Consolidated financial statements of

Eguana Technologies Inc.

September 30, 2015

Eguana Technologies Inc.
September 30, 2015

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Independent Auditor's Report

To the shareholders of Eguana Technologies Inc.

We have audited the accompanying consolidated financial statements of Eguana Technologies Inc., which comprise the consolidated statements of financial position as at September 30, 2015 and September 30, 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of change in equity (deficiency) and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eguana Technologies Inc. as at September 30, 2015 and September 30, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 in the consolidated financial statements which indicates that the entity has not yet achieved profitable operations since its inception, has an accumulated deficit of $45,403,793 as at September 30, 2015 (2014 - $36,614,985) and has incurred cash outflows from operating activities of $3,819,059 for the year then ended (2014 - $4,138,419). These conditions, along with other matters described in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

BDO Canada LLP

Chartered Accountants
Calgary, AB
January 28, 2016

Eguana Technologies Inc.

Consolidated statements of financial position

Stated in Canadian dollars

	Note	2015	2014
		$	$
Assets			
Current:			
Cash		**2,502,459**	55,960
Cash held in trust	15	**903,818**	-
Accounts receivable and advances		**204,665**	1,692,733
Inventory	6	**376,646**	1,081,191
Other assets - current portion	18	**118,100**	118,540
Prepaid expenses and deposits		**200,973**	303,881
		4,306,661	3,252,305
Non-current:			
Other assets	18	**191,601**	309,260
Development costs	7	**3**	3
Capital assets	8	**377,550**	280,737
		4,875,815	3,842,305
Liabilities			
Current:			
Accounts payable and accrued liabilities		**3,364,843**	2,143,965
Provisions	9	**248,870**	137,579
Bank debt	10	**1,460,855**	955,104
Fair value of common shares to be issued upon conversion in respect of accreted dividend	16	**-**	4,244,514
Energy Northwest obligation - current portion	11	**177,243**	73,948
Government grant obligation - current portion	12	**64,363**	158,056
Debentures and other liabilities - current portion	13	**773,588**	881,503
Other liabilities	14	**171,632**	-
		6,261,394	8,594,669
Non-current:			
Deferred lease inducement		**39,000**	54,600
Energy Northwest obligation	11	**-**	58,603
Government grant obligation	12	**-**	57,771
Debenture	13	**1,147,398**	1,699,621
Other liabilities	14	**642,958**	-
		8,090,750	10,465,264
Shareholders' equity (deficiency)			
Common shares	15	**32,681,242**	11,003,187
Preferred shares	16	**1**	10,190,861
Warrants	18	**1,795,774**	1,177,008
Contributed surplus	19	**7,840,675**	7,717,069
Foreign currency translation reserve		**(128,834)**	(96,099)
Deficit		**(45,403,793)**	(36,614,985)
		(3,214,935)	(6,622,959)
		4,875,815	3,842,305

Going concern (Note 3), Commitments (Note 28) and Subsequent events (Note 32)
The accompanying notes are an integral part of these consolidated financial statements

On behalf of the Board:

{signed}
George Powlick, Director

{signed}
Robert Penner, Director

Eguana Technologies Inc.

Consolidated statements of loss and comprehensive loss
For the years ended September 30,

Stated in Canadian dollars

	Note	2015	2014
		$	$
Sales		**6,007,008**	2,284,764
Cost of goods sold		**8,133,768**	2,103,972
Gross margin		**(2,126,760)**	180,792
Expenses			
General and administrative	22	**1,717,869**	1,680,469
Bad debt expense	21, 31	**1,770,710**	-
Settlements	14	**642,958**	-
Operations	22	**640,368**	725,045
Product research and development	22, 25	**729,360**	950,574
Selling and marketing	22, 25	**731,416**	548,408
		6,232,681	3,904,496
Loss before undernoted items		**(8,359,441)**	(3,723,704)
Financing costs	23	**(839,910)**	(3,166,285)
Gain on debentures	13	**410,109**	-
Loss on modification of preferred shares	16	**-**	(460,933)
Other income	31	**436**	203,646
Net loss		**(8,788,807)**	(7,147,276)
Foreign currency adjustment to equity		**(32,735)**	(12,867)
Total comprehensive loss		**(8,821,541)**	(7,160,143)
Loss per common share			
Basic and diluted		**(0.10)**	(0.22)
Weighted average number of common shares			
Basic and diluted	15	**86,925,743**	32,272,332

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

Eguana Technologies Inc.

Consolidated statements of change in equity (deficiency)

For the years ended September 30,

Stated in Canadian dollars

	Common shares	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	-	-	-	-	-	(8,788,807)	-	(8,788,807)
Other comprehensive loss	-	-	-	-	-	-	(32,735)	(32,735)
Issue of share capital	7,030,921	-	-	-	-	-	-	7,030,921
Conversion of preferred shares	14,647,134	(10,190,860)	-	-	-	-	-	4,456,274
Warrants issued	-	-	-	684,097	-	-	-	684,097
Warrants expired	-	-	65,331	(65,331)	-	-	-	-
Share based payments	-	-	58,275	-	-	-	-	58,275
Balance, September 30, 2015	32,681,242	1	7,840,675	1,795,774	-	(45,403,792)	(128,834)	(3,214,934)
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	-	-	-	-	-	(7,147,276)	-	(7,147,276)
Other comprehensive gain	-	-	-	-	-	-	12,867	12,867
Issue of share capital	3,435,797	-	-	-	-	-	-	3,435,797
Conversion of preferred shares	1,643,204	(480,000)	-	-	(215,289)	-	-	947,915
Warrants exercised	127,293	-	-	(29,318)	-	-	-	97,975
Options exericised	19,138	-	(8,638)	-	-	-	-	10,500
Warrants issued	-	-	-	153,724	-	-	-	153,724
Warrants modified	-	-	-	511,765	-	-	-	511,765
Modificiation of preferred shares	-	10,670,861	-	-	(3,864,470)	2,104,607	-	8,910,998
Loss on conversion of preferred shares	-	-	-	-	-	22,190	-	22,190
Share based payments	-	-	114,984	-	-	-	-	114,984
Balance, September 30, 2014	11,003,187	10,190,861	7,717,069	1,177,008	-	(36,614,985)	(96,099)	(6,622,959)

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

Eguana Technologies Inc.

