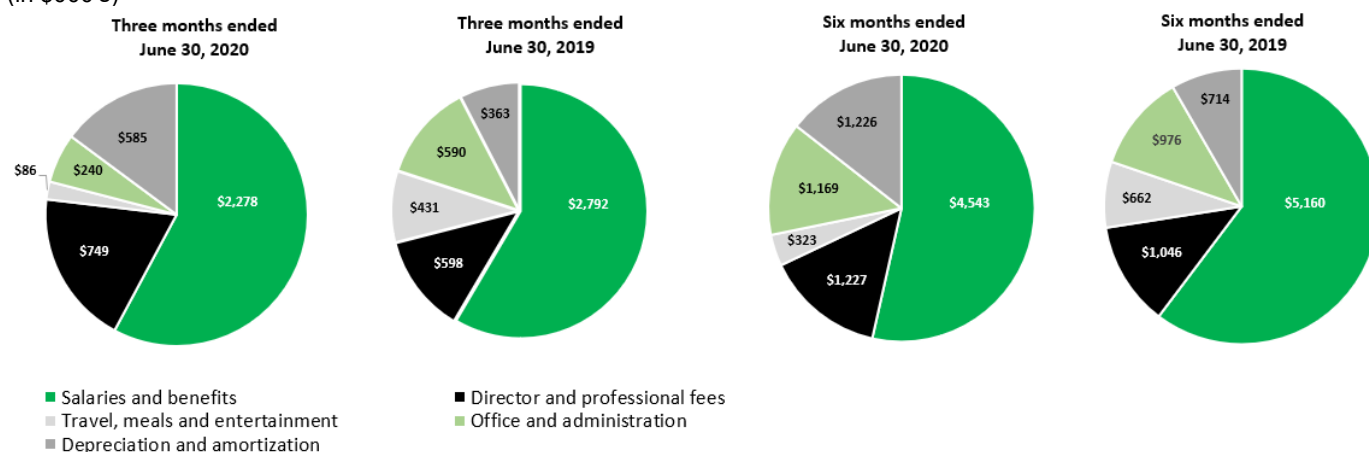
### Results for the three and six months ended June 30, 2020

The corporate segment incurs no costs related to revenues resulting in a gross profit that is equal to its revenue. The revenue relates to billings for management fees charged to the solar co-operatives managed by the company. For the three and six months ended June 30, 2020, both revenue and gross profit decreased by 74.3% and 63.3%, respectively, over the same periods in 2019. The decline from the prior year was due to the ceasing of revenues generated from sale of back-office and software services to third parties and the impact of profit on a solar garden owned by the co-operative in early 2019.

Selling, general and administration costs decreased in both periods in 2020 due to the receipt of the government grant from the CEWS program which was offset against related labour costs.

Corporate expenses are comprised of the following:

(in \$000's)



## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash and Borrowing Capacity

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, unless extended by the lender;
- deferral of all principal payments for the quarters ended June 30, 2020 and September 30, 2020;
- modifications to covenant requirements commencing June 30, 2020. Senior debt to EBITDA increased to 5.0:1 from 3.75 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.

Bank indebtedness was \$13.7 million at June 30, 2020 and was comprised of \$8.7 million on the operating line and \$5.0 million on the capital expenditure line. This compares to bank indebtedness of \$28.3 million at March 31, 2020 and \$21.6 million at December 31, 2019. At June 30, 2020 the Company had additional borrowing capacity under the revolving line of credit and capital expenditure line of \$21.3 million of which \$19.0 million was available on June 30, 2020 subject to a maximum borrowing base calculation of \$27.7 million.

