

Condensed interim consolidated financial statements of

Eguana Technologies Inc.

June 30, 2016

Eguana Technologies Inc.

June 30, 2016

Table of contents

Notice to reader	2
Unaudited condensed interim consolidated statements of financial position	3
Unaudited condensed interim consolidated statements of loss and comprehensive loss	4
Unaudited condensed interim consolidated statements of changes in equity.....	5
Unaudited condensed interim consolidated statements of cash flows.....	6
Notes to the unaudited condensed interim consolidated financial statements.....	7-25

NOTICE TO READER

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

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

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

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars

Unaudited

	Note	June 30, 2016 \$	September 30, 2015 \$
Assets			
Current:			
Cash		5,562,740	2,502,459
Cash held in trust		-	903,818
Accounts receivable and advances	23	312,409	204,665
Inventory	3	693,048	376,646
Other assets - current portion		-	118,100
Prepaid expenses and deposits		83,088	200,973
		6,651,285	4,306,661
Non-current:			
Other assets		-	191,601
Development costs		3	3
Capital assets	4	300,890	377,550
		6,952,178	4,875,815
Liabilities			
Current:			
Accounts payable and accrued liabilities	23	3,720,782	3,364,843
Provisions		248,027	248,870
Bank debt	5	-	1,460,855
Deferred revenue		81,009	110,321
Energy Northwest obligation - current portion	6	149,107	177,243
Government grant obligation - current portion	7	32,034	64,363
Debentures - current portion	8	844,549	773,588
Other liabilities - current portion	9	53,760	61,311
		5,129,268	6,261,394
Non-current:			
Deferred lease inducement		27,300	39,000
Debentures	8	710,197	1,147,398
Other liabilities	9	616,277	642,958
		6,483,043	8,090,750
Shareholders' equity (deficiency)			
Common shares	10	39,500,108	32,681,242
Preferred shares	11	1	1
Warrants	13	1,386,759	1,795,774
Contributed surplus	14	8,821,001	7,840,675
Foreign currency translation reserve		(119,255)	(128,834)
Deficit		(49,119,478)	(45,403,793)
		469,136	(3,214,935)
		6,952,178	4,875,815

Going concern (Note 2(b)), Commitments (Note 21) and Subsequent events (Note 24)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of loss and comprehensive loss For the three month and nine month periods ended June 30,

Stated in Canadian dollars

Unaudited

		Three months ended		Nine months ended	
	Note	2016	2015	2016	2015
		\$	\$	\$	\$
Sales		284,980	1,552,853	689,628	4,639,933
Cost of goods sold		264,337	1,804,807	725,780	5,299,957
Gross margin		20,643	(251,954)	(36,152)	(660,024)
Expenses					
General and administrative	17, 19	632,196	714,713	1,457,989	1,622,772
Operations	17	114,725	129,020	343,530	481,969
Product research and development	17	153,145	157,374	519,278	529,078
Selling and marketing		183,525	210,239	621,009	462,547
		1,083,591	1,211,346	2,941,806	3,096,366
Loss before undernoted items		(1,062,948)	(1,463,300)	(2,977,958)	(3,756,390)
Financing costs	18	(134,182)	(52,265)	(721,124)	(664,306)
Gain (Loss) on debentures	8	-	139,446	(18,433)	217,578
Other income		1,579	(852)	1,830	1,719
Net loss		(1,195,551)	(1,376,971)	(3,715,685)	(4,201,399)
Foreign currency adjustment to equity		(4,196)	(10,185)	(9,579)	17,914
Total comprehensive loss		(1,199,747)	(1,387,156)	(3,725,264)	(4,183,485)
Loss per common share					
Basic and diluted		(0.01)	(0.02)	(0.02)	(0.06)
Weighted average number of common shares					
Basic and diluted	10	166,973,163	71,254,750	155,730,563	71,254,750

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity

For the three month and nine month periods ended June 30,

Stated in Canadian dollars

Unaudited

	Common Shares	Preferred Shares	Warrants	Contributed Surplus	Foreign currency translation reserve	Deficit	Total
	\$	\$	\$	\$	\$	\$	\$
Balance, October 1, 2015	32,681,242	1	1,795,774	7,840,675	(128,834)	(45,403,793)	(3,214,935)
Loss for the period	-	-	-	-	-	(3,715,685)	(3,715,685)
Other comprehensive gain (loss)	-	-	-	-	9,579	-	9,579
Issue of share capital	6,789,889	-	-	-	-	-	6,789,889
Warrants issued	-	-	520,674	-	-	-	520,674
Warrants expired	-	-	(914,463)	914,463	-	-	-
Warrants exercised	28,977	-	(15,226)	-	-	-	13,751
Share based payments	-	-	-	65,863	-	-	65,863
Balance, June 30, 2016	39,500,108	1	1,386,759	8,821,001	(119,255)	(49,119,478)	469,136
Balance, October 1, 2014	11,003,187	10,190,861	1,177,008	7,717,069	(96,099)	(36,614,985)	(6,622,959)
Loss for the period	-	-	-	-	-	(4,201,399)	(4,201,399)
Other comprehensive gain (loss)	-	-	-	-	(17,914)	-	(17,914)
Issue of share capital	4,107,181	-	-	-	-	-	4,107,181
Conversion of preferred shares	14,647,134	(10,190,860)	-	-	-	-	4,456,274
Warrants issued	-	-	396,416	-	-	-	396,416
Warrants expired	-	-	(65,331)	65,331	-	-	-
Share based payments	-	-	-	37,635	-	-	37,635
Balance, June 30, 2015	29,757,502	1	1,508,093	7,820,035	(114,013)	(40,816,384)	(1,844,766)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of cash flows

