Condensed interim consolidated financial statements of

Eguana Technologies Inc.

December 31, 2013

Eguana Technologies Inc.

September 30, 2013

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim 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 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 condensed consolidated interim 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, 2013	September 30, 2013
		$	$
Assets			
Current:			
Cash		**683,124**	399,874
Accounts receivable and advances		**619,630**	499,197
Inventory	3	**1,002,937**	1,137,192
Prepaid expenses and deposits		**95,508**	242,805
		2,401,199	2,279,068
Non-current:			
Other assets		**617,598**	-
Development costs	4	**373,465**	484,959
Capital assets	5	**168,201**	166,084
		3,560,463	2,930,111
Liabilities			
Current:			
Accounts payable and accrued liabilities		**1,745,134**	2,102,512
Provisions		**99,000**	112,000
Bank debt	6	**456,690**	617,157
Energy Northwest obligation - current portion	7	**69,987**	61,666
Government grant obligation - current portion	8	**159,687**	153,363
Debentures - current portion	9	**129,565**	65,403
Preferred shares - current portion	10	**9,421,151**	8,688,848
		12,081,214	11,800,949
Non-current:			
Deferred lease inducement		**70,200**	70,200
Energy Northwest obligation	7	**46,442**	47,932
Government grant obligation	8	**61,371**	60,038
Debentures	9	**1,805,958**	1,785,423
Preferred shares	10	**3,021,435**	2,859,967
		17,086,620	16,624,509
Shareholders' equity (deficiency)			
Share capital	11	**7,337,708**	5,777,755
Warrants	13	**1,117,933**	540,837
Equity component of preferred shares	10	**4,070,264**	4,079,759
Contributed surplus		**7,678,073**	7,610,723
Foreign currency translation reserve		**(84,407)**	(108,966)
Deficit		**(33,645,728)**	(31,594,506)
		(13,526,157)	(13,694,398)
		3,560,463	2,930,111

Going concern (Note 2), Commitments (Note 21) and Subsequent events (Note 23)
The accompanying notes are an integral part of these condensed interim consolidated financial statements

On behalf of the Board:

{signed}

Michael Carten, Director

{signed}

Robert Penner, Director

Eguana Technologies Inc.

Condensed interim consolidated statements of loss and comprehensive loss
For the three month periods ended December 31,
Stated in Canadian dollars
Unaudited

	Note	2013	2012
		$	$
Sales		**489,349**	70,161
Cost of goods sold		**382,322**	67,200
Gross margin		**107,027**	2,961
Expenses			
General and administrative	17	**466,090**	278,378
Operations	17	**225,707**	205,815
Product research and development	17	**209,605**	240,802
Selling and marketing		**145,149**	154,336
		1,046,551	879,331
Loss before undernoted items		**(939,524)**	(876,370)
Financing costs	18	**(1,111,718)**	(763,505)
Other income		**20**	24
Net loss		**(2,051,222)**	(1,639,851)
Foreign currency adjustment to equity		**24,559**	9,981
Total comprehensive loss		**(2,026,663)**	(1,629,870)
Loss per common share			
Basic and diluted		**(0.08)**	(0.08)
Weighted average number of common shares			
Basic and diluted	11	**26,466,810**	20,915,597

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity

For the three month periods ended December 31,

Stated in Canadian dollars
Unaudited

	Share Capital	Contributed Surplus	Warrants	Equity component of preferred shares	Deficit	Foreign currency translation reserve	Total
	$	$	$	$	$	$	$
Balance, October 1, 2013	**5,777,755**	**7,610,723**	**540,837**	**4,079,759**	**(31,594,506)**	**(108,966)**	**(13,694,398)**
Loss for the period	**-**	**-**	**-**	**-**	**(2,051,222)**	**-**	**(2,051,222)**
Other comprehensive gain(loss)	**-**	**-**	**-**	**-**	**-**	**24,559**	**24,559**
Issue of share capital	**511,104**	**-**	**-**	**-**	**-**	**-**	**511,104**
Share capital to be issued	**1,048,849**	**-**	**-**	**-**	**-**	**-**	**1,048,849**
Warrants issued	**-**	**-**	**65,331**	**-**	**-**	**-**	**65,331**
Warrants modified	**-**	**-**	**511,765**	**-**	**-**	**-**	**511,765**
Equity portion of preferred shares	**-**	**-**	**-**	**(9,495)**	**-**	**-**	**(9,495)**
Share based payments	**-**	**67,350**	**-**	**-**	**-**	**-**	**67,350**
Balance, December 31, 2013	**7,337,708**	**7,678,073**	**1,117,933**	**4,070,264**	**(33,645,728)**	**(84,407)**	**(13,526,157)**
Balance, October 1, 2012 (Restated - Note 2)	5,004,531	5,317,378	2,270,651	3,387,391	(23,337,518)	(184,625)	(7,542,192)
Loss for the period	-	-	-	-	(1,639,851)	-	(1,639,851)
Other comprehensive gain(loss)	-	-	-	-	-	9,981	9,981
Issue of share capital	-	-	-	-	-	-	-
Warrants issued	-	-	95,044	-	-	-	95,044
Warrants expired	-	98,411	(98,411)	-		-	-
Equity component of preferred shares	-	-	-	158,090	-	-	158,090
Share based payments	-	(43,737)	-	-	-	-	(43,737)
Balance, December 31, 2012	5,004,531	5,372,052	2,267,284	3,545,481	(24,977,369)	(174,644)	(8,962,665)

