

Condensed interim consolidated financial statements of

Eguana Technologies Inc.

For the Three and Nine Months Ended September 30, 2023

(Unaudited)

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars

Unaudited

	Note	September 30, 2023	December 31, 2022
Assets			
Current:			
Cash		2,813,659	15,035,483
Accounts receivable	3	17,414,136	13,516,936
Inventory	4	8,509,811	7,039,779
Prepaid expenses and deposits		2,992,956	9,202,248
Total Current Assets		31,730,562	44,794,446
Non-current:			
Property and equipment		1,681,480	1,445,765
Intangible assets		403,717	118,517
Right-of-use assets		764,120	1,043,901
Total Assets		34,579,879	47,402,629
Liabilities			
Current:			
Accounts payable and accrued liabilities		5,530,521	4,228,700
Warranty provision		658,028	578,859
Deferred revenue		32,637	28,284
Current portion of long-term debt	5	4,674,245	3,571,470
Derivative liability	5	2,815,260	2,460,739
Current portion of lease liability		206,335	257,944
Total Current Liabilities		13,917,026	11,125,996
Non-current:			
Long-term debt	5	4,269,585	7,887,545
Convertible unsecured debentures	6	25,961,179	23,883,187
Lease liability		771,158	882,606
Total Liabilities		44,918,948	43,779,334
Shareholders' Equity (Deficit)			
Common shares	7	91,797,218	85,198,770
Preferred shares		1	1
Warrants	8	52,598	1,665,349
Convertible unsecured debenture	6	7,310,746	7,310,746
Contributed surplus	9	15,050,904	13,727,317
Foreign currency translation reserve		(278,633)	(143,392)
Deficit		(124,271,903)	(104,135,496)
Total Shareholders' Equity (Deficit)		(10,339,069)	3,623,295
Total Liabilities and Shareholders' Equity (Deficit)		34,579,879	47,402,629

Future Operations

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

Approved by the Board of Directors: “Michael Carten” Director “George Powlick” Director

Eguana Technologies Inc.

Condensed interim consolidated statements of net loss and comprehensive loss

Stated in Canadian dollars

Unaudited

For the three and nine-month periods ended September 30

	Note	Three months ended		Nine months ended	
		2023	2022	2023	2022
Sales	13	2,551,092	2,602,195	10,473,963	5,204,659
Cost of goods sold		2,447,574	2,851,979	10,217,527	5,381,783
Cost of goods sold – impairment		325,763	-	325,763	-
Gross margin		(222,245)	(249,784)	(69,327)	(177,124)
Expenses					
General and administrative		634,322	339,451	2,489,223	1,593,979
Selling and business development		664,155	486,191	2,065,642	1,613,652
Product development		1,133,326	1,330,017	3,967,897	2,449,920
Operations		417,930	242,108	1,129,991	825,870
Amortization		197,973	133,392	592,402	405,631
Share-based compensation	9	235,552	191,827	689,970	1,109,558
Total expenses		3,283,258	2,722,986	10,935,125	7,998,610
Operating Loss		(3,505,503)	(2,972,770)	(11,004,452)	(8,175,734)
Financing costs	11	(2,067,999)	(1,159,650)	(6,028,191)	(1,749,895)
Expected credit loss	3	(1,206,286)	-	(1,788,005)	-
Unrealized foreign exchange gain (loss)		119,378	(49,804)	(242,225)	(48,968)
Miscellaneous income		17,488	-	138,717	223,230
Other income (expense)	4	840,933	(3,021)	(1,212,251)	-
Net loss before tax		(5,801,989)	(4,185,245)	(20,136,407)	(9,751,367)
Deferred tax recovery		-	2,183,729	-	2,183,729
Net loss		(5,801,989)	(2,001,516)	(20,136,407)	(7,567,638)
Foreign currency translation adjustment		(27,488)	(103,525)	(135,241)	(75,813)
Total comprehensive loss		(5,829,477)	(2,105,041)	(20,271,648)	(7,643,451)
Loss per common share					
Basic and diluted		(0.01)	(0.01)	(0.05)	(0.02)
Weighted average number of common shares					
Basic and diluted		418,418,645	391,086,937	418,418,645	391,086,937

