Condensed interim consolidated financial statements of

Eguana Technologies Inc.

June 30, 2020

(Unaudited)

Eguana Technologies Inc.

June 30, 2020

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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	**June 30 2020**	September 30 2019
Assets			
Current:			
Cash		**570,560**	480,170
Accounts receivable		**1,307,382**	809,943
Inventory	4	**1,351,841**	2,365,991
Prepaid expenses and deposits		**921,826**	491,022
		4,151,609	4,147,126
Non-current:			
Development costs		**3**	3
Capital assets	5	**465,008**	405,099
Lease assets	22	**392,919**	-
		5,009,539	4,552,228
Liabilities			
Current:			
Accounts payable and accrued liabilities		**4,629,238**	3,970,740
Warranty provision		**483,506**	348,914
Deferred revenue		**259,842**	796,587
Current portion of long-term debt	7	**1,420,418**	1,099,361
Derivative liability	7	**1,052,668**	874,627
Current portion of lease liability	22	**173,382**	-
Current portion of other liabilities	10	**125,406**	105,450
		8,144,460	7,195,679
Non-current:			
Long-term debt	7	**507,713**	1,396,254
Debentures	8	**7,234,478**	3,018,560
Preferred shares	9	**4,139,775**	3,621,769
Lease liability	22	**276,974**	-
Other liabilities	10	**260,249**	340,946
		20,563,649	15,573,208
Shareholders' equity (deficiency)			
Common shares	11	**45,460,773**	45,366,483
Preferred shares	12	**567,155**	567,155
Warrants	14	**2,233,982**	1,187,433
Contributed surplus	15	**10,843,476**	10,679,365
Foreign currency translation reserve		**(192,751)**	(152,888)
Deficit		**(74,466,745)**	(68,668,528)
		(15,554,110)	(11,020,980)
		5,009,539	4,552,228

Going concern (Note 2(b))
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

		Three months ended		Nine months ended	
	Note	**2020**	2019	**2020**	2019
Sales and engineering services	23	**2,179,891**	774,670	**6,620,830**	2,602,457
Cost of goods sold		**1,908,224**	834,804	**5,728,098**	2,497,803
Gross margin		**271,667**	(60,134)	**892,732**	104,654
Expenses					
General and administrative	18	**463,847**	585,803	**1,443,392**	1,894,065
Selling and marketing	18	**503,024**	686,538	**1,568,427**	2,169,412
Product research and development	18	**223,668**	336,485	**631,743**	850,731
Operations		**206,079**	198,977	**641,674**	579,642
		1,396,618	1,807,803	**4,285,236**	5,493,850
Loss before undernoted items		**(1,124,951)**	(1,867,937)	**(3,392,504)**	(5,389,196)
Financing costs	19	**(768,998)**	(400,136)	**(2,120,211)**	(1,069,188)
Unrealized foreign exchange gain (loss)		**130,404**	37,925	**(287,815)**	(55,973)
Other income		**2,310**	1,938	**2,313**	3,242
Net loss		**(1,761,235)**	(2,228,210)	**(5,798,217)**	(6,511,115)
Foreign currency adjustment to equity		**(46,232)**	(24,492)	**(39,863)**	(25,553)
Total comprehensive loss		**(1,807,467)**	(2,252,702)	**(5,838,080)**	(6,536,668)
Loss per common share					
Basic and diluted		**(0.01)**	(0.01)	**(0.03)**	(0.03)
Weighted average number of common shares					
Basic and diluted	11	**227,822,540**	226,943,753	**227,334,325**	223,000,408

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 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, 2019	45,366,483	567,155	1,187,433	10,679,365	(152,888)	(68,668,528)	(11,020,980)
Loss for the period	-	-	-	-	-	(5,798,217)	(5,798,217)
Other comprehensive loss	-	-	-	-	(39,863)	-	(39,863)
Issue of share capital	58,349	-	-	-	-	-	58,349
Warrants issued	-	-	1,135,183	-	-	-	1,135,183
Warrants expired	-	-	(88,634)	88,634	-	-	-
Convertible debenture exercised	35,941	-	-	-	-	-	35,941
Share-based payments	-	-	-	75,477	-	-	75,477
Balance June 30, 2020	**45,460,773**	**567,155**	**2,233,982**	**10,843,476**	**(192,751)**	**(74,466,745)**	**(15,554,110)**
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	-	-	-	-	-	(6,511,115)	(6,511,115)
Other comprehensive loss	-	-	-	-	(25,553)	-	(25,553)
Issue of share capital	698,645	-	-	-	-	-	698,645
Warrants issued	-	-	672,342	-	-	-	672,342
Warrants exercised	144,854	-	(65,951)	-	-	-	78,903
Equity component of preferred shares	-	567,154	-	-	-	-	567,154
Share-based payments	-	-	-	284,754	-	-	284,754
Balance June 30, 2019	**45,366,483**	**567,155**	**1,091,054**	**10,502,212**	**(151,602)**	**(66,039,003)**	**(8,663,701)**