For the three month and nine month periods ended June 30,

Stated in Canadian dollars

Unaudited

		Three months ended		Nine months ended	
	Note	2016	2015	2016	2015
		\$	\$	\$	\$
Operating activities					
Net loss		(1,195,551)	(1,376,971)	(3,715,685)	(4,201,399)
Amortization of capital assets		32,917	21,881	80,787	51,711
Amortization of deferred lease inducement		(3,900)	(3,900)	(11,700)	(11,700)
Inventory (write up) write down		(13,352)	-	20,698	-
Share-based payments		30,351	21,118	65,863	37,635
Warranty provision		(967)	12,000	5,416	34,000
Finance costs		134,182	52,265	721,127	664,306
(Gain) loss on debentures and embedded derivatives		-	(139,446)	18,433	(217,578)
Investor relation expense		16,414	-	60,263	108,360
Unrealized foreign exchange loss (gain)		(442)	5,266	(3,886)	8,838
		(1,000,348)	(1,407,787)	(2,758,684)	(3,525,827)
Net change in non-cash working capital	20	161,984	566,084	(746)	290,546
Cash flow used in operating activities		(838,364)	(841,703)	(2,759,430)	(3,235,281)
Financing activities					
Bank debt		-	1,087,848	(1,460,855)	187,996
Proceeds from common shares		7,210,855	-	7,210,855	4,817,371
Proceeds from limited partnership units		-	-	747,000	314,000
Debt to be paid with issuance of shares		244,559	-	244,559	-
Cost of issuing common shares and limited partnership units		(867,158)	-	(938,363)	(736,134)
Repayment of government contribution		-	(19,500)	(39,000)	(56,500)
Repayment of debentures		(224,500)	(9,333)	(617,333)	(417,166)
Repayment of other liabilities		(42,372)	-	(161,334)	-
Cash financing costs paid		(21,828)	(47,186)	(65,512)	(178,636)
Cash flow from financing activities		6,299,556	1,011,829	4,920,017	3,930,931
Investing activities					
Capital asset additions		-	(113,993)	(4,124)	(278,323)
Cash flow used in investing activities		-	(113,993)	(4,124)	(278,323)
Foreign exchange on cash held in foreign operations		-	(6,261)	-	(10,821)
Net change in cash		5,461,192	49,872	2,156,463	406,506
Cash, beginning of period		101,548	412,594	3,406,277	55,960
Cash, end of period		5,562,740	462,466	5,562,740	462,466

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

1. Description of the business

Eguana Technologies Inc., incorporated under the *Business Corporations Act* (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 TSX Venture Exchange (the "TSX-V") under the symbol "EGT".

2. Basis of preparation

(a) Statement of compliance

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

The financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended September 30, 2015, which were prepared in accordance with IFRS. These financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the Company's audited consolidated financial statements for the year ended September 30, 2015.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the Company's September 30, 2015 audit consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of Company on August 24, 2016.

(b) Going concern

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

At June 30, 2016, the Company had not achieved profitable operations since its inception and had an accumulated a deficit of \$49,119,478 (June 30, 2015 - \$40,816,384) and recognized a cash flow deficiency from operations for the nine month period ended June 30, 2016 of \$2,759,430 (June 30, 2015 - \$3,235,281). 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 ability of the Company to continue as a going concern is dependent on completing equity or debt financings and generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may be adversely impacted by the loss of customers and falling sales per customer. To address its financing requirements, the Company may seek financing through the issuance of common shares, preferred shares, units of EGT Markets Limited Partnership ("EGTLP"), debentures or other securities of the Company or its subsidiaries. The outcome of these matters cannot be predicted at this time.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

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

(c) Recently adopted accounting standards

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2015

In addition, accounting standard changes that the Company will be required to adopt in future years include IFRS 15 which replaces IAS 18 Revenue and related interpretations. The core principle of the new standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on January 1, 2018, with early adoption permitted. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

3. Inventory

	June 30, 2016	September 30, 2015
	\$	\$
Finished goods	161,430	180,417
Components	531,618	196,230
	693,048	376,647

As at June 30, 2016, \$644,780 (September 30, 2015 - \$281,581) of inventory was carried at cost and \$48,268 (September 30, 2015 - \$95,065) was carried at net realizable value. As a result of operations conducted in the quarter, the Company wrote up \$13,352 of inventory that was previously written down to its then estimated net realizable value. Year to date, the Company has written up \$70,516 of inventory that was previously written down to its then estimated net realizable value. Additionally, the Company wrote off \$111,326 (September 30, 2015 - \$1,251,263) of inventory year to date due to the termination of a contract with a major customer.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

4. Capital assets

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	472,766	893,592	228,801	42,714	1,637,873
Additions	2,424	1,699	-	-	4,123
Disposals	-	-	-	-	-
Balance June 30, 2016	475,190	895,291	228,801	42,714	1,641,996

