

Condensed interim consolidated financial statements of

Eguana Technologies Inc.

March 31, 2018

(Unaudited)

Eguana Technologies Inc.

March 31, 2018

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NOTICE TO READER

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

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

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

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars

Unaudited

	Note	March 31 2018	September 30 2017
Assets			
Current:			
Cash		320,898	2,568,346
Accounts receivable		1,037,151	421,275
Inventory	4	603,322	389,648
Prepaid expenses and deposits		200,209	274,559
		2,161,580	3,653,828
Non-current:			
Development costs		3	3
Capital assets	5	308,837	278,113
		2,470,420	3,931,944
Liabilities			
Current:			
Accounts payable and accrued liabilities		3,234,318	2,995,595
Provisions		252,390	206,424
Deferred revenue		104,091	641,579
Current portion of long-term debt	6	332,474	-
Derivative liability	6	459,159	-
Current portion of debentures	7	-	470,250
Current portion of other liabilities	8	73,838	65,388
		4,456,270	4,379,236
Non-current:			
Deferred lease inducement		-	7,800
Long-term debt	6	1,238,884	-
Debentures	7	-	54,504
Other liabilities	8	486,848	521,665
		6,182,002	4,963,205
Shareholders' equity (deficiency)			
Common shares	9	43,283,616	43,256,471
Preferred shares	10	1	1
Warrants	12	956,641	1,121,859
Contributed surplus	13	9,844,160	9,454,187
Foreign currency translation reserve		(126,904)	(122,309)
Deficit		(57,669,096)	(54,741,470)
		(3,711,582)	(1,031,261)
		2,470,420	3,931,944

Going concern (Note 2(b)) and Commitments (Note 20)

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

Eguana Technologies Inc.

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

Stated in Canadian dollars

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	Note	Three months ended		Six months ended	
		2018	2017	2018	2017
Sales and engineering services	21	1,103,774	328,594	2,422,501	599,854
Cost of goods sold		953,306	325,075	2,062,464	384,814
Gross margin		150,468	3,519	360,037	215,040
Expenses					
General and administrative	16	616,074	778,473	1,228,124	1,147,248
Selling and marketing	16	307,820	191,997	594,612	415,676
Product research and development	16	548,878	81,207	795,386	354,290
Operations		161,559	119,083	311,038	256,964
		1,634,331	1,170,760	2,929,160	2,174,178
Loss before undernoted items		(1,483,863)	(1,167,241)	(2,569,123)	(1,959,138)
Financing costs	17	(242,106)	(98,047)	(358,747)	(199,635)
Other income		32	4,021	244	10,003
Net loss		(1,725,937)	(1,261,267)	(2,927,626)	(2,148,770)
Foreign currency adjustment to equity		(3,371)	1,481	(4,595)	3,801
Total comprehensive loss		(1,729,308)	(1,259,786)	(2,932,221)	(2,144,969)
Loss per common share					
Basic and diluted		(0.01)	(0.01)	(0.01)	(0.01)
Weighted average number of common shares					
Basic and diluted	9	217,697,436	201,561,960	217,697,436	201,561,960

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity (deficiency)

For the six-month period ended March 31,

Stated in Canadian dollars

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	Common shares	Preferred shares	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2017	43,256,471	1	1,121,859	9,454,187	(122,309)	(54,741,470)	(1,031,261)
Loss for the period	-	-	-	-	-	(2,927,626)	(2,927,626)
Other comprehensive gain (loss)	-	-	-	-	(4,595)	-	(4,595)
Warrants exercised	27,145	-	(15,326)	-	-	-	11,819
Warrants expired	-	-	(149,892)	149,892	-	-	-
Share-based payments	-	-	-	240,081	-	-	240,081
Balance March 31, 2018	43,283,616	1	956,641	9,844,160	(126,904)	(57,669,096)	(3,711,582)
Balance October 1, 2016	40,598,701	1	1,380,291	8,998,678	(124,173)	(50,238,694)	614,704
Loss for the period	-	-	-	-	-	(2,148,770)	(2,148,770)
Other comprehensive gain (loss)	-	-	-	-	3,801	-	3,801
Warrants exercised	20,265	-	(7,782)	-	-	-	12,483
Warrants expired	-	-	(191,471)	191,471	-	-	-
Share-based payments	-	-	-	78,827	-	-	78,827
Balance March 31, 2017	40,618,966	1	1,181,038	9,268,876	(120,372)	(52,387,464)	(1,438,955)

