Consolidated Financial Statements of

Eguana Technologies Inc.

December 31, 2023 and December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eguana Technologies Inc.

Opinion

We have audited the consolidated financial statements of Eguana Technologies Inc. (the Company), which comprise:

– the consolidated statements of financial position as at December 31, 2023 and December 31, 2022

– the consolidated statements of net loss and comprehensive loss for the twelve month period ended December 31, 2023 and the fifteen month period ended December 31, 2022

– the consolidated statements of changes in equity (deficiency) for the twelve month period ended December 31, 2023 and the fifteen month period ended December 31, 2022

– the consolidated statements of cash flows for the twelve month period ended December 31, 2023 and the fifteen month period ended December 31, 2022

– and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the twelve month period ended December 31, 2023 and the fifteen month period ended December 31, 2022 in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company had not achieved profitable operations since its inception and had an accumulated deficit, incurred a net loss and had cash flow used in operating activities. Further, the Company missed its scheduled payment that was due on its loan agreement, which is an event of default under the terms of the loan agreement.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the ***"Material Uncertainty related to Going Concern"*** section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the lower of cost and net realizable value of inventory

Description of the matter

We draw attention to Note 3(d), Note 4(d), and Note 7 to the financial statements. Inventories are stated at the lower of cost or net realizable value. 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 significant assumptions related to selling prices. Such assumptions are reviewed quarterly and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on a product-by-product basis except when the product cannot be practically evaluated separately from other products. The Company had an inventory balance of $8,501,269 of which $16,435 was carried at net realizable value. The Company determined that $2,052,274 of inventory was impaired and written down during the year ended December 31, 2023.

Why the matter is a key audit matter

We identified the assessment of the lower of cost and net realizable value of inventory as a key audit matter. There is significant auditor judgment required in evaluating the results of our audit procedures regarding the estimates and significant assumptions used in the lower of cost and net realizable value assessment.

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How the matter was addressed in the audit
The primary procedures we performed to address this key audit matter included the following:

For a selection of inventory, we compared the estimated net realizable value used by management in its assessment of the lower of cost and net realizable value to:

- The sale price of the selected inventory realized subsequent to year-end or
- The sale price of the last sales invoice of the selected inventory sold in 2023

We compared a selection of inventory costs at December 31, 2023 to the Company's estimate of the net realizable value and recalculated any applicable inventory write-down.

Evaluation of expected credit loss for accounts receivables for one customer

Description of the matter

We draw attention to Note 3(d), Note 6, and Note 19 to the financial statements. For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs). The Company recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company recognizes an amount equal to the lifetime ECL based on a probability-weighted matrix.

The Company applies significant judgment to estimate the ECL based on customer-specific factors, including past payment history, known customer business factors, expected timing of future consideration, and discount rates to account for time value of money when required.

The Company had an accounts receivable balance of $17,417,828 at December 31, 2023 with one customer of which all is over 90 days past due. The Company has recorded an ECL of $11,308,997 as at December 31, 2023 relating to this customer.

Why the matter is a key audit matter
We identified the evaluation of expected credit loss for accounts receivables for one customer as a key audit matter. The ECL for this customer is material to the financial statements and there is significant auditor judgment required in evaluating the audit evidence on which to base our conclusions related to the expected credit loss for the accounts receivable balance with this customer.

How the matter was addressed in the audit
The primary procedures we performed to address this key audit matter included assessing the appropriateness of the scenarios in the probability-weighted matrix utilized in the ECL calculation and evaluating the estimates and assumptions within each scenario in the matrix. We also compared the consideration in each scenario in the probability-weighted matrix to historical cash collections, estimated net realizable value of other consideration, and customer-specific factors including agreements signed between the Company and the customer subsequent to December 31, 2023.

Other Information
Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Jasmeet Kang.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
May 27, 2024

Consolidated Statements of Financial Position
(in Canadian dollars)

As at	**December 31, 2023**	December 31, 2022
Assets		
Current:		
Cash and cash equivalents	**814,003**	15,035,483
Accounts and other receivables, net (Notes 6,19 and 28)	**6,956,667**	13,516,936
Inventory (Note 7)	**8,501,269**	7,039,779
Prepaid expenses and deposits (Note 7)	**2,770,194**	9,202,248
Total current assets	**19,042,133**	44,794,446
Non-current:		
Property and equipment (Note 8)	**1,317,854**	1,445,765
Intangible assets (Note 9)	**370,496**	118,517
Right-of-use assets (Note 10)	**727,013**	1,043,901
Total assets	**21,457,496**	47,402,629
Liabilities		
Current:		
Accounts payable and accrued liabilities (Notes 19 and 20)	**6,868,443**	4,228,700
Warranty provision (Note 11)	**667,559**	578,859
Deferred revenue	**275,308**	28,284
Current portion of long-term debt (Note 13)	**8,209,409**	3,571,470
Derivative liability (Note 13)	**2,883,556**	2,460,739
Current portion of lease liability (Note 12)	**201,709**	257,944
Total current liabilities	**19,105,984**	11,125,996
Non-current:		
Long-term debt (Note 13)	**-**	7,887,545
Convertible debentures (Note 14)	**26,735,765**	23,883,187
Lease liability (Note 12)	**742,052**	882,606
Total liabilities	**46,583,801**	43,779,334
Shareholders' Equity (Deficiency)		
Common shares (Note 15)	**92,132,438**	85,198,770
Preferred shares	**-**	1
Warrants (Note 16)	**116,780**	1,665,349
Equity component of convertible debentures (Note 14)	**7,310,746**	7,310,746
Contributed surplus (Note 17)	**15,263,105**	13,727,317
Accumulated other comprehensive loss	**(224,127)**	(143,392)
Deficit	**(139,725,247)**	(104,135,496)
Total shareholders' equity (deficiency)	**(25,126,305)**	3,623,295
Total liabilities and shareholders' equity	**21,457,496**	47,402,629

Going concern (Note 2)
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"
Michael Carten, Director

Consolidated Statements of Net Loss and Comprehensive Loss

(in Canadian dollars)

	Year Ended December 31, 2023	Fifteen Months Ended December 31, 2022
Sales (Note 26)	**11,458,590**	16,826,875
Cost of goods sold	**11,526,871**	16,458,500
Cost of goods sold – inventory impairment (Note 7)	**2,052,274**	135,156
Gross margin	**(2,120,555)**	233,219
Expenses		
General and administrative	**3,980,310**	3,018,290
Selling and marketing	**2,816,235**	2,971,186
Product development	**4,587,846**	4,179,164
Operations	**1,627,552**	1,356,801
Amortization (Notes 8, 9, and 10)	**802,803**	681,758
Share-based compensation (Note 17)	**849,573**	1,455,370
	14,664,319	13,662,569
Operating Loss	**(16,784,874)**	(13,429,350)
Financing costs (Note 21)	**(7,970,677)**	(4,044,091)
Expected credit loss (Notes 6 and 19)	**(9,988,715)**	(1,388,668)
Foreign exchange loss	**(301,878)**	(174,861)
Impairment of property and equipment	**(36,796)**	-
Loss on disposal of property and equipment	**(33,543)**	-
Other income (expense) (Note 22)	**(442,041)**	263,826
Net loss before tax	**(35,558,524)**	(18,773,144)
Current tax expense (Note 24)	**(31,227)**	(238,857)
Deferred tax recovery (Note 24)	**-**	2,183,729
Net loss	**(35,589,751)**	(16,828,272)
Foreign currency translation adjustment	**(80,735)**	100,966
Total comprehensive loss	**(35,670,486)**	(16,727,306)
Loss per common share		
Basic and diluted	**(0.07)**	(0.04)
Weighted average number of common shares		
Basic and diluted (Note 15)	**550,127,721**	393,376,220

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

Consolidated Statements of Changes in Equity (Deficiency)

For the Year Ended December 31, 2023 (in Canadian dollars)

