

Condensed interim consolidated financial statements of

Eguana Technologies Inc.

December 31, 2015

(Unaudited)

Eguana Technologies Inc.

December 31, 2015

Table of contents

Notice to reader.....	2
Unaudited condensed interim consolidated statements of financial position	3
Unaudited condensed interim consolidated statements of loss and comprehensive loss	4
Unaudited condensed interim consolidated statements of changes in equity.....	5
Unaudited condensed interim consolidated statements of cash flows.....	6
Notes to the unaudited condensed interim consolidated financial statements.....	7 - 26

NOTICE TO READER

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

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

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

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars

Unaudited

	Note	December 31, 2015	Recast Note 25 September 30, 2015
		\$	\$
Assets			
Current:			
Cash		1,136,298	2,502,459
Cash held in trust		-	903,818
Accounts receivable and advances		378,302	204,665
Inventory	3	698,779	376,646
Other assets - current portion		118,100	118,100
Prepaid expenses and deposits		139,730	200,973
		2,471,209	4,306,661
Non-current:			
Other assets		157,466	191,601
Development costs		3	3
Capital assets	4	358,218	377,550
		2,986,895	4,875,815
Liabilities			
Current:			
Accounts payable and accrued liabilities		3,570,564	3,364,843
Provisions		252,905	248,870
Bank debt	5	-	1,460,855
Deferred revenue		73,889	110,321
Energy Northwest obligation - current portion	6	151,568	177,243
Government grant obligation - current portion	7	48,188	64,363
Debentures - current portion	8	816,980	773,588
Other liabilities - current portion	9	50,594	61,311
		4,964,687	6,261,394
Non-current:			
Deferred lease inducement		35,100	39,000
Debentures	8	1,014,729	1,147,398
Other liabilities	9	639,649	642,958
		6,654,165	8,090,750
Shareholders' equity (deficiency)			
Common shares	10	33,367,168	32,681,242
Preferred shares	11	1	1
Warrants	13	1,772,777	1,795,774
Contributed surplus	14	7,929,599	7,840,675
Foreign currency translation reserve		(134,369)	(128,834)
Deficit		(46,602,445)	(45,403,793)
		(3,667,269)	(3,214,935)
		2,986,895	4,875,815

Going concern (Note 2(b)), Commitments (Note 21) and Subsequent events (Note 24)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of loss and comprehensive loss For the three month periods ended December 31,

Stated in Canadian dollars
Unaudited

	Note	2015	2014
		\$	\$
Sales		228,376	1,541,505
Cost of goods sold		301,289	1,577,596
Gross margin		(72,913)	(36,091)
Expenses			
General and administrative	17, 19	462,763	518,834
Operations	17	124,203	203,244
Product research and development	17	136,007	139,427
Selling and marketing		229,394	161,208
		952,367	1,022,713
Loss before undernoted items		(1,025,280)	(1,058,804)
Financing costs	18	(154,944)	(437,700)
Loss on debentures		(18,433)	-
Other income		5	362
Net loss		(1,198,652)	(1,496,142)
Foreign currency adjustment to equity		5,535	5,831
Total comprehensive loss		(1,193,117)	(1,490,311)
Loss per common share			
Basic and diluted		(0.01)	(0.03)
Weighted average number of common shares			
Basic and diluted	10	151,005,323	46,697,113

