Consolidated financial statements of

Eguana Technologies Inc.

September 30, 2018

Eguana Technologies Inc.

September 30, 2018

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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 statement of financial position as at September 30, 2018 and September 30, 2017 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 audit 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 in our audits 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, 2018 and September 30, 2017 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 Company has not yet achieved profitable operations since its inception, has an accumulated deficit of $59,527,888 as at September 30, 2018 (2017 – $54,741,470) and has incurred negative cash outflows from operating activities of $4,583,215 (2017 - $3,297,974). 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 Professional Accountants

Calgary, Alberta
January 28, 2019

Eguana Technologies Inc.

Consolidated statements of financial position

Stated in Canadian dollars

	Note	2018	2017
Assets			
Current:			
Cash		**1,286,000**	2,568,346
Accounts receivable		**116,359**	421,275
Inventory	6	**1,224,495**	389,648
Prepaid expenses and deposits		**514,469**	274,559
		3,141,323	3,653,828
Non-current:			
Development costs		**3**	3
Capital assets	7	**388,611**	278,113
		3,529,937	3,931,944
Liabilities			
Current:			
Accounts payable and accrued liabilities	19	**3,284,383**	2,995,595
Warranty provision	8	**246,601**	206,424
Deferred revenue		**112,309**	641,579
Current portion of long-term debt	9	**713,906**	-
Derivative liability	9	**607,313**	-
Current portion of debentures	10	**-**	470,250
Current portion of other liabilities	11	**83,167**	65,388
		5,047,679	4,379,236
Non-current:			
Deferred lease inducement		**-**	7,800
Long-term debt	9	**2,468,121**	-
Debentures	10	**-**	54,504
Other liabilities	11	**442,968**	521,665
		7,958,768	4,963,205
Shareholders' equity (deficiency)			
Common shares	12	**44,522,984**	43,256,471
Preferred shares	13	**1**	1
Warrants	15	**484,663**	1,121,859
Contributed surplus	16	**10,217,458**	9,454,187
Foreign currency translation reserve		**(126,049)**	(122,309)
Deficit		**(59,527,888)**	(54,741,470)
		(4,428,831)	(1,031,261)
		3,529,937	3,931,944

Going concern (Note 3), Commitments (Note 25) and Subsequent events (Note 28)
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	**2018**	2017
Sales and engineering services	26	**3,897,238**	853,910
Cost of goods sold		**2,702,375**	578,478
Gross margin		**1,194,863**	275,432
Expenses			
General and administrative	19	**2,177,580**	1,976,108
Selling and marketing	19	**1,303,752**	788,731
Product research and development	19	**1,214,289**	1,057,446
Operations		**556,949**	503,271
Bad debt expense	18	**-**	107,012
		5,252,570	4,432,568
Loss before undernoted items		**(4,057,707)**	(4,157,136)
Financing costs	20	**(729,079)**	(357,531)
Other income		**368**	11,890
Net loss		**(4,786,418)**	(4,502,777)
Foreign currency adjustment to equity		**(3,740)**	1,864
Total comprehensive loss		**(4,790,158)**	(4,500,913)
Loss per common share			
Basic and diluted		**(0.02)**	(0.02)
Weighted average number of common shares			
Basic and diluted	12	**218,384,304**	201,911,454

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	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2017	43,256,471	1	1,121,859	9,454,187	(122,309)	(54,741,470)	(1,031,261)
Loss for the period	-	-	-	-	-	(4,786,418)	(4,786,418)
Other comprehensive gain (loss)	-	-	-	-	(3,740)	-	(3,740)
Contributed capital	-	-	-	262,772	-	-	262,772
Issue of share capital	-	-	-	-	-	-	-
Warrants issued	-	-	151,017	-	-	-	151,017
Warrants exercised	1,266,513	-	(622,617)	-	-	-	643,896
Warrants expired	-	-	(165,596)	165,596	-	-	-
Share-based payments	-	-	-	334,903	-	-	334,903
Balance September 30, 2018	**44,522,984**	**1**	**484,663**	**10,217,458**	**(126,049)**	**(59,527,888)**	**(4,428,831)**
Balance October 1, 2016	40,598,701	1	1,380,291	8,998,578	(124,173)	(50,238,693)	614,705
Loss for the period	-	-	-	-	-	(4,502,777)	(4,502,777)
Other comprehensive gain (loss)	-	-	-	-	1,864	-	1,864
Issue of share capital	2,506,392	-	-	-	-	-	2,506,392
Warrants issued	-	-	126,463	-	-	-	126,463
Warrants exercised	151,378	-	(83,094)	-	-	-	68,284
Warrants expired	-	-	(301,801)	301,801	-	-	-
Share-based payments	-	-	-	153,808	-	-	153,808
Balance September 30, 2017	43,256,471	1	1,121,859	9,454,187	(122,309)	(54,741,470)	(1,031,261)

