

Condensed interim consolidated financial statements of

Eguana Technologies Inc.

December 31, 2016

(Unaudited)

Eguana Technologies Inc.

December 31, 2016

Table of contents

Notice to reader.....	1
Unaudited condensed interim consolidated statements of financial position	2
Unaudited condensed interim consolidated statements of loss and comprehensive loss	3
Unaudited condensed interim consolidated statements of changes in equity (deficiency)	4
Unaudited condensed interim consolidated statements of cash flows.....	5
Notes to the unaudited condensed interim consolidated financial statements.....	6 - 23

NOTICE TO READER

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

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

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

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars

Unaudited

	Note	December 31, 2016	September 30, 2016
		\$	\$
Assets			
Current:			
Cash		2,782,322	4,355,471
Accounts receivable		511,018	291,508
Inventory	4	832,178	571,243
Prepaid expenses and deposits		182,728	218,252
		4,308,246	5,436,474
Non-current:			
Development costs		3	3
Capital assets	5	275,614	284,815
		4,583,863	5,721,292
Liabilities			
Current:			
Accounts payable and accrued liabilities		2,735,367	2,912,653
Provisions		240,229	248,961
Deferred revenue		155,658	81,373
Debentures - current portion	7	645,264	571,533
Other liabilities - current portion	8	54,242	51,462
		3,830,759	3,865,983
Non-current:			
Deferred lease inducement		19,500	23,400
Debentures	7	380,567	622,945
Other liabilities	8	593,120	594,259
		4,823,946	5,106,587
Shareholders' equity (deficiency)			
Common shares	9	40,618,966	40,598,701
Preferred shares	10	1	1
Warrants	12	1,181,039	1,380,291
Contributed surplus	13	9,207,962	8,998,578
Foreign currency translation reserve		(121,854)	(124,173)
Deficit		(51,126,197)	(50,238,693)
		(240,083)	614,705
		4,583,863	5,721,292

Going concern (Note 2(b)), Commitments (Note 20) and Subsequent event (Note 23)

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

Eguana Technologies Inc.

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

Stated in Canadian dollars

Unaudited

	Note	2016	2015
		\$	\$
Sales and engineering services	21	271,260	228,376
Cost of goods sold		59,739	301,289
Gross margin		211,521	(72,913)
Expenses			
General and administrative	18	368,775	462,763
Selling and marketing	18	223,679	229,394
Product research and development	18	273,083	136,007
Operations	18	137,881	124,203
		1,003,418	952,367
Loss before undernoted items		(791,897)	(1,025,280)
Financing costs	17	(101,588)	(154,944)
(Loss) on debentures	7	-	(18,433)
Other income		5,982	5
Net loss		(887,503)	(1,198,652)
Foreign currency adjustment to equity		2,320	(5,535)
Total comprehensive loss		(885,183)	(1,204,187)
Loss per common share			
Basic and diluted		(0.004)	(0.008)
Weighted average number of common shares			
Basic and diluted	9	201,529,524	151,005,323

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity (deficiency)

For the three month periods ended December 31,

Stated in Canadian dollars

Unaudited

	Common shares	Preferred shares	Warrants	Contributed Surplus	Foreign currency translation reserve	Deficit	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, October 1, 2016	40,598,701	1	1,380,291	8,998,578	(124,173)	(50,238,694)	614,704
Loss for the period	-	-	-	-	-	(887,503)	(887,503)
Other comprehensive gain	-	-	-	-	2,320	-	2,320
Issue of share capital	-	-	-	-	-	-	-
Warrants Exercised	20,265	-	(7,782)	-	-	-	12,483
Warrants expired	-	-	(191,471)	191,471	-	-	-
Share based payments	-	-	-	17,913	-	-	17,913
Balance, December 31, 2016	40,618,966	1	1,181,038	9,207,962	(121,853)	(51,126,197)	(240,083)
Balance, October 1, 2015	32,681,242	1	1,795,774	7,840,675	(128,834)	(45,403,793)	(3,214,935)
Loss for the period	-	-	-	-	-	(1,198,652)	(1,198,652)
Other comprehensive loss	-	-	-	-	(5,535)	-	(5,535)
Issue of share capital	685,926	-	12,223	-	-	-	698,149
Warrants issued	-	-	18,192	-	-	-	18,192
Warrants expired	-	-	(53,412)	53,412	-	-	-
Share based payments	-	-	-	35,512	-	-	35,512
Balance, December 31, 2015	33,367,168	1	1,772,777	7,929,599	(134,369)	(46,602,445)	(3,667,269)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of cash flows