The accompanying 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	2013	2012
		$	$
Operating activities			
Net loss		**(2,051,222)**	(1,639,851)
Amortization of capital assets and development costs		**136,103**	109,899
Share-based payments		**67,350**	(43,737)
Warranty provision		**(13,000)**	-
Finance costs		**1,111,718**	763,505
Unrealized foreign exchange loss (gain)		**(522)**	1,219
		(749,573)	(808,965)
Net change in non-cash working capital	20	**(358,003)**	910,721
Cash flow used in operating activities		**(1,107,576)**	101,756
Financing activities			
Bank loan		**(160,467)**	(438,188)
Proceeds from preferred shares		**-**	500,000
Proceeds from common shares		**550,000**	-
Proceeds for limited partnership units		**1,200,500**	-
Cash issuances costs paid		**(145,972)**	-
Advance from director		**-**	100,000
Repayment of government contribution		**(4,500)**	(2,000)
Cash financing costs paid		**(33,173)**	(34,086)
Cash flow from financing activities		**1,406,388**	125,726
Investing activities			
Cash held in trust		**-**	(250,000)
Capital asset additions		**(15,010)**	-
Cash flow used in investing activities		**(15,010)**	(250,000)
Foreign exchange on cash held in foreign operations		**(552)**	3,736
Net change in cash		**283,250**	(18,782)
Cash, beginning of period		**399,874**	256,104
Cash, end of period		**683,124**	237,322

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

1. Description of the business

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

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2013, 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, 2013.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 3 of the September 30, 2013 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on February 27, 2014.

(b) Going concern

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

At December 31, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $33,645,728 (2012 - $24,977,369) and recognized a cash flow (deficiency) surplus in the period of $(1,107,576) (2012 - $101,756). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

Stated in Canadian dollars

3. Basis of preparation (continued)

(b) Going concern

The Company currently has a significant working capital deficit as a result of preferred shares, series 7 that are due for redemption in May 2014 and are reflected as a current liability.

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

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

(c) Recently adopted accounting standards

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2013.

(d) Restatement of deficit

During the year ended September 30, 2013, the Company determined that accounts payable and accrued liabilities in previous years were understated by $275,000 and inventory was overstated by $310,000. These adjustments have been reflected in the opening deficit as at October 1, 2012, and have been adjusted accordingly from the amount reported in the previously issued unaudited condensed interim consolidated financial statements for the period ended December 31, 2012.

3. Inventory

	December 31, 2013	September 30, 2013
	$	$
Finished goods	**-**	-
Components	**1,002,937**	1,137,192
	1,002,937	1,137,192

As at December 31, 2013, $1,002,937 (September 2013 - $1,137,192) of inventory was carried at cost and $nil (September 2013 - $nil) was carried at net realizable value.

Stated in Canadian dollars

4. Development costs

Carrying value	December 31, 2013	September 30, 2013
	$	$
Development of wind turbine technology	1	1
Development of power electronics intellectual property	373,463	484,957
Development of power electronics platform	1	1
	373,465	484,959

Cost	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2012	1,894,618	3,735,448	1,443,839	7,073,905
Foreign currency translation	-	151,142	12,385	163,527
Balance September 30, 2013	**1,894,618**	**3,886,590**	**1,456,224**	**7,237,432**
Foreign currency translation	**-**	**104,384**	**8,539**	**112,923**
Balance December 31, 2013	**1,894,618**	**3,990,974**	**1,464,763**	**7,350,355**

Accumulated amortization and impairment	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2012	1,894,617	2,797,758	1,443,838	6,136,213
Amortization	-	479,399	-	479,399
Foreign currency translation	-	124,476	12,385	136,861
Balance September 30, 2013	**1,894,617**	**3,401,633**	**1,456,223**	**6,752,473**
Amortization	**-**	**123,210**	**-**	**123,210**
Foreign currency translation	**-**	**92,668**	**8,539**	**101,207**
Balance December 31, 2013	**1,894,617**	**3,617,511**	**1,464,762**	**6,976,890**

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

Stated in Canadian dollars

5. Capital assets

	December 31, 2013	September 30, 2013
	$	$
Carrying value		
Computer equipment and software	**16,379**	16,937
Lab equipment	**26,298**	30,364
Furniture, equipment and leasehold improvements	**108,397**	116,666
Dies and molds	**17,127**	2,117
	168,201	166,084

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	$	$	$	$	$
Balance September 30, 2013	476,148	581,517	224,540	35,797	1,318,002
Additions	-	-	-	15,010	15,010
Disposals	-	-	-	-	-
Balance December 31, 2013	**476,148**	**581,517**	**224,540**	**50,807**	**1,333,012**

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	$	$	$	$	$
Balance September 30, 2013	459,211	551,153	107,874	33,680	1,151,918
Amortization	558	4,066	8,269	-	12,893
Disposals	-	-	-	-	-
Balance December 31, 2013	**459,769**	**555,219**	**116,143**	**33,680**	**1,164,811**

