

Consolidated financial statements of

**Eguana Technologies Inc.**

September 30, 2016

# Eguana Technologies Inc.

September 30, 2016

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## Independent Auditor's Report

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### To the Shareholders of Eguana Technologies Inc.

We have audited the accompanying consolidated financial statements of Eguana Technologies Inc., which comprise the consolidated statements of financial position as at September 30, 2016 and September 30, 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of change in equity (deficiency) and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eguana Technologies Inc. as at September 30, 2016 and September 30, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 3 in the consolidated financial statements which indicates that the entity has not yet achieved profitable operations since its inception, has an accumulated deficit of \$50,238,693 as at September 30, 2016 (2015 - \$45,403,793) and has incurred cash outflows from operating activities of \$4,177,136 for the year then ended (2015 - \$3,819,059). These conditions, along with other matters described in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

*BDO Canada LLP*

Chartered Professional Accountants  
Calgary, Alberta  
January 27, 2017

# Eguana Technologies Inc.

## Consolidated statements of financial position

Stated in Canadian dollars

	Note	2016	2015
		\$	\$
<b>Assets</b>			
Current:			
Cash		4,355,471	2,502,459
Cash held in trust	14	-	903,818
Accounts receivable		291,508	204,665
Inventory	6	571,243	376,646
Other assets - current portion	9	-	118,100
Prepaid expenses and deposits		218,252	200,973
		<b>5,436,474</b>	4,306,661
Non-current:			
Other assets	9	-	191,601
Development costs		3	3
Capital assets	7	284,815	377,550
		<b>5,721,292</b>	4,875,815
<b>Liabilities</b>			
Current:			
Accounts payable and accrued liabilities		2,893,909	3,364,843
Provisions	8	248,961	248,870
Bank debt	9	-	1,460,855
Energy Northwest obligation	10	-	177,243
Government grant obligation	11	18,745	64,363
Deferred revenue		81,373	110,321
Debentures - current portion	12	571,533	773,588
Other liabilities - current portion	13	51,462	61,311
		<b>3,865,983</b>	6,261,394
Non-current:			
Deferred lease inducement		23,400	39,000
Debenture	12	622,945	1,147,398
Other liabilities	13	594,259	642,958
		<b>5,106,587</b>	8,090,750
<b>Shareholders' equity (deficiency)</b>			
Common shares	14	40,598,701	32,681,242
Preferred shares	15	1	1
Warrants	17	1,380,291	1,795,774
Contributed surplus	18	8,998,578	7,840,675
Foreign currency translation reserve		(124,173)	(128,834)
Deficit		(50,238,693)	(45,403,793)
		<b>614,705</b>	(3,214,935)
		<b>5,721,292</b>	4,875,815

Going concern (Note 3), Commitments (Note 27) and Subsequent event (Note 30)

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

On behalf of the Board:

\_\_\_\_\_  
{signed}  
George Powlick, Director

\_\_\_\_\_  
{signed}  
Robert Penner, Director

# Eguana Technologies Inc.

## Consolidated statements of loss and comprehensive loss

For the years ended September 30

Stated in Canadian dollars

	Note	2016	2015
		\$	\$
Sales		698,664	6,007,008
Cost of goods sold		652,017	8,133,768
<b>Gross margin</b>		<b>46,647</b>	<b>(2,126,760)</b>
Expenses			
General and administrative	21	2,353,942	1,795,140
Selling and marketing	21, 24	785,142	731,416
Product research and development	21, 24	717,753	652,089
Operations	21	538,666	640,368
Bad debt (recovery) expense	20, 29	(10,330)	1,770,710
Settlements (recovery)	13, 29	(119,090)	642,958
		<b>4,266,083</b>	<b>6,232,681</b>
<b>Loss before undernoted items</b>		<b>(4,219,436)</b>	<b>(8,359,441)</b>
Financing costs	22	(600,770)	(839,910)
(Loss) Gain on debentures	12	(18,433)	410,109
Other income		3,738	436
<b>Net loss</b>		<b>(4,834,901)</b>	<b>(8,788,807)</b>
Foreign currency adjustment to equity		4,661	(32,735)
<b>Total comprehensive loss</b>		<b>(4,830,240)</b>	<b>(8,821,541)</b>
<b>Loss per common share</b>			
Basic and diluted		<b>(0.03)</b>	<b>(0.10)</b>
<b>Weighted average number of common shares</b>			
Basic and diluted	14	<b>168,103,370</b>	<b>86,925,743</b>

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

# Eguana Technologies Inc.

## Consolidated statements of change in equity (deficiency)

For the years ended September 30

Stated in Canadian dollars

	Common shares	Preferred shares	Warrants	Contributed Surplus	Foreign currency translation reserve	Deficit	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance, October 1, 2015</b>	<b>32,681,242</b>	<b>1</b>	<b>1,795,774</b>	<b>7,840,675</b>	<b>(128,834)</b>	<b>(45,403,793)</b>	<b>(3,214,935)</b>
Loss for the period	-	-	-	-	-	(4,834,901)	(4,834,901)
Other comprehensive gain	-	-	-	-	4,661	-	4,661
Issue of share capital	7,313,876	-	-	-	-	-	7,313,876
Warrants Exercised	161,765	-	(83,426)	-	-	-	78,339
Warrants issued	-	-	521,055	-	-	-	521,055
Warrants expired	-	-	(914,463)	914,463	-	-	-
Share based payments	441,818	-	61,351	243,440	-	-	746,609
<b>Balance, September 30, 2016</b>	<b>40,598,701</b>	<b>1</b>	<b>1,380,291</b>	<b>8,998,578</b>	<b>(124,173)</b>	<b>(50,238,694)</b>	<b>614,704</b>
Balance, October 1, 2014	11,003,187	10,190,861	1,177,008	7,717,069	(96,099)	(36,614,985)	(6,622,959)
Loss for the period	-	-	-	-	-	(8,788,808)	(8,788,808)
Other comprehensive loss	-	-	-	-	(32,735)	-	(32,735)
Issue of share capital	7,030,921	-	-	-	-	-	7,030,921
Conversion of preferred shares	14,647,134	(10,190,860)	-	-	-	-	4,456,274
Warrants issued	-	-	684,097	-	-	-	684,097
Warrants expired	-	-	(65,331)	65,331	-	-	-
Share based payments	-	-	-	58,275	-	-	58,275
<b>Balance, September 30, 2015</b>	<b>32,681,242</b>	<b>1</b>	<b>1,795,774</b>	<b>7,840,675</b>	<b>(128,834)</b>	<b>(45,403,793)</b>	<b>(3,214,935)</b>

The accompany notes are an integral part of these consolidated financial statements

# Eguana Technologies Inc.

## Consolidated statements of cash flows

### For the years ended September 30,

Stated in Canadian dollars

	Note	2016	2015
		\$	\$
<b>Operating activities</b>			
Net loss		(4,834,901)	(8,788,807)
Share-based payments		746,609	114,038
Finance costs		600,770	839,910
Amortization of capital assets		105,107	77,271
(Gain) loss on debentures		18,433	(410,109)
Warranty provision		3,389	111,291
Amortization of deferred lease inducement		(15,600)	(15,600)
Write (up) down of inventory		-	1,251,263
Change in other liabilities		-	814,590
Unrealized foreign exchange gain		(3,705)	-
		<b>(3,379,898)</b>	<b>(6,006,153)</b>
Net change in non-cash working capital	26	<b>(797,238)</b>	2,187,094
<b>Cash flow used in operating activities</b>		<b>(4,177,136)</b>	<b>(3,819,059)</b>
<b>Financing activities</b>			
Bank loan		(1,460,855)	505,751
Proceeds from common shares		8,097,858	8,334,871
Proceeds from limited partnership units		747,000	314,000
Cost of issuing common shares and limited partnership units		(1,009,091)	(989,616)
Proceeds on exercise of warrants		78,339	-
Repayment of government contribution		(55,305)	(76,000)
Repayment of debentures		(1,032,363)	(768,504)
Repayment of other liabilities		(226,881)	-
Cash financing costs paid		-	(4,932)
<b>Cash flow from financing activities</b>		<b>5,138,702</b>	<b>7,315,570</b>
<b>Investing activities</b>			
Capital asset additions		(12,372)	(145,317)
<b>Cash flow used in investing activities</b>		<b>(12,372)</b>	<b>(145,317)</b>
Foreign exchange on cash held in foreign operations		-	(877)
Net change in cash		<b>949,194</b>	3,350,317
Cash held in trust		<b>903,818</b>	(903,818)
Cash, beginning of period		<b>2,502,459</b>	55,960
<b>Cash, end of period</b>		<b>4,355,471</b>	<b>2,502,459</b>

