Condensed interim consolidated financial statements of

Eguana Technologies Inc.

December 31, 2018

(Unaudited)

Eguana Technologies Inc.

December 31, 2018

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated interim financial statements of Eguana Technologies Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited condensed interim consolidated financial statements by an entity's auditor.

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
Unaudited

	Note	**December 31 2018**	September 30 2018
Assets			
Current:			
Cash		**1,394,631**	1,286,000
Accounts receivable		**559,793**	116,359
Inventory	4	**1,178,411**	1,224,495
Prepaid expenses and deposits		**209,978**	514,469
		3,342,813	3,141,323
Non-current:			
Development costs		**3**	3
Capital assets	5	**436,287**	388,611
		3,779,103	3,529,937
Liabilities			
Current:			
Accounts payable and accrued liabilities		**3,664,726**	3,284,383
Warranty provision		**286,901**	246,601
Deferred revenue		**80,521**	112,309
Current portion of long-term debt	6	**890,358**	713,906
Derivative liability	6	**771,250**	607,313
Current portion of other liabilities	8	**87,951**	83,167
		5,781,707	5,047,679
Non-current:			
Long-term debt	6	**3,287,717**	2,468,121
Other liabilities	8	**438,152**	442,968
		9,507,576	7,958,768
Shareholders' equity (deficiency)			
Common shares	9	**45,221,629**	44,522,984
Preferred shares	10	**1**	1
Warrants	12	**484,663**	484,663
Contributed surplus	13	**10,355,849**	10,217,458
Foreign currency translation reserve		**(140,260)**	(126,049)
Deficit		**(61,650,355)**	(59,527,888)
		(5,728,473)	(4,428,831)
		3,779,103	3,529,937

Going concern (Note 2(b)), Commitments (Note 20) and Subsequent events (Note 23)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three-month periods ended December 31,
Stated in Canadian dollars
Unaudited

	Note	**2018**	2017
Sales and engineering services	21	**854,647**	1,318,727
Cost of goods sold		**757,629**	1,109,158
Gross margin		**97,018**	209,569
Expenses			
General and administrative	16	**743,368**	612,050
Selling and marketing	16	**730,688**	286,792
Product research and development	16	**239,930**	246,508
Operations		**186,983**	149,479
		1,900,969	1,294,829
Loss before undernoted items		**(1,803,951)**	(1,085,260)
Financing costs	17	**(318,526)**	(116,641)
Other income		**10**	212
Net loss		**(2,122,467)**	(1,201,689)
Foreign currency adjustment to equity		**(14,211)**	(1,224)
Total comprehensive loss		**(2,136,678)**	(1,202,913)
Loss per common share			
Basic and diluted		**(0.009)**	(0.006)
Weighted average number of common shares			
Basic and diluted	9	**222,711,235**	217,679,549

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity (deficiency)
For the three-month periods ended December 31,
Stated in Canadian dollars
Unaudited

	Common shares	Preferred shares	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2018	44,522,984	1	484,663	10,217,458	(126,049)	(59,527,888)	(4,428,831)
Loss for the period	-	-	-	-	-	(2,122,467)	(2,122,467)
Other comprehensive gain (loss)	-	-	-	-	(14,211)	-	(14,211)
Share capital to be issued	698,645	-	-	-	-	-	698,645
Share-based payments	-	-	-	138,391	-	-	138,391
Balance December 31, 2018	**45,221,629**	**1**	**484,663**	**10,355,849**	**(140,260)**	**(61,650,355)**	**(5,728,473)**
Balance October 1, 2017	43,256,471	1	1,121,859	9,454,187	(122,309)	(54,741,470)	(1,031,261)
Loss for the period	-	-	-	-	-	(1,201,689)	(1,201,689)
Other comprehensive gain (loss)	-	-	-	-	(1,224)	-	(1,224)
Warrants expired	-	-	(149,892)	149,892	-	-	-
Share-based payments	-	-	-	207,888	-	-	207,888
Balance December 31, 2017	43,256,471	1	971,967	9,811,967	(123,533)	(55,943,159)	(2,026,286)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of cash flows
For the three-month periods ended December 31,

