



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

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**NOTICE TO READER**

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These condensed consolidated interim financial statements of Solar Alliance Energy Inc. have been prepared by management and approved by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

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# SOLAR ALLIANCE ENERGY INC.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited – Expressed in Canadian dollars)

	Note	June 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 41,973	\$ 1,179,203
Receivables		293,345	344,090
Due from related party	11	255,600	244,800
Prepaid expenses and deposits		12,767	205,801
Work in process		356,829	228,858
		960,514	2,202,752
<b>Non-current assets</b>			
Deposits	4	25,255	30,567
Equipment	5	78,518	63,056
		103,773	93,623
		\$ 1,064,287	\$ 2,296,375
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Trade and other payables	6	\$ 4,665,138	\$ 4,338,624
Customer deposits		16,813	307,905
Contingent consideration	7	58,342	58,342
Loans and borrowings	8	2,458,312	2,121,038
Provision	9	127,500	127,500
		7,326,105	6,953,409
<b>Provision</b>	9	101,762	101,762
		7,427,867	7,055,171
<b>Shareholders' deficiency</b>			
Share capital	10	39,481,772	39,481,772
Reserve	10	12,634,953	12,519,049
Equity component of convertible loan	8	52,174	52,174
Accumulated other comprehensive income (loss)		(80,523)	167,300
Deficit		(58,451,956)	(56,979,091)
		(6,363,580)	(4,758,796)
		\$ 1,064,287	\$ 2,296,375
Nature of operations and going concern	1		
Subsequent events	14		

These condensed consolidated interim financial statements are approved for issue by the Board of Directors of the Company on August 28, 2018.

Signed on the Company's behalf by:

“Jason Bak” \_\_\_\_\_ Director

“David Lamont” \_\_\_\_\_ Director

# SOLAR ALLIANCE ENERGY INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
(Unaudited – Expressed in Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
<b>Revenue</b>		\$ 511,633	\$ 298,737	\$ 1,321,568	\$ 1,918,191
<b>Cost of goods sold</b>		(562,604)	(129,078)	(1,043,223)	(1,114,771)
		(50,971)	169,659	278,345	803,420
<b>Operating and selling expenses</b>					
Depreciation	5	9,607	1,697	19,020	3,367
Consulting fees		264,740	129,388	573,298	206,812
Insurance and filing fees		22,407	45,184	105,125	105,852
Marketing and advertising		15,001	600,470	33,626	722,022
Office, rent and utilities		155,240	161,486	268,786	305,604
Professional fees		97,788	79,262	138,524	103,399
Salary and benefits		192,027	553,010	500,215	916,920
Share-based compensation	10	40,011	84,596	115,904	84,596
Travel and related		10,199	139,044	21,961	155,995
		(807,020)	(1,794,137)	(1,776,459)	(2,604,567)
<b>Loss before undernoted</b>		(857,991)	(1,624,478)	(1,498,114)	(1,801,147)
<b>Other income (expenses)</b>					
Acquisition of project pipeline		-	(1,126,473)	-	(1,126,473)
Gain on settlement of trade and other payables	6	-	-	17,805	-
Loss on disposal of equipment		-	-	-	(8,259)
		-	(1,126,473)	17,805	(1,134,732)
<b>Loss from operations</b>		(857,991)	(2,750,951)	(1,480,309)	(2,935,879)
<b>Net finance income (expense)</b>					
Interest expense	8 & 11	(86,750)	(192,208)	(172,799)	(230,283)
Interest income	11	5,400	-	10,800	-
Foreign exchange		68,935	(389,968)	169,443	(447,369)
		(12,415)	(582,176)	7,444	(677,652)
<b>Loss for the period</b>		(870,406)	(3,333,127)	(1,472,865)	(3,613,531)
<b>Other comprehensive income (loss)</b>					
Change in accumulated foreign exchange translation adjustment		(116,047)	380,895	(247,823)	450,784
<b>Comprehensive loss for the period</b>		\$ (986,453)	\$ (2,952,232)	\$ (1,720,688)	\$ (3,162,747)
<b>Basic and diluted loss per common share</b>		\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>		96,323,786	75,906,410	96,323,786	70,601,570