Consolidated statements of cash flows

For the years ended September 30,

Stated in Canadian dollars

	Note	2015	2014
		$	$
Operating activities			
Net loss		**(8,788,807)**	(7,147,276)
Amortization of capital assets and development costs		**77,271**	567,113
Amortization of deferred lease inducement		**(15,600)**	(15,600)
Share-based payments		**58,275**	114,984
Write down of inventory		**1,251,263**	50,272
Loss on settlement of debt		**-**	15,308
Warranty provision		**111,291**	25,579
Finance costs		**839,910**	3,166,285
Gain on debentures		**(410,109)**	
Investor relations		**55,763**	-
Change in other liabilities		**814,590**	-
Loss on modification of preferred shares		**-**	460,933
Unrealized foreign exchange gain		**-**	(2,622)
		(6,006,153)	(2,765,024)
Net change in non-cash working capital	27	**2,187,094**	(1,373,395)
Cash flow used in operating activities		**(3,819,059)**	(4,138,419)
Financing activities			
Bank loan		**505,751**	337,947
Proceeds from common shares		**8,334,871**	2,397,750
Proceeds from limited partnership units		**314,000**	1,200,500
Cost of issuing common shares and limited partnership units		**(989,616)**	(254,584)
Proceeds on excerise of warrants		**-**	97,975
Proceeds on excerise of options		**-**	10,500
Proceeds from debentures		**-**	315,000
Costs of issuing debentures		**-**	(17,749)
Repayment of government contribution		**(76,000)**	(34,000)
Repayment of debentures		**(530,333)**	(66,667)
Cash financing costs paid		**(243,103)**	(156,769)
Cash flow from financing activities		**7,315,570**	3,829,903
Investing activities			
Capital asset additions		**(145,317)**	(33,254)
Cash flow used in investing activities		**(145,317)**	(33,254)
Foreign exchange on cash held in foreign operations		**(877)**	(2,144)
Net change in cash		**3,350,317**	(343,914)
Cash held in trust, end of period		**903,818**	-
Cash, beginning of period		**55,960**	399,874
Cash, end of period		**2,502,459**	55,960

The accompanying notes are an integral part of these 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 consolidated financial statements ("the financial statements") were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Company on January 28, 2016.

(b) Basis of consolidation

The consolidated financial statements of Eguana Technologies Inc. include the accounts of the Company and its wholly owned subsidiaries: Sustainable Energy Systems Inc. ("SES"), Sustainable Energy Europa S.L. ("SEE"), EGT Markets Limited Partnership ("EGTLP"), Sustainable Energy Laboratories Ltd. ("SEL"), International Power Systems, Inc. ("IPS"), and Sustainable Energy France ("SEF").

All intra-Company transactions, balances, revenue and expenses are eliminated in full on consolidation.

Subsidiaries that are directly controlled by the parent company or indirectly controlled by other consolidated subsidiaries are fully consolidated. All intercompany balances, transactions and income are eliminated. The Company currently has no special purpose entities of which it retains control and accordingly the consolidated financial statements do not include the accounts of any such entities.

(c) Critical accounting estimates

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

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

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

i. Valuation adjustments for inventory

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

ii. Share-based payment transactions

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

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

iii. Debentures

The Company issues debentures which are comprised of embedded derivatives, debt and equity components. In determining the fair value of the Company's debentures on the date of issuance and at the date of the consolidated statement of financial position, management uses internally developed models. This method requires the input of a number of assumptions including estimated market rate of interest and timing and quantity of forecasted revenues. These assumptions are determined using management's best estimates and involve inherent uncertainties. They are reviewed quarterly and have a significant impact on the estimates of fair value of the embedded derivatives and debt components.

iv. Income taxes

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

v. Energy Northwest obligation

The Company is required to provide for amounts that will be payable to Energy Northwest as compensation for services contributed by Energy Northwest during the early development of the Company's step wave power converter ("SWPC") technology. The compensation payable to Energy Northwest in any year is dependent on the sales of products utilizing the SWPC in the year subject to annual minimum and maximum

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

payments. Due to the emerging nature of the Company's business, the provision requires the Company to estimate sales for each year during the period of time for which the agreement will be in place (Note 13).

This estimate of sales is based on past sales related to the SWPC technology and management's forecast of SWPC sales until the end of the agreement on January 1, 2016.

vi. Government grant obligation

The Company has received government funding related to certain historical research and development projects. Under the terms of certain of these arrangements, the Company is obligated to make payments in the form of royalties contingent upon sales of its products. The financial liability has been measured based on the net present value of estimated future royalties. In order to measure the financial liability for each reporting period, the Company makes estimates regarding future revenues during the life of the arrangements and the discount rate to be used in determining the net present value. The discount rate used to determine the present value of the government contribution liability is 25%.

vii. *Preferred Shares*

The Company makes estimates in allocating the gain (loss) upon the removal of the mandatory redemption feature for the preferred shares. This includes measuring the fair value of the preferred shares liability before removal of the mandatory redemption feature based on estimated market rates of interest.

(d) Critical accounting judgments

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

i. Commitments, Contingencies and Guarantees

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

ii. Determination of functional currency

In determining the Company's functional currency, it periodically reviews its primary and secondary indicators as stipulated under IAS 21 "The Effects of Changes in Foreign Exchange Rates" to assess each subsidiary's primary economic environment in which the entity operates. The Company analyzes the currency that mainly influences labor, material and other costs of providing goods or services which is often the currency in which such costs are denominated and settled. The Company also analyzes secondary indicators such as the currency in which funds from financing activities such as equity issuances are generated and the funding dependency of the parent company whose predominant transactional currency is the Canadian dollar. Determining the Company's predominant economic environment requires significant judgment.

iii. Inventory

Judgement is required in determining when net realizable value is evaluated on an item by item basis or if they cannot be evaluated separately from other items in inventory and are grouped with similar items.