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	**2018**	2017
Operating activities			
Net loss		**(4,786,418)**	(4,502,777)
Financing costs	20	**729,079**	357,531
Share-based payments	16	**334,904**	153,808
Amortization of capital assets	7	**124,558**	100,267
Warranty provision	8	**40,177**	(42,537)
Unrealized foreign exchange loss (gain)		**(7,392)**	(5,092)
Amortization of deferred lease inducement		**(7,800)**	(15,600)
Write down of inventory		**-**	45,487
Bad debt expense		**-**	107,012
		(3,572,892)	(3,801,901)
Net change in non-cash working capital	24	**(1,010,323)**	503,927
Cash flow used in operating activities		**(4,583,215)**	(3,297,974)
Financing activities			
Proceeds from issuance of long-term debt	9	**4,007,773**	-
Proceeds from common shares	12	**-**	3,000,000
Proceeds on exercise of warrants		**643,896**	68,284
Repayment of debentures	10	**(597,837)**	(885,096)
Repayment of long-term debt	9	**(165,842)**	-
Repayment of other liabilities	11	**(193,795)**	(192,946)
Cash financing costs paid	9, 12	**(158,129)**	(367,145)
Repayment of government contribution		**-**	(18,683)
Cash flow from financing activities		**3,536,066**	1,604,414
Investing activities			
Capital asset additions	7	**(235,197)**	(93,565)
Cash flow used in investing activities		**(235,197)**	(93,565)
Net change in cash		**(1,282,346)**	(1,787,125)
Cash, beginning of period		**2,568,346**	4,355,471
Cash, end of period		**1,286,000**	2,568,346

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

1. Description of the business

Eguana Technologies Inc. (“the Company”), incorporated under the *Alberta Business Corporations Act*, 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 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 measured at fair value.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on January 28, 2019.

(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., Eguana GmbH, Sustainable Energy Europa S.L., EGT Markets Limited Partnership, Sustainable Energy Laboratories Ltd., International Power Systems, Inc., and Sustainable Energy France.

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.

(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.

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 may 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 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. Long-term debt and debentures

The Company issues long-term debt and debentures which may be comprised of embedded derivatives, debt and equity components. In determining the fair value of the Company's long-term debt and 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 may have a significant impact on the estimates of fair value of the embedded derivatives and debt components.

iv. Warranty provision

A provision for warranties is recognized when underlying products are sold. The Company determines the provision based on historical experience of failure rate and cost per failure over the life of the warranty. The initial estimate of warranty-related costs is revised annually.

v. Income taxes

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

(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:

i. Commitments and Contingencies

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

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

ii. Determination of functional currency

In determining the Company's functional currency, 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 for both parent and subsidiaries. Determining the Company's predominant economic environment requires significant judgment.

iii. Inventory

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

3. Going concern

These 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 September 30, 2018, the Company had not achieved profitable operations since its inception and had an accumulated a deficit of $59,527,888 (September 2017 - $54,741,470) and recognized a cash flow deficiency from operations for the year ended September 30, 2018 of $4,583,215 (September 2017 - $3,297,974). 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.

At September 30, 2018 the Company has working capital deficit of $1,906,356 (September 30, 2017 – $725,408).

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 Markets 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.

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.

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, derivative liability, long-term debt, debentures, and other liabilities. Cash, and the embedded derivatives in the long-term debt and debentures, 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 are measured at amortized cost using the effective interest rate method, consistent with the "loans and receivables" classification. 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, other liabilities, long-term debt 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 with respect to the Company's long-term debt (Note 9) as a result of long-term debt issued during the year. The embedded derivative in the long-term debt is recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss every period.