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity (deficit)

Stated in Canadian dollars

Unaudited

For the three and nine-month periods ended September 30

	Note	Common shares	Preferred shares	Warrants	Contributed surplus	Convertible unsecured debentures	Foreign currency translation reserve	Deficit	Total
Balance January 1, 2023		85,198,770	1	1,665,349	13,727,317	7,310,746	(143,392)	(104,135,496)	3,623,295
Net loss for the period		-	-	-	-	-	-	(20,136,407)	(20,136,407)
Foreign currency translation		-	-	-	-	-	(135,241)	-	(135,241)
Repayment of accrued interest with common shares	6	2,292,709	-	-	-	-	-	-	2,292,709
Warrants exercised	8	4,305,739	-	(979,134)	-	-	-	-	3,326,605
Warrants expired	8	-	-	(633,617)	633,617	-	-	-	-
Share-based payments	9	-	-	-	689,970	-	-	-	689,970
Balance September 30, 2023		91,797,218	1	52,598	15,050,904	7,310,746	(278,633)	(124,271,903)	(10,339,069)
Balance January 1, 2022		82,804,447	1	2,237,644	12,509,666	-	(252,772)	(89,968,698)	7,330,288
Net loss for the period		-	-	-	-	-	-	(7,567,638)	(7,567,638)
Foreign currency translation		-	-	-	-	-	(75,813)	-	(75,813)
Equity portion of convertible debentures, net of tax (note 7)		-	-	-	-	7,310,746	-	-	7,310,746
Warrants exercised		2,100,574	-	(523,547)	-	-	-	-	1,577,027
Warrants issued		-	-	46,123	-	-	-	-	46,123
Warrants expired		-	-	(19,170)	19,170	-	-	-	-
Stock options exercised		75,556	-	-	(32,505)	-	-	-	43,051
Share-based payments		-	-	-	1,109,558	-	-	-	1,109,558
Balance September 30, 2022		84,980,577	1	1,741,050	13,605,889	7,310,746	(328,585)	(97,536,336)	9,773,342

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

Eguana Technologies Inc.

Condensed interim consolidated statements of cash flows

Stated in Canadian dollars

Unaudited

For the three and nine-month periods ended September 30

		Three months ended		Nine months ended	
	Note	2023	2022	2023	2022
Operating activities					
Net loss		(5,801,989)	(2,001,516)	(20,136,407)	(7,567,638)
Financing costs	11	2,067,999	1,159,650	6,028,191	1,749,895
Share-based payments	9	235,552	191,827	689,970	1,109,558
Amortization		197,973	133,392	592,402	405,631
Inventory write down	4	13,526	-	26,088	82,913
Inventory impairment	4	325,763	-	325,763	-
Warranty provision		149,152	128,111	350,144	250,639
Bad debt expense		-	-	-	965
Expected credit loss	3	1,206,286	-	1,788,005	-
Other (income) expense	4	-	-	2,053,184	-
Deferred tax recovery		-	(2,183,729)	-	(2,183,729)
Unrealized foreign exchange (gain) loss		(119,378)	49,804	242,225	48,968
		(1,725,116)	(2,522,461)	(8,040,435)	(6,102,798)
Net change in non-cash working capital	12	975,971	(3,076,202)	(2,449,509)	(7,283,166)
Cash flow (used in) from operating activities		(749,145)	(5,598,663)	(10,489,944)	(13,385,964)
Financing activities					
Proceeds from issuance of long-term debt, net	5	-	6,538,000	-	12,673,888
Proceeds from issuance of convertible debentures, net		-	32,546,580	-	32,546,580
Proceeds on exercise of warrants	8	-	56,248	3,326,605	1,623,150
Proceeds on exercise of stock options	9	-	-	-	43,050
Repayment of long-term debt	5	(1,539,144)	(265,039)	(4,263,072)	(516,024)
Repayment of leases		(89,591)	(107,008)	(288,656)	(322,806)
Non-cash working capital	12	582,247	(96,492)	582,247	(522,630)
Cash flow (used in) from financing activities		(1,046,488)	38,672,289	(642,876)	45,525,208
Investing activities					
Property and equipment additions		(184,869)	(285,892)	(561,247)	(527,232)
Intangible asset addition		-	-	(340,300)	-
Non-cash working capital	12	(52,437)	-	(96,048)	-
Cash flow used in investing activities		(237,306)	(285,892)	(997,595)	(527,232)
Effects of exchange rate changes on cash held in foreign currencies		(1,232)	(107,297)	(91,409)	(95,424)
Net change in cash		(2,034,171)	32,680,437	(12,221,824)	31,516,588
Cash, beginning of period		4,847,830	1,653,259	15,035,483	2,817,108
Cash, end of period		2,813,659	34,333,696	2,813,659	34,333,696