Stated in Canadian dollars

5. Capital assets (continued)

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2012	477,011	580,984	136,236	35,797	1,230,028
Additions	1,334	533	118,237	-	120,104
Disposals	(2,197)	-	(29,933)	-	(32,130)
Balance September 30, 2013	476,148	581,517	224,540	35,797	1,318,002

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2012	457,504	529,877	112,814	33,258	1,133,453
Amortization	3,904	21,276	24,993	422	50,595
Disposals	(2,197)	-	(29,933)	-	(32,130)
Balance September 30, 2013	459,211	551,153	107,874	33,680	1,151,918

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

6. Bank debt

The Company has a $1,500,000 operating line of credit. The operating line is secured by Doughty Hanson through an Equity Commitment Agreement. Interest is payable at the bank's prime rate plus 3% (2012 – prime rate plus 2.75%) and amounts outstanding are repayable upon demand.

7. Energy Northwest obligation

	December 31, 2013	September 30, 2013
	$	$
Obligation to Energy Northwest ($109,467 US; September 2013 - $106,374 US)	**116,429**	109,598
Less: current portion of Energy Northwest obligation	**(69,987)**	(61,666)
	46,442	47,932

Stated in Canadian dollars

7. Energy Northwest obligation (continued)

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

The compensation payable to Energy Northwest in any year until January 1, 2016, is dependent on product sales using the SWPC technology, subject to the above noted annual minimum and maximum thresholds in the year. As the sole basis for the repayment of the loan was linked to future gross sales in SEL, management has determined that the obligation to Energy Northwest contained an embedded derivative and accordingly the loan was required to be accounted for as an embedded derivative in accordance with IAS 39. This requires that the underlying liability and the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the consolidated statement of loss and comprehensive loss each period. At December 31, 2013, the Company completed the development of the 3rd generation STX inverter, which does not use the SWPC technology, and the Company has ceased production of inverters based on the SWPC technology resulting in the minimum compensation being payable in subsequent years. The embedded derivative is valued at nil (September 30, 2013 – nil).

8. Government grant obligation

National Research Council

The Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries it incurs to commercialize the universal electronic platform to a maximum of $245,241. The Company has received the maximum amount. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the National Research Council has recovered one and a half times the amount advanced to the Company or for a period of eleven years after the beginning of the repayment schedule. The remaining payable or potentially payable under the agreement is $296,920 (2012 - $314,420).

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

	December 31, 2013	September 30, 2013
	$	$
Government grant (NRC)	**221,058**	213,401
Less: current portion	**(159,687)**	(153,363)
	61,371	60,038

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

Stated in Canadian dollars

9. Debentures and other financial liabilities

	Debt component of debenture	Embedded derivative	Warrant component of debenture	Total
	$	$	$	$
Balance at October 1, 2012	429,546	115,165	-	544,711
Debenture	1,235,467	54,953	110,330	1,400,750
Accretion / Change in fair value	148,896	(147,935)	-	961
Loss (gain) on change in cash flow	68,860	(12,984)		55,876
Repayments	(31,943)	(9,199)	-	(41,142)
Balance at September 30, 2013	1,850,826	-	110,330	1,961,156
Accretion / Change in fair value	104,459	-	-	104,459
Loss (gain) on change in cash flow	-	2,595	-	2,595
Repayments	(19,762)	(2,595)	-	(22,357)
Balance at December 31, 2013	**1,935,523**	**-**	**110,330**	**2,045,853**
Less: current portion	**(129,565)**	**-**	**-**	**(129,565)**
	1,805,958	**-**	**110,330**	**1,916,288**

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

On August 7, 2013, and September 17, 2013, the Company issued $1,820,000 in 5-year subordinated debentures ("Debentures"), issued at an original issue discount of 12.5% to net the Company $1,592,500. The debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 1.82% of the consolidated quarterly revenues realized by the Company and are both payable on a quarterly basis during the term of the debenture. The Debenture is callable by the Company at par at any time after the second anniversary of issue. Purchasers of the debentures had the option of receiving common shares or warrants. After valuing the liability and derivatives the residual value was assigned to the equity items. The Company issued 424,000 commons shares valued at $156,880 and 608,000 warrants exercisable at $0.50 for a period of four years from the date of issue valued at $110,330. The debentures are secured by a general security agreement. The principal amount of $1,820,000 is repayable in 12 equal quarterly payments commencing 2 years after issuance. The Company incurred transaction costs related to the issue of the debentures of $35,713. The transaction costs included the issue of 8,750 broker warrants exercisable at $0.50 for a period of one year from the date of issue. The effective interest rate on the debentures is estimated to be 24.14%.