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

# SOLAR ALLIANCE ENERGY INC.

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited – Expressed in Canadian dollars)

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,472,865)	\$ (3,613,531)
Items not affecting cash:		
Depreciation	19,020	3,367
Share-based compensation	115,904	84,596
Gain on settlement of trade and other payables	(17,805)	-
Loss on disposal of equipment	-	8,260
Net finance expense	161,999	85,741
Unrealized foreign exchange	(246,304)	-
	(1,440,051)	(3,431,567)
Changes in non-cash working capital items:		
Receivables	50,745	(882,839)
Prepaid expenses and deposits	193,034	7,600
Work in process	(127,971)	191,452
Trade and other payables	374,793	521,624
Customer deposits	(291,092)	403,093
Net cash used in operating activities	(1,240,542)	(3,190,637)
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES</b>		
Prepaid expenses	-	(250,000)
Acquisition of equipment	(30,988)	-
Deposits	5,312	(19,814)
Net cash used in investing activities	(25,676)	(269,814)
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES</b>		
Issuance of capital stock	-	2,603,293
Share subscriptions	-	765,933
Promissory note	98,000	-
Loans received	30,988	4,700
Loans repaid	-	(27,500)
Interest and financing fees paid	-	(29,355)
Net cash provided by financing activities	128,988	3,317,071
<b>Decrease in cash during the period</b>	(1,137,230)	(143,380)
<b>Cash, beginning of period</b>	1,179,203	130,526
<b>Cash, end of period</b>	\$ 41,973	\$ (12,854)
<b>Non-cash investing and financing activities</b>		
Deferred compensation with promissory note	\$ 50,988	\$ -
<b>Supplementary information</b>		
Interest paid	\$ -	\$ -
Income taxes paid	-	-

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

# SOLAR ALLIANCE ENERGY INC.

Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)  
(Unaudited – Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserve	Share Subscriptions	Equity Component of Convertible Loan	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Deficiency
<b>Balance, December 31, 2017</b>	96,323,786	\$ 39,481,772	\$ 12,519,049	\$ -	\$ 52,174	\$ 167,300	\$ (56,979,091)	\$ (4,758,796)
Share-based compensation	-	-	115,904	-	-	-	-	115,904
Comprehensive loss for the period	-	-	-	-	-	(247,823)	(1,472,865)	(1,720,688)
<b>Balance, June 30, 2018</b>	96,323,786	\$ 39,481,772	\$ 12,634,953	\$ -	\$ 52,174	\$ (80,523)	\$ (58,451,956)	\$ (6,363,580)

	Number of Shares	Share Capital	Reserve	Share Subscriptions	Equity Component of Convertible Loan	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Deficiency
<b>Balance, December 31, 2016</b>	65,237,787	\$ 36,654,533	\$ 11,329,225	\$ -	\$ -	\$ (738,596)	\$ (49,502,092)	\$ (2,256,930)
Private placements	15,272,665	1,086,614	1,105,036	-	-	-	-	2,191,650
Share subscriptions	-	-	-	765,933	-	-	-	765,933
Exercise of stock options	1,000,000	75,000	-	-	-	-	-	75,000
Exercise of warrants	3,730,001	430,397	(57,396)	-	-	-	-	373,001
Share-based compensation	-	-	84,596	-	-	-	-	84,596
Comprehensive loss for the period	-	-	-	-	-	450,784	(3,613,531)	(3,162,747)
<b>Balance, June 30, 2017</b>	85,240,453	\$ 38,246,544	\$ 12,461,461	\$ 765,933	\$ -	\$ (287,812)	\$ (53,115,623)	\$ (1,929,497)

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 1. NATURE OF OPERATIONS AND GOING CONCERN

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Solar Alliance Energy Inc. (“Solar Alliance” or the “Company”) is incorporated under the laws of British Columbia and is an energy solutions provider focused on residential, commercial and industrial solar installations in the United States of America. The Company’s common shares are listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol “SOLR”.