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity

For the three month periods ended December 31,

Stated in Canadian dollars

Unaudited

	Share Capital	Preferred Shares	Contributed Surplus	Warrants	Deficit	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, October 1, 2015	32,681,242	1	7,840,675	1,795,774	(45,403,793)	(128,834)	(3,214,935)
Loss for the period	-	-	-	-	(1,198,652)	-	(1,198,652)
Other comprehensive gain(loss)	-	-	-	-	-	(5,535)	(5,535)
Share capital to be issued	685,926	-	-	12,223	-	-	698,148
Warrants expired	-	-	53,412	(53,412)	-	-	-
Warrants issued	-	-	-	18,192	-	-	18,192
Share based payments	-	-	35,512	-	-	-	35,512
Balance, December 31, 2015	33,367,168	1	7,929,599	1,772,777	(46,602,445)	(134,369)	(3,667,269)
Balance, October 1, 2014	11,003,187	10,190,861	7,717,069	1,177,008	(36,614,985)	(96,099)	(6,622,959)
Loss for the period	-	-	-	-	(1,496,142)	-	(1,496,142)
Other comprehensive gain(loss)	-	-	-	-	-	(5,831)	(5,831)
Issue of share capital	3,888,830	-	-	-	-	-	3,888,830
Share capital to be issued	257,495	-	-	-	-	-	257,495
Conversion of preferred shares	14,647,134	(10,190,860)	-	-	-	-	4,456,274
Warrants issued	-	-	396,416	-	-	-	396,416
Warrants expired	-	-	65,331	(65,331)	-	-	-
Share based payments	-	-	10,117	-	-	-	10,117
Balance, December 31, 2014	29,796,646	1	8,188,933	1,111,677	(38,111,127)	(101,930)	884,200

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

Eguana Technologies Inc.

Condensed interim consolidated statements of cash flows

For the three month periods ended December 31,

Stated in Canadian dollars

Unaudited

	Note	2,015	2014
		\$	\$
Operating activities			
Net loss		(1,198,652)	(1,496,142)
Amortization of capital assets		23,456	15,735
Amortization of deferred lease inducement		(3,900)	(3,900)
Write down of inventory		64,321	-
Share-based payments		35,512	10,117
Warranty provision		4,035	-
Finance costs		154,944	437,700
Loss on debentures		18,433	-
Investor relation expense		18,192	108,360
Unrealized foreign exchange loss (gain)		4,826	(1,066)
		(878,833)	(929,196)
Net change in non-cash working capital	20	(330,217)	86,839
Cash flow used in operating activities		(1,209,050)	(842,357)
Financing activities			
Bank loan		(1,460,855)	(955,104)
Proceeds from common shares		-	4,817,371
Proceeds from limited partnership units		747,000	314,000
Cost of issuing common shares and limited partnership units		(48,851)	(419,707)
Repayment of government contribution		(19,500)	(17,500)
Repayment of debentures		(194,500)	(345,000)
Repayment of other liabilities		(56,640)	-
Cash financing costs paid		(23,460)	(60,790)
Cash flow from financing activities		(1,056,806)	3,333,270
Investing activities			
Capital asset additions		(4,124)	(146,081)
Cash flow used in investing activities		(4,124)	(146,081)
Foreign exchange on cash held in foreign operations		-	1,021
Net change in cash		(2,269,980)	2,345,853
Cash, beginning of period		3,406,277	55,960
Cash, end of period		1,136,298	2,401,813

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

1. Description of the business

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

On October 29, 2013, the shareholders of the Company approved a change of name of the Company to Eguana Technologies Inc. from Sustainable Energy Technologies Ltd.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2015, which were prepared in accordance with IFRS. These unaudited condensed interim financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the audited consolidated financial statements for the year ended September 30, 2015.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the September 30, 2015 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on February 25, 2016.

(b) Going concern

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

At December 31, 2015, the Company had not achieved profitable operations since its inception and had an accumulated a deficit of \$46,645,424 (2014 - \$38,111,127) and recognized a cash flow deficiency from operations for the period ended December 31, 2015 of \$1,209,048 (2014 - \$842,357). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

The Company currently has a working capital deficit of \$2,022,440 (2015 - \$1,954,733).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

2. Basis of preparation (continued)

(b) Going concern (continued)

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

These consolidated financial statements do not include any adjustments, which could be significant to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to obtain equity or debt financings or generate profitable operations in the future. Failure to continue as a going concern would require the restatement of assets, liabilities and shareholders' deficiency on a liquidation basis, which could differ materially from the going concern basis.