Stated in Canadian dollars
Unaudited

	Note	**2018**	2017
Operating activities			
Net loss		**(2,122,467)**	(1,201,689)
Share-based payments	13	**138,391**	207,888
Financing costs	17	**318,526**	116,641
Amortization of capital assets	5	**36,155**	29,182
Warranty provision		**40,301**	16,880
Unrealized foreign exchange loss (gain)		**214,030**	34,516
Amortization of deferred lease inducement		**-**	(3,900)
		(1,375,064)	(800,482)
Net change in non-cash working capital	19	**197,084**	(915,777)
Cash flow used in operating activities		**(1,177,980)**	(1,716,259)
Financing activities			
Proceeds from issuance of long-term debt	6	**975,040**	1,899,814
Proceeds from issuance of limited partnership units	9	**715,000**	-
Cost of issuing limited partnership units	9	**(16,355)**	-
Repayment of long-term debt	6	**(266,925)**	
Repayment of other liabilities	8	**(36,318)**	(36,318)
Repayment of debentures	7	**-**	(597,837)
Cash financing costs paid		**-**	(53,695)
Cash flow from financing activities		**1,370,442**	1,211,964
Investing activities			
Capital asset additions	5	**(83,831)**	(55,205)
Cash flow used in investing activities		**(83,831)**	(55,205)
Net change in cash		**108,631**	(559,500)
Cash, beginning of period		**1,286,000**	2,568,346
Cash, end of period		**1,394,631**	2,008,846

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

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 systems, small wind turbines, fuel cells and energy storage. The Company is a publicly traded company headquartered at Unit 3, 6143 – 4th 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 unaudited condensed interim consolidated financial statements (“the financial statements”) were prepared in accordance with IAS 34 Interim Financial Reporting.

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2018 and 2017, which were prepared in accordance with IFRS.

These unaudited condensed interim consolidated financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the audited consolidated financial statements for the year ended September 30, 2018 except for the adoption effective October 1, 2018 of IFRS 9, Financial Instruments (“IFRS 9”) and IFRS 15, Revenue from Contracts with Customers (“IFRS 15”).

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the September 30, 2018 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 1, 2019.

(b) Going concern

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

At December 31, 2018, the Company had not achieved profitable operations since its inception and had an accumulated deficit of $61,650,355 (September 30, 2018 - $59,527,888) and recognized a cash flow deficiency from operations for the three-month period ended December 31, 2018 of $1,177,980 (2017 - $1,716,259). 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.

At December 31, 2018, the Company had working capital deficit of $2,438,894 (September 30, 2018 – $1,906,356).

The ability 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 and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by the loss of customers and falling sales per customer. To address its financing requirements, the Company may seek financing through the issuance of common shares, first preferred shares, units of EGT Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time.

These condensed consolidated interim 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 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.

3. Recently issued accounting pronouncements

Adoption of new and amended standards

IFRS 9, Financial Instruments

The Company adopted IFRS 9, Financial Instruments, on October 1, 2018. This standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single "expected loss" impairment model and a substantially-reformed approach to hedge accounting. The adoption did not have any impact on the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The Company has also adopted IFRS 15, Revenue from Contracts with Customers, on October 1, 2018 using the modified retrospective method. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It replaces existing revenue recognition guidance including IAS 18 Revenue and IAS 11 Construction Contracts.

To determine revenue recognition for arrangements that an entity determines are within the scope of IFRS 15, the Company performs the following five steps: (i) identifies the contract(s) with a customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under IFRS 15, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer. The Company satisfies its performance obligations and recognizes revenue during the reporting period based on delivery of its products or services. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are generally 30 days from invoice date; however, industry practice can reduce or extend these terms.

Stated in Canadian dollars

As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption.

Future Accounting Policy Changes

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company’s audited consolidated financial statements for the year ended September 30, 2018, except for IFRS 9 and IFRS 15 as noted above.

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.

4. Inventory

	December 31 2018	September 30 2018
Finished goods	**630,617**	655,257
Components	**547,794**	569,238
	1,178,411	1,224,495

As at December 31, 2018, $1,041,510 (September 2018 - $1,137,777) of inventory was carried at cost and $136,901 (September 2018 - $86,718) was carried at net realizable value.

