Consolidated financial statements of

Eguana Technologies Inc.

December 31, 2022 and September 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eguana Technologies Inc.

Opinion

We have audited the consolidated financial statements of Eguana Technologies Inc. (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and September 30, 2021
- the consolidated statements of net loss and comprehensive loss for the fifteen month period ended December 31, 2022 and the twelve month period ended September 30, 2021
- the consolidated statements of changes in equity for the fifteen month period ended December 31, 2022 and the twelve months ended September 30, 2021
- the consolidated statements of cash flows for the fifteen month period ended December 31, 2022 and the twelve months ended September 30, 2021
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the fifteen month period ended December 31, 2022 and the twelve month period ended September 30, 2021 in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the

"Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the period ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the lower of cost and net realizable value of inventory

Description of the matter

We draw attention to Note 2(d), Note 4(c), and Note 6 to the financial statements. Inventories are stated at the lower of cost or net realizable value. The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. This process requires the use of estimates and significant assumptions related to selling prices. Such assumptions are reviewed quarterly and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on a product-by-product basis except when the product cannot be practically evaluated separately from other products. The Company had an inventory balance of $6,506,486 of which $36,582 was carried at net realizable value. The Company determined that $135,156 of inventory was deemed impaired and written down during the fifteen month period ended December 31, 2022.

Why the matter is a key audit matter

We identified the assessment of the lower of cost and net realizable value of inventory as a key audit matter. There is significant judgment required in evaluating the results of our audit procedures regarding the estimates and significant assumptions used in the lower of cost and net realizable value assessment.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of inventory, we compared the estimated net realizable value used by management in its assessment of the lower of cost and net realizable value to:

- The sale price of the selected inventory realized subsequent to year-end or

- The sale price of the last sales invoice of the selected inventory sold in 2022

We obtained and inspected the inventory subledger and compared a selection of inventory costs at December 31, 2022 to the Company's estimate of the net realizable value and recalculated any applicable inventory write-down.

Evaluation of expected credit loss for accounts receivables
Description of the matter

We draw attention to Note 2(d), Note 4(a), and Note 22 to the financial statements. For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company recognizes an amount equal to the lifetime ECL based on a probability-weighted matrix. The Company applies significant judgment to estimate the ECL provision based on customer-specific factors, expected timing of cash receipts, and discount rates to account for time value of money when required.

The Company had an accounts receivable balance of $14,910,529 at December 31, 2022 of which $4,059,392 is over 90 days past due. The Company has recorded an ECL provision of $1,388,668 at December 31, 2022 to account for the expected timing of cash receipts

Why the matter is a key audit matter

We identified the evaluation of expected credit loss for accounts receivables as a key audit matter. There is significant auditor judgment required in evaluating the results of our audit procedures related to evaluating the expected credit loss for accounts receivables. Additionally, the assessment of the discount rate requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included comparing the expected timing of cash receipts used in the ECL to historical cash collections and customer-specific factors.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate applied by management by comparing to an independently developed discount rate.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so

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would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Jassie Kang.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
May 1, 2023

Eguana Technologies Inc.

Consolidated statements of financial position as at

Stated in Canadian dollars

	Note	**December 31, 2022**	September 30, 2021
Assets			
Current:			
Cash		**15,035,483**	4,603,922
Accounts receivable	22	**13,516,936**	2,511,942
Inventory	6	**7,039,779**	5,894,125
Prepaid expenses and deposits	6	**9,202,248**	930,463
Total current assets		**44,794,446**	13,940,452
Non-current:			
Property and equipment	7	**1,445,765**	498,486
Intangible assets	8	**118,517**	158,023
Right-of-use assets	9	**1,043,901**	317,229
Total assets		**47,402,629**	14,914,190
Liabilities			
Current:			
Accounts payable and accrued liabilities	23	**4,228,700**	3,094,030
Warranty provision	10	**578,859**	460,153
Deferred revenue		**28,284**	95,446
Current portion of long-term debt	11	**3,571,470**	283,239
Derivative liability	11	**2,460,739**	1,270,950
Preferred shares	13	**-**	5,196,678
Current portion of lease liability	15	**257,944**	183,682
Current portion of other liabilities	14	**-**	649,884
Total current liabilities		**11,125,996**	11,234,062
Non-current:			
Long-term debt	11	**7,887,545**	-
Convertible debentures	12	**23,883,187**	-
Lease liability	15	**882,606**	188,825
Total liabilities		**43,779,334**	11,422,887
Shareholders' equity			
Common shares	16	**85,198,770**	75,293,880
Preferred shares	17	**1**	567,155
Warrants	19	**1,665,349**	2,896,568
Equity component of convertible debentures	12	**7,310,746**	-
Contributed surplus	20	**13,727,317**	12,285,282
Foreign currency translation reserve		**(143,392)**	(244,358)
Deficit		**(104,135,496)**	(87,307,224)
Total shareholders' equity		**3,623,295**	3,491,303
Total liabilities and shareholders' equity		**47,402,629**	14,914,190

Subsequent events (Note 31)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

{Signed}
George Powlick, Director

{Signed}
Robert Penner, Director

Eguana Technologies Inc.

Consolidated statements of net loss and comprehensive loss

Stated in Canadian dollars

	Note	**Fifteen months ended December 31, 2022**	Twelve months ended September 30, 2021
Sales and engineering services	29	**16,826,875**	7,174,589
Cost of goods sold		**16,593,656**	6,705,131
Gross margin		**233,219**	469,458
Expenses			
General and administrative	23	**4,795,059**	3,477,835
Selling and marketing	23	**3,026,939**	2,054,753
Product research and development	23	**4,297,211**	1,954,402
Operations	23	**1,543,360**	1,224,912
		13,662,569	8,711,902
Operating Loss		**(13,429,350)**	(8,242,444)
Financing costs	24	**(4,044,091)**	(2,235,611)
Expected credit loss	22	**(1,388,668)**	
Unrealized foreign exchange (loss) gain		**(174,861)**	65,960
Other income		**263,826**	12,051
Net loss before tax		**(18,773,144)**	(10,400,044)
Current tax expense	27	**(238,857)**	-
Deferred tax recovery	27	**2,183,729**	-
Net loss		**(16,828,272)**	(10,400,044)
Foreign currency translation adjustment		**100,966**	(14,658)
Total comprehensive loss		**(16,727,306)**	(10,414,702)
Loss per common share			
Basic and diluted		**(0.04)**	(0.03)
Weighted average number of common shares			
Basic and diluted	16	**393,376,220**	299,257,088

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

Eguana Technologies Inc.

