Condensed interim consolidated financial statements of

Eguana Technologies Inc.

June 30, 2015

Eguana Technologies Inc.

June 30, 2015

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NOTICE TO READER

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

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

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

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
Unaudited

	Note	June 30, 2015	September 30, 2014
		$	$
Assets			
Current:			
Cash		**462,466**	55,960
Accounts receivable and advances		**1,744,644**	1,692,733
Inventory	3	**1,325,715**	1,081,191
Other assets - current portion		**118,100**	118,540
Prepaid expenses and deposits		**459,526**	303,881
		4,110,451	3,252,305
Non-current:			
Other assets		**216,516**	309,260
Development costs		**3**	3
Capital assets	4	**401,346**	280,737
		4,728,316	3,842,305
Liabilities			
Current:			
Accounts payable and accrued liabilities		**2,782,356**	2,143,965
Provisions		**171,579**	137,579
Bank debt	5	**1,143,099**	955,104
Fair value of common shares to be issued upon conversion in respect of accreted dividend		**-**	4,244,514
Energy Northwest obligation - current portion	6	**159,154**	73,948
Government grant obligation - current portion	7	**79,661**	158,056
Debentures and other liabilities - current portion	8	**952,158**	881,503
		5,288,007	8,594,669
Non-current:			
Deferred lease inducement		**42,900**	54,600
Energy Northwest obligation	6	**-**	58,603
Government grant obligation	7	**-**	57,771
Debenture	8	**1,242,175**	1,699,621
		6,573,082	10,465,264
Shareholders' equity (deficiency)			
Common shares	9	**29,757,502**	11,003,187
Preferred shares	10	**1**	10,190,861
Warrants	12	**1,508,093**	1,177,008
Contributed surplus	13	**7,820,035**	7,717,069
Foreign currency translation reserve		**(114,013)**	(96,099)
Deficit		**(40,816,384)**	(36,614,985)
		(1,844,766)	(6,622,959)
		4,728,316	3,842,305

Going concern (Note 2(b)), Commitments (Note 20), Subsequent event (Note 22)

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

On behalf of the Board:

{signed}
Michael Carten, Director

{signed}
Robert Penner, Director

Eguana Technologies Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three month and nine month periods ended June 30,

Stated in Canadian dollars
Unaudited

	Note	Three months ended		Nine months ended	
		2015	2014	**2015**	2014
		$	$	**$**	$
Sales		**1,552,853**	477,419	**4,639,933**	1,363,125
Cost of goods sold		**1,804,807**	475,497	**5,299,957**	1,069,732
Gross margin		**(251,954)**	1,922	**(660,024)**	293,393
Expenses					
General and administrative	16, 18	**714,713**	296,301	**1,622,772**	1,132,832
Operations	16	**129,020**	252,757	**481,969**	752,768
Product research and development	16	**157,374**	261,565	**529,078**	710,759
Selling and marketing		**210,239**	249,825	**462,547**	491,016
		1,211,346	1,060,448	**3,096,366**	3,087,375
Loss before undernoted items		**(1,463,300)**	(1,058,526)	**(3,756,390)**	(2,793,982)
Financing costs	17	**(52,265)**	(477,928)	**(664,306)**	(2,412,281)
Gain on debentures and embedded derivatives	8	**139,446**	-	**217,578**	-
Gain on modification of preferred shares		**-**	-	**-**	1,127,867
Other income		**(852)**	77	**1,719**	1,511
Net loss		**(1,376,971)**	(1,536,377)	**(4,201,399)**	(4,076,885)
Foreign currency adjustment to equity		**(10,185)**	(11,571)	**17,914**	26,715
Total comprehensive loss		**(1,387,156)**	(1,547,948)	**(4,183,485)**	(4,050,170)
Loss per common share					
Basic and diluted		**(0.02)**	(0.05)	**(0.06)**	(0.14)
Weighted average number of common shares					
Basic and diluted	9	**71,254,750**	29,532,456	**71,254,750**	29,532,456

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 and nine month periods ended June 30,