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



# Eguana Technologies Inc.

## Notes to the consolidated financial statements

September 30, 2016

Stated in Canadian dollars

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### 1. Description of the business

Eguana Technologies Inc. ("the Company"), incorporated under the *Alberta Business Corporations Act*, develops and manufactures advanced power inverters for the emerging alternative and renewable energy industry- solar photovoltaic ("PV") systems, small wind turbines, fuel cells and all forms of energy storage. The Company is a publicly traded company headquartered at Unit 3, 6143 – 4<sup>th</sup> Street SE, Calgary, Alberta, Canada and its shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol "EGT".

### 2. Basis of preparation

#### (a) Statement of compliance

These consolidated financial statements ("the financial statements") were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are presented on a historical cost basis except for derivative instruments which are at fair value.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Company on January 27, 2017.

#### (b) Basis of consolidation

The consolidated financial statements of Eguana Technologies Inc. include the accounts of the Company and its wholly owned subsidiaries: Sustainable Energy Systems Inc. ("SES"), Sustainable Energy Europa S.L. ("SEE"), EGT Markets Limited Partnership ("EGTLP"), Sustainable Energy Laboratories Ltd. ("SEL"), International Power Systems, Inc. ("IPS"), and Sustainable Energy France ("SEF").

Subsidiaries that are directly controlled by the parent company or indirectly controlled by other consolidated subsidiaries are fully consolidated. All intercompany balances, transactions and income are eliminated. The Company currently has no special purpose entities of which it retains control and accordingly the consolidated financial statements do not include the accounts of any such entities.

#### (c) Critical accounting estimates

The preparation of these consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from the estimates. There have been no changes made to the methodology to determine critical accounting estimates.

The following reflect the most significant estimates and assumptions used in the preparation of the Company's consolidated financial statements.

##### *i. Valuation adjustments for inventory*

Valuation adjustments for inventory are comprised of the impairments or recoveries recorded against inventories. The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed quarterly and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on an item by item basis except when they cannot be practically evaluated separately from other items.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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### *ii. Share-based payment transactions*

Share-based payments comprise compensation expense related to the granting of stock options and warrants. The Company values stock option expense and warrants using a fair value method of accounting. The fair value of stock options and warrants is estimated at the grant or issue date using the Black-Scholes option pricing model (the "model") or the fair value of services received in the case of warrants. The model requires the input of a number of assumptions, including expected dividend yield, expected stock price volatility, life of the options, forfeiture rate, and risk-free interest rates.

These assumptions are determined using management's best estimates and involve inherent uncertainties relating to market conditions, forfeitures and exercise which are outside of the control of the Company. Such assumptions are reviewed quarterly and have a significant impact on the estimates of fair value produced by the model.

### *iii. Debentures*

The Company issues debentures which are comprised of embedded derivatives, debt and equity components. In determining the fair value of the Company's debentures on the date of issuance and at the date of the consolidated statement of financial position, management uses internally developed models. This method requires the input of a number of assumptions including estimated market rate of interest and timing and quantity of forecasted revenues. These assumptions are determined using management's best estimates and involve inherent uncertainties. They are reviewed quarterly and may have a significant impact on the estimates of fair value of the embedded derivatives and debt components.

### *iv. Warranty provision*

A provision for warranties is recognized when underlying products are sold. The Company determines the provision based on historical experience of failure rate and cost per failure over the life of the warranty. The initial estimate of warranty-related costs is revised annually.

### *v. Income taxes*

The Company carries on business in several countries and as a result, is subject to income taxes in a number of jurisdictions. The determination of income tax is inherently complex and the Company is required to interpret continually changing regulations and make certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company believes it has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the provision for income taxes.

### *vi. Energy Northwest obligation*

The Company is required to provide for amounts that will be payable to Energy Northwest as compensation for services contributed by Energy Northwest during the early development of the Company's step wave power converter ("SWPC") technology. The compensation payable to Energy Northwest in any year is dependent on the sales of products utilizing the SWPC in the year, subject to annual minimum and maximum payments. Due to the emerging nature of the Company's business, the provision requires the Company to estimate sales for each year during the period of time for which the agreement will be in place (Note 10).

This estimate is based on past sales related to the SWPC technology and management's forecast of SWPC sales until the end of the agreement on January 1, 2016.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

September 30, 2016

Stated in Canadian dollars

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### (d) Critical accounting judgments

In applying the Company's accounting policies, management has made certain judgments that may have a significant effect on the amounts recognized in the consolidated financial statements. Such judgments include:

#### *i. Commitments, Contingencies and Guarantees*

By their nature, contingencies will only be resolved when one or more future events transpire. The assessment of contingencies inherently involves estimating the outcome of future events.

The Company has disclosed its disputes and was required to exercise judgement in assessing the recorded amounts.

#### *ii. Determination of functional currency*

In determining the Company's functional currency, it periodically reviews its primary and secondary indicators as stipulated under IAS 21 "The Effects of Changes in Foreign Exchange Rates" to assess each subsidiary's primary economic environment in which the entity operates. The Company analyzes the currency that mainly influences labor, material and other costs of providing goods or services which is often the currency in which such costs are denominated and settled. The Company also analyzes secondary indicators such as the currency in which funds from financing activities such as equity issuances are generated and the funding dependency of the parent company whose predominant transactional currency is the Canadian dollar. Determining the Company's predominant economic environment requires significant judgment.

#### *iii. Inventory*

Judgement is required in determining whether net realizable value should be evaluated on an item by item basis or if they cannot be evaluated separately from other items in inventory and should be grouped with similar items.

### 3. Going concern

The consolidated financial statements were prepared on a going concern basis. The going concern basis 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, 2016, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of \$50,238,693 (2015 - \$45,403,793) and recognized a cash flow deficiency from operations in 2016 of \$4,177,136 (2015 - \$3,819,059). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

The Company currently has working capital (deficit) of \$1,570,491 (2015 - (\$1,954,733)).

The ability of the Company to continue as a going concern is dependent on completing equity or debt financings and generating profitable operations in the future in order to meet liabilities as they come due. The ability to continue as a going concern may be adversely impacted by the loss of customers and/or declining sales per customer. To address its financing requirements, the Company may seek financing through the issuance of common shares, preferred shares, units of EGTLP, debentures or other securities of the Company or its subsidiaries. The outcome of these matters cannot be predicted at this time.

These consolidated financial statements do not include any adjustments which could be significant to the amounts and classification of assets and liabilities that may be necessary should the Company be unable

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

September 30, 2016

Stated in Canadian dollars

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to obtain equity or debt financings or generate profitable operations in the future. Failure to continue as a going concern would require the restatement of assets, liabilities and shareholders' deficiency on a liquidation basis, which could differ materially from the going concern basis.