The Company had an embedded derivative related to the Company's ability to call the debentures (Note 10) at par at any time after the second or third anniversary of issue. The Company also had an embedded derivative related to the royalty payments on the debentures. The Company estimated 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 were determined as one value, as management considered them to be closely linked and were presented within the line item denoted "Debentures" in the consolidated statements of financial position. The embedded derivative in the debenture was 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.

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 and subsidiaries' 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) 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.

(e) Research costs

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

(f) 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 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 cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) Government grants

Government grants were 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 participated in government programs which are non-repayable government grants (Note 22). 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.

(h) 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.

(i) Share-based payments

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

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

The fair value is measured at the grant date using the Black-Scholes 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.

(j) 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.

Engineering fee revenue is recognized when the service is performed and ultimate collection is reasonably measured.

(k) 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.

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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.

(l) Loss per share

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

5. Recently issued accounting pronouncements

The IASB has issued the following new and revised standards and amendments, which are not yet effective for the year ended September 30, 2018. The Company is currently evaluating the impact of adopting these standards.

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

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project; classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the impact of this standard.

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

IFRS 15 was issued in May 2014 and amended in April 2016 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. The Company is assessing the impact of this standard.

(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.

Stated in Canadian dollars

6. Inventory

	2018	2017
Finished goods	**655,257**	156,978
Components	**569,238**	232,670
	1,224,495	389,648

As at September 30, 2018, $1,137,777 (September 2017 - $303,226) of inventory was carried at cost and $86,718 (September 2017 - $86,422) was carried at net realizable value.

BiDirex sub-assembly inventory of $45,487 was written-off in 2017. There was $nil inventory write-off in 2018.

7. Capital assets

Cost	Computer equipment and software	Lab equipment	Furniture and equipment and leasehold improvements	Dies and molds	Total
Balance October 1, 2017	476,461	954,622	270,012	42,714	1,743,809
Additions	19,998	121,008	94,191	-	235,197
Disposals	-	-	(1,956)	-	(1,956)
Balance September 30, 2018	**496,459**	**1,075,630**	**362,247**	**42,714**	**1,977,050**
Accumulated amortization and impairment					
Balance October 1, 2017	472,569	738,764	211,649	42,714	1,465,696
Amortization	11,605	78,484	34,469	-	124,558
Disposals	-	-	(1,815)	-	(1,815)
Balance September 30, 2018	**484,174**	**817,248**	**244,303**	**42,714**	**1,588,439**
Carrying Value September 30, 2018	**12,285**	**258,382**	**117,944**	**-**	**388,611**

Stated in Canadian dollars

Cost	Computer equipment and software	Lab equipment	Furniture and equipment and leasehold improvements	Dies and molds	Total
Balance October 1, 2016	475,190	903,540	228,801	42,714	1,650,245
Additions	1,271	51,082	41,211	-	93,564
Disposals	-	-	-	-	-
Balance September 30, 2017	476,461	954,622	270,012	42,714	1,743,809
Accumulated amortization and impairment					
Balance October 1, 2016	466,457	670,923	185,336	42,714	1,365,430
Amortization	6,112	67,841	26,313	-	100,266
Disposals	-	-	-	-	-
Balance September 30, 2017	472,569	738,764	211,649	42,714	1,465,696
Carrying Value September 30, 2017	3,892	215,858	58,363	-	278,113

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

8. Warranty provision

	Total
Balance October 1, 2016	248,961
Increase (decrease) in provision	(42,537)
Balance September 30, 2017	206,424
Increase (decrease) in provision	40,177
Balance September 30, 2018	**246,601**

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 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 and the number of units no longer under warranty, is to increase the provision for warranty expense in the current year by $40,177 (2017 – decrease by $42,537).