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2015	457,759	601,418	158,432	42,714	1,260,323
Amortization	7,158	53,385	20,240	-	80,783
Disposals	-	-	-	-	-
Balance June 30, 2016	464,917	654,803	178,672	42,714	1,341,106
Carrying Value June 30, 2016	10,273	240,488	50,129	-	300,890

Cost	equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2014	454,809	749,230	217,037	42,714	1,463,790
Additions	17,957	144,362	11,764	-	174,083
Disposals	-	-	-	-	-
Balance September 30, 2015	472,766	893,592	228,801	42,714	1,637,873

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and molds	Total
	\$	\$	\$	\$	\$
Opening balance October 1, 2014	451,560	562,850	129,198	39,445	1,183,053
Amortization	6,199	38,568	29,234	3,269	77,270
Disposals	-	-	-	-	-
Balance September 30, 2015	457,759	601,418	158,432	42,714	1,260,323
Carrying Value June 30, 2015	15,007	292,174	70,369	0	377,550

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

5. Bank debt

During the nine month period ended June 30, 2016, the Company repaid the outstanding line of credit with proceeds from the common shares issued in September 2015 (Note 10) and canceled the operating line of credit.

As a result of the canceling of the line of credit, certain warrants were subject to accelerated expiration and the deferred financing cost were fully amortized.

6. Energy Northwest obligation

	June 30, 2016	September 30, 2015
	\$	\$
Obligation to Energy Northwest - current (\$115,087 US; September 30, 2015 - \$129,285 US)	149,107	177,243

Energy Northwest contributed services to a wholly owned subsidiary of Eguana

7. Government grant obligation

The Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries the Company incurs to commercialize the universal electronic platform to a maximum of \$245,241. The Company has received the maximum amount of the funding. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the NRC 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.

During fiscal 2015, the Company was informed by NRC that the required repayment of the grant was the amount of the unpaid grant and not one and one half time the amount of the grant. Consequently, to reflect this change the estimated amount payable was reduced during fiscal 2015 by \$87,796.

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

	June 30, 2016	September 30, 2015
	\$	\$
Government grant (NRC) - current	32,034	64,363

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

8. Debentures and other financial liabilities

	Debt component of debenture	Embedded derivative	Total
	\$	\$	\$
Balance at October 1, 2014	2,385,124	196,000	2,581,124
Accretion	423,821	-	423,821
Loss (gain) on change in cash flow	(410,109)	94,655	(315,454)
Repayments	(608,743)	(159,761)	(768,504)
Balance at September 30, 2015	1,790,093	130,894	1,920,987
Accretion	298,173	-	298,173
Loss on change in cash flow	18,433	-	18,433
Repayments	(666,823)	(16,023)	(682,846)
Balance at June 30, 2016	1,439,876	114,871	1,554,747
Less: current portion	(729,678)	(114,871)	(844,549)
	710,198	-	710,198

On June 29, 2012, the Company issued \$800,000 in 5-year subordinated debentures ("2012 Debentures") at an original issue discount of 12.5%, to net the Company \$699,875. The 2012 Debentures bear interest at a rate of 3% per annum, plus an amount equal to 0.8% of the unaudited condensed interim consolidated revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2012 Debentures. The 2012 Debentures are callable by the Company at par at any time after the third anniversary of issue. Purchasers of the 2012 Debentures have also been issued 280,000 restricted common shares of the Company, which shares will be released on a quarterly basis over a 2 year period following issuance. The restricted common shares were valued at the residual amount of \$140,000. The 2012 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$800,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2014. The Company incurred transaction costs related to the issue of the 2012 Debentures of \$39,902. The effective interest rate on the 2012 Debentures is estimated to be 25.83%. On December 21, 2014, the Company repaid the remaining amount owing on a \$46,000 debenture to a key person of the Company (Note 17).

On August 7, 2013 and September 17, 2013, the Company issued \$1,820,000 of 5-year subordinated debentures ("2013 Debentures") at an original issue discount of 12.5% for proceeds to the Company of \$1,592,500. The 2013 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 1.82% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2013 Debentures. The 2013 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, purchasers of the 2013 Debentures had the option of receiving common shares or warrants in connection with the issuance of the 2013 Debentures. The Company issued 424,000 common shares valued at \$156,880 and 608,000 warrants exercisable at a price of \$0.50 per common share for a period of four years from the date of issuance valued at \$110,330. The 2013 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$1,820,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2015. The Company incurred transaction costs related to the issue of the 2013 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.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

The effective interest rate on the 2013 Debentures is estimated to be 24.14%. On December 21, 2014, the Company repaid \$240,000 principal amount of 2013 Debentures to directors and key personnel (Note 17).

On June 30, 2014, the Company issued \$360,000 of 5-year subordinated debentures ("2014 Debentures"), issued at an original issue discount of 12.5% for proceeds to the Company of \$315,000. The 2014 Debentures bear interest at a rate of 3% per annum, plus an amount in total equal to 0.36% of the unaudited condensed interim consolidated quarterly revenues realized by the Company, both of which are payable on a quarterly basis during the term of the 2014 Debentures. The 2014 Debentures are callable by the Company at par at any time after the second anniversary of the date of issuance. In addition, the purchasers of the 2014 Debentures received 144,000 common shares valued at \$0.56 per share. The 2014 Debentures are secured by a general security agreement against the assets of the Company. The principal amount of \$360,000 is repayable in 12 equal quarterly payments that commenced on September 30, 2016. The Company incurred transaction costs related to the issue of the 2014 Debentures of \$17,749. The effective interest rate on the 2014 Debentures is estimated to be 33.92%.