Stated in Canadian dollars

5. Capital assets

	Computer equipment and software	Lab equipment	Furniture, equipment and leasehold improvements	Dies and molds	Total
Cost					
Balance October 1, 2018	496,459	1,075,630	362,247	42,714	1,977,050
Additions	372	7,526	43,079	32,854	83,831
Disposals	-	-	-	-	-
Balance December 31, 2018	**496,831**	**1,083,156**	**405,326**	**75,568**	**2,060,881**
Accumulated amortization and impairment					
Balance October 1, 2018	484,174	817,248	244,303	42,714	1,588,439
Amortization	3,710	19,678	10,029	2,738	36,155
Disposals	-	-	-	-	-
Balance December 31, 2018	**487,884**	**836,926**	**254,332**	**45,452**	**1,624,594**
Carrying Value December 31, 2018	**8,947**	**246,230**	**150,994**	**30,116**	**436,287**

	Computer equipment and software	Lab equipment	Furniture, equipment and leasehold improvements	Dies and molds	Total
Cost					
Balance October 1, 2017	476,461	954,622	270,012	42,714	1,743,809
Additions	-	16,950	38,255	-	55,205
Disposals	-	-	(1,400)	-	(1,400)
Balance December 31, 2017	476,461	971,572	306,867	42,714	1,797,614
Accumulated amortization and impairment					
Balance October 1, 2017	472,569	738,764	211,649	42,714	1,465,696
Amortization	1,427	19,247	8,508	-	29,182
Disposals	-	-	(1,259)	-	(1,259)
Balance December 31, 2017	473,996	758,011	218,898	42,714	1,493,619
Carrying Value December 31, 2017	2,466	213,561	87,969	-	303,995

Stated in Canadian dollars

Amortization of the capital assets is included in the consolidated statement of loss and comprehensive loss under the line item “general and administrative”.

6. Long-term debt and derivative liability

	Derivative liability	**Long-term debt**		
	Senior Loan	**Senior Loan**	**DHCT**	**Total**
Balance October 1, 2017	-	-	-	-
Proceeds from issuance of long-term debt	-	2,707,773	1,300,000	4,007,773
Fair value allocation to warrant exchange	457,644	(457,644)	(151,016)	(151,016)
Fair value allocation to contributed surplus	-	-	(262,772)	(262,772)
Financing cost	(10,198)	(47,931)	(100,000)	(158,129)
Accretion and accrued interest	-	341,387	22,499	363,886
Repayment	-	(165,842)	-	(165,842)
Loss (gain) on derivative liability	159,867	-	-	159,867
Loss (gain) on foreign exchange	-	(4,427)	-	(4,427)
Balance September 30, 2018	607,313	2,373,316	808,711	3,789,340
Proceeds from issuance of long-term debt	-	975,040	-	975,040
Fair value allocation to warrant exchange	95,000	(95,000)	-	-
Accretion and accrued interest	-	168,287	52,916	221,203
Repayment	-	(266,925)	-	(266,925)
Loss (gain) on derivative liability	68,937	-	-	68,937
Loss (gain) on foreign exchange	-	161,730	-	161,730
Balance December 31, 2018	**771,250**	**3,316,448**	**861,627**	**4.949,325**
Less: current portion	**(771,250)**	**(890,358)**	**-**	**(1,661,608)**
	-	**2,426,090**	**861,627**	**3,287,717**

(a) Long-term debt – Senior Loan

In December 2017, the Company issued $1,500,000 of debt in USD bearing an interest rate of 12.5% per annum which will be repaid in equal instalments starting in June 2018 for 30 months (the “Senior Loan”).

In August 2018, the Company drew an additional $750,000 USD from the Senior Lender, bearing interest at 12.5% per annum, which will be repaid in equal instalments starting in March 2019 for 30 months.

In October 2018, the Company drew the remaining $750,000 USD from the Senior Lender, bearing interest at 12.5% per annum, which will be repaid in equal instalments starting in May 2019 for 30 months.

The loan has first priority over all assets of the Company. The Company may prepay the loan by paying all scheduled but unpaid payments. If prepayment occurs after 12 months, the Company will receive a 15% discount off future interest owed. If prepayment occurs after 15 months, the Company will receive a 25% discount off future interest owed. If prepayment occurs after 21 months, the Company will receive a 35% discount off future interest owed.