For the three month periods ended December 31,

Stated in Canadian dollars

Unaudited

	Note	2016	2015
		\$	\$
Operating activities			
Net loss		(887,503)	(1,198,652)
Share-based payments		17,913	53,704
Finance costs		101,528	154,944
Amortization of capital assets		23,955	23,456
(Gain) loss on debentures		-	18,433
Warranty provision		217	4,035
Amortization of deferred lease inducement		(3,900)	(3,900)
Write (up) down of inventory		-	64,321
Unrealized foreign exchange gain		(49,050)	4,826
		(796,840)	(878,833)
Net change in non-cash working capital	19	(484,252)	(330,217)
Cash flow used in operating activities			
		(1,281,092)	(1,209,050)
Financing activities			
Bank loan		-	(1,460,855)
Proceeds from limited partnership units		-	747,000
Cost of issuing common shares and limited partnership units		-	(48,851)
Proceeds on exercise of warrants		12,483	-
Repayment of government contribution		(18,000)	(19,500)
Repayment of debentures		(224,500)	(194,500)
Repayment of other liabilities		(36,318)	(56,640)
Cash financing costs paid		(10,968)	(23,460)
Cash flow from financing activities			
		(277,303)	(1,056,806)
Investing activities			
Capital asset additions		(14,754)	(4,124)
Cash flow used in investing activities			
		(14,754)	(4,124)
Net change in cash		(1,573,149)	(2,269,980)
Cash, beginning of period		4,355,471	3,406,277
Cash, end of period			
		2,782,322	1,136,297

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

1. Description of the business

Eguana Technologies Inc. ("the Company"), incorporated under the *Alberta Business Corporations Act*, develops and manufactures advanced power inverters for the emerging alternative and renewable energy industry - solar photovoltaic ("PV") systems, small wind turbines, fuel cells and 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 TSX Venture Exchange (the "TSX-V") under the symbol "EGT".

2. Basis of preparation

(a) Statement of compliance

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

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2016 and 2015, which were prepared in accordance with IFRS. These unaudited condensed interim financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the audited consolidated financial statements for the year ended September 30, 2016.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the September 30, 2016 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on March 1, 2017.

(b) Going concern

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

At December 31, 2016, the Company had not achieved profitable operations since its inception and had an accumulated a deficit of \$51,126,197 (December 2015 - \$46,602,445) and recognized a cash flow deficiency from operations for the three month period ended December 31, 2016 of \$1,281,091 (December 2015 - \$1,209,050). 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 working capital (deficit) of \$477,487 (December 2015 – (\$2,493,478)).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

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

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

3. Recently issued accounting pronouncements

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2016.

(a) 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.

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

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 January 1, 2018. Early adoption is permitted.

(c) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and it replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

(d) IAS 1, Presentation of Financial Statements (“IAS 1”)

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016.

The company is currently evaluating the impact of adopting the standards noted above.

4. Inventory

	December 31, 2016	September 30, 2016
	\$	\$
Finished goods	473,126	235,004
Components	359,052	336,239
	832,178	571,243

As at December 31, 2016, \$732,544 (September 2016 - \$481,453) of inventory was carried at cost and \$99,634 (September 2016 - \$89,790) was carried at net realizable value.

5. Capital assets

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2016	475,190	903,540	228,801	42,714	1,650,245
Additions	-	14,754	-	-	14,754
Disposals	-	-	-	-	-
Balance December 31, 2016	475,190	918,294	228,801	42,714	1,664,999

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2016	466,457	670,923	185,336	42,714	1,365,430
Amortization	1,540	15,751	6,664	-	23,955
Disposals	-	-	-	-	-
Balance December 31, 2016	467,997	686,674	192,000	42,714	1,389,385
Carrying Value December 31, 2016	7,193	231,620	36,801	-	275,614

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	472,766	893,592	228,801	42,714	1,637,873
Additions	2,424	9,948	-	-	12,372
Disposals	-	-	-	-	-
Balance September 30, 2016	475,190	903,540	228,801	42,714	1,650,245

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	457,759	601,418	158,432	42,714	1,260,323
Amortization	8,698	69,505	26,904	-	105,107
Disposals	-	-	-	-	-
Balance September 30, 2016	466,457	670,923	185,336	42,714	1,365,430
Carrying Value September 30, 2016	8,733	232,617	43,465	-	284,815

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

6. Bank debt

During the year ended September 30, 2016, the Company repaid and cancelled the outstanding line of credit.