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

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Condensed interim consolidated statements of cash flows

For the three and six-month periods ended March 31,

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		Three months ended		Six months ended	
	Note	2018	2017	2018	2017
Operating activities					
Net loss		(1,725,937)	(1,261,267)	(2,927,626)	(2,148,770)
Share-based payments		32,193	60,914	240,081	78,827
Finance costs		242,106	98,047	358,747	199,635
Amortization of capital assets	5	35,491	23,860	64,673	47,815
Warranty provision		29,086	976	45,966	1,193
Amortization of deferred lease inducement		(3,900)	(3,900)	(7,800)	(7,800)
Write down (up) of inventory		-	50,697	-	50,697
Bad debt expense		-	99,919	-	99,919
Unrealized foreign exchange loss (gain)		72,843	(4,257)	107,359	(53,307)
		(1,318,118)	(935,011)	(2,118,600)	(1,731,791)
Net change in non-cash working capital	19	(242,069)	1,064	(1,157,846)	(483,248)
Cash flow used in operating activities		(1,560,187)	(933,947)	(3,276,446)	(2,215,039)
Financing activities					
Proceeds from issuance of long-term debt	6	-	-	1,899,814	-
Proceeds on exercise of warrants		11,819	-	11,819	12,483
Repayment of government contribution		-	(918)	-	(18,918)
Repayment of debentures	7	-	(224,500)	(597,837)	(449,000)
Repayment of long-term debt	6	(39,330)	-	(39,330)	-
Repayment of other liabilities	8	(60,057)	(60,478)	(96,375)	(96,796)
Cash financing costs paid		-	(12,782)	(53,695)	(23,750)
Cash flow from financing activities		(87,568)	(298,678)	1,124,396	(575,981)
Investing activities					
Capital asset additions		(40,192)	(36,327)	(95,397)	(51,081)
Cash flow used in investing activities		(40,192)	(36,327)	(95,397)	(51,081)
Net change in cash		(1,687,947)	(1,268,952)	(2,247,447)	(2,842,101)
Cash, beginning of period		2,008,846	2,782,322	2,568,346	4,355,471
Cash, end of period		320,898	1,513,370	320,898	1,513,370

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

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Notes to the condensed interim consolidated financial statements

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1. Description of the business

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

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("the financial statements") were prepared in accordance with IAS 34 Interim Financial Reporting.

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2017 and 2016, which were prepared in accordance with IFRS. These unaudited condensed interim consolidated financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the audited consolidated financial statements for the year ended September 30, 2017.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the September 30, 2017 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on May 30, 2018.

(b) Going concern

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

At March 31, 2018, the Company had not achieved profitable operations since its inception and had an accumulated deficit of \$57,669,096 (March 31, 2017 - \$52,387,464) and recognized a cash flow deficiency from operations for the six-month period ended March 31, 2018 of \$3,276,446 (2017 - \$2,215,039). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

At March 31, 2018, the Company had a working capital deficit of \$2,294,690 (September 30, 2017 – \$725,408).

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

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

3. Recently issued accounting pronouncements

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2017.

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

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

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

IFRS 15 was issued in May 2014 and amended in April 2016 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

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

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

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4. Inventory

	March 31 2018	September 30 2017
Finished goods	307,310	156,978
Components	296,012	232,670
	603,322	389,648

As at March 31, 2018, \$532,124 (September 2017 - \$303,226) of inventory was carried at cost and \$71,198 (September 2017 - \$86,422) was carried at net realizable value.