The Company’s head office is located at 210 - 128 West Hastings Street, Vancouver, BC, V6B 1G8 and the registered and records office is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., Canada, V4B 1E6.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Assessing the Company’s ability to continue as a going concern for the foreseeable future is a matter of significant judgment. As of June 30, 2018, the Company had a working capital deficiency of \$6,365,591. The cash and cash inflows from Solar Alliance operations are not currently sufficient to sustain the Company’s operations and to pay the Company’s obligations as they become due. Management intends to address the working capital deficiency through a combination of revenue growth, reduced expenses, and injections of capital through debt and equity issuances. There can be no assurance that management’s plans will be successful or that the Company will be able to obtain the financial resources necessary. The Company’s ability to continue as a going concern is dependent on the Company’s ability to raise debt or equity funding in the near term to fulfill its obligations and ultimately in self-generating income and cash flows from its operations. The conditions described above give rise to a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect any adjustments that would be necessary to the carrying value of its assets and liabilities, its reported expenses, and the statement of financial position, and the classifications used, should the Company conclude that the going concern assumption is not appropriate. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

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### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The policies applied in these interim financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as at the date the Board of Directors approved these interim financial statements for issue.

These interim financial statements do not include all of the information and disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2017.

### Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the parent Company’s functional currency. The functional currency of the Company’s US subsidiaries is the US dollar and the functional currency of the Company’s European subsidiaries is the Euro.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 2. BASIS OF PRESENTATION (continued)

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### **Basis of measurement**

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### **Use of accounting assumptions, estimates and judgments**

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

#### (i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

##### *Share-based compensation*

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data, and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

#### (ii) Critical accounting judgments

##### *Determination of functional currency*

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of the parent Company is the Canadian dollar. The functional currency of the Company's US subsidiaries is the US dollar and the functional currency of the Company's one dormant Irish subsidiary is the Euro.

##### *Fair value of embedded derivatives*

The terms and conditions of financial liabilities may contain embedded derivatives that may or may not require embedded derivatives to be split apart and accounted for as a stand-alone derivative. These determinations require judgment. The Company considered the terms and conditions of the convertible loan and determined the value of the embedded derivative was \$52,174.



# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 2. BASIS OF PRESENTATION (continued)

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### Use of accounting assumptions, estimates and judgments (continued)

- (ii) Critical accounting judgments (continued)

#### *Recovery of deferred tax assets*

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

#### *Determination of CGUs*

A cash generating unit (“CGU”) is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

#### *Contingencies*

Due to the nature of the Company's operations, various legal, tax, environmental, regulatory, and business acquisition consideration matters are outstanding from time to time. In the event that management's estimates of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company as at and for the year ended December 31, 2017.

### **Adoption of new and revised standards and interpretations**

The Company has adopted the new and revised standards and interpretations issued by the IASB or IFRIC listed below effective January 1, 2018. The adoption of these standards did not have a material impact on the Company's condensed consolidated interim financial statements.

#### *IFRS 9 - Financial Instruments*

IFRS 9 replaces the multiple classification and measurement models of IAS 39, Financial Instruments; Recognition and Measurement, with a single model that has only two classifications: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities and provides a new general hedge account standard.

#### *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18, Revenue, and a number of related standards and interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

### **New standards, interpretations and amendments not yet effective**

Certain new standards, amendments to standards and interpretations are not yet effective as of June 30, 2018 and have not been applied in preparing these condensed consolidated interim financial statements.

#### *IFRS 16 – Leases*

On January 13, 2016, the IASB issued IFRS 16, Leases. The new standard is effective for the Company on January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease and transitional provisions have been provided.

The introduction of IFRS 16 is not expected to have a significant impact on the Company's financial statements.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

## 4. DEPOSITS

	June 30, 2018	December 31, 2017
BC License of Occupation security deposits *	\$ 19,000	\$ 19,000
Office lease deposit	6,255	11,567
<b>Total</b>	<b>\$ 25,255</b>	<b>\$ 30,567</b>

\* The Company has \$19,000 on deposit with the BC Ministry of Forests, Lands, and Natural Resource Operations in respect of its remaining licenses of occupation. The funds are being held in a non-interest-bearing trust by the Provincial Treasury.