(c) Recently adopted accounting standards

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2015

In addition, accounting standard changes that the Company will be required to adopt in future years include IFRS 15 which replaces IAS 18 Revenue and related interpretations. The core principle of the new standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on January 1, 2018, with early adoption permitted. The Corporation continues to evaluate the impact of these standards on its consolidated financial statements

3. Inventory

	December 31, 2015	September 30, 2015
	\$	\$
Finished goods	220,861	180,417
Components	477,918	196,230
	698,779	376,647

As at December 31, 2015, \$396,694 (September 2015 - \$281,581) of inventory was carried at cost and \$302,085 (September 2015 - \$95,065) was carried at net realizable value. During the quarter, as a result of operations conducted in the quarter the Company wrote up \$47,005 of inventory that was previously written down to its net realizable value. Additionally, the Company wrote off \$111,326 (September 2015 - \$1,251,263) of inventory due to the termination of the contract with a major customer of the Company's.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

4. Capital assets

	December 31, 2015	September 30, 2015
	\$	\$
Carrying value		
Computer equipment and software	14,708	15,007
Lab equipment	279,468	292,174
Furniture, equipment and leasehold improvements	64,042	70,369
Dies and molds	-	-
	358,218	377,550

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	472,766	893,592	228,801	42,714	1,637,873
Additions	2,424	1,699	-	-	4,123
Disposals	-	-	-	-	-
Balance December 31, 2015	475,190	895,291	228,801	42,714	1,641,996

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	457,759	601,418	158,432	42,714	1,260,323
Amortization	2,723	14,405	6,327	-	23,455
Disposals	-	-	-	-	-
Balance December 31, 2015	460,482	615,823	164,759	42,714	1,283,778

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

4. Capital assets (continued)

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

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

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

As at December 31, 2015 \$28,767 (September 30, 2015 - \$28,767) of lab equipment additions had not been paid for and the amount owing has been included in accounts payable and accrued liabilities.

5. Bank debt

During the quarter, the Company repaid the outstanding line of credit with proceeds from the shares issued in September 2015 (Note 10) and canceled the operating line of credit.

6. Energy Northwest obligation

	December 31, 2015	September 30, 2015
	\$	\$
Obligation to Energy Northwest - current (\$104,401 US; September 2015 - \$129,285 US)	151,568	177,243

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

6. Energy Northwest obligation (continued)

Energy Northwest (formerly “Washington Public Power Supply System”) made contributions of services to Sustainable Energy Laboratories (“SEL”) towards the development of SEL’s step wave power conversion technology valued at US\$182,178. Under its agreement with SEL, Energy Northwest is entitled to annual compensation for such contribution in an amount equal to 10% of SEL’s gross monthly sales in any year; provided, however, that the compensation payable in any year is not to be less than US\$7,000 and not more than 20% of Energy Northwest’s total contribution plus interest calculated at an annual (APR) rate of 20% of the outstanding balance unpaid at the end of the year. Compensation payments were to be completed by January 1, 2016. The obligation is unsecured.

7. Government grant obligation

The Company entered into an agreement with the National Research Council (“NRC”) to fund 60% of the salaries the Company incurs to commercialize the universal electronic platform to a maximum of \$245,241. The Company has received the maximum amount of the funding. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the National Research Council has recovered one and a half times the amount advanced to the Company or for a period of eleven years after the beginning of the repayment schedule. The remaining payable or potentially payable under the agreement is \$249,940 (September 30, 2015 - \$64,363).

During fiscal 2015, the Company was informed by the Government agency that the required repayment of the grant was the amount of the unpaid grant and not one and one half time the amount of the grant. Consequently, to reflect this change in cash flow the estimated amount repayable has been reduced by \$87,796.