As a result of the cancellation of the line of credit, certain warrants were subject to accelerated expiration and the deferred financing cost were fully amortized.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

7. Debentures

	Debt component of debenture	Embedded derivative	Total
	\$	\$	\$
Balance at October 1, 2015	1,790,093	130,894	1,920,987
Accretion	383,357	-	383,357
Loss (gain) on change in cash flow	18,433	(95,935)	(77,502)
Repayments	(1,016,340)	(16,023)	(1,032,363)
Balance at September 30, 2016	1,175,543	18,936	1,194,479
Accretion	66,822	-	66,822
Repayments	(235,311)	(159)	(235,470)
Balance at December 31, 2016	1,007,054	18,777	1,025,831
Less: current portion	(626,487)	(18,777)	(645,264)
	380,567	-	380,567

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

On August 7, 2013 and September 17, 2013, the Company issued \$1,820,000 of 5-year subordinated debentures (“2013 Debentures”) at an original issue discount of 12.5% for proceeds to the Company of \$1,592,500. The 2013 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 1.82% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2013 Debentures. The 2013 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, purchasers of the 2013 Debentures had the option of receiving common shares or warrants in connection with the issuance of the 2013 Debentures. The Company issued 424,000 common shares valued at \$156,880 and 608,000 warrants exercisable at a price of \$0.50 per common share for a period of four years from the date of issuance valued at \$110,330. The 2013 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$1,820,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2015. The Company incurred

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

transaction costs related to the issue of the 2013 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 2013 Debentures is estimated to be 24.14%.

On June 30, 2014, the Company issued \$360,000 of 5-year subordinated debentures ("2014 Debentures"), issued at an original issue discount of 12.5% for proceeds to the Company of \$315,000. The 2014 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 0.36% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2014 Debentures. The 2014 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, the purchasers of the 2014 Debentures received 144,000 common shares valued at \$0.56 per share. The 2014 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$360,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2016. The Company incurred transaction costs related to the issue of the 2014 Debentures of \$17,749. The effective interest rate on the 2014 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 Debentures) 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 information (inputs not based on observable market data). Should the Company in the future change its expectation of future gross sales the embedded derivative values will change accordingly.

During the year ended September 30, 2015, 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 ended September 30, 2015, certain holders of the debentures agreed to defer repayments of \$153,000 required during the year to the following year.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

8. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
	\$	\$	\$
Balance at October 1, 2015	563,572	140,697	704,269
Accretion	117,900	51,806	169,706
Repayments	(177,702)	(49,179)	(226,881)
Loss (gain) on foreign exchange	-	(1,373)	(1,373)
Balance at September 30, 2016	503,770	141,951	645,721
Accretion	25,829	8,878	34,707
Repayments	(36,318)	-	(36,318)
Loss (gain) on foreign exchange	-	3,252	3,252
Balance at December 31, 2016	493,281	154,081	647,362
Less: current portion	(52,246)	(1,996)	(54,242)
	451,524	139,955	593,120

In August 2015, the Company entered into a settlement agreement with its former Chief Executive Officer ("CEO"), who is a director of the Company (Note 16), under which the Company agreed to pay deferred compensation earned by the CEO since 2010 in equal monthly payments of \$13,115, without interest, over a period of 82 months beginning on October 1, 2015. The Company's liability was valued at inception at \$563,572 using Level 2 valuation techniques with a discount rate of 25%.

The unpaid balance becomes immediately payable in certain circumstances, including the Company realizing an average of \$1,000,000 in earnings before interest, taxes, depreciation and amortization for any two consecutive fiscal quarters or in the event of a change of control of the Company. The Company's obligation is secured by a security interest in the Company's assets, which security is subordinate to the Company's existing debt 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 former CEO pursuant to the Corporation's incentive stock option plan (the "Stock Option Plan") were amended to allow the former CEO to exercise all outstanding options to acquire common shares of the Company in accordance with their terms until the end of the maximum permissible date under the Stock Option Plan and option agreements.