Stated in Canadian dollars
Unaudited

	Share Capital	Preferred Shares	Contributed Surplus	Warrants	Equity component of preferred shares	Deficit	Foreign currency translation reserve	Total
	$	$	$	$	$	$	$	$
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	-	-	-	-	-	**(4,201,399)**	-	**(4,201,399)**
Other comprehensive gain(loss)	-	-	-	-	-	-	**(17,914)**	**(17,914)**
Issue of share capital	**4,107,181**	-	-	-	-	-	-	**4,107,181**
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	-	-	**37,635**	-	-	-	-	**37,635**
Balance, June 30, 2015	**29,757,502**	**1**	**7,820,035**	**1,508,093**	-	**(40,816,384)**	**(114,013)**	**(1,844,766)**
Balance, October 1, 2013	5,777,755	-	7,610,723	540,837	4,079,759	(31,594,506)	(108,966)	(13,694,398)
		-						
Loss for the period	-	-	-	-	-	(4,076,885)	-	(4,076,885)
Other comprehensive gain(loss)	-	-	-	-	-	-	26,715	26,715
Issue of share capital	3,313,784	-	-	-	-	-	-	3,313,784
Conversion of preferred shares	1,643,204	(480,000)	-	-	(215,289)	-	-	947,915
Warrants exercised	120,905	-	-	(27,305)	-	-	-	93,600
Warrants issued	-	-	-	111,496	-	-	-	111,496
Warrants moditied	-	-	-	511,765	-	-	-	511,765
Modification of preferred shares	-	10,670,861	-	-	(3,864,470)	-	-	6,806,391
Loss on conversion of preferred shares	-	-	-	-	-	22,190	-	22,190
Gain on modification of preferred share	-	-	-	-	-	515,807	-	515,807
Share based payments	-	-	98,656	-	-	-	-	98,656
Balance, June 30, 2014	10,855,648	10,190,861	7,709,379	1,136,793	-	(35,133,394)	(82,251)	(5,322,964)

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 and nine month periods ended June 30,
Stated in Canadian dollars
Unaudited

	Note	Three months ended		Nine months ended	
		2015	2014	**2015**	2014
		$	$	$	$
Operating activities					
Net loss		**(1,376,971)**	(1,536,377)	**(4,201,399)**	(4,076,885)
Amortization of capital assets and development costs		**21,881**	142,210	**51,711**	420,969
Amortization of deferred lease inducement		**(3,900)**	(3,900)	**(11,700)**	(11,700)
Share-based payments		**21,118**	23,506	**37,635**	98,656
Warranty provision		**12,000**	(13,000)	**34,000**	(42,000)
Finance costs		**52,265**	477,928	**664,306**	2,412,281
Gain on debentures and embedded derivatives		**(139,446)**	-	**(217,578)**	-
Gain on modification of preferred shares		**-**	-	**-**	(1,127,867)
Investor relation expense		**-**	-	**108,360**	-
Unrealized foreign exchange loss (gain)		**5,266**	(7,686)	**8,838**	(827)
		(1,407,787)	(917,319)	**(3,525,827)**	(2,327,373)
Net change in non-cash working capital	19	**566,084**	(80,584)	**290,546**	(887,785)
Cash flow used in operating activities		**(841,703)**	(997,903)	**(3,235,281)**	(3,215,158)
Financing activities					
Bank debt		**1,087,848**	(714,361)	**187,996**	(354,755)
Proceeds from common shares		**-**	1,847,750	**4,817,371**	2,397,750
Proceeds from limited partnership units		**-**	-	**314,000**	1,200,500
Cost of issuing common shares and limited partnership units		**-**	(95,387)	**(736,134)**	(241,359)
Proceeds from debenture		**-**	315,000	**-**	315,000
Proceeds from exercise of warrants		**-**	90,720	**-**	93,600
Repayment of government contribution		**(19,500)**	(9,500)	**(56,500)**	(19,500)
Repayment of debentures		**(9,333)**	-	**(417,166)**	-
Cash financing costs paid		**(47,186)**	(47,860)	**(178,636)**	(115,750)
Cash flow from financing activities		**1,011,829**	1,386,362	**3,930,931**	3,275,486
Investing activities					
Capital asset additions		**(113,993)**	(800)	**(278,323)**	(18,459)
Cash flow used in investing activities		**(113,993)**	(800)	**(278,323)**	(18,459)
Foreign exchange on cash held in foreign operations		**(6,261)**	(730)	**(10,821)**	143
Net change in cash		**49,872**	386,929	**406,506**	42,012
Cash, beginning of period		**412,594**	54,957	**55,960**	399,874
Cash, end of period		**462,466**	441,886	**462,466**	441,886