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

		Three months ended		Nine months ended	
	Note	**2020**	2019	**2020**	2019
Operating activities					
Net loss		**(1,761,235)**	(2,228,210)	**(5,798,217)**	(6,511,115)
Share-based payments	15	**22,420**	51,441	**75,477**	284,754
Financing costs	19	**768,998**	400,135	**2,120,211**	1,069,187
Amortization of capital assets	5	**39,992**	45,228	**129,600**	120,078
Amortization of lease assets	22	**49,523**	-	**136,045**	-
Warranty provision		**44,439**	37,166	**134,592**	89,589
Bad debt expense		**-**	397	**-**	397
Unrealized foreign exchange (gain) loss		**(130,404)**	(37,925)	**287,815**	55,973
		(966,267)	(1,731,768)	**(2,914,477)**	(4,891,137)
Net change in non-cash working capital	21	**(689,948)**	734,390	**(381,393)**	35,696
Cash flow used in operating activities		**(1,656,215)**	(997,378)	**(3,295,870)**	(4,855,441)
Financing activities					
Proceeds from issuance of long-term debt	7	**-**	-	**-**	975,040
Cost from modification of long-term debt	7	**-**	-	**(41,691)**	-
Proceeds from issuance of bridge loan	6		-	**280,000**	-
Cost of issuing bridge loan	6		-	**(3,745)**	-
Proceeds from issuance of convertible	8	**-**	3,012,000	**5,000,000**	3,012,000
Cost of issuing convertible debenture	8	**-**	(344,743)	**(104,331)**	(344,743)
Proceeds from issuance of limited partnership units	11	**-**	-	**-**	715,000
Cost of issuing limited partnership units	11	**-**	-	**-**	(16,355)
Proceeds from issuance of preferred shares	9	**-**	-	**-**	3,000,000
Cost of issuing preferred shares	9	**-**	-	**-**	(113,223)
Proceeds on exercise of warrants		**-**	41,102	**-**	78,903
Repayment of bridge loan	6	**(323,741)**	-	**(323,741)**	-
Repayment of long-term debt	7	**(484,417)**	(437,101)	**(909,011)**	(1,025,968)
Repayment of leases	22	**(61,613)**	-	**(177,083)**	-
Repayment of other liabilities	10	**(36,317)**	(36,319)	**(134,543)**	(134,443)
Cash flow from financing activities		**(906,088)**	2,234,939	**3,585,855**	6,146,211
Investing activities					
Capital asset additions	5	**(68,011)**	(29,176)	**(189,509)**	(152,640)
Lease asset additions, net	22	**(10,086)**	-	**(10,086)**	-
Cash flow used in investing activities		**(78,097)**	(29,176)	**(199,595)**	(152,640)
Net change in cash		**(2,640,400)**	1,208,385	**90,390**	1,138,130
Cash, beginning of period		**3,210,960**	1,215,745	**480,170**	1,286,000
Cash, end of period		**570,560**	2,424,130	**570,560**	2,424,130

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, designs and manufactures high performance residential and commercial energy storage systems. Eguana has two decades of experience delivering grid edge power electronics for fuel cell, photovoltaic and battery applications. The Company is a publicly traded company headquartered at 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, 2019 and 2018, 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, 2019 except for the adoption effective October 1, 2019 of IFRS 16, Leases ("IFRS 16") and IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23").

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, 2019 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 24, 2020.

(b) Going concern

These 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, 2020, the Company had not achieved profitable operations since its inception and had accumulated a deficit of $74,466,745 (September 30, 2019 - $68,668,528) and incurred a loss from operations for the nine-month period ended June 30, 2020 of $3,392,504 (2020 - $5,389,196). Whether and when the Company can attain profitability from operations is uncertain. The lack of profitable operations results in material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

At June 30, 2020 the Company has a working capital deficiency of $3,992,851 (September 30, 2019 – $3,048,553).

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 Markets 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

Adoption of new and amended standards

IFRS 16, Leases

Effective October 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The new standard requires a lessee to recognize in the statement of financial position: a liability for future lease payments (the lease liabilities) and an asset for the right to use the underlying leased asset during the lease term (the lease assets).

The Company recognized the initial effect of applying IFRS 16 as an increase in the right-of-use asset in the amount of $551,796, with a corresponding increase to the lease liability in the same amount. The right of use asset was offset with a previously recorded lease inducement of $41,210. Comparative information has not been restated and continues to be reported in accordance with the standards and accounting policies in effect prior to October 1, 2019. For further information refer to note 22.

IFRIC 23, Uncertainty over Income Tax Treatments

Effective October 1, 2019, the Company adopted IFRIC 23, Uncertainty over Income Tax Treatments. There have been no significant changes to disclosures or measurement of income taxes as a result of this application.

