Consolidated financial statements of

Eguana Technologies Inc.

September 30, 2013

Eguana Technologies Inc.

September 30, 2013

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Independent Auditor's Report

To the shareholders of Eguana Technologies Inc.

We have audited the accompanying consolidated financial statements of Eguana Technologies Inc., which comprise the consolidated statements of financial position as at September 30, 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eguana Technologies Inc. as at September 30, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 in the consolidated financial statements which indicates that the entity has not yet achieved profitable operations since its inception, has an accumulated deficit of $31,594,506 as at September 30, 2013 (2012 $23,337,518) and has recognized cash flow deficiency of $2,505,782 for the year then ended (2012 $1,690,957). These conditions, along with other matters described in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

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Restated Comparative Information

The consolidated financial statements of Eguana Technologies Inc. for the year ended September 30, 2012 (prior to the restatement of the comparative information described in Note 6 to the consolidated financial statements) were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on January 28, 2013.

As part of our audit of the consolidated financial statement of Eguana Technologies Inc. for the year ended September 30, 2013, we also audited the adjustments described in Note 6 that were applied to restate the consolidated financial statements for the year ended September 30, 2012. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of Eguana Technologies Inc. for the year ended September 30, 2012 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended September 30, 2012 taken as a whole.

BDO Canada LLP

Chartered Accountants
Calgary, AB
January 29, 2014

Eguana Technologies Inc.

Consolidated statements of financial position

Stated in Canadian dollars

	Note	Sept 30, 2013	Sept 30, 2012 (Restated - Note 6)	Oct 1, 2011 (Restated - Note 6)
		$	$	$
Assets				
Current:				
Cash		**399,874**	256,104	328,821
Accounts receivable and advances		**499,197**	913,426	1,093,381
Inventory	7	**1,137,192**	2,402,004	3,590,075
Prepaid expenses and deposits		**242,805**	168,587	362,704
		2,279,068	3,740,121	5,374,981
Non-current:				
Development costs	8	**484,959**	937,692	1,393,176
Capital assets	9	**166,084**	96,575	152,536
		2,930,111	4,774,388	6,920,693
Liabilities				
Current:				
Accounts payable and accrued liabilities		**2,102,512**	2,068,684	1,671,094
Provisions	10	**112,000**	22,601	40,377
Bank debt	11	**617,157**	1,443,830	1,346,662
Energy Northwest obligation - current portion	13	**61,666**	45,700	266,268
Government grant obligation - current portion	14	**153,363**	40,382	27,461
Debentures - current portion	15	**65,403**	-	-
Preferred shares - current portion	16	**8,688,848**	-	-
		11,800,949	3,621,197	3,351,862
Non-current:				
Deferred lease inducement		**70,200**	-	-
Energy Northwest obligation	13	**47,932**	44,900	1,065,073
Government grant obligation	14	**60,038**	176,354	133,274
Other financial liabilities	15	**-**	115,165	-
Debentures	15	**1,785,423**	429,546	-
Preferred shares	16	**2,859,967**	7,929,418	5,582,607
		16,624,509	12,316,580	10,132,816
Shareholders' equity (deficiency)				
Share capital	17	**5,777,755**	5,004,531	34,258,068
Warrants	18	**540,837**	2,270,651	2,275,418
Equity component of preferred shares	16	**4,079,759**	3,387,391	3,184,383
Share-based payment reserve		**7,610,723**	5,317,378	4,819,067
Foreign currency translation reserve		**(108,966)**	(184,625)	(171,906)
Deficit		**(31,594,506)**	(23,337,518)	(47,577,153)
		(13,694,398)	(7,542,192)	(3,212,123)
		2,930,111	4,774,388	6,920,693

Going concern (Note 3), Commitments (Note 30) and Subsequent events (Note 33)
The accompanying notes are an integral part of these consolidated financial statements

On behalf of the Board:

{signed}

Michael Carten, Director

{signed}

Robert Penner, Director

Eguana Technologies Inc.

Consolidated statements of loss and comprehensive loss

For years ended September 30,

Stated in Canadian dollars

	Note	2013	2012 Restated (Note 6)
		$	$
Sales		**376,526**	3,313,134
Cost of goods sold		**1,810,647**	3,182,805
Gross margin		**(1,434,121)**	130,329
Expenses			
General and administrative	22	**1,449,824**	1,646,414
Operations	22	**810,215**	963,409
Product research and development	26	**1,009,041**	916,147
Selling and marketing		**471,734**	587,011
		3,740,814	4,112,981
Loss before undernoted items		**(5,174,935)**	(3,982,652)
Financing costs	23	**(3,404,058)**	(2,764,834)
Gain on Energy Northwest		**-**	1,162,184
Loss on write down of capital assets		**-**	(8,103)
Loss on write down of subsidiary		**-**	(177,070)
Other income	25	**322,005**	10,110
Net loss		**(8,256,988)**	(5,760,365)
Loss of control of subsidiary foreign currency adjustment		**-**	74,842
Foreign currency adjustment to equity		**(75,659)**	(87,561)
Total comprehensive loss		**(8,332,647)**	(5,773,084)
Loss per common share			
Basic and diluted		**(0.39)**	(0.28)
Weighted average number of common shares			
Basic and diluted	17	**21,212,237**	20,386,343

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

Eguana Technologies Inc. Consolidated statements of change in equity

For the years ended September 30,

Stated in Canadian dollars

	Share Capital	Share based payment reserve	Warrants	Equity component of preferred shares	Deficit	Foreign currency translation reserve	Total
	$	$	$	$	$	$	$
Balance, October 1, 2012 (Restated - Note 6)	**5,004,531**	**5,317,378**	**2,270,651**	**3,387,391**	**(23,337,518)**	**(184,625)**	**(7,542,192)**
Loss for the period	-	-	-	-	(8,256,988)	-	- (8,256,988)
Other comprehensive gain(loss)	-	-	-	-	-	75,659	75,659
Issue of share capital	773,224	-	-	-	-	-	773,224
Warrants issued	-	-	557,890	-	-	-	557,890
Warrants expired	-	2,270,651	(2,270,651)	-	-	-	-
Warrants exercised	-	-	(17,053)	-	-	-	(17,053)
Equity component of debenture	-	-	-	-	-	-	-
Equity component of preferred shares	-	-	-	692,368	-	-	692,368
Share based payments	-	22,694	-	-	-	-	22,694
Balance, September 30, 2013	**5,777,755**	**7,610,723**	**540,837**	**4,079,759**	**(31,594,506)**	**(108,966)**	**(13,694,398)**
Balance, October 1, 2011 (Restated - Note 6)	34,258,068	4,819,067	2,275,418	3,184,383	(47,577,153)	(171,906)	(3,212,123)
Loss for the period	-	-	-	-	(5,760,365)	-	(5,760,365)
Other comprehensive gain(loss)	-	-	-	-	-	(12,719)	(12,719)
Issue of share capital	746,463	-	-	-	-	-	746,463
Warrants issued	-	-	362,411	-	-	-	362,411
Warrants expired	-	367,178	(367,178)	-		-	-
Equity component of preferred shares	-	-	-	203,008	-	-	203,008
Share based payments	-	131,133	-	-	-	-	131,133
Reduction of deficit to share capital	(30,000,000)		-	-	30,000,000	-	-
Balance, September 30, 2012	5,004,531	5,317,378	2,270,651	3,387,391	(23,337,518)	(184,625)	(7,542,192)