Consolidated statements of changes in equity
For the fifteen-month period ended December 31, 2022

Stated in Canadian dollars

	Common shares	Preferred shares	Warrants	Contributed surplus	Convertible debentures	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2021	75,293,880	567,155	2,896,568	12,285,282	-	(244,358)	(87,307,224)	3,491,303
Net loss for the period	-	-	-	-	-	-	(16,828,272)	(16,828,272)
Foreign currency translation adjustment	-	-	-	-	-	100,966	-	100,966
Equity portion of convertible debentures, net of tax (note 12)	-	-	-	-	7,310,746	-	-	7,310,746
Exercise of preferred shares (note 13)	4,849,910	(567,154)	-	-	-	-	-	4,282,756
Common shares for dividends (note 17)	597,144	-	-	-	-	-	-	597,144
Share issuance costs (note 13)	(11,577)	-	-	-	-	-	-	(11,577)
Warrants exercised (note 16 and 19)	4,393,857	-	(1,260,607)	-	-	-	-	3,133,250
Warrants issued (note 19)	-	-	48,558	-	-	-	-	48,558
Warrants expired (note 19)	-	-	(19,170)	19,170	-	-	-	-
Stock options exercised (note 16 and 20)	75,556	-	-	(32,505)	-	-	-	43,051
Share-based payments (note 20)	-	-	-	1,455,370	-	-	-	1,455,370
Balance December 31, 2022	**85,198,770**	**1**	**1,665,349**	**13,727,317**	**7,310,746**	**(143,392)**	**(104,135,496)**	**3,623,295**

Eguana Technologies Inc.

Consolidated statements of changes in equity

For the twelve-month period ended September 30, 2021

Stated in Canadian dollars

	Common shares	Preferred shares	Warrants	Contributed surplus	Convertible debentures	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2020	45,634,694	567,155	2,488,365	10,989,832	-	(229,700)	(76,907,180)	(17,456,834)
Net loss for the period	-	-	-	-	-	-	(10,400,044)	(10,400,044)
Foreign currency translation	-	-	-	-	-	(14,658)	-	(14,658)
Issue of share capital, net	1,245,513	-	-	-	-	-	-	1,245,513
Issue of common shares for debt, net	340,841	-	-	-	-	-	-	340,841
Issue of special warrants	17,011,015	-	1,056,028	-	-	-	-	18,067,043
Issue of partnership units	909,967	-	-	-	-	-	-	909,967
Warrants issued	-	-	128,808	-	-	-	-	128,808
Warrants exercised	1,934,716	-	(776,633)	-	-	-	-	1,158,083
Stock options exercised	598,063	-	-	(235,813)	-	-	-	362,250
Convertible debentures exercised	7,619,071	-	-	-	-	-	-	7,619,071
Share-based payments	-	-	-	1,531,263	-	-	-	1,531,263
Balance September 30, 2021	**75,293,880**	**567,155**	**2,896,568**	**12,285,282**	**-**	**(244,358)**	**(87,307,224)**	**3,491,303**

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

Eguana Technologies Inc.

Consolidated statements of cash flows

For the years ended December 31, 2022

Stated in Canadian dollars

	Note	**Fifteen months ended December 31, 2022**	Twelve months ended September 30, 2021
Operating activities			
Net loss		**(16,828,272)**	(10,400,044)
Share-based payments	20	**1,455,370**	1,531,263
Financing costs	24	**4,044,091**	2,235,611
Amortization of capital assets and leased assets	7,8,9	**681,758**	322,962
Inventory write down	6	**135,156**	-
Warranty provision	10	**118,706**	(47,776)
Unrealized foreign exchange loss (gain)		**174,861**	(65,960)
Deferred tax recovery		**(2,183,729)**	-
Expected credit loss	22	**1,388,668**	-
Bad debt expense		**22,429**	19,896
		(10,990,962)	(6,404,048)
Net change in non-cash working capital	28	**(22,705,998)**	(8,434,105)
Cash flow used in operating activities		**(33,696,960)**	(14,838,153)
Financing activities			
Proceeds from issuance of long-term debt, net	11	**12,673,888**	-
Proceeds from issuance of convertible debentures, net	12	**32,546,580**	-
Proceeds from issuance of common shares, net	16	**(11,577)**	1,303,402
Proceeds from issuance of Limited Partnership units, net	18	**-**	956,724
Proceeds from issuance of special warrants, net	16	**-**	18,067,043
Proceeds on exercise of warrants	19	**3,181,808**	1,182,245
Proceeds on exercise of stock options	20	**43,051**	362,250
Preferred share dividends paid	13	**(500,000)**	-
Payment of derivative liability	11	**(1,362,100)**	-
Repayment of long-term debt	11	**(1,527,095)**	(1,399,587)
Repayment of leases	15	**(522,919)**	(248,419)
Repayment of other liabilities	14	**(684,551)**	(866,615)
Net change in non-cash working capital	28	**772,110**	-
Cash flow from financing activities		**44,609,195**	19,357,043
Investing activities			
Capital asset additions	7	**(1,189,827)**	(193,055)
Intangible asset additions	8	**-**	(158,023)
Net change in non-cash working capital	28	**119,300**	-
Cash flow used in investing activities		**(1,070,527)**	(351,078)
Effects of exchange rate changes on cash held in foreign currencies		**589,853**	(91,592)
Net change in cash		**10,431,561**	4,076,220
Cash, beginning of period		**4,603,922**	527,702
Cash, end of period		**15,035,483**	4,603,922

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

1. Description of the business

Eguana Technologies Inc. (“the Company”), incorporated under the Alberta Business Corporations Act, designs, markets, manufactures and sells fully integrated energy storage solutions, based on its proprietary advanced power electronics platform, for global residential and commercial markets. The Company also markets and sells a suite of micro inverter products which are integrated with its energy storage platform providing consumers with full solar + storage system architecture for residential and commercial applications. Eguana has two decades of experience delivering grid edge power electronics for fuel cell, photovoltaic and battery applications. The Company is a publicly traded company headquartered at 3636 7th Street SE, Calgary, Alberta, Canada and its shares trade on the TSX Venture Exchange (the “TSX-V”) under the symbol “EGT”.

2. Basis of preparation

(a) Statement of compliance

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

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

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 1, 2023.

(b) Basis of consolidation

The consolidated financial statements of Eguana Technologies Inc. include the accounts of the Company and its wholly owned subsidiaries: Eguana Inc. (formerly Sustainable Energy Systems Inc.), Eguana GmbH, Eguana Pty Ltd., SET Overseas Ltd. Sustainable Energy Europa S.L., and Eguana Americas Inc.

In June of 2022, the Company incorporated a new entity in the United States, Eguana Americas Inc. This entity is wholly owned by Eguana Technologies Inc. and results have been consolidated within these financial statements.

Subsidiaries that are directly controlled by the parent company or indirectly controlled by other consolidated subsidiaries are fully consolidated. All intercompany balances, transactions and income are eliminated.

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The functional currency of Eguana Inc. has been determined to be the Canadian dollar, and the functional currency of Eguana America’s has been determined to the United States dollar. The functional currency of Eguana GmbH and SET Overseas Ltd. Sustainable Energy Europa S.L. has been determined to be the Euro and the functional currency of Eguana Pty Ltd. has been determined to be the Australian Dollar.

(c) Change in Year End

The Board of Directors approved changing the Company’s year end from September 30 to December 31 to have the Company’s year-end financial statements be more comparative with the majority of its industry peers. Consequently, these financial statements for the fifteen months ended December 31, 2022 have been presented with comparative information for the twelve months ended September 30, 2021.