As part of the original Senior Loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 CAD and an expiry date of December 20, 2022. As at December 31, 2018, 2,951,733 warrants were exercisable. The vested unexercised warrants are exchangeable at the option of the holder for $1,000,000 USD after the earlier of a liquidity event or September 30, 2021.

The Company has measured the fair value of the warrant derivative liability associated with the Senior Loan with the residual assigned to the loan. The warrant derivative liability was estimated using the higher of the present value of the warrant exchange payment and the option pricing model. Financing fees of $53,136 were allocated between the long-term loan and the derivative liability. The long-term loan is a financial liability and will be accreted to its face value over the term of the loans using an effective interest rate of 27%, 18% and 18%, respectively.

The derivative liability is carried at fair value through profit and loss and re-measured at each reporting date. The higher fair value was the present value of the warrant exchange payment using a discount rate of 23% and the value was determined to be $771,250 at December 31, 2018.

(b) Long-term debt – DHCT

In August, 2018, the Company entered into a loan agreement for general working capital for $1,300,000 with its largest shareholder, DHCT II Luxembourg SARL (“DHCT”). The loan will be repaid one month after the final loan payment to the Senior Lender is made. The loan bears interest at a fixed annual rate of 8% and is to be paid at the same time the loan is repaid.

As consideration for the advance of the loan from DHCT, which has a second priority lien on all the assets of the Eguana and its material subsidiaries, the Company has issued common shares purchase warrants, entitling DHCT to purchase an aggregate of up to 1,238,095 common shares at a price of $0.21 per common share for a period of three (3) years from the date of the loan. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 2.13% interest rate and a volatility of 100.75%. The fair market value at issuance was $163,601, with $12,585 of financing fees allocated, resulting in an adjusted book value of $151,016.

A portion of the proceeds were allocated to contributed surplus, representing a capital contribution on the residual of the fair value of the warrants and the loan.

Financing fees of $100,000 were paid with respect the DHCT long-term debt, allocated between the debt, warranty, and capital contribution. The long-term loan is a financial liability and will be accreted to its face value over the term of the loan using an effective interest rate of 26%.

Stated in Canadian dollars

7. Debentures

	Debt component of debenture	Embedded derivative	Total
Balance October 1, 2017	515,366	9,388	524,754
Accretion	31,303	-	31,303
Change in fair value	43,903	(2,123)	41,780
Repayments	(590,572)	(7,265)	(597,837
Balance September 30, 2018	-	-	-
Balance December 31, 2018	**-**	**-**	**-**

In December 2017, the Company called all of the outstanding debentures at par and repaid principal of $586,667. On the date of exercise, the carrying amount of the debentures was $546,669 with the difference of $39,998 plus interest of $3,905 recognized as part of financing costs. Royalties of $7,265 was also paid. The accretion up to the date of exercise was also recognized in financing cost.

8. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
Balance October 1, 2017	454,147	132,907	587,054
Accretion	95,351	32,986	128,337
Repayments	(157,380)	(36,415)	(193,795)
Loss (gain) on foreign exchange	-	4,539	4,539
Balance September 30, 2018	392,118	134,017	526,135
Accretion	19,929	8,457	28,386
Repayments	(36,318)	-	(36,318)
Loss (gain) on foreign exchange	-	7,900	7,900
Balance December 31, 2018	**375,729**	**150,374**	**526,103**
Less: current portion	**(81,634)**	**(6,317)**	**(87,951)**
	294,095	**144,057**	**438,152**

Stated in Canadian dollars

9. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2017	217,679,549	43,256,471
Issuance of common shares	-	-
Issuance costs	-	-
Exercise of warrants (Note 12)	5,031,686	1,266,513
Balance September 30, 2018	222,711,235	44,522,984
Common shares to be issued	-	715,000
Partnership unit costs (Note 11)	-	(16,355)
Balance December 31, 2018	**222,711,235**	**45,221,629**

In February 2019, Eguana exercised its right to convert 715 EGT Markets Limited Partnership units to common shares of Eguana and issued 3,575,000 shares. The cost to issue and convert the Limited Partnership units totaled $16,355 (Notes 11 and 23).

Weighted average number of common shares

The weighted average number of shares as at December 31, 2018 and December 31, 2018 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

10. Preferred shares

The Corporation is authorized to issue an unlimited number of convertible $10, 8% redeemable First Preferred shares, issuable in series. As of December 31, 2018, 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.