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

	December 31, 2015	September 30, 2015
	\$	\$
Government grant (NRC) - current	48,188	64,363

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

8. Debentures

	Debt component of debenture	Embedded derivative	Warrant component of debenture	Total
	\$	\$	\$	\$
Balance at October 1, 2014	2,385,124	196,000	110,330	2,691,454
Accretion	423,821	-	-	423,821
Loss (gain) on change in cash flow	(410,109)	94,655	-	(315,454)
Repayments	(608,743)	(159,761)	-	(768,504)
Balance at September 30, 2015	1,790,093	130,894	110,330	2,031,317
Accretion	110,250	-	-	110,250
Loss on change in cash flow	18,433	-	-	18,433
Repayments	(212,519)	(5,441)	-	(217,960)
Balance at December 31, 2015	1,706,257	125,453	110,330	1,942,040
Less: current portion	(691,527)	(125,453)	-	(816,980)
	1,014,730	-	110,330	1,125,060

On June 29, 2012, the Company issued \$800,000 in 5-year subordinated debentures ("Debentures") at an original issue discount of 12.5%, to net the Company \$699,875. The Debentures bear interest at a rate of 3% per annum, plus an amount equal to 0.8% of the unaudited condensed interim unaudited condensed interim consolidated revenues realized by the Company, both of which are payable on a quarterly basis during the term of the Debenture. The Debenture is callable by the Company at par at any time after the third anniversary of issue. Purchasers of the Debentures have also been issued 280,000 restricted common shares of the Company, which shares will be released on a quarterly basis over a 2 year period following issuance. The restricted common shares were valued at the residual amount of \$140,000. The Debentures are secured by a general security agreement. The principal amount of \$800,000 is repayable in 12 equal quarterly payments commencing September 30, 2014. The Company incurred transaction costs related to the issue of the debentures of \$39,902. The effective interest rate on the Debentures is estimated to be 25.83%. On December 21, 2014, the Company repaid the remaining amount owing on a \$46,000 debenture to a key person of the Company (Note 17).

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars
Unaudited

8. Debentures (continued)

The effective interest rate on the Debentures is estimated to be 24.14%. On December 21, 2014 the Company repaid \$240,000 of Debentures to directors and key personnel (Note 17).

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

9. Other liabilities

	Settlement agreement	Contingent liability settlement	Total
	\$	\$	\$
Balance at October 1, 2015	563,572	140,697	704,269
Accretion	28,146	9,642	37,788
Repayments	(56,640)	-	(56,640)
Loss (gain) on foreign exchange	-	4,826	4,826
Balance at December 31, 2015	535,078	155,165	690,243
Less: current portion	(41,797)	(8,797)	(50,594)
	493,281	146,368	639,649

In August 2015, the Company entered into a Settlement Agreement with its former CEO, who is also a director of the Company (Note 17), 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 October 1, 2015. The Company's liability was valued at \$563,571 using Level 2 valuation techniques with a discount rate of 25%.

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

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

9. Other liabilities (continued)

During the quarter, the Company settled a contingent liability totaling approximately US\$ 696,294 with a third party who performed consulting services in fiscal 1998 to a subsidiary of the Company, agreeing to pay US\$ 31,658 (\$42,422) per year (payable semi-annually) for a period of 10 years. The obligation is unsecured and was fair valued at US\$111,879 (\$155,165) using Level 2 valuation techniques with a discount rate of 27%. Conditions existed at the balance sheet date that required the liability to be recognized in the 2015-yearend financial statements.

10. Common shares

Authorized, unlimited number

	Number of shares	Amount \$
Balance, October 1, 2014	38,231,519	11,003,187
Conversion of preferred shares	28,764,481	14,647,134
Issuance of common shares	83,057,903	8,334,872
Share issuance costs	-	(1,561,446)
Common shares issued in exchange for partnership units (Note 12)	951,420	314,000
Partnership unit costs	-	(56,505)
Balance, September 30, 2015	151,005,323	32,681,242
Common shares to be issued (Note 12)	-	747,000
Partnership unit costs (Note 12)	-	(61,074)
Balance, December 31, 2015	151,005,323	33,367,168

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

In December 2014, the Company issued 16,057,903 common shares at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 5 years from the closing date at a price of \$0.39 per common share. The commissions paid were \$314,116. As partial compensation, 775,220 agent warrants were issued at a price of \$0.30 for a period of two years with a fair market value of \$192,177 and 271,833 agent warrants were issued at a price of \$0.39 for a period of five years with a fair market value of \$88,634. Other costs of \$351,517 related to the issue of the units were also incurred bringing the total costs on issuance to \$946,444. Key personal and directors of the Company purchased 1,100,000 common shares.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

10. Common shares (continued)

In February 2015, Eguana exercised its right to convert the partnership units to common shares of Eguana and issued 951,420 shares. The cost to issue and the partnership units totaled \$56,505 (Note 12).