(d) Critical accounting estimates

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

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

i. Valuation adjustments for inventory

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

ii. Measurement of expected credit loss ("ECL") for accounts receivable

The Company's trade and other receivables are typically short-term in nature. The Company recognizes an amount equal to the lifetime ECL based on a probability-weighted matrix. The Company applies significant judgment to estimate the ECL provision based on customer-specific factors, expected timing of cash receipts, and discount rates to account for time value of money when required. The Company also considers historical default rates, forecasted economic conditions in the assessment. The amount of ECLs is sensitive to changes in circumstances of forecasted economic conditions.

iii. Share-based payment transactions

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

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

iv. Long-term debt, convertible debentures and preferred shares

The Company issues long-term debt, convertible debentures and preferred shares which may be comprised of embedded derivatives, debt and equity components. In determining the fair value of the Company's long-term debt, convertible debentures and preferred shares on the date of issuance, and at the date of the consolidated statement of financial position, management uses internally developed models. This method requires the input of a number of assumptions including estimated market rate of interest. These assumptions are determined using management's best estimates and involve inherent uncertainties.

v. Warranty provision

A provision for warranties is recognized when underlying products are sold. The Company determines the provision based on historical experience of failure rate and cost per failure over the life of the warranty. Any changes with respect to these assumptions are revised prospectively at the end of each reporting period.

vi. Income taxes

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

(e) Critical accounting judgements

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

i. Commitments and Contingencies

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

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

ii. Determination of functional currency

In determining the Company's functional currency, the Company assesses each subsidiary's primary economic environment in which the entity operates. The Company analyzes the currency that mainly influences revenues, labor, material and other costs of providing goods or services which is often the currency in which such costs are denominated and settled. The Company also analyzes secondary indicators such as the currency in which funds from financing activities such as equity issuances are generated and the funding dependency of the parent company whose predominant transactional currency is the Canadian dollar for both parent and subsidiaries. Determining the Company's predominant economic environment requires significant judgement.

iii. Inventory

Judgement is required in determining whether net realizable value should be evaluated on a product by product basis or if products cannot be evaluated separately from other products in inventory and should be grouped with similar products.

3. Nature of Operations

The Company has cash of $15.0 million and a working capital surplus of $35.4 million as at December 31, 2022, providing a sufficient source of liquidity, due largely to the Company's financing activities in the year (see notes 11 and 12). The Company continues to rely upon completing equity and debt financings until it is able to start generating profit and positive cash flows from operations in the future in order to pay liabilities and contractual obligations as they come due and enable the Company to continue operations.

4. Significant accounting policies

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

(a) Financial instruments

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions: (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at fair value through other comprehensive income ("FVOCI"). All other financial assets are subsequently measured at their fair values, with changes in fair value recognized in profit or loss ("FVTPL").

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, derivative liability, long-term debt, convertible debentures, preferred shares and other liabilities. Embedded derivatives in the long-term debt are measured at fair value, consistent with the "fair value through profit or loss" classification. Cash, accounts receivable, long term debt, convertible debentures, preferred shares and other liabilities are recognized at amortized cost. Accounts payable and accrued liabilities, other liabilities, long-term debt, convertible debentures and the preferred shares are measured at amortized cost using the effective interest method. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

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

For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

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

(b) Foreign currencies

i. Foreign currency transactions

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

ii. Foreign operations translation

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

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

(c) Inventory

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

(d) Property and equipment

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

Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment and	5 years straight-line
Leasehold improvements	Life of the lease asset
Computer equipment	3 years straight-line
Computer software	1 year straight-line
Lab equipment	3 to 5 years straight-line
Dies and molds	1 year straight-line

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

(e) Intangible assets

Intangible assets consist of costs associated with a licensing agreement and are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Intangible assets are amortized on a straight-line basis over their expected period of benefit as follows:

Licensing agreement	5 years straight-line

Amortization methods and useful lives are reviewed at each reporting period, with the effect of any change in estimates accounted for on a prospective basis.

(f) Research costs

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

(g) Impairment of property and equipment

At each reporting date, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell the asset or the asset's value in use. The value in use is determined by estimating the future cash flows projected to be generated by these assets. These cash flows are discounted at a rate reflecting the estimated time value of money and risk associated with the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Government subsidies

Government subsidies are recognized when there is reasonable assurance that the subsidy will be received, and all the attached conditions will be complied with. Subsidies are recognized by offsetting the related expense in the statement of loss and comprehensive loss on a systematic basis over the periods in which the expenses are recognized for the related costs for which the subsidies are intended to compensate, which in the case of subsidies related to assets requires setting it up as deferred income or deducting it from the carrying amount of the asset.

The Company participated in government programs which are non-repayable government subsidies (Note 26). Assistance related to non-repayable government programs is recorded when there is reasonable assurance that the contribution will be received and all conditions will be complied with. Assistance is presented as a reduction of the related expense or research costs. For repayable government programs, the obligation is treated as a financial liability.

(i) Provisions

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

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical experience. The Company reviews the assumptions used in the determination of the warranty provision on an annual basis.

(j) Share-based payments

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

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit to contributed surplus. Where equity instruments are granted to non-employees they are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured it is measured based on the fair value of the equity instrument granted.

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

Upon exercise of the stock option, the Company issues new shares. The associated fair value amount is reclassified from the contributed surplus to share capital. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(k) Revenue recognition

The Company generates revenue through product sales and engineering services. Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Product revenue

The Company satisfies its performance obligations and recognizes revenue during the reporting period based on delivery of its products, based on the prices stated on purchase orders, net of discounts. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are generally 30 to 60 days from invoice date; however, industry practice and partner relationships can reduce or extend these terms.

Engineering revenue

The Company satisfies its performance obligations and recognizes engineering revenue over time, depicting the pattern of service delivery based on the consulting contract milestones. The related costs are recognized in profit or loss when they are incurred.

(l) Income taxes

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

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

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

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

(m) Loss per share

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

(n) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected patterns of consumption of the future economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Since the Company does not have any debt, its incremental borrowing rate must be estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured whenever there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Cash payments for the principal portion of the lease liability are presented within the financing activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows. Short-term lease payments not included in the measurement of the lease liability are presented within the operating activities of the statement of cash flows.

The Company applies the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

5. New accounting standards issued but not yet effective

Various amendments to existing standards and new accounting requirements have been released that are effective January 1, 2023. The Company does not anticipate the new requirements to have a material impact on the financial statements

Stated in Canadian dollars

6. Inventory

	December 31, 2022	September 30, 2021
Finished goods	**1,086,476**	485,616
Components	**5,953,303**	5,408,509
	7,039,779	5,894,125

As at December 31, 2022, \$7,003,197(September 30, 2021 - \$5,868,589) of inventory was carried at cost and \$36,582 (September 30, 2021 - \$25,536) was carried at net realizable value. \$135,156 of inventory was deemed impaired and written-down for the fifteen-month period ended December 31, 2022 (September 30, 2021 - \$nil). During the fifteen months ended December 2022, Eguana transferred control of \$3.0 million of raw component inventory to its manufacturing partner, Omega EMS (“Omega”). Eguana and Omega announced a manufacturing partnership on November 2, 2021. Included in prepaids and deposits is approximately \$6.8 million of deposits for future inventory purchases.