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

Eguana Technologies Inc. Consolidated statements of cash flows

For the years ended September 30,

Stated in Canadian dollars

	Note	2013	2012 (Restated - Note 6)
		$	$
Operating activities			
Net loss		**(8,256,988)**	(5,760,365)
Amortization of capital assets and development costs		**529,994**	458,275
Amortization of deferred lease inducement		**(7,800)**	-
Share-based payments		**22,694**	131,133
Write down of capital assets		**-**	8,103
Write down of inventory		**1,175,655**	-
Warranty provision		**89,399**	-
Loss on control of subsidiary		**-**	78,955
Finance costs		**3,404,058**	2,764,834
Gain on Energy Northwest obligation		**-**	(1,162,184)
Unrealized foreign exchange loss (gain)		**27,190**	7,762
		(3,015,798)	(3,473,487)
Net change in non-cash working capital	29	**510,016**	1,782,530
Cash flow used in operating activities		**(2,505,782)**	(1,690,957)
Financing activities			
Bank loan		**(826,673)**	97,168
Proceeds from preferred shares		**1,100,000**	1,000,000
Cost of issuing preferred shares		**-**	(36,156)
Proceeds from convertible debenture		**500,000**	-
Proceeds on excerise of warrants		**498,750**	-
Proceeds from debentures		**1,492,500**	699,875
Costs of issuing debentures		**(40,282)**	
Advance from director		**100,000**	-
Repayment of government contribution		**(15,500)**	(9,000)
Cash financing costs paid		**(113,252)**	(82,102)
Cash flow from financing activities		**2,695,543**	1,669,785
Investing activities			
Capital asset additions		**(42,104)**	(18,065)
Cash flow used in investing activities		**(42,104)**	(18,065)
Foreign exchange on cash held in foreign operations		**(3,887)**	(33,480)
Net change in cash		**143,770**	(72,717)
Cash, beginning of period		**256,104**	328,821
Cash, end of period		**399,874**	256,104

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

1. Description of the business

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of consolidation

The consolidated financial statements of Eguana Technologies Inc. include the accounts of the Company and its wholly owned subsidiaries: Sustainable Energy Systems Inc. ("SES"), Sustainable Energy Europa S.L. ("SEE"), STG Markets Limited Partnership ("STGLP"), Sustainable Energy Laboratories Ltd. ("SEL"), International Power Systems, Inc. ("IPS"), and Sustainable Energy France ("SEF").

All intra-Company transactions, balances, revenue and expenses are eliminated in full on consolidation.

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. The Company currently has no special purpose entities of which it retains control and accordingly the consolidated financial statements do not include the accounts of any such entities.

The Company had an interest in a joint venture, which is a jointly controlled operation, whereby a contractual arrangement has been entered into without establishing a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities and funds its own participation in the operation. These consolidated financial statements include the Company's share of assets and liabilities and a proportionate share of the relevant revenues and related costs, classified according to their function. The Company has a 60% interest in Profab Solar which was formed to market turnkey solar systems. The joint venture was terminated in March 2013.

(c) Critical accounting estimates

The preparation of these consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from the estimates. There have been no changes made to the methodology to determine critical accounting estimates during the past two fiscal years.

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

The following reflect the most significant estimates and assumptions used in the preparation of the Company's consolidated financial statements.

i. Capital assets and development costs

Capital assets and development costs are reviewed for impairment at least annually or when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. To determine recoverability, management estimates the fair value less costs to sell of the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets. These cash flows are discounted using an estimated rate of return and compared to their respective carrying value. In performing this analysis, estimates and assumptions are made about factors such as current and future contracts with clients, margins, market conditions and the useful lives of assets. If estimates or assumptions change from those used in the current analysis, the Company may be required to recognize an impairment loss in future periods, which would decrease capital assets or development costs and increase reported expenses.

The Company reviews the estimated useful lives of capital assets and development costs at the end of each reporting period.

ii. Valuation adjustments for inventory

Valuation adjustments for inventory are comprised of the impairments or recoveries recorded against inventories. The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed quarterly and have a significant impact on the valuation adjustments for inventory.

iii. Share-based payment transactions

Share-based payments comprise compensation expense related to the granting of stock options and warrants. The Company values stock option expense and warrants using a fair value-based method of accounting. The fair value of stock options and warrants is estimated at the grant or issue date using the Black-Scholes option pricing model (the "model") or the fair value of services received in the case of warrants. The model requires the input of a number of assumptions, including expected dividend yield, expected stock price volatility, life of the options, forfeiture rate, and risk-free interest rates.

These assumptions are determined using management's best estimates and involve inherent uncertainties relating to market conditions, forfeitures and exercise which are outside of the control of the Company. Such assumptions are reviewed quarterly and have a significant impact on the estimates of fair value produced by the Black-Scholes option pricing model.

iv. Preferred shares

Preferred shares are comprised of a debt and equity component. The Company determines the fair values of the debt component at inception by using discounted cash flows at the estimated market interest rate at that time. This method requires the input of a number of assumptions, including the estimated market rate of interest and the timing of any payment of dividends. These assumptions are determined using management's best estimates and involve inherent uncertainties. They are reviewed quarterly and have a significant impact on the estimates of fair value of the debt component of the preferred shares.

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

v. Debentures and Convertible Debentures

The Company has issued debentures and convertible debentures which are comprised of embedded derivatives, debt and equity components. In determining the fair value of the Company's debentures and convertible debentures on the date of issuance and at the date of the consolidated statement of financial position, management uses internally developed models. This method requires the input of a number of assumptions including estimated market rate of interest and timing and quantity of forecasted revenues. These assumptions are determined using management's best estimates and involve inherent uncertainties. They are reviewed quarterly and have a significant impact on the estimates of fair value of the embedded derivatives and debt components.

vi. Income taxes

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

vii. Energy Northwest obligation

The Company is required to provide for amounts that will be payable to Energy Northwest as compensation for services and contributed by Energy Northwest during the early development of the Company's step wave power converter ("SWPC") technology. The compensation payable to Energy Northwest in any year is dependent on the sales of products utilizing the SWPC in the year subject to annual minimum and maximum payments. Due to the emerging nature of the Company's business, the provision requires the Company to estimate sales for each year during the period of time for which the agreement will be in place (Note 13). This estimate of sales is based on past sales related to the SWPC technology and management's forecast of SWPC sales until the end of the agreement on January 1, 2016.

viii. Government grant obligation

The Company has received government funding related to certain historical research and development projects. Under the terms of certain of these arrangements, the Company is obligated to make payments in the form of royalties contingent upon sales of its products. The financial liability has been measured based on the net present value of estimated future royalties. In order to measure the financial liability for each reporting period, the Company makes estimates regarding future revenues during the life of the arrangements and the discount rate to be used in determining the net present value. The discount rate used to determine the present value of the government contribution liability is 25%.

2. Basis of preparation (continued)

(d) Critical accounting judgments

In applying the Company's accounting policies, management has made certain judgments that may have a significant effect on the amounts recognized in the consolidated financial statements. Such judgments include the determination of the functional currency.

i. Commitments, Contingencies and Guarantees

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

ii. Determination of functional currency

In determining the Company's functional currency, it periodically reviews its primary and secondary indicators as stipulated under IAS 21 "The Effects of Changes in Foreign Exchange Rates" to assess each subsidiary's primary economic environment in which the entity operates. The Company analyzes the currency that mainly influences labor, material and other costs of providing goods or services which is often the currency in which such costs are denominated and settled. The Company also analyzes secondary indicators such as the currency in which funds from financing activities such as equity issuances are generated and the funding dependency of the parent company whose predominant transactional currency is the Canadian dollar. Determining the Company's predominant economic environment requires significant judgment.

3. Going concern

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

At September 30, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $31,594,506 (2012 - $23,337,518) and recognized a cash flow deficiency in 2013 of $2,505,782 (2012 - $1,690.957). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

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

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by the loss of customers and falling sales per customer. To address its financing requirements, the Company will seek financing through the issuance of common shares, first preferred shares, units of STG Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time. Subsequent to year end, the Company raised additional equity and issued STG Limited Partnership Units for gross proceeds of $1,755,500 (Note 33).

3. Going concern (continued)

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

4. Significant accounting policies

The significant accounting policies are set out below. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

(a) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another. Upon initial recognition all financial instruments, including derivatives, are recognized on the consolidated statements of financial position at fair value. Subsequent measurement is then based on financial instruments being classified into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) fair value through profit or loss. Financial instruments classified at fair value through profit or loss or assets available-for-sale as a result of initially adopting this section are measured at fair value. Gains or losses on the subsequent measurement of fair value are recognized in net income (loss), while gains and losses on subsequent measurement of available-for-sale items are recognized as an adjustment to other comprehensive loss.