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended September 30

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1. Description of the business

Eguana Technologies Inc. (“the Company”), incorporated under the Alberta Business Corporations Act, designs, markets, manufactures, and sells fully integrated energy storage solutions, based on its proprietary advanced power electronics platform, for global residential and commercial markets. The Company also markets and sells a suite of micro inverter products, which are integrated with its energy storage platform, providing consumers with full solar + storage system architecture for residential and commercial applications. Eguana has two decades of experience delivering grid edge power electronics for fuel cell, photovoltaic and battery applications.

The Company is a publicly traded company headquartered at 3636 7th Street SE, Calgary, Alberta, Canada, and its shares trade on the TSX Venture Exchange (the “TSX-V”) under the symbol “EGT” and on the Over-the-Counter Bulletin Board (OCT-BB) under the symbol “EGTYF”.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements (“financial statements”) were prepared in accordance with IAS 34 Interim Financial Reporting.

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the fifteen-month period ended December 31, 2022, and year ended September 30, 2021, which were prepared in accordance with IFRS, “the Annual Financial Statements”.

These financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the Annual Financial Statements.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2(d) of the Annual Financial Statements.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 29, 2023.

(b) Change in year end

In the previous year, the Board of Directors approved a change in the Company’s year end from September 30 to December 31, to be more comparative with a majority of its industry peers. Consequently, the Annual Financial Statements ended December 31, 2022, included 15 months of financial information.

(c) Going Concern

These financial statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments, in the normal course of business.

At September 30, 2023, the Company had not achieved profitable operations since its inception and had an accumulated deficit of \$124.3 million (September 30, 2022 - \$97.5 million), incurred a net loss of \$20.1 million for the nine months ended September 30, 2023 (September 30, 2022 – \$9.8 million) and had cash flow used in operating activities of \$10.5 million (September 30, 2022 – \$13.4 million). Whether and when the Company can attain profitability from operations is uncertain.

Although, the Company had a working capital of \$17.8 million, including cash of \$2.8 million, as at September 30, 2023, a significant portion of the working capital balance is comprised of trade accounts receivable of \$22.1

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

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million. Further, the accounts receivable balance includes a significant balance of \$19.3 million from a major customer who has been slow to pay, requiring the Company to work closely with them (see Note 3) to develop collection plans. Based on management's assumptions and estimates for the timing and amount of collections, and ongoing business activities, the Company expects it will have liquidity to finance operations for more than twelve months. However, given the Company continues to use cash in operating activities and has not yet achieved profitable operations, any significant delay or variance in the anticipated collection pattern from this major customer receivable, could significantly impact the Company's liquidity position and require the Company to seek additional debt and/or equity financing. There is no certainty that this debt and/or equity financing would be available. These facts create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. Failure to continue as a going concern would require adjustments to assets and liabilities, the reported revenues and expenses, and balance sheet classifications used, which could differ materially from the going concern basis.

(d) Comparative presentation figures

The presentation of operating expenses has changed, and comparative periods have been reclassified to conform to the presentation adopted in the current period.