Future Accounting Policy Changes

There were no new or amended accounting standards or interpretations issued during the nine months ended June 30, 2020 that are applicable to the Company in future periods.

Stated in Canadian dollars

4. Inventory

	June 30 2020	September 30 2019
Finished goods	**512,247**	1,579,193
Components	**839,594**	786,798
	1,351,841	2,365,991

As at June 30, 2020, $1,249,589 (September 30, 2019 - $2,331,246) of inventory was carried at cost and $102,252 (September 30, 2019 - $34,745) was carried at net realizable value.

5. Capital assets

	Computer equipment and software	Lab equipment	Furniture, equipment and leasehold improvements	Dies and molds	Total
Cost					
Balance October 1, 2019	539,300	1,127,170	399,270	100,911	2,166,651
Additions	12,998	139,514	36,997	-	189,509
Disposals	-	-	-	-	-
Balance June 30, 2020	**552,298**	**1,266,684**	**436,267**	**100,911**	**2,356,160**
Accumulated amortization and impairment					
Balance October 1, 2019	497,188	897,248	286,464	80,652	1,761,552
Amortization	10,822	65,251	33,268	20,259	129,600
Disposals	-	-	-	-	-
Balance June 30, 2020	**508,010**	**962,499**	**319,732**	**100,911**	**1,891,152**
Carrying Value June 30, 2020	**44,288**	**304,185**	**116,535**	**-**	**465,008**

Stated in Canadian dollars

	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	42,841	51,540	37,023	58,197	189,601
Disposals	-	-	-	-	-
Balance September 30, 2019	**539,300**	**1,127,170**	**399,270**	**100,911**	**2,166,651**
Accumulated amortization and impairment					
Balance October 1, 2018	484,174	817,248	244,303	42,714	1,588,439
Amortization	13,014	80,000	42,161	37,938	173,113
Disposals	-	-	-	-	-
Balance September 30, 2019	**497,188**	**897,248**	**286,464**	**80,652**	**1,761,552**
Carrying Value September 30, 2019	**42,112**	**229,922**	**112,806**	**20,259**	**405,099**

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

6. Bridge loan

On November 29, 2019, the Company entered into a short-term bridge financing transaction (“Bridge Loan”) in the amount of $280,000, with certain accredited investors, including the Company’s Chief Executive Officer. The principal amount of the Bridge Loan bore an interest rate of 12.0% per annum for the initial three month period, and 24.0% per annum each month thereafter and held a maturity date of May 29, 2020. The Company had the right to prepay at any time a partial or the entire balance of the Bridge Loan outstanding together with accrued interest, without notice, penalty, or bonus. An administrative fee of 10% on the initial principal amount is due and payable on the earlier of payment or maturity date. On April 7, 2020, the Company repaid the full amount outstanding on the Bridge Loan.

Stated in Canadian dollars

7. Long-term debt and derivative liability

	Derivative liability	Long-term debt		
	Senior Loan	Senior Loan	DHCT	Total
Balance October 1, 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	-	661,487	75,472	736,959
Repayment	-	(1,490,910)	-	(1,490,910)
Debt conversion to preferred shares (note 9)	-	-	(884,183)	(884,183)
Loss on derivative liability	172,314	-	-	172,314
Loss on foreign exchange	-	71,682	-	71,682
Balance September 30, 2019	874,627	2,495,615	-	3,370,242
Loss on debt modification	-	29,314	-	29,314
Fair value allocation to warrant exchange	-	(156,049)	-	(156,049)
Financing cost on debt modification	-	(41,691)	-	(41,691)
Accretion and accrued interest	-	426,258	-	426,258
Repayment	-	(909,011)	-	(909,011)
Loss on derivative liability	178,041	-	-	178,041
Loss on foreign exchange	-	83,695	-	83,695
Balance June 30, 2020	**1,052,668**	**1,928,131**	**-**	**2,980,799**
Less: current portion	**(1,052,668)**	**(1,420,418)**	**-**	**(2,473,086)**
	-	**507,713**	**-**	**507,713**

(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 June 30, 2019, 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.

On December 31, 2019, the Company entered an amendment with the Senior Lender to the original loan agreement, wherein the monthly payments were reduced and comprised of interest only for four months commencing November 1, 2019 through February 1, 2020. The Senior Loan will continue to bear interest at a rate of 12.5% per annum and will now be repaid February 1, 2022. In consideration, 4,161,333 common share purchase warrants were issued on January 22, 2020, at a price of $0.06 per warrant for a period of five years, with an expiry date of January 22, 2025.

The Company has measured the fair value of the warrant derivative liability associated with the original 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 $1,052,668 at June 30, 2020.

(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"), with the loan being due for repayment one month after the final loan payment to the Senior Lender is made, including the interest payment at a fixed annual rate of 8%.