11. 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. No LP Units were issued in the three-month period ending December 31, 2017.

Stated in Canadian dollars

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.

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 2018, EGTLP issued 715 EGT Markets Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $715,000. Legal and other costs of $16,355 related to the issue of the partnership units were incurred. There were no commissions paid on the issuance.

The Limited Partnership units are exchangeable for 3,575,000 common shares of Eguana after December 31, 2018, at an exchange ratio of $0.20 per share. In February 2019, Eguana exercised its right to convert the units to common shares of Eguana and issued 3,575,000 shares (Notes 9 and 23).

12. Warrants

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

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value
Balance October 1, 2017	16,851,946	7,513,376	24,356,322	1,121,859
Warrants issued (Note 6)	4,189,828	-	4,189,828	151,017
Warrants exercised	-	(5,031,686)	(5,031,686)	(622,617)
Warrants expired	(1,250,000)	(485,201)	(1,735,201)	(165,596)
Balance September 30, 2018	19,791,774	1,996,489	21,788,263	484,663
Balance December 31, 2018	**19,791,774**	**1,996,489**	**21,788,263**	**484,663**

As part of the issuance of the Senior Loan in December 2017, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 and an expiry date of December 20, 2022. In October 2018, the Company drew the remaining $750,000 USD from the Senior Lender and the remaining 368,966 warrants vested. Refer to note 6 for additional details on the calculation of fair value of the warrants.

As part of the issuance of long-term debt to DHCT in August 2018, the Company issued 1,238,095 common share purchase warrants which convert into an equal number of shares with an exercise price of $0.21 per common share for a period of three (3) years from the date of the loan.

Stated in Canadian dollars

Outstanding and exercisable warrants at December 31, 2018 were as follows:

Range of exercise prices	Warrants	Weighted average prices ($)	Weighted average years to expiry
$0.10 - $0.30	13,414,484	0.22	1.61
$0.31 - $0.40	8,373,779	0.39	0.98
Balance December 31, 2018	**21,788,263**	**0.28**	**1.36**

13. 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.

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employees
Balance October 1, 2017	4,209,319	0.32	2,675,264	0.28
Granted	1,810,000	0.21	290,000	0.20
Forfeited	(155,000)	(0.27)	(210,000)	(0.24)
Balance September 30, 2018	5,864,319	0.29	2,755,264	0.27
Granted	1,890,000	0.20	-	-
Forfeited	(209,203)	(0.37)	-	-
Balance December 31, 2018	**7,545,116**	**0.26**	**2,755,264**	**0.27**

The following summarizes information about stock options outstanding as at December 31, 2018:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	6,707,500	0.22	6.19	4,955,838	0.22
$0.31 - $0.40	3,532,880	0.36	5.22	700,000	0.33
$0.41 - $0.50	60,000	0.44	5.30	-	-

Stated in Canadian dollars

Balance December 31, 2018	**10,300,380**	**0.27**	**5.85**	**5,655,838**	**0.24**

The total share-based compensation calculated for the three-months ended December 31, 2018, was $138,391 (2017 – $207,888).

In October 2017, the Company granted incentive stock options to acquire up to an aggregate of 1,810,000 common shares at a strike price of $0.21 per share. Of the options granted 1,175,000 have been granted to directors and officers of the Company and the remainder to employees. The incentive stock options represent the 2017 annual grant. 600,000 of the 1,810,000 options vest immediately with an expiry of October 2022 and 1,210,000 options vest in three equal tranches with the first tranche to vest immediately and the remainder over two years with an expiry of October 2027. The fair value of the vested options was determined to be $287,463.

In November and December 2017, the Company granted incentive stock options to acquire up to an aggregate of 40,000 common shares to a consultant for milestones he achieved. The exercise price of the incentive options was $0.18 vesting immediately with a five-year expiry. The fair value of the options was determined to be $6,140.

In June 2018, the Company granted incentive stock options to acquire up to an aggregate of 250,000 common shares to a consultant for milestones he achieved. The exercise price of the incentive options was $0.205, vesting pro-rata over four months with a five-year expiry. The fair value of the options was determined to be $41,300.