Stated in Canadian dollars

10. Preferred shares

Series 7	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2012	6,323,062	2,465,334	1,278,482	10,066,878
Accretion	2,416,641	-	-	2,416,641
Warrants expired	-	-	(1,278,482)	(1,278,482)
Conversion of preferred shares	(50,855)	(15,138)	-	(65,993)
Balance at September 30, 2013	8,688,848	2,450,196	-	11,139,044
Accretion	732,303	-	-	732,303
Conversion of preferred shares	-	-	-	-
Balance at December 31, 2013	**9,421,151**	**2,450,196**	**-**	**11,871,347**

Series 9	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2012	459,225	99,981	-	559,206
Accretion	124,564	-	-	124,564
Conversion of preferred shares	(32,057)	(5,490)	-	(37,547)
Balance at September 30, 2013	551,732	94,491	-	646,223
Accretion	34,118	-	-	34,118
Balance at December 31, 2013	**585,850**	**94,491**	**-**	**680,341**

Series 10	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2012	588,535	413,307	-	1,001,842
Accretion	149,804	-	-	149,804
Balance at September 30, 2013	738,339	413,307	-	1,151,646
Accretion	43,070	-	-	43,070
Balance at December 310, 2013	**781,409**	**413,307**	**-**	**1,194,716**

Stated in Canadian dollars

10. Preferred shares (continued)

Series 11	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2012	275,649	145,663	98,411	519,723
Warrants expired	-	-	(98,411)	(98,411)
Accretion	75,764	-	-	75,764
Balance at September 30, 2013	351,413	145,663	-	497,076
Accretion	21,995	-	-	21,995
Balance at December 31, 2013	**373,408**	**145,663**	**-**	**519,071**

Series 12	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	282,947	263,106	-	546,053
Accretion	72,396	-	-	72,396
Balance at September 30, 2013	355,343	263,106	$ -	618,449
Accretion	20,826	-	-	20,826
Balance at December 31, 2013	**376,169**	**263,106**	**-**	**639,275**

Series 13	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	225,741	156,569	94,130	476,440
Accretion	44,705	-	-	44,705
Balance at September 30, 2013	270,446	156,569	94,130	521,145
Accretion	16,542	-	-	16,542
Balance at December 31, 2013	**286,988**	**156,569**	**94,130**	**537,687**

Stated in Canadian dollars

10. Preferred shares (continued)

Series 14	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	230,065	247,939	-	478,004
Accretion	26,164	-	-	26,164
Balance at September 30, 2013	256,229	247,939	-	504,168
Accretion	15,638	-		**15,638**
Balance at December 31, 2013	**271,867**	**247,939**	**-**	**519,806**

Series 15	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	302,687	308,488	27,305	638,480
Accretion	33,778	-	-	33,778
Balance at September 30, 2013	336,465	308,488	27,305	672,258
Accretion	(10,554)	(9,495)		(20,049)
Conversion of preferred shares	19,833	-	-	19,833
Balance at December 31, 2013	**345,744**	**298,993**	**27,305**	**672,042**
Total preferred shares December 31, 2013	**12,442,586**	**4,070,264**	**121,435**	**16,634,285**
Total preferred shares September 30, 2013	11,548,815	4,079,759	121,435	15,750,009

Series 7 Class A Units consisted of one (1) redeemable 8%, voting, First Preferred Share, Series 7 ("Series 7 Preferred Shares") and 28 detachable warrants ("Warrants") to acquire one (1) non-voting common share at an exercise price of $0.30 per share until May 7, 2013. Series 7 Class B Unit consisted of one (1) Series 7 Preferred Share and 22 warrants to acquire one (1) voting common share at $0.30 per share until May 7, 2013.

Holders of Series 7 Preferred Shares are entitled to receive as and when declared by the Board of Directors out of moneys of the Company applicable to the payment of annual dividends an amount equal to 8% of the then applicable Series 7 Redemption Price payable semi-annually, the first of such dividends to become payable October 15, 2009. In the event the annual 8% dividend is not declared and paid, such dividend shall be accretive to the Series 7 Redemption Price.

10. Preferred shares (continued)

After October 15, 2011, the Series 7 Preferred Shares can be redeemed by the Company if within the 90 day period preceding the date of notice of redemption, the weighted average trading price has exceeded $6.00 per share for at least 30 consecutive trading days and the average trading volume for such 30 consecutive trading days is at least $200,000, the Company may redeem all but not less than all the Series 7 Preferred Shares at the then applicable Series 7 Redemption Price subject to the prior right of holders to exercise their right to convert the Series 7 Preferred Shares into common shares of the Company. The Company must redeem all remaining outstanding Series 7 Preferred Shares on May 15, 2014.

Holders of the Series 7 Preferred Shares may convert, at any time, the Series 7 Preferred Shares into that number of fully paid and non-assessable common shares equal to the then applicable Series 7 Redemption Price divided by the conversion price of $1.50 per share. Series 7 Preferred Shares are automatically converted into common shares if (i) approved by a majority of the Series 7 Preferred Shares or (ii) the Company undertakes an underwritten public offering pursuant to a prospectus or similar document for aggregate proceeds of $20 million at a price per share of at least $4.50.

During the period, there were nil (2012 – nil) preferred shares plus accreted dividends converted to common shares. As at December 31, 2013, there were 450,000 (September 30, 2013 – 450,000) Class A Series 7 Preferred shares and 278,350 (September 30, 2013 – 282,850) Class B Series 7 Preferred shares outstanding.