3. Going concern

The 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 September 30, 2015, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $45,403,793 (2014 - $36,614,985) and recognized a cash flow deficiency from operations in 2015 of $3,819,059 (2014 - $4,138,419). 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 significant working capital deficit of $1,954,733 (2014 - $5,342,364).

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 will seek financing through the issuance of common shares, first preferred shares, units of ETG Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time. Subsequent to year end, the Company raised additional equity and issued EGT Limited Partnership Units for gross proceeds of $747,000 (Note 32).

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.

4. Significant accounting policies

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

(a) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another. Upon initial recognition all financial instruments, including derivatives, are recognized on the consolidated statements of financial position at fair value. Subsequent measurement is then based on financial instruments being classified into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) fair value through profit or loss. Financial instruments classified at fair value through profit or loss or assets available-for-sale as a result of initially adopting this section are measured at fair value. Gains or losses on the subsequent measurement of fair value are recognized in net income (loss), while gains and losses on subsequent measurement of available-for-sale items are recognized as an adjustment to other comprehensive loss.

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

At September 30, 2015, the Company's financial instruments include cash, cash held in trust, accounts receivable and advances, accounts payable and accrued liabilities, bank debt, fair value of common shares to be issued upon conversion in respect of accreted dividend, debentures, Energy Northwest obligation, government grant obligation and other liabilities. Cash, the embedded derivative in the Energy Northwest obligation, the embedded derivative in the government grant obligation, the embedded derivatives in the debentures, and the fair value of common shares to be issued upon conversion in respect of accreted dividends are measured at fair value consistent with the "fair value through profit or loss" classification. Net gains and losses arising from changes in fair value are recognized in net loss upon de-recognition or impairment. Accounts receivable and advances are measured at amortized cost consistent with the "loans and receivables" classification. Loans and receivables are subsequently measured at their amortized cost, using the effective interest rate method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Accounts payable and accrued liabilities, bank loan, debentures, Energy Northwest obligation, government grant obligation, other liabilities and the debentures are measured at amortized cost using the effective interest method, consistent with the "other financial liabilities" classification. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

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

The Company has an embedded derivative related to the Company's ability to call the debentures (Note 13) at par at any time after the second or third anniversary of issue. The Company also has an embedded derivative related to the royalty payments on the debentures. The Company estimates sales each reporting period during the term of the agreement to determine the estimated royalties and determines the fair value of the embedded derivatives. The embedded derivatives related to the call and the royalty payment have been determined as one value as management considers them to be closely linked and have been presented within the line item denoted "Debentures and other liabilities" in the consolidated statements of financial position.

The Company has an embedded derivative related to the compensation payable on the Energy Northwest obligation (Note 11). The Company estimates sales revenue each reporting period throughout the term of the agreement to determine the fair value of the estimated compensation payments. This embedded derivative has been presented within the line item denoted "Energy Northwest obligation" in the consolidated statements of financial position.

The embedded derivative in the debenture and Energy Northwest obligation are recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss every period.

On initial recognition, the financial instruments were classified into debt and other financial liabilities (embedded derivatives) based upon fair value with the equity components being the residual amounts.

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

Subsequent to the initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition.

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

(b) Foreign currencies

i. Foreign currency transactions

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

ii. Foreign currency balances

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses, net of tax, arising from those items are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income (loss) and presented in the translation reserve in equity.

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

(c) Inventory

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

(d) Other assets

Warrants issued to extend the equity commitment agreement, are included in other assets and are amortized on a straight-line basis over the life of the equity commitment agreement.

4. Significant accounting policies (continued)

(e) Capital assets

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

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment and leasehold improvements	5 years straight-line
Computer equipment	3 years straight-line
Computer software	1 year straight-line
Lab equipment	3 to 5 years straight-line
Dies and molds	1 year straight-line

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

(f) Research costs

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

(g) Impairment of capital assets

At each consolidated statement of financial position date, the Company reviews the carrying amounts of its capital assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell of the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets on a pre-tax basis. These cash flows are discounted at a rate reflecting the estimated time value of money and risk associated with the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

4. Significant accounting policies (continued)

(h) Government grants

Government grants are utilized to fund the various research and development technologies of the Company. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions of the grant and that the grant will be received.

Government grants, including contingently repayable government grants, whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recorded as a deduction of the cost of the asset and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

The Company participates in government programs which are both non-payable and repayable government grants (Note 25). Assistance related to non-payable programs is recorded when there is reasonable assurance that the contribution will be received and all conditions will be complied with. Assistance is presented as a reduction of the related expense or development costs. For repayable government programs, the obligation is treated as a financial liability.

(i) Provisions and contingencies

i. Provisions

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

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical experience. The initial estimate of warranty-related costs is revised annually.

ii. Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate available to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by a future event, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

4. Significant accounting policies (continued)

(j) Share-based payments

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

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to the share-based payment reserve.

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

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

(k) Revenue recognition

Revenue from product sales is generally recognized on transfer of ownership to the customer and when reasonable assurance exists regarding the measurement and collection of the consideration received.

(l) Income taxes

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Stated in Canadian dollars

4. Significant accounting policies (continued)

(m) Loss per share

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

5. Recently issued accounting pronouncements

New standards and interpretations not yet adopted

The IASB has issued the following new and revised standards and amendments, which are not yet effective for the period ended September 30, 2015:

(a) IFRS 15, Revenue from Contracts ("IFRS 15")

IFRS 15 Revenue from Contracts with Customers IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted.

(b) IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 reflects the first phase of the IASB's work on the replacement of IAS 39 Financial Instruments, Recognition and Measurement. The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. IFRS 9 is effective for annual periods on or after January 1, 2018.