At September 30, 2013, the Company's financial instruments include cash, accounts receivable and advances, accounts payable and accrued liabilities, bank debt, other financial liabilities, debentures, Energy Northwest obligation, government grant obligation and preferred shares. Cash, the embedded derivative in the Energy Northwest obligation, the embedded derivative in the government grant obligation, the embedded derivatives in the debentures, and the embedded derivative in the preferred shares are measured at fair value consistent with the "fair value through profit or loss" classification. Net gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment. Accounts receivable and advances are measured at amortized cost consistent with the "loans and receivables" classification. Loans and receivables are subsequently measured at their amortized cost, using the effective interest rate method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Accounts payable and accrued liabilities, bank loan, debentures, Energy Northwest obligation, government grant obligation, the debentures and preferred shares are measured at amortized cost using the effective interest method, consistent with the "other financial liabilities" classification. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

Embedded derivatives are separated from the host contract and accounted for separately when all three of the following conditions are met: i) the economic characteristics and risks of the host contract and the embedded derivative are not closely related; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and iii) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of the embedded derivative are recognized immediately in the statement of loss and comprehensive loss.

The Company has an embedded derivative related to the Company's ability to redeem each series of preferred shares (Note 16) if certain conditions exist. The estimated value of this embedded derivative at September 30, 2013, is nil.

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

The Company has an embedded derivative related to the Company's ability to call the debentures (Note 15) at par at any time after the second or third anniversary of issue. The Company also has an embedded derivative related to the royalty payments on the debentures. The Company estimates sales each reporting period during the term of the agreement to determine the estimated royalties and determines the fair value of the embedded derivatives. The embedded derivatives related to the call and the royalty payment have been determined as one value as management considers them to be closely linked and have been presented within the line item denoted "Other financial liabilities" in the consolidated statements of financial position.

The Company has an embedded derivative related to the compensation payable on the Energy Northwest obligation (Note 13). The Company estimates sales revenue each reporting period throughout the term of the agreement to determine the fair value of the estimated compensation payments. This embedded derivative has been presented within the line item denoted "Energy Northwest obligation" in the consolidated statements of financial position.

The embedded derivative in the debenture, Energy Northwest obligation and preferred shares are recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss every period.

On initial recognition, the financial instruments were classified into debt and other financial liabilities (embedded derivatives) based upon fair value with the equity components being the residual amounts. Subsequent to the initial recognition, the liability component is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period. Transaction costs are comprised primarily of legal, accounting, underwriters' fees and other costs directly attributable to the issuance of the financial instruments.

(b) Foreign currencies

i. Foreign currency transactions

The consolidated financial statements are prepared in Canadian dollars, which is the parent's functional currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency prevailing rate of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the prevailing exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii. Foreign operations

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.

4. Significant accounting policies (continued)

(b) Foreign currencies (continued)

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses, net of tax, arising from those items are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income (loss) and presented in the translation reserve in equity.

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

(c) Inventory

Inventories are stated at the lower of cost or net realizable value. Inventory is valued on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventory.

(d) Deferred financing costs

Deferred financing costs related to the operating line of credit, when it is probable that some or all of the line will be drawn down, are included in prepaid expenses and deposits and are amortized on a straight-line basis over the term of the one year related financing agreement.

(e) Capital assets

Capital assets are stated in the consolidated statements of financial position at cost less accumulated amortization, impairment losses and government grants. Amortization is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. Amortization is charged once an asset is determined to be available for use. The estimated useful lives, residual values and amortization method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment and leasehold improvements	5 years straight-line
Computer equipment	3 years straight-line
Computer software	1 year straight-line
Lab equipment	3 to 5 years straight-line
Dies and molds	1 year straight-line

The gain or loss arising on the disposal of capital assets is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit or loss.

4. Significant accounting policies (continued)

(f) Research and development costs

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

Internally-generated intangible assets arising from development (or from the development phase of an internal project) are recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are charged to consolidated statement of comprehensive income (loss) in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and impairment losses.

(g) Impairment of capital assets and development costs

At each consolidated statement of financial position date, the Company reviews the carrying amounts of its capital assets and development costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell of the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets on a pre-tax basis. These cash flows are discounted at a rate reflecting the estimated time value of money and risk associated with the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. Significant accounting policies (continued)

(h) Government grants

Government grants are utilized to fund the various research and development technologies of the Company. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions of the grant and that the grant will be received.

Government grants, including contingently repayable government grants, whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recorded as a deduction of the cost of the asset and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

The Company participates in government programs which are both non-payable and repayable government grants (Note 14 and Note 26). Assistance related to non-payable programs is recorded when there is reasonable assurance that the contribution will be received and all conditions will be complied with. Assistance is presented as a reduction of the related expense or development costs. For repayable government programs, the obligation is treated as a financial liability.

(i) Provisions and contingencies

i. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical experience. The initial estimate of warranty-related costs is revised annually.

ii. Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate available to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by a future event, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

4. Significant accounting policies (continued)

(j) Share-based payments

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

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to the share-based payment reserve.

The fair value is measured at the grant date using the Black-Scholes options pricing model based on terms and conditions upon which the options were granted. Each tranche is recognized on a graded vesting basis over the period during which the options vest. At each consolidated statement of financial position date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market based vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

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

(k) Revenue recognition

Revenue from product sales is generally recognized on shipment to the customer and when reasonable assurance exists regarding the measurement and collection of the consideration received. There may be instances where customers will request that the Company "bill and hold" their shipments until such time as the customers are prepared to receive the shipment. In these cases, revenue is recognized when the customer is invoiced for the goods which have been packaged and made ready for shipment, the risk of ownership is with the customer, and when reasonable assurance exists regarding the measurement and collection of the consideration received.

Engineering fee revenue is recognized when the service is performed. Licensing fee revenue is recognized when the Company has fulfilled all its obligations under the terms of the operative licensing agreement. In all cases no revenue would be recognized in circumstances where collection is not reasonably assured.

(l) Income taxes

Income taxes are recognized in the consolidated statement of loss and comprehensive loss, except where they relate to items recognized in other comprehensive loss or directly in equity, in which case the related taxes are recognized in other comprehensive loss or equity. Taxes are recorded using the tax rate that has been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax assets and liabilities are recognized based on unused tax losses and tax credits and the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the unused tax losses and tax credits and differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

4. Significant accounting policies (continued)

(l) Income taxes (continued)

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company is subject to assessments by various taxation authorities that may interpret tax legislation differently. The final amount of taxes to be paid depends on a number of factors including the outcomes of audits, appeals, or negotiated settlements. The Company accounts for such differences based on its best estimate of the probable outcome of these matters.

(m) Loss per share

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

5. Future accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and is assessing the impact of these new standards and amendments but they are not expected to have a material impact on the Company:

IFRS 9: Financial Instruments – In November 2009 was issued and is the first step to replace current *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10: Consolidated Financial Statements – In 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. This standard applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning on or after January 1, 2013.

IFRS 11: Joint Arrangements – In 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning on or after January 1, 2013.

IFRS 13: Fair Value Measurement – In 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning on or after January 1, 2013.

6. Prior period adjustments

During the current year, the Company determined that accounts payable and accrued liabilities in previous years were understated by $275,000. The understatement occurred in 2012 and 2011 and prior years and therefore, 2013 and 2012 opening deficit has been adjusted by this. The Company has presented the October 1, 2011 consolidated statement of financial position to reflect this change.

During the current year, the Company determined that inventory as at September 30, 2012 was overstated by $310,000. The 2012 comparatives have been adjusted to reflect this adjustment.

Finally, the Company has reclassified and separately presented provisions and other financial liabilities in the current year. The September 2012 and 2011 consolidated statements of financial position have been restated to reflect this reclassification.

Effects on the consolidated statement of financial position
(For the year ended September 30, 2012)

	As previously reported 2012	Adjustments	Reclassification	Restated Financial Position
	$	$	$	$
Inventory	2,712,004	(310,000)	-	2,402,004
Accounts payable and accrued liabilities	(1,816,285)	(275,000)	22,601	(2,068,684)
Provisions	-	-	(22,601)	(22,601)
Debentures	(544,711)	-	115,165	(429,546)
Other financial liabilities	-	-	(115,165)	(115,165)
Deficit	22,752,518	585,000	-	23,337,518

Effects on the consolidated statement of financial position
(For the year ended September 30, 2011)

	As previously reported 2011	Adjustments	Reclassification	Restated Financial Position
	$	$	$	$
Accounts payable and accrued liabilities	(1,568,471)	(143,000)	40,377	(1,671,094)
Provisions	-	-	(40,377)	(40,377)
Deficit	47,434,153	143,000	-	47,577,153

Effects on the consolidated statement of loss and comprehensive loss
(For the year ended September 30, 2012)

	As previously reported 2012	Adjustments	Restated Loss
	$	$	$
Cost of goods sold	2,740,805	442,000	3,182,805
Net loss	5,318,365	442,000	5,760,365

There was no material effect on the consolidated statement of cash flows or the loss per share for 2012 as a result of the above prior period adjustments.