On May 8, 2009, the subscriber for the Class A Units was also issued one (1) First Preferred Shares Series 8. The 1 First Preferred Share Series 8, entitles the holder to designate a representative to the board of directors of the Company for so long as the holder owns in the aggregate more than 10% of the issued and outstanding common shares of the Company on a fully diluted basis. The share is redeemable at a price of $1.00, at the option of the holder.

On August 23, 2010, the Company issued First Preferred Shares Series 9 for gross proceeds of $687,360. The Series 9 preferred shares are similar and rank pari passu to the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 9 preferred shares. The 50,000 Series 9 shares are convertible at a price of $1.55. Doughty Hanson was also given 516,129 warrants exercisable for 1 year at $1.55 as partial compensation for underwriting the equity commitment of $3,000,000. The Company shall redeem all the outstanding Series 9 Preferred Shares on September 9, 2015.

During the period, there were nil (2012 – nil) preferred shares plus accreted dividends converted to common shares. As at December 31, 2013, there were 60,236 (September 30, 2013 – 60,236) Series 9 Preferred Shares outstanding.

On October 5, 2010, the Company issued 80,000 First Preferred Shares Series 10 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 10 preferred shares. The Series 10 preferred shares resulted in a cash inflow of $800,000 and they are convertible at a price of $1.40 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all the outstanding Series 10 Preferred Shares on October 6, 2015.

10. Preferred shares (continued)

On October 25, 2011, the Company issued 50,000 First Preferred Shares Series 11 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, The Series 11 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $1.15 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The Company shall redeem all the outstanding Series 10 Preferred Shares on October 25, 2016.

On December 19, 2011, the Company issued 50,000 First Preferred Shares Series 12 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares with the exception of the detachable warrants which were not issued as part of the Series 12 preferred shares. The Series 12 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.80 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all of the outstanding Series 12 Preferred Shares on December 20, 2016.

On December 27, 2012, the Company issued 50,000 First Preferred Shares Series 13 to Doughty Hanson that are similar to and rank pari passu with the Series 7. The Series 13 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.40 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The Company shall redeem all of the outstanding Series 13 Preferred Shares on December 28, 2017.

On April 16, 2013, the Company issued 50,000 First Preferred Shares Series 14 to Doughty Hanson, pursuant to the conversion notice that the Company received on that date in relation to the convertible debentures . The Series 14 Preferred Shares are similar to and rank pari passu with the Series 7. The Series 14 preferred shares are convertible at a price of $0.105. The Company shall redeem all the outstanding Series 14 Preferred Shares on March 15, 2018.

On April 16, 2013, the Company issued 65,000 First Preferred Shares Series 15, which are similar to and rank pari passu with the Series 7. The Series 15 preferred shares resulted in a cash inflow of $650,000. The First Preferred Shares Series 15 are convertible at a price of $0.12 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all the outstanding Series 15 Preferred Shares on April 16, 2018.

During the period, there were 2,000 (2012 – nil) preferred shares plus accreted dividends converted to common shares. As at December 31, 2013, there were 63,000 (September 30, 2013 – 65,000) Series 15 Preferred Shares outstanding.

Subsequent to period end, there were 56,500 Series 7 Preferred Shares, 7,000 Series 9 Preferred Shares and 1,000 Series 15 Preferred shares converted to 1,148,271 common shares. The conversion included $270,123 of accreted dividends that were also converted into common shares at the time the preferred shares were converted.

Stated in Canadian dollars

11. Share capital

Authorized, unlimited number

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

Issued

Common shares	Number of shares	Amount $
Balance, October 1, 2012	20,915,597	5,004,531
Issuance of common shares	424,000	153,881
Conversion of preferred shares	121,313	103,540
Exerise of warrants	4,750,000	515,803
Balance, September 30, 2013	**26,210,910**	**5,777,755**
Conversion of preferred shares	167,702	20,756
Issuance of common shares	1,375,000	550,000
Share issuance costs		(59,652)
	27,753,612	**6,288,859**
Common shares to be issued (note 12)	-	1,200,500
Partnership unit costs	-	(151,651)
Balance, December 31, 2013	**27,753,612**	**7,337,708**

The Company issued 167,702 (2012 – nil) common shares on the conversion of preferred shares which included accreted dividends of $756 (2013 - $nil) that were also converted into common shares at the time the preferred shares were converted.

In December 2013, the Company issued 1,375,000 common shares in connection with a private placement for gross proceeds of $550,000. The commissions paid on the issuance were $28,000. As partial compensation 70,000 broker warrants were issued with a fair market value of $18,900 (Note 13). The warrants have an exercise price of $0.45 and expire one year from issuance. Other costs of $12,752 related to the issue of shares were also incurred bringing the total costs on issuance to $59,652.

Adjustment to share capital and deficit

On August 21, 2012, the Company received shareholder approval to reduce the stated share capital and the deficit of the Company by $30,000,000.

Restricted shares

In June 2012, the Company issued debentures and in conjunction with the issuance of the debentures, a total of 280,000 restricted common shares of the Company were issued to the debenture holders (Note 15). A total of 32,000 shares were released immediately. The remaining shares will be released to the debenture holders on a quarterly basis. At December 31, 2013, there were 56,000 (September 30, 2013 – 88,000) shares remaining to be released.