6. Inventory

	2015	2014
	$	$
Finished goods	**180,417**	262,315
Components	**196,230**	818,876
	376,646	1,081,191

As at September 30, 2015, $281,581 (2014 - $1,081,191) of inventory was carried at cost and $95,065 (2014 - $nil) was carried at net realizable value. During the year, the Company wrote off $350,399 of inventory related to raw materials which is not anticipated at it won't be used. An additional $900,864 was written off due to the termination of the contract with the Company's major customer.

Stated in Canadian dollars

7. Development costs

Carrying value	**2015**	2014
	$	$
Development of wind turbine technology	**1**	1
Development of power electronics intellectual property	**1**	1
Development of power electronics platform	**1**	1
	3	3

Cost	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance September 30, 2013	1,894,618	3,886,590	1,456,224	7,237,432
Foreign currency translation	-	268,713	21,873	290,586
Balance September 30, 2014	1,894,618	4,155,303	1,478,097	7,528,018
Foreign currency translation	-	1,056,226	474,554	1,530,780
Balance September 30, 2015	**1,894,618**	**5,211,529**	**1,952,651**	**9,058,798**

Accumulated amortization and impairment	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance September 30, 2013	1,894,617	3,401,633	1,456,223	6,752,473
Amortization	-	504,441	-	504,441
Foreign currency translation	-	249,228	21,873	271,101
Balance September 30, 2014	1,894,617	4,155,302	1,478,096	7,528,015
Foreign currency translation	-	1,056,226	474,554	1,530,780
September 30, 2015	**1,894,617**	**5,211,528**	**1,952,650**	**9,058,795**

Amortization of the intangible asset is included in the consolidated statement of loss and comprehensive loss under the line item “product research and development”.

Stated in Canadian dollars

8. Capital assets

	2015	2014
	$	$
Carrying value		
Computer equipment and software	**15,007**	3,249
Lab equipment	**292,174**	186,445
Furniture, equipment and leasehold improvements	**70,369**	87,774
Dies and molds	**-**	3,269
	377,550	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	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
	$	$	$	$	$
Balance September 30, 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**

Stated in Canadian dollars

8. Capital assets (continued)

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	$	$	$	$	$
Balance September 30, 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 molds	Total
	$	$	$	$	$
Balance September 30, 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 consolidated statement of loss and comprehensive loss under the line item "general and administrative".

As at September 30, 2015 $28,767 (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.

9. Provisions

	2015	2014
Warranty provision	**$**	$
Balance, beginning of year	**137,579**	112,000
Increase (decrease) in provision	**111,291**	25,579
	248,870	137,579

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

The Company reviews the assumptions used in the determination of the warranty provision on an annual basis. During the current year, management determined that the failure rate used for the Bidirex units and the cost per warranty claim should be adjusted to reflect the claims made in the current year and for the additional sales in the year. The financial effect of the reassessment along with the increase in number of units in the field is to increase the provision for warranty expense in the current year by $111,291 (2014 - $25,579).

Stated in Canadian dollars

10. Bank debt

The Company has a $1,500,000 operating line of credit. The operating line is secured by Doughty Hanson, a major shareholder of the Company, through an Equity Commitment Agreement. Interest is payable at the bank's prime rate plus 3% (2014 – prime rate plus 3%) and amounts outstanding are repayable upon demand. The Company cannot grant a security interest, declare or pay dividends or redeem any shares without prior written bank consent.

The Equity Commitment Agreement allows the Company, in conjunction with a demand for repayment by the bank, to obligate Doughty Hanson to pay to the bank up to a maximum of $1,500,000. In the event that this occurs Doughty Hanson has the option to be compensated by one of the following methods at their discretion:

a) have the bank assign the Company's debt to them, or

b) have the Company issue convertible redeemable voting preferred shares at a price of $10 per share based on the amount paid to the bank. This series of preferred shares features will be similar and rank pari passu to the Series 9 preferred shares (Note 16).

Subsequent to year end, the Company repaid the outstanding line of credit with proceeds from the shares issued in September 2015 (Note 15) and canceled the operating line of credit (Note 32).

11. Energy Northwest obligation

	2015	2014
	$	$
Obligation to Energy Northwest ($129,285 US; September 2014 - $115,229 US)	**177,243**	132,551
Less: current portion of Energy Northwest obligation	**(177,243)**	(73,948)
	-	58,603

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 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).

Stated in Canadian dollars

12. Government grant obligation

National Research Council

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. The amount is repayable based on 1.9% of gross revenue after October 1, 2008 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 under the agreement is $64,363 (2014 - $267,440).

During the year, 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 repayable has been reduced by $87,796.

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

	2015	2014
	$	$
Government grant (NRC)	**64,363**	215,827
Less: current portion	**(64,363)**	(158,056)
	-	57,771

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

13. 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	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**
Less: current portion	**(642,694)**	**(130,894)**	**-**	**(773,588)**
	1,147,398	**-**	**110,330**	**1,257,728**

13. Debentures (continued)

On June 29, 2012, the Company issued $800,000 in 5-year subordinated debentures ("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 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 August 7, 2013, and September 17, 2013, the Company issued $1,820,000 in 5-year subordinated debentures ("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 consolidated quarterly 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 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 consolidated quarterly 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%.

The royalty payments on the debentures are linked to future gross sales of the Company. Management has determined that the royalty payments were required to be bifurcated and accounted for as an embedded derivative in accordance with IAS 39. This requires that the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the consolidated statement of loss each period. The debentures also have a call feature such that at any time after two years (extended to three years for the 2012 debenture) the Company may call the debentures. The call has value to the Company and is accounted for as an embedded derivative when the royalties that are expected to be paid result in a very high interest rate on the debentures and the Company would therefore exercise its right to call. Since this embedded call derivative is integrated into the royalties' payable, the royalty and the offsetting call derivatives have been valued together. The embedded derivative was valued using Level 3 valuation

Stated in Canadian dollars

13. Debentures (continued)

information (inputs not based on observable market data). Should the Company in the future change its expectation of future gross sales, the loan and embedded derivative values will change accordingly.