## 5. EQUIPMENT

	Vehicles	Office furniture and equipment	Computer	Total
<b>Cost</b>				
At December 31, 2017	\$ 69,280	\$ 4,037	\$ 2,741	\$ 76,058
Additions	30,988	-	-	30,988
Write-off	-	(4,037)	(2,741)	(6,778)
Foreign exchange	4,381	-	-	4,381
<b>At June 30, 2018</b>	<b>\$ 104,649</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 104,649</b>
<b>Accumulated depreciation</b>				
At December 31, 2017	\$ 6,224	\$ 4,037	\$ 2,741	\$ 13,002
Depreciation for the period	19,020	-	-	19,020
Write-off	-	(4,037)	(2,741)	(6,778)
Foreign exchange	887	-	-	887
<b>At June 30, 2018</b>	<b>\$ 26,131</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,131</b>
<b>Carrying amounts</b>				
At December 31, 2017	\$ 63,056	\$ -	\$ -	\$ 63,056
<b>At June 30, 2018</b>	<b>\$ 78,518</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,518</b>

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 6. TRADE AND OTHER PAYABLES

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	June 30, 2018	December 31, 2017
Trade and other payables in Canada *	\$ 1,476,741	\$ 1,729,028
Trade and other payables in the U.S.A.	2,270,635	1,723,604
Trade and other payables to related parties (Note 11)	917,762	885,992
Total	\$ 4,665,138	\$ 4,338,624

\* Trade and other payables in Canada includes \$708,000 under dispute since 2006 which in management's opinion is not expected to ultimately be paid in full

During the six months ended June 30, 2018, the Company settled trade and other payables of \$30,453 through the payment of \$12,648 and accordingly recorded a gain on settlement of trade and other payables of \$17,805.

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## 7. CONTINGENT CONSIDERATION

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In November 2017, the Company completed the acquisition of Aries Solar, LLC ("Aries"), an established commercial and industrial solar company that is licensed to operate in four Southeast US states. Aries changed its name to Solar Alliance Southeast, LLC ("SASE") on closing.

In consideration, the seller vendor is entitled to a payment of 20% of earnings before income tax depreciation and amortization ("EBITDA") on the existing SASE prospective project pipeline listed in the agreement up to a maximum of US\$1,000,000 until November 7, 2022. EBITDA for each prospective project will be determined using project-based accounting and calculating for allocation overhead by project. Projects signed by SASE after November 7, 2017 are not subject to the EBITDA allocation.

At acquisition, management determined the fair value of the contingent consideration to be \$Nil. As a result of a significant contract being entered into in December 2017, the fair value of the contingent consideration was determined to be \$58,342 as at December 31, 2017 and June 30, 2018. The contingent consideration was determined using management's best estimates of the amounts expected to be payable pursuant to the agreement and the expected timing of such payments.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

## 8. LOANS AND BORROWINGS

	June 30, 2018	December 31, 2017
Convertible loan (a)	\$ 2,131,135	\$ 1,986,250
Loan (b)	147,559	134,788
Related party loan (c)	150,311	-
Other	29,307	-
Total	\$ 2,458,312	\$ 2,121,038

### a) Convertible loan

	Liability Component	Equity Component
December 31, 2017	\$ 1,986,250	\$ 52,174
Interest expense	119,013	-
Accretion	25,872	-
June 30, 2018	\$ 2,131,135	\$ 52,174

In November 2017, the Company entered into a convertible loan agreement with a company controlled by a greater than 10% shareholder for \$2,000,000. The loan has a term of one year and bears interest at a rate of 12% per annum, with interest and principal payable on the maturity date. The lender shall have the option at any time of converting all or some of any outstanding principal into shares of the Company at a conversion price of \$0.08 per share. The Company does not have to accept a notice to convert from the lender if the result would be that the greater than 10% shareholder controls greater than 19.5% of the issued and outstanding number of shares of the Company. The Company allocated an equity component of this debt hosted derivative instrument of \$52,174 with the balance of \$1,947,826 allocated as the debt component that will be accreted by the charge of interest at the rate of 15% per annum being the interest rate of a comparable debt without a conversion feature.