5. Capital assets

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
Balance October 1, 2017	476,461	954,622	270,012	42,714	1,743,809
Additions	11,307	45,837	38,255	-	95,397
Disposals	-	-	(1,956)	-	(1,956)
Balance March 31, 2018	487,768	1,000,459	306,311	42,714	1,837,252

Accumulated amortization

Balance October 1, 2017	472,569	738,764	211,649	42,714	1,465,696
Amortization	5,317	38,835	20,382	-	64,534
Disposals	-	-	(1,815)	-	(1,815)
Balance March 31, 2018	477,886	777,599	230,216	42,714	1,528,415
Carrying Value March 31, 2018	9,882	222,860	76,095	-	308,837

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

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

6. Long-term debt and derivative liability

	Long-term debt	Derivative liability	Total
Balance October 1, 2017	-	-	-
Proceeds from issuance of long term debt	1,899,814	-	1,899,814
Fair value allocation to warrant exchange	(364,643)	364,643	-
Financing cost	(42,938)	(10,198)	(53,136)
Accretion	114,564	104,714	219,278
Repayment	(39,330)	-	(39,330)
Loss (gain) on foreign exchange	3,891	-	3,891
Balance March 31, 2018	1,571,358	459,159	2,030,517
Less: current portion	(332,474)	(459,159)	(791,633)
	1,238,884	-	1,238,884

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In December 2017, the Company issued \$1,500,000 of debt in USD bearing an interest rate of 12.5% per annum which will be repaid in equal instalments starting in June 2018 for 30 months. The loan has first priority over all assets of the Company. Providing certain criteria are met, the Company has the option to draw another \$1,500,000 USD. The Company may prepay the loan by paying all scheduled but unpaid payments. If prepayment occurs after 12 months the Company will receive a 15% discount off future interest owed. If prepayment occurs after 15 months the Company will receive a 25% discount off future interest owed. If prepayment occurs after 21 months the Company will receive a 35% discount off future interest owed.

As part of the loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of \$0.17 CAD and an expiry date of December 20, 2022. Currently, 2,213,800 warrants are exercisable and the remaining warrants will vest when the Company draws the additional \$1,500,000 USD. The exercisable warrants are exchangeable at the option of the holder for \$750,000 USD after the earlier of a liquidity event or September 30, 2021.

The Company has measured the fair value of the warrant derivative liability with the residual assigned to the loan. The warrant derivative liability was estimated using the higher of the present value of the warrant exchange payment and the option pricing model. Financing fees of \$53,136 were allocated between the long-term loan and the derivative liability. The long-term loan is a financial liability and will be accreted to its face value over the term of the loan using an effective interest rate of 27%.

The derivative liability is carried at fair value through profit and loss and re-measured at each reporting date. The higher fair value was the present value of the warrant exchange payment using a discount rate of 27% and the value was determined to be \$459,159.

7. Debentures

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

In December 2017, the Company called all of the outstanding debentures at par and repaid principal of \$586,667. On the date of exercise, the carrying amount of the debentures was \$546,669 with the difference of \$43,903 recognized as part of financing costs. Interest of \$3,906 and royalties of \$7,265 was also paid. The accretion up to the date of exercise was recognized in financing cost.

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8. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
Balance October 1, 2016	503,770	141,951	645,721
Accretion	107,757	34,464	142,221
Repayments	(157,380)	(35,566)	(192,946)
Loss (gain) on foreign exchange	-	(7,942)	(7,942)
Balance September 30, 2017	454,147	132,907	587,054
Accretion	49,404	16,371	65,775
Repayments	(78,690)	(17,685)	(96,375)
Loss (gain) on foreign exchange	-	4,232	4,232
Balance March 31, 2018	424,861	135,825	560,686
Less: current portion	(69,351)	(4,487)	(73,838)
	355,510	131,338	486,848

9. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount (\$)
Balance October 1, 2016	201,534,251	40,598,701
Issuance of common shares	15,000,000	3,000,000
Issuance costs	-	(493,608)
Exercise of warrants	1,145,298	151,378
Balance September 30, 2017	217,679,549	43,256,471
Exercise of warrants	225,125	27,145
Balance March 31, 2018	217,904,674	43,283,616