#### 4. Significant accounting policies

The significant accounting policies are set out below. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

##### (a) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another. Upon initial recognition, all financial instruments, including derivatives, are recognized on the consolidated statements of financial position at fair value. Subsequent measurement is then based on financial instruments being classified into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) fair value through profit or loss. Financial instruments classified at fair value through profit or loss or assets available-for-sale as a result of initially adopting this section are measured at fair value. Gains or losses on the subsequent measurement of fair value are recognized in net income (loss), while gains and losses on subsequent measurement of available-for-sale items are recognized as an adjustment to other comprehensive loss.

The Company's financial instruments include cash, cash held in trust, accounts receivable, accounts payable and accrued liabilities, bank debt, debentures, Energy Northwest obligation, government grant obligation and other liabilities. Cash, the embedded derivative in the Energy Northwest obligation, the embedded derivative in the government grant obligation, and the embedded derivatives in the debentures, are measured at fair value, consistent with the "fair value through profit or loss" classification. Net gains and losses arising from changes in fair value are recognized in net loss upon de-recognition or impairment. Accounts receivable are measured at amortized cost consistent with the "loans and receivables" classification. Loans and receivables are subsequently measured at their amortized cost, using the effective interest rate method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Accounts payable and accrued liabilities, bank loan, Energy Northwest obligation, government grant obligation, other liabilities and the debentures are measured at amortized cost using the effective interest method, consistent with the "other financial liabilities" classification. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

Embedded derivatives are separated from the host contract and accounted for separately when all three of the following conditions are met: 1) the economic characteristics and risks of the host contract and the embedded derivative are not closely related; 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and 3) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of the embedded derivative are recognized immediately in the statement of loss and comprehensive loss.

The Company has an embedded derivative related to the Company's ability to call the debentures (Note 12) at par at any time after the second or third anniversary of issue. The Company also has an embedded derivative related to the royalty payments on the debentures. The Company estimates sales each reporting period during the term of the agreement to determine the estimated royalties and determines the fair value of the embedded derivatives. The embedded derivatives related to the call and the royalty payment have been determined as one value, as management considers them to be closely linked and have been presented within the line item denoted "Debentures" in the consolidated statements of financial position.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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Stated in Canadian dollars

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The Company has an embedded derivative related to the compensation payable on the Energy Northwest obligation (Note 10). The Company estimates sales revenue each reporting period throughout the term of the agreement to determine the fair value of the estimated compensation payments. This embedded derivative has been presented within the line item denoted "Energy Northwest obligation" in the consolidated statements of financial position.

The embedded derivative in the debenture and Energy Northwest obligation are recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss every period.

On initial recognition, the financial instruments were classified into debt and other financial liabilities (embedded derivatives) based upon fair value with the equity components being the residual amounts.

Subsequent to the initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period. Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the financial instruments.

### **(b) Foreign currencies**

#### *i. Foreign currency transactions*

The consolidated financial statements are prepared in Canadian dollars, which is the parent's functional currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency prevailing rate of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the prevailing exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *ii. Foreign currency balances*

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. Foreign currency differences are recognized and presented in other comprehensive income (loss) and in the foreign currency translation reserve in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses, net of tax, arising from those items are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income (loss) and presented in the translation reserve in equity.

On disposal of a foreign operation, any cumulative exchange differences held in equity and arising after the date of transition to IFRS are transferred to the consolidated statement of comprehensive income (loss) as part of the profit or loss on sale.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

September 30, 2016

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### (c) Inventory

Inventories are stated at the lower of cost or net realizable value. Inventory is valued on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventory.

### (d) Capital assets

Capital assets are stated in the consolidated statements of financial position at cost less accumulated amortization, impairment losses and government grants. Amortization is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. Amortization is charged once an asset is determined to be available for use. The estimated useful lives, residual values and amortization method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment and leasehold improvements	5 years straight-line
Computer equipment	3 years straight-line
Computer software	1 year straight-line
Lab equipment	3 to 5 years straight-line
Dies and molds	1 year straight-line

The gain or loss arising on the disposal of capital assets is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit or loss.

### (e) Research costs

Expenditures on research activities are recognized as an expense in the period in which they are incurred.

### (f) Impairment of capital assets

At each consolidated statement of financial position date, the Company reviews the carrying amounts of its capital assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets on a pre-tax basis. These cash flows are discounted at a rate reflecting the estimated time value of money and risk associated with the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **(g) Government grants**

Government grants were utilized to fund the various research and development technologies of the Company. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions of the grant and that the grant will be received.

Government grants, including contingently repayable government grants, whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recorded as a deduction of the cost of the asset and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

The Company participated in government programs which are both non-payable and repayable government grants (Note 24). Assistance related to non-payable programs is recorded when there is reasonable assurance that the contribution will be received and all conditions will be complied with. Assistance is presented as a reduction of the related expense or development costs. For repayable government programs, the obligation is treated as a financial liability.

### **(h) Provisions and contingencies**

#### *i. Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical experience. The initial estimate of warranty-related costs is revised annually.

#### *ii. Contingencies*

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate available to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by a future event, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

### **(i) Share-based payments**

Share-based payments are comprised of stock option awards granted to employees, directors and others which are equity-settled share-based payments.

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to the share-based payment reserve.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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The fair value is measured at the grant date using the Black-Scholes options pricing model based on terms and conditions upon which the options were granted. Each tranche is recognized on a graded vesting basis over the period during which the options vest. At each consolidated statement of financial position date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

Upon exercise of the stock option, the Company issues new shares. The associated fair value amount is reclassified from the share-based payment reserve to share capital. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised. Where equity instruments are granted to non-employees they are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured it is measured based on the fair value of the equity instrument granted.

### **(j) Revenue recognition**

Revenue from product sales is generally recognized on transfer of ownership to the customer and when reasonable assurance exists regarding the measurement and collection of the consideration received.

### **(k) Income taxes**

Income taxes are recognized in the consolidated statement of loss and comprehensive loss, except where they relate to items recognized in other comprehensive loss or directly in equity, in which case the related taxes are recognized in other comprehensive loss or equity. Taxes are recorded using the tax rate that has been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax assets and liabilities are recognized based on unused tax losses and tax credits and the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the unused tax losses and tax credits and differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company is subject to assessments by various taxation authorities that may interpret tax legislation differently. The final amount of taxes to be paid depends on a number of factors including the outcomes of audits, appeals, or negotiated settlements. The Company accounts for such differences based on its best estimate of the probable outcome of these matters.

### **(l) Loss per share**

The Company computes basic loss per share using net loss attributable to Eguana shareholders divided by the weighted-average number of common shares outstanding. The Company does not compute diluted loss per share as this calculation would be anti-dilutive.



# Eguana Technologies Inc.

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### 5. Recently issued accounting pronouncements

The IASB has issued the following new and revised standards and amendments, which are not yet effective for the period ended September 30, 2016:

#### (a) IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 reflects the first phase of the IASB’s work on the replacement of IAS 39 “Financial Instruments, Recognition and Measurement”. The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. IFRS 9 is effective for annual periods on or after January 1, 2018.

#### (b) IFRS 15, Revenue from Contracts (“IFRS 15”)

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

#### (c) IFRS 16, Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and it replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases-Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

#### (d) IAS 1, Presentation of Financial Statements (“IAS 1”)

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016.

The company is currently evaluating the impact of adopting the standards noted above.