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

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, 2014, 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, 2014.

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 3 of the September 30, 2014 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on August 27, 2015.

(b) Going concern

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

At June 30, 2015, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $40,816,384 (2014 - $35,133,394) and recognized a cash flow deficiency from operations in the nine month period of $3,235,281(2014 - $3,215,158). 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.

Stated in Canadian dollars

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 or 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 will seek financing through the issuance of common shares, first preferred shares, units of STG Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time.

These condensed interim 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, 2014

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, 2017, with early adoption permitted. The Corporation continues to evaluate the impact of these standards on its consolidated financial statements

3. Inventory

	June 30, 2015	September 30, 2014
	$	$
Finished goods	**357,184**	262,315
Components	**968,531**	818,876
	1,325,715	1,081,191

As at June 30, 2015, $1,234,665 (September 2014 - $1,081,191) of inventory was carried at cost and $91,050 (September 2014 - $nil) was carried at net realizable value.

Stated in Canadian dollars

4. Capital assets

	June 30, 2015	September 30, 2014
	$	$
Carrying value		
Computer equipment and software	**17,589**	3,249
Lab equipment	**306,310**	186,445
Furniture, equipment and leasehold improvements	**77,446**	87,774
Dies and molds	**-**	3,269
	401,346	280,737

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	$	$	$	$	$
Balance September 30, 2014	454,809	749,230	217,037	42,714	1,463,790
Additions	17,957	142,599	11,764	-	172,320
Disposals	-	-	-	-	-
Balance June 30, 2015	**472,766**	**891,829**	**228,801**	**42,714**	**1,636,110**

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	$	$	$	$	$
Balance September 30, 2014	451,560	562,850	129,198	39,445	1,183,053
Amortization	3,617	22,669	22,156	3,269	51,711
Disposals	-	-	-	-	-
Balance June 30, 2015	**455,177**	**585,519**	**151,354**	**42,714**	**1,234,764**

Stated in Canadian dollars

4. Capital assets (continued)

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2013	476,148	581,517	224,540	35,797	1,318,002
Additions	2,631	167,778	-	6,917	177,326
Disposals	(23,970)	-	(7,503)	-	(31,473)
Balance September 30, 2014	454,809	749,295	217,037	42,714	1,463,855

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2013	459,211	551,153	107,874	33,680	1,151,918
Amortization	16,319	11,697	28,892	5,765	62,673
Disposals	(23,970)	-	(7,503)	-	(31,473)
Balance September 30, 2014	451,560	562,850	129,263	39,445	1,183,118

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

As at June 30, 2015 $34,391 (September 30, 2014 - $140,394) 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

The Company has a $1,500,000 operating line of credit. The operating line is secured by Doughty Hanson through an Equity Commitment Agreement and a general security agreement. Interest is payable at the bank’s prime rate plus 3% (2014 – prime rate plus 3%) and amounts outstanding are repayable upon demand.

6. Energy Northwest obligation

	June 30, 2015	September 30, 2014
	$	$
Obligation to Energy Northwest ($122,079 US; September 2014 - $115,229 US)	**159,153**	132,551
Less: current portion of Energy Northwest obligation	**(159,153)**	(73,948)
	-	58,603

Stated in Canadian dollars

6. Energy Northwest obligation (continued)

Energy Northwest (formerly "Washington Public Power Supply System") made contributions of services to 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 are to be completed by January 1, 2016. The obligation is unsecured.