(e) Critical accounting estimates and use of judgements

The Company has accounts receivable totaling \$17.4 million as at September 30, 2023, and significant judgement is applied to estimate the expected credit loss ("ECL"). The Company considers customer-specific factors, expected timing of cash receipts, and discount rates to account for time value of money when required. The Company also considered historical default rates, forecasted economic conditions in the assessment, amongst other factors. Actual judgements and estimates will change over time and management reviews these frequently and will adjust ECL, based on this changing information. Actual credit losses may differ significantly from ECL. As at September 30, 2023, the Company has one customer that represents 93% of total accounts receivable which at September 30, 2023, has \$13.9 million (net of ECL) of total accounts receivable that are over 90 days past due and has been delayed in making payments. As a result, the Company recorded a total provision, as at September 30, 2023, of \$4.7 million. Management still believes the full amount will be received from the customer.

3. Accounts Receivable

The following schedules outline the details of accounts receivables:

	September 30, 2023	December 31, 2022
Trade	22,080,824	14,356,492
Taxation authorities	52,476	549,113
	22,133,301	14,905,604
Less: Provisions	(4,719,165)	(1,388,668)
	17,414,136	13,516,936

Eguana Technologies Inc.

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Trade Receivables:	September 30, 2023	December 31, 2022
Current	1,084,057	3,052,198
Past Due		
31 – 60 days	383,365	1,990,339
61 – 90 days	834,860	5,254,563
Over 90 days	19,778,543	4,059,392
	22,080,824	14,356,492

The Company has one customer that represents 93% (December 31, 2022 – 82%) of total accounts receivable which at September 30, 2023 has \$17.2 million (December 31, 2022 – \$2.7 million) of total accounts receivable that are over 90 days past due and has been delayed in making payments. The Company has recorded total provisions, including expected credit losses, as at September 30, 2023 of \$3.3 million (December 31, 2022 - \$1.4 million). Management continues to have regular communications with this customer.

4. Inventory

	September 30, 2023	December 31, 2022
Finished goods	1,760,388	1,086,476
Components	6,749,423	5,953,303
	8,509,811	7,039,779

As at September 30, 2023, \$8.5 million of inventory was carried at cost and \$27.4 thousand was carried at net realizable value (December 31, 2022 - \$7.0 million carried at cost and \$36.6 thousand at net realizable value). During the nine months ended September 30, 2023, the Company recorded a write down of inventory in cost of goods sold of \$26.1 thousand (September 30, 2022 - \$82.9 thousand). During the nine months ended September 30, 2023, the Company recognized an inventory impairment of \$325.8 thousand (nine months ended September 30, 2022 - \$nil) for components not used in production and were considered to have no future economic benefits.

In June 2023, the Company experienced a theft of three truckloads of inventory components, when being transferred between Company warehouse locations. The inventory items had a cost of \$2.1 million and were written off in the Company records, resulting in an equivalent loss of \$2.1 million, reported in Other (Income) Expense for the three months ended June 30, 2023. The theft was reported to the police and insurance and the Company is pursuing recovery from its insurance. The timing and final amount of the insurance recovery is not certain. In the third quarter, the Company received partial insurance proceeds of US \$623.9 thousand, which were recorded in Other (Income) Expense, to offset the original loss recorded. Further proceeds are still being pursued with the insurer for the balance of the loss.

During the nine months ended September 30, 2023, Eguana transferred control of \$606.1 thousand of raw component inventory to its manufacturing partner, Omega EMS ("Omega") (2022 – \$1.9 million). Eguana and Omega announced a manufacturing partnership on November 2, 2021. Approximately \$1.5 million for future inventory purchases is included in prepaids and deposits (December 31, 2022 – \$6.8 million).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

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5. Long-term debt and derivative liability

	Derivative liability	Long-term debt	Total
Balance December 31, 2022	2,460,739	11,459,015	13,919,754
Accretion and accrued interest	-	1,778,380	1,778,380
Repayment	-	(4,263,072)	(4,263,072)
Fair value loss on derivative liability	354,521	-	354,521
Loss (gain) on foreign exchange	-	(30,493)	(30,493)
Balance September 30, 2023	2,815,260	8,943,830	11,759,090
Less: current portion	(2,815,260)	(4,674,245)	(7,489,505)
Long-term portion	-	4,269,585	4,269,585

On April 1, 2022, the Company entered into a new loan agreement (the "New Senior Loan") for general working capital for up to US \$10.0 million with Western Technology Investment (the "Lender"). The loan was fully drawn in 2022 and associated warrants were issued.