### 6. Inventory

	2016	2015
	\$	\$
Finished goods	235,004	180,416
Components	336,239	196,230
	<b>571,243</b>	<b>376,646</b>

As at September 30, 2016, \$481,453 (September 30, 2015 - \$281,581) of inventory was carried at cost and \$89,790 (September 30, 2015 - \$95,065) was carried at net realizable value.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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### 7. Capital assets

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	472,766	893,592	228,801	42,714	1,637,873
Additions	2,424	9,948	-	-	12,372
Disposals	-	-	-	-	-
<b>Balance September 30, 2016</b>	<b>475,190</b>	<b>903,540</b>	<b>228,801</b>	<b>42,714</b>	<b>1,650,245</b>

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	457,759	601,418	158,432	42,714	1,260,323
Amortization	8,698	69,505	26,904	-	105,107
Disposals	-	-	-	-	-
<b>Balance September 30, 2016</b>	<b>466,457</b>	<b>670,923</b>	<b>185,336</b>	<b>42,714</b>	<b>1,365,430</b>

**Carrying Value September 30, 2016**      **8,733**      **232,617**      **43,465**      **-**      **284,815**

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2014	454,809	749,230	217,037	42,714	1,463,790
Additions	17,957	144,362	11,764	-	174,083
Disposals	-	-	-	-	-
Balance September 30, 2015	472,766	893,592	228,801	42,714	1,637,873

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2014	451,560	562,850	129,198	39,445	1,183,053
Amortization	6,199	38,568	29,234	3,269	77,270
Disposals	-	-	-	-	-
Balance September 30, 2015	457,759	601,418	158,432	42,714	1,260,323
Carrying Value September 30, 2015	15,007	292,174	70,369	-	377,550

Amortization of the capital assets is included in the consolidated statement of loss and comprehensive loss under the line item "general and administrative". As at September 30, 2016 nil (2015 - \$28,767) of lab equipment additions had not been paid for and the amount owing has been included in accounts payable and accrued liabilities.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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### 8. Provisions

	2016	2015
<b>Warranty provision</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	248,870	137,579
Increase (decrease) in provision	91	111,291
	<b>248,961</b>	<b>248,870</b>

The provision for warranty claims represents the present value of the Company's best estimate of the future outflow that will be required for the Company's obligations for warranties. The estimate has been made on the basis of historical warranty trends and may vary as a result of new material, altered manufacturing processes or other events affecting product quality.

The Company reviews the assumptions used in the determination of the warranty provision on an annual basis. During the current year, management determined that the failure rate used for the Bi-Direx and the AC Battery units and the cost per warranty claim should be adjusted to reflect the claims made in the current year and for the additional sales in the year. The financial effect of the reassessment along with the increase in number of units in the field is to increase the provision for warranty expense in the current year by \$91 (2015 - \$111,291).

### 9. Bank debt

During the year ended September 30, 2016, the Company repaid and canceled the outstanding line of credit.

As a result of the canceling of the line of credit, certain warrants were subject to accelerated expiration and the deferred financing cost were fully amortized.

### 10. Energy Northwest obligation

	2016	2015
	<b>\$</b>	<b>\$</b>
Obligation to Energy Northwest - current (\$0 US; September 30, 2015 - \$129,285 US)	-	177,243

Energy Northwest contributed services to a wholly owned subsidiary of Eguana in 1998. Payments to Energy Northwest are linked to future sales in SEL based on a technology not used by the company and were a derivative valued at \$nil. The Company no longer has an obligation due to a limitation period issue. The removal of the obligation has been recorded to financing costs (Note 22).

### 11. Government grant obligation

In 2005, the Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries the Company incurred to commercialize the universal electronic platform to a maximum of \$245,241. The Company has received the maximum amount of the funding. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the NRC has recovered one and a half times the amount advanced to the Company or for a period of eleven years after the beginning of the repayment schedule.

# Eguana Technologies Inc.

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During fiscal 2015, the Company was informed by NRC that the required repayment of the grant was the amount of the unpaid grant and not one and one half time the amount of the grant. Consequently, the estimated amount payable was reduced during fiscal 2015 by \$87,796.

The carrying amount of the financial liability related to the government grant obligation is the following:

	2016	2015
	\$	\$
Government grant (NRC) - current	18,745	64,363

The repayments are due monthly and are subject to interest for late payments. The liability is unsecured.

### 12. Debentures

	Debt component of debenture	Embedded derivative	Total
	\$	\$	\$
Balance at October 1, 2014	2,385,124	196,000	2,581,124
Accretion	423,821	-	423,821
Loss (gain) on change in cash flow	(410,109)	94,655	(315,454)
Repayments	(608,743)	(159,761)	(768,504)
Balance at September 30, 2015	1,790,093	130,894	1,920,987
Accretion	383,357	-	383,357
Loss (gain) on change in cash flow	18,433	(95,935)	(77,502)
Repayments	(1,016,340)	(16,023)	(1,032,363)
<b>Balance at September 30, 2016</b>	<b>1,175,543</b>	<b>18,936</b>	<b>1,194,479</b>
<b>Less: current portion</b>	<b>(552,587)</b>	<b>(18,936)</b>	<b>(571,523)</b>
	<b>622,956</b>	<b>-</b>	<b>622,956</b>

On June 29, 2012, the Company issued \$800,000 in 5-year subordinated debentures ("2012 Debentures") at an original issue discount of 12.5%, to net the Company \$699,875. The 2012 Debentures bear interest at a rate of 3% per annum, plus an amount equal to 0.8% of the unaudited condensed interim consolidated revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2012 Debentures. The 2012 Debentures are callable by the Company at par at any time after the third anniversary of issue. Purchasers of the 2012 Debentures have also been issued 280,000 restricted common shares of the Company, which shares will be released on a quarterly basis over a 2 year period following issuance. The restricted common shares were valued at the residual amount of \$140,000. The 2012 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$800,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2014. The Company incurred transaction costs related to the issue of the 2012 Debentures of \$39,902. The effective interest rate on the 2012 Debentures is estimated to be 25.83%. On December 21, 2014, the Company repaid the remaining amount owing on a \$46,000 debenture to a key person of the Company (Note 21).

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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On August 7, 2013 and September 17, 2013, the Company issued \$1,820,000 of 5-year subordinated debentures ("2013 Debentures") at an original issue discount of 12.5% for proceeds to the Company of \$1,592,500. The 2013 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 1.82% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2013 Debentures. The 2013 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, purchasers of the 2013 Debentures had the option of receiving common shares or warrants in connection with the issuance of the 2013 Debentures. The Company issued 424,000 common shares valued at \$156,880 and 608,000 warrants exercisable at a price of \$0.50 per common share for a period of four years from the date of issuance valued at \$110,330. The 2013 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$1,820,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2015. The Company incurred transaction costs related to the issue of the 2013 Debentures of \$35,713. The transaction costs included the issue of 8,750 broker warrants exercisable at \$0.50 for a period of one year from the date of issue.

The effective interest rate on the 2013 Debentures is estimated to be 24.14%. On December 21, 2014, the Company repaid \$240,000 principal amount of 2013 Debentures to directors and key personnel (Note 21).

On June 30, 2014, the Company issued \$360,000 of 5-year subordinated debentures ("2014 Debentures"), issued at an original issue discount of 12.5% for proceeds to the Company of \$315,000. The 2014 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 0.36% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2014 Debentures. The 2014 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, the purchasers of the 2014 Debentures received 144,000 common shares valued at \$0.56 per share. The 2014 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$360,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2016. The Company incurred transaction costs related to the issue of the 2014 Debentures of \$17,749. The effective interest rate on the 2014 Debentures is estimated to be 33.92%.