On September 29, 2015, the Company issued 67,000,000 common shares at a price of \$0.0525 per share for gross proceeds of \$3,517,500. Commissions paid were \$115,268. As partial compensation, 4,690,000 agent warrants were issued at a price of \$0.0525 for a period of three year with a fair market value of \$313,616. Other costs of \$138,214 related to the issue of the units were also incurred bringing the total costs on issuance to \$567,098. Key personnel and directors of the Company purchased 2,826,190 common shares.

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

In February 2016, Eguana exercised its right to convert the partnership units to common shares of Eguana and issued 6,790,977 shares. The cost to convert the partnership units and issue the shares totaled \$61,074 (Note 12).

Weighted average number of common shares

The weighted average number of shares for December 31, 2015 and September 30, 2015 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

11. Preferred shares

Authorized

An unlimited number of voting preferred shares issuable in a series, redeemable at the option of the Company at the then redemption price, if within the 90 day period preceding the date of notice of redemption, the weighted average trading price has exceeded \$6.00 per share for at least 30 consecutive trading days and the average trading volume for such 30 consecutive trading days is at least \$200,000, subject to the prior right of holders to exercise their right to convert the Preferred Shares into common shares.

Holders of preferred shares are entitled to receive as and when declared by the Board of Directors annual dividends of 8% of the then applicable Series Redemption Price payable semi-annually. In the event the annual 8% dividend is not declared and paid, such dividend shall be accretive to the Redemption Price.

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, 2014 is as follows:

Series 7	\$1.50	Series 8	\$1.00	Series 9	\$1.55	Series 10	\$1.40	Series 11	\$1.15
Series 12	\$0.80	Series 13	\$0.40	Series 14	\$0.105	Series 15	\$0.12		

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

12. EGT Markets Limited Partnership

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

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

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

In December 2014, EGTLP issued 314 Limited Partnership units at a price of \$1,000 per unit resulting in gross proceeds of \$314,000. The commissions paid on the issuance were \$21,980. As partial compensation, 66,598 finders’ warrants were issued with a fair market value of \$7,245 (Note 13). The warrants have an exercise price of \$0.33 and expire one year from issuance. Other costs of \$27,280 related to the issue of the partnership units were also incurred bringing the total costs on issuance to \$56,505. On February 20, 2015, Eguana exercised its right to convert the units to common shares of Eguana and issued 951,420 shares (Note 10).

In December 2015, EGTLP issued 747 Limited Partnership units at a price of \$1,000 per unit resulting in gross proceeds of \$747,000. The commissions paid on the issuance were \$23,850. As partial compensation, 216,820 finders’ warrants were issued with a fair market value of \$12,223 (Note 13). The warrants have an exercise price of \$0.11 and expire on December 31, 2016. Other costs of \$25,000 related to the issue of the partnership units were also incurred bringing the total costs on issuance to \$61,073.

The Limited Partnership units are exchangeable for 6,790,977 common shares of Eguana after December 31, 2015, at an exchange ratio of \$0.11 per share. February 2016, Eguana exercised its right to convert the units to common shares of Eguana and issued 6,790,977 shares (Note 10/24).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

13. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				\$
Balance October 1, 2014	7,815,949	381,127	8,197,076	1,177,008
Warrants expired	-	(241,967)	(241,967)	(65,332)
Warrants issued	8,101,946	6,203,651	14,305,597	684,098
Balance September 30, 2015	15,917,895	6,342,811	22,260,706	1,795,774
Warrants expired	(2,309,688)	(205,758)	(2,515,446)	(35,220)
Warrants issued	-	216,820	216,820	12,223
Balance, December 31, 2015	13,608,207	6,353,873	19,962,080	1,772,777