9. Other liabilities

	Settlement Agreement	Contingent liability settlement	Total
	\$	\$	\$
Balance at October 1, 2015	563,572	140,697	704,269
Accretion	87,103	42,214	129,317
Repayments	(135,330)	(23,400)	(158,730)
Loss (gain) on foreign exchange	-	(4,818)	(4,818)
Balance at June 30, 2016	515,345	154,693	670,038
Less: current portion	(46,730)	(7,030)	(53,760)
	468,615	147,663	616,278

In August 2015, the Company entered into a settlement agreement with its former CEO, who is a director of the Company (Note 17), under which the Company agreed to pay deferred compensation earned by the CEO since 2010 in equal monthly payments of \$13,115, without interest, over a period of 82 months beginning on October 1, 2015. As at June 30, 2016, the Company's liability was valued at \$563,572 using Level 2 valuation techniques with a discount rate of 25%.

The unpaid balance becomes immediately payable in certain circumstances, including the Company realizing an average of \$1,000,000 in earnings before interest, taxes, depreciation and amortization for any two consecutive fiscal quarters or in the event of a change of control of the Company. The Company's obligation is secured by a security interest in the Company's assets, which security is subordinate to the Company's existing debt as of September 1, 2015, and which will be subordinate, under certain circumstances, to security granted to secure certain future indebtedness incurred to fund corporate activities, provided that all such secured indebtedness (including existing indebtedness as of September 1, 2015) shall not exceed \$12 million, plus an amount up to \$1.5 million for an operating line.

Any outstanding stock options granted to the former CEO pursuant to the Corporation's incentive stock option plan (the "Stock Option Plan") were amended to allow the former CEO to exercise all outstanding options to acquire common shares of the Company in accordance with their terms until the end of the maximum permissible date under the stock option plan and option agreements.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

During the three month period ended June 30, 2016, the Company settled a contingent liability totaling approximately US\$696,294 with a third party who provided consulting services in fiscal 1998 to a subsidiary of the Company. Pursuant to the settlement, the Company agreed to pay US\$31,658 (\$41,016) per year (payable semi-annually) for a period of 10 years. The obligation is unsecured and was fair valued at US\$111,879 (\$144,950) using Level 2 valuation techniques with a discount rate of 27%.

10. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount \$
Balance, October 1, 2014	38,231,519	11,003,187
Conversion of preferred shares	28,764,481	14,647,134
Issuance of common shares	83,057,903	8,334,872
Share issuance costs	-	(1,561,446)
Common shares issued in exchange for partnership units (Note 12)	951,420	314,000
Partnership unit costs	-	(56,505)
Balance, September 30, 2015	151,005,323	32,681,242
Common shares issued in exchange for partnership units (Note 12)	6,790,977	747,000
Partnership unit costs (Note 12)	-	(85,302)
Issuance of common shares	37,255,130	7,197,888
Issuance costs	-	(1,314,256)
Issuance of shares for debt	-	244,559
Exercise of warrants	218,671	28,978
Balance, June 30, 2016	195,270,101	39,500,109

In October 2014, the Company issued 777,906 common shares on the conversion of 38,600 Series 7 preferred shares which included accreted dividends of \$211,760 that were also converted into common shares at the time the preferred shares were converted. In December 2014, the Company issued 27,986,575 common shares on the conversion of all remaining outstanding series of preferred shares, except Series 8. This conversion was the result of the majority holder of the individual series electing to cause the conversion. The conversion included accreted dividends of \$4,456,275 that were also converted into common shares. The cost of converting the preferred shares to common shares totaled \$21,241.

In December 2014, the Company issued 16,057,903 units at a price of \$0.30 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant resulting in an aggregate of 16,057,903 common shares and 8,101,946 warrants being issued. Each warrant entitles the holder to purchase one common share for a period of 5 years from the closing date at an exercise price of \$0.39 per common share. The fair value of the warrants is \$Nil based on the residual method where proceeds are first allocated to common shares according to the quoted price of the common shares at the time of issuance and any residual is allocated to warrants. The commissions paid in connection with the offering were \$314,116. As partial compensation, 775,220 agent warrants were issued with an exercise price of \$0.30 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 153.46%. The fair market value at issuance was \$192,177. Additionally, 271,833 agent warrants were issued at a price of \$0.39 for a period

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

of five years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.4% interest rate and a volatility of 262.34%. The fair market value at issuance was \$88,634. Other costs of \$351,517 related to the issue of the units were also incurred bringing the total costs of issuance to \$946,444. Key personal and directors of the Company purchased 1,100,000 common shares. (Note 17)

In February 2015, Eguana exercised its right to convert EGTLP limited partnership units (the "LP Units") into common shares of Eguana and issued 951,420 shares. The cost to issue and the LP Units totaled \$56,505 (Note 12).