In September 2017, the Company issued 15,000,000 Units at a price of \$0.20 per unit resulting in gross proceeds of \$3,000,000. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). The Warrants will be exercisable for a period of 24 months from the date of issuance at an exercise price of \$0.25. The fair value of the warrants is \$nil based on the residual method where proceeds are first allocated to common shares according to the quoted price of the common shares at the time of issuance and any residual is allocated to warrants. As consideration for acting as Agents in connection with the Offering, the Agents were paid a cash commission of \$194,026 and were granted an aggregate of 1,067,136 non-transferrable compensation options entitling the Agents to purchase up to 1,067,136 common shares of the Corporation at a price of \$0.20 per unit for a period of 24 months from the date of closing. The Black-Scholes option model was used to calculate the fair value of

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the warrants using a nil dividend yield, a 0.75% interest rate and a volatility of 107%. The fair market value at issuance was \$126,463. Other costs of \$173,119 related to the issue of the Units were also incurred bringing the total cost of issuance to \$493,608.

Weighted average number of common shares

The weighted average number of shares as at March 31, 2018 and March 31, 2017 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

10. Preferred shares

The Corporation is authorized to issue an unlimited number of convertible \$10, 8% redeemable First Preferred shares, issuable in series. As of March 31, 2018, and as at the date hereof, there is 1 First Preferred Share, Series 8 issued and outstanding.

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

11. EGT Markets Limited Partnership

EGT Markets Limited Partnership, is an Alberta limited partnership, which carries on the business of commercializing manufacturing and marketing inverters under license from Eguana and certain of Eguana's subsidiaries. The general partner of EGTLP is Sustainable Energy Systems Inc. ("SES") which exercises control over EGTLP's operations. The limited partners of EGTLP are Eguana, and from time to time, private investors who have provided capital to EGTLP by purchasing LP Units at a price of \$1,000 per LP Unit. No LP Units were issued in the three and six-month periods ending March 31, 2018 and 2017.

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

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

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12. Warrants

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

	Issued and outstanding	Broker warrants	Total purchase warrants	Allocated fair market value
Balance October 1, 2016	9,959,946	8,379,710	18,339,656	\$1,380,291
Warrants exercised	-	(1,145,298)	(1,145,298)	(83,094)
Warrants expired	(608,000)	(788,174)	(1,396,174)	(301,801)
Warrants issued	7,500,000	1,067,138	8,567,138	126,463
Balance September 30, 2017	16,851,946	7,513,376	24,365,322	1,121,859
Warrants exercised	-	(225,125)	(225,125)	(15,326)
Warrants expired	(1,250,000)	(400,000)	(1,650,000)	(149,892)
Warrants issued ⁽¹⁾	2,951,733	-	2,951,733	-
Balance March 31, 2018	18,553,679	6,888,251	25,441,930	\$956,641

Outstanding warrants at March 31, 2018 were as follows:

Range of exercise prices	Warrants	Weighted average prices (\$)	Weighted average years to expiry
\$0.01 - \$0.30	17,068,151	0.19	1.72
\$0.31 - \$0.40	8,373,779	0.39	1.73
Balance March 31, 2018⁽¹⁾	25,441,930	0.26	1.73

(1) As part of the issuance of long term debt in December 2017, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of \$0.17 and an expiry date of December 20, 2022. 737,933 of the warrants have not yet met their vesting conditions. Refer to note 6 for additional details.

13. Contributed surplus

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

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	Number of options to employees	Weighted average price to employees	Number of options to non- employees	Weighted average price to non- employees
Balance October 1, 2016	4,244,319	0.32	2,405,264	0.30
Granted	-	-	450,000	0.25
Forfeited	(35,000)	(0.26)	(180,000)	(0.48)
Balance September 30, 2017	4,209,319	0.32	2,675,264	0.28
Granted	1,810,000	0.21	40,000	0.18
Forfeited	(105,000)	(0.25)	(10,000)	(0.24)
Balance March 31, 2018	5,914,319	0.29	2,705,264	0.28

The following summarizes information about stock options outstanding as at March 31, 2018:

	Outstanding options			Exercisable options	
	Options	Weighted average price (\$)	Weighted average years to expiry	Options	Weighted average price (\$)
\$0.01 - \$0.30	4,837,500	0.22	5.66	3,867,495	0.23
\$0.31 - \$0.40	3,722,083	0.36	5.96	700,000	0.33
\$0.41 - \$0.50	60,000	0.44	6.05	-	-
Balance March 31, 2018	8,619,583	0.29	5.79	4,567,495	0.24

The total share-based compensation calculated for the three and six-months ended March 31, 2018 was \$32,193 and \$207,888 (2017 – \$60,914 and \$78,827).