11. Share capital (continued)

Weighted average number of common shares

The weighted average number of shares for December 31, 2013 and 2012, were determined by excluding stock options and warrants because the Company was in a loss position. In calculating diluted common share amounts for December 31, 2013 and 2012, the Company excluded 1,131,587 (2012 – 1,026,587) preferred shares convertible into 27,014,165 (2012 – 18,410,689) common shares, 6,424,128 (2012 – 5,585,193) warrants and 2,676,019 (2012 – 1,559,372) options.

The conversion for the preferred shares includes a fixed conversion plus the conversion of unpaid dividends to common shares. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to the period end. The actual number of common shares that would be issued will vary from this estimate based on the share price and the amount of unpaid dividends at the time of conversion. As at December 31, 2013, the common shares related to the conversion of the unpaid dividends was estimated to be 8,876,766 (2012 - 10,232,613) and is included in the 27,014,165 (2012 – 18,410,689) disclosed above.

12. EGT markets limited partnership

EGT Markets Limited Partnership ("EGTLP") is an Alberta Limited Partnership which carries on the business of commercializing manufacturing and marketing inverters under license from Eguana and certain of Eguana's subsidiaries. The General Partner of EGTLP is SES which exercises control over EGTLP's operations. The Limited Partners of STGLP are Eguana, and from time to time, private investors who have provided capital to EGTLP by purchasing limited partnership units ("LP Units") at a price of $10,000 per LP Unit.

As Limited Partners of the Partnership on December 31 of each year, the investors are entitled to deduct their share of non capital losses of the Partnership for the year to a maximum of $10,000 per LP Unit. As a result, 99.99% of non-capital losses are not available to Eguana to offset future taxable income realized by it.

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

In December 2013, EGTLP issued 1,200.5 Limited Partnership units at a price of $10,000 per unit resulting in gross proceeds of $1,200,500. The commissions paid on the issuance were $77,385. As partial compensation 171,967 broker warrants were issued with a fair market value of $46,431 (Note 13). The warrants have an exercise price of $0.45 and expire one year from issuance. Other costs of $27,835 related to the issue of the partnership units were also incurred bringing the total costs on issuance to $151,651.

The limited partnership units are exchangeable for a total of 2,667,778 common shares of Eguana after December 31, 2013, at an exchange ratio of $0.45 per share. On January 31, 2014, Eguana exercised its right to convert the units to common shares of Equana and issued 2,667,778 shares (Note 11).

Stated in Canadian dollars

13. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				$
Balance, October 1, 2012	4,863,626	106,350	4,969,976	2,270,651
Warrants issued	10,917,411	8,750	10,926,161	557,890
Warrants excerised	(4,750,000)		(4,750,000)	(17,053)
Warrants expired	(4,863,626)	(106,350)	(4,969,976)	(2,270,651)
Balance September 30, 2013	6,167,411	8,750	6,176,161	540,837
Warrants expired	-	-	-	-
Warrants revalued	-	-	-	511,765
Warrants issued	-	241,967	241,967	65,331
Balance, December 31, 2013	**6,167,411**	**250,717**	**6,418,128**	**1,117,933**

- 1,250,000 additional warrants were issued to Doughty Hanson on December 27, 2012 exercisable for a period of five years at $0.50. These warrants were issued in conjunction with the issue of Series 13 Preferred Shares (Note 10). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.31% interest rate and a volatility of 114.49%. The value assigned at issuance was $94,130.

- 4,750,000 additional warrants were issued to Doughty Hanson on March 15, 2013 exercisable for a period of six months at $0.105. These warrants were issued in conjunction with the issue of the convertible debenture. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.55% interest rate and a volatility of 113%. The value allocated to the warrants at issuance was $17,053.

- 780,000 additional warrants were issued on April 16, 2013 exercisable for a period of one year at $0.12. These warrants were issued in conjunction with the issue of Series 15 Preferred Shares (Note 10). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.21% interest rate and a volatility of 113.81%. The value assigned to the warrants at issuance was $27,305. Of the 780,000 additional warrants issued, 96,000 were issued to directors or members of management of the Company.

- 3,529,411 additional warrants were issued to Doughty Hanson on June 13, 2013, exercisable until May 1, 2014 at $0.17 as a result of an agreement reached on May 20, 2013. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank operating line to April 30, 2014 (Note 6). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 159.4%. The fair market value at issuance was $307,058. In December 2013, the Company extended the exercise date on the warrants to May 1, 2018.

13. Warrants (continued)

The overall weighted average incremental fair value granted on account of this modification was measured using the Black-Scholes option pricing model. The weighted average fair value calculated for these warrants as of the measurement date of December 23, 2013, was $0.22. This fair value was calculated based on the weighted average assumptions of a share price of $0.365 an exercise price of $0.17, expected stock price volatility of 153.92%, risk free interest rate of 1.00%, expected dividend yield of 0%, and an expected option life of 0.36 years. The incremental fair value granted was computed based on the difference in the modified life (from a 0.36 years to 4.36 years) while using the weighted average assumptions of a share price of $0.365 an exercise price of $0.17, expected stock price volatility of 278.24%, risk free interest rate of 2.50%, expected dividend yield of 0%, and an expected option life of 4.36 years.. The resulting weighted average incremental fair value granted on account of this modification was $0.145 per warrant, which computed to $511.765 of additional warrant value that will be recognized over the life of the warrants as part of financing costs.