In October 2018, the Company granted incentive stock options to acquire up to an aggregate of 300,000 common shares at a strike price of $0.19 per share, with an expiry of October 11, 2028 to two employees. 100,000 of the 300,000 options vest immediately and the remaining two third vesting annually over the next two years.

In December 2018, the Company granted incentive stock options to acquire up to an aggregate of 1,590,000 common shares at a strike price of $0.20 per share, with an expiry of December 14, 2028. Of the options granted, 880,000 have been granted to directors and officers of the Company and the remainder to employees. The incentive stock options represent the 2018 annual grant. 530,000 of the 1,590,000 options vest immediately and the remaining two third vesting annually over the next two years.

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:

	December 31 2018	September 30 2018
Risk free interest rate	**2.06 – 2.28%**	0.75 - 1.00%
Expected volatility (1)	**101 – 104%**	115 – 130%
Dividend yield	**-**	-
Expected life (years)	**10**	5 – 10
Weighted average fair value	**0.18 – 0.17**	0.18

(1) Expected volatility is estimated by considering historic average share price volatility over 5 and 10 years

Stated in Canadian dollars

14. Capital management

The Company's objective 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 (deficiency) less cash as follows:

	December 31 2018	September 30 2018
Total shareholders' equity (deficiency)	**(5,728,473)**	(4,428,831)
Cash	**(1,394,631)**	(1,286,000)
	(7,123,104)	(5,714,831)

15. 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 credit risk exposure on accounts receivable with five counterparties at December 31, 2018. Approximately 90% of the total accounts receivable is due from those five customers (September 30, 2018 – 69% - one counterparty).

The following table illustrates the Company's receivables:

	December 31 2018	September 30 2018
Trade	**471,565**	68,899
Taxation authorities	**88,228**	47,460
	559,793	116,359
Less: allowance for doubtful accounts	-	-
	559,793	116,359

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three-month period ended December 31, 2018, there was $nil of bad debts expensed (2017 – $nil).

Stated in Canadian dollars

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at December 31, 2018 there are $380,897 of financial assets that the Company considers past due (September 30, 2018 - $68,268).

The following is a schedule of trade receivables:

	December 31 2018	September 30 2018
Neither impaired or past due	**90,668**	631
Past due in the following periods		
31 – 60 days	**136,348**	-
61 – 90 days	**67,624**	3,083
Over 90 days	**176,925**	65,185
	471,565	68,899

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 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.

The following are the contractual undiscounted maturities of financial liabilities at December 31, 2018:

	< 1 Year	**1 – 3 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	3,664,726	-	-	3,664,726
Deferred revenue	80,521	-	-	80,521
Long-term debt	1,719,218	4,238,856	-	5,958,074
Other liabilities	197,316	509,854	138,933	846,103
	5,661,781	**4,748,710**	**138,933**	**10,549,424**

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 December 31, 2018:

	Euros	**US Dollars**	**Total**
Cash	180,801	361,714	542,515
Accounts receivable	4,371	411,703	416,074
Prepaid expenses and deposits	40,105	66,643	106,748
Accounts payable and accrued liabilities	(1,254,443)	(701,306)	(1,955,749)
Warranty provision	(174,653)	-	(174,653)
Deferred revenue	(5,526)	(6,542)	(12,068)
Long-term debt	-	(3,245,950)	(3,245,950)
Other liabilities	-	(150,374)	(150,374)
	(1,209,345)	**(3,264,112)**	**(4,473,457)**

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 $119,740, for the three-month period ended December 31, 2018 (2017 - $16,879). 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 $38,766 for the three-month period ended December 31, 2018 (2017 - $43,721). 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 three-month period ended December 31, 2018.

The derivative liability allows the exercisable warrants to be exchanged at the option of the holder for $1,000,000 USD after the earlier of a liquidity event or September 30, 2021.

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.

Fair value

The carrying value and fair value of financial instruments at December 31, 2018, is disclosed below by financial instrument category:

	Carrying value	**Fair value**
Accounts receivable	**559,793**	**559,793**
Accounts payable and accrued liabilities	**3,664,726**	**3,664,726**
Derivative liability	**771,250**	**771,250**

Stated in Canadian dollars

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, debentures and long-term loan were measured at fair value on initial recognition using Level 2 inputs (Notes 6-8) and the derivative liability and the embedded derivatives on the Company's debentures were measured at fair value using level 3 inputs (Notes 6 & 7).