Stated in Canadian dollars

9. Long-term debt and derivative liability

	Derivative liability	Long-term debt		
	Senior Loan	**Senior Loan**	**DHCT**	**Total**
Balance October 1, 2017	-	-	-	-
Proceeds from issuance of long-term debt	-	2,707,773	1,300,000	4,007,773
Fair value allocation to warrant exchange	457,644	(457,644)	(151,016)	(151,016)
Fair value allocation contributed surplus	-	-	(262,772)	(262,772)
Financing cost	(10,198)	(47,931)	(100,000)	(158,129)
Accretion and accrued interest	-	341,387	22,499	363,886
Repayment	-	(165,842)	-	(165,842)
Loss (gain) on derivative liability	159,867	-	-	159,867
Loss (gain) on foreign exchange	-	(4,427)	-	(4,427)
Balance September 30, 2018	**607,313**	**2,373,316**	**808,711**	**3,789,340**
Less: current portion	**(607,313)**	**(713,906)**	-	**(1,321,219)**
	-	**1,659,410**	**808,711**	**2,468,121**

(a) Long-term debt – Senior Loan

In December 2017, the Company issued $1,500,000 of debt in USD bearing an interest rate of 12.5% per annum which will be repaid in equal instalments starting in June 2018 for 30 months (the “Senior Loan”).

In August 2018, the Company drew an additional $750,000 USD from the Senior Lender, bearing interest at 12.5% per annum, which will be repaid in equal instalments starting in March 2019 for 30 months.

The loan has first priority over all assets of the Company. Providing certain criteria are met, the Company has the option to draw another $750,000 USD (Note 28). The Company may prepay the loan by paying all scheduled but unpaid payments. If prepayment occurs after 12 months, the Company will receive a 15% discount off future interest owed. If prepayment occurs after 15 months, the Company will receive a 25% discount off future interest owed. If prepayment occurs after 21 months, the Company will receive a 35% discount off future interest owed.

As part of the original Senior Loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 CAD and an expiry date of December 20, 2022. As at September 30, 2018, 2,582,767 warrants were exercisable and the remaining 368,966 warrants will vest when the Company draws the additional $750,000 USD. The vested unexercised warrants are exchangeable at the option of the holder for $750,000 USD after the earlier of a liquidity event or September 30, 2021.

Stated in Canadian dollars

The Company has measured the fair value of the warrant derivative liability associated with the Senior Loan, with the residual assigned to the loan. The warrant derivative liability was estimated using the higher of the present value of the warrant exchange payment and the option pricing model. Financing fees of $58,129 were allocated between the long-term loan and the derivative liability. The long-term loan is a financial liability and will be accreted to its face value over the term of the loans using an effective interest rate of 27% and 18%, respectively.

The derivative liability is carried at fair value through profit and loss and re-measured at each reporting date. The higher fair value was the present value of the warrant exchange payment using a discount rate of 23% and the value was determined to be $607,313 at September 30, 2018.

(b) Long-term debt – DHCT

In August, 2018, the Company entered into a loan agreement for general working capital for $1,300,000 with its largest shareholder, DHCT II Luxembourg SARL ("DHCT"). The loan will be repaid one month after the final loan payment to the Senior Lender is made. The loan bears interest at a fixed annual rate of 8% and is to be paid at the same time the loan is repaid.

As consideration for the advance of the loan from DHCT, which has a second priority lien on all the assets of the Eguana and its material subsidiaries, the Company has issued common shares purchase warrants, entitling DHCT to purchase an aggregate of up to 1,238,095 common shares at a price of $0.21 per common share for a period of three (3) years from the date of the loan. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 2.13% interest rate and a volatility of 100.75%. The fair market value at issuance was $163,601, with $12,585 of financing fees allocated, resulting in an adjusted book value of $151,016.

A portion of the proceeds were allocated to contributed surplus, representing a capital contribution on the residual of the fair value of the warrants and the loan.

Financing fees of $100,000 were paid with respect the DHCT long-term debt, allocated between the debt, warranty, and capital contribution. The long-term loan is a financial liability and will be accreted to its face value over the term of the loan using an effective interest rate of 26%.

10. Debentures

	Debt component of debenture	Embedded derivative	Total
Balance October 1, 2016	1,175,543	18,936	1,194,479
Accretion	215,372	-	215,372
Repayments	(875,549)	(9,548)	(885,097)
Balance September 30, 2017	515,366	9,388	524,754
Accretion	31,303	-	31,303
Change in fair value	43,903	(2,123)	41,780
Repayments	(590,572)	(7,265)	(597,837)
Balance September 30, 2018	**-**	**-**	**-**

Stated in Canadian dollars

In December 2017, the Company called all of the outstanding debentures at par and repaid principal of $586,667. On the date of exercise, the carrying amount of the debentures was $546,669 with the difference of $39,998 plus interest of $3,905 recognized as part of financing costs. Royalties of $7,265 was also paid. The accretion up to the date of exercise was also recognized in financing cost.

11. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
Balance October 1, 2016	503,770	141,951	645,721
Accretion	107,757	34,464	142,221
Repayments	(157,380)	(35,566)	(192,946)
Loss (gain) on foreign exchange	-	(7,942)	(7,942)
Balance September 30, 2017	454,147	132,907	587,054
Accretion	95,351	32,986	128,337
Repayments	(157,380)	(36,415)	(193,795)
Loss (gain) on foreign exchange	-	4,539	4,539
Balance September 30, 2018	**392,118**	**134,017**	**526,135**
Less: current portion	**(77,537)**	**(5,630)**	**(83,167)**
	314,581	**128,387**	**442,968**

In August 2015, the Company entered into a settlement agreement with its former Chief Executive Officer ("CEO"), who is a director of the Company, under which the Company agreed to pay deferred compensation earned by the CEO since 2010 in equal monthly payments of $13,115, without interest, over a period of 82 months beginning on October 1, 2015. The Company's liability was valued at inception at $563,572 using 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 year ended September 30, 2016, the Company settled a contingent liability totaling approximately US$696,294 with a third party who provided consulting services in fiscal 1998 to a subsidiary of the Company. Pursuant to the settlement, the Company agreed to pay US$31,658 ($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%.

Stated in Canadian dollars

12. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2016	201,534,251	40,598,701
Issuance of common shares	15,000,000	3,000,000
Issuance costs	-	(493,608)
Exercise of warrants (Note 15)	1,145,298	151,378
Balance September 30, 2017	217,679,549	43,256,471
Issuance of common shares	-	-
Issuance costs	-	-
Exercise of warrants (Note 15)	5,031,686	1,266,513
Balance September 30, 2018	**222,711,235**	**44,522,984**

In September 2017, the Company issued 15,000,000 Units at a price of $0.20 per unit resulting in gross proceeds of $3,000,000. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). The Warrants will be exercisable for a period of 24 months from the date of issuance at an exercise price of $0.25. The fair value of the warrants is $Nil based on the residual method where proceeds are first allocated to common shares according to the quoted price of the common shares at the time of issuance and any residual is allocated to warrants. As consideration for acting as Agents in connection with the Offering, the Agents were paid a cash commission of $194,025 and were granted an aggregate of 1,067,138 non-transferrable compensation warrants entitling the Agents to purchase up to 1,067,138 common shares of the Corporation at a price of $0.20 per unit for a period of 24 months from the date of closing. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.75% interest rate and a volatility of 107%. The fair market value at issuance was $126,463. Other costs of $173,120 related to the issue of the Units were also incurred bringing the total cost of issuance to $493,608.

Weighted average number of common shares

The weighted average number of shares as at September 30, 2018 and September 30, 2017 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

13. Preferred shares

The Corporation is authorized to issue an unlimited number of convertible $10, 8% redeemable First Preferred shares, issuable in series. As of September 30, 2018, and as at the date hereof, there is 1 First Preferred Share, Series 8 issued and outstanding.

Stated in Canadian dollars

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.

14. EGT Markets Limited Partnership

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

15. Warrants

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

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value
Balance October 1, 2016	9,959,946	8,379,710	18,339,656	1,380,291
Warrants issued (Note 12)	7,500,000	1,067,138	8,567,138	126,463
Warrants exercised	-	(1,145,298)	(1,145,298)	(83,094)
Warrants expired	(608,000)	(788,174)	(1,396,174)	(301,801)
Balance September 30, 2017	16,851,946	7,513,376	24,365,322	1,121,859
Warrants issued (Note 9)	4,189,828	-	4,189,828	151,017
Warrants exercised	-	(5,031,686)	(5,031,686)	(622,617)
Warrants expired	(1,250,000)	(485,201)	(1,735,201)	(165,596)
Balance September 30, 2018	**19,791,774**	**1,996,489**	**21,788,263**	**484,663**

As part of the issuance of the Senior Loan in December 2017, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 and an expiry date of December 20, 2022. As at September 30, 2018, 368,966 of the warrants had not yet met their vesting conditions. Refer to Note 9 for additional details on calculation of fair value of warrants.

