

Condensed interim consolidated financial statements of

## **Eguana Technologies Inc.**

June 30, 2017

(Unaudited)

# Eguana Technologies Inc.

June 30, 2017

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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. ("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	June 30 2017	September 30 2016
<b>Assets</b>			
Current:			
Cash		764,907	4,355,471
Accounts receivable		414,980	291,508
Inventory	4	524,580	571,243
Prepaid expenses and deposits		142,233	218,252
		<b>1,846,700</b>	5,436,474
Non-current:			
Development costs		3	3
Capital assets	5	263,629	284,815
		<b>2,110,332</b>	5,721,292
<b>Liabilities</b>			
Current:			
Accounts payable and accrued liabilities		2,748,114	2,912,653
Provisions		261,543	248,961
Deferred revenue		339,652	81,374
Debentures – current portion	7	578,059	571,533
Other liabilities – current portion	8	61,180	51,462
		<b>3,988,548</b>	3,865,983
Non-current:			
Deferred lease inducement		11,700	23,400
Debentures	7	79,191	622,945
Other liabilities	8	555,392	594,259
		<b>4,634,831</b>	5,106,587
<b>Shareholders' equity (deficiency)</b>			
Common shares	9	40,625,024	40,598,701
Preferred shares	10	1	1
Warrants	12	1,178,279	1,380,291
Contributed surplus	13	9,327,871	8,998,578
Foreign currency translation reserve		(126,900)	(124,173)
Deficit		(53,528,774)	(50,238,693)
		<b>(2,524,499)</b>	614,705
		<b>2,110,332</b>	5,721,292

Going concern (Note 2(b)), Commitments (Note 20) and Subsequent event (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 and nine month periods ended June 30,

Stated in Canadian dollars  
Unaudited

	Note	Three months ended		Nine months ended	
		2017	2016	2017	2016
Sales and engineering services	21	<b>178,887</b>	284,980	<b>778,741</b>	689,628
Cost of goods sold		<b>172,874</b>	264,337	<b>557,688</b>	725,780
Gross margin		<b>6,013</b>	20,643	<b>221,053</b>	(36,152)
<b>Expenses</b>					
General and administrative	18	<b>509,225</b>	632,196	<b>1,656,473</b>	1,457,989
Selling and marketing	18	<b>180,948</b>	183,525	<b>596,624</b>	621,009
Product research and development	18	<b>260,252</b>	153,145	<b>614,542</b>	519,278
Operations	18	<b>113,397</b>	114,725	<b>370,361</b>	343,530
		<b>1,063,821</b>	1,083,591	<b>3,238,000</b>	2,941,806
<b>Loss before undernoted items</b>		<b>(1,057,809)</b>	(1,062,948)	<b>(3,016,947)</b>	(2,977,958)
Financing costs	17	<b>(85,368)</b>	(134,182)	<b>(285,003)</b>	(721,124)
Loss on debentures	7	-	-	-	(18,433)
Other income		<b>1,866</b>	1,579	<b>11,869</b>	1,830
<b>Net loss</b>		<b>(1,141,311)</b>	(1,195,551)	<b>(3,290,081)</b>	(3,715,685)
Foreign currency adjustment to equity		<b>(1,074)</b>	(4,196)	<b>2,727</b>	(9,579)
<b>Total comprehensive loss</b>		<b>(1,142,385)</b>	(1,199,747)	<b>(3,287,353)</b>	(3,725,264)
<b>Loss per common share</b>					
Basic and diluted		<b>(0.01)</b>	(0.01)	<b>(0.02)</b>	(0.02)
<b>Weighted average number of common shares</b>					
Basic and diluted	9	<b>201,611,295</b>	166,973,163	<b>201,600,860</b>	155,730,563

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 and nine month periods ended June 30,

Stated in Canadian dollars  
Unaudited

	Common shares	Preferred shares	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2016	40,598,701	1	1,380,291	8,998,578	(124,173)	(50,238,693)	614,705
Loss for the period	-	-	-	-	-	(3,290,081)	(3,290,081)
Other comprehensive gain (loss)	-	-	-	-	(2,727)	-	(2,727)
Warrants exercised	26,323	-	(10,540)	-	-	-	15,783
Warrants expired	-	-	(191,472)	191,472	-	-	-
Share-based payments	-	-	-	137,821	-	-	137,821
<b>Balance June 30, 2017</b>	<b>40,625,024</b>	<b>1</b>	<b>1,178,279</b>	<b>9,327,871</b>	<b>(126,900)</b>	<b>(53,528,774)</b>	<b>(2,524,499)</b>
Balance October 1, 2015	32,681,242	1	1,795,774	7,840,675	(128,834)	(45,403,793)	(3,214,935)
Loss for the period	-	-	-	-	-	(3,715,685)	(3,715,685)
Other comprehensive gain (loss)	-	-	-	-	9,579	-	9,579
Issue of share capital	6,789,889	-	-	-	-	-	6,789,889
Warrants issued	-	-	520,674	-	-	-	520,674
Warrants exercised	28,977	-	(15,226)	-	-	-	13,751
Warrants expired	-	-	(914,463)	914,463	-	-	-
Share-based payments	-	-	-	65,863	-	-	65,863
Balance June 30, 2016	39,500,108	1	1,386,759	8,821,001	(119,255)	(49,119,478)	469,136