The compensation payable to Energy Northwest in any year until January 1, 2016, is dependent on product sales using the SWPC technology, subject to the above noted annual minimum and maximum thresholds in the year. As the sole basis for the repayment of the loan was linked to future gross sales in SEL, management has determined that the obligation to Energy Northwest contained an embedded derivative and accordingly accounted for in accordance with IAS 39. This requires the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the unaudited condensed interim unaudited condensed interim consolidated statement of loss and comprehensive loss each period. At March 31, 2015, the Company completed the development of the 3rd generation STX inverter, which does not use the SWPC technology, and the Company has ceased production of inverters based on the SWPC technology resulting in the minimum compensation being payable in subsequent years. The embedded derivative is valued at nil (2014 – nil).

7. Government grant obligation

The Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries it incurs to commercialize the universal electronic platform to a maximum of $245,241. The Company has received the maximum amount. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the National Research Council has recovered 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 $91,368 (September 30, 2014 - $267,440).

The Company has determined, by reference to the Government agency, that the required repayment of the grant was the amount of the grant itself and not one and one half times the amount of the grant as had previously been assumed.. 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:

	June 30, 2015	September 30, 2014
	$	$
Government grant (NRC)	**79,661**	215,827
Less: current portion	**(79,661)**	(158,056)
	-	57,771

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

Stated in Canadian dollars

8. Debentures and other financial liabilities

	Debt component of debenture	Embedded derivative	Warrant component of debenture	Total
	$	$	$	$
Balance at October 1, 2013	1,850,826	-	110,330	1,961,156
Debenture	216,611	-		216,611
Accretion / Change in fair value	465,626	234,310	-	699,936
Repayments	(147,939)	(38,310)	-	(186,249)
Balance at September 30, 2014	2,385,124	196,000	110,330	2,691,454
Accretion	415,095	-	-	415,095
Loss (gain) on change in cash flow	(285,645)	68,067	-	(217,578)
Repayments	(476,702)	(107,607)	-	(584,309)
Balance at June 30, 2015	**2,037,872**	**156,460**	**110,330**	**2,304,662**
Less: current portion	**(795,697)**	**(156,460)**	**-**	**(952,157)**
	1,242,175	**-**	**110,330**	**1,352,505**

On June 29, 2012, the Company issued $800,000 in 5-year subordinated debentures, issued 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 interim unaudited condensed interim consolidated revenues realized by the Company and are both 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 a total of 280,000 restricted common shares of the Company, which will be released on a quarterly basis over the 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 personnel of the Company.

On August 7 and September 17, 2013, the Company issued $1,820,000 in 5-year subordinated debentures, issued 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 interim consolidated revenues realized by the Company and are both 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 second anniversary of issue. Purchasers of the debentures had the option of receiving common shares or warrants. The Company issued 424,000 commons 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. 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.

Stated in Canadian dollars

8. Debentures and other financial liabilities (continued)

On June 30, 2014, the Company issued $360,000 in 5-year subordinated 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 interim consolidated revenues realized by the Company and are both 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 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. Common shares

Authorized, unlimited number

Issued	Number of shares	Amount
		$
Balance, October 1, 2013	26,210,910	5,777,755
Conversion of preferred shares	2,153,006	1,643,206
Issuance of common shares	5,994,375	2,397,748
Issuance of common shares in conjunction with debenture	144,000	80,640
Issuance of common shares on settlement of accounts payable	237,700	122,987
Share issuance costs	-	(214,429)
Exercise of warrants	788,750	127,293
Exercise of stock options	35,000	19,138
Common shares issued in exchange of partnership units	2,667,778	1,200,500
Partnership unit costs	-	(151,651)
Balance, September 30, 2014	**38,231,519**	**11,003,187**
Conversion of preferred shares	28,764,481	14,647,134
Issuance of common shares	16,057,903	4,817,371
Share issuance costs	-	(967,685)
Common shares issued in exchange for partnershp unites (Note 11)	951,420	314,000
Partnership unit costs	-	(56,505)
Balance, June 30, 2015	**84,005,323**	**29,757,502**

On October 8, 2014, the Company issued 777,906 common shares on the conversion of 38,600 Series 7 preferred shares which included accreted dividends of $208,229 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 $4,248,047 that were also converted into common shares. The cost of converting the preferred shares to common shares totaled $21,241.