- 608,000 additional warrants were issued on August 7, 2013, or September 17, 2013, in conjunction with the issue of the debenture (Note 9). The warrants are exercisable for a period of four years at $0.50. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.3963% interest rate and a volatility of 260.33%. The fair market value at issuance was $110,330. Of the 608,000 additional warrants issued, 48,000 were issued to directors or key personnel of the Company

- 8,750 additional broker warrants were issued on August 7, 2013, in conjunction with the issue of the debenture (Note 9). The warrants are exercisable for a period of one year at $0.50. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0431% interest rate and a volatility of 194.31%. The fair market value at issuance was $2,013.

- 241,967 additional broker warrants were issued in December 2013, in conjunction with the issue of common shares and partnership units (Note 11 and 12). The warrants are exercisable for a period of one year at $0.45. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0% interest rate and a volatility of 199.66%. The fair market value at issuance was $65,331.

14. Contributed surplus

The Company has established an option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. Options generally vest over a 3-year period with 1/6 vesting every 6 months. The Company's plan allows for a maximum term on any options to be ten years. The Company, at the discretion of the Board of Directors, may issue options to a maximum of 5,233,588. The plan was approved by the shareholders on October 29, 2013. The minimum price at which the options may be granted is the closing price on the TSX-V on the date of issue.

Stated in Canadian dollars

14. Contributed surplus (continued)

The following summarizes information about stock options outstanding as at December 31, 2013:

	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, 2012	1,330,142	1.80	329,230	1.50
Granted	969,147	0.40	182,500	0.40
Forfeited	(135,000)	1.81	-	-
Stock options amended (old price)	(277,500)	(1.54)	(79,230)	(2.76)
Stock options amended (new price)	277,500	0.30	79,230	0.30
Balance, September 30, 2013	2,164,289	0.91	511,730	0.73
Granted	-	-	-	-
Forfeited	-	-	-	-
Stock options amended (old price)	(917,642)	(1.64)	(250,000)	(0.93)
Stock options amended (new price)	917,642	0.30	250,000	0.30
Balance, December 31, 2013	**2,164,289**	**0.34**	**511,730**	**0.34**

	Outstanding options			Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
$0.01–$0.30	1,524,372	0.30	5.69	1,299,372	0.30
$0.31–$0.60	1,151,647	0.40	9.42	-	-
Balance December 31, 2013	**2,676,019**	**0.34**	**7.29**	**1,299,372**	**0.30**

The total share-based compensation calculated for three month period ended December 30, 2013, was $67,350 (2012 – recovery of $43,737).

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

Stated in Canadian dollars

14. Contributed surplus (continued)

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

15. Capital management

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

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

	December 31, 2013	September 30, 2013
	$	$
Total shareholders' deficiency	**(13,526,157)**	(13,694,398)
Cash	**(683,124)**	(399,874)
Bank debt	**456,690**	617,157
Total capital	**(13,752,591)**	(13,477,115)

16. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a single counterparty at December 31, 2013. Approximately 45% of the total accounts receivable are due from one customer. The credit risk on cash is considered to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

Stated in Canadian dollars

16. Financial instruments and financial risk management (continued)

Credit risk (continued)

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

	December 31, 2013	September 30, 2013
	$	$
Trade	**360,244**	244,078
Taxation authorities	**311,088**	281,109
Employee advances and other	**-**	25,712
	671,332	550,899
Less: allowance for doubtful accounts	**(51,702)**	(51,702)
	619,630	499,197

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the period ended December 31, 2013, there was a $nil (2012 – $nil) of bad debts expensed.

The maximum exposure to credit risk is represented by the carrying amount on the condensed interim consolidated statement of financial position. There are $51,702 (September 30, 2013 - $51,702) of financial assets that the Company considers past due, as the remainder of the $19,737 (September 30, 2013 - $29,966) over 90 days are for business development opportunities and have long payment terms, or were paid subsequent to period end.

The following is a schedule of trade receivables:

	December 31, 2013	September 30, 2013
	$	$
Neither impaired or past due	**85,950**	3,005
Not impaired but past due in the following periods		
31 - 60 days	**32,831**	99,368
61 - 90 days	**170,024**	60,037
over 90 days	**71,439**	81,668
	360,244	244,078

Liquidity risk

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

16. Financial instruments and financial risk management (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities at December 31, 2013:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	1,745,134	-	-	1,745,134
Bank loan	456,690	-	-	456,690
Energy Northwest obligation	63,562	82,086	-	145,648
Government grant obligation	219,718	77,202	-	296,920
Debentures	211,934	2,222,971	303,332	2,738,237
Preferred shares Series 7, 9, 10, 11, 12, 13, 14 and 15	11,673,000	3,404,560	1,698,984	16,776,544
Total	14,370,038	5,786,819	2,002,316	22,159,173