*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 and nine month periods ended June 30,

Stated in Canadian dollars

Unaudited

	Note	Three months ended		Nine months ended	
		2017	2016	2017	2016
<b>Operating activities</b>					
Net loss		(1,141,311)	(1,195,551)	(3,290,081)	(3,715,685)
Share-based payments		58,994	46,765	137,821	126,126
Finance costs		85,368	134,182	285,003	721,127
Amortization of capital assets		25,723	32,917	73,538	80,787
Loss on debentures		-	-	-	18,433
Warranty provision		9,951	(967)	11,144	5,416
Amortization of deferred lease inducement		(3,900)	(3,900)	(11,700)	(11,700)
Write down (up) of inventory		-	(13,352)	50,697	20,698
Bad debt expense		982	-	100,901	-
Unrealized foreign exchange loss (gain)		27,083	(442)	(26,224)	(3,886)
		(937,110)	(1,000,348)	(2,668,901)	(2,758,684)
Net change in non-cash working capital	19	464,930	161,984	(18,318)	(746)
Cash flow used in operating activities		(472,180)	(838,364)	(2,687,219)	(2,759,430)
<b>Financing activities</b>					
Bank loan		-	-	-	(1,460,855)
Proceeds from common shares		-	7,210,855	-	7,210,855
Proceeds from limited partnership units		-	-	-	747,000
Debt to be paid with issuance of common shares		-	244,559	-	244,559
Cost of issuing common shares and limited partnership units		-	(867,158)	-	(938,363)
Proceeds on exercise of warrants		3,300	-	15,783	-
Repayment of government contribution		-	-	(18,918)	(39,000)
Repayment of debentures		(232,167)	(224,500)	(681,167)	(617,333)
Repayment of other liabilities		(37,224)	(42,373)	(134,020)	(161,334)
Cash financing costs paid		(8,920)	(21,828)	(32,670)	(65,512)
Cash flow from financing activities		(275,011)	6,299,556	(850,992)	4,920,017
<b>Investing activities</b>					
Capital asset additions		(1,272)	-	(52,353)	(4,124)
Cash flow used in investing activities		(1,272)	-	(52,353)	(4,124)
Net change in cash		(748,463)	5,461,192	(3,590,564)	2,156,463
Cash, beginning of period		1,513,370	101,548	4,355,471	3,406,277
<b>Cash, end of period</b>		<b>764,907</b>	<b>5,562,740</b>	<b>764,907</b>	<b>5,562,740</b>

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

# Eguana Technologies Inc.

## Notes to the condensed interim consolidated financial statements

June 30, 2017

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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 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 unaudited condensed interim consolidated financial statements ("the financial statements") were prepared in accordance with International Accounting Standard ("IAS") 34 using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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, 2016 and 2015, which were prepared in accordance with IFRS. These unaudited condensed interim 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, 2016.

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, 2016 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on August 28, 2017.

#### (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 June 30, 2017, the Company had not achieved profitable operations since its inception and had an accumulated deficit of \$53,528,774 (June 2016 - \$49,119,478) and recognized a cash flow deficiency from operations for the nine-month period ended June 30, 2017 of \$2,687,219 (June 2016 - \$2,759,430). 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 (\$2,141,848) (September 30, 2016 – \$1,570,491).



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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 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 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

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, 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.

# Eguana Technologies Inc.

## Notes to the condensed interim consolidated financial statements

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### 4. Inventory

	June 30 2017	September 30 2016
Finished goods	253,131	235,004
Components	271,449	336,239
	<b>524,580</b>	<b>571,243</b>

As at June 30, 2017, \$453,094 (September 2016 - \$481,453) of inventory was carried at cost and \$71,486 (September 2016 - \$89,790) was carried at net realizable value. BiDirex sub-assembly inventory of \$50,697 was written-off in the quarter due to customers with new battery technologies transitioning to the Commercial AC Battery and to the new UL 1451 certification standard.