Stated in Canadian dollars

9. Common shares (continued)

In December 2014, the Company issued 16,057,903 million common share units 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 271,883 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. 1,100,000 units were issued to key personal and directors of the Company.

On February 20, 2015, Eguana exercised its right to convert the units to common shares of Eguana and issued 946,444 shares. The cost to issue and the partnership units totaled $56,505 (Note 11).

Weighted average number of common shares

The weighted average number of shares for June 30 2015 and 2014 were determined by excluding preferred shares, stock options and warrants because the Company was in a loss position. In calculating diluted common share amounts for the Company excluded nil (2014 – 1,019,087) preferred shares convertible into nil (2014 – 24,687,536) common shares, 17,570,706 (2014 – 8,086,976) warrants and 5,372,946 (2014 – 3,121,119) options.

10. Preferred shares

Authorized

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 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		

Stated in Canadian dollars

10. Preferred shares (continued)

Issued

	Number of shares	Amount $
Series 7		
Balance October 1, 2014	623,850	6,238,500
Conversion to common shares	(623,850)	(6,238,500)
Balance, June 30, 2015	**-**	**-**
Series 8		
Balance October 1, 2014	1	1
Conversion to common shares	-	-
Balance, June 30, 2015	**1**	**1**
Series 9		
Balance October 1, 2014	53,236	532,360
Conversion to common shares	(53,236)	(532,360)
Balance, June 30, 2015	**-**	**-**
Series 10		
Balance October 1, 2014	80,000	800,000
Conversion to common shares	(80,000)	(800,000)
Balance, June 30, 2015	**-**	**-**
Series 11		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, June 30, 2015	**-**	**-**
Series 12		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, June 30, 2015	**-**	**-**
Series 13		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, June 30, 2015	**-**	**-**
Series 14		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance,June 30, 2015	**-**	**-**
Series 15		
Balance October 1, 2014	62,000	620,000
Conversion to common shares	(62,000)	(620,000)
Balance, June 30, 2015	**-**	**-**
Total preferred shares June 30, 2015	**1**	**1**
Total preferred shares September 30, 2014	1,019,087	10,190,861

Stated in Canadian dollars

11. 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 SES which exercises control over EGTLP's operations. The Limited Partners of STGLP 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 it.

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 12). 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 9).

12. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				$
Balance, October 1, 2013	6,167,411	8,750	6,176,161	540,837
Warrants revalued	-	-	-	511,765
Warrants exercised	(780,000)	(8,750)	(788,750)	(29,318)
Warrants issued	2,428,538	381,127	2,809,665	153,724
Balance September 30, 2014	7,815,949	381,127	8,197,076	1,177,008
Warrants expired	-	(241,967)	(241,967)	(65,331)
Warrants issued	8,101,946	1,513,651	9,615,597	396,416
Balance, June 30, 2015	**15,917,895**	**1,652,811**	**17,570,706**	**1,508,093**

Stated in Canadian dollars

12. Warrants (continued)

Outstanding warrants at June 30, 2015 were as follows:

Range of exercise prices	Warrants	Weighted average price	Weighted average years to expiry
		$	
$0.01–$0.30	4,304,631	0.19	2.59
$0.31–$0.40	8,979,537	0.39	4.30
$0.41–$0.50	1,858,000	0.50	2.37
$0.51–$0.60	2,428,538	0.60	0.45
Balance, June 30, 2015	**17,570,706**	**0.38**	**3.40**