On September 29, 2015, the Company issued 67,000,000 common shares at a price of \$0.0525 per share for gross proceeds of \$3,517,500. Commissions paid in connection with the offering were \$115,268. As partial compensation, 4,690,000 agent warrants were issued with an exercise price of \$0.0525 and a term of three years. The Black-Scholes option model was used to calculate the fair value of the agent warrants using a nil dividend yield, a 0.53% interest rate and a volatility of 152.91%. The fair market value at issuance was \$313,616. Other costs of \$138,214 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$567,098. Key personnel and directors of the Company purchased 2,826,190 common shares. (Note 17)

At September 30, 2015, the Company had cash held in trust of \$903,818 related to the common shares issued. In October 2015, the cash was released to the Company.

In February 2016, Eguana exercised its right to convert LP Units into common shares of Eguana and issued 6,790,977 common shares. The cost to convert the LP Units and issue the common shares totaled \$85,302 (Note 12).

In April 2016, the Company issued 9,982,402 common shares at a price of \$0.12 per share for gross proceeds of \$1,197,888. Commissions paid in connection with the offering were \$76,306. As partial compensation, 698,768 agent warrants were issued with an exercise price of \$0.12 and a term of three years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.51% interest rate and a volatility of 135.76%. The fair market value at issuance was \$70,089. Other costs of \$36,225 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$182,620. Key personnel and directors of the Company purchased 3,125,000 common shares.

In June 2016, the Company issued 27,272,728 common shares at a price of \$0.22 per share for gross proceeds of \$6,000,000. Commissions paid in connection with the offering were \$450,000. As partial compensation, 2,045,455 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the agent warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$377,009. Other costs of \$304,627 related to the issue of the common shares were also incurred bringing the total cost of issuance to \$1,131,636.

Weighted average number of common shares

The weighted average number of shares as at June 30, 2016 and 2015 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

11. Preferred shares

Authorized

The Corporation is authorized to issue an unlimited number of convertible \$10, 8% redeemable First Preferred shares, issuable in series. As of September 30, 2015 and as at the date hereof, there is 1 First Preferred Share, Series 8 issued and outstanding.

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

12. EGT Markets Limited Partnership

EGT Markets Limited Partnership, is an Alberta limited partnership, which carries on the business of commercializing manufacturing and marketing inverters under license from Eguana and certain of Eguana's subsidiaries. The general partner of EGTLP is Sustainable Energy Systems Inc. ("SES") which exercises control over EGTLP's operations. The limited partners of EGTLP are Eguana, and from time to time, private investors who have provided capital to EGTLP by purchasing LP Units at a price of \$1,000 per LP Unit.

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

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

In December 2014, EGTLP issued 314 LP Units at a price of \$1,000 per unit resulting in gross proceeds of \$314,000. The commissions paid in connection with the issuance were \$21,980. As partial compensation, 66,598 finders' warrants were issued. The Black-Scholes option model was used to calculate the fair value of the finders' warrants using a nil dividend yield, a 1.02% interest rate and a volatility of 84.18%. The fair market value at issuance was \$7,245. The warrants have an exercise price of \$0.33 and expired on the date that was one year from the date of issuance. Other costs of \$27,280 related to the issue of the LP Units were also incurred bringing the total cost of issuance to \$56,505. On February 20, 2015, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 951,420 common shares (Note 10).

In December 2015, EGTLP issued 747 LP Units at a price of \$1,000 per unit resulting in gross proceeds of \$747,000. The commissions paid in connection with the issuance were \$23,850. As partial compensation, 216,820 finders' warrants were issued. The warrants have an exercise price of \$0.11 and expire on December 31, 2016. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.52% interest rate and a volatility of 138.44%. The fair market value at issuance was \$12,223. Other costs of \$49,229 related to the issue of the LP Units were also incurred bringing the total cost of issuance to \$85,302.

In February 2016, Eguana exercised its right to convert the LP Units into common shares of Eguana and issued 6,790,977 shares (Note 10).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

13. Warrants

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

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value \$
Balance October 1, 2014	7,815,949	381,127	8,197,076	1,177,008
Warrants expired	-	(241,967)	(241,967)	(65,332)
Warrants issued	8,101,946	6,203,651	14,305,597	684,098
Balance September 30, 2015	15,917,895	6,342,811	22,260,706	1,795,774
Warrants exercised	-	(218,671)	(218,671)	(15,226)
Warrants expired	(5,957,949)	(205,758)	(6,163,707)	(914,462)
Warrants issued	139,583	2,961,043	3,100,626	520,672
Balance June 30, 2016	10,099,529	8,879,425	18,978,954	1,386,758

Outstanding common share purchase warrants at June 30, 2016 were as follows:

Range of exercise prices	Warrants	Weighted average price \$	Weighted average years to expiry
\$0.01–\$0.30	8,347,175	0.12	2.05
\$0.31–\$0.40	8,773,779	0.39	3.39
\$0.41–\$0.50	1,858,000	0.50	1.37
Balance June 30, 2016	18,978,954	0.28	2.60

400,000 agent warrants were issued in December 2014, for future corporate advisory. The warrants are exercisable for a period of three years at an exercise price of \$0.33. 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 149.32%. The fair market value at issuance was \$108,360.