The royalty payments on the debentures are linked to future gross sales of the Company. Management has determined that the royalty payments were required to be bifurcated and accounted for as an embedded derivative in accordance with IAS 39. This requires that the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the consolidated statement of loss each period. The debentures also have a call feature such that at any time after two years (extended to three years for the 2012 Debentures) the Company may call the debentures. The call has value to the Company and is accounted for as an embedded derivative when the royalties that are expected to be paid result in a very high interest rate on the debentures and the Company would therefore exercise its right to call. Since this embedded call derivative is integrated into the royalties' payable, the royalty and the offsetting call derivatives have been valued together. The embedded derivative was valued using Level 3 valuation information (inputs not based on observable market data). Should the Company in the future change its expectation of future gross sales the embedded derivative values will change accordingly.

During the year ended September 30, 2015, the Company changed its estimate on the repayment of the debentures from an early repayment to the repayment terms per the agreement of each debenture. This change in estimate resulted in a decrease of the debt component of \$410,109. During the year ended September 30, 2015, certain holders of the debentures agreed to defer repayments required during the year of \$153,000 to the following year.

# Eguana Technologies Inc.

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### 13. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
	\$	\$	\$
Balance at October 1, 2015	563,572	140,697	704,269
Accretion	117,900	51,806	169,706
Repayments	(177,702)	(49,179)	(226,881)
Loss (gain) on foreign exchange	-	(1,373)	(1,373)
<b>Balance at September 30, 2016</b>	<b>503,770</b>	<b>141,951</b>	<b>645,721</b>
<b>Less: current portion</b>	<b>(49,623)</b>	<b>(1,839)</b>	<b>(51,462)</b>
	<b>454,147</b>	<b>140,112</b>	<b>594,260</b>

In August 2015, the Company entered into a settlement agreement with its former Chief Executive Officer ("CEO"), who is a director of the Company (Note 21), under which the Company agreed to pay deferred compensation earned by the CEO since 2010 in equal monthly payments of \$13,115, without interest, over a period of 82 months beginning on October 1, 2015. The Company's liability was valued at inception at \$563,572 using Level 2 valuation techniques with a discount rate of 25%.

The unpaid balance becomes immediately payable in certain circumstances, including the Company realizing an average of \$1,000,000 in earnings before interest, taxes, depreciation and amortization for any two consecutive fiscal quarters or in the event of a change of control of the Company. The Company's obligation is secured by a security interest in the Company's assets, which security is subordinate to the Company's existing debt as of September 1, 2015, and which will be subordinate, under certain circumstances, to security granted to secure certain future indebtedness incurred to fund corporate activities, provided that all such secured indebtedness (including existing indebtedness as of September 1, 2015) shall not exceed \$12 million, plus an amount up to \$1.5 million for an operating line.

Any outstanding stock options granted to the former CEO pursuant to the Corporation's incentive stock option plan (the "Stock Option Plan") were amended to allow the former CEO to exercise all outstanding options to acquire common shares of the Company in accordance with their terms until the end of the maximum permissible date under the Stock Option Plan and option agreements.

During the three month period ended June 30, 2016, the Company settled a contingent liability totaling approximately US\$696,294 with a third party who provided consulting services in fiscal 1998 to a subsidiary of the Company. Pursuant to the settlement, the Company agreed to pay US\$31,658 (\$41,016) per year (payable semi-annually) for a period of 10 years. The obligation is unsecured and was fair valued at inception at US\$111,879 (\$144,950) using Level 2 valuation techniques with a discount rate of 27%.

# Eguana Technologies Inc.

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### 14. Common shares

*Authorized*, unlimited number

<i>Issued</i>	Number of shares	Amount \$
Balance, October 1, 2014	38,231,519	11,003,187
Conversion of preferred shares	28,764,481	14,647,134
Issuance of common shares	83,057,903	8,334,872
Share issuance costs	-	(1,561,446)
Common shares issued in exchange for partnership units (Note 16)	951,420	314,000
Partnership unit costs	-	(56,505)
<b>Balance, September 30, 2015</b>	<b>151,005,323</b>	<b>32,681,242</b>
Common shares issued in exchange for partnership units (Note 16)	6,790,977	747,000
Partnership unit costs (Note 16)	-	(85,302)
Issuance of common shares	41,345,902	8,097,858
Issuance costs	-	(1,445,680)
Issuance of shares for services	1,227,273	441,818
Exercise of warrants	1,164,776	161,765
<b>Balance, September 30, 2016</b>	<b>201,534,251</b>	<b>40,598,701</b>

In October 2014, the Company issued 777,906 common shares on the conversion of 38,600 Series 7 preferred shares which included accreted dividends of \$211,760 that were also converted into common shares at the time the preferred shares were converted. In December 2014, the Company issued 27,986,575 common shares on the conversion of all remaining outstanding series of preferred shares, except Series 8. This conversion was the result of the majority holder of the individual series electing to cause the conversion. The conversion included accreted dividends of \$4,456,275 that were also converted into common shares. The cost of converting the preferred shares to common shares totaled \$21,241.

In December 2014, the Company issued 16,057,903 units at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant resulting in an aggregate of 16,057,903 common shares and 8,101,946 warrants being issued. Each warrant entitles the holder to purchase one common share for a period of 5 years from the closing date at an exercise price of \$0.39 per common share. The fair value of the warrants is \$Nil based on the residual method where proceeds are first allocated to common shares according to the quoted price of the common shares at the time of issuance and any residual is allocated to warrants. The commissions paid in connection with the offering were \$314,116. As partial compensation, 775,220 agent warrants were issued with an exercise price of \$0.30 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 153.46%. The fair market value at issuance was \$192,177. Additionally, 271,833 agent warrants were issued at a price of \$0.39 for a period of five years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.4% interest rate and a volatility of 262.34%. The fair market value at issuance was \$88,634. Other costs of \$351,517 related to the issue of the units were also incurred bringing the total costs of issuance to \$946,444. Key personnel and directors of the Company purchased 1,100,000 common shares. (Note 21)

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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In February 2015, Eguana exercised its right to convert EGTLP limited partnership units (the "LP Units") into common shares of Eguana and issued 951,420 shares. The cost to issue and the LP Units totaled \$56,505 (Note 16).

In September 2015, the Company issued 67,000,000 common shares at a price of \$0.0525 per share for gross proceeds of \$3,517,500. Commissions paid in connection with the offering were \$115,268. As partial compensation, 4,690,000 agent warrants were issued with an exercise price of \$0.0525 and a term of three years. The Black-Scholes option model was used to calculate the fair value of the agent warrants using a nil dividend yield, a 0.53% interest rate and a volatility of 152.91%. The fair market value at issuance was \$313,616. Other costs of \$138,214 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$567,098. Key personnel and directors of the Company purchased 2,826,190 common shares (Note 21).

At September 30, 2015, the Company had cash held in trust of \$903,818 related to the common shares issued. In October 2015, the cash was released to the Company.

In February 2016, Eguana exercised its right to convert LP Units into common shares of Eguana and issued 6,790,977 common shares. The cost to convert the LP Units and issue the common shares totaled \$85,302 (Note 16).

In April 2016, the Company issued 9,982,402 common shares at a price of \$0.12 per share for gross proceeds of \$1,197,888. Commissions paid in connection with the offering were \$76,306. As partial compensation, 698,768 agent warrants were issued with an exercise price of \$0.12 and a term of three years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.51% interest rate and a volatility of 135.76%. The fair market value at issuance was \$70,089. Other costs of \$36,225 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$182,620. Key personnel and directors of the Company purchased 3,125,000 common shares (Note 21).

In June 2016, the Company issued 27,272,728 common shares at a price of \$0.22 per share for gross proceeds of \$6,000,000. Commissions paid in connection with the offering were \$450,000. As partial compensation, 2,045,455 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the agent warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$377,009. Other costs of \$304,627 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$1,131,636.