Stated in Canadian dollars

As part of the issuance of long-term debt to DHCT in August 2018, the Company issued 1,238,095 common share purchase warrants which convert into an equal number of shares with an exercise price of $0.21 per common share for a period of three (3) years from the date of the loan.

Outstanding and exercisable warrants at September 30, 2018 were as follows:

Range of exercise prices	Warrants	Weighted average prices ($)	Weighted average years to expiry
$0.01 - $0.30	13,414,484	0.22	1.59
$0.31 - $0.40	8,373,779	0.39	1.23
Balance September 30, 2018	**21,788,263**	**0.28**	**1.45**

16. 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.

	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, 2016	4,244,319	0.32	2,405,264	0.30
Granted	-	-	450,000	0.25
Forfeited	(35,000)	(0.26)	(180,000)	(0.48)
Balance September 30, 2017	4,209,319	0.32	2,675,264	0.28
Granted	1,810,000	0.21	290,000	0.20
Forfeited	(155,000)	(0.27)	(210,000)	(0.24)
Balance September 30, 2018	**5,864,319**	**0.29**	**2,755,264**	**0.27**

Stated in Canadian dollars

The following summarizes information about stock options outstanding as at September 30, 2018:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	4,837,500	0.22	4.99	4,325,833	0.23
$0.31 - $0.40	3,722,083	0.36	5.46	700,000	0.33
$0.41 - $0.50	60,000	0.44	5.55	-	-
Balance September 30, 2018	**8,619,583**	**0.28**	**5.20**	**5,025,833**	**0.24**

The total share-based compensation calculated for the year ended September 30, 2018, was $334,904 (September 2017 – $153,808).

In January 2017, the Company issued 200,000 stock options with an exercise price of $0.27 to the Interim Chief Financial Officer. The options vested immediately and expire five years from the grant date. The fair value of the options was determined to be $47,390.

In April 2017, the Company issued 250,000 stock options with an exercise price of $0.23 to the Business Development Manager. The options vested immediately and expire five years from the grant date. The fair value of the options was determined to be $50,407. The contract allows for the Business Development Manager to earn up to 910,000 options if certain sales metrics are achieved.

In October 2017, the Company granted incentive stock options to acquire up to an aggregate of 1,810,000 common shares at a strike price of $0.21 per share. Of the options granted, 1,175,000 have been granted to directors and officers of the Company and the remainder to employees. The incentive stock options represent the 2017 annual grant. 600,000 of the 1,810,000 options vest immediately, with an expiry of October 2022 and 1,210,000 options vest in three equal tranches, with the first tranche to vest immediately and the remainder over two years with an expiry of October 2027. The fair value of the vested options was determined to be $287,463.

In November and December 2017, the Company granted incentive stock options to acquire up to an aggregate of 40,000 common shares to a consultant for milestones he achieved. The exercise price of the incentive options was $0.18, vesting immediately with a five-year expiry. The fair value of the options was determined to be $6,140.

In June 2018, the Company granted incentive stock options to acquire up to an aggregate of 250,000 common shares to a consultant for milestones he achieved. The exercise price of the incentive options was $0.205, vesting pro-rata over four months with a five-year expiry. The fair value of the options was determined to be $41,300.

Stated in Canadian dollars

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:

	September 30 2018	September 30 2017
Risk free interest rate	**0.75 – 1.25%**	0.5%
Expected volatility (1)	**115 – 130%**	121-166%
Dividend yield	**-**	-
Expected life (years)	**5-10**	5-10
Weighted average fair value	**0.18**	0.25

(1) Expected volatility is estimated by considering historic average share price volatility over 5 and 10 years

17. Capital management

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

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

	September 30 2018	September 30 2017
Total shareholders' equity (deficiency)	**(4,428,831)**	(1,031,261)
Cash	**(1,286,000)**	(2,568,346)
	(5,714,831)	(3,599,607)

18. Financial instruments and financial risk management

Credit risk

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

The Company has credit risk exposure on accounts receivable with one counterparty at September 30, 2018. Approximately 69% of the total accounts receivable is due from the one customer (September 2017–83% - one counterparty).