	Common shares	Preferred shares	Warrants	Contributed surplus	Convertible debentures	AOCI*	Deficit	**Total**
Balance January 1, 2023	85,198,770	1	1,665,349	13,727,317	7,310,746	(143,392)	(104,135,496)	**3,623,295**
Net loss for the period	-		-	-	-	-	(35,589,751)	**(35,589,751)**
Foreign currency translation adjustment	-		-	-	-	(80,735)	-	**(80,735)**
Cancelled preferred share	-	(1)	-	-	-	-	-	**(1)**
Share issuance costs (Note 15)	(24,019)		-	-	-	-	-	**(24,019)**
Common shares issued (Notes 14, 15 and 16)	2,310,000		-	-	-	-	-	**2,310,000**
Warrants exercised, (Note 15 and 16)	4,312,467		(979,134)	-	-	-	-	**3,333,333**
Common shares issued (Note 15 and 16)	335,220		116,780	-	-	-	-	**452,000**
Warrants expired (Note 16)	-		(686,215)	686,215	-	-	-	**-**
Share-based compensation (Note 17)	-		-	849,573	-	-	-	**849,573**
Balance December 31, 2023	**92,132,438**	**-**	**116,780**	**15,263,105**	**7,310,746**	**(224,127)**	**(139,725,247)**	**(25,126,305)**

Accumulated comprehensive loss

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

Consolidated Statements of Changes in Equity (Deficiency)

For the Fifteen Months Ended December 31, 2022 (in Canadian dollars)

	Common shares	Preferred shares	Warrants	Contributed surplus	Convertible debentures	AOCI*	Deficit	Total
Balance October 1, 2021	75,293,880	567,155	2,896,568	12,285,282	-	(244,358)	(87,307,224)	3,491,303
Net loss for the period	-	-	-	-	-	-	(16,828,272)	(16,828,272)
Foreign currency translation adjustment	-	-	-	-	-	100,966	-	100,966
Equity portion of convertible debentures, net of tax (Note 11)	-	-	-	-	7,310,746	-	-	7,310,746
Exercise of preferred shares	4,849,910	(567,154)	-	-	-	-	-	4,282,756
Common shares for dividends	597,144	-	-	-	-	-	-	597,144
Share issuance costs (Note 15)	(11,577)	-	-	-	-	-	-	(11,577)
Warrants exercised (Notes 15 and 16)	4,393,857	-	(1,260,607)	-	-	-	-	3,133,250
Warrants issued (Note 16)	-	-	48,558	-	-	-	-	48,558
Warrants expired (Note 16)	-	-	(19,170)	19,170	-	-	-	-
Stock options exercised (Notes 15 and 17)	75,556	-	-	(32,505)	-	-	-	43,051
Share-based compensation (Note 17)	-	-	-	1,455,370	-	-	-	1,455,370
Balance December 31, 2022	**85,198,770**	**1**	**1,665,349**	**13,727,317**	**7,310,746**	**(143,392)**	**(104,135,496)**	**3,623,295**

Accumulated comprehensive loss

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

Consolidated Statements of Cash Flows
(in Canadian dollars)

	Year ended December 31, 2023	Fifteen months ended December 31, 2022
Operating activities		
Net loss	**(35,589,751)**	(16,828,272)
Expected credit loss (Notes 6 and 19)	**9,988,715**	1,388,668
Financing costs (Note 21)	**7,970,677**	4,044,091
Share-based compensation (Note 17)	**849,573**	1,455,370
Warranty provision (Note 11)	**88,700**	118,706
Amortization of assets (Notes 8, 9, and 10)	**802,803**	681,758
Inventory write down (Note 7)	**83,121**	-
Inventory impairment (Note 7)	**2,052,274**	135,156
Unrealized foreign exchange loss (gain)	**301,878**	174,861
Impairment of property and equipment	**36,796**	-
Loss on disposal of property and equipment	**33,543**	-
Bad debt expense	**86,533**	22,429
Deferred tax recovery (Note 24)	**-**	(2,183,729)
		(10,990,962)
Net change in non-cash working capital (Note 25)	**1,619,585**	(22,705,998)
Cash flow used in operating activities	**(11,675,553)**	(33,696,960)
Financing activities		
Proceeds from issuance of long-term debt, net (Note 13)	**-**	12,673,888
Proceeds from issuance of convertible debentures, net (Note 14)	**-**	32,546,580
Proceeds from issuance of common shares (Notes 15 and 16)	**452,000**	-
Conversion of warrants to common shares (Notes 15 and 16)	**3,333,333**	-
Common share issuance costs (Note 15)	**(24,019)**	(11,577)
Proceeds on exercise of warrants (Note 16)	**-**	3,181,808
Proceeds on exercise of stock options (Note 17)	**-**	43,051
Preferred share dividends paid	**-**	(500,000)
Payment of derivative liability (Note 13)	**-**	(1,362,100)
Repayment of long-term debt (Note 13)	**(5,314,087)**	(1,527,095)
Repayment of leases (Note 12)	**(389,675)**	(522,919)
Repayment of other liabilities	**-**	(684,551)
Net change in non-cash working capital (Note 25)	**-**	772,110
Cash flow from financing activities	**(1,942,448)**	44,609,195
Investing activities		
Capital asset additions (Notes 8, 9, and 10)	**(598,407)**	(1,189,827)
Net change in non-cash working capital (Note 25)	**-**	119,300
Cash flow used in investing activities	**(598,407)**	(1,070,527)
Effects of exchange rate changes on cash held in foreign currencies	**(5,072)**	589,853
Net change in cash	**(14,221,480)**	10,431,561
Cash, beginning of period	**15,035,483**	4,603,922
Cash, end of period	**814,003**	15,035,483

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, designs, markets, manufactures, and sells fully integrated energy storage solutions, based on its proprietary advanced power electronics platform, for global residential and commercial markets. The Company also markets and sells a suite of micro inverter products, which are integrated with its energy storage platform, providing consumers with full solar + storage system architecture for residential and commercial applications.

The Company is a publicly traded company headquartered at 3636 7th Street SE, Calgary, Alberta, Canada, and its shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol "EGT" and on the Over-the-Counter Bulletin Board (OCT-BB) under the symbol "EGTYF".

2. Going Concern

These 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. The Company's intention is to continue to fund operations by adding revenue and positive cash flow, managing outgoing cash flows, and seek additional financing in the capital markets through debt and/or equity.

At December 31, 2023, the Company had not achieved profitable operations since its inception and had an accumulated deficit of $139,725,247 (December 31, 2022 - $104,135,496), incurred a net loss of $35,589,751 for the twelve months ended December 31, 2023 (fifteen months ended December 31, 2022 – $18,773,144) and had cash flow used in operating activities of $11,675,553 (December 31, 2022 – $33,696,960).

The Company had a working capital deficit of $63,851 as at December 31, 2023, and the Company missed its scheduled payment of US $383,378 that was due on its loan agreement with Western Technology Investment ("Lender") on December 1, 2023 (Note 13), which is an event of default under the terms of the loan agreement. Subsequent to December 31, 2023, the Company made the missed payment, however, the Company has continued to miss its' monthly loan payments in early 2024. On May 7, 2024, the Company and the lender entered into a forbearance agreement, which includes deferral of payments up to and including June 1, 2024, but that is predicated on subjective conditions that if not complied with render the forbearance to be terminated.

Subsequent to December 31, 2023, management returned certain inventory back to its original manufacturer, resulting in total cash proceeds of $3,929,296 (see Notes 7 and 28). Although the inventory return has generated additional liquidity and the deferral of loan payments will assist with cash flow management and the overall liquidity position, there is material uncertainty as to whether sufficient cash will be available to make future loan payments (which would represent events of default) and to address other contractual obligations of the Company. Management will be reliant on the continued support of lenders, suppliers, and other providers to the Company, as the Company is forecasting requiring additional cash to continue to fund operations and settle its obligations. The Company will need both the continued support of its existing lenders, and to raise significant additional financing either through further inventory returns, collection of accounts receivable, equity issuances, additional debt financings, and/or sales of business lines in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard.