In July 2016, the Company issued 4,090,772 common shares at a price of \$0.22 per share for gross proceeds of \$899,970 related to the exercise of the over-allotment option granted to Mackie Research Capital Corporation in connection with the June 2016 common share offering. Commissions paid in connection with the offering were \$67,500. As partial compensation, 306,807 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$61,734. Other costs of \$2,106 were incurred related to the issue of the common shares.

In August 2016, the Company issued 1,227,273 common shares to a non-related party for services when the fair market value of the share was \$0.36 a common share.



# Eguana Technologies Inc.

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### *Weighted average number of common shares*

The weighted average number of shares as at September 30, 2016 and 2015 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

### **15. Preferred shares**

The Corporation is authorized to issue an unlimited number of convertible \$10, 8% redeemable First Preferred shares, issuable in series. As of September 30, 2016, and as at the date hereof, there is 1 First Preferred Share, Series 8 issued and outstanding.

The holder of the First Preferred, Series 8 share, is entitled to receive notice of and to attend all meetings of the shareholders and, except for the right to designate one director to the Board of Directors or as otherwise required by the Alberta Business Corporations Act, the holder is not entitled to vote at any meeting of the shareholders.

### **16. EGT Markets Limited Partnership**

EGT Markets Limited Partnership, is an Alberta limited partnership, which carries on the business of commercializing manufacturing and marketing inverters under license from Eguana and certain of Eguana's subsidiaries. The general partner of EGTLP is Sustainable Energy Systems Inc. ("SES") which exercises control over EGTLP's operations. The limited partners of EGTLP are Eguana, and from time to time, private investors who have provided capital to EGTLP by purchasing LP Units at a price of \$1,000 per LP Unit.

As limited partners of EGTLP, on December 31 of each year the LP Unit Holders are entitled to deduct their share of non-capital losses of EGTLP for the year to a maximum of \$1,000 per LP Unit. As a result, 99.99% of non-capital losses are not available to Eguana to offset future taxable income realized by the Company.

The financial results of EGTLP have been consolidated with the financial results of Eguana since inception as SES has full control over the operations of EGTLP and Eguana has at all times the right to acquire all the LP Units not held by it directly.

In December 2014, EGTLP issued 314 LP Units at a price of \$1,000 per unit resulting in gross proceeds of \$314,000. The commissions paid in connection with the issuance were \$21,980. As partial compensation, 66,598 finders' warrants were issued. The Black-Scholes option model was used to calculate the fair value of the finders' warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 84.18%. The fair market value at issuance was \$7,245. The warrants have an exercise price of \$0.33 and expired on the date that was one year from the date of issuance. Other costs of \$27,280 related to the issue of the LP Units were also incurred bringing the total cost of issuance to \$56,505. On February 20, 2015, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 951,420 common shares (Note 14).

In December 2015, EGTLP issued 747 LP Units at a price of \$1,000 per unit resulting in gross proceeds of \$747,000. The commissions paid in connection with the issuance were \$23,850. As partial compensation, 216,820 finders' warrants were issued. The warrants have an exercise price of \$0.11 and expire on December 31, 2016. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.52% interest rate and a volatility of 138.44%. The fair market value at issuance was \$12,223. Other costs of \$49,229 related to the issue of the LP Units were also incurred bringing the total cost of issuance to \$85,302.

In February 2016, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 6,790,977 shares (Note 14).

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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### 17. Warrants

Changes in the Company's purchase warrants are as follows:

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				\$
Balance October 1, 2014	7,815,949	381,127	8,197,076	1,177,008
Warrants expired	-	(241,967)	(241,967)	(65,332)
Warrants issued	8,101,946	6,203,651	14,305,597	684,098
Balance September 30, 2015	15,917,895	6,342,811	22,260,706	1,795,774
Warrants exercised	(139,583)	(1,025,193)	(1,164,776)	(83,427)
Warrants expired	(5,957,949)	(205,758)	(6,163,707)	(914,462)
Warrants issued	139,583	3,267,850	3,407,433	582,406
<b>Balance September 30, 2016</b>	<b>9,959,946</b>	<b>8,379,710</b>	<b>18,339,656</b>	<b>1,380,291</b>

Outstanding warrants at September 30, 2016 were as follows:

Range of exercise prices	Warrants	Weighted average price	Weighted average years to expiry
		\$	
\$0.01–\$0.30	7,707,877	0.14	2.01
\$0.31–\$0.40	8,773,779	0.39	3.14
\$0.41–\$0.50	1,858,000	0.50	1.12
<b>Balance September 30, 2016</b>	<b>18,339,656</b>	<b>0.29</b>	<b>2.46</b>

400,000 agent warrants were issued in December 2014 for future corporate advisory services. The warrants are exercisable for a period of three years at an exercise price of \$0.33. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 149.32%. The fair market value at issuance was \$108,360.

139,583 warrants were issued January 2016 in conjunction with the deferral of principal repayments associated with the debentures. The warrants are exercisable for a period of one year at \$0.12. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.54% interest rate and a volatility of 141.68%. The fair market value at issuance was \$8,753.

### 18. Contributed surplus

The Company established the Stock Option Plan, which is accounted for in contributed surplus, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. The Stock Option Plan allows for a maximum term on any options of ten years. The Company, at the discretion of the board of directors, may issue up to a maximum of 12,421,303 options. The shareholders approved the Stock Option Plan on July 22, 2016. 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.

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The following summarizes information about stock options outstanding as at September 30, 2016:

	Number of options to employees	Weighted average price to employees \$	Number of options to non-employees	Weighted average price to non-employees \$
Balance, September 30, 2014	2,139,389	0.35	946,730	0.39
Granted	1,701,192	0.35	1,012,764	0.36
Cancelled	-	-	(180,000)	(0.35)
Forfeited	(104,242)	(0.31)	(515,000)	(0.41)
Balance September 30, 2015	3,736,339	0.35	1,264,494	0.37
Granted	760,000	0.17	1,260,000	0.25
Forfeited	(252,020)	(0.33)	(119,230)	(0.37)
<b>Balance September 30, 2016</b>	<b>4,244,319</b>	<b>0.32</b>	<b>2,405,264</b>	<b>0.30</b>

Range of exercise prices	Outstanding options			Exercisable options	
	Options	Weighted average price \$	Weighted average years to expiry	Options	Weighted average price \$
\$0.01–\$0.30	2,682,500	0.23	5.99	2,252,500	0.23
\$0.31–\$0.40	3,747,083	0.36	7.47	700,000	0.33
\$0.41–\$0.50	220,000	0.48	2.45	160,000	0.50
<b>Balance September 30, 2016</b>	<b>6,649,583</b>	<b>0.31</b>	<b>6.71</b>	<b>3,112,500</b>	<b>0.27</b>

The total share-based compensation calculated for the year ended September 30, 2016, was \$243,440 (2015 – \$58,275).

In October 2014, the Company issued 300,000 new stock options to a consultant exercisable at a price of \$0.38 with an expiry date of October 2024. The fair value of the options was determined to be \$103,080.

On March 31, 2015, the Company issued 2,213,956 new stock options to employees and consultants, exercisable at a price of \$0.35 with an expiry date of March 31, 2025. The fair value of the options was determined to be \$632,923. 180,000 of these options were cancelled on April 1, 2015.

The employee stock options issued in October 2014 and March 2015 are only exercisable following two consecutive quarters of positive earnings before interest, taxes, depreciation and amortization, or if the Company is acquired within 24 months from the date of issuance. Management has estimated that as at September 30, 2016, 3,107,083 stock options are not exercisable as the performance indicator has not been achieved and there is uncertainty as to when it will be achieved, resulting in no stock based compensation being recognized.