- 241,967 broker warrants were issued in December 2013, in conjunction with the issue of common shares and partnership units (Note 9 and 11). The warrants are exercisable for a period of one year at $0.45. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0% interest rate and a volatility of 199.66%. The fair market value at issuance was $65,331.
- 139,160 broker warrants were issued in May and June 2014, in conjunction with the issue of common shares units (Note 9). The warrants are exercisable for a period of 18 months at $0.40. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0% interest rate and a volatility of 175.63%. The fair market value at issuance was $46,165.
- 2,309,688 warrants were issued on May 28, 2014 and June 17, 2014, in conjunction with the issue of common share units (Note 9). The warrants are exercisable for a period of 18 months at $0.60. The fair value of the warrants is $Nil based on the residual method where proceeds are first allocated to commons shares according to the quoted price of common shares at the time of issuance and any residual is allocated to warrants.
- 118,850 warrants were issued in June 2014 and July 2014, in conjunction with the settlement of debt (Note 9). The warrants are exercisable for a period of 18 months at $0.60. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0% interest rate and a volatility of 172.06%. The fair market value at issuance was $42,228.
- 8,101,946 warrants were issued in December 2014, in conjunction with the issue of common share units (Note 9). 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 commons 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 9). 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.

Stated in Canadian dollars

12. Warrants (continued)

- 271,833 agent warrants were issued in December 2014, in conjunction with the issue of common shares (Note 9). 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.
- 66,598 finders' warrants were issued in December 2014, in conjunction with the issue of partnership units (Note 11). 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.

13. Contributed surplus

The Company has established an option plan (the "Plan") 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 to be ten years. The Company, at the discretion of the Board of Directors, may issue options to a maximum of 7,646,303. The plan was approved by the shareholders 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 June 30, 2015:

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employees
		$		$
Balance, October 1, 2013	2,164,289	1.80	511,730	1.50
Granted	75,000	0.43	435,000	0.46
Forfeited	(64,900)	(0.35)	-	-
Exercised	(35,000)	(0.30)	-	-
Stock options amended (old price)	(917,642)	(1.64)	(250,000)	(0.93)
Stock options amended (new price)	917,642	0.30	250,000	0.93
Balance, September 30, 2014	2,139,389	0.35	946,730	0.39
Granted	2,053,305	0.35	812,764	0.36
Cancelled	-	-	(180,000)	(0.35)
Forfeited	(104,242)	(0.31)	(575,000)	(0.41)
Balance, June 30, 2015	**4,088,452**	**0.35**	**1,004,494**	**0.37**

Stated in Canadian dollars

13. Contributed surplus (continued)

	Outstanding options			Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
$0.01–$0.30	1,366,730	0.30	4.42	1,366,730	0.30
$0.31–$0.40	3,506,216	0.40	9.19	100,000	0.35
$0.41–$0.50	220,000	0.48	3.71	160,000	0.50
Balance, June 30, 2015	**5,092,946**	**0.38**	**7.67**	**1,626,730**	**0.32**

The total share-based compensation calculated for three month and nine month periods ended June 30, 2015, was $21,118 and $37,635 respectively (2014 – $23,506 and $98,656).

On October 29, 2014, the Company issued a total of 300,000 new incentive stock options to a consultant exercisable at a price of $0.38 with an expiry date of October 29, 2024. The fair value of the options was determined to be $103,080.

On March 31, 2015, the Company issued a total of 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 stock options issued in October 2014 and March 2015 are only exercisable following one 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 June 30, 2015, no options are exercisable as the performance indicator has not being achieved and there is uncertainty as to when it will be achieved, resulting in no stock based compensation being recognized.

On June 1, 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.

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

	June 30, 2015	September 30, 2014
Risk free interest rate	**0.57%**	1.15%
Expected volatility (1)	**141.81%**	183.71%
Dividend Yield	**-**	-
Expected life (years)	**3**	2
Weighted average fair value	**$ 0.26**	$ 0.35

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

Stated in Canadian dollars

14. Capital management

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

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

	June 30, 2015	September 30, 2014
	$	$
Total shareholders' equity (deficiency)	**(1,844,766)**	(6,622,959)
Cash	**(462,466)**	(55,960)
Bank debt	**1,143,099**	955,104
Total capital	**(1,164,133)**	(5,723,815)

There have been no changes to the Company's objectives in managing capital or in the management of capital since June 30, 2015. The Company presently has negative total capital and is currently working toward reversing this. (Note 2b).

15. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a single counterparty at June 30, 2015. Approximately 91% (September 30, 2014 – 65%) of the total accounts receivable is due from one customer. 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 following table illustrates the Company's receivables and advances:

	June 30, 2015	September 30, 2014
	$	$
Trade	**1,741,227**	1,111,367
Taxation authorities	**55,119**	492,328
Employee advances and other	**-**	140,740
	1,796,346	1,744,435
Less: allowance for doubtful accounts	**(51,702)**	(51,702)
	1,744,644	1,692,733

Stated in Canadian dollars

15. Financial instruments and financial risk management (continued)

Credit risk (continued)

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During three month and nine month periods ended June 30, 2015, there was $nil and $16,873 respectively (2014 – $nil and $nil) of bad debts expensed.

The maximum exposure to credit risk is represented by the carrying amount on the condensed interim consolidated statement of financial position. There are $51,702 (September 30, 2014 - $51,702) of financial assets that the Company considers past due.

The following is a schedule of trade receivables:

	June 30, 2015	September 30, 2014
	$	$
Neither impaired or past due	**679,976**	437,094
Past due in the following periods		
31 - 60 days	**219,987**	407,900
61 - 90 days	**708,284**	-
over 90 days	**132,980**	266,373
	1,741,227	1,111,367

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 available 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.

The following are the contractual maturities of financial liabilities at June 30, 2015:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	2,782,356	-	-	2,782,356
Bank loan	1,143,099	-	-	1,143,099
Energy Northwest obligation	164,528	-	-	164,528
Government grant obligation	91,368	-	-	91,368
Debentures	831,500	1,664,667	-	2,496,167
Total	5,012,851	1,664,667	-	6,677,518

15. Financial instruments and financial risk management (continued)

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows at June 30, 2015:

	Euros	US Dollars	Total
	$	$	$
Cash	439,253	(5,176)	434,077
Accounts receivable and advances	1,527,805	146,588	1,674,393
Deposits	286,012	115,878	401,890
Accounts payable and accrued liabilities	(1,332,333)	(514,531)	(1,846,864)
Energy Northwest obligation	-	(155,153)	(155,153)
	920,737	**(412,394)**	**508,343**

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 $11,876 and increase the total comprehensive loss by $6,279 for the nine month period ended June 30, 2015. Assuming all other variables remain constant, a $0.05 change in the Canadian/Euro exchange rate would decrease the Company's net loss by approximately $34,759 for the nine month period ended June 30, 2015 and increase the total comprehensive loss by $1,074. 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 June 30, 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.

Fair value

The carrying value and fair value of financial instruments at June 30, 2015, is disclosed below by financial instrument category:

Financial instrument	**Carrying value**	**Fair value**
	$	**$**
Accounts receivable and advances	1,744,644	1,744,644
Accounts payable and accrued liabilities	2,782,356	2,782,356
Bank debt	1,143,099	1,143,099

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.

Stated in Canadian dollars

16. Related party transactions

Other than as disclosed elsewhere in the unaudited condensed interim consolidated financial statements, the Company had the following related party salaries, benefits and share based compensation:

	Three months ended		Nine months ended	
	2015	2014	**2015**	2014
	$	$	**$**	$
General and administrative	**87,853**	90,893	**295,151**	307,513
Product research and development	**39,102**	-	**112,308**	-
Operations	**49,500**	50,884	**151,616**	177,473
Total	**176,455**	141,777	**559,075**	484,986

Financing costs of $(2,165) and $21,826 for the three month and nine month periods ended June 30, 2015 (2014 - $16,780 and $47,719) 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 $1,202 and $8,116 (2014 - $3,536 and $9,921) for the three month and nine month periods ended June 30, 2015. Included in accounts payable and accrued liabilities is $136,728 (September 30, 2014 - $97,740) 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 debenture issued in 2012 and $240,000 of debentures issued in 2013 from key personnel and directors of the Company.

In December 2014, the 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.