These facts create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. Failure to continue as a going concern would require adjustments to assets and liabilities, the reported revenues and expenses, and balance sheet classifications used, which could differ materially from the going concern basis.

3. Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements were prepared in accordance with IFRS Accounting Standards, as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were prepared by the Company's management and were approved for issuance by the Board of Directors of the Company on May 27, 2024.

(b) Basis of Measurement

The consolidated financial statements are presented on a historical cost basis except for certain financial instruments which are measured at fair value and are presented in Canadian dollars.

(c) Change in Year End

In 2022, the Board of Directors approved changing the Company's year end from September 30 to December 31 to have the Company's year-end financial statements be more comparative with the majority of its industry peers. Consequently, these financial statements for the year ended December 31, 2023, have been presented with comparative information for the fifteen months ended December 31, 2022.

(d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in accordance with IFRS Accounting Standards requires management to make estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities and litigation. These estimates and judgements are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The estimation of anticipated futures events involves uncertainty and, consequently, the estimates used in the preparation of the consolidated financial statements may change as future events unfold, more experience is acquired, or the Company's operating environment changes. The Company reviews its estimates, judgements, and assumptions on an ongoing basis. Adjustments that result from a change in estimate are recorded in the period in which they become known. Estimates are more difficult to determine, and the range of potential outcomes can be wider, in periods of higher volatility and uncertainty. Management has, to the extent reasonable, incorporate known facts and circumstances into the estimates made, however, actual results could differ from those estimates and those differences could be material. There have been no changes made to the methodology to determine critical accounting estimates.

Significant estimates and estimates are used in the preparation of the consolidated financial statements include the following:

i. Expected Credit Loss ("ECL") for Accounts Receivable

The Company's trade and other receivables are typically short-term in nature. For trade receivables, the Company applies a simplified approach in calculating any ECL. The Company recognizes a loss allowance based on an amount equal to the lifetime ECL based on a probability-weighted matrix, at each reporting date. The Company applies significant judgment to estimate the ECL based on customer-specific factors, including past payment history, known customer business factors, plus judgements for the expected timing of future consideration, and discount rates, to account for the time value of money when required. The Company also considered forward-looking factors such as the customers' expected liquidity and future business plans. In addition, general and industry forecasted economic conditions are included in the assessment of ECL.

Actual judgements and estimates will change over time and management reviews these frequently and will adjust ECL, based on the changing information. Actual credit losses may differ significantly from ECL.

ii. Valuation Adjustments for Inventory

Judgement is required in determining whether net realizable value should be evaluated on a product-by-product basis or if products cannot be evaluated separately from other products in inventory and should be grouped with similar products.

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 significant assumptions related to selling prices. Such assumptions are reviewed quarterly and may have a significant impact on the valuation adjustments for inventory. Net realizable value is assessed on a product-by-product basis except when the product cannot be practically evaluated separately from other products.

iii. Long-term Debt, Convertible Debentures

The Company issues long-term debt, convertible debentures and preferred shares which may be comprised of embedded derivatives, debt, and equity components. In determining the fair value of the Company's long-term debt, convertible debentures, and preferred shares 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. These assumptions are determined using management's best estimates and involve inherent uncertainties.

iv. Share-based payments

Share-based payments are comprised of compensation expense related to the granting of stock options to directors, officers, employees, and consultants which are equity-settled share-based payments and warrants. All amounts awarded are at the discretion of the Board of Directors.

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") based on terms and conditions upon which the options were granted, 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 exercises which are outside of the control of the Company. Such assumptions are reviewed quarterly and may have a significant impact on the estimates of fair value produced by the model. 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.

v. Warranty Provision

The Company determines the warranty provision based on historical experience of failure rate, cost per failure over the life of the warranty, and other general product and industry knowledge. The Company reviews the assumptions used in the determination of the warranty provision on an annual basis.

vi. Income Taxes

Income tax expense comprises current and deferred tax. Taxes are recorded using the tax rate that has been enacted or substantively enacted by the consolidated statement of financial position date.

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, tax rates, known or anticipated audits or assessments from taxation authorities, and make certain estimates and assumptions about future events.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which deductible temporary differences can be utilized. Deferred tax assets are reviewed at each annual reporting date and are reduced to the extent that it is no longer probable the related tax benefit will be realized.

In applying the Company's accounting policies, management may also have to make certain judgements that may have a significant effect on the amounts recognized in the consolidated financial statements. Significant judgements occur in the following areas:

i. Determination of Functional Currency

In determining the Company's functional currency, the Company assesses each subsidiary's primary economic environment in which the entity operates. The Company analyzes the currency that mainly influences revenues, 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 judgement.

4. Summary of Material Accounting Policies

An accounting policy is considered material to the Company if it provides information to facilitate the understanding of other material information reported and disclosed in the Company's consolidated financial statements. Accounting policy information may be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events, or conditions is itself material. The Company's material accounting policies are set out below.

(a) Basis of Consolidation

The consolidated financial statements of Eguana Technologies Inc. include the accounts of the Company and its wholly owned subsidiaries: Eguana Inc., Eguana GmbH, Eguana Pty Ltd., and Eguana Americas Inc.

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 in preparing these consolidated financial statements. Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Financial Instruments

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, derivative liability, long-term debt, convertible debentures, preferred shares, and other liabilities. Embedded derivatives in the long-term debt are measured at fair value, consistent with the "fair value through profit or loss" classification. Cash, accounts receivable, long-term debt, convertible debentures, preferred shares, and other liabilities are recognized at amortized cost. Accounts payable and accrued liabilities, other liabilities, long-term debt, convertible debentures, and the preferred shares are measured at amortized cost using the effective interest method. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

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.

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.

(c) Foreign Currencies

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Transactions of the Company's individual entities are recorded in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of Eguana Inc. has been determined to be the Canadian dollar, and the functional currency of Eguana America's has been determined to be the United States dollar. The functional currency of

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Eguana GmbH has been determined to be the Euro and the functional currency of Eguana Pty Ltd. has been determined to be the Australian Dollar.

i. Foreign Currency Transactions

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 Operations Translation

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.

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

(d) 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.

(e) Property and Equipment

Property and equipment are stated in the consolidated statements of financial position at cost less accumulated amortization and impairment losses (if any). The estimated useful lives and amortization method are reviewed at each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment	5 years straight-line
Leasehold improvements	Life of the lease asset
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 property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

(f) Intangible Assets

Intangible assets consist of costs associated with a licensing agreement and are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Intangible assets, include software licensing agreements, and are amortized on a straight-line basis over their expected period of benefit, currently five years. Amortization methods and useful lives are reviewed at each reporting period, with the effect of any change in estimates accounted for on a prospective basis.

(g) Warranty Provision

A provision for warranties is recognized when underlying products are sold, with an offsetting charge to warranty expense, in the costs of sales. Any changes with respect to these assumptions are revised prospectively at the end of each reporting period.

(h) Share-based Payments

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

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 to contributed surplus. 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 option pricing model based on terms and conditions upon which the options were granted. Each stock option award tranche is recognized on a graded vesting basis, over the period during which the options vest and then compensation expense is recognized over the vesting periods, with a corresponding increase to contributed surplus.

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 contributed surplus.

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

(i) Revenue Recognition

The Company generates revenue through product sales and installation services. Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer, in an amount that reflects the consideration, in exchange for those promised goods or delivered services. The Company satisfies its performance obligations and recognizes revenue during the reporting period based on delivery of its products or services, based on the prices, net of any discounts, as stated on purchase orders, quotes, or contracts. For installation services, the Company recognizes revenue over time based on costs incurred to date using the input method. Costs incurred, in advance of specific performance obligations, are categorized as work in progress and sales invoices billed to customers, in advance of specific performance obligations, are recorded as deferred revenue. Management applies judgement to the determination of performance obligations and to the estimated completion of those various steps. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are generally 30 to 60 days from the invoice date; however, industry practice and partner relationships can reduce or extend these terms.