In connection with the New Senior Loan, the Company issued common share purchase warrants entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company at a price of \$0.355 per common share for a period of five years from each loan advance, all immediately vested. The first US \$5 million loan advance was on April 7, 2022, and 3,700,732 warrants were issued and the second US \$5 million loan advance was on August 31, 2022, and 1,233,577 warrants were issued.

The vested unexercised warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event and September 30, 2025, for an amount equal to the sum of: (i) USD \$1.5 million; and (ii) the product obtained by multiplying US \$1.5 million by the percentage of the principal amount of the Loan advanced by the Lender relative to US \$10.0 million.

The warrants are recorded as a warrant derivative liability at fair value through profit or loss and re-measured at each reporting date. A warrant derivative liability was measured at the time of each loan advance, with the residual value assigned to the long-term debt.

The first loan advance will be accreted to its face value over the term of the loan using an effective interest rate of 30% and the second loan advance will be accreted to its face value over the term of the loan using an effective interest rate of 17%.

The warrant derivative liability, for the loan advances, was estimated using the higher of the present value of the warrant exchange payment using a discount rate of 20%, and the fair value of the warrants. The fair value was determined to be \$2.8 million as at September 30, 2023 (December 31, 2023 - \$2.4 million) with a resulting fair value loss of \$182.1 thousand recorded for the three months ended September 30, 2023 (2022 - \$300.4 thousand), and \$354.5 thousand for the nine months ended September 30, 2023 (2022 - \$422.7 thousand).

Financing fees of \$156.1 thousand were allocated to the New Senior Loan.

As at September 30, 2023, the Company is in compliance with related loan covenants, which are non-financial in nature.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

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6. Convertible unsecured debenture

	Debt component of debenture	Equity component of debenture	Total
Balance December 31, 2022	23,883,187	7,310,746	31,193,933
Interest	(1,727,754)	-	(1,727,754)
Accretion	3,805,746	-	3,805,746
Balance September 30, 2023	25,961,179	7,310,746	33,271,925

On August 31, 2022 (the "Closing Date"), the Company closed a strategic investment with the ITOCHU Corporation ("ITOCHU") in the amount of \$33.0 million in the form of a convertible unsecured debenture (the "Debenture"). The Debenture bears interest at a rate of 7% per annum, paid semi-annually in either cash or with the issuance of shares, and matures on August 31, 2025.

While the Debenture remains outstanding, there are conversion rights contingent on share price and ITOCHU may be entitled to convert into common shares, or the Company may require ITOCHU to convert. Based on this conversion feature, the balance was split between debt and equity. The debt component was measured at the issue date at the present value of the cash interest and principal payments, using a discount rate of 20% and a three-year term. The difference between the debt component and the face value of the Debenture was classified as equity and financing fees were allocated between the liability and equity portions of the Debenture.

During the three months ended September 30, 2023, interest of \$582 thousand (2022 - \$189.9 thousand) and accretion of \$1.3 million (2022 - \$389.0 thousand) was recorded. During the nine months ended September 30, 2023, interest of \$1.7 million (2022 - \$189.9 thousand) and accretion of \$3.8 million (2022 - \$389.0 thousand) was recorded.

7. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount (\$)
Balance December 31, 2022	403,166,645	85,198,770
Repayment of accrued interest with common shares	17,822,711	2,292,709
Exercise of warrants (note 7)	16,666,666	4,305,739
Balance September 30, 2023	437,656,022	91,797,218

In March 2023, ITOCHU exchanged \$1.1 million of interest owing under the Company's 7% unsecured convertible debenture into 4,242,617 common shares of Eguana, in full satisfaction of the interest payment due on March 1, 2023.