7. Property and equipment

	Computer equipment and software	Lab equipment	Furniture, equipment and leasehold improvements	Dies and molds	Total
Cost					
Balance October 1, 2021	556,365	1,461,516	436,387	100,911	2,555,179
Additions	9,155	605,899	574,773	-	1,189,827
Balance December 31, 2022	**565,520**	**2,067,415**	**1,011,160**	**100,911**	**3,745,006**
Accumulated amortization and impairment					
Balance October 1, 2021	522,449	1,064,735	368,598	100,911	2,056,693
Amortization	8,249	194,192	40,107	-	242,548
Balance December 31, 2022	**530,698**	**1,258,927**	**408,705**	**100,911**	**2,299,241**
Carrying Value December 31, 2022	**34,822**	**808,488**	**602,455**	**-**	**1,445,765**

Stated in Canadian dollars

	Computer equipment and software	Lab equipment	Furniture, equipment and leasehold improvements	Dies and molds	Total
Cost					
Balance October 1, 2020	552,345	1,272,481	436,387	100,911	2,362,124
Additions	4,020	189,035	-	-	193,055
Disposals	-	-	-	-	-
Balance September 30, 2021	**556,365**	**1,461,516**	**436,387**	**100,911**	**2,555,179**
Accumulated amortization and impairment					
Balance October 1, 2020	511,083	982,959	331,962	100,911	1,926,915
Amortization	11,366	81,776	36,636	-	129,778
Disposals	-	-	-	-	-
Balance September 30, 2021	**522,449**	**1,064,735**	**368,598**	**100,911**	**2,056,693**
Carrying Value September 30, 2021	**33,916**	**396,781**	**67,789**	**-**	**498,486**

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

8. Intangible assets

	Total
Balance October 1, 2020	-
Additions	158,023
Balance October 1, 2021	158,023
Additions	-
Balance December 31, 2022	**158,023**

Accumulated amortization and impairment	
Balance October 1, 2021	-
Amortization	39,506
Balance December 31, 2022	**39,506**
Carrying Value December 31, 2022	**118,517**
Carrying Value September 30, 2021	**158,023**

Stated in Canadian dollars

9. Right-of-use assets

	Buildings	Vehicles	Total
Cost			
Balance October 1, 2021	649,816	46,017	695,833
Additions	1,070,293	56,283	1,126,576
Gain (loss) on foreign exchange	(346)	146	(200)
Balance December 31, 2022	**1,719,763**	**102,446**	**1,822,209**
Accumulated amortization and impairment			
Balance October 1, 2021	346,612	31,992	378,604
Amortization	372,190	27,514	399,704
Balance December 31, 2022	**718,802**	**59,506**	**778,308**
Carrying Value December 31, 2022	**1,000,961**	**42,940**	**1,043,901**

	Buildings	Vehicles	Total
Cost			
Balance October 1, 2020	504,518	28,217	532,735
Additions	152,359	17,784	170,140
Disposals	-	-	-
Gain (loss) on foreign exchange	(7,061)	16	(7,045)
Balance September 30, 2021	**649,816**	**46,017**	**695,833**
Accumulated amortization and impairment			
Balance October 1, 2020	172,387	13,033	185,420
Amortization	174,225	18,959	193,184
Balance September 30, 2021	**346,612**	**31,992**	**378,604**
Carrying Value September 30, 2021	**303,204**	**14,025**	**317,229**

Stated in Canadian dollars

10. Warranty provision

	Total
Balance October 1, 2020	507,929
Increase in provision	132,344
Warranty claims	(52,780)
Expired warranty provision	(27,255)
Change in estimate	(100,085)
Balance October 1, 2021	460,153
Increase in provision	162,190
Warranty claims	(176,000)
Expired warranty provision	(28,734)
Change in estimate	161,250
Balance December 31, 2022	**578,859**

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

11. Long-term debt and derivative liability

	Derivative liability	Long-term debt	Total
Balance October 1, 2020	1,152,000	1,612,822	2,764,822
Accretion and accrued interest	-	147,474	147,474
Repayment	-	(1,399,587)	(1,399,587)
Fair value loss on derivative liability	118,950	-	118,950
Gain on foreign exchange	-	(77,470)	(77,470)
Balance September 30, 2021	**1,270,950**	**283,239**	**1,554,189**
Proceeds from issuance of long-term debt	-	12,830,000	12,830,000
Fair value allocation to warrant exchange	2,056,818	(2,056,818)	-
Financing Cost	-	(156,112)	(156,112)
Accretion and accrued interest	-	1,528,981	1,528,981
Repayment	(1,362,100)	(1,527,095)	(2,889,195)
Fair value loss on derivative liability	495,071	-	495,071
Loss on foreign exchange	-	556,820	556,820
Balance December 31, 2022	**2,460,739**	**11,459,015**	**13,919,754**
Less: current portion	**(2,460,739)**	**(3,571,470)**	**(6,032,209)**
	-	**7,887,545**	**7,887,545**

In December 2017, the Company entered into a loan agreement for general working capital purposes for up to USD$3,000,000 (the "Senior Loan"). The Corporation drew USD$1,500,000 in December 2017, USD$750,000 in August, 2018, and USD$750,000 in October, 2018. Each draw bears interest at a rate of 12.5% per annum, with both principal and interest paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw. On February 1, 2022, the value of the Senior Loan was repaid in full.

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 continued to bear interest at a rate of 12.5% per annum and was repaid on 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 fair value of the amended loan was determined by applying a risk-adjusted rate of 18.1% to discount the contractual cash over the remaining life of the loan.

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. These vested warrants were exchangeable at the option of the holder for USD$1.0 million after the earlier of a liquidity event or September 30, 2021 and were set to expire on December 20, 2022. On December 19, 2022 the holder exchanged the warrants for USD$1.0 million.

On April 1, 2022, the Company entered into a new loan agreement (the “New Senior Loan”) for general working capital for up to USD$10.0 million with Western Technology Investment (the “Lender”). The first USD$5.0 million was available immediately, while the additional USD$5.0 million is available through August 31, 2022 upon the Company achieving revenue of at least CAD$14.0 million between May 1, 2022 and July 31, 2022 and the Company having unrestricted cash of CAD$10.0 at the time of the draw. The New Senior Loan bears interest at a rate of 12% per annum, per draw, with interest only payments being paid during the first six months, followed by both principal and interest being paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw. The Company may prepay the Loan by paying all scheduled but unpaid payments, subject to a scaling discount off future interest owed depending the date of on repayment.

As consideration for the advance of the Loan, the Company has entered into an agreement to issue common share purchase warrants entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company at a price of $0.355 per common share for a period of five years from the date of the Loan, with 50% of the warrants issued immediately and 50% of the warrants issued ratably on subsequent draws made under the Loan, all vesting immediately. The vested unexercised warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event and September 30, 2025, for an amount equal to the sum of: (i) USD$1.5 million; and (ii) the product obtained by multiplying USD$1.5 million by the percentage of the principal amount of the Loan actually advanced by the Lender relative to USD$10.0 million. These warrants are recorded as a warrant derivative liability at fair value through profit or loss.