Stated in Canadian dollars

The following table illustrates the Company's receivables:

	September 30 2018	September 30 2017
Trade	**68,899**	385,759
Taxation authorities	**47,460**	35,516
	116,359	421,275
Less: allowance for doubtful accounts	**-**	-
	116,359	421,275

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the year ended September 30, 2018, there was $Nil of bad debts expensed (2017 – $107,012).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at September 30, 2018 there are $68,268 (2017 - 382,427) of financial assets that the Company considers past due.

The following is a schedule of trade receivables:

	2018	2017
Neither impaired or past due	**631**	3,332
Past due in the following periods		
31 – 60 days	**-**	25,164
61 – 90 days	**3,083**	13,089
Over 90 days	**65,185**	344,174
	68,899	385,759

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 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 undiscounted maturities of financial liabilities at September 30, 2018:

	< 1 Year	1 – 3 Years	Thereafter	Total
Accounts payable and accrued liabilities	3,284,383	-	-	3,284,383
Deferred revenue	112,309	-	-	112,309
Long-term debt	1,199,814	1,965,643	1,641,063	4,806,520
Other liabilities	195,164	393,763	277,002	865,929
	4,791,670	**2,359,406**	**1,918,065**	**9,069,141**

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 September 30, 2018:

	Euros	US Dollars	Total
Cash	416,730	153,324	570,054
Accounts receivable	4,962	231,711	236,673
Prepaid expenses and deposits	-	451,009	451,009
Accounts payable and accrued liabilities	(1,244,891)	(622,214)	(1,867,105)
Warranty provision	(167,521)	-	(167,521)
Deferred revenue	1,778	(59,742)	(57,964)
Long-term debt	-	(2,378,279)	(2,378,279)
Other liabilities	-	(134,017)	(134,017)
	(988,942)	**(2,358,208)**	**(3,347,150)**

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 $91,436 for the year ended September 30, 2018 (September 2017 - $20,950). 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 $33,050 for the year ended September 30, 2018 (September 2017 - $46,987). 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 twelve-month period ended September 30, 2018.

Interest rate risk

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

Stated in Canadian dollars

Fair value

The carrying value and fair value of financial instruments at September 30, 2018, is disclosed below by financial instrument category:

	Carrying value	Fair value
Accounts receivable	**116,359**	**116,359**
Accounts payable and accrued liabilities	**3,284,383**	**3,284,383**
Derivative liability	**607,313**	**607,313**

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 on initial recognition using Level 2 inputs (Note 11) and the embedded derivatives on the Company's debentures were measured at fair value using level 3 inputs (Note 10).

- 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.

19. Related party transactions

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

Salaries and benefits	**2018**	2017
General and administrative	**424,238**	360,138
Selling and marketing	**275,002**	132,680
Product research and development	**67,192**	56,863
	766,432	549,681

Financing costs of $Nil for the year ended September 30, 2018 (September 2017 - $2,297) related to the debentures held by key personnel and directors are included in the statement of loss. Interest expenses incurred amounted to $Nil (September 2017 - $567).

Included in accounts payable and accrued liabilities is $324,418 (September 2017 - $276,250) due to directors and key management personnel.

Stated in Canadian dollars

Share based expenses to officers and a director was $187,992 (Note 16) during 2018 (2017 -$47,390).

In September 2017, key management personnel and the significant shareholder of the Company purchased 1,825,000 Units at $0.20 a Unit (Note 12).

20. Financing costs

	2018	2017
Accretion on debentures	**31,303**	215,372
Accretion of other liabilities	**128,337**	142,221
Accretion of long-term debt	**367,087**	-
Change in fair value of debentures	**41,780**	-
Change in fair value of derivative liability	**159,869**	-
Other accretion	**703**	(62)
	729,079	357,531

21. Personnel expenses

	2018	2017
Wages	**1,354,375**	1,290,705
Benefits	**145,603**	21,899
	1,499,978	1,312,604

22. Government grants

The Company has received contributions related to the development of its technologies from government agencies.

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 Bi-Direx 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 started during 2016 and the Company received $50,000 in 2018 (2017 - $175,000).

CanExport Program

The Company entered into an agreement with the National Research Council for funding related to increasing export sales to Australia. The grant is to a maximum of $33,600, to be delivered based on the Company incurring eligible costs in 2017 and 2018. The Company received $4,100 in 2018 (2017 - $23,844).