(j) 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.

(k) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are amortized to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected patterns of consumption of the future economic benefits. In addition, the right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate is estimated using such factors as the amount of the funds that would be borrowed if the Company bought the underlying right-of-use asset, the length of the borrowing term, the nature and quality of the underlying right-of-use asset and the economic environment of the jurisdiction in which the asset is located. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured whenever there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

5. New Accounting Standards Issued but Not Yet Effective

The Company plans to adopt the following amendments to IFRS Accounting Standards that are effective for annual periods beginning on or after January 1, 2024. The amendments will be adopted on their respective effective dates; however, the Company does not anticipate the new requirements to have a material impact on the financial statements.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These amendments to IAS 1 will be effective January 1, 2024, and Eguana plans to adopt the amendments for annual periods beginning on or after January 1, 2024.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

6. Accounts Receivable

The following table details the Company's total receivables:

	December 31, 2023	December 31, 2022
Trade	**19,980,759**	16,055,709
Taxation authorities	**47,834**	549,112
	20,028,593	16,604,821
Less: expected credit losses	**13,071,926**	3,087,885
	6,956,667	13,516,936

The Company has one customer that represents 95% (December 31, 2022 – 82%) of total accounts receivable which at December 31, 2023, has $17,417,828 (December 31, 2022 – $2,662,164) of total accounts receivable, which are also over 90 days past due and the customer continues to be delayed in making payments. As a result, the Company has recorded a provision for this customer at December 31, 2023, in the amount of $11,308,997 based on an ECL calculation that was based on a probability-weighted matrix that has considered customer specific factors, including past payment history, known customer business factors, and expected timing of future consideration. Working together to allow for realization of cash receipts or other consideration, Eguana and the customer entered into a Collaboration Agreement between the parties on January 1, 2024, and this is outlined in Note 28 Subsequent Events.

With respect to credit exposure, the Company recognizes ECL, as a net against trade receivables. The Company recognized an amount equal to the lifetime ECL, based on a probability-weighted matrix, of various possible expected outcomes. The Company used a number of assumptions, judgements, and a variety of possible future payment streams, which were evaluated and weighted for likelihood, to arrive at the ECL. The Company applied significant judgment to estimate the ECL provision based on customer-specific factors, including past payment history, known customer business factors, and customer's access to capital, plus judgements for the expected timing of future consideration, and discount rates, to account for the time value of money when required. Further general and industry forecasted economic conditions are included in the assessment of ECL. The change in ECL each period is recorded in the consolidated statement of loss and comprehensive loss.

The following table provides the continuity of the allowance for credit losses:

Balance October 1, 2021	1,558,259
Additions to ECL	1,388,668
Amounts written-off as uncollectible	18,965
Effects of foreign exchange	(78,829)
Balance December 31, 2022	2,887,063
Additions to ECL	9,988,715
Amounts written-off as uncollectible	253,798
Effects of foreign exchange	(57,650)
Balance December 31, 2023	**13,071,926**

The Company also assesses quarterly if there should be any impairment of the financial assets of the Company and during the year ended December 31, 2023, there was $86,533 of bad debts expensed (December 31, 2022 – $22,429).

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

7. Inventory

	December 31, 2023	December 31, 2022
Finished goods	**1,178,501**	1,086,476
Components	**2,880,973**	5,953,303
Inventory work in process	**145,184**	-
Inventory return components	**4,296,611**	-
	8,501,269	7,039,779

As at December 31, 2023, $8,339,650 (December 31, 2022 - $7,003,197) of inventory was carried at cost and $16,435 (December 31, 2022 - $36,582) was carried at net realizable value. The remaining amount of $145,184 consists of work in process at cost.

In December 2023, the Company entered into a Termination Cooperation Agreement with a major supply partner, whereby inventory components would be returned to the supplier and Eguana would be refunded the full landed costs of the items (the "Inventory Return"). The Inventory Return totaled $4,296,611, including all inventory components that were recovered from the theft discussed below. The Company will be paid US $3,358,276 for the inventory components, plus an offset of an outstanding payable amount of US $1,051,688, for net proceeds of US $2,306,588. Subsequent to December 31, 2023, the inventory components were shipped and on April 1, 2024, the net proceeds were received.

In June 2023, the Company experienced a theft of three truckloads of inventory components when being transferred between Company warehouse locations. These inventory components had a carrying cost of $2,053,184 and were written off in the Company records in the second quarter of 2023, resulting in an impairment charge reported in Other Expense for the three months ended June 30, 2023. In the third quarter of 2023, the Company received insurance proceeds of $840,933, which was recorded in Other Expense, to offset the original loss recorded.

Two of the three truckloads of inventory components were subsequently recovered and kept in quarantine. The items, originally assessed as quarantine, were accepted as part the Inventory Return and hence, prior to shipment, were written back up to full value in December 2023, resulting in an increase to Inventory of $1,420,763, which was recorded in Other Expense, to offset the original loss recorded.

During the twelve months ended December 31, 2023, the Company recognized inventory impairments of $2,052,274 (December 31, 2022 - $135,156) of which $326,564 related to an impairment for components not used in production and considered to have no future economic benefit and $1,725,710, resulting from the review of slow-moving inventory components. In addition, in 2023 the Company recognized inventory write-downs in operations expenses of $83,121 (December 31, 2022 - $nil) after quarterly and year-end counts.

Included in prepaids and deposits is approximately $1,437,656 of deposits for future inventory purchases (2022 - $6,786,083). Refer to Notes 27 and 28 for more details.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

8. Property and Equipment

	Computer equipment and software	Lab equipment	Furniture and equipment	Leasehold improvements	Total
Cost					
Balance January 1, 2023	563,024	2,166,798	413,107	594,175	3,737,104
Additions	26,908	240,426	30,386	67,968	365,688
Disposals	-	(133,528)	-	-	(133,528)
Write-offs	(450,360)	(682,428)	(164,975)	(197,265)	(1,495,028)
Impairments	-	(44,064)	-	-	(44,064)
Effects of foreign exchange	(14,898)	(290)	(8,064)	6,789	(16,463)
Balance December 31, 2023	**124,674**	**1,546,914**	**270,454**	**471,667**	**2,413,709**
Accumulated amortization and impairment					
Balance January 1, 2023	528,222	1,358,175	197,903	207,039	2,291,339
Amortization	48,635	248,283	61,703	64,179	422,800
Disposals	-	(99,985)	-	-	(99,985)
Write-offs	(450,360)	(682,428)	(164,975)	(197,265)	(1,495,028)
Impairments	-	(7,268)	-	-	(7,268)
Effects of foreign exchange	(14,822)	(224)	(913)	(44)	(16,003)
Balance December 31, 2023	**111,675**	**816,553**	**93,718**	**73,909**	**1,095,855**
Carrying Value December 31, 2023	**12,999**	**730,361**	**176,736**	**397,758**	**1,317,854**

	Computer equipment and software	Lab equipment	Furniture and equipment	Leasehold Improvements	Total
Cost					
Balance October 1, 2021	556,365	1,562,427	232,453	201,166	2,552,411
Additions	9,155	605,899	181,908	392,995	1,189,957
Effects of foreign exchange	(2,496)	(1,528)	(1,254)	14	(5,264)
Balance December 31, 2022	563,024	2,166,798	413,107	594,175	3,737,104
Accumulated amortization and impairment					
Balance October 1, 2021	522,449	1,165,530	166,730	199,216	2,053,925
Amortization	8,249	194,192	32,307	7,800	242,548
Effects of foreign exchange	(2,476)	(1,547)	(1,134)	23	(5,134)
Balance December 31, 2022	528,222	1,358,175	197,903	207,039	2,291,339
Carrying Value December 31, 2022	34,802	808,623	215,204	387,136	1,445,765