During the three month period ended June 30, 2016, the Company settled a contingent liability totaling approximately US\$696,294 with a third party who provided consulting services in fiscal 1998 to a subsidiary of the Company. Pursuant to the settlement, the Company agreed to pay US\$31,658 (\$41,016) per year (payable semi-annually) for a period of 10 years. The obligation is unsecured and was fair valued at inception at US\$111,879 (\$144,950) using Level 2 valuation techniques with a discount rate of 27%.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

9. Common shares

Authorized, unlimited number

<i>Issued</i>	Number of shares	Amount \$
Balance, October 1, 2015	151,005,323	32,681,242
Common shares issued in exchange for partnership units (Note 11)	6,790,977	747,000
Partnership unit costs (Note 11)	-	(85,302)
Issuance of common shares	41,345,902	8,097,858
Issuance costs	-	(1,445,680)
Issuance of shares for services	1,227,273	441,818
Exercise of warrants	1,164,776	161,765
Balance, September 30, 2016	201,534,251	40,598,701
Exercise of warrants	117,798	20,265
Balance, December 31, 2016	201,652,049	40,618,966

In April 2016, the Company issued 9,982,402 common shares at a price of \$0.12 per share for gross proceeds of \$1,197,888. Commissions paid in connection with the offering were \$76,306. As partial compensation, 698,768 agent warrants were issued with an exercise price of \$0.12 and a term of three years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.51% interest rate and a volatility of 135.76%. The fair market value at issuance was \$70,089. Other costs of \$36,225 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$182,620. Key personnel and directors of the Company purchased 3,125,000 common shares (Note 16).

In June 2016, the Company issued 27,272,728 common shares at a price of \$0.22 per share for gross proceeds of \$6,000,000. Commissions paid in connection with the offering were \$450,000. As partial compensation, 2,045,455 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the agent warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$377,009. Other costs of \$304,627 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$1,131,636.

In July 2016, the Company issued 4,090,772 common shares at a price of \$0.22 per share for gross proceeds of \$899,970 related to the exercise of the over-allotment option granted to Mackie Research Capital Corporation in connection with the June 2016 common share offering. Commissions paid in connection with the offering were \$67,500. As partial compensation, 306,807 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$61,734. Other costs of \$2,106 were incurred related to the issue of the common shares.

In August 2016, the Company issued 1,227,273 common shares to a non-related party for services when the fair market value of the share was \$0.36 a common share.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

Weighted average number of common shares

The weighted average number of shares as at December 31, 2016 and September 30, 2016 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

10. Preferred shares

The Corporation is authorized to issue an unlimited number of convertible \$10, 8% redeemable First Preferred shares, issuable in series. As of December 31, 2016, and as at the date hereof, there is 1 First Preferred Share, Series 8 issued and outstanding.

The holder of the First Preferred, Series 8 share, is entitled to receive notice of and to attend all meetings of the shareholders and, except for the right to designate one director to the Board of Directors or as otherwise required by the Alberta Business Corporations Act, the holder is not entitled to vote at any meeting of the shareholders.

11. EGT Markets Limited Partnership

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

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

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

In December 2015, EGTLP issued 747 LP Units at a price of \$1,000 per unit resulting in gross proceeds of \$747,000. The commissions paid in connection with the issuance were \$23,850. As partial compensation, 216,820 finders' warrants were issued. The warrants have an exercise price of \$0.11 and expire on December 31, 2016. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.52% interest rate and a volatility of 138.44%. The fair market value at issuance was \$12,223. Other costs of \$49,229 related to the issue of the LP Units were also incurred bringing the total cost of issuance to \$85,302.

In February 2016, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 6,790,977 shares (Note 9).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

12. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value \$
Balance October 1, 2015	15,917,895	6,342,811	22,260,706	1,795,774
Warrants exercised	(139,583)	(1,025,193)	(1,164,776)	(83,427)
Warrants expired	(5,957,949)	(205,758)	(6,163,707)	(914,462)
Warrants issued	139,583	3,267,850	3,407,433	582,406
Balance September 30, 2016	9,959,946	8,379,710	18,339,656	1,380,291
Warrants exercised	-	(117,798)	(117,798)	(7,782)
Warrants expired	-	(788,174)	(788,174)	(191,471)
Balance December 31, 2016	9,959,946	7,473,738	17,433,684	1,181,038

Outstanding warrants at December 31, 2016 were as follows:

Range of exercise prices	Warrants	Weighted average price \$	Weighted average years to expiry
\$0.01–\$0.30	6,801,905	0.12	1.71
\$0.31–\$0.40	8,773,779	0.39	2.88
\$0.41–\$0.50	1,858,000	0.50	0.86
Balance December 31, 2016	17,433,684	0.29	2.21

139,583 warrants were issued January 2016 in conjunction with the deferral of principal repayments associated with the debentures. The warrants are exercisable for a period of one year at \$0.12. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.54% interest rate and a volatility of 141.68%. The fair market value at issuance was \$8,753.