The Company drew USD$5.0 million on April 7, 2022, resulting in the issuance of 3,700,732 common share purchase warrants and measured the fair value of the warrant derivative liability associated with the New 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 using a discount rate of 20% and the fair value of the warrants. Financing fees of $156,112 were allocated to the long-term loan. The New Senior Loan will be accreted to its face value over the term of the loan using an effective interest rate of 28%.

On August 31, 2022, the Lender waived the financial milestones required under the Loan Agreement for the second tranche of the New Senior Loan and the Company drew the remaining USD$5.0 million. This resulted in the issuance of 1,233,577 common share purchase warrants. The second tranche warrant derivative liability was estimated using the higher of the present value of the warrant exchange payment using a discount rate of 20% and the fair value of the warrants. The second tranche of the New Senior Loan will be accreted to its face value over the term of the loan using an effective interest rate of 15%.

Stated in Canadian dollars

The derivative liability associated with the New Senior Loan is carried at fair value through profit or 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 20% and the cumulative value was determined to be $2,460,739 at December 31, 2022.

12. Convertible Debentures

	Debt component of convertible debentures	Equity component of convertible debentures	Total
Balance October 1, 2021	-	-	-
Convertible debentures	23,374,033	9,625,967	33,000,000
Deferred tax recovery	-	(2,183,729)	(2,183,729)
Transaction costs	(321,928)	(131,492)	(453,420)
Interest	(772,109)	-	(772,109)
Accretion	1,603,191	-	1,603,191
Balance December 31, 2022	**23,883,187**	**7,310,746**	**31,193,933**

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

While the Debentures remains outstanding, at any time following the date that is four months plus one day following the Closing Date, if the Company files a financial statement in respect of a three-month period which reports stable positive net income and the parties mutually agree (such consent not to be unreasonably withheld), ITOCHU will be entitled to convert all or part of the principal amount of the Debentures into common shares at a price of $0.50 per common share. Additionally, beginning on the date that is four months plus one day following the Closing Date, if the Company files a financial statement in respect of a three-month period which reports stable positive net income, the daily volume weighted average trading price of the Common Shares on the TSX-V is greater than $1.00 for any 20 consecutive trading days, and the parties mutually agree (such consent not to be unreasonably withheld), the Company can require ITOCHU to convert the Debentures into Common Shares at a price of $0.50 per Common Share on not less than 30 days’ notice.

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 equity. Financing fees of $453,420 were allocated between the liability and equity portion of the Debentures.

Stated in Canadian dollars

13. Series A Preferred shares

	Debt component of preferred shares	Equity component of preferred shares (note 17)	Total
Balance October 1, 2020	4,322,486	567,154	4,889,640
Accretion	874,192	-	874,192
Balance September 30, 2021	5,196,678	567,154	5,763,832
Accretion	183,222	-	183,222
Conversion of preferred shares	(4,282,756)	(567,154)	(4,849,910)
Dividends paid	(500,000)	-	(500,000)
Dividends converted to shares	(597,144)	-	(597,144)
Balance December 31, 2022	**-**	**-**	**-**

On December 17, 2021, the Company's largest shareholder, DHCT II Luxembourg SARL ("DHCT"), and sole holder of the Series A Preferred shares, elected to convert all outstanding 434,860 Series A preferred shares into 18,119,167 common shares. In respect of the accretive dividend payable on the Series A Shares, the Company paid DHCT $500,000 and issued 1,326,986 common shares at a price of $0.45 for the remaining outstanding dividend amount. Transaction costs of $11,577 were allocated against common shares. Following this transaction and concurrent exercise of warrants (Note 19), DHCT owns greater than 20% of all outstanding common shares of the Company.

14. Other liabilities

	Settlement Agreement	Contingent liability settlement	Legal settlement	Total
Balance October 1, 2020	217,661	124,334	950,651	1,292,646
Accretion	36,229	14,367	149,839	200,436
Repayments	(157,380)	(209,327)	(499,908)	(866,615)
Loss on prepayment of contingent liability	-	75,706	-	75,706
Gain on foreign exchange	-	(5,082)	(47,207)	(52,289)
Balance September 30, 2021	96,510	-	553,375	649,884
Accretion	7,760	-	62,357	70,117
Repayments	(104,270)	-	(580,281)	(684,551)
Gain on foreign exchange	-	-	(35,450)	(35,450)
Balance December 31, 2022	**-**	**-**	**-**	**-**

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

Stated in Canadian dollars

Level 2 valuation techniques with a discount rate of 25%. The settlement agreement was paid in full in June 2022.

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 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 using Level 2 valuation techniques with a discount rate of 27%. In March 2021, the Company paid in full, the settlement of the contingent liability with the third party who provided consulting services. The obligation was fair valued at inception at US$111,879 using Level 2 valuation techniques with a discount rate of 27%. The repayment resulted in a non-cash loss of $75,706.

During the year ended September 30, 2020, the Company entered into a settlement agreement for a legal dispute with a former contract manufacturer who submitted a claim against the Company for 1,534,000 Euros ($2,295,028 CAD) in an Alberta court. The Company disputed 799,000 Euros ($1,195,389 CAD) of the total amount and had recorded the undisputed amount in accounts payable. Pursuant to the settlement, 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. The obligation was fair valued at 577,771 Euros ($905,182 CAD) using Level 2 valuation techniques with a discount rate of 20% and resulted in a gain from legal settlement of $270,686 CAD in September 2020. The legal settlement was paid in full in September 2022.

15. Lease liability

	Total
Balance October 1, 2020	409,558
Addition of lease liability	170,143
Interest	54,920
Repayments	(248,419)
Loss on foreign exchange	(13,695)
Balance September 30, 2021	372,507
Addition of lease liability	1,126,576
Interest	163,509
Repayments	(522,919)
Gain on foreign exchange	877
Balance December 31, 2022	**1,140,550**
Less: current portion	**(257,944)**
	882,606

In November 2021, the Company entered into a new seven-year lease arrangement for its Calgary based head office, resulting in the addition of $1.0 million to its outstanding lease liabilities.