In September 2023, ITOCHU exchanged \$1.2 million of interest owing under the Company's 7% unsecured convertible debenture into 13,580,094 common shares of Eguana, in full satisfaction of the interest payment due on September 1, 2023.

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Weighted average number of common shares

The weighted average number of shares as at September 30, 2023 and September 30, 2022 was determined by excluding preferred shares, stock options and warrants, as the Company was in a loss position and the impact would have been anti-dilutive to earnings per share.

8. Warrants

Changes in the Company's warrants are as follows:

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value (\$)
Balance December 31, 2022	21,600,975	2,100,000	23,700,975	1,665,349
Warrants exercised	(16,666,666)	-	(16,666,666)	(979,134)
Warrants expired		(2,100,000)	(2,100,000)	(633,617)
Balance September 30, 2023	4,934,309	-	4,934,309	52,598

In March 2023, ITOCHU received 16,666,666 common shares (note 6) of the Company through the exercise of their remaining share purchase warrants, for total proceeds, net of issuance costs, of \$3.3 million.

Outstanding and exercisable warrants at September 30, 2023 were as follows:

Range of exercise prices	Warrants Outstanding and Exercisable	Weighted average exercise prices	Weighted average years to expiry
\$0.31 - \$0.40	4,934,309	\$ 0.36	3.43
Balance September 30, 2023	4,394,309	\$ 0.36	3.43

Eguana Technologies Inc.

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9. Share based payments

The Company established the Stock Option Plan, which is accounted for as equity settled, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. The shareholders approved the Stock Option Plan on September 16, 2021. The Stock Option Plan allows for a maximum term on options of ten years. Vesting periods for options are determined by the Board, however, typically options vest over three years, and a third of the options vest at each anniversary of the grant date. The Company, at the discretion of the Board of Directors, may issue up to a maximum of 36,708,000 options. The minimum price at which the options may be granted is the closing price of the common shares on the TSX-V on the date immediately prior to the date of issue. The total share-based compensation for the three months ended September 30, 2023, was \$235.6 thousand (September 30, 2022 – \$191.8 thousand) and for the nine months ended September 30, 2023 was \$690.0 thousand (September 30, 2022 - \$1.1 million).

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employees	Total number of options
Balance December 31, 2022	14,896,273	0.31	10,775,264	0.31	25,671,537
Granted	250,000	0.17	-	-	250,000
Expired and forfeited	(1,776,647)	(0.35)	(682,500)	(0.17)	(2,459,147)
Balance September 30, 2023	13,369,626	0.30	10,092,764	0.32	23,462,390

Outstanding and exercisable options as at September 30, 2023:

	Outstanding options			Exercisable options	
	Number	Weighted average price (\$)	Weighted average years to expiry	Number	Weighted average price (\$)
\$0.01 - \$0.30	11,175,000	0.22	3.91	9,271,684	0.21
\$0.31 - \$0.40	9,537,390	0.38	5.45	5,895,726	0.36
\$0.41 - \$0.50	2,750,000	0.40	0.81	2,583,335	0.43
Balance September 30, 2023	23,462,390	0.30	4.17	17,750,745	0.29

In May 2023, the Company granted stock options to key management personnel to acquire up to an aggregate of 250,000 common shares, at a strike price of \$0.17 per share.

The fair values of Eguana stock options granted were estimated on their respective grant dates using the Black-Scholes valuation model and the following assumptions:

	September 30, 2023	September 30, 2022
Risk free interest rate	3.11%	1.57% - 2.91%
Expected volatility	117%	115% - 126%
Dividend yield	-	-
Expected life (years)	5	3 - 10
Weighted average fair value	0.16	0.22 – 0.43

Eguana Technologies Inc.

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Stated in Canadian dollars

Unaudited

10. Financial instruments fair value

The Company categorizes its financial instruments carried at fair value into one of three different levels, depending on the observability of the inputs employed in the measurement. The Company valued cash and deposits using Level 1 inputs, accounts receivable, accounts payable and accrued liabilities, other liabilities, convertible debentures, preferred shares and long-term loan were measured at fair value on initial recognition using Level 2 inputs and the derivative liability is measured at fair value using Level 2 inputs on initial recognition and subsequent measurement. The carrying value of the Company's financial instruments approximates its fair value.