### Debt and Capital Structure

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

(in \$000's)

|                                              | Operating<br>Line | Capital<br>Expenditure Line | Term<br>Loan                      | Acquisition<br>Line                   | Covid<br>Loan           | Total           |
|----------------------------------------------|-------------------|-----------------------------|-----------------------------------|---------------------------------------|-------------------------|-----------------|
| Amount                                       | \$30,000          | \$5,000                     | \$38,265                          | \$25,000                              | \$4,000                 | \$102,265       |
| Term                                         | Uncommitted       | Uncommitted                 | 3 years Committed                 | Committed                             | Committed               |                 |
|                                              | Prime +           | Prime +                     | Prime +                           | Prime +                               | Prime +                 |                 |
| Interest rate (i)                            | 0.50%-2.5%        | 0.50%-2.5%                  | 1.00% - 3.00%                     | 1.00%-3.00%                           | 0.50%-2.50%             |                 |
| Repayment terms                              | Revolving         | 5 Year<br>amortization      | 8 year amortization<br>thereafter | 10 year amortization<br>post drawdown | 3 month<br>post receipt |                 |
| <b>Amount Drawn at<br/>June 30, 2020</b>     | <b>\$8,712</b>    | <b>\$4,999</b>              | <b>\$38,265</b>                   | <b>\$25,000</b>                       | <b>\$4,000</b>          | <b>\$80,976</b> |
| <b>Amount Available to be<br/>Drawn (ii)</b> | <b>\$21,288</b>   | <b>\$1</b>                  | <b>\$0</b>                        | <b>\$0</b>                            | <b>\$0</b>              | <b>\$21,289</b> |

(i) - based on Debt:EBITDA ranges

(ii) - assumes maximum borrowing base available

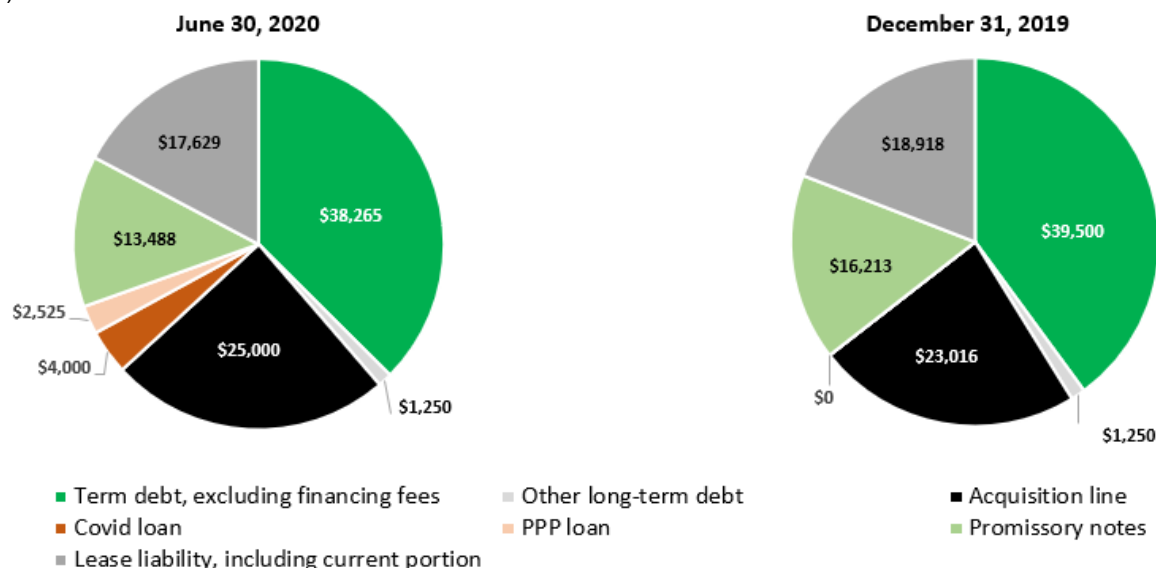
During the quarter the Company qualified for funds through the Paycheck Protection Program Loan ("PPP") of USD\$1.8 million (CAD\$2.5 million). This loan has a 2-year term and has an interest rate of 1% per annum. The loan is eligible for forgiveness if the



funds are deployed as set out in the program. The Company is currently determining its eligibility for forgiveness and will be submitting its forgiveness application subsequent to this quarter end.

Long-term indebtedness, including lease liabilities and the current portion of long-term debt and promissory notes, increased to \$102.2 million at June 30, 2020, from \$98.9 million at December 31, 2019. Long-term debt is comprised of the following components:

(in \$000's)



The increase in long-term debt in the first six months of 2020 was attributable primarily to the draw on the remaining balance of the Acquisition line, receipt of a Covid loan for \$4.0 million and funding under the Paycheck Protection Program in the U.S of US\$1.8 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. 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. Principal repayments will start again in December 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.