139,583 warrants were issued January 2016, in conjunction with the deferral of principal repayments associated with the debentures. The warrants are exercisable for a period of one year at \$0.12. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.54% interest rate and a volatility of 141.68%. The fair market value at issuance was \$8,753.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

14. Contributed surplus

The Company established the Stock Option Plan, which is accounted for in contributed surplus, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. Options generally vest over a 3-year period with 1/6 vesting every 6 months. The Stock Option Plan allows for a maximum term on any options of ten years. The Company, at the discretion of the board of directors, may issue up to a maximum of 7,646,303 options. The shareholders approved the Stock Option Plan on July 22, 2016. The minimum price at which the options may be granted is the closing price of the common shares on the TSX-V on the date immediately prior to the date of issue.

The following summarizes information about stock options outstanding as at June 30, 2016:

	Number of options to employees	Weighted average price to employees \$	Number of options to non-employees	Weighted average price to non-employees \$
Balance, September 30, 2014	2,139,389	0.35	946,730	0.39
Granted	1,701,192	0.35	1,012,764	0.36
Cancelled	-	-	(180,000)	(0.35)
Forfeited	(104,242)	(0.31)	(515,000)	(0.41)
Balance, September 30, 2015	3,736,339	0.35	1,264,494	0.37
Granted	760,000	0.17	1,260,000	0.25
Forfeited	(252,020)	(0.33)	(119,230)	(0.37)
Balance, June 30, 2016	4,244,319	0.32	2,405,264	0.30

	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	2,682,500	0.23	6.25	2,269,167	0.23
\$0.31–\$0.40	3,747,083	0.36	7.72	700,000	0.33
\$0.41–\$0.50	220,000	0.48	2.71	160,000	0.50
Balance, June 30, 2016	6,649,583	0.31	6.96	3,129,167	0.27

The total share-based compensation calculated for the three-month and nine month periods ended June 30, 2016, was \$30,351 and \$65,863 respectively (2015 –\$21,118 and \$37,635).

In October 2014, the Company issued 300,000 new stock options to a consultant exercisable at a price of \$0.38 with an expiry date of October 2024. The fair value of the options was determined to be \$103,080.

On March 31, 2015, the Company issued 2,366,069 new stock options to employees and consultants, exercisable at a price of \$0.35 with an expiry date of March 31, 2025. The fair value of the options was determined to be \$632,923. 180,000 of these options were cancelled on April 1, 2015.

The employee stock options issued in October 2014 and March 2015 are only exercisable following two consecutive quarters of positive earnings before interest, taxes, depreciation and amortization, or if the

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

Company is acquired within 24 months from the date of issuance. Management has estimated that as at June 30, 2016, 3,107,083 stock options are not exercisable as the performance indicator has not been achieved and there is uncertainty as to when it will be achieved, resulting in no stock based compensation being recognized.

In June 2015, the Company granted 200,000 stock options to an employee, exercisable at a price of \$0.35, 100,000 of which were exercisable immediately and 100,000 exercisable after the date was three months from the date of issuance. The fair value of the options was determined to be \$41,280.

In October 2015, the Company issued 225,000 new stock options to an employee exercisable at a price of \$0.08 with an expiry date of October 5, 2025. The stock options were exercisable immediately. The fair value of the options was determined to be \$17,756.

In November 2015, the Company issued 150,000 new stock options to an employee exercisable at a price of \$0.12 with an expiry date of November 2, 2025. The stock options were exercisable immediately. The fair value of the options was determined to be \$17,756.

In May 2016, the Company issued 500,000 new stock options with an exercise price of \$0.175 and 500,000 stock options with an exercise price of \$0.325 to a consultant for services to be rendered up to May 2017. The stock options expire in May, 2021 and vested on issuance. The fair value of the options were determined to be \$69,863 and \$68,099 respectively.

In June 2016, the Company issued 645,000 stock options with an exercise price of \$0.235 to employees of the Company. A third of the options will vest immediately, a third after one year and the remaining third will vest after 2 years. The options expire on the date that is 10 years from the grant date. The fair value of the options was determined to be \$142,139.

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:

	June 30, 2016	September 30, 2015
Risk free interest rate	0.51%	0.57%
Expected volatility (1)	160.12%	152.91%
Dividend Yield	-	-
Expected life (years)	8	3
Weighted average fair value	\$ 0.10	\$ 0.27

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

15. Capital management

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

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

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

	June 30, 2016	September 30, 2015
	\$	\$
Total shareholders' equity (deficiency)	469,137	(3,214,935)
Cash	(5,562,740)	(2,502,459)
Cash held in trust	-	(903,818)
Bank debt	-	1,460,855
Total capital	(5,093,603)	(5,160,357)

There have been no changes to the Company's objectives in managing capital or in the management of capital since June 30, 2016. The Company presently has negative total capital and is currently working toward reversing this. (Note 2b).