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

9. Intangible Assets

Cost	
Balance December 31, 2022	158,023
Additions	340,300
Balance December 31, 2023	**498,323**
Accumulated amortization and impairment	
Balance December 31, 2022	39,506
Amortization	88,321
Balance December 31, 2023	**127,827**
Carrying Value December 31, 2023	**370,496**

Cost	
Balance October 1, 2021	158,023
Additions	-
Balance December 31, 2022	158,023
Accumulated amortization and impairment	
Balance October 1, 2021	-
Amortization	39,506
Balance December 31, 2022	39,506
Carrying Value December 31, 2022	118,517

10. Right-of-Use Assets

	Buildings	Vehicles	**Total**
Cost			
Balance January 1, 2023	1,719,458	102,265	1,821,723
Additions	15,920	63,761	79,681
Adjustment	(107,580)	-	(107,580)
Effects of foreign exchange	4,908	(45)	4,863
Balance December 31, 2023	**1,632,706**	**165,981**	**1,798,687**
Accumulated amortization and impairment			
Balance January 1, 2023	718,496	59,326	777,822
Amortization	261,449	30,233	291,682
Effects of foreign exchange	2,318	(148)	2,170
Balance December 31, 2023	**982,263**	**89,411**	**1,071,674**
Carrying Value December 31, 2023	**650,443**	**76,570**	**727,013**

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

	Buildings	Vehicles	Total
Cost			
Balance October 1, 2021	649,816	46,017	695,833
Additions	1,070,293	56,283	1,126,576
Effects of foreign exchange	(651)	(35)	(686)
Balance December 31, 2022	1,719,458	102,265	1,821,723
Accumulated amortization and impairment			
Balance October 1, 2021	346,612	31,992	378,604
Amortization	372,190	27,514	399,704
Effects of foreign exchange	(306)	(180)	(486)
Balance December 31, 2022	718,496	59,326	777,822
Carrying Value December 31, 2022	1,000,962	42,939	1,043,901

11. Warranty Provision

Balance October 1, 2021	460,153
Increase in provision	162,190
Warranty claims	(176,000)
Expired warranty provision	(28,734)
Change in estimate	161,250
Balance December 31, 2022	578,859
Increase in provision	134,961
Expired warranty provision	(46,261)
Balance December 31, 2023	**667,559**

The provision for warranty claims represents the Company's best estimate of the future outflows that will be required for the Company's obligations to ensure the products sold, work as outlined, for a specified period of time. The estimate was calculated based on historical warranty trends and may vary as a result of new materials or components used in the Company's products, varying manufacturing or installation processes or other events or circumstances affecting the products reliability and durability. In some cases, the Company will attempt to reclaim costs associated with warranties from third parties, such as critical component suppliers, and any reimbursement is recorded only when received.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

12. Lease Liabilities

Balance October 1, 2021	372,507
Additions	1,126,576
Interest	163,509
Repayments	(522,919)
Effects of foreign exchange	877
Balance December 31, 2022	1,140,550
Additions	79,681
Interest	118,491
Repayments	(389,675)
Effects of foreign exchange	(5,286)
Balance December 31, 2023	**943,761**
Less: current portion	**(201,709)**
	742,052

The Company recognizes lease liabilities from its leases of real estate and vehicles. In 2023, the Company entered into two lease arrangements for vehicles resulting in the additions of $41,932 and $21,829 to its outstanding lease liabilities.

13. Long-term Debt and Derivative Liability

	Derivative liability	Long-term debt	**Total**
Balance October 1, 2021	1,270,950	283,239	1,554,189
Proceeds from issuance of long-term debt	-	12,830,000	12,830,000
Fair value allocation to warrant exchange	2,056,818	(2,056,818)	-
Financing Cost	-	(156,112)	(156,112)
Accretion and accrued interest	-	1,528,981	1,528,981
Repayment	(1,362,100)	(1,527,095)	(2,889,195)
Fair value loss on derivative liability	495,071	-	495,071
Loss on foreign exchange	-	556,820	556,820
Balance December 31, 2022	2,460,739	11,459,015	13,919,754
Accretion and accrued interest	-	2,266,791	2,266,791
Repayment	-	(5,314,087)	(5,314,087)
Fair value loss on derivative liability	422,817	-	422,817
Gain on foreign exchange	-	(202,310)	(202,310)
Balance December 31, 2023	**2,883,556**	**8,209,409**	**11,092,965**
Less: current portion	**(2,883,556)**	**(8,209,409)**	**(11,092,965)**
	-	**-**	**-**

On April 1, 2022, the Company entered into a loan agreement (the "Senior Loan") for general working capital for up to US $10.0 million with Western Technology Investment (the "Lender"). The loan was fully drawn in 2022 and associated warrants were issued. Financing fees of $156,112 were allocated to the Senior Loan in 2022.

In connection with the Senior Loan, the Company issued common share purchase warrants entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company, at a price

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of $0.355 per common share, for a period of five years from each loan advance, all immediately vested. The first US $5 million loan advance was on April 7, 2022, and 3,700,732 warrants were issued, and the second US $5 million loan advance was on August 31, 2022, and 1,233,577 warrants were issued.

The vested unexercised warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event and September 30, 2025, for an amount equal to the sum of: (i) USD $1.5 million; and (ii) the product obtained by multiplying US $1.5 million by the percentage of the principal amount of the Senior Loan advanced by the Lender relative to US $10.0 million.

The warrants are recorded as a warrant derivative liability at fair value through profit or loss and re-measured at each reporting date. A warrant derivative liability was measured at the time of each loan advance, with the residual value assigned to the long-term debt.

The first loan advance is being accreted to its face value over the term of the loan, using an effective interest rate of 30% and the second loan advance is being accreted to its face value over the term of the loan, using an effective interest rate of 17%.

The warrant derivative liability, for the loan advances, was estimated using the higher of the present value of the warrant exchange payment using a discount rate of 20%, and the fair value of the warrants. The fair value was determined to be $2,883,556 at December 31, 2023 (December 31, 2022 - $2,460,739) with a resulting fair value loss of $422,817 recorded for the year ended December 31, 2023 (2022 - $495,071).

The Senior Loan monthly payments due on December 1, 2023, for USD $383,378 were unpaid as at December 31, 2023, and subsequent to year end, the Company paid the interest and then principal amounts for these missed payments. The Company has alerted the Lender and they agreed to a payment delay.

The Company has been working closely with the Lender to adjust various payments, to the Company's liquidity, and the Lender had accepted delayed payments from December 2023 and into May 2024. Currently, the payments for December 2023 and January 2024 have been made and the payments for February 2024 to May 2024, have been deferred. Formal amendments to the monthly principal and interest payments in 2024 are still ongoing. Refer to Note 28.

As a result of the missed payment at December 1, 2023, the Company was in violation of the terms of the Senior Loan. The Lender has not taken any action. As at December 31, 2023, the full amount of the loan has been classified as a current liability on the Company's statement of financial position. The fair value of the Senior Loan at December 31, 2023, for the unpaid balance and all future interest amounts, is US $7,218,257.

As at December 31, 2023, the Company was in compliance with non-financial related loan covenants.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

14. Convertible Debenture

	Debt component	Equity component	**Total**
Balance October 1, 2021	-	-	-
Convertible debentures	23,374,033	9,625,967	33,000,000
Deferred tax recovery	-	(2,183,729)	(2,183,729)
Transaction costs	(321,928)	(131,492)	(453,420)
Interest	(772,109)	-	(772,109)
Accretion	1,603,191	-	1,603,191
Balance December 31, 2022	**23,883,187**	**7,310,746**	**31,193,933**
Interest	(2,310,000)	-	(2,310,000)
Accretion	5,162,578	-	5,162,578
Balance December 31, 2023	**26,735,765**	**7,310,746**	**34,046,511**

On August 31, 2022 (the "Closing Date"), the Company closed a strategic investment with ITOCHU Corporation ("ITOCHU") in the amount of $33.0 million in the form of an unsecured convertible debenture (the "Debentures"). The Debenture bears interest at a rate of 7% per annum, paid semi-annually in either cash or with the issuance of shares, and matures on August 31, 2025.