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

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

In October 2017, the Company granted incentive stock options to acquire up to an aggregate of 1,810,000 common shares at a strike price of \$0.21 per share. Of the options granted 1,175,000 have been granted to directors and officers of the Company and the remainder to employees. The incentive stock options represent the 2017 annual grant. 600,000 of the 1,810,000 options vest immediately with an expiry of October 2022 and 1,210,000 options vest in three equal tranches with the first tranche to vest immediately and the remainder over two years with an expiry of October 2027. The fair value of the options was determined to be \$315,259.

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

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:

	March 31 2018	September 30 2017
Risk free interest rate	0.75 - 1.00%	0.5%
Expected volatility ⁽¹⁾	121 - 130%	121 - 166%
Dividend yield	-	-
Expected life (years)	5 - 10	5 - 10
Weighted average fair value	0.175	0.25

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

14. Capital management

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

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

	March 31 2018	September 30 2017
Total shareholders' equity (deficiency)	(3,711,582)	(1,031,261)
Long-term debt	1,571,358	-
Cash	(320,898)	(2,568,346)
	(2,461,122)	(3,599,607)

15. Financial instruments and financial risk management

Credit risk

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

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The Company has significant credit risk exposure on accounts receivable with one counterparty at March 31, 2018. Approximately 98% of the total accounts receivable is due from the one customer (September 2017 – 83% - one counterparty).

The following table illustrates the Company's receivables:

	March 31 2018	September 30 2017
Trade	1,023,678	385,759
Taxation authorities	13,473	35,516
	1,037,151	421,275
Less: allowance for doubtful accounts	-	-
	1,037,151	421,275

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three and six-month periods ended March 31, 2018, there was \$nil of bad debts expensed (2017 – \$99,919).

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. As at March 31, 2018 there are \$941,172 of financial assets that the Company considers past due (September 30, 2017 - \$382,427).

The following is a schedule of trade receivables:

	March 31 2017	September 30 2017
Neither impaired or past due	82,506	3,332
Past due in the following periods		
31 – 60 days	656,691	25,164
61 – 90 days	139,134	13,089
Over 90 days	145,347	344,174
	1,023,678	385,759

Liquidity risk

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

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The following are the contractual undiscounted maturities of financial liabilities at March 31, 2018:

	< 1 Year	1 – 3 Years	Thereafter	Total
Accounts payable and accrued liabilities	3,234,318	-	-	3,234,318
Deferred revenue	104,091	-	-	104,091
Long-term debt	731,454	1,565,716	-	2,297,171
Other liabilities	194,605	392,593	375,688	962,885
	4,264,468	1,958,309	375,688	6,598,465

The derivative liability related to long-term debt (Note 6) allows the exercisable warrants to be exchanged at the option of the holder for \$750,000 USD after the earlier of a liquidity event or September 30, 2021.

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows for as at March 31, 2018:

	Euros	US Dollars	Total
Cash	47,478	151,749	199,227
Accounts receivable	2,276	1,013,880	1,016,156
Deposits	12,899	57,490	70,389
Accounts payable and accrued liabilities	(1,304,071)	(498,656)	(1,802,727)
Long term debt	-	(1,571,358)	(1,571,358)
Provisions	(177,858)	-	(177,858)
Deferred revenue	-	(43,220)	(43,220)
Other liabilities	-	(135,825)	(135,825)
	(1,419,276)	(1,025,940)	(2,445,216)

Assuming all other variables remain constant, a \$0.05 change in the Canadian/US exchange rate would increase the Company's net loss by approximately \$44,676 for the six-month period ended March 31, 2018 (2017 - \$23,908). Assuming all other variables remain constant, a \$0.05 change in the Canadian/Euro exchange rate would increase the Company's net loss by approximately \$39,789 for the six-month period ended March 31, 2018 (2017 - \$41,370). An opposite change in the Canadian/US exchange rate and the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the three-month period ended March 31, 2018.