7. Inventory

	2013	2012 (Restated - Note 6)
	$	$
Finished goods	-	488,205
Components	**1,137,192**	1,913,799
	1,137,192	2,402,004

As at September 30, 2013, $1,137,192 (2012 - $2,402,004) of inventory was carried at cost and $nil (2012 - $nil) was carried at net realizable value. The Company wrote off $1,175,655 (2012 - $nil) of inventory to cost of goods sold to reflect that the Company is no longer producing Sunergy II units.

The cost of inventory expensed was $545,593 (2012 - $2,910,805).

8. Development costs

Carrying value	2013	2012
	$	$
Development of wind turbine technology	**1**	1
Development of power electronics intellectual property	**484,957**	937,690
Development of power electronics platform	**1**	1
	484,959	937,692

8. Development costs (continued)

Cost	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2011	1,894,618	3,938,948	1,460,739	7,294,305
Foreign currency translation	-	(203,500)	(16,900)	(220,400)
Balance September 30, 2012	**1,894,618**	**3,735,448**	**1,443,839**	**7,073,905**
Foreign currency translation	**-**	**151,142**	**12,385**	**163,527**
Balance September 30, 2013	**1,894,618**	**3,886,590**	**1,456,224**	**7,237,432**

Accumulated amortization and impairment	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2011	1,894,617	2,545,774	1,460,738	5,901,129
Amortization	-	395,546	-	395,546
Foreign currency translation	-	(143,562)	(16,900)	(160,462)
Balance September 30, 2012	**1,894,617**	**2,797,758**	**1,443,838**	**6,136,213**
Amortization	**-**	**479,399**	**-**	**479,399**
Foreign currency translation	**-**	**124,476**	**12,385**	**136,861**
Balance September 30, 2013	**1,894,617**	**3,401,633**	**1,456,223**	**6,752,473**

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

9. Capital assets

	2013	2012
	$	$
Carrying value		
Computer equipment and software	**16,937**	19,507
Lab equipment	**30,364**	51,107
Furniture, equipment and leasehold improvements	**116,666**	23,422
Dies and molds	**2,117**	2,539
	166,084	96,575

9. Capital assets (continued)

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

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

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2011	483,385	578,872	160,801	43,189	1,266,247
Additions	8,364	2,112	4,223	4,648	19,347
Disposals	(14,738)	-	(28,788)	(12,040)	(55,566)
Balance September 30, 2012	477,011	580,984	136,236	35,797	1,230,028

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2011	452,441	504,866	120,345	36,059	1,113,711
Amortization	19,354	25,020	8,693	9,667	62,734
Disposals	(14,291)	(9)	(16,224)	(12,468)	(42,992)
Balance September 30, 2012	457,504	529,877	112,814	33,258	1,133,453

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

10. Provisions

	September 30, 2013	September 30, 2012
Warranty provision	**$**	$
Balance, beginning of year	**22,601**	40,377
Increase (decrease) in provision amount incurred during the year	**89,399**	(17,776)
	112,000	22,601

The provision for warranty claims represents the present value of the Company's best estimate of the future outflow that will be required for the Company's obligations for warranties. The estimate has been made on the basis of historical warranty trends and may vary as a result of new material, altered manufacturing processes or other events affecting product quality.

The Company reviews the assumptions used in the determination of the warranty provision on an annual basis. During the current year, management determined that the failure rate used for the Sunergy 5 units should be adjusted to reflect the claims made in the current year. The financial effect of the reassessment is to increase the provision for warranty expense in the current year by $89,399.

11. Bank debt

The Company has a $1,500,000 operating line of credit. The operating line is secured by Doughty Hanson through an Equity Commitment Agreement. Interest is payable at the bank's prime rate plus 3% (2012 – prime rate plus 2.75%) and amounts outstanding are repayable upon demand. The Company cannot grant a security interest, declare or pay dividends, redeem any shares without prior written bank consent.

The Equity Commitment Agreement allows the Company, in conjunction with a demand for repayment by the bank, to obligate Doughty Hanson to pay to the bank up to a maximum of $1,500,000. In the event that this occurs Doughty Hanson has the option to be compensated by one of the following methods at their discretion:

a) have the bank assign the Company's debt to them, or

b) have the Company issue convertible redeemable voting preferred shares at a price of $10 per share based on the amount paid to the bank. This series of preferred shares features will be similar and rank pari passu to the Series 9 preferred shares. (Note 16)

12. Convertible debenture

On March 15, 2013, the Company issued a $500,000 six month unsecured subordinated convertible debenture ("Convertible debenture") to Doughty Hanson. The convertible debenture bore interest at a rate of 8% per annum and matured on September 15, 2013. The debenture was convertible into redeemable preferred shares at any time by the holder at a price of $10 per preferred share. If the debenture was converted into preferred shares, the preferred shares issued were entitled to receive annual dividends of an amount equal to 8% redemption price payable semi-annually. In the event the annual 8% dividend is not declared and paid, such dividend would be accretive to the redemption price. The preferred shares would be convertible into common shares at a price of $0.105 at the option of the holder and, if not converted to common shares, would mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the convertible debenture using a discount rate of 25% and a six month term. 4,750,000 additional warrants were issued to Doughty Hanson exercisable for a period of six months at $0.105 (Note 18). The conversion feature of the convertible debenture is an embedded derivative and has been valued at $23,013.

The Company incurred transaction costs related to the issue of the convertible debenture of $5,501. The effective interest rate on the debentures is estimated to be 28.76%.

On April 16, 2013, the convertible debenture was converted to First Preferred Shares Series 14 (Note 16) and the Company recognized a loss on conversion of $15,060 in the consolidated statement of loss.

The components of the convertible debenture as at September 30, 2013 are as follows:

	Debt component of convertible debenture	Conversion feature of convertible debenture	Warrant component of convertible debenture	Total
	$	$	$	$
Balance at October 1, 2012	-	-	-	-
Convertible debenture	454,433	23,013	17,053	494,499
Accretion (net of repayments)	7,494	-	-	7,494
Exercise of warrants			(17,053)	(17,053)
Conversion of debenture to preferred shares	(461,927)	(23,013)	-	(484,940)
Balance at September 30, 2013	**-**	**-**	**-**	**-**

13. Energy Northwest obligation

	2013	2012
	$	$
Obligation to Energy Northwest ($102,492 US; 2012 - $88,079 US)	**109,598**	90,600
Less: current portion of Energy Northwest obligation	**(61,666)**	(45,700)
	47,932	44,900

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

The compensation payable to Energy Northwest in any year until January 1, 2016, is dependent on product sales using the SWPC technology, subject to the above noted annual minimum and maximum thresholds in the year. As the sole basis for the repayment of the loan was linked to future gross sales in SEL, management has determined that the obligation to Energy Northwest contained an embedded derivative and accordingly the loan was required to be accounted for as an embedded derivative in accordance with IAS 39. This requires that the underlying liability and the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the consolidated statement of loss and comprehensive loss each period. At September 30, 2013, the Company completed the development of the 3rd generation STX inverter, which does not use the SWPC technology, and the Company has ceased production of inverters based on the SWPC technology resulting in the minimum compensation being payable in subsequent years. The embedded derivative is valued at nil (2012 – nil).

The Energy Northwest obligation and embedded derivative were valued using Level 3 valuation information (inputs not based on observable market data). The amount estimated to be due over the remaining term of the agreement has been discounted at the rate of 25% which on inception of the obligation represented the interest rates that would be available for the Company for similar obligations. Should the Company in the future change its expectation of product sales in SEL, the loan and embedded derivative values will increase.

14. Government grant obligation

National Research Council

The Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries it incurs to commercialize the universal electronic platform to a maximum of $245,241. The Company has received the maximum amount. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the National Research Council has recovered one and a half times the amount advanced to the Company or for a period of eleven years after the beginning of the repayment schedule. The remaining payable or potentially payable under the agreement is $301,420 (2012 - $316,120).