During the six months ended June 30, 2018, the Company recorded interest expense of \$144,885, being accretion on the debt of \$25,872 and interest expense of \$119,013.

### b) Loan

	June 30, 2018	December 31, 2017
Principal	\$ 85,592	\$ 81,543
Interest	61,967	53,245
Total	\$ 147,559	\$ 134,788

In October 2007, the Company assumed a loan from a third party to a former subsidiary that the Company previously guaranteed in the amount of US\$65,000. Interest began accruing in October 2010 at a rate of 8.5% per annum. The loan is unsecured and due on demand. During the six months ended June 30, 2018, the Company accrued interest of \$6,077 and recorded a foreign exchange gain on the loan of \$6,694.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

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## 8. LOANS AND BORROWINGS (continued)

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### c) Related party loan

	June 30, 2018	December 31, 2017
Principal	\$ 148,988	\$ -
Interest	1,323	-
Total	\$ 150,311	\$ -

During the six months ended June 30, 2018, an officer of the Company advanced the Company \$98,000 and deferred \$50,988 of fees pursuant to unsecured promissory notes bearing interest at 15% per annum and due on demand.

During the six months ended June 30, 2018, the Company accrued interest of \$1,323 on the promissory notes.

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## 9. PROVISIONS

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	June 30, 2018	December 31, 2017
Asset retirement obligations	\$ 101,762	\$ 101,762
Other provisions	127,500	127,500
	229,262	229,262
Less current portion	(127,500)	(127,500)
Total	\$ 101,762	\$ 101,762

The Company has recorded asset retirement obligations of \$101,762 associated with the future decommissioning of weather monitoring equipment situated on the Wildmare Wind Energy Project site.

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## 10. SHARE CAPITAL

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### a) Authorized share capital

The authorized share capital is comprised of an unlimited number of common shares without par value and 100 redeemable preferred shares.

### b) Issued share capital

At June 30, 2018, the Company had 96,323,786 common shares issued and outstanding (December 31, 2017 – 96,323,786) and no preferred shares issued and outstanding. A summary of changes in share capital and reserves is contained on the condensed consolidated interim statements of changes in equity (deficiency) for the six months ended June 30, 2018 and 2017.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the six months ended June 30, 2018  
(Unaudited – Expressed in Canadian dollars)

## 10. SHARE CAPITAL (continued)

### c) Warrants

The continuity of warrants for the six months ended June 30, 2018 is as follows:

Expiry date	Exercise price	Balance, December 31, 2017	Granted	Exercised	Expired	Balance, June 30, 2018		
May 9, 2020	\$0.10	6,506,900	-	-	-	6,506,900		
December 13, 2018	\$0.10	2,858,999	-	-	-	2,858,999		
April 25, 2020	\$0.18	8,064,332	-	-	-	8,064,332		
April 25, 2020	\$0.25	545,747	-	-	-	545,747		
June 27, 2020	\$0.18	7,608,333	-	-	-	7,608,333		
July 6, 2020	\$0.18	7,258,666	-	-	-	7,258,666		
		32,842,977	-	-	-	32,842,977		
Weighted average exercise price	\$	0.16	\$	-	\$	-	\$	0.16

In April 2018, the Company amended the expiry date of 6,506,900 outstanding common share purchase warrants from May 9, 2018 to May 9, 2020 and amended the exercise price of 8,064,332 outstanding common share purchase warrants from \$0.25 to \$0.18 per share. All other terms and conditions of the warrants remain unchanged.

### d) Stock options

The Company has a common share Stock Option Plan (equity-settled). The Board of Directors of the Company may from time to time, at its discretion, and in accordance with the requirements of the TSX-V, grant to directors, officers and technical consultants to the Company, non-transferable options to purchase common shares, exercisable for a period of up to five years from the date of grant. There are no vesting requirements pursuant to the stock option plan. The Board may add such provisions at its discretion on a grant-by-grant basis. However, stock options granted in respect of investor relations activities must vest quarterly over a minimum one-year period, pursuant to TSX-V policy.

The Board of Directors have resolved that the Stock Option Plan authorize the directors to grant stock options up to a maximum of 10% of the number of common shares issued and outstanding at the time of grant. The “rolling” stock option plan has been in effect since the Company was listed on the TSX-V.