Outstanding warrants at December 31, 2015 were as follows:

Range of exercise prices	Warrants	Weighted average price	Weighted average years to expiry
		\$	
\$0.01–\$0.30	9,211,451	0.12	2.40
\$0.31–\$0.40	8,773,779	0.39	4.14
\$0.41–\$0.50	1,858,000	0.50	2.12
\$0.51–\$0.60	118,850	0.60	0.36
Balance, December 31, 2015	19,962,080	0.28	2.99

8,101,946 warrants were issued in December 2014, in conjunction with the issue of common share units (Note 10). The warrants are exercisable for a period of five years at \$0.39. The fair value of the warrants is \$Nil based on the residual method where proceeds are first allocated to common shares according to the quoted price of common shares at the time of issuance and any residual is allocated to warrants.

775,220 agent warrants were issued in December 2014, in conjunction with the issue of common shares (Note 10). The warrants are exercisable for a period of two years at \$0.30. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 153.46%. The fair market value at issuance was \$192,177.

271,833 agent warrants were issued in December 2014, in conjunction with the issue of common shares (Note 10). The warrants are exercisable for a period of five years at \$0.39. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.4% interest rate and a volatility of 262.34%. The fair market value at issuance was \$88,634.

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

13. Warrants (continued)

66,598 finders' warrants were issued in December 2014, in conjunction with the issue of partnership units (Note 12). The warrants are exercisable for a period of one year at \$0.33. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 84.18%. The fair market value at issuance was \$7,245.

4,690,000 agent warrants were issued in September 2015, in conjunction with the issue of common shares (Note 11). The warrants are exercisable for a period of three years at \$0.0525. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.53% interest rate and a volatility of 152.91%. The fair market value at issuance was \$313,616.

216,820 finders' warrants were issued in December 2015, in conjunction with the issue of partnership units (Note 12). The warrants are exercisable for a period of one year at \$0.11. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.52% interest rate and a volatility of 138.44%. The fair market value at issuance was \$12,223.

14. Contributed surplus

The Company has established an option plan (the "Plan"), which is accounted for in contributed surplus, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. Options generally vest over a 3-year period with 1/6 vesting every 6 months. The Company's plan allows for a maximum term on any options of ten years. The Company, at the discretion of the Board of Directors, may issue options to a maximum of 7,646,303. The shareholders approved the plan on October 29, 2014. The minimum price at which the options may be granted is the closing price on the TSX-V on the date of issue.

The following summarizes information about stock options outstanding as at December 31, 2015:

	Number of options to employees	Weighted average price to employees \$	Number of options to non-employees	Weighted average price to non-employees \$
Balance, September 30, 2014	2,139,389	0.35	946,730	0.39
Granted	1,701,192	0.35	1,012,764	0.36
Cancelled	-	-	(180,000)	(0.35)
Forfeited	(104,242)	(0.31)	(515,000)	(0.41)
Balance, September 30, 2015	3,736,339	0.35	1,264,494	0.37
Granted	375,000	0.10	-	-
Forfeited	-	(0.34)	-	-
Balance, December 31, 2015	4,111,339	0.33	1,264,494	0.37

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

14. Contributed surplus (continued)

Range of exercise prices	Options	Outstanding options		Exercisable options	
		Weighted average price	Weighted average years to expiry	Options	Weighted average price
		\$			\$
\$0.01–\$0.30	1,701,730	0.26	4.15	1,626,730	0.20
\$0.31–\$0.40	3,454,103	0.37	8.66	300,000	0.36
\$0.41–\$0.50	220,000	0.48	3.20	160,000	0.50
Balance December 31, 2015	5,375,833	0.32	6.41	2,086,730	0.29

The total share-based compensation calculated for the three-month period ended December 31, 2015, was \$35,512 (2014 – \$10,117).

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

On March 31, 2015, the Company issued 2,366,069 new incentive stock options to employees and consultants, exercisable at a price of \$0.35 with an expiry date of March 31, 2025. The fair value of the options was determined to be \$632,923. 180,000 of these options were cancelled on April 1, 2015.