As consideration for the advance of the loan from DHCT, which had a second priority lien on all the assets of Eguana and its material subsidiaries, the Company had 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.

In February, 2019, the Company entered into a loan settlement and conversion agreement whereby 134,860 Series A Preferred Shares were issued to DHCT, to replace the existing $1,300,000 secured loan facility, including $48,606 of accrued interest (notes 9 and 12).

Stated in Canadian dollars

8. Debentures

	Debt component of convertible debenture	Warrant component of convertible debenture (note 14)	Total
Balance October 1, 2018	-	-	-
Convertible debenture	3,364,000	863,000	4,227,000
Fair value of broker warrants	-	142,600	142,600
Transaction costs	(419,836)	(110,416)	(530,252)
Interest	(102,146)	-	(102,146)
Accretion	176,542	-	176,542
Balance September 30, 2019	3,018,560	895,184	3,913,744
Convertible debenture	4,000,000	1,000,000	5,000,000
Transaction costs	(83,465)	(20,866)	(104,331)
Interest	(466,181)	-	(466,181)
Accretion	801,506	-	801,506
Conversion to common shares	(35,942)	-	(35,942)
Balance June 30, 2020	**7,234,478**	**1,874,318**	**9,108,796**

On June 21, 2019, the Company issued 3,012 unsecured convertible debentures ("Debentures") by way of a private placement, at a price of $1,000 per debenture, for total gross proceeds of $3,012,000. Each Debenture is convertible into 6,666.67 common shares and issued with 3,333.33 warrants (note 14). The Debentures bear interest at 10% per annum, paid semi-annually, and mature on June 21, 2022. Beginning on the date that is four months plus one day following the closing date, the Company can require the holders of Debentures to convert Debentures into Units on not less than 30 days' notice in the event that the daily volume weighted average trading price of the Common Shares on the TSXV is greater than $0.30 for any 20 consecutive trading days. The debt component was measured at the issue date at the present value of the cash interest and principal payments using a discount rate of 18% and a three-year term. The difference between the debt component and the face value of the debentures is classified as warrants.

In connection with issuing the debentures, the Company granted 1,405,610 broker warrants and also incurred transaction costs of $344,743. The Black-Scholes option pricing model was used to calculate the fair value of the broker warrants using a nil dividend yield, a 1.40% interest rate and a volatility of 80.3%. The fair market value at issuance was $142,600. Transaction costs, including broker warrants, were allocated on a pro rate basis to the carrying values.

On August 8, 2019, the Company closed the second tranche of the upsized debenture private placement. The Company issued 1,215 non-brokered unsecured convertible debentures at a price of $1,000 per debenture, for total gross proceeds of $1,215,000. Each Debenture is convertible into 6,666.67 common shares and issued with 3,333.33 warrants (note 14). The Company's largest shareholder, DHCT II Luxembourg SARL, subscribed for 1,200 of the total debentures issued. The second tranche of the debentures mature on August 8, 2022, with all other terms remaining identical to the first tranche. The debt component was measured at the issue date at the present value of the cash interest and principal payments using a discount rate of 18% and a three-year term. The difference between the debt component and the face value of the debentures is classified as warrants. In connection with issuing the second tranche of the debentures, the Company incurred transaction costs of $42,909 that were allocated on a pro rate basis to the carrying values.

Stated in Canadian dollars

On February 18, 2020 the Company entered into a shares for debt agreement with DHCT, wherein the Company amended the interest payment schedule of the convertible debenture certificate dated August 8, 2019, held by DHCT. The agreement settled $60,000 of interest due through the issuance 545,454 common shares at a price of $0.11 per share (note 11). The company incurred transaction costs of $1,651.

On March 13, 2020 the Company closed a strategic investment with ITOCHU Corporation (“ITOCHU”) and issued 5,000 unsecured convertible debentures at a price of $1,000 per debenture, for total gross proceeds of $5,000,000. Each Debenture is convertible into 6,666.67 common shares and issued with 3,333.33 warrants (note 14). The Debentures bear interest at 10% per annum, paid semi-annually in cash or additional common shares, and mature on March 13, 2023. The debt component was measured at the issue date at the present value of the cash interest and principal payments using a discount rate of 20% and a three-year term. The difference between the debt component and the face value of the debentures is classified as warrants. In connection with issuing the ITOCHU debentures, the Company incurred transaction costs of $104,331 that were allocated on a pro rate basis to the carrying values.