In order to measure the financial liability related to government contributions during the year ended September 30, 2013, the Company revised it estimates regarding the timing of gross revenues expected during the life of the arrangement. As a result of the change in estimate, financing costs have decreased by $35,990 (2012 increased by $25,523). Accretion expense recognized was $48,155 (2012 - $39,478).

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

	2013	2012
	$	$
Government grant (NRC)	**213,401**	216,736
Less: current portion	**(153,363)**	(40,382)
	60,038	176,354

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

15. Debentures and other financial liabilities

	Debt component of debenture	Embedded derivative	Warrant component of debenture	Total
	$	$	$	$
Balance at October 1, 2011	-	-	-	-
Debenture	411,236	108,736	-	519,972
Accretion / Change in fair value	24,310	6,429	-	30,739
Repayments	(6,000)	-	-	(6,000)
Balance at September 30, 2012	429,546	115,165	-	544,711
Debenture	1,235,467	54,953	110,330	1,400,750
Accretion / Change in fair value	148,896	(147,935)	-	961
Loss (gain) on change in cash flow	68,860	(12,984)	-	55,876
Repayments	(31,943)	(9,199)	-	(41,142)
Balance at September 30, 2013	**1,850,826**	**-**	**110,330**	**1,961,156**
Less: current portion	**(65,403)**	**-**	**-**	**(65,403)**
	1,785,423	**-**	**110,330**	**1,895,753**

15. Debentures and other financial liabilities (continued)

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

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

The royalty payments on the debentures are linked to future gross sales of the Company. Management has determined that the royalty payments were required to be bifurcated and accounted for as an embedded derivative and accordingly the loan was required to be accounted for as an embedded derivative in accordance with IAS 39. This requires that the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the consolidated statement of loss each period. The debentures also have a call feature such that at any time after two years (extended to three years for the 2012 debenture) the Company may call the debentures. The call has value to the Company and is accounted for as an embedded derivative when the royalties that are expected to be paid result in a very high interest rate on the debentures and the Company would therefore exercise its right to call. Since this embedded call derivative is integrated into the royalties' payable, the royalty and the offsetting call derivatives have been valued together. The embedded derivative was valued using Level 3 valuation information (inputs not based on observable market data). Should the Company in the future change its expectation of future gross sales, the loan and embedded derivative values will change accordingly.

16. Preferred shares

Series 7	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	4,799,375	2,671,095	1,278,482	8,748,952
Accretion	1,938,009	-	-	1,938,009
Conversion of preferred shares	(414,322)	(205,761)	-	(620,083)
Balance at September 30, 2012	6,323,062	2,465,334	1,278,482	10,066,878
Warrants expired			(1,278,482)	(1,278,482)
Accretion	2,416,641	-	-	2,416,641
Conversion of preferred shares	(50,855)	(15,138)	-	(65,993)
Balance at September 30, 2013	**8,688,848**	**2,450,196**	**-**	**11,139,044**

Series 9	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	342,337	99,981	-	442,318
Accretion	116,888	-	-	116,888
Balance at September 30, 2012	459,225	99,981	-	559,206
Accretion	124,564	-	-	124,564
Conversion of preferred shares	(32,057)	(5,490)	-	(37,547)
Balance at September 30, 2013	**551,732**	**94,491**	**-**	**646,223**

Series 10	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	440,895	413,307	-	854,202
Preferred shares	-	-	-	-
Accretion	147,640	-	-	147,640
Balance at September 30, 2012	588,535	413,307	-	1,001,842
Accretion	149,804	-	-	149,804
Balance at September 30, 2013	**738,339**	**413,307**	**-**	**1,151,646**

16. Preferred shares (continued)

Series 11	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	-	-	-	-
Preferred shares	219,770	145,663	98,411	463,844
Accretion	55,879	-	-	55,879
Balance at September 30, 2012	275,649	145,663	98,411	519,723
Warrants expired	-	-	(98,411)	(98,411)
Accretion	75,764	-	-	75,764
Balance at June 30, 2013	**351,413**	**145,663**	**-**	**497,076**

Series 12	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2011	-	-	-	-
Preferred shares	236,894	263,106	-	500,000
Accretion	46,053	-	-	46,053
Balance at September 30, 2012	282,947	263,106		546,053
Accretion	72,396	-	-	72,396
Balance at September 30, 2013	**355,343**	**263,106**	**-**	**618,449**

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

16. Preferred shares (continued)

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

Series 15	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	302,687	308,488	27,305	638,480
Accretion	33,778	-	-	33,778
Balance at September 30, 2013	**336,465**	**308,488**	**27,305**	**672,258**
Total preferred shares September 30, 2013	**11,548,815**	**4,079,759**	**121,435**	**15,750,009**
Total preferred shares September 30, 2012	7,929,418	3,387,391	1,376,893	12,693,702

On May 8, 2009, the Company issued 450,000 Class A Units and 313,500 Class B Units at a price of $10.00 per unit. Each Class A Unit consisted of one (1) redeemable 8%, voting, First Preferred Share, Series 7 ("Series 7 Preferred Shares") and 28 detachable warrants ("Warrants") to acquire one (1) non-voting common share at an exercise price of $0.30 per share until May 7, 2013. Each Class B Unit consisted of one (1) Series 7 Preferred Share and 22 warrants to acquire one (1) voting common share at $0.30 per share until May 7, 2013. On May 22, 2009 the Company issued an additional 126,500 Class B Units.

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

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

16. Preferred shares (continued)

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

The Class A and Class B Units were accounted for on the basis of their substance and are presented in their component parts of debt, warrants and equity. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 35%. The difference between the debt component, the warrants and the face value of preferred shares is classified as equity. The debt component is accreted to its face value through a charge to earnings using the effective interest method. Issue costs have been allocated between the debt and the equity components of the preferred shares. Cash transaction costs of approximately $962,310 were allocated on a pro rata basis to the carrying values.

During the year, there were 4,500 (2012 – 61,500) preferred shares plus accreted dividends converted to common shares (Note 17). As at September 30, 2013, there were 450,000 (2012 – 450,000) Class A Series 7 Preferred shares and 278,350 (2012 – 282,850) Class B Series 7 Preferred shares outstanding.

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

On August 23, 2010, the Company issued First Preferred Shares Series 9 for gross proceeds of $687,360. The Series 9 preferred shares are similar and rank pari passu to the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 9 preferred shares. The 50,000 Series 9 shares are convertible at a price of $1.55. Doughty Hanson was also given 516,129 warrants exercisable for 1 year at $1.55 as partial compensation for underwriting the equity commitment of $3,000,000. The Company shall redeem all the outstanding Series 9 Preferred Shares on September 9, 2015. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 27% and a five year term. The difference between the debt and warrant components and the face value of preferred shares is classified as equity. Transaction costs of $143,388 were allocated on a pro rata basis to the carrying values.

During the year, there were 2,500 (2012 – nil) preferred shares plus accreted dividends converted to common shares (Note 17). As at September 30, 2013, there were 60,236 (2012 – 62,736) Series 9 Preferred Shares outstanding.

On October 5, 2010, the Company issued 80,000 First Preferred Shares Series 10 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 10 preferred shares. The Series 10 preferred shares resulted in a cash inflow of $800,000 and they are convertible at a price of $1.40 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 25% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. Transaction costs were $36,382. The Company shall redeem all the outstanding Series 10 Preferred Shares on October 6, 2015.

16. Preferred shares (continued)

On October 25, 2011, the Company issued 50,000 First Preferred Shares Series 11 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, The Series 11 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $1.15 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component, the value of the warrants and the face value of preferred shares is classified as equity component of preferred shares. The transaction costs were $36,156. Doughty Hanson was also given 634,783 additional warrants exercisable for a period of one year at $1.15. The Company shall redeem all the outstanding Series 10 Preferred Shares on October 25, 2016.

On December 19, 2011, the Company issued 50,000 First Preferred Shares Series 12 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares with the exception of the detachable warrants which were not issued as part of the Series 12 preferred shares. The Series 12 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.80 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The Company shall redeem all of the outstanding Series 12 Preferred Shares on December 20, 2016.

On December 27, 2012, the Company issued 50,000 First Preferred Shares Series 13 to Doughty Hanson that are similar to and rank pari passu with the Series 7. The Series 13 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.40 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The transaction costs were $23,560. Doughty Hanson was also given 1,250,000 additional warrants exercisable for a period of two years at $0.50 (Note 18). The Company shall redeem all of the outstanding Series 13 Preferred Shares on December 28, 2017.