For debt covenant purposes we eliminate the lease liability from total long-term debt and deduct lease payments under IFRS 16 from pro-forma adjusted EBITDA noted earlier. The maximum Senior Secured Debt to EBITDA covenant, as defined earlier, is 5.00:1 for the quarter ended June 30, 2020. In addition, the Company is subject to a total debt to EBITDA covenant of 5.75 for the quarter ended June 30, 2020. All promissory notes due to previous owners of companies purchased by Spark Power are subordinated to the Senior Lender and included in the total debt to EBITDA covenant.

The Company is also required to maintain a fixed charge coverage ratio ("FCCR") in excess of 1.10 at June 30, 2020. The fixed charge coverage is calculated by taking Adjusted EBITDA and deducting lease payments under IFRS, cash taxes, unfunded capital expenditures and distributions made on promissory notes divided by the sum of actual and pro-forma principal repayments and cash interest expense.

At June 30, 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 six months ended June 30, 2020 the Company recorded a mark-to-market gain of \$0.1 million and loss of \$0.3 million, respectively, related to this swap arrangement. The notional amount currently outstanding is \$20,625. 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.

## Summary of Cash Flows

The following table summarizes Spark Power's cash flows for the three and six months ended June 30, 2020 and 2019:

(in \$000's)

|                                                 | Three months ended June 30, |                    | Six months ended June 30, |                    |
|-------------------------------------------------|-----------------------------|--------------------|---------------------------|--------------------|
|                                                 | 2020                        | 2019               | 2019                      | 2018               |
| Operating activities                            | \$ 10,840                   | \$ 2,265           | \$ 7,828                  | \$ 3,389           |
| Investing activities                            | (604)                       | (2,966)            | (1,398)                   | (5,966)            |
| Financing activities                            | 4,309                       | (1,021)            | 1,456                     | (2,141)            |
| <b>Decrease (increase) in bank indebtedness</b> | <b>14,545</b>               | <b>(1,722)</b>     | <b>7,886</b>              | <b>(4,718)</b>     |
| Bank indebtedness, beginning of period          | (28,256)                    | (14,663)           | (21,597)                  | (11,667)           |
| <b>Bank indebtedness, end of period</b>         | <b>\$ (13,711)</b>          | <b>\$ (16,385)</b> | <b>\$ (13,711)</b>        | <b>\$ (16,385)</b> |

### Cash flows from operating activities

For the three and six months ended June 30, 2020, cash generated from operating activities increased to \$10.8 million and \$7.8 million, respectively, as compared to cash generated of \$2.3 million and \$3.4 million in the same periods in 2019. The main driver to changes to cash flow from operations was attributable to a \$9.8 million and \$5.9 million increase in investment in non-cash working capital in the three and six months ended June 30, 2020, respectively, as compared to the same periods in 2019, offset in both periods by \$1.8 million in earn-out recognized in 2019 and \$1.0 million in reorganization costs recognized in 2019.

### Cash flows from investing activities

For the three-month period ended June 30, 2020 cash used in investing activities was \$0.6 million as compared to \$3.0 million in the same period in 2019. The purchase of property, plant and equipment slowed during the period resulting in a decrease in cash used by \$2.4 million as compared to \$3.0 million in the same period in 2019.

For the six-month period ended June 30, 2020 cash used in investing activities was \$1.4 million as compared to \$6.0 million in the same period in 2019. The purchase of property, plant and equipment slowed during the period resulting in a decrease in cash used by \$4.4 million as compared to \$6.0 million in the same period in 2019. An additional \$0.2 million was generated relating to the sale of short-term investments.

### Cash flows used for financing activities

For the three-month period ended June 30, 2020 cash used in financing activities increased to \$4.3 million as compared to cash used of \$1.0 million in the same period of 2019. The increase was attributable to the settlement of one of the Company's promissory notes for \$2.3 million and the receipt of \$8.5 million consisting of the receipt of proceeds from the draw on the remainder of the acquisition line, receipt of a \$4.0 million Covid loan, and US\$1.8 million from the PPP in the US.