There are conversion rights on the Debenture that are contingent on share price and ITOCHU may be entitled to convert into common shares, or the Company may require ITOCHU to convert. Based on this conversion feature, the balance was split between debt and equity. The debt component was measured at the issue date at the present value of the cash interest and principal payments, using a discount rate of 20% and a three-year term. The difference between the debt component and the face value of the Debenture was classified as equity and financing fees were allocated between the liability and equity portions of the Debenture.

The debt component was measured at the issue date at the present value of the cash interest and principal payments, using a discount rate of 20% and a three-year term. The difference between the debt component and the face value of the Debenture is classified as equity. Financing fees of $453,420 were allocated between the liability and equity portion of the Debenture.

During the year ended December 31, 2023, accretion on the Debenture of $5,162,578 (2022 - $1,603,191) was recorded.

During the year ended December 31, 2023, ITOCHU converted interest earned on the unsecured convertible debenture totaling $2,310,000 into common shares. In March 2023, ITOCHU exchanged $1,145,507 of interest owing under the Company's unsecured convertible debenture into 4,242,617 common shares of Eguana, in full satisfaction of the interest payment due on March 1, 2023. In September 2023, ITOCHU exchanged $1,164,493 of interest owing under the Company's unsecured convertible debenture into 13,580,094 common shares of Eguana, in full satisfaction of the interest payment due on September 1, 2023. On January 31, 2024, the Company signed a memorandum of understanding with ITOCHU to amend the interest payment dates in 2024, and this is detailed in Note 28 Subsequent Events.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

15. Common shares

Authorized, Unlimited Number

Issued

	Number of shares	Amount ($)
Balance October 1, 2021	368,419,912	75,293,880
Issuance of common shares for dividends	1,326,986	597,144
Share issuance costs	-	(11,577)
Exercise of warrants (Note 16)	15,095,580	4,393,857
Exercise of stock options (Note 17)	205,000	75,556
Exercise of preferred shares	18,119,167	4,849,910
Balance December 31, 2022	403,166,645	85,198,770
Issuance of common shares (Note 14)	17,822,711	2,310,000
Share issuance costs		(24,019)
Issuance of common shares – private placement	11,300,000	335,220
Exercise of warrants (Note 16)	16,666,666	4,312,467
Balance December 31, 2023	**448,956,022**	**92,132,438**

On March 16, 2023, ITOCHU Corporation ("ITOCHU"), a strategic investor in the Company, purchased 16,666,666 common shares of Eguana through the exercise of share purchase warrants issued in connection with an offering which closed on March 16, 2020, for an aggregate consideration of $3,333,333. On the closing of the offering the fair value of this Debenture conversion option was measured at $979,134. No proceeds were received in this conversion.

As disclosed in Note 14, in March 2023, ITOCHU exchanged $1,145,507 of interest owing under the Company's 7% unsecured convertible debenture into 4,242,617 common shares of Eguana, in full satisfaction of the interest payment due on March 1, 2023.

As disclosed in Note 14, in September 2023, ITOCHU exchanged $1,164,493 of interest owing under the Company's 7% unsecured convertible debenture into 13,580,094 common shares of Eguana, in full satisfaction of the interest payment due on September 1, 2023.

In December 2023, the Company closed a tranche of a non-brokered private placement offering of units of the Company (the Units"). The Company issued 11,300,000 Units at a price of $0.04 per Unit for gross proceeds of $452,000. Each Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share at a price of $0.06 per common share for a period of 24 months following the closing date of the offering. Insiders of the Company were issued 750,000 common shares in this private placement.

Weighted Average Number of Common Shares

The weighted average number of shares as at December 31, 2023, and December 31, 2022, were determined by excluding preferred shares, stock options and warrants, as the Company was in a loss position and the impact would have been anti-dilutive to earnings per share.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

16. Warrants

Changes in the Company's warrants are as follows:

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value ($)
Balance October 1, 2021	30,815,057	5,851,651	36,666,708	2,896,568
Warrants issued	4,934,309	510,604	5,444,913	48,558
Warrants exercised	(10,833,325)	(4,262,255)	(15,095,580)	(1,260,607)
Warrants expired	(3,315,066)	-	(3,315,066)	(19,170)
Balance December 31, 2022	**21,600,975**	**2,100,000**	**23,700,975**	**1,665,349**
Warrants issued	11,300,000	-	11,300,000	116,780
Warrants exercised	(16,666,666)	-	(16,666,666)	(979,134)
Warrants expired	-	(2,100,000)	(2,100,000)	(686,215)
Balance December 31, 2023	**16,234,309**	**-**	**16,234,309**	**116,780**

On April 1, 2022, the Company entered into a loan agreement (Note 13). In consideration for the loan agreement and the amount drawn on the loan the Company issued 4,934,309 warrants as of December 31, 2022.

During the third quarter of 2022, 7,787,009 warrants were exercised, by holders of convertible debentures, for total proceeds of $1.5 million and 7,787,009 common shares.

In March 2023, ITOCHU, purchased 16,666,666 common shares of Eguana through the exercise of share purchase warrants issued in connection with an offering from March 16, 2020, for an aggregate consideration of $3,333,333. The fair value of the warrants was reclassified to share capital.

In December 2023, the Company closed a tranche (Note 15) of a non-brokered private placement offering of units of the Company (the "Units"). The Company issued 11,300,000 Units at a price of $0.04 per Unit for gross proceeds of $452,000. Each Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share at a price of $0.06 per common share, for a period of 24 months following the closing date of the offering. The fair values of the warrants issued was estimated to be $116,780 on the issue date using the Black-Scholes valuation model, using an annual risk-free interest rate of 4.1 percent, two years to maturity, annualized volatility of 94.65 percent, stock price of $0.03 and exercise price of $0.06.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

Outstanding and exercisable warrants at December 31, 2023, were as follows:

Range of exercise prices	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.01 - $0.20	11,300,000	0.06	1.93
$0.31 - $0.40	4,934,309	0.36	3.25
Balance December 31, 2023	**16,234,309**	**0.15**	**2.33**

17. Share-based Payments

The Company established the Stock Option Plan, which is accounted for as equity settled, 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 36,708,000 options. The shareholders approved the Stock Option Plan on September 16, 2021. 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, 2021	7,447,052	0.24	8,965,264	0.29
Granted	8,985,000	0.33	2,010,000	0.36
Exercised	(205,000)	(0.21)	-	-
Forfeited	(1,330,779)	(0.27)	(200,000)	(0.30)
Balance December 31, 2022	14,896,273	0.31	10,775,264	0.31
Granted	250,000	0.17	-	-
Forfeited	(1,801,647)	(0.19)	(5,182,500)	(0.23)
Balance December 31, 2023	**13,344,626**	**0.30**	**5,592,764**	**0.38**

The following summarizes information about stock options outstanding as at December 31, 2023:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	6,650,000	0.21	5.43	5,421,242	0.20
$0.31 - $0.40	9,537,390	0.38	4.23	7,386,715	0.37
$0.41 - $0.50	2,750,000	0.40	0.58	2,583,335	0.42
Balance December 31, 2023	**18,937,390**	**0.32**	**4.12**	**15,391,292**	**0.32**

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

The total share-based compensation calculated for the year ended December 31, 2023, was $849,573 (December 31, 2022 – $1,455,370).

In December 2022, the Company granted incentive stock options to acquire up to an aggregate of 4,195,000 common shares. Of the options granted, 2,700,000 were granted to directors and executives of the Company at a strike price of $0.40 per share, with the remainder to employees at a strike price of $0.265 per share.