### 5. Capital assets

	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
<b>Cost</b>					
Balance October 1, 2016	475,190	903,540	228,801	42,714	1,650,245
Additions	1,271	51,082	-	-	52,353
Disposals	-	-	-	-	-
<b>Balance June 30, 2017</b>	<b>476,462</b>	<b>954,622</b>	<b>228,801</b>	<b>42,714</b>	<b>1,702,599</b>
<b>Accumulated amortization and impairment</b>					
Balance October 1, 2016	466,457	670,923	185,336	42,714	1,365,430
Amortization	4,611	49,159	19,768	-	73,539
Disposals	-	-	-	-	-
<b>Balance June 30, 2017</b>	<b>471,069</b>	<b>720,083</b>	<b>205,104</b>	<b>42,714</b>	<b>1,438,968</b>
<b>Carrying Value June 30, 2017</b>	<b>5,393</b>	<b>234,540</b>	<b>23,697</b>	<b>-</b>	<b>263,630</b>

# Eguana Technologies Inc.

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	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
<b>Cost</b>					
Balance October 1, 2015	472,766	893,592	228,801	42,714	1,637,873
Additions	2,424	9,948	-	-	12,372
Disposals	-	-	-	-	-
Balance September 30, 2016	475,190	903,540	228,801	42,714	1,650,245
<b>Accumulated amortization and impairment</b>					
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	-	-	-	-	-
Balance September 30, 2016	466,457	670,923	185,336	42,714	1,365,430
Carrying Value September 30, 2016	8,733	232,617	43,465	-	284,815

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

### 6. Bank debt

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

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

# Eguana Technologies Inc.

## Notes to the condensed interim consolidated financial statements

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### 7. Debentures

	Debt component of debenture	Embedded derivative	Total
Balance October 1, 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)
Balance September 30, 2016	1,175,543	18,936	1,194,479
Accretion	176,609	-	176,609
Repayments	(708,224)	(5,613)	(713,837)
<b>Balance June 30, 2017</b>	<b>643,927</b>	<b>13,323</b>	<b>657,251</b>
<b>Less: current portion</b>	<b>(564,735)</b>	<b>(13,323)</b>	<b>(578,059)</b>
	<b>79,192</b>	<b>-</b>	<b>79,192</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 have been 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.

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%.

# Eguana Technologies Inc.

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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.

### 8. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
Balance 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)
Balance September 30, 2016	503,770	141,951	645,721
Accretion	79,852	28,369	108,221
Repayments	(115,008)	(19,012)	(134,020)
Loss (gain) on foreign exchange	-	(3,350)	(3,350)
<b>Balance June 30, 2017</b>	<b>468,614</b>	<b>147,957</b>	<b>616,571</b>
<b>Less: current portion</b>	<b>(58,412)</b>	<b>(2,768)</b>	<b>(61,180)</b>
	<b>410,202</b>	<b>145,189</b>	<b>555,391</b>

# Eguana Technologies Inc.

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In August 2015, the Company entered into a settlement agreement with its former Chief Executive Officer ("CEO"), who is a director of the Company, 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 year ended September 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%.

### 9. Common shares

*Authorized*, unlimited number

*Issued*

	Number of shares	Amount (\$)
Balance October 1, 2015	151,005,323	32,681,242
Common shares issues in exchange for partnership units (Note 11)	6,790,977	747,000
Partnership unit costs (Note 11)	-	(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
Balance September 20, 2016	201,534,251	40,598,701
Exercise of warrants	145,298	26,324
<b>Balance June 30, 2017</b>	<b>201,679,549</b>	<b>40,625,025</b>

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

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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 16).

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.

### *Weighted average number of common shares*

The weighted average number of shares as at June 30, 2017 and September 30, 2016 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 June 30, 2017, 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.

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.

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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 had an exercise price of \$0.11 and expired 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 9).

### 12. 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, 2015	15,917,875	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
Balance September 30, 2016	9,959,946	8,379,710	18,339,656	1,380,291
Warrants exercised	-	(145,298)	(145,298)	(10,540)
Warrants expired	-	(788,174)	(788,174)	(191,472)
<b>Balance June 30, 2017</b>	<b>9,959,946</b>	<b>7,446,238</b>	<b>17,406,184</b>	<b>1,178,279</b>

Outstanding warrants at June 30, 2017 were as follows:

Range of exercise prices	Warrants	Weighted average prices (\$)	Weighted average years to expiry
\$0.01 - \$0.30	6,774,405	0.12	1.22
\$0.31 - \$0.40	8,773,779	0.39	2.39
\$0.41 - \$0.50	1,858,000	0.50	0.37
<b>Balance June 30, 2017</b>	<b>17,406,184</b>	<b>0.29</b>	<b>1.72</b>

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.