The employee stock options issued in June 2013, October 2014 and March 2015 are only exercisable following two consecutive quarters of positive earnings before interest, taxes, depreciation and amortization, or if the Company is acquired within the next 24 months. Management has estimated that as at September 30, 2015, 3,214,103 options are not exercisable as the performance indicator has not been achieved and there is uncertainty as to when it will be achieved, resulting in no stock based compensation being recognized.

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

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

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

14. Contributed surplus (continued)

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, 2015	September 30, 2015
Risk free interest rate	0.01%	0.57%
Expected volatility (1)	156.12%	152.91%
Dividend Yield	-	-
Expected life (years)	10	3
Weighted average fair value	\$ 0.10	\$ 0.27

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

15. Capital management

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

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

	2015	2014
	\$	\$
Total shareholders' equity (deficiency)	(3,711,917)	884,200
Cash	1,136,298	(2,401,813)
Total capital	(2,575,619)	(1,517,613)

There have been no changes to the Company's objectives in managing capital or in the management of capital since December 31, 2015. The Company presently has negative total capital and is currently working toward reversing this situation. (Note 2(b)).

16. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a couple counterparties. At December 31, 2015 approximately 60% (2014 – 65% with a single customer) of the total accounts receivable is due from one customer.

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

16. Financial instruments and financial risk management (continued)

The following table illustrates the Company's receivables and advances:

	December 31, 2015	September 30, 2015
	\$	\$
Trade	311,344	193,025
Taxation authorities	155,651	116,215
	466,995	309,240
Less: allowance for doubtful accounts	(88,693)	(104,575)
	378,302	204,665

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three-month period ended December 31, 2015, there was \$nil respectively (2015 – \$nil) of bad debts expensed.

Credit risk

The following is a schedule of trade receivables:

	December 31, 2015	September 30, 2015
	\$	\$
Neither impaired or past due	124,600	70,986
Past due in the following periods		
31 - 60 days	19,028	-
61 - 90 days	-	34,823
over 90 days	167,716	87,216
	311,344	193,025

Liquidity risk

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

16. Financial instruments and financial risk management (continued)

The following are the contractual maturities of financial liabilities at December 31, 2015:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	3,570,564	-	-	3,570,564
Energy Northwest obligation	151,568	-	-	151,568
Government grant obligation	48,188	-	-	48,188
Debentures	816,980	1,014,656	-	1,831,636
Other liabilities	50,594	132,035	507,613	690,242
Total	4,637,894	1,146,691	507,613	6,292,198

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on the carrying amount in Canadian currency was as follows for the three-month period ended December 31, 2015:

	Euros	US Dollars	Total
	\$	\$	\$
Cash	49,822	92,739	142,561
Accounts receivable and advances	30,293	224,120	254,413
Deposits	30,468	2,652	33,120
Accounts payable and accrued liabilities	(1,725,429)	(730,092)	(2,455,521)
Energy Northwest obligation	-	(151,568)	(151,568)
Deferred revenue	(1,798)	(21,342)	(23,140)
Other liabilities	-	(155,165)	(155,165)
	(1,616,644)	(738,656)	(2,355,300)

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 \$28,239 (2014 - \$126,422) for the period ended December 31, 2015. 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 \$53,439 (2014 - \$7,717) for the period ended December 31, 2015. An opposite change in the Canadian/ US exchange rate and the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the period ended December 31, 2015.

Interest rate risk

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

16. Financial instruments and financial risk management (continued)

Fair value

The carrying value and fair value of financial instruments at December 31, 2015, is disclosed below by financial instrument category:

Financial instrument	Carrying value	Fair value
	\$	\$
Accounts receivable and advances	378,302	378,302
Accounts payable and accrued liabilities	3,570,564	3,570,564

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input and the embedded derivatives on the Company's debentures (Note 8), and Energy Northwest obligation (Note 6) were measured at a fair value using Level 3 inputs.