13. Contributed surplus

The Company established the Stock Option Plan, which is accounted for in contributed surplus, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. The Stock Option Plan allows for a maximum term on any options of ten years. The Company, at the discretion of the board of directors, may issue up to a maximum of 12,421,303 options. The shareholders approved the Stock Option Plan on July 22, 2016. The minimum price at which the options may be granted is the closing price of the common shares on the TSX-V on the date immediately prior to the date of issue.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

The following summarizes information about stock options outstanding as at December 31, 2016:

	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, 2015	3,736,339	0.35	1,264,494	0.37
Granted	760,000	0.17	1,260,000	0.25
Forfeited	(252,020)	(0.33)	(119,230)	(0.37)
Balance September 30, 2016	4,244,319	0.32	2,405,264	0.30
Balance December 31, 2016	4,244,319	0.32	2,405,264	0.30

Range of exercise prices	Outstanding options			Exercisable options	
	Options	Weighted average price \$	Weighted average years to expiry	Options	Weighted average price \$
\$0.01–\$0.30	2,682,500	0.23	5.74	2,252,500	0.23
\$0.31–\$0.40	3,747,083	0.36	7.21	2,769,501	0.37
\$0.41–\$0.50	220,000	0.48	2.20	199,997	0.49
Balance December 31, 2016	6,649,583	0.31	6.45	5,221,998	0.31

The total share-based compensation calculated for the three months ended December 31, 2016, was \$17,913 (December 2015 – \$35,512).

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

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

In May 2016, the Company issued 500,000 new stock options with an exercise price of \$0.175 and 500,000 stock options with an exercise price of \$0.325 to a consultant for services to be rendered up to May 2017. The stock options expire in May, 2021 and vested on issuance. The fair value of the options was determined to be \$69,863 and \$68,099 respectively.

In June 2016, the Company issued 645,000 stock options with an exercise price of \$0.235 to employees of the Company. A third of the options will vest immediately, a third after one year and the remaining third will vest after 2 years. The options expire on the date that is 10 years from the grant date. The fair value of the options was determined to be \$142,139.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

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

	2016	2015
Risk free interest rate	0.51%	0.57%
Expected volatility (1)	160.12%	152.91%
Dividend Yield	-	-
Expected life (years)	8	3
Weighted average fair value	\$ 0.10	\$ 0.27

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

14. Capital management

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

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

	December 31, 2016	September 30, 2016
	\$	\$
Total shareholders' (deficiency) equity	(240,083)	614,705
Cash	(2,782,322)	(4,355,471)
Total capital	(3,022,405)	(3,740,766)

15. Financial instruments and financial risk management

Credit risk

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

The Company has significant credit risk exposure on accounts receivable with two counterparties at December 31, 2016. Approximately 73% (December 2015 – 86%) of the total accounts receivable is due from one customer.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

The following table illustrates the Company's receivables:

	December 31, 2016	September 30, 2016
	\$	\$
Trade	527,230	330,538
Taxation authorities	57,245	38,274
	584,475	368,812
Less: allowance for doubtful accounts	(73,457)	(77,304)
	511,018	291,508

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three-month period ended December 31, 2016, there was \$nil of bad debts expensed (2015 – \$nil).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. There are \$237,374 (September 30, 2016 - \$250,987) of financial assets that the Company considers past due.

The following is a schedule of trade receivables:

	December 31, 2016	September 31, 2016
	\$	\$
Neither impaired or past due	289,856	79,551
Past due in the following periods		
31 - 60 days	-	-
61 - 90 days	56,177	3,154
over 90 days	181,197	247,833
	527,230	330,538

Liquidity risk

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

The following are the contractual maturities of financial liabilities at December 31, 2016:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	2,735,367	-	-	2,735,367
Deferred revenue	155,658	-	-	155,658
Debentures	645,264	380,567	-	1,025,831
Other liabilities	54,242	157,012	436,108	647,362
Total	3,590,531	537,579	436,108	4,564,218

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows for as at December 31, 2016:

	Euros	US Dollars	Total
	\$	\$	\$
Cash	44,477	163,796	208,273
Accounts receivable	280,481	167,192	447,673
Deposits	-	96,778	96,778
Accounts payable and accrued liabilities	(1,208,388)	(553,118)	(1,761,506)
Provisions	(209,828)	-	(209,828)
Deferred revenue	1,679	(102,992)	(101,313)
Other liabilities	-	(154,080)	(154,080)
Total	(1,091,579)	(382,424)	(1,474,003)

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 \$14,230 for the three month period ended December 31, 2016 (2015 - \$28,239). 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 \$38,628 for the three month period ended December 31, 2016 (2015 - \$53,439). 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 three month period ended December 31, 2016.

Interest rate risk

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

Fair value

The carrying value and fair value of financial instruments at December 31, 2016, is disclosed below by financial instrument category:

Financial instrument	Carrying value	Fair value
	\$	\$
Accounts receivable	511,018	511,018
Accounts payable and accrued liabilities	2,735,367	2,735,367

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 8) and the embedded derivatives on the Company's debentures (Note 7).

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

16. Related party transactions

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

	2016		2015	
	Salaries and benefits	Share based compensation	Salaries and benefits	Share based compensation
	\$	\$	\$	\$
General and administrative	72,388	-	107,287	-
Operations	-	-	49,500	-
Product research and development	12,993	-	11,591	-
Selling and marketing	30,316	-	-	-
Total	115,697	-	168,378	-

Financing costs of \$1,528 for the three-month period ended December 31, 2016 (2015 - \$5,583) related to the debentures held by key personnel and directors are included in the statement of loss. Interest expenses incurred amounted to \$191 (2015 - \$1,352).

Included in accounts payable and accrued liabilities is \$214,611 (2015 - \$197,080) due to directors and key management personnel.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

In April 2016, key management personnel and directors of the Company purchased 3,125,000 common shares at \$0.12 per unit (Note 9).

17. Financing costs

	2016	2015
	\$	\$
Interest on debenture	66,821	110,250
Amortization of financing fees	-	34,135
Accretion of other liabilities	34,797	37,788
Other interest and accretion	-	(27,229)
Total	101,618	154,944

Included in other interest and accretion is accretion associated with Energy Northwest, who contributed services to a wholly owned subsidiary of Eguana in 1998. At September 30, 2016, the Company no longer had an obligation to Energy Northwest due to a limitation period issue.

18. Personnel expenses

	2016	2015
	\$	\$
Wages	312,538	295,913
Benefits	21,086	16,821
Total	333,624	312,734

19. Supplemental information

The changes in non-cash working capital for the three months ended December 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	(213,626)	(173,637)
Prepaid expense and deposits	36,075	61,243
Inventory	(260,935)	(386,453)
	(438,486)	(498,847)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(119,830)	205,064
Deferred revenue	74,064	(36,434)
	(484,252)	(330,217)

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

December 31, 2016

Stated in Canadian dollars

Unaudited

20. Commitments

At December 31, 2016, Eguana had commitments for its Calgary premise and purchase obligations as follows:

	2016
	\$
Less than one year	275,848
Between one and five years	17,550
More than five years	-
	293,398

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

21. Segmented information

Major customers

The Company had one customer where product sales were greater than 10% of total sales in the three-month period ended December 31, 2016 (2015 - three). The customers had attributed sales of approximately \$278,456 for the three-month period ended December 31, 2016 (2015 - \$187,103).

Revenue composition

The Company generated \$31,917 of revenue from energy storage system sales with a cost of \$30,751. Revenue from engineering services was \$239,343 with a cost of \$28,988 incurred in the three-month period ended December 31, 2016.

22. Legal disputes

The Company is in a dispute with a prior customer as a result of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from the customer, in addition to other amounts from the customer because of the cancellation. The collection of the outstanding receivable is uncertain due to litigation risks and the entire receivable has been provided for. The customer, in return, has made warranty claims against the Company which the Company has denied. The Company has recorded a warranty provision to cover potential warranty claims arising from all sales, including sales to the customer.

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,167,400 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,128,900 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount in accounts payable. Moreover, the Company made a counter claim against the contract manufacturer.

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

23. Subsequent Event

Subsequent to quarter end the Company hired an interim Chief Financial Officer. As part of his compensation, in January 2017 the interim Chief Financial Officer was awarded 200,000 options exercisable immediately at \$0.285.