Foreign currency risk

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows at December 31, 2013:

	Euros	US Dollars	Total
	$	$	$
Cash	8,661	(134,767)	(126,106)
Accounts receivable and advances	545,711	16,057	561,768
Accounts payable and accrued liabilities	(445,670)	(227,267)	(672,937)
Energy Northwest obligation	-	(116,429)	(116,429)
	108,702	(462,406)	(353,704)

Assuming all other variables remain constant, a $0.05 change in the Canadian/US exchange rate would affect the Company's net loss by approximately $21,738 for the period ended December 31, 2013 (2012 - $4,619). Assuming all other variables remain constant, a $0.05 change in the Canadian/Euro exchange rate would change the Company's net loss by approximately $5,435 for the year ended December 31, 2013 (2012- $1,951). An opposite change in the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the period ended December 31, 2013.

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.

Stated in Canadian dollars

16. Financial instruments and financial risk management (continued)

Fair value

The carrying value and fair value of financial instruments at September 30, 2013, is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the period December 31, 2013:

Financial instrument	Carrying value	Fair value	Gain/(loss)
	$	$	$
Accounts receivable and advances	619,630	619,630	-
Accounts payable and accrued liabilities	1,745,134	1,745,134	-
Bank debt	456,690	456,690	-

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input and the embedded derivatives on the Company's debentures (Note 9), preferred shares (Note 10) and Energy Northwest obligation (Note 7) were measured at a fair value using level 3 inputs.

17. Related party transactions

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

Included in general and administrative expense is salaries and benefits for key management personnel and directors of $75,739 for the period ended December 31, 2013 (2012 - $77,468) and share based compensation of $54,441 for period ended December 31, 2013 (2012 - $nil). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $49,500 for the period ended December 31, 2013 (2012 – $50,500) and share based compensation of nil (2012 - $9,945).

Financing costs of $13,523 for the period ended December 31, 2013 (2012 - $2,423) respectively related to the debentures and preferred shares series 15 are included in the statement of loss. Interest payments amounted to $2,494 (2012 - $870) for the period ended December 31, 2013.

Included in accounts payable and accrued liabilities is $97,740 (Sept 2013 - $139,421) due to directors and members of key management personnel.

Stated in Canadian dollars

18. Financing costs

	2013	2012
	$	$
Interest on Northwest obligation	3,374	4,314
Interest on bank debt	10,816	19,966
Accretion on debenture	104,459	28,090
Change in fair value of embedded deriviatives	2,595	-
Accretion of government grant obligation	12,157	13,411
Accretion of preferred shares	905,033	631,381
Amortization of financing fees	73,284	66,000
Other	-	343
Total	1,111,718	763,505

19. Personnel expenses

	2013	2012
	$	$
Wages	254,210	241,691
Benefits	13,461	12,026
Total	267,671	253,717

20. Supplemental information

The changes in non-cash working capital for the year ended December 31, 2013 and 2012 is as follows:

	2013	2012
	$	$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	(108,133)	350,890
Prepaid expense and deposits	(30,646)	(18,631)
Inventory	135,280	12,920
	(3,499)	345,179
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(354,503)	565,542
	(358,002)	910,721

Stated in Canadian dollars

21. Commitments

(a) At December 31, 2013, Eguana had commitments for premises as follows:

	December 31, 2013
	$
Less than one year	160,400
Between one and five years	221,000
More than five years	-
	381,400

(b) Consulting services were provided in fiscal 1998 to the Company. Repayment including interest at an annual rate of 20% per year, is contingent upon SEL achieving sales ($Nil to date) or capital funding of $2,000,000 US ($342,000 US has been received to December 31, 2013). At December 31, 2013, the total contingent amount payable including accrued interest was approximately $535,239 ($503,234 US) (September 30, 2013 - $502,896, $488,106 US).

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

(d) The Company is party to an employment agreement with a director of the Company, under which payment of a portion of the director's compensation is contingent upon the Company realizing positive earnings for any one fiscal quarter before interest, taxes, depreciation and amortization, a change of control of the Company, liquidation or receivership of the Company or termination of the employment relationship. At December 31, 2013, the total contingent amount was approximately $450,000 (2012 - $300,000) because the Company has not achieved the criteria for payment no amount has been accrued for this.

22. Segmented information

Geographic disclosures

	2013		2012	
	Revenues	Assets*	Revenues	Assets*
	$	$	$	$
Canada	489,349	260,568	62,156	318,938
United States	-	281,098	-	613,294
Europe	-	-	8,005	-
Total	489,349	541,666	70,161	932,232

** Assets refer to the Company's development costs and capital assets.*

Major customers

The Company had one customer where product sales were greater than 10% in the year. The customer had attributed sales of $406,701, respectively, for the period ended December 30, 2013 (2012 – two customers, $44,624 and $7,732).

23. Subsequent events

Subsequent to period end, 1,148,271 common shares were issued on the conversion of First Preferred Shares to common shares. On February 27, 2014 the requisite majority of shareholders of each class of First Preferred Shares approved an amendment to the terms thereof which would remove any obligation of the Company to redeem any First Preferred Shares. The amendment will take effect following approval by the TSX Venture Exchange.