On December 21, 2014, the Company repaid a $42,167 debenture issued in 2012 and $240,000 of debentures issued in 2013 to key personnel and directors of the Company.

During the year the Company changed its estimate on the repayment of the debentures from an early repayment to the repayment terms per the agreement of each debenture. This change in estimate resulted in a decrease of the debt component of $410,109. During the year certain holders of the debentures agreed to defer repayments required during the year of $153,000 to the following year.

14. Other Liabilities

	2015	2014
	$	$
Settlement agreement	**563,572**	-
Contingent liability settlement	**140,697**	-
Deferred revenue	**110,321**	
Less: current portion	**(171,632)**	-
	642,958	-

In August 2015, the Company entered into a Settlement Agreement with its former CEO, who is also a director of the Company, under which the Company agreed to pay deferred compensation earned by the CEO since 2010 in equal monthly payments of $13,115 without interest over a period of 82 months beginning 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 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.

Subsequent to year end, 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$104,927 ($140,697) 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 current year financial statements.

Stated in Canadian dollars

15. 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	83,057,903	8,334,872
Share issuance costs	-	(1,561,446)
Common shares issued in exchange for partnership units (Note 17)	951,420	314,000
Partnership unit costs	-	(56,505)
Balance, September 30, 2015	**151,005,323**	**32,681,242**

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value, and an unlimited number of preferred shares, issuable in series, without nominal or par value.

In December 2013, the Company issued 1,375,000 common shares in connection with a private placement for gross proceeds of $550,000. The commissions paid on the issuance were $28,000. As partial compensation 70,000 broker warrants were issued with a fair market value of $18,900 (Note 18). The warrants have an exercise price of $0.45 and expire one year from issuance. Other costs of $12,752 were incurred bringing the total costs on issuance to $59,652.

In May 2014 and June 2014, the Company issued 4,619,375 common share units in connection with a private placement for gross proceeds of $1,847,748. Each unit consists of 1 common share and ½ common share purchase warrant exercisable at $0.60 (Note 18). The commissions paid on the issuance were $55,664. As partial compensation 139,160 broker warrants were issued with a fair market value of $46,165 (Note 18). The warrants have an exercise price of $0.40 and expire 18 months from issuance. Other costs of $45,868 were incurred bringing the total costs on issuance to $147,696.

In July 2014, the Company settled $147,907 of debt by issuing 237,700 common share units. Each unit is comprised of one common share and ½ share purchase warrant exercisable at $0.60 for a period of 18 months after issuance (Note 18). The fair value of the warrants was determined to be $42,228.

15. Common shares (continued)

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.

Throughout fiscal 2014, the Company issued 2,153,006 common shares on the conversion of preferred shares which included accreted dividends of $498,205 that were also converted into common shares at the time the preferred shares were converted.

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 ½ 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. 1,100,000 units were issued to key personal and directors of the Company.

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 17).

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. The 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. 2,826,190 common shares were issued to key personal and directors of the Company.

At September 30, 2015, the Company had cash held in trust of $903,818 related to the common shares issued. Subsequent to year end, the cash was made available to the Company.

Weighted average number of common shares

The weighted average number of shares for September 30, 2015 and 2014 were determined by excluding preferred shares, stock options and warrants because the Company was in a loss position.

Stated in Canadian dollars

16. Preferred shares

Authorized

Unlimited number of voting preferred shares issuable in a series, redeemable at the option of the Company at the 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 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 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		

On February 27, 2014, each of the series preferred shareholders unanimously agreed to remove the mandatory redemption feature of the preferred shares. All other terms remained the same and the shareholders received no compensation for the change of the terms. As a result of the modification to the terms of the preferred shares, the preferred shares subject to a fixed conversion price can be reclassified as equity. Dividends accreted on the preferred shares are convertible to common shares based on the market price of common shares the day prior to the conversion by the preferred shareholder and therefore, do not meet the definition of equity as per IAS 32. As a result, a liability has been recorded as "fair value of common shares to be issued on conversion in respect of accreted dividend" on the statement of financial position. This liability will be adjusted each quarter to reflect the fair value of the liability.

At the date of the modification, the Company determined the fair value of the preferred shares without the redemption feature to be the redemption value. As a result of the above modification, a gain of $1,643,674 has been recognized of which $460,933 is attributable to the liability and the residual $2,104,609 is recorded to equity. The recognition of this gain has been split between the statement of change in equity and statement of loss using the same method to allocate the consideration as was used in the original allocation between the equity and debt component when the preferred shares were originally issued as required by IFRS. Under this method the consideration allocated to the debt component of the preferred shares liability was measured at the modification date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 24%, and the residual of the consideration was allocated to equity.

Stated in Canadian dollars

16. 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, September 30, 2015	-	-
Series 8		
Balance October 1, 2014	1	1
Conversion to common shares	-	-
Balance, September 30, 2015	**1**	**1**
Series 9		
Balance October 1, 2014	53,236	532,360
Conversion to common shares	(53,236)	(532,360)
Balance, September 30, 2015	-	-
Series 10		
Balance October 1, 2014	80,000	800,000
Conversion to common shares	(80,000)	(800,000)
Balance, September 30, 2015	-	-
Series 11		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, September 30, 2015	-	-
Series 12		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, September 30, 2015	-	-
Series 13		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance, September 30, 2015	-	-
Series 14		
Balance October 1, 2014	50,000	500,000
Conversion to common shares	(50,000)	(500,000)
Balance,September 30, 2015	-	-
Series 15		
Balance October 1, 2014	62,000	620,000
Conversion to common shares	(62,000)	(620,000)
Balance, September 30, 2015	-	-
Total preferred shares September 30, 2015	**1**	**1**
Total preferred shares September 30, 2014	1,019,087	10,190,861

17. 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 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 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 2013, EGTLP issued 1,200.5 Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $1,200,500. The commissions paid on the issuance were $77,385. As partial compensation 171,967 broker warrants were issued with a fair market value of $46,431 (Note 18). The warrants have an exercise price of $0.45 and expire one year from issuance. Other costs of $27,835 related to the issue of the partnership units were also incurred bringing the total costs on issuance to $151,651.