Stated in Canadian dollars

16. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2020	229,291,410	45,634,694
Issuance of common shares	10,000,000	1,500,000
Share issuance costs	-	(254,487)
Issuance of common shares for debt, net (note 11)	801,071	340,841
Issuance of common shares on closing of special warrant	50,000,000	20,000,000
Special warrant private placement costs	-	(2,988,985)
Issuance of partnership units (note 18)	7,665,900	1,150,000
Partnership unit costs (note 18)	-	(240,033)
Exercise of convertible debentures (note 12)	60,180,006	7,619,071
Exercise of warrants (note 19)	8,856,525	1,934,716
Exercise of stock options (note 20)	1,625,000	598,063
Balance September 30, 2021	368,419,912	75,293,880
Issuance of common shares for dividends (note 13)	1,326,986	597,144
Share issuance costs	-	(11,577)
Exercise of warrants (note 19)	15,095,580	4,393,857
Exercise of stock options (note 20)	205,000	75,556
Exercise of preferred shares (note 13)	18,119,167	4,849,910
Balance December 31, 2022	**403,166,645**	**85,198,770**

In November 2020, the Company closed a private placement of 10,000,000 common shares at an issue price of $0.15 per common share, for gross proceeds of $1,500,000. In connection with the offering, the Company incurred transaction costs of $196,598, including agent commissions. The Agents also received 750,000 broker warrants (note 19), which were exercisable at a price of $0.15 per warrant for a period of two years, with an expiry date of November 17, 2022. The fair value of the warrants was determined by using the Black-Scholes option pricing model using a nil dividend yield, a 0.27% interest rate and a volatility of 104.23%. The fair market value at issuance was $57,889, also recognized as part share issuance costs.

On May 11, 2021, the Company filed a short form prospectus in connection with the closing of the $20 million private placement of Special warrants (note 19). Pursuant to the terms, each special warrant was automatically exercised, for no additional consideration, into a common share.

Weighted average number of common shares

The weighted average number of shares as at December 31, 2022 and September 30, 2021 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

Stated in Canadian dollars

17. 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 December 31, 2022 is as follows:

- Series A $0.24

Issued

	Number of shares	Amount ($)
Series 8		
Balance October 1, 2020, September 30, 2021 and December 31, 2022	**1**	**1**
Series A		
Balance October 1, 2020 and September 30, 2021	**434,860**	**567,154**
Preferred shares converted to common shares (note 13)	(434,860)	(567,154)
Total Series A preferred shares December 31, 2022	**-**	**-**
Total preferred shares December 31, 2022	**1**	**1**

18. EGT Markets Limited Partnership

EGT Markets Limited Partnership ("EGTLP") is a previous Alberta limited partnership, which carried on the business of commercializing manufacturing and marketing inverters under license from Eguana and certain of Eguana's subsidiaries. The general partner of EGTLP was Eguana Inc. ("EGI") 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 EGI has full control over the operations of EGTLP, has access to the variable returns through its ownership of the Limited Partnership units and Eguana has at all times the right to acquire all the Limited Partnership Units not held by it directly.

In November 2020, EGTLP issued 1,150 EGT Markets Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $1,150,000. In connection with the issuance, the Company paid the agent a cash commission of $86,250 and issued 574,942 broker warrants (note 19) exercisable at a price of $0.15 per warrant for a period of two years, with an expiry date of November 2, 2022. Legal and other costs of $107,026 related to the issue of the partnership units were incurred. The fair value of the warrants was determined by using the Black-Scholes option pricing model using a nil dividend yield, a 0.26% interest rate and a volatility of 104.72%. The fair market value of the warrants at issuance was $46,757 and was recognized as share issuance costs.

Stated in Canadian dollars

On February 19, 2021, the Company announced that it has exercised its right to acquire all 1,150 limited partnership units in EGTLP issued on November 2, 2020 in exchange for 7,665,900 common shares in the capital of Eguana. The Common Shares issued in exchange for the LP Units were subject to resale restrictions which expired on March 3, 2021.

19. Warrants

Changes in the Company's warrants are as follows:

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value ($)
Balance October 1, 2020	22,441,149	1,401,943	23,843,092	1,509,231
Special warrants issued	50,000,000	3,500,000	53,500,000	18,067,043
Warrants issued	16,666,666	1,513,475	18,180,141	1,107,942
Special warrants converted	(50,000,000)	-	(50,000,000)	(17,011,015)
Warrants exercised	(8,292,758)	(563,767)	(8,856,525)	(776,633)
Balance September 30, 2021	**30,815,057**	**5,851,651**	**36,666,708**	**2,896,568**
Warrants issued	4,934,309	510,604	5,444,913	48,558
Warrants exercised	(10,833,325)	(4,262,255)	(15,095,580)	(1,260,607)
Warrants expired	(3,315,066)	-	(3,315,066)	(19,170)
Balance December 31, 2022	**21,600,975**	**2,100,000**	**23,700,975**	**1,665,349**

On February 25, 2021, the Company announced the closing of a private placement of Special Warrants ("Special Warrants) for gross proceeds of $20 million and issuance of 50 million Special Warrants at a price of $0.40 per Special Warrant, of which 590,000 warrants were purchased by key management personnel. Each Special Warrant is exercisable into one common share without payment of any additional consideration upon certain conditions being met. The Company will use its commercially reasonable efforts to qualify the distribution of the Common Shares issuable upon exercise of the Special Warrants by way of a short form prospectus within 90 days following the closing of the Offering (the "Qualifying Condition"). The securities issued in connection with the Offering were subject to a 4-month hold period from the date of the closing of the Offering, unless the Qualifying Prospectus is filed and receipted within that time. If the Qualifying Condition was not met, each Special Warrant would be exercisable, for no additional consideration and with no further action on the part of the holder thereof, for 1.1 Common Shares.

On May 11, 2021, the Company filed the short form prospectus in connection with the special warrants. Pursuant to the terms, each special warrant was automatically exercised, for no additional consideration, into a common share.

In connection with the special warrant offering, the Company granted the agents 3,500,000 of non-transferable compensation special warrants exercisable into one common share at a price of $0.40 per warrant for a period of 24 months from closing date, and incurred transaction costs, including agent commissions, of $1,932,957. The Black-Scholes option pricing model was used to calculate the fair value of the compensation warrants using a nil dividend yield, a 0.32% interest rate and a volatility of 103.2%. The fair market value at issuance was $1,056,028. Transaction costs, including broker warrants, were netted against the carrying value of the special warrants.

Stated in Canadian dollars

On December 17, 2021, DHCT elected to exercise 4,000,000 common share purchase warrants of the Company at an exercise price of $0.20 per Warrant for gross proceeds to the Company of $800,000.

On April 1, 2022, the Company entered into a new loan agreement (note 5). In consideration for the loan agreement and the amount drawn on the loan the Company has issued 4,934,309 warrants as of December 31, 2022.

During the third quarter of 2022, 7,787,009 warrants were exercised, which were held by the holders of the previously issued convertible debentures, for total proceeds of $1.5 million and 7,787,009 common shares.

Outstanding and exercisable warrants at December 31, 2022 were as follows:

Range of exercise prices	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.01 - $0.20	16,666,666	0.20	0.20
$0.21 - $0.30	-	-	-
$0.31 - $0.40	7,034,309	0.37	3.06
Balance December 31, 2022	**23,700,975**	**0.25**	**1.05**

20. Share based payments

The Company established the Stock Option Plan, which is accounted for as equity settled, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. The 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 36,708,000 options. The shareholders approved the Stock Option Plan on September 16, 2021. 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.