9. Series A Preferred shares

	Debt component of preferred shares	Equity component of preferred shares (note 12)	Total
Balance October 1, 2018	-	-	-
Preferred Shares	3,300,000	584,183	3,884,183
Transaction costs	(96,194)	(17,029)	(113,223)
Accretion	417,963	-	417,963
Balance September 30, 2019	3,621,769	567,154	4,188,923
Accretion	518,006	-	518,006
Balance June 30, 2020	**4,139,775**	**567,154**	**4,706,929**

On February 7, 2019, the Company issued newly created Series A Preferred Shares for gross proceeds of $3,000,000 with its largest shareholder, DHCT, at a price of $10 per Series A Share. The Company and DHCT also entered into a loan settlement and conversion agreement whereby 134,860 additional Series A shares were issued to replace the existing $1,300,000 secured loan facility (note 7) and accrued interest of $48,606. The 434,860 Series A Preferred Shares are convertible at a price of $0.24 per common share. The Company may force conversion of the Series A Preferred Shares once its TSX-V listed share price is equal to or greater than $0.60 for at least 60 consecutive days. The shares have an 8% annual dividend, accruing automatically, and will be automatically redeemed three years after closing.

Stated in Canadian dollars

Holders of the Series A Preferred Shares may convert, at any time, the Series A Preferred Shares into that number of fully paid and non-assessable common shares equal to the then applicable Series A Redemption Price divided by the conversion price of $0.24 per share. Series A Preferred Shares are automatically converted into common shares if (i) approved by a majority of the Series A Preferred Shares holders or (ii) the Company undertakes an underwritten public offering pursuant to a prospectus or similar document for aggregate proceeds of $20 million. Each holder of Series A First Preferred Shares will be entitled to one vote equal to the number of Common Shares into which his or her Series A First Preferred Shares are convertible at any special or general meeting of the shareholder of the Company.

The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 20% and a three-year term. The difference between the debt component and the face value of the preferred shares is classified as equity (note 12). Transaction costs of $113,223 were allocated on a pro rata basis to the carrying values.

10. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
Balance October 1, 2018	392,118	134,017	526,135
Accretion	79,843	33,390	113,233
Repayments	(157,380)	(38,531)	(195,911)
Loss on foreign exchange	-	2,939	2,939
Balance September 30, 2019	314,581	131,815	446,396
Accretion	46,344	24,239	70,583
Repayments	(115,008)	(19,535)	(134,543)
Loss on foreign exchange	-	3,219	3,219
Balance June 30, 2020	**245,917**	**139,738**	**385,655**
Less: current portion	**(114,087)**	**(11,319)**	**(125,406)**
	131,830	**128,419**	**260,249**

Stated in Canadian dollars

11. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2018	222,711,235	44,522,984
Issuance of common shares	3,575,000	715,000
Partnership unit costs (Note 13)	-	(16,355)
Exercise of warrants (note 14)	657,518	144,854
Balance September 30, 2019	226,943,753	45,366,483
Issuance of common shares (note 8)	545,454	60,000
Issuance costs	-	(1,651)
Exercise of debentures (note 8)	333,333	35,941
Balance June 30, 2020	**227,822,540**	**45,460,773**

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 13).

Weighted average number of common shares

The weighted average number of shares as at June 30, 2020 and June 30, 2019 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

12. Preferred shares

Authorized

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

Holders of the preferred shares may convert, at any time, into that number of fully paid and non-assessable common shares equal to the then applicable Series Redemption Price divided by the conversion price. The conversion for the preferred shares includes a fixed conversion price on the initial subscription plus the conversion of accreted dividends to common shares. The accreted dividend conversion price is based on the closing price of the common shares on the day prior to the conversion.

The fixed conversion price for each of the issued series outstanding as at June 30, 2020 is as follows:

- Series 8 $1.00
- Series A $0.24

Stated in Canadian dollars

Issued

	Number of shares	Amount ($)
Series 8		
Balance October 1, 2018 and September 30, 2019	1	1
Conversion to common shares	-	-
Balance June 30, 2020	**1**	**1**
Series A (note 9)		
Balance October 1, 2018	-	-
Preferred shares issued	434,860	584,183
Transaction costs	-	(17,029)
Conversion to common shares	-	-
Balance September 30, 2019	**434,860**	**567,154**
Conversion to common shares	-	-
Balance June 30, 2020	**434,860**	**567,154**
Total preferred shares June 30, 2020	**434,861**	**567,155**
Total preferred shares September 30, 2019	**434,861**	**567,155**

13. EGT Markets Limited Partnership

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

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

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

In December 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.

In February 2019, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 3,575,000 shares, at an exchange ratio of $0.20 per share (note 11).

Stated in Canadian dollars

14. 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, 2018	19,791,774	1,996,489	21,788,263	484,663
Warrants issued	14,089,988	1,405,610	15,495,598	895,184
Warrants exercised	-	(657,518)	(657,518)	(65,951)
Warrants expired	(7,500,000)	(1,067,138)	(8,567,138)	(126,463)
Balance September 30, 2019	26,381,762	1,677,443	28,059,205	1,187,433
Warrants issued	20,827,999	-	20,827,999	1,135,183
Warrants expired	(8,101,946)	(271,833)	(8,373,779)	(88,634)
Balance June 30, 2020	**39,107,815**	**1,405,610**	**40,513,425**	**2,233,982**

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 (note 7).