The Company also has foreign currency exposure with respect to the derivative liability of \$750,000 USD (Note 6).

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Interest rate risk

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

Fair value

The carrying value and fair value of financial instruments at March 31, 2018, is disclosed below by financial instrument category:

	Carrying value	Fair value
Accounts receivable	1,037,151	1,037,151
Accounts payable and accrued liabilities	3,234,318	3,234,318
Derivative liability	459,159	459,159

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input, the other liabilities, debentures and long-term loan were measured at fair value on initial recognition using Level 2 inputs (Notes 6 - 8) and the derivative liability and the embedded derivatives on the Company's debentures were measured at fair value using level 3 inputs (Notes 6 & 7).

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

16. Related party transactions

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

Salaries and benefits	Three months ended		Six months ended	
	2018	2017	2018	2017
General and administrative	70,550	95,750	141,100	159,138
Product research and development	59,314	14,623	118,629	27,616
Selling and marketing	14,620	34,121	29,241	64,438
	144,484	144,494	288,970	251,192

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Included in accounts payable and accrued liabilities is \$252,670 (September 30, 2017 - \$276,250) due to directors and key management personnel.

Share based expenses to officers and a director was \$12,521 and \$162,950 for the three and six months ended March 31, 2018 (March 31, 2017 - \$43,390 for three and six months).

In September 2017, key management personnel and the significant shareholder of the Company purchased 1,825,000 units at \$0.20 a unit (Note 9).

17. Financing costs

	Three months ended		Six months ended	
	2018	2017	2018	2017
Accretion on debentures	-	59,952	31,303	126,773
Accretion of other liabilities	34,230	37,892	65,775	72,689
Accretion of long term debt	103,063	-	114,616	-
Change in fair value on debentures	-	-	41,780	-
Change in fair value on derivative liability	104,714	-	104,714	-
Other accretion	99	203	559	173
	242,106	98,047	358,747	199,635

18. Personnel expenses

	Three months ended		Six months ended	
	2018	2017	2018	2017
Wages	381,009	350,975	731,692	667,577
Benefits	13,811	16,613	37,798	32,672
	394,820	367,588	769,490	700,249

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19. Supplemental information

The changes in non-cash working capital for the three and six months ended March 31, 2018 and 2017 is as follows:

	Three months ended		Six months ended	
	2018	2017	2018	2017
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	(130,964)	(191,755)	(569,619)	(405,431)
Inventory	(107,701)	273,991	(213,673)	13,056
Prepaid expenses and deposits	238,406	12,886	91,104	48,951
	(258)	95,122	(692,187)	(343,424)
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	2,049	(76,003)	80,130	(195,833)
Deferred revenue	(243,860)	(18,055)	(545,789)	56,009
	242,069	1,064	(1,157,846)	(483,248)

20. Commitments

At March 31, 2018, Eguana had commitments for the Calgary premise and purchase obligations as follows:

Less than one year	182,000
Between one and five years	192,000
More than five years	-
	374,000

21. Segmented information

Major customers

The Company had one customer where sales were greater than 10% of total sales in the six-month period ended March 31, 2018 (2017 – two). The customer had attributed sales of approximately \$1,086,679 and \$2,393,835 for the three and six-month period ended March 31, 2018 (2017- \$288,673 and \$563,069).

Revenue composition

The Company generated \$1,103,774 and \$2,422,501 of revenue from energy storage system sales with a cost of \$953,306 and \$2,062,464 for the three and six-month periods ended March 31, 2018. The Company generated \$275,284 and \$307,200 of revenue from energy storage system sales with a cost of \$259,638 and \$290,389 for the three and six-month periods ended March 31, 2017 respectively.

Revenue from engineering services was \$nil with a cost of \$nil in the three and six-month periods ended March 31, 2018. Revenue from engineering services was \$53,310 and \$292,654 with a cost of \$14,740 and 43,728 in the three and six-month periods ended March 31, 2017 respectively.

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22. Legal disputes

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

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,436,636 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,269,148 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount in accounts payable. Moreover, the Company made a counter claim against the contract manufacturer.

There has been no change in the recorded amounts for legal disputes from the year ended September 30, 2017.