In June 2015, the Company granted 200,000 stock options to an employee, exercisable at a price of \$0.35, 100,000 of which were exercisable immediately and 100,000 exercisable after the date was three months from the date of issuance. The fair value of the options was determined to be \$41,280.

# Eguana Technologies Inc.

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In October 2015, the Company issued 225,000 new stock options to an employee exercisable at a price of \$0.08 with an expiry date of October 5, 2025. The stock options were exercisable immediately. The fair value of the options was determined to be \$17,756.

In November 2015, the Company issued 150,000 new stock options to an employee exercisable at a price of \$0.12 with an expiry date of November 2, 2025. The stock options were exercisable immediately. The fair value of the options was determined to be \$17,756.

In May 2016, the Company issued 500,000 new stock options with an exercise price of \$0.175 and 500,000 stock options with an exercise price of \$0.325 to a consultant for services to be rendered up to May 2017. The stock options expire in May, 2021 and vested on issuance. The fair value of the options was determined to be \$69,863 and \$68,099 respectively.

In June 2016, the Company issued 645,000 stock options with an exercise price of \$0.235 to employees of the Company. A third of the options will vest immediately, a third after one year and the remaining third will vest after 2 years. The options expire on the date that is 10 years from the grant date. The fair value of the options was determined to be \$142,139.

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

	2016	2015
Risk free interest rate	0.51%	0.57%
Expected volatility (1)	160.12%	152.91%
Dividend Yield	-	-
Expected life (years)	8	3
Weighted average fair value	\$ 0.10	\$ 0.27

(1) Expected volatility is estimated by considering historic average share price volatility over 3 years

### 19. Capital management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by obtaining adequate equity funding to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth.

The Company defines capital as the aggregate of total shareholders' equity (deficit) and bank debt less cash as follows:

	2016	2015
	\$	\$
Total shareholders' equity (deficiency)	614,705	(3,214,935)
Cash	(4,355,471)	(2,502,459)
Cash held in trust	-	(903,818)
Bank debt	-	1,460,855
<b>Total capital</b>	<b>(3,740,766)</b>	<b>(5,160,357)</b>

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### 20. Financial instruments and financial risk management

#### *Credit risk*

The credit risk on cash is considered to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The Company has significant credit risk exposure to a single counterparty at September 30, 2016. Approximately 30% (2015 – 86%) of the total accounts receivable is due from one customer.

The following table illustrates the Company's receivables:

	<b>2016</b>	2015
	\$	\$
Trade	<b>330,538</b>	193,025
Taxation authorities	<b>38,274</b>	116,215
	<b>368,812</b>	309,240
Less: allowance for doubtful accounts	<b>(77,304)</b>	(104,575)
	<b>291,508</b>	204,665

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During year ended September 30, 2016, there was \$10,330 of bad debts recovered (2015 expense – \$1,770,710). In 2015, the Company wrote-off a VAT receivable from Spain for \$247,188, \$1,470,649 of the bad debt expense is related to a dispute with Eguana's former major customer (Note 29) and \$52,873 is related to trade receivables where collectability is questionable.

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. There are \$247,633 (2015 - \$122,039) of financial assets that the Company considers past due.

The following is a schedule of trade receivables:

	<b>2016</b>	2015
	\$	\$
Neither impaired or past due	<b>79,551</b>	70,986
Past due in the following periods		
31 - 60 days	-	-
61 - 90 days	<b>3,154</b>	34,823
over 90 days	<b>247,833</b>	87,216
	<b>330,538</b>	193,025

#### *Liquidity risk*

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, future bank lines and government assistance. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing. There is no assurance that adequate funds from equity or debt markets will be available to the Company in a timely manner. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

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The following are the contractual maturities of financial liabilities at September 30, 2016:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	2,893,909	-	-	2,893,909
Government grant obligation	18,745	-	-	18,745
Deferred revenue	81,373	-	-	81,373
Debentures	571,533	622,945	-	1,194,478
Other liabilities	51,462	138,977	477,301	667,740
<b>Total</b>	<b>3,617,022</b>	<b>761,922</b>	<b>477,301</b>	<b>4,856,245</b>

### Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows for as at September 30, 2016:

	Euros	US Dollars	Total
	\$	\$	\$
Cash	3,331	61,288	64,619
Accounts receivable	96,339	231,427	327,766
Deposits	63,660	77,178	140,838
Accounts payable and accrued liabilities	(1,257,656)	(585,217)	(1,842,873)
Provisions	(218,775)	-	(218,775)
Deferred revenue	-	(28,779)	(28,779)
Other liabilities	-	(141,951)	(141,951)
<b>Total</b>	<b>(1,313,101)</b>	<b>(386,054)</b>	<b>(1,699,155)</b>

Assuming all other variables remain constant, a \$0.05 change in the Canadian/US exchange rate would increase the Company's net loss by approximately \$14,689 (2015 - \$33,674) for the year ended September 30, 2016. Assuming all other variables remain constant, a \$0.05 change in the Canadian/Euro exchange rate would increase the Company's net loss by approximately \$47,579 (2015 - \$43,581) for the year ended September 30, 2016. An opposite change in the Canadian/US exchange rate and the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the year ended September 30, 2016.

### Interest rate risk

Interest rate risk refers to the risk that cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges, fixed interest rate contracts or variable rate debt to manage the Company's exposure to interest rate fluctuations.

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### *Fair value*

The carrying value and fair value of financial instruments at September 30, 2016, is disclosed below by financial instrument category:

<b>Financial instrument</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	291,508	291,508
Accounts payable and accrued liabilities	2,893,909	2,893,909

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 using Level 1 input, the other liabilities were measured at fair value using Level 2 inputs (Note 13) and the embedded derivatives on the Company's debentures (Note 12), and the Energy Northwest obligation (Note 10) were measured at a fair value using Level 3 inputs.

- 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.

## 21. Related party transactions

Other than as disclosed elsewhere in the consolidated financial statements, the Company had the following related party transactions:

	<b>2016</b>		<b>2015</b>	
	<b>Salaries and benefits</b>	<b>Share based compensation</b>	<b>Salaries and benefits</b>	<b>Share based compensation</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
General and administrative	<b>249,079</b>	-	405,487	-
Operations	<b>32,500</b>	-	179,250	3,116
Product research and development	<b>73,409</b>	-	147,046	2,514
Selling and marketing	<b>81,137</b>	-	-	-
<b>Total</b>	<b>436,125</b>	-	<b>731,783</b>	<b>5,630</b>

Financing costs of \$11,471 for the year ended September 30, 2016 (2015 - \$30,706) related to the debentures and preferred shares Series 15 held by key personnel and directors are included in the statement of loss. Interest expenses incurred amounted to \$1,309 (2015 - \$11,403).

Included in accounts payable and accrued liabilities is \$238,566 (2015 - \$235,998) due to directors and key management personnel.

# Eguana Technologies Inc.

## Notes to the consolidated financial statements

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In December 2014, a subsidiary of the Company purchased a \$46,000 debenture with a remaining balance owing of \$42,167 of debenture issued in 2012 and \$240,000 of debentures issued in 2013 from key personnel and directors of the Company.

During the course of the Company's December 2014 private placement, a key subscriber imposed a closing condition on the Company requiring that the Company meet a minimum subscription amount prior to the closing of the offering. After a review of the financial position of the Company, management and the board of directors agreed, through the Company's wholly-owned subsidiary, to acquire the debentures from Messrs. Holland, Carten and Penner. Prior to the purchase of the debentures, the individuals provided a verbal non-binding confirmation to the Company that they proposed to utilize the proceeds from the disposition of their debentures to participate in the Company's December 2014 private placement. The Company acquired the debentures from Messrs. Holland, Carten and Penner and did not make an offer to acquire all of the Series II debentures of the Company that were outstanding because: (i) Messrs. Holland, Carten and Penner approached the Company with the offer to sell their Series II debentures at face value; (ii) the Company needed to complete the acquisition of the debentures in an expedited manner; and (iii) after considering the value of the Series II debentures, management of the Company believed that the other holders of the debentures would be unwilling to sell such debentures at face value.