As part of the issuance of the two tranches of convertible debentures (note 8) in June 2019 and August 2019, the Company issued 14,089,988 common share purchase warrants which convert into an equal number of shares with an exercise price of $0.20 per common share for a period of three years from the date of the debenture. As partial consideration for services associated with the first tranche of the debenture, 1,405,610 broker warrants were issued with an exercise price of $0.15 and consist of one common share and one-half warrant each. No broker warrants were issued on the second tranche of debentures. Each whole warrant will convert into an equal number of shares with an exercise price of $0.20 per share for a period three years from the date of the debenture.

As consideration for the Senior Loan debt amendment (note 7), the Company issued 4,161,333 warrants to its Senior Lender. He warrants convert into an equal number of shares with an exercise price of $0.06 per common share for a period of five years from the date of the debenture.

As part of the issuance of the strategic investment ITOCHU debentures (note 8) in March 2020, the Company issued 16,666,666 common share purchase warrants which convert into an equal number of shares with an exercise price of $0.20 per common share for a period of three years from the date of the debenture.

Stated in Canadian dollars

Outstanding and exercisable warrants at June 30, 2020 were as follows:

Range of exercise prices	Warrants	Weighted average prices ($)	Weighted average years to expiry
$0.10 - $0.20	39,275,330	0.18	2.61
$0.21 - $0.30	1,238,095	0.21	1.15
Balance June 30, 2020	**40,513,425**	**0.18**	**2.56**

15. 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, 2018	5,864,319	0.29	2,755,264	0.27
Granted	1,990,000	0.20	250,000	0.20
Forfeited	(1,317,267)	(0.26)	(740,000)	(0.26)
Balance September 30, 2019	6,537,052	0.27	2,265,264	0.27
Granted	-	-	500,000	0.09
Forfeited	(350,000)	(0.20)	-	-
Balance June 30, 2020	**6,187,052**	**0.27**	**2,765,264**	**0.24**

Stated in Canadian dollars

The following summarizes information about stock options outstanding as at June 30, 2020:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	5,395,000	0.19	5.47	4,535,009	0.20
$0.31 - $0.40	3,522,316	0.36	3.72	3,522,316	0.36
$0.41 - $0.50	35,000	0.44	3.80	35,000	0.44
Balance June 30, 2020	**8,952,316**	**0.26**	**4.77**	**8,092,325**	**0.27**

The total share-based compensation calculated for the three and nine -months ended June 30, 2020, was $22,420 and $75,477 (2019 – $51,441 and $284,754), respectively.

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.

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.

In March 2019, the Company granted incentive stock options to acquire up to an aggregate of 100,000 common shares at a strike price of $0.205 to the Chief Financial Officer, with an expiry of March 4, 2029. 33,333 of the 100,000 options vest immediately and the remaining two third vesting annually over the next two years.

Subsequent to quarter end, on July 13, 2020, the Company granted incentive stock options to key employees to acquire up to an aggregate of 2,305,000 common shares at a strike price of $0.15 per share, with an expiry of July 15, 2030. Of the options granted, 1,175,000 have been granted to directors and officers of the Company. 758,337 of the 2,305,000 options vest immediately and the remaining two third vest annually over the next two years.

Stated in Canadian dollars

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:

	June 30 2020	September 30 2019
Risk free interest rate	**0.27%**	**1.76 – 2.28%**
Expected volatility (1)	**107%**	**99 – 104%**
Dividend yield	**-**	**-**
Expected life (years)	**3**	**5 – 10**
Weighted average fair value	**0.06**	**0.18**

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

16. 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:

	June 30 2020	September 30 2019
Total shareholders' equity (deficiency)	**(15,554,110)**	(11,020,980)
Cash	**(570,560)**	(480,170)
	(16,124,670)	(11,501,150)

Stated in Canadian dollars

17. 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 two counterparties at June 30, 2020. Approximately 84% of the total accounts receivable is due from those two customers (September 30, 2019 – 79% - two counterparties).

The following table illustrates the Company's receivables:

	June 30 2020	September 30 2019
Trade	**1,252,118**	737,787
Taxation authorities	**55,264**	72,156
	1,307,382	809,943
Less: allowance for doubtful accounts	**-**	-
	1,307,382	809,943

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the nine-month period ended June 30, 2020, there was $nil of bad debts expensed (2019 – $397).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at June 30, 2020 there are $163,325 of financial assets that the Company considers past due (September 30, 2019 - $196,154).