On April 16, 2013, the Company issued 50,000 First Preferred Shares Series 14 to Doughty Hanson, pursuant to the conversion notice that the Company received on that date in relation to the convertible debentures (Note 12). The Series 14 Preferred Shares are similar to and rank pari passu with the Series 7. The Series 14 preferred shares are convertible at a price of $0.105. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a 59 month term. The difference between the debt component and the face value of preferred shares is classified as equity. The transaction costs were $21,996. The Company shall redeem all the outstanding Series 14 Preferred Shares on March 15, 2018.

16. Preferred shares (continued)

On April 16, 2013, the Company issued 65,000 First Preferred Shares Series 15, which are similar to and rank pari passu with the Series 7. The Series 15 preferred shares resulted in a cash inflow of $600,000 as well as $50,000 of the First Preferred Shares Series 15 were issued in settlement of amounts payable to a member of management. The First Preferred Shares Series 15 are convertible at a price of $0.12 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The transaction costs were $11,522. The subscribers were also given 780,000 additional warrants exercisable for a period of one year at $0.12 (Note 18). The Company shall redeem all the outstanding Series 15 Preferred Shares on April 16, 2018.

Subsequent to year end, there were 33,500 Series 7 Preferred Shares, 2,000 Series 9 Preferred Shares and 2,000 Series 15 Preferred Shares converted to 782,625 common shares. The conversion included $152,748 of accreted dividends that were also converted into common shares at the time the preferred shares were converted.

17. Share capital

Authorized, unlimited number

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

Issued

Common shares	Number of shares[1]	Amount $[1]
Balance, October 1, 2011	20,023,411	34,258,068
Issuance of common shares	280,000	140,000
Conversion of preferred shares	612,186	606,463
Adjustment on reduction of deficit	-	(30,000,000)
Balance, September 30, 2012	**20,915,597**	**5,004,531**
Conversion of preferred shares	121,313	103,540
Issuance of bonus shares	424,000	153,881
Exercise of warrants	4,750,000	515,803
Balance, September 30, 2013	**26,210,910**	**5,777,755**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 27, 2012

The Company issued 121,313 (2012 – 612,186) common shares on the conversion of preferred shares which included accreted dividends of $27,383 (2012 - $141,530) that were also converted into common shares at the time the preferred shares were converted.

Adjustment to share capital and deficit

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

17. Share capital (continued)

Common share consolidation

On December 27, 2012, the Company completed a 10:1 share consolidation of all its outstanding common shares. As such, all common shares, per common share amounts, stock option and warrant figures in the current and comparative periods have been adjusted to reflect this change.

Restricted shares

In June 2012, the Company issued debentures and in conjunction with the issuance of the debentures, a total of 280,000 restricted common shares of the Company were issued to the debenture holders (Note 15). A total of 32,000 shares were released immediately. The remaining shares will be released to the debenture holders on a quarterly basis. At September 30, 2013, there were 88,000 (2012 – 216,000) shares remaining to be released.

Weighted average number of common shares

The weighted average number of shares for September 30, 2013 and 2012, were determined by excluding stock options and warrants because the Company was in a loss position. In calculating diluted common share amounts for September, 2013 and 2012, the Company excluded 1,133,587 (2012 – 976,587) preferred shares convertible into 26,644,821 (2012 – 12,030,801) common shares, 6,167,411 (2012 – 4,969,975) warrants and 2,676,019 (2012 – 1,659,372) options.

The conversion for the preferred shares includes a fixed conversion plus the conversion of unpaid dividends to common shares. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to the period end. The actual number of common shares that would be issued will vary from this estimate based on the share price and the amount of unpaid dividends at the time of conversion. As at September 30, 2013, the common shares related to the conversion of the unpaid dividends was estimated to be 8,340,756 (2012 - 5,102,723) and is included in the 26,644,821 (2012 – 12,030,801) disclosed above.

18. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				$
Balance, October 1, 2011	3,513,691	219,050	3,732,741	2,275,418
Warrants issued	1,834,783		1,834,783	362,411
Warrants expired	(484,848)	(112,700)	(597,549)	(367,178)
Balance September 30, 2012	4,863,626	106,350	4,969,976	2,270,651
Warrants expired	(4,863,626)	(106,350)	(4,969,976)	(2,270,651)
Warrantes exercised	(4,750,000)	-	(4,750,000)	(17,053)
Warrants issued	10,917,411	8,750	10,926,161	557,890
Balance, September 30, 2013	**6,167,411**	**8,750**	**6,176,161**	**540,837**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 27, 2012

18. Warrants (continued)

Outstanding warrants at September 30, 2013 were as follows:

Exercise Price	Quantity	Expiry
$0.12	780,000	April 16, 2014
$0.17	3,529,411	May 1, 2014
$0.50	8,750	August 7, 2014
$0.50	1,250,000	December 26, 2014
$0.50	576,000	August 7, 2017
$0.50	32,000	September 17, 2017
Balance September 30, 2013	**6,176,161**	

- 634,783 purchase warrants were issued to Doughty Hanson on October 25, 2011, exercisable for a period of one year at $1.15. These warrants were partial compensation for underwriting the equity commitment of $1,500,000 in October 2011. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.18% interest rate and a volatility of 100%. The fair market value at issuance was $98,411.
- 1,200,000 additional warrants were issued to Doughty Hanson on May 1, 2012 exercisable for a period of one year at $0.50. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank operating line to April 30, 2013 (Note 11). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 113%. The fair market value at issuance was $264,000.
- 1,250,000 additional warrants were issued to Doughty Hanson on December 27, 2012 exercisable for a period of one year at $0.50. These warrants were issued in conjunction with the issue of Series 13 Preferred Shares (Note 16). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.31% interest rate and a volatility of 114.49%. The value assigned at issuance was $94,130.
- 4,750,000 additional warrants were issued to Doughty Hanson on March 15, 2013 exercisable for a period of six months at $0.105. These warrants were issued in conjunction with the issue of the convertible debenture (Note 12). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.55% interest rate and a volatility of 113%. The value allocated to the warrants at issuance was $17,053
- 780,000 additional warrants were issued on April 16, 2013 exercisable for a period of one year at $0.12. These warrants were issued in conjunction with the issue of Series 15 Preferred Shares (Note 16). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.21% interest rate and a volatility of 113.81%. The value assigned to the warrants at issuance was $27,305. Of the 780,000 additional warrants issued, 96,000 were issued to directors or members of management of the Company.

18. Warrants (continued)

- 3,529,411 additional warrants were issued to Doughty Hanson on June 13, 2013, exercisable until May 1, 2014 at $0.17 as a result of an agreement reached on May 20, 2013. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank operating line to April 30, 2014 (Note 11). The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 159.4%. The fair market value at issuance was $307,058. Subsequent to year end, the Company extended the maturity date to May 1, 2018.

- 608,000 additional warrants were issued on August 7, 2013, or September 17, 2013, in conjunction with the issue of the debenture (Note 15). The warrants are exercisable for a period of four years at $0.50. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.3963% interest rate and a volatility of 260.33%. The fair market value at issuance was $110,330. Of the 608,000 additional warrants issued, 48,000 were issued to directors or key personnel of the Company

- 8,750 additional broker warrants were issued on August 7, 2013, in conjunction with the issue of the debenture (Note 15). The warrants are exercisable for a period of one year at $0.50. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.0431% interest rate and a volatility of 194.31%. The fair market value at issuance was $2,013.

19. Share based payments

The Company has established an option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. Options generally vest over a 3-year period with 1/6 vesting every 6 months. The Company's plan allows for a maximum term on any options to be ten years. The Company, at the discretion of the Board of Directors, may issue options to a maximum of 3,289,432. The plan was approved by the shareholders on September 2, 2010. The minimum price at which the options may be granted is the closing price on the TSX-V on the date of issue.

Subsequent to year end, the shareholders approved the increase of the maximum number of options to be issued under the plan to 5,233,558.