The limited partnership units are exchangeable for a total of 2,667,778 common shares of Eguana after December 31, 2013, at an exchange ratio of $0.45 per share. On January 31, 2014, Eguana exercised its right to convert the units to common shares of Eguana and issued 2,667,778 shares (Note 15).

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 18). 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 15).

Subsequent to year end in December 2015, the company issued 747 Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $747,000. The commission paid on the issuance were $37,350.

Stated in Canadian dollars

18. 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)	(65,332)
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**

Outstanding warrants at September 30, 2015 were as follows:

Range of exercise prices	Warrants	Weighted average price	Weighted average years to expiry
		$	
\$0.01–\$0.30	8,994,631	0.12	2.69
\$0.31–\$0.40	8,979,537	0.39	4.05
\$0.41–\$0.50	1,858,000	0.50	2.12
\$0.51–\$0.60	2,428,538	0.60	0.20
Balance, September 30, 2015	**22,260,706**	**0.31**	**2.92**

3,529,411 warrants were issued to Doughty Hanson on June 13, 2013, exercisable until May 1, 2014 at \$0.17 as a result of an agreement reached on May 20, 2013. These warrants were compensation for extending the equity commitment agreement of \$1,500,000 as security for the bank operating line to April 30, 2014 (Note 10). In December 2013, the Company extended the exercise date on the warrants to May 1, 2018.

The overall weighted average incremental fair value granted on account of this modification was measured using the Black-Scholes option pricing model. The weighted average fair value calculated for these warrants as of the measurement date of December 23, 2013, was \$0.22. This fair value was calculated based on the weighted average assumptions of a share price of \$0.365 an exercise price of \$0.17, expected stock price volatility of 153.92%, risk free interest rate of 1.00%, expected dividend yield of 0%, and an expected option life of 0.36 years. The incremental fair value granted was computed based on the difference in the modified life (from 0.36 years to 4.36 years) while using the weighted average assumptions of a share price of \$0.365, an exercise price of \$0.17, expected stock price volatility of 278.24%, risk free interest rate of 2.50%, expected dividend yield of 0%, and an expected option life of 4.36 years. The resulting weighted average incremental fair value granted on account of

18. Warrants (continued)

this modification was $0.145 per warrant, which computed to $511,765 of additional warrant value that will be recognized over the life of the equity commitment agreement as part of financing costs.

241,967 broker warrants were issued in December 2013, in conjunction with the issue of common shares and partnership units (Note 15 and 17). 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. These warrants expired without being exercised in December 2014.

139,160 broker warrants were issued in May and June 2014, in conjunction with the issue of common shares units (Note 15). 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.

2,309,668 warrants were issued on May 2014 and June 2014, in conjunction with the issue of common share units (Note 15). 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 15). 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 15). 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 15). 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 15). 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 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.

Stated in Canadian dollars

18. Warrants (continued)

66,598 finders' warrants were issued in December 2014, in conjunction with the issue of partnership units (Note 17). 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 15). 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.

Subsequent to year end 2,515,446 warrants expired with a weighted average exercise price of $0.58 (Note 31.

19. 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 September 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	0.91	511,730	0.73
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	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**

Stated in Canadian dollars

19. 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	1,326,730	0.30	4.21	1,326,730	0.30
$0.31–$0.40	3,454,103	0.40	8.91	300,000	0.36
$0.41–$0.50	220,000	0.48	3.46	160,000	0.50
Balance, September 30, 2015	**5,000,833**	**0.38**	**7.42**	**1,786,730**	**0.33**

The total share-based compensation calculated for the year ended September 30, 2015, was $58,275 (2014 – $114,984).

On April 16, 2014, the Company issued a total of 335,000 new incentive stock options to consultants and employees exercisable at a price of $0.44 with an expiry date of April 16, 2024. The stock options are only exercisable following two consecutive quarters of positive earnings before interest, depreciation and taxes, or if the Company is acquired within the next 24 months. The fair value of the options was determined to be $133,561. Management has estimated that as at September 30, 2014, no options are 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.

On April 16, 2014, the Company issued a total of 175,000 new incentive stock options to consultants and employees exercisable at a price ranging from $0.40 to $0.50 with expiry dates of April 16, 2017 to April 15, 2024. The stock options vest in the first year.

In October 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 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 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.

Subsequent to year end, the Company issued an additional 375,000 stock options (Note 32).

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

Stated in Canadian dollars

19. Contributed surplus (continued)

		2015		2014
Risk free interest rate		**0.57%**		1.15%
Expected volatility (1)		**152.91%**		183.71%
Dividend Yield		**-**		-
Expected life (years)		**3**		2
Weighted average fair value	**$**	**0.27**	$	0.35

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

In May 2013, the Company announced that the Board of Directors had authorized a revision to the terms of a total of 1,524,372 stock options, with original exercise prices ranging from $1.00 to $4.00, to reduce the exercise price of such options to $0.30 per option. Of the 1,524,372 stock option authorized for re-pricing, 1,164,642 options are held by Insiders (as that term is defined in the TSX Venture Exchange policies) ("Insider Options"). Pursuant to the Policies of the TSX Venture Exchange, the Insider Options may not be exercised at the revised exercise price until the re-pricing is approved by the Company's shareholders. The shareholders approved the re-pricing of the Insider Options at the Company's annual general meeting on October 29, 2013. All other terms for these options (vesting periods, expiry, etc.) were not modified as part of this re-pricing. As such, the amended options had a weighted average expiry term of 6.28 years as of the date of the re-pricing.