Stated in Canadian dollars

23. Income taxes

Unrecognized deferred tax assets:

	2018	2017
Development costs and capital assets	**44,000**	36,000
Non-capital loss carry-forwards	**10,910,738**	10,175,000
Other	**367,247**	821,000
Share issue costs	**221,000**	370,000
	11,542,985	11,402,000
Assets not recognized	**(11,542,985)**	(11,402,000)
	-	-

Reconciliation of effective tax rate:

	2018	2017
Loss for the year	**(4,786,418)**	(4,502,777)
Rate	**27.0%**	27.0%
Expected income tax recovery	**(1,292,333)**	(1,216,000)
Differences resulting from:		
Non-deductible expense	**167,039**	97,000
Adjustment to opening balance	**(190,918)**	(104,000)
Change in tax rates	**-**	315,000
Foreign exchange	**(30,772)**	-
Losses expired	**46,027**	-
Share-based payments	**90,424**	42,000
Share issue cost	**-**	(99,000)
Change in unrecognized deferred tax assets	**1,210,533**	965,000
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, 2018, the Company has approximately $36.7 million (2017 - $32.5 million) in Canadian non-capital loss carry forwards available. The unused losses will expire between 2027 and 2038. At September 30, 2018, the Company has approximately $2.0 million (2017 - $2.4 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2020 and 2037.

Stated in Canadian dollars

24. Supplemental information

The changes in non-cash working capital for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	**304,916**	(236,779)
Inventory	**(834,847)**	136,107
Prepaid expenses and deposits	**(239,910)**	(56,307)
	(769,841)	(156,979)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**288,788**	100,701
Deferred revenue	**(529,270)**	560,205
	(1,010,323)	503,927

25. Commitments

At September 30, 2018, Eguana had commitments for the Calgary premise and purchase obligations as follows:

Less than one year	**128,000**
Between one and five years	**115,000**
More than five years	**-**
	243,000

26. Segmented information

Major customers

The Company had two customers where sales were greater than 10% of total sales in the year ended September 30, 2018 (September 2017 - two). The customers had attributed sales of approximately $3,463,250 (88% of revenue) for the year ended September 30, 2018 (September 2017 - $773,593).

Revenue composition

The Company generated $2,836,281 of revenue from energy storage system sales with a cost of $2,488,144 for the year ended September 30, 2018 (September 2017 - $560,272 and $543,058), respectively. Revenue from a non-recurring termination payment was $1,060,957 with a cost of $214,231 incurred in the year ended September 30, 2018 (September 2017, engineering services - $292,654 and $43,728).

For the year ending September 30, 2018, cost of goods sold includes an inventory write-down of $Nil (September 2017 - $45,487).

27. 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. During the year, the customer made a counter claim against the Company.

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros ($2,295,028 CAD) in an Alberta court. The Company is disputing 799,000 Euros ($1,195,389 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 Euro denominated amounts for legal disputes from the prior year end.

28. Subsequent events

Subsequent to year end, the Company drew $750,000 USD from the Senior Lender (Note 9a), bearing interest at 12.5% per annum, which will be repaid in equal instalments starting in May 2019 for 30 months.

As part of the original Senior Loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 CAD and an expiry date of December 20, 2022. As at September 30, 2018, 2,582,767 warrants were exercisable and the remaining 368,966 warrants vested when the Company drew the additional $750,000 USD.

In October 2018, the Company granted incentive stock options to acquire up to an aggregate of 300,000 common shares at a strike price of $0.19 per share, with an expiry of October 11, 2028 to two employees. 100,000 of the 300,000 options vest immediately and the remaining two third vesting annually over the next two years.

In December 2018, the Company granted incentive stock options to acquire up to an aggregate of 1,590,000 common shares at a strike price of $0.20 per share, with an expiry of December 14, 2028. Of the options granted, 880,000 have been granted to directors and officers of the Company and the remainder to employees. The incentive stock options represent the 2018 annual grant. 530,000 of the 1,590,000 options vest immediately and the remaining two third vesting annually over the next two years.

In December 2018, the Company issued 715 Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $715,000 via its subsidiary EGT Markets Limited Partnership.

In January 2019, the Company entered into an Agreement with a capital market company for a commitment of $14,000 a month for six months. The Company has the option to renew the agreement at the end of the six months on a month-to-month basis.