16. Financial instruments and financial risk management

Credit risk

The Company has significant credit risk exposure to a single counterparty at June 30, 2016. Approximately 32% (September 30, 2015 – 86%) of the total accounts receivable is 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:

	June 30, 2016	September 30, 2015
	\$	\$
Trade	353,095	193,025
Taxation authorities	36,414	116,215
	389,509	309,240
Less: allowance for doubtful accounts	(77,100)	(104,575)
	312,409	204,665

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During three month and nine month periods ended June 30, 2016, there was nil and EUR 7,000 (2015 – \$nil) of bad debts recovered respectively.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

The following is a schedule of trade receivables:

	June 30, 2016	September 30, 2015
	\$	\$
Neither impaired or past due	132,043	70,986
Past due in the following periods		
31 - 60 days	-	-
61 - 90 days	-	34,823
over 90 days	221,052	87,216
Total	353,095	193,025

Liquidity risk

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, future bank lines and government assistance. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain 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 June 30, 2016:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	3,720,782	-	-	3,720,782
Energy Northwest obligation	149,107	-	-	149,107
Government grant obligation	32,034	-	-	32,034
Debentures	844,549	710,197	-	1,554,746
Other liabilities	53,760	138,977	477,301	670,038
Total	4,800,232	849,174	477,301	6,126,707

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

Foreign currency risk

The Company's exposure to currency risk on financial instruments based on carrying amount in Canadian currency was as follows for as at June 30, 2016:

	Euros	US Dollars	Total
	\$	\$	\$
Cash	20,216	164,711	184,927
Accounts receivable and advances	96,339	182,298	278,637
Deposits	28,978	2,477	31,455
Accounts payable and accrued liabilities	(1,497,912)	(822,977)	(2,320,889)
Provisions	(211,736)	(9,275)	(221,012)
Energy Northwest obligation	-	(149,107)	(149,107)
Deferred revenue	(1,710)	28,374	26,664
Other liabilities	-	(154,694)	(154,694)
Total	(1,565,826)	(758,194)	(2,324,019)

Assuming all other variables remain constant, a \$0.05 change in the Canadian/US exchange rate would increase the Company's net loss by approximately \$29,260 (June 30, 2015 - \$11,876) for the nine month period ended June 30, 2016. Assuming all other variables remain constant, a \$0.05 change in the Canadian/Euro exchange rate would increase the Company's net loss by approximately \$54,421 (June 30, 2015 - \$34,759) for the nine month period ended June 30, 2016. An opposite change in the Canadian/ US exchange rate and the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the period ended June 30, 2016.

Interest rate risk

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

Fair value

The carrying value and fair value of financial instruments at June 30, 2016, is disclosed below by financial instrument category:

Financial instrument	Carrying value	Fair value
	\$	\$
Accounts receivable and advances	312,409	312,409
Accounts payable and accrued liabilities	3,720,782	3,720,782

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input, the other liabilities were measured at fair value using Level 2 inputs (Note 9) and the embedded derivatives on the Company's debentures (Note 8), and Energy Northwest obligation (Note 6) were measured at a fair value using Level 3 inputs.

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

17. Related party transactions

Other than as disclosed elsewhere in the unaudited condensed interim consolidated financial statements, the Company had the following related party salaries, benefits and share based compensation:

	Three months ended		Nine months ended	
	2016	2015	2016	2015
	\$	\$	\$	\$
General and administrative	54,000	90,893	162,000	307,513
Product research and development	11,591	-	81,137	-
Selling and Marketing	27,046	-	34,773	-
Operations	8,500	50,884	32,500	177,473
Total	101,137	141,777	310,410	484,986

Financing costs of \$1,960 and \$9,752 for the three month and nine month periods ended June 30, 2016 (June 30, 2015 – \$(2,165) and \$21,826) related to the debentures held by key personnel and directors are included in the statement of loss. Interest payments amounted to \$376 and \$1,275 (June 30, 2015 - \$1,202 and \$8,116) for the three month and nine month periods ended June 30, 2016.

Included in accounts payable and accrued liabilities is \$292,428 (September 30, 2015 - \$235,998) due to directors and members of key management personnel.

In December 2014, a subsidiary of the Company purchased a \$46,000 debenture with a remaining balance owing of \$42,167 of debenture issued in 2012 and \$240,000 of debentures issued in 2013 from key personnel and directors of the Company.

On December 21, 2014, in advance of the second anniversary of the issuance of the Company's Series II debentures issued on August 7, 2013, a subsidiary of the Company acquired \$240,000 principal amount of the Series II debentures of the Company that were owned by Justin Holland, Michael Carten and Robert Penner for face value. In addition, on December 21, 2014, \$42,167 of the remaining principal amount of the Series I debentures issued on June 29, 2012 that were issued to Justin Holland were acquired by a subsidiary of the Company.

At the time of the acquisition, Justin Holland was Chief Operating Officer of the Company, Michael Carten was President, Chief Executive Officer and a director of the Company and Robert Penner was a director of the Company. Pursuant to the acquisition of the Series I and Series II debentures by the Company:

- Justin Holland transferred \$102,167 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$102,167. The principal amount transferred to the subsidiary of the Company was comprised of: (i) \$60,000 principal amount of Series II debentures issued to Mr. Holland on August 7, 2013 for an aggregate purchase price of \$52,500; and (ii) \$42,167 remaining principal amount of Series I debentures issued on June 29, 2012 for an aggregate purchase price of \$40,250;
- Michael Carten transferred \$120,000 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$120,000. The principal amount transferred to the subsidiary

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

of the Company was comprised of \$120,000 principal amount of Series II debentures issued to Mr. Carten on August 7, 2013 for an aggregate purchase price of \$105,000; and

- Robert Penner transferred \$60,000 principal amount of debentures to a subsidiary of the Company for aggregate proceeds of \$60,000. The principal amount transferred to the subsidiary of the Company was comprised of \$60,000 principal amount of Series II debentures issued to Mr. Penner on August 7, 2013 for an aggregate purchase price of \$52,500.