The overall weighted average incremental fair value granted on account of this re-pricing was measured using the Black-Scholes option pricing model to estimate the incremental increase in fair value of these options due to the modification of exercise price. Overall, the weighted average fair value calculated for these re-priced options as of the measurement date of May 27, 2013, was $0.14. This fair value was calculated based on the weighted average assumptions of a share price of $0.20 an exercise price of $0.30, expected stock price volatility of 133.72%, risk free interest rate of 1.24%, expected dividend yield of 0%, and an expected option life of 6.28 years. The incremental fair value granted was computed based on the difference in the modified exercise price (from a weighted average of $1.59 per option to $0.30 per option) while using the same weighted average assumptions that existed as previously mentioned. The resulting weighted average incremental fair value granted on account of this re-pricing was $0.051 per option, which computed to $59,550 of additional stock based compensation for the Insider Options that was recognized during the period.

20. 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.

Stated in Canadian dollars

20. Capital management (continued)

The Company defines capital as the aggregate of total shareholders' deficit and bank debt less cash as follows:

	2015	2014
	$	$
Total shareholders' deficiency	**(3,214,935)**	(6,622,959)
Cash	**(2,502,459)**	(55,960)
Cash held in trust	**(903,818)**	-
Bank debt	**1,460,855**	955,104
Total capital	**(5,160,357)**	(5,723,815)

There have been no changes to the Company's objectives in managing capital or in the management of capital since September 30, 2015. The Company presently has negative total capital and is currently working toward reversing this (Note 3 and Note 32).

21. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a single counterparty at September 30, 2015. Approximately 86% (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:

	2015	2014
	$	$
Trade	**193,025**	1,111,367
Taxation authorities	**116,215**	492,328
Employee advances and other	-	140,740
	309,240	1,744,435
Less: allowance for doubtful accounts	**(104,575)**	(51,702)
	204,665	1,692,733

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During year ended September 30, 2015, there was $1,770,710 (2014 – $nil) of bad debts expensed. The Company wrote-off a VAT receivable from Spain for $247,188, $1,470,649 of the bad debt expense is related to a dispute with Eguana's former major customer (Note 29) and $52,873 is related to trade receivables where collectability is questionable.

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. There are $122,039 (2014 - $51,702) of financial assets that the Company considers past due.

21. Financial instruments and financial risk management (continued)

The following is a schedule of trade receivables:

	2015	2014
	$	$
Neither impaired or past due	**70,986**	437,094
Past due in the following periods		
31 - 60 days	**-**	407,900
61 - 90 days	**34,823**	-
over 90 days	**87,216**	266,373
	193,025	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 September 30, 2015:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	3,364,843	-	-	3,364,843
Bank loan	1,460,855	-	-	1,460,855
Energy Northwest obligation	177,243	-	-	177,243
Government grant obligation	64,363	-	-	64,363
Debentures	773,588	1,147,398	-	1,920,986
Other Liabilities	171,632	122,553	520,404	814,590
Total	6,012,524	1,269,951	520,404	7,802,880

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amounts in Canadian currency was as follows for the year ended September 30, 2015:

	Euros	US Dollars	Total
	$	$	$
Cash	113,949	9,528	123,478
Accounts receivable and advances	20,027	14,235	34,262
Deposits	30,227	103,131	133,358
Accounts payable and accrued liabilities	(1,177,741)	(919,950)	(2,097,691)
Energy Northwest obligation	-	(177,243)	(177,243)
Other liabilities	(1,792)	(198,465)	(200,257)
	(1,015,329)	(1,168,764)	(2,184,093)

Stated in Canadian dollars

21. Financial instruments and financial risk management (continued)

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 $33,674 (2014 - $15,392) for the year ended September 30, 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 $43,581 (2014 - $7,731) for the year ended September 30, 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 year ended September 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 September 30, 2015, is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the period ending September 30, 2015:

Financial instrument	Carrying value	Fair value	Gain/(loss)
	$	$	$
Accounts receivable and advances	204,665	204,665	-
Accounts payable and accrued liabilities	3,364,843	3,364,843	-
Bank debt	1,460,855	1,460,855	-

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input, the other liabilities were measured at fair value using Level 2 inputs (Note 14) and the embedded derivatives on the Company's debentures (Note 13), preferred shares (Note 16) and Energy Northwest obligation (Note 11) were measured at a fair value using Level 3 inputs.

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

Stated in Canadian dollars

22. Related party transactions

Other than as disclosed elsewhere in the consolidated financial statements, the Company had the following related party transactions:

	2015		2014	
	Salaries and benefits	**Share based compensation**	Salaries and benefits	Share based compensation
	$	**$**	$	$
General and administrative	**405,487**	**-**	378,887	30,319
Product research and development	**147,046**	**2,514**	124,546	13,427
Operations	**179,250**	**3,116**	198,000	30,356
Total	**731,783**	**5,630**	701,433	74,102

Financing costs of $30,706 for the year ended September 30, 2015 (2014 - $74,091) related to the debentures and preferred shares Series 15 held by key personnel and directors are included in the statement of loss. Interest expenses incurred amounted to $11,403 (2014 - $15,848) for the year ended September 30, 2015.

Included in accounts payable and accrued liabilities is $235,998 (2014 - $122,476) 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 issued in 2012 and $240,000 of debentures issued in 2013 from key personnel and directors of the Company.

In December 2014, the key management 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 14).

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

Stated in Canadian dollars

23. Financing costs

	2015	2014
	$	$
Interest on Northwest obligation	**17,262**	13,785
Interest on bank debt	**39,061**	37,187
Interest on debenture	**423,821**	465,626
Change in fair value of embedded derivatives	**94,655**	234,310
Accretion of government grant obligation	**(75,464)**	36,426
Accretion of preferred shares	**-**	1,525,161
Change in fair value of common shares to be issued on conversion in respect of accreted dividend	**211,760**	662,873
Amortization of financing fees	**118,099**	263,082
Gain on conversion of preferred shares	**-**	(72,165)
Other	**10,716**	-
Total	**839,910**	3,166,285

24. Personnel expenses

	2015	2014
	$	$
Wages	**1,027,466**	1,051,326
Benefits	**52,748**	92,422
Total	**1,080,215**	1,143,748

25. Government grants

Eguana has received contributions related to the development of its technologies and to marketing from Canadian and French government agencies.