The following is a schedule of trade receivables:

	June 30 2020	September 30 2019
Neither impaired or past due	**1,088,793**	541,633
Past due in the following periods		
31 – 60 days	**57,595**	1,033
61 – 90 days	**57,379**	-
Over 90 days	**48,351**	195,121
	1,252,118	737,787

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 June 30, 2020:

	< 1 Year	**1 – 3 Years**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	4,629,238	-	-	4,629,238
Deferred revenue	259,842	-	-	259,842
Long-term debt	1,735,615	552,253	-	2,287,868
Debentures	1,139,993	10,451,064	-	11,591,057
Preferred shares	-	5,394,170	-	5,394,170
Lease liability	216,972	261,389	75,640	554,001
Other liabilities	199,166	279,674	70,893	549,733
	8,180,826	**16,938,550**	**146,533**	**25,265,909**

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, 2020:

	Australian Dollars	**Euros**	**US Dollars**	**Total**
Cash	25,749	258,417	220,506	504,672
Accounts receivable	20,605	871,378	856,845	1,748,828
Prepaid expenses and deposits	12,925	21,465	743,680	778,070
Accounts payable and accrued liabilities	(95,625)	(1,641,776)	(952,908)	(2,690,309)
Warranty provision	-	(171,504)	-	(171,504)
Deferred revenue	-	1,820	(191,661)	(189,841)
Long-term debt	-	-	(1,928,131)	(1,928,131)
Lease liability	(294,979)	(82,076)	-	(377,055)
Other liabilities	-	-	(139,739)	(139,739)
	(331,325)	**(742,276)**	**(1,391,408)**	**(2,465,009)**

Stated in Canadian dollars

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 $51,000, for the nine-month period ended June 30, 2020 (2019 - $97,356). 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 $24,231 for the nine-month period ended June 30, 2020 (2019 - $37,314). Assuming all other variables remain constant, a $0.05 change in the Canadian/AUD exchange rate would decrease the Company's net loss by approximately $17,661 for the nine-month period ended June 30, 2020 (2019 - $11,881). An opposite change in the Canadian/US exchange rate, the Canadian/Euro exchange rate and the Canadian/AUD 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, 2020.

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 June 30, 2020, is disclosed below by financial instrument category:

	Carrying value	**Fair value**
Accounts receivable	**1,307,382**	**1,307,382**
Accounts payable and accrued liabilities	**4,629,238**	**4,629,238**
Derivative liability	**1,052,668**	**1,052,668**

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, preferred shares and long-term loan were measured at fair value on initial recognition using Level 2 inputs (Notes 7-10) and the derivative liability was measured at fair value using level 3 inputs (Notes 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.

Stated in Canadian dollars

18. 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		Nine months ended	
	2020	2019	**2020**	2019
General and administrative	**108,125**	104,675	**329,538**	333,796
Selling and marketing	**64,716**	61,858	**199,476**	198,442
Product research and development	**15,184**	14,604	**46,637**	43,845
	188,025	181,137	**575,651**	576,083

Share based expenses to officers and a director was $6,624 and $33,573 for the three and nine-months ended June 30, 2020 (2019 - $24,046 and $111,140).

Included in accounts payable and accrued liabilities is $671,793 (September 30, 2019 - $448,135) due to directors and key management personnel.

19. Financing costs

	Three months ended		Nine months ended	
	2020	2019	**2020**	2019
Accretion of debentures	**386,459**	22,676	**801,506**	22,676
Accretion of other liabilities	**21,650**	26,385	**70,583**	85,462
Accretion of long-term debt	**138,827**	164,984	**426,258**	590,687
Accretion of bridge loan	**10,260**	-	**47,486**	-
Accretion of preferred shares	**176,247**	160,340	**518,006**	252,137
Change in fair value on derivative liability	**14,235**	25,751	**178,041**	118,226
Loss on debt modification (note 7)	**-**	-	**29,314**	-
Lease interest	**21,320**	-	**49,017**	-
	768,998	400,136	**2,120,211**	1,069,188

20. Personnel expenses

	Three months ended		Nine months ended	
	2020	2019	**2020**	2019
Wages	**438,356**	635,383	**1,687,113**	1,781,217
Benefits	**73,554**	102,257	**242,573**	219,742
	511,910	737,640	**1,929,686**	2,000,959

Stated in Canadian dollars

21. Supplemental information

The changes in non-cash working capital for the three and nine-months ended June 30, 2020 and 2019 is as follows:

	Three months ended		Nine months ended	
	2020	2019	**2020**	2019
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	**124,207**	202,873	**(526,962)**	(577,187)
Inventory	**153,502**	(111,344)	**1,014,150**	190,564
Prepaid expenses and deposits	**188,682**	47,926	**(466,379)**	(47,832)
	466,391	139,455	**20,809**	(434,455)
(Decrease) increase in liabilities				
Accounts payable and accrued liabilities	**(103,088)**	524,573	**202,448**	444,066
Deferred revenue	**(1,053,251)**	70,362	**(604,650)**	26,085
	(689,948)	734,390	**(381,393)**	35,696

22. Explanation of Transition to IFRS 16

The impact on the Company's statement of financial position at October 1, 2019 as a result of applying IFRS 16 was as an increase in the right-of-use asset in the amount of $551,796, with a corresponding increase to the lease liability in the same amount. In addition to these amounts the corporation also reclassified $41,210 in a lease inducement liability against the right-of-use asset.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted-average incremental borrowing rate at October 1, 2019 of 14.1%. All lease assets were measured based on the amount that would be recognized at October 1, 2019 as if IFRS 16 had been applied at inception of the lease agreement. There

These policies apply to contracts entered into or modified on or after October 1, 2019.