Stated in Canadian dollars

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employee
Balance October 1, 2020	8,457,052	0.24	2,715,264	0.24
Granted	-	-	7,500,000	0.31
Exercised	(375,000)	(0.16)	(1,250,000)	(0.24)
Forfeited	(635,000)	(0.24)	-	-
Balance September 30, 2021	7,447,052	0.24	8,965,264	0.29
Granted	8,985,000	0.33	2,010,000	0.36
Exercised	(205,000)	(0.21)	-	-
Forfeited	(1,330,779)	(0.27)	(200,000)	(0.30)
Balance December 31, 2022	**14,896,273**	**0.31**	**10,775,264**	**0.31**

The following summarizes information about stock options outstanding as at December 31, 2022:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	11,900,000	0.22	4.53	9,771,679	0.20
$0.31 - $0.40	11,011,537	0.38	5.88	6,028,205	0.36
$0.41 - $0.50	2,760,000	0.40	1.49	2,500,000	0.44
Balance December 31, 2022	25,671,537	**0.31**	**4.78**	**18,299,884**	**0.29**

The total share-based compensation calculated for the year ended December 31, 2022, was $1,455,370 (September 30, 2021 – $1,531,263).

In December 2020, the Company entered into an agreement with a capital markets advisory firm under which the firm will provide services over a term of up to 24 months for compensation consisting of incentive stock options to acquire up to an aggregate of 8,000,000 common shares. The incentive stock options are issuable as follows:

- 4,500,000 incentive stock options at a strike price of $0.24 per share, with an expiry of December 4, 2023 upon execution of the agreement (issued in December 2020).
- 1,500,000 incentive stock options at a market-based strike price to be determined if, as and when 8,012 unsecured convertible debentures issued in 2019 and 2020 convert into commons shares. Should these options be issued, they will have a 36-month term (issued in April 2021).
- 1,000,000 incentive stock options at a market-based strike price on the 12-month anniversary date of the advisory firm agreement in December 2021. Should these options be issued, they will have a 36-month term (issued in February 2022).

Stated in Canadian dollars

- 1,000,000 incentive stock options at a market-based strike price on the 18-month anniversary date of the advisory firm agreement in June 2022. Should these options be issued, they will have a 36-month term (issued in June 2022).

In October 2021, the Company granted incentive stock options to acquire up to an aggregate of 4,560,000 common shares. Of the options granted, 3,425,000 were granted to directors and executives of the Company at a strike price of $0.40 per share, with the remainder to employees at a strike price of $0.275 per share.

In January 2021, the Company granted incentive stock options to acquire 1,500,000 common shares at a strike price of $0.35 per share, with an expiry of January 15, 2024.

In April 2021, all remaining convertible debentures were converted and the Company granted incentive stock options to acquire 1,500,000 common shares at a strike price of $0.455 per share, with an expiry of April 23, 2024, under the agreement with the aforementioned capital markets advisory firm. All options granted vested immediately.

In December 2022, the Company granted incentive stock options to acquire up to an aggregate of 4,195,000 common shares. Of the options granted, 2,700,000 were granted to directors and executives of the Company at a strike price of $0.40 per share, with the remainder to employees at a strike price of $0.265 per share.

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

	December 31 2022	**September 30 2021**
Risk free interest rate	**1.57% - 3.14%**	**0.21% – 0.49%**
Expected volatility	**115% - 126%**	**103% – 105%**
Dividend yield	**-**	**-**
Expected life (years)	**3 - 10**	**3**
Weighted average fair value	**0.22 – 0.43**	**0.06 – 0.29**

21. 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 finance and 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 its long-term debt, preferred shares and total shareholders' equity less cash

Stated in Canadian dollars

22. 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 that represent larger than ten percent of total accounts receivable individually at December 31, 2022. Approximately 95% of the total accounts receivable is due from those two customers (September 30, 2021 – 68% - three counterparties).

The following is a schedule of trade receivables:

	December 31 2022	September 30 2021
Neither impaired or past due	**3,052,198**	1,528,496
Past due in the following periods		
31 – 60 days	**1,990,339**	632,826
61 – 90 days	**5,254,563**	9,748
Over 90 days	**4,059,392**	204,609
	14,356,492	2,375,679

The following table illustrates the Company's total receivables:

	December 31 2022	September 30 2021
Trade	**14,356,492**	2,375,679
Taxation authorities	**549,113**	136,263
	14,905,604	2,511,942
Less: expected credit losses	**1,388,668**	-
	13,516,936	2,511,942

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the year ended December 31, 2022, there was $22,429 of bad debts expensed (September 30, 2021 – $19,896).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at December 31, 2022 there are $9,313,955 of financial assets that the Company considers past due (September 30, 2021- $204,609), but collectable.

The Company has one customer that represents 82% of total accounts receivable which at December 31, 2022 has $2,662,164 of total accounts receivable that are over 90 days past due and has been delayed in making payments. As a result, the Company has recorded a provision at December 31, 2022 for $1,388,668 based on the estimated timing of cash receipts adjusted for the time value of money relating to the delayed payments. Management still believes the full amount will be received from the customer.

Liquidity risk

The Company's operating cash requirements, including amounts projected to complete the Company's existing working 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 (note 3).

The following are the contractual undiscounted maturities of financial liabilities at December 31, 2022:

	< 1 Year	1 – 3 Years	3 – 5 Years	Total[2]
Accounts payable and accrued liabilities	4,228,701	-	-	4,228,701
Long-term debt	5,847,120	9,346,522	-	15,193,642
Convertible debentures [1]	2,310,000	36,854,219	-	39,164,219
Lease liability	344,599	681,059	405,218	1,430,876
	12,730,420	**46,881,800**	**405,218**	**60,017,438**

(1) Convertible debentures repayments include interest accrued and due.
(2) No contractual obligations currently exist beyond 5 years.

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows as at December 31, 2022:

	Australian Dollars	Euros	US Dollars	Total
Cash	133,121	138,622	2,334,450	2,606,193
Accounts receivable	313,730	415,521	13,910,299	14,639,550
Accounts payable and accrued liabilities	(192,417)	(415,810)	(4,736,510)	(5,344,737)
Long-term debt	-	-	(11,459,015)	(11,459,015)
Derivative liability	-	-	(2,460,739)	(2,460,739)
Lease liability	(114,204)	(112,933)	-	(227,137)
	140,230	**25,400**	**(2,411,515)**	**(2,245,885)**

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 $68,572for the year ended December 31, 2022 (September 30, 2021 – decrease $22,081). 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 $3,821for the year ended December 31, 2022 (September 30, 2021 – increase $20,850). Assuming all other variables remain constant, a $0.05 change in the Canadian/Australian dollar exchange rate would increase the Company's net loss by approximately $8,492for the year ended December 31, 2022 (September 30, 2021 – increase $5,003). An opposite change in the Canadian/US exchange rate, the Canadian/Euro exchange rate, and the Canadian/Australian dollar exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2022 and September 30, 2021.