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### 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, 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)
Balance September 30, 2016	4,244,319	0.32	2,405,264	0.30
Granted	-	-	450,000	0.25
Forfeited	(35,000)	(0.26)	(180,000)	(0.48)
<b>Balance June 30, 2017</b>	<b>4,209,319</b>	<b>0.32</b>	<b>2,675,264</b>	<b>0.28</b>

The following summarizes information about stock options outstanding as at June 30, 2017:

	Outstanding options			Exercisable options	
	Options	Weighted average price (\$)	Weighted average years to expiry	Options	Weighted average price (\$)
\$0.01 - \$0.30	3,077,500	0.23	5.49	2,904,161	0.23
\$0.31 - \$0.40	3,747,083	0.36	6.72	700,000	0.33
\$0.41 - \$0.50	60,000	0.44	6.80	-	-
<b>Balance June 30, 2017</b>	<b>6,884,583</b>	<b>0.31</b>	<b>6.17</b>	<b>3,604,161</b>	<b>0.25</b>

The total share-based compensation calculated for the three and nine months ended June 30, 2017, was \$58,994 and \$137,821 (June 2016 – \$46,765 and \$126,126).

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.

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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 vested 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.

In January 2017, the Company issued 200,000 stock options with an exercise price of \$0.27 to the Interim Chief Financial Officer. The options vested immediately and expire five years from the grant date. The fair value of the options was determined to be \$47,390.

In April 2017, the Company issued 250,000 stock options with an exercise price of \$0.23 to the Business Development Manager. The options vested immediately and expire five years from the grant date. The fair value of the options was determined to be \$50,407.

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:

	<b>June 30 2017</b>	September 30 2016
Risk free interest rate	<b>0.51%</b>	0.51%
Expected volatility <sup>(1)</sup>	<b>137.24%</b>	160.12%
Dividend yield	-	-
Expected life (years)	<b>8</b>	8
Weighted average fair value	<b>0.22</b>	0.17

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

#### 14. 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.

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

	<b>June 30 2017</b>	September 30 2016
Total shareholders' equity (deficiency)	<b>(2,524,499)</b>	614,705
Cash	<b>(764,907)</b>	(4,355,471)
	<b>(3,289,406)</b>	(3,740,766)

### 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 significant credit risk exposure on accounts receivable with one counterparty at June 30, 2017. Approximately 95% of the total accounts receivable is due from the one customer (June 2016 – 32% - one counterparty).

The following table illustrates the Company's receivables:

	<b>June 30 2017</b>	September 30 2016
Trade	<b>550,666</b>	330,538
Taxation authorities	<b>34,856</b>	38,274
		368,812
Less: allowance for doubtful accounts	<b>(170,542)</b>	(77,304)
	<b>414,980</b>	291,508

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three and nine month periods ended June 30, 2017, there was \$100,901 of bad debts expensed (June 2016 – nil and 7,000 EUR).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at June 30, 2017 there are \$414,773 of financial assets that the Company considers past due (September 30, 2016 - \$250,987).

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The following is a schedule of trade receivables:

	June 30 2017	September 30 2016
Neither impaired or past due	135,893	79,551
Past due in the following periods		
31 – 60 days	-	-
61 – 90 days	1,630	3,154
Over 90 days	413,143	247,833
	<b>550,666</b>	<b>330,538</b>

### *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 maturities of financial liabilities at June 30, 2017:

	< 1 Year	1 – 3 Years	Thereafter	Total
Accounts payable and accrued liabilities	2,748,114	-	-	2,748,114
Deferred revenue	339,652	-	-	339,652
Debentures	578,059	79,191	-	657,250
Other liabilities	61,180	176,492	378,900	616,572
	<b>3,727,005</b>	<b>255,683</b>	<b>378,900</b>	<b>4,361,588</b>

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### *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 June 30, 2017:

	<b>Euros</b>	<b>US Dollars</b>	<b>Total</b>
Cash	340,876	48,428	389,304
Accounts receivable	2,125	371,898	374,024
Deposits	-	64,575	64,575
Accounts payable and accrued liabilities	(1,242,186)	(466,642)	(1,708,828)
Provisions	(220,213)	-	(220,213)
Deferred revenue	1,762	(287,070)	(285,307)
Other liabilities	-	(147,957)	(147,957)
	<b>(1,117,636)</b>	<b>(416,768)</b>	<b>(1,534,403)</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 \$16,052 for the nine-month period ended June 30, 2017 (June 2016 - \$29,260). 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 \$37,685 for the nine-month period ended June 30, 2017 (June 2016 - \$54,421). 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 nine-month period ended June 30, 2017.