During the course of the Company's December 2014 private placement, a key subscriber imposed a closing condition on the Company requiring that the Company meet a minimum subscription amount prior to the closing of the offering. After a review of the financial position of the Company, management and the board of directors agreed, through the Company's wholly-owned subsidiary, to acquire the debentures from Messrs. Holland, Carten and Penner. Prior to the purchase of the debentures, the individuals provided a verbal non-binding confirmation to the Company that they proposed to utilize the proceeds from the disposition of their debentures to participate in the Company's December 2014 private placement. The Company acquired the debentures from Messrs. Holland, Carten and Penner and did not make an offer to acquire all of the Series II debentures of the Company that were outstanding because: (i) Messrs. Holland, Carten and Penner approached the Company with the offer to sell their Series II debentures at face value; (ii) the Company needed to complete the acquisition of the debentures in an expedited manner; and (iii) after considering the value of the Series II debentures, management of the Company believed that the other holders of the debentures would be unwilling to sell such debentures at face value.

In December 2014, key personnel and directors converted their Series 15 preferred shares to common shares.

In December 2014, key management personnel and directors subscribed for 1,100,000 common share units at a price of \$0.30 per unit.

In August 2015, the Company agreed to a termination settlement with its former CEO who remains a director of the Company (Note 9).

In September 2015, key management personnel and directors subscribed for 2,826,190 units at a price of \$0.0525 per unit.

In April 2016, key personnel and directors of the Company purchased 3,125,000 common shares at \$0.12 per unit (Note 10).

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars

Unaudited

18. Financing costs

	Three months ended		Nine months ended	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on Northwest obligation	3,627	4,313	(24,405)	12,440
Interest on bank debt	-	(8,863)	-	11,493
Interest on debenture	88,049	98,931	298,172	415,095
Change in fair value of embedded derivatives	-	-	-	-
Accretion of government grant obligation	1,738	2,058	6,668	8,130
Change in fair value of government grant obligation	-	(87,796)	-	(87,796)
Change in fair value of common shares to be issued on conversion in respect of accreted dividend	-	-	-	211,760
Accretion of other liabilities	40,768	-	130,988	-
Amortization of financing fees	-	43,622	309,701	93,184
Total	134,182	52,265	721,124	664,306

19. Personnel expenses

	Three months ended		Nine months ended	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages	293,615	270,489	839,859	818,761
Benefits	34,395	32,833	97,028	72,409
Total	328,010	303,322	936,887	891,170

20. Supplemental information

The changes in non-cash working capital for the three month and nine month periods ended June 30, 2016 and 2015 is as follows:

	Three months ended		Nine months ended	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	76,773	643,423	(107,744)	(51,997)
Prepaid expense and deposits	31,074	(231,492)	117,885	(244,524)
Inventory	134,912	(8,442)	(337,100)	(155,645)
	242,759	403,489	(326,959)	(452,166)
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	(66,591)	162,595	355,529	742,712
Deferred revenue	(14,181)	-	(29,313)	-
	161,987	566,084	(743)	290,546

Eguana Technologies Inc.

Notes to the condensed interim consolidated financial statements

June 30, 2016

Stated in Canadian dollars
Unaudited

21. Commitments

(a) At June 30, 2016, Eguana had commitments for premises as follows:

	\$
Less than one year	22,000
Between one and five years	105,100
More than five years	-
Total	127,100

The Company has the right to renew its Calgary premises for a period of five years at the end of the term which expires on March 31, 2018.

22. Segmented information

Major customers

The Company had five customers where product sales were individually greater than 10% in the nine month period ended June 30, 2016. One customer had attributed sales of \$244,877 and \$325,546 for the three and nine months ended June 30, 2016 (June 30, 2015 – \$1,465,970 and \$1,138,798).

23. Legal disputes

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

The Company's former contract manufacturer submitted a claim against Eguana for 1,534,000 Euros (\$2,206,000 CAD) in an Alberta court. The Company is disputing 799,000 Euros (\$1,149,000 CAD) of the amount the contract manufacturer is seeking. The Company has recorded the undisputed amount in accounts payable. Moreover, the Company made a counter claim against the contract manufacturer.

There has been no change in the recorded amounts for legal disputes from year end.

24. Subsequent events

In July 2016, subsequent to quarter end, the Company issued 4,090,909 common shares at a price of \$0.22 per share for gross proceeds of \$899,970 related to the exercise of the over-allotment option granted to Mackie Research Capital Corporation in connection with the June 2016 common share offering. Commissions paid in connection with the offering were \$67,500. As partial compensation, 306,818 agent warrants were issued with an exercise price of \$0.22 and a term of two years. The Black-Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 0.67% interest rate and a volatility of 117.18%. The fair market value at issuance was \$61,734. No other costs were incurred related to the issue of the common shares.

In August 2016, subsequent to quarter end, the Company issued 1,227,273 common shares when the fair market value of the share was \$0.36 a common share.