In May 2023, the Company granted incentive stock options to acquire up to 250,000 common shares at a strike price of $0.17 per share to a new key member of the executive team.

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:

	December 31, 2023	December 31, 2022
Risk free interest rate	**1.57% - 3.14%**	**1.57% - 3.14%**
Expected volatility	**115% - 126%**	**115% - 126%**
Expected life (years)	**3 – 10**	**3 - 10**
Weighted average fair value	**0.20 – 0.42**	**0.22 – 0.43**

18. Capital Management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits to their stakeholders. Management actively manages its capital requirements, with oversight from the Board of Directors. The Company manages the capital structure and makes adjustments relative to its annual financial plan, changes in industry conditions and timing of various cash inflow and outflows. The Company's objectives are met by managing short-term liquidity and by obtaining equity or debt funding to meet planned cash flow needs, with the goal of advancing the strategy and achieving positive cash flows from operations. Refer to Note 2 Going Concern for additional information of the Company's liquidity. The Board of Directors does not establish quantitative return on capital criteria for management.

The Company defines capital as the aggregate of its long-term debt, convertible debentures, preferred shares, and total shareholders' equity less cash.

19. 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.

As disclosed in Note 6, the Company has credit risk exposure on accounts receivable with one customer that represents larger than ten percent of total accounts receivable individually at December 31, 2023. Approximately 95% (December 31, 2022 – 82%) of the total accounts receivable is due from this customer (December 31, 2022 – 95% - two customers). At December 31, 2023, this one customer has $17,417,828 (December 31, 2022 – $2,662,164) of total accounts receivable that are over 90 days past due and has continued to be delayed in making payments. As a result, the Company has recorded an ECL provision at December 31, 2023, for $11,308,997.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

With respect to credit exposure, the Company recognizes ECL as a net against trade receivables. The Company recognized an amount equal to the lifetime ECL based on a probability-weighted matrix. The Company applies significant judgment to estimate the ECL provision based on customer-specific factors, including past payment history, known customer business factors, and customer's access to capital, plus judgements for the expected timing of future consideration, and discount rates, to account for the time value of money when required. Further general and industry forecasted economic conditions are included in the assessment of ECL. The change, period over period, in ECL is recorded in the consolidated statement of loss and comprehensive loss.

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at December 31, 2023, there is $19,314,962 of financial assets that the Company considers past due (December 31, 2022 – $9,313,955). The following is a schedule of trade receivables:

	December 31, 2023	December 31, 2022
Current and neither impaired nor past due	**665,797**	**3,052,198**
Past due in the following periods:		
31 – 60 days	**51,661**	**1,990,339**
61 – 90 days	**92,763**	**5,254,563**
Over 90 days	**19,170,537**	**5,758,609**
	19,980,759	**16,055,709**

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the year ended December 31, 2023, there was $86,533 of bad debts expensed (December 31, 2022 – $22,429).

The Company has one customer that represents 95% of total accounts receivable.

Liquidity Risk

The Company's operating cash requirements, including amounts anticipated to meet near and medium liquidity requirements, are continuously monitored, and adjusted as input variables and industry conditions change. These key variables include, but are not limited to, timing of receivable collections or other cash inflows, anticipated expenditures, debt payments and cash outflows, and access to equity and debt markets. As these variables change, liquidity risks may necessitate the need for the Company to negotiate with its long-term debt lenders, carefully manage short-term liquidity and pursue other forms of financing. There is no assurance that adequate funds from operations, equity or debt will be available to the Company when needed and in the amounts required, to effectively manage liquidity. Refer to Note 2 for additional detail.

The following are the contractual undiscounted maturities of financial liabilities at December 31, 2023:

	< 1 Year	1 – 3 Years	3 – 5 Years	Total[(2)]
Accounts payable and accrued liabilities	6,868,443	-	-	6,868,443
Long-term debt	9,634,130	-	-	9,634,130
Convertible debentures [(1)]	2,316,329	34,537,890	-	36,854,219
Lease liabilities	291,942	701,645	192,893	1,186,480
	19,110,844	**35,239,535**	**192,893**	**54,543,272**

(1) Convertible debentures repayments include interest accrued and due.
(2) No contractual obligations currently exist beyond 5 years.

Foreign Currency Risk

The Company's has exposure to currency risk on financial instruments based on carrying amount in Canadian currency, for items denominated in currencies other than Canadian. The Company has various financials assets and liabilities in US Dollars, Australian Dollars, and Euros.

Assuming all other variables remain constant, a $0.05 change in the Canadian/US exchange rate would decrease the Company's net loss by approximately $241,748 for the year ended December 31, 2023 (December 31, 2022 – increase $68,572). Assuming all other variables remain constant, a $0.05 change in the Canadian/Euro exchange rate would decrease the Company's net loss by approximately $195 for the year ended December 31, 2023 (December 31, 2022 – increase $3,821). Assuming all other variables remain constant, a $0.05 change in the Canadian/Australian dollar exchange rate would increase the Company's net loss by approximately $38,905 for the year ended December 31, 2023 (December 31, 2022 – increase $8,492). An opposite change in the Canadian/US exchange rate, the Canadian/Euro exchange rate, and the Canadian/Australian dollar 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 periods ended December 31, 2023, and December 31, 2022.

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 convertible debentures issuances and other liabilities 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.

Fair Value

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 and deposits using Level 1 inputs, accounts receivable, accounts payable and accrued liabilities, other liabilities, convertible debentures, preferred shares, lease liabilities, and long-term loan were measured at fair value on initial recognition using Level 2 inputs (Notes 12-14) and the derivative liability is measured at fair value using Level 2 inputs on initial recognition and subsequent measurement (Note 13). The carrying value of the Company's financial instruments approximates its fair value.

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

- 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.

20. Related Party Transactions

The Company had the following related party transactions, with directors and key management personnel:

	December 31, 2023	December 31, 2022
Salaries, benefits, and fees:		
General and administrative	**579,674**	600,600
Selling and marketing	**138,737**	261,890
Product development	**209,476**	275,047
Operations	**111,830**	146,270
	1,039,717	1,283,807

At December 31, 2023, $481,446 of unpaid amounts due to directors and key management personnel are included in accounts payable and accrued liabilities (December 31, 2022 - $419,703).

Share-based payments to directors and key management personnel was $598,867 (Note 17) (December 31, 2022 - $334,538).

On March 8, 2024, the Company closed short-term bridge loan unsecured financing in the principal amount of approximately $220,000 (Note 28), with certain lenders, including the Company's Chief Executive Officer and members of the Board of Directors. The loan was repaid in full on April 25, 2024.

21. Financing Costs

	December 31, 2023	December 31, 2022
Accretion of convertible debentures (Note 14)	**5,162,578**	1,603,191
Accretion of other liabilities	**-**	70,117
Accretion of long-term debt (Note 13)	**2,266,791**	1,528,981
Accretion of preferred shares	**-**	183,222
Change in fair value on derivative liability (Note 13)	**422,817**	495,071
Lease interest (Note 12)	**118,491**	163,509
	7,970,677	4,044,091

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

22. Other Income (Expense)

Other Income	**December 31, 2023**	December 31, 2022
Net proceeds of inventory loss	**208,512**	-
Interest income	**122,799**	30,634
Other	**100,231**	50,266
Small-scale technology certificates (STC) rebate	**21,857**	-
Manufacturer battery recall	**-**	182,926
	453,399	263,826

Other Expense		
Transaction costs	**(658,325)**	-
Legal settlement	**(124,675)**	-
Employee restructuring costs	**(112,440)**	-
	(895,440)	-

During 2023, the Company incurred various transaction costs and expenses, related to the pending acquisition of Solarlab. In February 2023, Eguana Pty Ltd. entered into an agreement with Solarlab Pty Ltd to acquire the Solarlab solar installation business, assets, liabilities and associated goodwill or intangibles, subject to certain closing conditions being satisfied. The business is to be acquired for total cash consideration of AUD 250,000, which includes contingent earn-out amounts, and the assumption of the majority of SOLARLAB business' liabilities of approximately AUD 750,000 (subject to completion adjustments), The parties have agreed to delay the completion date and the transaction costs have been expensed.