### *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 June 30, 2017, is disclosed below by financial instrument category:

	<b>Carrying value</b>	<b>Fair value</b>
Accounts receivable	<b>414,980</b>	<b>414,980</b>
Accounts payable and accrued liabilities	<b>2,748,114</b>	<b>2,748,114</b>

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 8) and the embedded derivatives on the Company's debentures (Note 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.

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- 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:

	Three months ended		Nine months ended	
	2017	2016	2017	2016
General and administrative	96,250	54,000	264,388	162,000
Product research and development	14,623	11,591	98,559	81,137
Selling and marketing	34,121	27,046	42,240	34,773
Operations	-	8,500	-	32,500
	144,995	101,137	405,187	310,410

Financing costs of \$40 and \$2,285 for the three and nine month periods ended June 30, 2017 (June 2016 - \$1,960 and \$9,752) related to the debentures held by key personnel and directors are included in the statement of loss. Interest expenses incurred amounted to \$163 and \$564 (June 2016 - \$376 and \$1,275).

Included in accounts payable and accrued liabilities is \$215,481 (June 2016 - \$292,428) due to directors and key management personnel.

In April 2016, key management personnel and directors of the Company purchased 3,125,000 common shares at \$0.12 per unit (Note 9).

### 17. Financing costs

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Accretion on debentures	49,836	88,049	176,609	298,172
Amortization of financing fees	-	-	-	309,701
Accretion of other liabilities	35,532	40,768	108,221	130,988
Other interest and accretion	-	5,365	173	(17,737)
	85,368	134,182	285,003	721,124

Included in other interest and accretion is accretion associated with Energy Northwest, who contributed services to a wholly owned subsidiary of Eguana in 1998. At September 30, 2016, the Company no longer had an obligation to Energy Northwest due to a limitation period issue.

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### 18. Personnel expenses

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Wages	<b>350,539</b>	293,615	<b>946,390</b>	839,859
Benefits	<b>37,190</b>	34,395	<b>97,861</b>	97,028
	<b>387,729</b>	328,010	<b>1,044,251</b>	936,887

### 19. Supplemental information

The changes in non-cash working capital for the three and nine months ended June 30, 2017 and 2016 is as follows:

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	<b>183,915</b>	76,773	<b>(221,516)</b>	(107,744)
Prepaid expenses and deposits	<b>29,317</b>	31,074	<b>78,268</b>	117,885
Inventory	<b>(17,090)</b>	134,912	<b>(4,034)</b>	(337,100)
	<b>196,142</b>	242,759	<b>(147,282)</b>	(326,959)
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	<b>64,244</b>	(66,591)	<b>(131,589)</b>	355,529
Deferred revenue	<b>204,544</b>	(14,181)	<b>260,553</b>	(29,313)
	<b>464,930</b>	161,987	<b>(18,318)</b>	(743)

### 20. Commitments

At June 30, 2017, Eguana had commitments for the Calgary premise and purchase obligations as follows:

Less than one year	<b>311,000</b>
Between one and five years	<b>262,000</b>
More than five years	-
	<b>573,000</b>

During the quarter, the Company expanded their facility and extended the lease until March 31, 2021.

### 21. Segmented information

#### Major customers

The Company had two customers where sales were greater than 10% of total sales in the nine-month period ended June 30, 2017 (June 2016 - five). The customers had attributed sales of approximately \$177,118 and \$720,578 for the three and nine month periods ended June 30, 2017 (June 2016 - \$244,877 and \$606,479).

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### *Revenue composition*

The Company generated \$178,887 and \$485,103 of revenue from energy storage system sales with a cost of \$172,874 and \$463,263 for the respective three and nine month periods. Revenue from engineering services was \$nil and \$292,654 with a cost of \$nil and \$43,728 incurred in the three and nine month periods ended June 30, 2017. All sales in the prior year were related to the sale of energy storage systems.

For the three and nine month periods ending June 30, 2017, cost of goods sold includes an inventory write-down/(up) of \$nil and \$50,697 (June 2016 –(\$13,352) and \$20,698) .

### **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.

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,167,400 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,128,900 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 recorded amounts for legal disputes from the prior year end.

### **23. Subsequent Event**

Subsequent to quarter end 1,000,000 warrants were converted into the equivalent number of common shares at a price of \$0.0525 per warrant.