For the six-month period ended June 30, 2020 cash generated by financing activities was \$1.5 million as compared to cash used of \$2.1 million in the same period of 2019. The increase was attributable to the receipt of \$8.5 million consisting of the receipt of proceeds from the draw on the remainder of the acquisition and capital expenditure lines, receipt of a \$4.0 million Covid loan, and US\$1.8 million from the PPP in the US, offset by a principal payment on the term loan of \$1.2 million, and settlement of one of the Company's promissory notes for \$2.3 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.

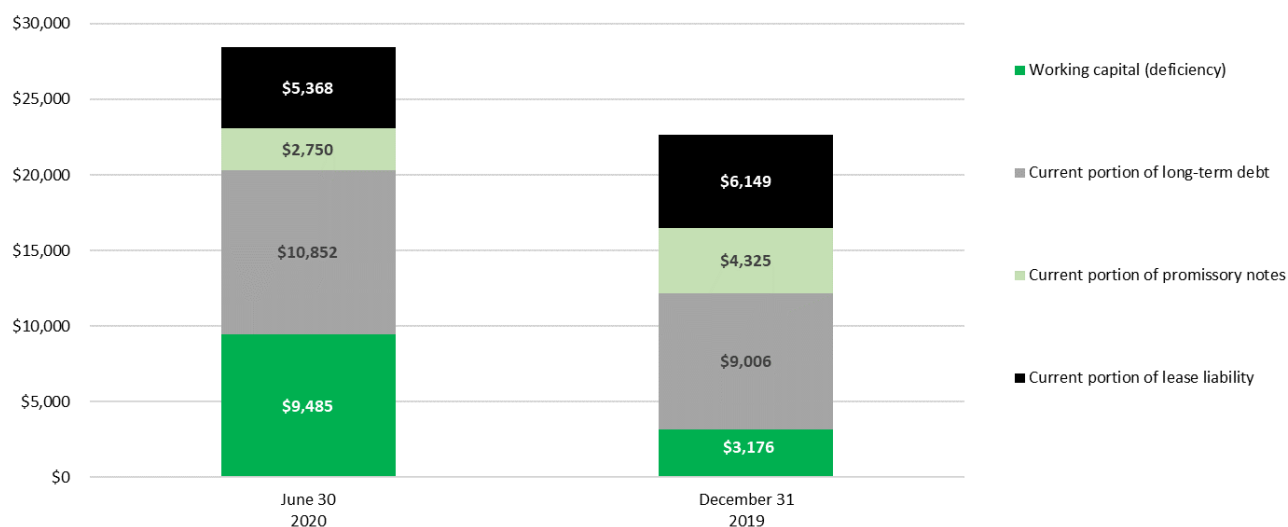
### Working Capital and Adjusted Working Capital

Working Capital includes short-term investments, accounts receivable, government grant 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 credit facilities. At June 30, 2020 Working Capital and Adjusted Working Capital were \$9.5 million and \$28.5 million, respectively, compared with \$3.2 million and \$22.7 million, respectively, at December 31, 2019.

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

Reconciliation of Working capital to Adjusted working capital (in \$000's)



As discussed above in "Debt and Capital Structure", and further discussed in the "Risk Management" section of this report, due to the current economic situation related to COVID-19, the Company's lending institution deferred the principal repayments due on March 31, 2020 and June 30, 2020.

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.

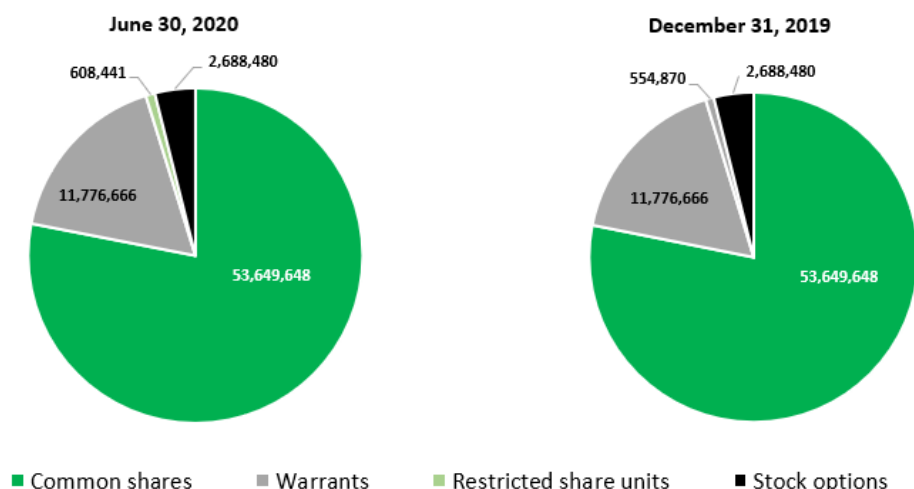
Adjusted working capital consists of the following:

(in \$000's)

|                                   | June 30<br>2020  | December 31<br>2019 |
|-----------------------------------|------------------|---------------------|
| Non-cash working capital balances | \$ 42,166        | \$ 44,253           |
| Operating line                    | (13,711)         | (21,597)            |
| <b>Adjusted Working Capital</b>   | <b>\$ 28,455</b> | <b>\$ 22,656</b>    |

## Outstanding Share Data

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



## Warrants

At June 30, 2020, the Company had 11,776,666 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 classified as an equity instrument measured through profit or loss and have been measured using the Black-Scholes method.

## Stock options and Restricted 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 and restricted share units of the Company. Options generally expire after ten years, with vesting provisions stated in the plan. Restricted share units ("RSU") generally vest over 3 years or cliff vest after 3 years and are granted in accordance with the plan.

The Plan provides for RSUs 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 plan, eligibility, vesting period, terms of the RSUs and the number of RSUs 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 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 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, most end markets began to improve, which has continued into July.

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 a second wave 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 further deterioration in the economic landscape, 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 emerge even stronger and quickly return to historical organic growth rates once operating conditions normalize.

## 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 |           |           |           |           |           |           |           |
|---------------------------------------------|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                             | Q2 2020                    | Q1 2020   | Q4 2019   | Q3 2019   | Q2 2019   | Q1 2019   | Q4 2018   | Q3 2018   |
| <b>Revenue</b>                              | \$ 46,340                  | \$ 53,512 | \$ 57,999 | \$ 52,045 | \$ 44,274 | \$ 34,272 | \$ 37,910 | \$ 38,269 |
| Gross Profit                                | 15,981                     | 13,323    | 17,845    | 18,314    | 14,587    | 11,462    | 15,574    | 13,297    |
| <b>Income from Operations</b>               | 4,366                      | (52)      | 4,150     | 5,138     | 2,715     | 707       | 3,609     | 5,019     |
| Net income (loss)                           | 1,232                      | (1,675)   | 1,215     | 2,620     | (2,141)   | (519)     | 289       | (37,619)  |
| <b>Adjusted Net Income (Loss)</b>           | 1,232                      | (1,675)   | 3,326     | 4,036     | 1,496     | (519)     | 1,702     | 3,603     |
| <b>Adjusted EBITDA</b>                      | 9,112                      | 5,380     | 8,371     | 8,229     | 5,488     | 3,225     | 6,043     | 7,314     |
| <b>Adjusted EBITDA Margin</b>               | 19.7%                      | 10.1%     | 14.4%     | 15.8%     | 12.4%     | 9.4%      | 15.9%     | 19.1%     |
| <b>Pro-forma Revenue</b>                    | 46,340                     | 53,512    | 61,558    | 62,253    | 55,211    | 43,275    | 46,407    | 47,647    |
| <b>Pro-forma Adjusted EBITDA</b>            | 9,112                      | 5,380     | 9,092     | 9,772     | 8,039     | 4,751     | 7,616     | 8,481     |
| <b>Pro-forma Adjusted EBITDA Margin</b>     | 19.7%                      | 10.1%     | 14.8%     | 15.7%     | 14.6%     | 11.0%     | 16.4%     | 17.8%     |
| <b>Pro-forma Adjusted LTM EBITDA</b>        | 33,356                     | 32,282    | 31,653    | 30,178    | 28,887    | 30,078    | 30,664    | 30,054    |
| <b>Pro-forma Adjusted LTM EBITDA Margin</b> | 14.9%                      | 13.9%     | 14.2%     | 14.6%     | 15.0%     | 16.3%     | 17.1%     | 17.9%     |
| <b>Pro-forma LTM Revenue</b>                | 223,663                    | 232,534   | 222,297   | 207,146   | 192,540   | 184,256   | 179,408   | 167,584   |