19. Share based payments (continued)

The following summarizes information about stock options outstanding as at September 30, 2013:

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employees
		$		$
Balance, October 1, 2011	1,315,301	2.00	129,230	2.30
Granted	250,000	1.00	200,000	1.00
Forfeited	(235,158)	2.00	-	-
Balance, September 30, 2012	1,330,142	1.80	329,230	1.50
Granted	969,147	0.40	182,500	0.40
Forfeited	(135,000)	1.81	-	-
Stock options amended (old price)	(277,500)	(1.54)	(79,230)	(2.76)
Stock options amended (new price)	277,500	0.30	79,230	0.30
Balance, September 30, 2013	**2,164,289**	**0.91**	**511,730**	**0.73**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 27, 2012

	Outstanding options			Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
$0.01–$0.30	356,730	0.30	6.42	281,730	0.30
$0.31–$0.60	1,151,647	0.40	9.67	-	-
$0.61–$1.20	300,000	1.00	8.50	150,000	1.00
$1.21–$1.50	440,000	1.45	5.93	440,000	1.45
$1.51–$1.80	172,642	1.77	1.89	172,642	1.77
$1.81–$2.10	190,000	2.00	5.27	190,000	5.27
$2.11–$2.40	65,000	2.36	4.52	65,000	2.36
Balance September 30, 2013	**2,676,019**	**0.88**	**7.55**	**1,299,372**	**1.32**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 27, 2012

The total share-based compensation calculated for year ended September 30, 2013, was $22,693 (2012-$131,133).

19. Share based payments (continued)

All stock options are to be settled by physical delivery of shares. 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:

		2013		2012
Risk free interest rate		**1.24%**		1.05%
Expected volatility (1)		**133.72%**		93.55%
Dividend Yield		**-**		-
Expected life (years)		**3**		3
Weighted average fair value	**$**	**0.17**	$	0.03

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

On May 31, 2013, the Company issued a total of 1,151,647 new incentive stock options to officers, directors and employees exercisable at a price of $0.40 with an expiry date of May 31, 2023. The stock options are only exercisable following two consecutive quarters of positive earnings before interest, depreciation and taxes, or if the Company is acquired within the next 24 months. The fair value of the options was determined to be $195,780. Management has estimated that as at September 30, 2013, because no options are exercisable as the performance indicator has not being achieved and there is uncertainty as to when it will be achieved, no amount of stock based compensation should be recognized.

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

The overall weighted average incremental fair value granted on account of this re-pricing was measured using the Black-Scholes option pricing model to estimate the incremental increase in fair value of these options due to the modification of exercise price. Overall, the weighted average fair value calculated for these re-priced options as of the measurement date of May 27, 2013, was $0.14. This fair value was calculated based on the weighted average assumptions of a share price of $0.20 an exercise price of $0.30, expected stock price volatility of 133.72%, risk free interest rate of 1.24%, expected dividend yield of 0%, and an expected option life of 6.28 years. The incremental fair value granted was computed based on the difference in the modified exercise price (from a weighted average of $1.59 per option to $0.30 per option) while using the same weighted average assumptions that existed as previously mentioned. The resulting weighted average incremental fair value granted on account of this re-pricing was $0.051 per option, which computed to $59,550 of additional stock based compensation to be recognized subsequent to year end for the "Insider Options" and $18,193 recognized in the current year for the remainder of the shares.

20. Capital management

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

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

	September 30, 2013	September 30, 2012
	$	$
Total shareholders' deficiency	**(13,694,398)**	(7,542,192)
Cash	**(399,874)**	(256,104)
Bank debt	**617,157**	1,443,830
Total capital	**(13,477,115)**	(6,354,466)

There have been no changes to the Company's objectives in managing capital or in the management of capital since September 30, 2013. The Company presently has negative total capital and is currently working toward reversing this (Note 3).

21. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a single counterparty at September 30, 2013. Approximately 67% of the total accounts receivable are due from one customer. The credit risk on cash is considered to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The following table illustrates the Company's receivables and advances:

	September 30, 2013	September 30, 2012
	$	$
Trade	**244,078**	596,115
Taxation authorities	**281,109**	308,511
Employee advances and other	**25,712**	8,800
	550,899	913,426
Less: allowance for doubtful accounts	**(51,702)**	-
	499,197	913,426

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the year ended September 30, 2013, there was an $115,066 (2012 – nil) of bad debts expensed.

21. Financial instruments and financial risk management (continued)

Credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position. There are $51,702 (2012 - $nil) of financial assets that the Company considers past due, as the remainder of the $29,966 (2012 - $102,627) over 90 days past due has been collected subsequent to year end.

The following is a schedule of trade receivables:

	September 30, 2013	September 30, 2012
	$	$
Neither impaired or past due	**3,005**	320,410
Not impaired but past due in the following periods		
31 - 60 days	**99,368**	101,739
61 - 90 days	**60,037**	71,339
over 90 days	**81,668**	102,627
	244,078	596,115

Liquidity risk

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

The following are the contractual maturities of financial liabilities at September 30, 2013:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	2,102,512	-	-	2,102,512
Bank loan	617,157	-	-	617,157
Energy Northwest obligation	54,485	86,728	-	141,213
Government grant obligation	170,173	131,247	-	301,420
Debentures	145,267	2,301,135	495,948	2,942,350
Preferred shares Series 7, 9, 10, 11, 12, 13, 14 and 15	10,781,361	3,556,077	2,439,106	16,776,544
Total	13,870,955	6,075,187	2,935,054	22,881,196

21. Financial instruments and financial risk management (continued)

Foreign currency risk

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows for the year ended September 30, 2013:

	Euros	US Dollars	Total
	$	$	$
Cash	3,874	(14,920)	(11,046)
Accounts receivable and advances	402,138	10,320	412,458
Accounts payable and accrued liabilities	428,415	663,417	1,091,832
Energy Northwest obligation	-	109,598	109,598
	834,427	768,415	1,602,842

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows for the year ended September 30, 2012:

	Euros	US Dollars	Total
	$	$	$
Cash	100,266	143,858	244,124
Accounts receivable and advances	474,598	310,042	784,640
Accounts payable and accrued liabilities	233,469	231,326	464,795
Energy Northwest obligation	-	90,600	90,600
	808,333	775,826	1,584,159

Assuming all other variables remain constant, a $0.05 change in the Canadian/US exchange rate would affect the Company's net loss by approximately $18,328 for the year ended September 30, 2013 (2012 - $20,236). Assuming all other variables remain constant, a $0.05 change in the Canadian/Euro exchange rate would change the Company's net loss by approximately $2,035 for the year ended September 30, 2013 (2012- $6,869). An opposite change in the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the year ended September 30, 2013.

Interest rate risk

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

21. Financial instruments and financial risk management (continued)

Fair value

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

Financial instrument	Carrying value	Fair value	Gain/(loss)
	$	$	$
Accounts receivable and advances	499,197	499,197	-
Accounts payable and accrued liabilities	2,102,512	2,102,512	-
Bank debt	617,157	617,157	-

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input and the embedded derivatives on the Company's debentures (Note 15), preferred shares (Note 16) and Energy Northwest obligation (Note 13) were measured at a fair value using level 3 inputs.

- 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.

22. Related party transactions

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

Included in general and administrative expense is salaries and benefits for key management personnel and directors of $337,979 for the year ended September 30, 2013 (2012 - $365,297) and share based compensation of $30,883 for year ended September 30, 2013 (2012 - $50,539). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $194,000 for the year ended September 30, 2013 (2012 – 201,500).

Key management personnel and directors subscribed for $69,000 of the debentures (Note 15) issued in June 2012 and paid $60,375 as a result of the initial discount rate. They also received 24,150 bonus shares values at $12,075, of which 16,560 have been released to date (2012 – 5,520).

In April 2013, key management personnel and directors subscribed for $80,000 of First Preferred Shares Series 15 (Note 16) and received 96,000 detachable warrants valued at $6,432.

Key management personnel and directors subscribed for $240,000 of the debentures (Note 15) issued in August 2013 and paid $210,000 as a result of the initial discount. They also received 72,000 shares valued at $26,640 and 48,000 warrants valued at $3,880.

22. Related party transactions (continued)

Financing costs of $15,361 for the year ended September 30, 2013 (2012 - $2,651) respectively related to the debentures and preferred shares series 15 are included in the statement of loss. Interest payments amounted to $3,910 (2012 - $700) for the year ended September 30, 2013.

Included in accounts payable and accrued liabilities is $139,421 (2012 - $86,663) due to directors and members of key management personnel.