17. Financing costs

	Three months ended		Nine months ended	
	2015	2014	**2015**	2014
	$	$	**$**	$
Interest on Northwest obligation	4,313	3,460	12,440	10,153
Interest on bank debt	(8,863)	17,986	11,493	31,234
Interest on debenture	98,931	114,818	415,095	328,972
Change in fair value of embedded derivatives	-	10,385	-	25,801
Accretion of government grant obligation	2,058	12,929	8,130	37,683
Change in fair value of government grant obligaton	(87,796)	-	(87,796)	-
Accretion of preferred shares	-	-	-	1,525,161
Change in fair value of common shares to be issued on conversion in respect of accreted dividend	-	282,689	211,760	381,362
Amortization of financing fees	43,622	35,661	93,184	144,080
Gain on conversion of preferred shares	-	-	-	(72,165)
Total	**52,265**	**477,928**	**664,306**	**2,412,281**

Stated in Canadian dollars

18. Personnel expenses

	Three months ended		Nine months ended	
	2015	2014	**2015**	2014
	$	$	**$**	$
Wages	270,489	274,028	818,761	788,056
Benefits	32,833	29,708	72,409	71,364
Total	**303,322**	**303,736**	**891,170**	**859,420**

19. Supplemental information

The changes in non-cash working capital for the three month and nine month periods ended June 30, 2015 and 2014 is as follows:

	Three months ended		Nine months ended	
	2015	2014	**2015**	2014
	$	$	**$**	$
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	**643,423**	(26,717)	**(51,997)**	(364,901)
Prepaid expense and deposits	**(231,492)**	(167,881)	**(244,524)**	(245,486)
Inventory	**(8,442)**	191,888	**(155,645)**	(131,397)
	403,489	(2,710)	**(452,166)**	(741,784)
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	**162,595**	(77,874)	**742,712**	(146,001)
	566,084	(80,584)	**290,546**	(887,785)

20. Commitments

(a) At June 30, 2015, Eguana had commitments for premises as follows:

	$
Less than one year	**103,000**
Between one and five years	**123,000**
More than five years	**-**
	226,000

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

20. Commitments (continued)

(b) Consulting services of $42,000 US were provided in fiscal 1998 to a subsidiary of the Company. Repayment is contingent upon SEL achieving sales or capital funding of $2,000,000 US. Interest at an annual rate of 20% per year commences from the date upon which the liability first accrues. It is the opinion of management that SEL will not meet the performance targets based on its history and the future plans for the subsidiary and therefore it is unlikely that any amount will be payable under the agreement. During the quarter, the party performing the consulting services filed a claim against the Company. The Company will vigorously defend against the claim as management has assessed the claim as being without merit. As a result, no provision has been made as at June 30, 2015.

(c) There is a legal action for which the ultimate result cannot be ascertained at this time. Management does not expect the outcome of these proceedings to have a material effect on the financial position or results of operations.

(d) The Company is party to an employment agreement with its CEO who is also a director of the Company, under which payment of a portion of the compensation is contingent upon the Company realizing positive earnings for any one fiscal quarter before interest, taxes, depreciation and amortization, a change of control of the Company, liquidation or receivership of the Company or termination of the employment agreement. At June 30, 2015, the total contingent amount was approximately $718,750 (2014 - $568,750). Because the Company has not achieved the criteria for payment no amount has been accrued for this potential obligation. Subsequent to June 30, 2015 the Company entered into a settlement agreement more fully described in Note 22.

21. Segmented Information

Major customers

The Company had one customer where product sales were greater than 10% in the nine month period ended June 30, 2015. The customer had attributed sales of approximately $1,465,970 and $4,432,727 for the three and nine months ended June 30, 2015 (2015 – $426,671 and $1,138,798).

22. Subsequent event

On August 17, 2015, the Company entered into a Settlement Agreement with its former CEO which requires the obligation described in Note 20 (d) to be repaid at $$13,115 per month without interest until the obligation of $1,068,872 arising out of the Settlement Agreement is repaid. Payment of the unpaid balance can be accelerated to become 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 2 fiscal quarters and a change of control, The obligation is secured by a security interest in the company's assets and is subordinate to a line of credit of up to $1,500,000 and senior liens up to $12,000,000.