**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 IAS 34 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 amounts of revenues and expenses during the reporting period. Management is required to apply judgment in recognizing revenue, determination of appropriate provisions, determination of the useful lives of assets, valuation of reverse take-over transaction, determination of valuation of equity transactions, valuation of business combinations, discount rate of lease liabilities, valuation of derivative financial instruments, and impairment of goodwill. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically and adjustments, if necessary, are made in the period in which they are identified. Actual results could differ from those estimates.

**Revenue recognition** – The most significant judgments and estimates in recognizing revenue are related 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 Group 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.

Further, certain companies within the Group have management contracts that require judgment over electrical production over many years, expense growth, and the number of sites to be monitored. The Company determines the extent to which the estimate of variable 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.

Key assumptions made in determining the estimate of the transaction price relate 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.

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

*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 period-end.

*Government grants* – The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions of the grant and the grant will be received. The Company recognized the government grants in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in the period in which it becomes receivable.

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

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

*Useful lives of assets* – Significant estimates include the determination of the useful lives of property and equipment and intangible assets based on their expected depreciation rates.

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

*Valuation of business combinations* – Significant estimates and assumptions are required to determine the purchase price allocation of business combinations including determination of valuation of intangible assets acquired as such.

*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 determines its incremental borrowing rate as the rate of interest it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. 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 the management that may have an impact on the Financial Statements.

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

*Impairment of goodwill* – The annual test of impairment of goodwill is completed based on management's estimates of future performance of the related cash generating unit 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.

## FINANCIAL INSTRUMENTS

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

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

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

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



Level 3: inputs for the asset or liability that are not based on observable market data. There were no financial instruments carried at fair value categorized in Level 3 as at June 30, 2020.

There were no transfers between levels during the period.

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

The fair value of the Interest Rate Swap arrangement has been recorded using Mark-to-Market ("MtM") information as at June 30, 2020 from a third party and is 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 liability approximate their fair values due to the immediate or short-term nature of these securities.

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

## 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 quarter.

## 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 a new focus on the risk associated with COVID-19 and its impact on the business, 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. The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

Provisions for outstanding balances are set based on forward looking information; when there is a change in the circumstances of a customer that would result in financial difficulties as indicated through a change in credit quality or industry factors and create doubt over the receipt of funds. Such reviews of a customer's circumstances are done on a continued basis through the monitoring of outstanding balances as well as the frequency of payments received. 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 3 of the financial statements.

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

**Interest rate risk**

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

In November 2018, the Company entered into an Interest Rate Swap to effectively fix the interest rate on \$22.0 million of its then \$44.0 million long-term debt at approximately 4.97% (Banker's Acceptance rate of 2.97% adjusted quarterly for the Company's credit risk spread between 1.00% - 3.00%), where plus or minus 1% would not have a material impact on the statements. Interest Rate Swaps are classified as derivative financial assets and liabilities and measured at fair value through profit or loss, with gains and losses on re-measurement included as a component of finance expense in the period in which they arise. During the three and six months ended June 30, 2020, the Company incurred a gain of \$0.1 million and a loss of \$0.3 million, respectively, on interest rate swaps with a notional amount of \$20.6 million, for a cumulative loss on the swap of \$0.6 million since its inception. The loss experienced in the first quarter of 2020 is related to the current economic situation related to COVID-19 as discussed above and its impact on interest rates.

**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.

**Foreign currency risk**

A portion of the Company's revenues and expenses are now, and are expected to continue to be, incurred in foreign currencies (primarily the US dollar). The Company's business will be subject to risks typical of an international business including, but not limited to, differing tax structures, regulations and restrictions and general foreign exchange rate volatility. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's business, financial condition and results of operations. The Company has started to investigate actively hedging against foreign currency fluctuations.