# SOLAR ALLIANCE ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
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## 10. SHARE CAPITAL (continued)

### d) Stock options (continued)

The continuity of stock options for the six months ended June 30, 2018 is as follows:

Expiry date	Exercise price	Balance, December 31, 2017	Granted	Exercised	Expired	Balance, June 30, 2018		
January 23, 2019	\$0.075	250,000	-	-	-	250,000		
January 31, 2019	\$0.085	1,284,000	-	-	-	1,284,000		
December 15, 2020	\$0.07	1,500,000	-	-	-	1,500,000		
November 30, 2021	\$0.075	500,000	-	-	-	500,000		
April 5, 2022	\$0.195	750,000	-	-	-	750,000		
July 5, 2022	\$0.105	500,000	-	-	-	500,000		
December 22, 2022	\$0.08	2,500,000	-	-	(1,000,000)	1,500,000		
January 1, 2023	\$0.08	-	775,000	-	(25,000)	750,000		
February 1, 2023	\$0.08	-	500,000	-	-	500,000		
May 4, 2023	\$0.08	-	500,000	-	-	500,000		
		7,284,000	1,775,000	-	(1,025,000)	8,034,000		
Weighted average exercise price	\$	0.09	\$	0.08	\$	0.08	\$	0.09

As at June 30, 2018, 7,534,000 stock options were exercisable.

### e) Share-based compensation

During the six months ended June 30, 2018, the Company recorded share-based compensation of \$115,904 (2017 - \$84,596).

On May 4, 2018, the Company granted 500,000 stock options to a director of the Company exercisable for a period of five years at an exercise price of \$0.08 per share vesting immediately. The fair value of the options was calculated to be \$23,472, which has been recognized as share-based compensation for the six months ended June 30, 2018. The options were valued using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 2.14%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On February 1, 2018, the Company granted 500,000 stock options to two officers of the Company exercisable for a period of five years at an exercise price of \$0.08 per share vesting 50% on grant and 50% in six months. The fair value of the options was calculated to be \$21,334, of which \$19,449 has been recognized as share-based compensation for the six months ended June 30, 2018. The options were valued using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 2.14%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.

On January 26, 2018, the Company granted 775,000 stock options to employees of the Company exercisable for a period of five years at an exercise price of \$0.08 per share vesting immediately. The fair value of the options was calculated to be \$36,350, which has been recognized as share-based compensation as the options fully vested on the grant date. The options were valued using the Black-Scholes pricing model with the following assumptions: a risk-free interest rate of 2.06%; an expected volatility of 100%; an expected life of 5 years; a forfeiture rate of zero; and an expected dividend of zero.



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## 10. SHARE CAPITAL (continued)

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### e) Share-based compensation (continued)

On December 22, 2017, the Company granted 2,500,000 stock options to a director and two officers of the Company exercisable for a period of five years at an exercise price of \$0.08 per share vesting 25% immediately and 25% every three months thereafter. The fair value of the options was calculated to be \$82,375, of which \$36,633 has been recognized as share-based compensation for the six months ended June 30, 2018.

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

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In addition to related party transactions and balances disclosed elsewhere in these condensed consolidated interim financial statements, the following transactions and balances occurred during the six months ended June 30, 2018 with related parties:

- (a) As at June 30, 2018, an amount of \$255,600 (December 31, 2017 - \$244,800) is due from a company controlled by an officer of the Company, comprised of principal of \$180,000 (December 31, 2017 - \$180,000) and accrued interest of \$75,600 (December 31, 2017 - \$64,800). During the six months ended June 30, 2018, the Company accrued interest income of \$10,800 (2017 - \$10,800). The principal amount accrues interest at 12% per annum.
- (b) Included in trade and other payables as at June 30, 2018 is \$383,400 (December 31, 2017 - \$367,200) due to a company controlled by an officer of the Company, comprised of principal of \$270,000 (December 31, 2017 - \$270,000) and accrued interest of \$113,400 (December 31, 2017 - \$97,200). This amount relates to a contractual payment resulting from the sale of certain wind projects in British Columbia in 2014 which constituted the material operating assets of the Company and triggered the contractual payment. During the six months ended June 30, 2018, the Company accrued interest expense of \$16,200 (2017 - \$10,800). The principal amount accrues interest at 12% per annum.
- (c) Included in trade and other payables as at June 30, 2018 is \$294,362 (December 31, 2017 - \$403,791) due to current and former officers and directors of the Company for consulting fees, salaries and benefits and expense reimbursements.
- (d) Included in trade and other payables as at June 30, 2018 is \$240,000 (December 31, 2017 - \$115,000) due to a greater than 10% shareholder. During the six months ended June 30, 2018, the Company accrued consulting fees of \$125,000 (2017 - \$Nil). The amount is non-interest bearing.