17. Related party transactions

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

	2015		2014	
	Salaries and benefits	Share based compensation	Salaries and benefits	Shared based compensation
	\$	\$	\$	\$
General and administrative	54,000	-	107,287	2,336
Selling and Marketing	27,046	-	-	-
Product research and development	11,591	-	33,024	-
Operations	12,000	-	49,500	-
Total	104,637	-	189,811	2,336

Financing costs of \$5,583 for the three-month period ended December 31, 2015 (2014 - \$24,537) related to the debentures and preferred shares Series 15 held by key personnel and directors are included in the statement of loss. Interest payments amounted to \$1,352 (2014 - \$5,338) for the three-month period ended December 31, 2015.

Included in accounts payable and accrued liabilities is \$197,080 (September 30, 2015 - \$235,998) due to directors and members of key management personnel.

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

17. Related party transactions (continued)

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

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

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

In August 2015, the Company agreed to a termination settlement with its former CEO who remains a director of the Company (Note 9).

In September 2015, key management personnel and directors subscribed for 2,826,190 common share units at \$0.0525 per unit.

18. Financing costs

	2015	2014
	\$	\$
Interest on Northwest obligation	(30,554)	3,994
Interest on bank debt	-	15,689
Interest on debenture	110,250	169,951
Change in fair value of embedded derivatives	-	(9,881)
Accretion of government grant obligation	3,325	12,052
Accretion on settlement agreement	28,146	-
Accretion on settlement of contingent liability	9,642	-
Change in fair value of common shares to be issued on conversion in respect of accreted dividend	-	211,760
Amortization of financing fees	34,135	34,135
Total	154,944	437,700

19. Personnel expenses

	2015	2014
	\$	\$
Wages	295,913	282,905
Benefits	16,821	11,476
Total	312,734	294,381

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

20. Supplemental information

The changes in non-cash working capital for the three-month period ended December 31, 2015 and 2014 is as follows:

	2015	2014
	\$	\$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	(173,637)	(108,133)
Prepaid expense and deposits	61,243	(30,646)
Inventory	(386,453)	135,280
	(498,847)	(3,499)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	205,064	(354,504)
Deferred revenue	(36,433)	-
	(330,216)	(358,003)

21. Commitments

(a) At December 31, 2015, Eguana had commitments for premises as follows:

	\$
Less than one year	83,000
Between one and five years	158,000
More than five years	-
	241,000

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

22. Segmented information

Major customers

The Company had three (2014 – one) customers where product sales were greater than 10% in the period ended December 31, 2015. The customers had attributed sales of approximately \$187,103 for the period ended December 31, 2015 (2014 – \$1,510,726).

23. Legal disputes

The Company is in a dispute with a prior customer because of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from the customer, in addition to other amounts from the customer because of the cancellation. The collection of the related outstanding receivable is uncertain due to litigation risks and has been provided for. The customer, in return, has made warranty claims against the Company for which the Company has denied. The Company has recorded a warranty provision to cover the expected warranty claims arising from all sales made including sales to the customer. Subsequent to quarter end, the Company notified the customer that it would file a claim in the German court.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2015

Stated in Canadian dollars

Unaudited

23. Legal disputes (continued)

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,320,000 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,174,530 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount.

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

24. Subsequent events

In February 2015, Eguana exercised its right to convert EGT Markets Limited Partnership units to common shares of Eguana and issued 6,790,977 common shares (Note 12).

25. Recast of comparative balance sheet

The Company noted a tabulation error in the comparative statement of financial position as at September 30, 2015 in the previously filed December 31, 2015 Q1 condensed consolidated interim financial statements. The amended and restated financial statements remove the duplication of \$110,321 of deferred revenue, which was included in the comparative September 30, 2015 column both as a separate line item and in other liabilities current portion. These changes only affect the comparative September 30, 2015 balance sheet figures within the 2016 Financials, making them consistent with the audited accounts as of September 31, 2015, which were accurately presented. These changes do not affect the current fiscal year figures of the 2016 Financials. The Company has reclassified the \$110,321 of deferred revenue at September 30, 2015 from within other liabilities current portion to deferred revenue.