A contract contains a lease if it conveys the right to control the use of a specified asset for a time period in exchange for consideration. To identify a lease, the Company determines whether it has the right to direct the use of the specified underlying asset and also obtains substantially all the economic benefits from its use. The Corporation does not apply the provisions of IFRS 16 to intangible assets.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, significance of other assets (such as leasehold improvements), termination and relocation costs, location characteristics, and any sublease term.

Stated in Canadian dollars

The Company has elected not to recognize lease assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. Fixed lease payments on such leases are recognized in Operating expenses on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the remaining lease payments. It is discounted using the interest rate implicit in the lease. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of certain modifications, changes in payments based on an index or rate, or due to changes in lease term.

The lease asset is recognized at the present value of the liability at the commencement date of the lease, plus initial direct costs. Also included in the lease asset are payments made before the commencement date, incentives received from the lessor, and estimated restoration costs if applicable. The lease asset is subsequently depreciated on a straight-line basis from the commencement date to the end of the lease term. The lease asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company has leases for buildings and vehicles. Lease terms range from 1.5 to 4.5 years. The Company may include purchase, extension or termination options in its leases to accommodate potential changes in the business. After inception of the lease, the Company reassesses expectations about the exercise of renewal or termination options only when a significant event or change in circumstances occurs that is within the Corporation’s control.

Information about the leases for which the Company is a lessee is presented below:

Lease Asset

	Buildings	Vehicles	Total
Carrying amount October 1, 2019	461,902	48,684	510,586
Additions	25,450	-	25,450
Disposal	-	(15,364)	(15,364)
Amortization	(126,271)	(9,774)	(136,045)
Gain on foreign exchange	13,402	(5,110)	8,292
Balance June 30, 2020	**374,483**	**18,436**	**392,919**

Stated in Canadian dollars

Lease Liability

	Total
Balance October 1, 2019	551,796
Accretion	49,017
Repayments	(177,083)
Loss on foreign exchange	26,626
Balance June 30, 2020	**450,356**
Less: current portion	**(173,382)**
	276,974

23. Segmented information

Major customers

The Company had three customers where sales were greater than 10% of total sales in the nine-month period ended June 30, 2020 (2019 – five). The customers had attributed sales of approximately $1,857,279 and $6,148,051 for the three and nine-month period ended June 30, 2020 (2019 - $600,342 and $1,680,644), respectively.

Revenue composition

The Company generated $1,867,835 and $5,572,415 of revenue (2019 - $774,670 and $2,602,457) from energy storage system sales with a cost of $1,845,971 and $5,513,103 (2019 - $834,804 and $2,497,803) for the three and nine-month period ended June 30, 2020, respectively. The Company generated $312,056 and $1,048,415 of revenue (2019 -$nil) from engineering services with a cost of $62,253 and $214,995 (2019 - $nil) for the three and nine-month period ended June 30, 2020, respectively.

Geographic Sales Revenue

	Three months ended		Nine months ended	
	2020	2019	**2020**	2019
Asia	**303,555**	-	**1,039,914**	-
Australia	**46,219**	107,680	**96,689**	432,320
Canada	**-**	-	**1,811**	38,983
Europe	**481,793**	309,416	**1,313,917**	310,539
United States	**1,348,324**	357,574	**4,168,499**	1,820,615
	2,179,891	774,670	**6,620,830**	2,602,457

24. 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 as a result of the cancellation. The collection of the outstanding receivable remains uncertain due to litigation risk 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 also recorded a warranty provision to cover potential warranty claims arising from all sales, including sales to the customer. In the prior 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 ($2,295,028 CAD) in an Alberta court. The Company is disputing 799,000 Euros ($1,195,389 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount in accounts payable. Moreover, the Company has made a counter claim against the contract manufacturer.

There has been no change for the nine months ended June 30, 2020 in the Euro denominated amounts for legal disputes from the prior year ends.

Subsequent to quarter end the Company entered into a settlement agreement with its contract manufacturer, where the Company has agreed to pay: (i) 650,000 Euros, to be paid over a period of 24 months commencing on October 1, 2020; and (ii) 100,000 Euros, to be paid upon the occurrence of certain events, but in any case, no later than June 30, 2022.