On December 21, 2014, in advance of the second anniversary of the issuance of the Company's Series II debentures issued on August 7, 2013, a subsidiary of the Company acquired \$240,000 principal amount of the Series II debentures of the Company that were owned by Justin Holland, Michael Carten and Robert Penner for face value. In addition, on December 21, 2014, \$42,167 of the remaining principal amount of the Series I debentures issued on June 29, 2012 that were issued to Justin Holland were acquired by a subsidiary of the Company.

At the time of the acquisition, Justin Holland was Chief Operating Officer of the Company, Michael Carten was President, Chief Executive Officer and a director of the Company and Robert Penner was a director of the Company. Pursuant to the acquisition of the Series I and Series II debentures by the Company:

- Justin Holland transferred \$102,167 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$102,167. The principal amount transferred to the subsidiary of the Company was comprised of: (i) \$60,000 principal amount of Series II debentures issued to Mr. Holland on August 7, 2013 for an aggregate purchase price of \$52,500; and (ii) \$42,167 remaining principal amount of Series I debentures issued on June 29, 2012 for an aggregate purchase price of \$40,250;
- Michael Carten transferred \$120,000 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$120,000. The principal amount transferred to the subsidiary of the Company was comprised of \$120,000 principal amount of Series II debentures issued to Mr. Carten on August 7, 2013 for an aggregate purchase price of \$105,000; and
- Robert Penner transferred \$60,000 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$60,000. The principal amount transferred to the subsidiary of the Company was comprised of \$60,000 principal amount of Series II debentures issued to Mr. Penner on August 7, 2013 for an aggregate purchase price of \$52,500.

In December 2014, key personnel and directors converted their Series 15 preferred shares to common shares.

In December 2014, key personnel and directors subscribed for 1,100,000 common share units at a price of \$0.30 per unit.



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In August 2015, the Company agreed to a termination settlement with its former CEO who remains a director of the Company (Note 13).

In September 2015, key personnel and directors subscribed for 2,826,190 units at a price of \$0.0525 per unit.

In April 2016, key personnel and directors of the Company purchased 3,125,000 common shares at \$0.12 per unit (Note 14).

### 22. Financing costs

	2016	2015
	\$	\$
Interest on Energy Northwest obligation	(177,243)	17,262
Interest on bank debt	-	39,061
Interest on debenture	383,357	423,821
Change in fair value of embedded derivatives	(95,935)	94,655
Accretion of government grant obligation	9,687	(75,464)
Change in fair value of common shares to be issued on conversion in respect of accreted dividend	-	211,760
Amortization of financing fees	309,701	118,099
Accretion of other liabilities	171,203	10,716
<b>Total</b>	<b>600,770</b>	<b>839,910</b>

### 23. Personnel expenses

	2016	2015
	\$	\$
Wages	1,153,092	1,027,466
Benefits	60,324	52,748
<b>Total</b>	<b>1,213,416</b>	<b>1,080,215</b>

### 24. Government grants

Eguana has received contributions related to the development of its technologies from government agencies.

#### *German-Canadian Centre for Innovation and Research ("GCCIR")*

The Company entered into an agreement with "GCCIR" for funding related to the development of the Bi-Direx inverter platform. The grant is to a maximum of \$150,000. As at September 30, 2015, the Company had received \$150,000 in funding. In 2015, \$26,000 of the funding was applied to product research and development expenses. In 2014, \$64,000 of the funding was applied to selling and marketing expenses and \$60,000 was applied to product research and development expenses.

#### *Alberta Innovates – Energy and Environment Solutions ("AI-EES")*

The Company entered into an agreement with "AI-EES" for funding related to the development of the commercial AC battery utilizing the patented Bi-Direx inverter platform. The grant is to a maximum of

# Eguana Technologies Inc.

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\$250,000, to be delivered based on the Company achieving a series of milestones. The project started during 2016 and payments are expected to be received in 2017.

### *CanExport Program*

The Company entered into an agreement with the National Research Council ("NRC") for funding related to increasing export sales to Australia. The grant is to a maximum of \$33,600, to be delivered based on the Company incurring eligible costs in FY 2017 and FY 2018.

## 25. Income taxes

Unrecognized deferred tax assets:

	2016	2015
	\$	\$
Development costs and capital assets	225,000	204,000
Non-capital loss carry forwards	9,502,000	7,899,000
Other	284,000	317,000
Share issue costs	426,000	259,000
	10,437,000	8,679,000
Assets not recognized	(10,437,000)	(8,679,000)
Total	-	-

Reconciliation of effective tax rate:

	2016	2015
	\$	\$
Loss for the year	(4,834,901)	(8,788,807)
Rate	28.6%	26.5%
Expected income tax recovery	(1,383,000)	(2,328,000)
Differences resulting from:		
Non-deductible expense	193,000	72,000
Change in tax rates	(536,000)	195,000
Expiry of issuance costs and non-capital losses	-	501,000
Share based payments	195,000	15,000
Foreign jurisdiction losses not carried forward	-	72,000
Share issue cost	(284,000)	
Change in unrecognized deferred tax assets	1,815,000	1,473,000
Total income tax recovery	-	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits. At September 30, 2016, the Company has approximately \$27.6 million (2015 - \$25.4 million) in Canadian non-capital loss carry forwards available. The unused losses will expire between 2027 and 2036. At September 30, 2016, the Company has approximately \$2.3 million (2015 - \$2.3 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2020 and 2036. At September 30, 2016, the Company has approximately \$2.1 million (2015 - \$2.1 million) in Spain of non-capital loss carry forwards available. The unused losses will expire in 2023.

# Eguana Technologies Inc.

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### 26. Supplemental information

The changes in non-cash working capital for the years ended September 30, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	(86,843)	1,487,982
Prepaid expense and deposits	(17,279)	102,908
Inventory	(194,597)	(591,565)
	(298,719)	999,325
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(469,570)	1,187,770
Deferred revenue	(28,948)	-
	(797,237)	2,187,095

### 27. Commitments

At September 30, 2016, Eguana had commitments for its Calgary premise and purchase obligations as follows:

	2016
	\$
Less than one year	275,848
Between one and five years	35,100
More than five years	-
	310,948

The Company has the right to renew its Calgary premises for a period of five years at the end of the term.

### 28. Segmented information

#### *Major customers*

The Company had four customers (2015 - one) where product sales were greater than 10% of total sales in the year. The customers had attributed sales of approximately \$572,822 for the year (2015 - \$5,806,458).

### 29. Legal disputes

The Company is in a dispute with a prior customer because 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 due to litigation risks and the entire receivable has been provided for. The customer, in return, has made warranty claims against the Company which the Company has denied. The Company has recorded a warranty provision to cover expected warranty claims arising from all sales, including sales to the customer.

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,206,000 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,149,000 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount in accounts payable. Moreover, the Company made a counter claim against the contract manufacturer.

# Eguana Technologies Inc.

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There has been no change in the recorded amounts for legal disputes from the prior year end.

During the year, the Company settled a vendor dispute from 2012. Both parties agreed to mutually release from the claims and counter claims. The release resulted in the reversal of a liability of \$119,090.

### **30. Subsequent Event**

Subsequent to year end the Company hired a Chief Financial Officer. As part of his compensation he was awarded in January 2017 200,000 options exercisable immediately at \$0.285.

Subsequent to year end 117,798 warrants were converted into an equivalent number of shares.