- 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 volume 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 marketplace.
- Level-3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

11. Financing costs

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Accretion of convertible debentures (note 6)	1,318,088	389,043	3,805,746	389,043
Accretion of long-term debt (note 5)	539,291	433,141	1,778,380	789,188
Change in fair value on derivative liability (note 5)	182,133	300,361	354,521	422,651
Lease interest	28,487	34,241	89,544	108,930
Accretion of other liabilities	-	2,864	-	40,083
	2,067,999	1,159,650	6,028,191	1,749,895

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12. Supplemental information

The changes in non-cash working capital for the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Provided by (used in)				
Operating Activities				
Accounts receivable	(325,974)	(923,539)	(5,941,197)	(2,438,969)
Inventory	954,237	(1,798,547)	(3,875,067)	(495,459)
Prepaid expenses and deposits	116,524	(2,956,179)	6,207,237	(5,571,808)
Accounts payable and accrued liabilities	254,656	2,617,123	1,155,371	1,242,519
Deferred revenue	(23,472)	(15,060)	4,147	(19,449)
	975,971	(3,076,202)	(2,449,509)	(7,283,166)
Financing Activities				
Accounts payable and accrued liabilities	582,247	(96,492)	582,247	(522,630)
Investing Activities				
Accounts payable and accrued liabilities	(52,437)	-	(96,048)	-

13. Segmented information

The Company is organized as one operating segment, identified as the sale of advanced power electronics. The Company provides services, including support, training and engineering services, to promote the use of its products, however, these services are not evaluated as a separate business segment.

Major customers

The Company had one customer where sales were greater than 10% of total sales in the three months ended September 30, 2023 (September 30, 2022 – two). The customers had attributed sales of approximately \$2.0 million in the three months ended September 30, 2023 and \$9.3 million for the nine months ended September 30, 2023 (September 30, 2022, \$4.4 million and \$5.0 million, respectively).

Revenue composition

The Company generated revenue from advanced power electronics of approximately \$2.6 million in the three months ended September 30, 2023, and \$10.5 million in the nine months ended September 30, 2023 (September 30, 2022, \$2.6 million and \$5.2 million, respectively). The cost of sales associated with this revenue was approximately \$2.4 million in the three months ended September 30, 2023, and \$10.2 million in the nine months ended September 30, 2023 (September 30, 2022, \$2.9 million and \$5.4 million, respectively).

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Geographic Sales Revenue

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Australia	511,685	69,762	1,019,416	94,840
Europe and Canada	5,136	70,169	72,720	73,038
United States	2,034,271	2,462,264	9,381,927	5,036,781
	2,551,092	2,602,195	10,473,963	5,204,659

14. Legal disputes

The Company is in a dispute with a prior customer, as a result of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from the customer, in addition to other amounts from the customer because of the cancellation. The collection of the outstanding receivable is uncertain, and the entire receivable has been provided for. The customer has made a counterclaim against the Company for warranty claims, which the Company has denied. The Company has recorded a warranty provision to cover potential warranty claims arising from all sales, including sales to the customer. There has been no change in the Euro denominated amounts for the legal dispute, from the prior year end.

15. Subsequent Events

Subsequent to quarter end, the Company concluded a negotiated settlement on a contract, that resulted in a cash settlement received, in November 2023, of US \$184.0 thousand. The gain/loss on the settlement will be recorded in a subsequent quarter.

16. Acquisition of SOLARLAB Pty

In February 2023, Eguana Pty Ltd entered into an agreement with SOLARLAB Pty Ltd to acquire the *Solarlab* solar installation business, assets, liabilities and any associated goodwill or intangibles, subject to certain closing conditions being satisfied. The business is to be acquired for total cash consideration of AUD250,000, which includes contingent earn-out amounts, and the assumption of the majority of SOLARLAB business' liabilities of approximately AUD 750,000 (subject to completion adjustments). The Company and the sellers have agreed to delay the completion date and expected closing until 2024.