23. Personnel Expenses

	December 31, 2023	December 31, 2022
Wages	**6,037,627**	4,516,792
Benefits	**842,401**	556,860
	6,880,028	5,073,652

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

24. Income Taxes

Reconciliation of effective tax rate:

	2023	2022
Loss for the year	**(35,558,524)**	(18,733,145)
Rate	**23.00%**	23.00%
Expected income tax recovery	**(8,178,461)**	(4,317,823)
Differences resulting from:		
Non-deductible expense	**1,284,641**	630,610
Tax rate differentials	**(-139,407)**	(32,219)
Non-capital losses expired	**-**	-
Impact of partnership dissolution	**-**	(1,418,123)
Share-based payments	**195,402**	334,735
Tax on preferred share dividends	**-**	238,858
Change in unrecognized deferred tax	**6,869,051**	2,619,090
Total income tax expense (recovery)	**31,227**	(1,944,872)

Unrecognized deferred tax assets:

	2023	2022
Development costs and capital assets	**220,040**	27,922
Non-capital loss carry-forwards	**22,702,354**	15,386,787
Capital loss carry-forwards	**2,211,645**	1,418,123
Other	**1,045,931**	1,017,682
Expected credit loss	**-**	319,394
Share issue costs	**266,760**	447,393
	26,446,730	18,617,301
Assets not recognized	(26,446,730)	(18,617,301)
	-	-

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 December 31, 2023, the Company has approximately $98.1 million (2022 - $70.8 million) in Canadian non-capital loss carryforwards, which will expire between 2026 and 2043, approximately $2.2 million (2022 - $0.8 million) in United States non-capital loss carryforwards, which will expire between 2024 and 2040, approximately $2.1 million (2022 - $2.1 million) in Europe non-capital loss carryforwards, which will expire between 2024 and 2039 and approximately $4.3 million (2022 - $2.0 million) in Australian non-capital loss carryforwards that can be carried forward indefinitely.

The Company has approximately $19.2 million (2022 – $12.3 million) in Canadian capital loss carry-forwards that can be carried forward indefinitely

Year Ended December 31, 2023 and Fifteen Months Ended December 31, 2022 (in Canadian dollars)

25. Supplemental Information

The changes in non-cash working capital for the periods ended are as follows:

Increase (decrease) in assets and liabilities	**December 31, 2023**	December 31, 2022
Operating activities		
Accounts receivable	**(4,082,486)**	(12,625,149)
Inventory	**(3,596,885)**	(1,280,810)
Prepaid expenses and deposits	**6,406,479**	(8,249,315)
Accounts payable and accrued liabilities	**2,647,068**	(483,356)
Deferred revenue	**245,409**	(67,368)
	1,619,585	(22,705,998)
Financing activities		
Accounts payable and accrued liabilities	**-**	772,110
Investing activities		
Accounts payable and accrued liabilities	**-**	119,300
	1,619,585	(21,814,588)

26. Segmented Information

Major Customers

The Company had one customer where sales were greater than 10% of total sales in the year ended December 31, 2023 (December 31, 2022 – two). The customer had attributed sales of approximately $9,550,011 for the year ended December 31, 2023 (December 31, 2022 - $16,609,768).

	December 31, 2023	December 31, 2022
Australia	**1,593,734**	271,488
Europe	**200,257**	155,147
North America	**9,664,599**	16,400,240
	11,458,590	16,826,875

Product and Service Revenue

Product sales	**10,105,215**	16,826,875
Installation services	**1,353,375**	-
	11,458,590	16,826,875

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. In 2018, the customer made a counter claim against the Company. There has been no change in these Euro denominated amounts from the prior year end.

On April 29, 2024, the Company received a legal demand from a supplier for payment on an open purchase order. The Company ordered inventory with a deposit and understood that the supplier would hold the products. The vendor is demanding payment of US $2.3 million and outlining they will dispose of the products. Management has engaged legal counsel to negotiate with the supplier to take back the products and refund all or a portion of the deposit paid.

28. Subsequent Events

On January 1, 2024, the Company entered into an agreement with its major customer and an existing third-party vendor, to provide various offsets to the outstanding balance of accounts receivable due to the Company, (“the Collaboration Agreement”). The major customer with a significant outstanding accounts receivable balance, has agreed to transfer inventory (“the Inventory Transfer”) to the Company and provide the Company with a manufacturing credit (“the Manufacturing Credit”) for future services to be performed by the third-party vendor. Pursuant to the Agreement, the Company agreed to absorb a costing reduction adjustment (“Cost Adjustment”) that will be provided by way of a credit to the outstanding accounts receivable balance of the customer.

The following is a table of adjustments in US dollars that will reduce the customer’s accounts receivable balance:

Inventory Transfer– carrying value of $4.4 million discounted	3,875,000
Manufacturing Credit – future services	1,200,000
Cost Adjustment – absorption cost adjustment	1,456,000
Total in US Dollars	6,531,000

These offsets were provided in exchange for valuable consideration plus a future payment plan and security. The Collaboration Agreement establishes a payment plan for future payments on the outstanding accounts receivable balance, after the offsets. The payment plan has weekly payments of US $115,000 commencing on April 1, 2024, plus a US $500,000 lump sum payment, contingent on a capital raise by the major customer, to be paid within 15 days of the funding close. Currently, the customer is in arrears and has not made the payments as outlined in the agreement, creating uncertainty about the timing and amounts of future payments. Arrears interest, at a rate of 12.5%, will be applicable on unpaid payment amounts, effective from the specified payment date.

Not specifically outlined in the Collaboration Agreement, in February 2024, Eguana issued a purchase order for $800,000, to obtain finished goods inventory from this major customer, with the intent of using those units for Canadian deployment into VPP opportunities. This purchase order will be netted against the customer’s accounts receivable balance.

On January 31, 2024, the Company signed a memorandum of understanding with ITOCHU Corporation amending the payment deadline for the interest payment that is due on March 1, 2024. The deadline for the first quarter interest payment was extended to August 31, 2024. Notwithstanding the acceptance of the extension, the Company will make commercially reasonable best efforts to issue the interest payment as early as possible.

On March 8, 2024, the Company closed short-term bridge loan unsecured financing in the principal amount of approximately $220,000, with certain lenders, including the Company's Chief Executive Officer and members of the Board of Directors. A portion of these funds was received in US dollars and a portion was received in Canadian dollars and will be repayable in their respective currencies on April 30, 2024. Interest will accrue on the principal amount at a rate of five percent per month and is repayable within 60 days. The proceeds of this short-term bridge loan will be used for general working capital. These funds we repaid, with interest accrued to the repayment date only, on April 25, 2024.

On February 2, 2024, the Company entered into a supplementary agreement to the Cooperation Termination Agreement, disclosed in Note 7, with a major supply partner for an Inventory Return. Based on the supplementary agreement, the Company returned an additional quantity of inventory components for total proceeds of US $582,088. On April 22, 2024, the Company received the proceeds for this Inventory Return.

As disclosed in Note 27, on April 29, 2024, the Company received a legal demand letter from a supplier for payment on an open purchase order. The Company ordered inventory with a deposit and understood that the supplier would hold the products. The vendor is demanding payment of US $2.3 million. The Company has responded with its own legal letter outlining why there is no dispute or amount owing. The dispute may result in the deposit on the inventory, outlined in Note 7, being forfeited, and hence written off to a loss by the Company.

On May 7, 2024, the Company entered into a forbearance agreement with one of its lenders whereby the Lender has agreed to a deferral of payments up to and including June 1, 2024, but that is predicated on subjective conditions that if not complied with render the forbearance to be terminated.