Alberta Innovates

The Company entered into an agreement with Alberta Innovates for funding related to research salaries in Alberta. The Company received a grant of $62,000 for a period of one year ending October 31, 2014. At September 30, 2014, the Company had received $62,000 (2013 -$50,417) from Alberta Innovates and has credited this amount against product research and development.

German-Canadian Centre for Innovation and Research ("GCCIR")

The Company entered into an agreement with "GCCIR" for funding related to the development of the bidirex inverter platform. The grant is to a maximum of $150,000. As at September 30, 2015, the Company had received $150,000 in funding. In 2015, $26,000 of the funding was applied to product research and development expenses. In 2014, $64,000 of the funding was applied to selling and marketing expenses and $60,000 was applied to product research and development expenses.

Stated in Canadian dollars

25. Government grants (continued)

Alberta Innovates – Energy and Environment Solutions ("AI-EES")

The Company entered into an agreement with "AI-EES" for funding related to the development of the commercial AC battery utilizing the patented bidirex inverter platform. The grant is to a maximum of $250,000, to be delivered based on the Company achieving a series of milestones. The project and payments will start is 2016.

26. Income taxes

Unrecognized deferred tax assets:

	2015	2014
	$	$
Development costs and capital assets	**204,000**	229,000
Non-capital loss carry forwards	**7,899,000**	6,147,000
Other	**317,000**	32,000
Share issue costs	**259,000**	798,000
	8,679,000	7,206,000
Assets not recognized	**(8,679,000)**	(7,206,000)
Total	**-**	-

Reconciliation of effective tax rate

	2015	2014
	$	$
Loss for the year	**(8,788,807)**	(7,147,278)
Rate	**26.5%**	27.3%
Expected income tax recovery	**(2,328,000)**	(1,951,000)
Differences resulting from:		
Non-deductible expense	**72,000**	-
Change in tax rates	**195,000**	-
Expiry of issuance costs and non-capital losses	**501,000**	-
Share based payments	**15,000**	31,000
Foreign jurisdiction losses not carried forward	**72,000**	1,000
Non-allowable losses from partnership	**-**	179,000
Change in unrecognized deferred tax assets	**1,473,000**	1,740,000
Total income tax recovery	**-**	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits. At September 30, 2015, the Company has approximately $25.4 million (2014 - $18.7 million) in Canadian non-capital loss carry forwards available. The unused losses will expire between 2027 and 2035. At September 30, 2015, the Company has approximately $2.3 million (2014 - $3.0 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2020 and 2035. At September 30, 2015, the Company has approximately $2.1 million (2014 - $2.0 million) in Spain of non-capital loss carry forwards available. The unused losses will expire in 2023.

Stated in Canadian dollars

27. Supplemental information

The changes in non-cash working capital for the years ended September 30, 2015 and 2014 is as follows:

	2015	2014
	$	$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	**1,487,982**	(1,184,967)
Prepaid expense and deposits	**102,908**	(240,193)
Inventory	**(635,718)**	5,422
	955,172	(1,419,738)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**1,142,923**	46,343
	2,098,095	(1,373,395)

28. Commitments

At September 30, 2015, Eguana had commitments for premises, investor relations services and computer services as follows:

	2015
	$
Less than one year	**93,000**
Between one and five years	**105,000**
More than five years	**-**
	198,000

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

29. Segmented information

Major customers

The Company had one customer where product sales were greater than 10% in the year ended September 30, 2015. The customer had attributed sales of approximately $5,806,458 for the year ended September 30, 2015 (2014 – $2,151,401).

30. Legal Disputes

The Company is in a dispute with a prior customer Sonnenbatterie as a result of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from Sonnenbatterie in addition to other amounts from the customer as a result of the cancellation. The collection of the related outstanding receivable is uncertain due to litigation risks and a provision has been provided for doubtful accounts. Sonnenbatterie 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 Sonnenbatterie.

30. Legal Disputes (continued)

The Company's former contract manufacturer submitted a letter requesting payment of 1,372,000 Euros ($2,069,000 CAD). The Company is disputing 378,000 Euros ($569,000 CAD) of the amount the contract manufacturer is seeking as the Company had not requested the inventory to be produced. The undisputed amount has been recorded by the Company.

31. Other income

The Company agreed to sell a non-exclusive license during the quarter ended December 31, 2012, which allows the licensee to manufacture the Company's new STX inverter platform; however, the licensee has been unable to close on the purchase. As such, the licensee has forfeited a $250,000 deposit which has been included in other income in the consolidated statement of loss and comprehensive loss.

32. Subsequent Events

Subsequent to year end, the Company repaid the outstanding line of credit with proceeds from the shares issued in September 2015 (Note 15) and canceled the operating line of credit (Note 10).

Subsequent to year end in December 2015, the company issued 747 Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $747,000. The commission paid on the issuance was $37,350.

Subsequent to year end, the Company settled a contingent liability with a third party who performed consulting services for $42,000 US in fiscal 1998 to a subsidiary of the Company. Conditions existed at the balance sheet date that required the liability to be recognized in the current year financial statements. The total settlement amount of $316,577 US will be paid out semi-annually over the next ten years. The obligation is unsecured (Note 14).

Subsequent to year end 2,515,446 warrants expired with a weighted average exercise price of $0.58 (Note 18).

At September 30, 2015, the Company had cash held in trust receivable of $903,818 related to the common shares issued. Subsequent to year end, the cash was made available to the Company (Note 15).

Subsequent to year end, the Company issued an additional 375,000 stock options (Note 19).