23. Financing costs

	2013	2012
	$	$
Interest on Northwest obligation	**14,635**	-
Interest on bank debt	**68,596**	76,102
Accretion on debenture	**148,896**	30,739
Change in fair value of embedded deriviatives	**(160,919)**	-
Interest on convertible debenture	**10,891**	-
Loss on conversion of convertible debenture	**15,060**	-
Loss on change in cash flows for debenture	**68,860**	-
Accretion of government grant obligation	**48,155**	39,478
Loss (gain) on change in cash flow for government grant	**(35,990)**	25,523
Accretion of preferred shares	**2,943,816**	2,304,469
Amortization of financing fees	**281,941**	260,303
Other	**117**	28,220
Total	**3,404,058**	2,764,834

24. Personnel expenses

	2013	2012
	$	$
Wages	**959,053**	1,311,882
Benefits	**90,061**	139,456
Total	**1,049,114**	1,451,338

25. Other income

The Company agreed to sell a non-exclusive license during the quarter ended December 31, 2012, which allows the licensee to manufacture the Company's new STX inverter platform; however, the licensee has been unable to close on the purchase. As such, the licensee has forfeited a $250,000 deposit which has been included in other income in the consolidated statement of loss and comprehensive loss.

26. Government grants

Eguana has received contributions related to the development of its technologies and to marketing from Canadian and French government agencies.

Alberta Innovates.

The Company entered into an agreement with Alberta Innovates for funding related to research salaries and allowance for foreign workers in Alberta. The Company received a grant of $62,000 for a period of one year ending October 31, 2013. At September 30, 2013, the Company had received $50,417 (2012 - $40,000) from Alberta Innovates and has credited this amount against product research and development.

OSEO

The Company entered into an agreement with OSEO, Service de l'Innovation et de l'Immateriel in France, for funding for the marketing and research project relating to energy storage. A grant of $44,219 (35,000 euro) was received in June 2012. As at September 30, 2013, the Company has incurred eligible expenditures of $22,291 (17,040 euro) (2012 - $22,291 (17,040 euro) related to the project. The Company is currently submitting the final project report to OSEO and waiting for approval of the expenditures. Due to the uncertainty of the approval process in France, the entire grant has been included in accounts payable and accrued liabilities at September 30, 2013.

La Societe Clairant France S.A.

The Company entered into an agreement with La Societe Clairant France S.A. ("Clairant") for funding related to the creation of full time employment in France. A grant of $63,170 (50,000 euro) was received to cover expenditures related to the program for the two year period ending December 2012. During the year, management has determined that the terms of the agreement have been fulfilled in the current year and the grant has been recognized as other income in the statement of loss and other comprehensive loss.

27. Income taxes

Unrecognized deferred tax assets:

	2013	2012
	$	$
Development costs and capital assets	**106,000**	16,000
Non-capital loss carry forwards	**5,432,000**	4,085,000
Preferred shares	**(837,000)**	(1,169,000)
Scientific research expenditure pool	**32,000**	32,000
Share issue costs	**731,000**	697,000
	5,464,000	3,661,000
Assets not recognized	**(5,464,000)**	(3,661,000)
Total	**-**	-

27. Income taxes (continued)

Reconciliation of effective tax rate

	2013	2012
	$	$
Loss for the year	(8,256,988)	(5,760,365)
Rate	28.6%	27.0%
Expected income tax recovery	(2,361,000)	(1,555,000)
Differences resulting from:		
Share based payments	6,000	36,000
Foreign jurisdiction losses not carried forward	29,000	54,000
Loss on control of subsidiary	-	48,000
Other	145,000	104,700
Accretion	993,000	619,000
Non-capital loss carry forward	1,188,000	693,300
Total income tax recovery	-	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits. At September 30, 2013, the Company has approximately $16.2 million (2012 - $11.8 million) in Canadian non-capital loss carry forwards available. The unused losses will expire between 2014 and 2033. At September 30, 2013, the Company has approximately $2.9 million (2012 - $2.7 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2018 and 2033. At September 30, 2013, the Company has approximately $1.9 million (2012 - $1.8 million) in Spain of non-capital loss carry forwards available. The unused losses will expire in 2023.

28. STG markets limited partnership

STGLP (formerly Solar Markets Limited Partnership ("SMLP")) 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 STGLP is SES which exercises control over STGLP's operations. The Limited Partners of STGLP are Eguana, and from time to time, private investors who have provided capital to STGLP by purchasing limited partnership units ("LP Units") at a price of $10,000 per LP Unit.

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

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

On December 2, 2013, the Partnership changed its name to EGT Markets Limited Partnership.

29. Supplemental information

The changes in non-cash working capital for the year ended September 30, 2013 and 2012 is as follows:

	2013	2012
	$	$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	**443,218**	193,494
Prepaid expense and deposits	**(49,100)**	179,316
Inventory	**89,157**	1,029,810
	483,275	1,402,620
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**26,741**	379,910
	510,016	1,782,530

30. Commitments

(a) At September 30, 2013, Eguana had commitments for premises as follows:

	September 30, 2013
	$
Less than one year	**178,000**
Between one and five years	**252,400**
More than five years	-
	430,400

(b) Consulting services were provided in fiscal 1998 to the Company. Repayment including interest at an annual rate of 20% per year, is contingent upon SEL achieving sales ($Nil to date) or capital funding of $2,000,000 US ($342,000 US has been received to September 30, 2013). At September 30, 2013, the total contingent amount payable including accrued interest was approximately $502,896 ($488,106 US) (2012 - $420,736, $427,925 US).

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

(d) The Company is party to an employment agreement with a director of the Company, under which payment of a portion of the director's compensation is contingent upon the Company realizing positive earnings for any one fiscal quarter before interest, taxes, depreciation and amortization, a change of control of the Company, liquidation or receivership of the Company or termination of the employment relationship. At September 30, 2013, the total contingent amount was approximately $412,500 (2012 - $262,500) because the Company has not achieved the criteria for payment no amount has been accrued for this.

31. Segmented information

Geographic disclosures

	2013		2012	
	Revenues	**Assets***	Revenues	Assets*
	$	$	**$**	$
Canada	**376,526**	**288,042**	2,796,126	341,558
United States	-	**363,001**	-	692,709
Europe	-	**-**	517,008	-
Total	**376,526**	**651,043**	3,313,134	1,034,267

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

Major customers

The Company had two customers where product sales were greater than 10% in the year. The customers had attributed sales of $221,934 and $44,624, respectively, for the year ended September 30, 2013 (2012 – two customers, $1,531,223 and 1,008,624).

32. Loss of control of subsidiary

As at September 30, 2012, management determined that the Company no longer had control over the assets of Mainpower Hellas ("MPH") as a result of a dispute with the manager of the subsidiary in Greece. The manager has signing authority over MPH's bank account a significant asset. As a result of this loss of control, the Company has written off the net assets held by the subsidiary.

The following is a summary of the assets and liabilities over which control was lost:

	$
Cash	98,115
Trade accounts receivable	39,709
Inventory	130,839
Prepaid expenses	17,308
Capital assets	2,087
Accounts payable and accrued liabilities	(185,830)
Net assets written off	102,228
Cumulative exchange gain on loss of control of subsidiary	74,842
Loss on control of subsidiary	177,070

33. Subsequent events

Subsequent to year end, the Company's subsidiary, EGT Markets Limited Partnership ("Partnership"), formally STG Limited Partnership issued a total of 1,200.5 limited partnership units ("LP Units"), at $1,000 per unit for gross proceeds of 1,205,500. These units are callable for a total of 2,667,778 common shares of the Company after December 31, 2013 and before March 31, 2014, at an exchange ratio of $0.45 per share or callable for 3,333,333 common shares of the Company after March 31, 2014.

In addition, the Company issued 1,375,000 common shares at a price of $0.40 per share for gross proceeds of $550,000.

Finders' fees totaling $105,385, and 241,967 broker warrants were issued that are exercisable for a period of one year from the date of closing, at an exercise price of $0.45 per share in connection with these offerings. Transaction costs of approximately $40,000 were also incurred.

Subsequent to year end, 782,625 common shares were issued on the conversion of preferred shares to common shares.

34. Comparative figures

Certain of the comparative figures have been restated to conform to the current year's presentation.