Stated in Canadian dollars

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's convertible debentures issuances and other liabilities are on fixed rate borrowing terms, thereby, mitigating this risk. 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 Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash and deposits using Level 1 inputs, the accounts receivable, accounts payable and accrued liabilities, other liabilities, convertible debentures, preferred shares, lease liability and long-term loan were measured at fair value on initial recognition using Level 2 inputs (notes 11-15) and the derivative liability is measured at fair value using Level 2 inputs on initial recognition and subsequent measurement (notes 11). The carrying value of the Company's financial instruments approximates fair value.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

23. Related party transactions

Other than as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions, with directors and key management personnel:

	December 31, 2022	September 30, 2021
Salaries and benefits:		
General and administrative	**600,600**	424,704
Selling and marketing	**261,890**	178,925
Product research and development	**275,047**	68,276
Operations	**146,270**	58,834
	1,283,807	730,739

Included in accounts payable and accrued liabilities is $419,703 (September 30, 2021 - $676,768) due to directors and key management personnel.

Share based payments to directors and key management personnel was $334,538 (note 20) (September 30, 2021 - $71,831).

Stated in Canadian dollars

24. Financing costs

	December 31, 2022	September 30, 2021
Accretion of convertible debentures (note 12)	**1,603,191**	763,933
Accretion of other liabilities (note 14)	**70,117**	200,436
Accretion of long-term debt (note 11)	**1,528,981**	147,474
Accretion of preferred shares (note 13)	**183,222**	874,192
Change in fair value on derivative liability (note 11)	**495,071**	118,950
Loss on prepayment of contingent liability (note 14)	**-**	75,706
Lease interest (note 15)	**163,509**	54,920
	4,044,091	2,235,611

25. Personnel expenses

	December 31, 2022	September 30, 2021
Wages	**4,516,792**	2,463,750
Benefits	**556,860**	349,341
	5,073,652	2,813,091

26. Government grants

On April 1, 2020, Department of Finance Canada announced the Canadian Emergency Wage Subsidy (“CEWS”), which would subsidize 75% of employee wages, retroactive to March 15, 2020, to Canadian employers whose business had been affected by COVID-19 to enable them to re-hire workers previously laid off as a result the pandemic, help prevent further job losses, and to better position companies to resume normal operations following the crisis. Under this program, the Company applied for a wage subsidy of $230,478 for the period October 1, 2020 to September 30, 2021, which has been accounted for as a reduction in wages (note 25) included in personnel expenses. The Company did not apply for this wage subsidy in fiscal 2022.

On November 2, 2020, Department of Finance Canada announced the Canadian Emergency Rent Subsidy (“CERS”), which would cover part of commercial rent or property expenses, for the period of September 27, 2020, until October 23, 2021, to Canadian employers whose business had been affected by COVID-19. Under this program, the Company applied for a rent subsidy $22,787 for the period of October 1, 2020 to September 30, 2021. The Company did not apply for this wage subsidy in fiscal 2022.

Stated in Canadian dollars

27. Income taxes

Reconciliation of effective tax rate:

	2022	2021
Loss for the year	**(18,733,145)**	(**10,400,044**)
Rate	**23.00%**	23.00%
Expected income tax recovery	**(4,317,823)**	(2,392,010)
Differences resulting from:		
Non-deductible expense	**630,610**	376,769
Tax rate differentials	**(32,219)**	(33,146)
Non-capital losses expired	**-**	45,840
Impact of partnership dissolution	**(1,418,123)**	-
Share-based payments	**334,735**	352,190
Tax on preferred share dividends	**238,858**	-
Change in unrecognized deferred tax assets	**2,619,090**	1,650,357
Total income tax recovery	**(1,944,872)**	-

Unrecognized deferred tax assets:

	2022	2021
Development costs and capital assets	**27,922**	30,127
Non-capital loss carry-forwards	**15,386,787**	14,362,875
Capital loss carry-forwards	**1,418,123**	-
Other	**1,017,682**	1,198,169
Expected credit loss	**319,394**	-
Share issue costs	**447,393**	509,081
	18,617,301	16,100,252
Assets not recognized	**(18,617,301)**	(16,100,252)
	-	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits. At December 31, 2022, the Company has approximately $70.8 million (2021 - $58.2 million) in Canadian non-capital loss carry-forwards available. The unused losses will expire between 2026 and 2041. The Company has approximately $12.3 million (2021 – nil) in Canadian capital loss carry-forwards available that can be carried forward indefinitely.

At December 31, 2022, the Company has approximately $0.8 million (2020 - $0.4 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2022 and 2039. At December 31, 2022, the Company has approximately $2.1 million (2020 - $2.0 million) in Europe non-capital loss carry forward available. The unused losses will expire between 2023 and 2039. At December

Stated in Canadian dollars

31, 2022, the Company has approximately $2.0 million (2020 - $1.3 million) in Australian non-capital loss carry forward available that can be carried forward indefinitely.

28. Supplemental information

The changes in non-cash working capital for the years ended December 31, 2022 and September 30, 2021 are as follows:

	December 31, 2022	September 30, 2021
Increase (decrease) in assets and liabilities		
Operating activities		
Accounts receivable	**(12,625,149)**	(1,863,529)
Inventory	**(1,280,810)**	(4,350,020)
Prepaid expenses and deposits	**(8,249,315)**	(704,277)
Accounts payable and accrued liabilities	**(483,356)**	(1,019,871)
Deferred revenue	**(67,368)**	(496,408)
	(22,705,998)	(8,434,105)
Financing activities		
Accounts payable and accrued liabilities	**772,110**	-
Investing activities		
Accounts payable and accrued liabilities	**119,300**	-
	(21,814,588)	(8,434,105)

29. Segmented information

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

Major customers

The Company had two customers where sales were greater than 10% of total sales in the year ended December 31, 2022 (September 30, 2021 – one). The customers had attributed sales of approximately $16,609,768 for the year ended December 31, 2022 (September 30, 2021 - $4,131,929).

Revenue composition

	December 31, 2022	September 30, 2021
Revenue		
Advanced power electronics	**16,826,875**	7,129,037
Engineering	**-**	45,553
Cost		
Advanced power electronics	**16,593,656**	6,688,726
Engineering	**-**	16,405

Stated in Canadian dollars

Geographic Sales Revenue

	December 31, 2022	September 30, 2021
Asia	**-**	41,367
Australia	**271,488**	193,990
Canada	**-**	19,095
Europe	**155,147**	583,914
United States	**16,400,240**	6,336,223
	16,826,875	7,174,589

30. 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. In 2018, the customer made a counter claim against the Company.

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

31. Subsequent events

In March 2023, ITOCHU purchased 16,666,666 common shares of the Company through the exercise of their remaining share purchase warrants (note 19), for aggregate consideration of $3,333,333.

Additionally, on March 16, 2023, ITOCHU and Eguana have agreed to convert $1,145,507 of interest owing under the Company's 7% unsecured convertible debentures into 4,242,617 common shares of Eguana in full satisfaction of the interest payment due on March 1, 2023.

In February 2023, Eguana Pty Ltd entered into an agreement with SOLARLAB Pty Ltd to acquire the SOLARLAB solar installation business and assets, subject to certain conditions being satisfied. The business and assets are to be acquired for total consideration, including potential earn out amounts, of AUD 250,000 (subject to completion adjustments) plus the assumption of a portion of SOLARLAB business' debts. The expected effective time of closing is June 2023.