# SOLAR ALLIANCE ENERGY INC.

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## 11. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management includes members of the Board of Directors, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel during the six months ended June 30, 2018 and 2017 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Consulting fees	\$ 157,740	\$ 114,090	\$ 315,480	\$ 228,180
Salaries and benefits	-	127,983	37,500	253,967
Share-based compensation	34,423	-	61,238	-
	\$ 192,163	\$ 242,073	\$ 414,218	\$ 482,147

## 12. SEGMENTED INFORMATION

Operating segments are based on the information about the components of the entity that management uses to make decisions about operating matters. The Company and its subsidiaries engage in one main business activity being the residential, commercial and industrial solar business, hence operating segment information is not provided. Geographical segment information is provided by country of operation as follows:

	U.S.A.	Canada	Ireland	Total
<b>As at and for the six months ended June 30, 2018</b>				
Total assets	\$ 723,052	\$ 341,235	\$ -	\$ 1,064,287
Non-current assets	84,773	19,000	-	103,773
Total revenue	1,321,568	-	-	1,321,568
Net loss	(478,300)	(994,565)	-	(1,472,865)

	U.S.A.	Canada	Ireland	Total
<b>As at and for the six months ended June 30, 2017</b>				
Total assets	\$ 3,795,486	\$ 527,762	\$ 6,436	\$ 4,329,684
Non-current assets	2,874,815	25,305	-	2,900,120
Total revenue	1,918,191	-	-	1,918,191
Net loss	(2,441,924)	(1,171,607)	-	(3,613,531)

# SOLAR ALLIANCE ENERGY INC.

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## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); fair value through other comprehensive income (loss) (“FVTOCI”); or at amortized cost. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	June 30, 2018	December 31, 2017
Cash	FVTPL	\$ 41,973	\$ 1,179,203
Receivables	Amortized cost	293,345	344,090
Due from related party	Amortized cost	255,600	244,800
Deposits	Amortized cost	25,255	30,567
Trade and other payables	Amortized cost	4,665,138	4,338,624
Customer deposits	Amortized cost	16,813	307,905
Loans and borrowings	Amortized cost	2,458,312	2,121,038

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying values of the Company’s cash, receivables, due from related party, deposits, trade and other payables and customer deposits approximate their fair values because of their short term to maturity and/or the interest rates being charged. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost. The carrying values of the Company’s loans and borrowings that are payable on demand approximate their fair values due to their short-term to maturity.

### Risk management

The Company’s risk management objectives and policies are consistent with those disclosed by the Company for the year ended December 31, 2017.

# **SOLAR ALLIANCE ENERGY INC.**

Notes to Condensed Consolidated Interim Financial Statements  
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## **14. SUBSEQUENT EVENTS**

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Subsequent to June 30, 2018, the Company completed the following transactions:

- a) In August 2018, an officer of the Company subscribed for and paid for a non-brokered private placement of 1,520,000 units at a price of \$0.05 per unit for gross proceeds of \$76,000. Each unit to consist of one common share of the Company and one share purchase warrant with each share purchase warrant exercisable at a price of \$0.08 per share for a period of three years. The private placement remains subject to regulatory approval; and
- b) In July 2018, an officer of the Company advanced the Company \$4,000 and deferred \$25,494 of fees pursuant to unsecured promissory notes (Note 8c). In addition, the Company repaid promissory notes of \$26,000.