- 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.

16. Related party transactions

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

Salaries and benefits	Three months ended	
	2018	2017
General and administrative	**143,056**	70,550
Selling and marketing	**98,646**	59,314
Product research and development	**19,412**	14,620
	261,114	144,484

Share based expenses to officers and a director was $56,225 during Q1 2019 (Note 13) (2018 - $150,429).

Included in accounts payable and accrued liabilities is $421,539 (September 30, 2018 - $324,418) due to directors and key management personnel.

Stated in Canadian dollars

17. Financing costs

	Three months ended	
	2018	2017
Accretion of long-term debt	**221,203**	11,553
Change in fair value of derivative liability	**68,937**	-
Accretion of other liabilities	**28,386**	31,545
Change in fair value of debentures	**-**	41,780
Accretion on debentures	**-**	31,303
Other accretion	**-**	460
	318,526	116,641

18. Personnel expenses

	Three months ended	
	2018	2017
Wages	**562,017**	350,683
Benefits	**47,970**	23,987
	609,987	374,670

19. Supplemental information

The changes in non-cash working capital for the three-months ended December 31, 2018 and 2017 is as follows:

	Three months ended	
	2018	2017
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	**(410,857)**	(438,655)
Inventory	**46,084**	(105,972)
Prepaid expenses and deposits	**311,364**	(147,302)
	(53,409)	(691,929)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**283,259**	78,081
Deferred revenue	**(32,766)**	(301,929)
	197,084	(915,777)

Stated in Canadian dollars

20. Commitments

At December 31, 2018, Eguana had commitments for the Calgary premise and purchase obligations as follows:

Less than one year	**109,000**
Between one and five years	**96,000**
More than five years	**-**
	205,000

21. Segmented information

Major customers

The Company had two customers where sales were greater than 10% of total sales in the three-month period ended December 31, 2018 (2017 – one). The customers had attributed sales of approximately $468,757 for the three-month period ended December 31, 2018 (2017 - $1,307,157).

Revenue composition

The Company generated $854,647 of revenue from energy storage system sales with a cost of $757,629 for the three-month period ended December 31, 2018 (2017 - $1,318,727 and $1,109,158 respectively).

Revenue from engineering services was nil with a cost of nil in the three-month period ended December 31, 2018 (2017 - nil and nil respectively)

22. Legal disputes

The Company is in a dispute with a prior customer as a result of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from the customer, in addition to other amounts from the customer because of the cancellation. The collection of the outstanding receivable is uncertain 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 potential warranty claims arising from all sales, including sales to the customer. During the year, the customer made a counter claim against the Company

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros ($2,392,736 CAD) in an Alberta court. The Company is disputing 799,000 Euros ($1,246,282 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.

There has been no change in the Euro denominated amounts for legal disputes from the year ended September 30, 2018.

23. Subsequent events

In January 2019, the Company entered into an agreement with a capital market company for a commitment of $14,000 a month for six months and granted the capital market company incentive stock options to acquire up to an aggregate of 250,000 common shares at a strike price of $0.19 per share, with an expiry of November 26, 2023. The Company has the option to renew the agreement at the end of the six months on a month-to-month basis.

On February 7, 2019, the Company issued 300,000 shares of newly created Series A First Preferred Shares (the "Series A Shares") at $10.00 per Series A Share (the "Issue Price") for aggregate gross proceeds of $3,000,000 (the "Offering"). The Series A Shares were issued and sold to the Company's largest shareholder DHCT II Luxembourg SARL (the "Investor"), the investment vehicle of funds managed by Doughty Hanson & Co Managers Limited.

The Series A Shares are convertible by the Investor at any time into common shares of the Company at a price of $0.24 per common share. The Company may force conversion of the Series A Shares once its TSX-V listed share price is equal to or greater than $0.60 for at least 60 consecutive days.

In connection with the Offering, the Company and the Investor also entered into a loan settlement and conversion agreement whereby an additional 134,860 Series A Shares were issued to the Investor at the Issue Price to replace the existing $1,300,000 secured loan facility previously disclosed on August 22, 2018.

In February 2019, Eguana exercised its right to convert 715 EGT Markets Limited Partnership units to common shares of Eguana and issued 3,575,000 shares (Notes 9 and 11).