Condensed interim consolidated financial statements of

Eguana Technologies Inc.

March 31, 2022

(Unaudited)

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
Unaudited

	Note	March 31 2022	September 30 2021
Assets			
Current:			
Cash		**902,669**	4,603,922
Accounts receivable		**3,082,787**	2,511,942
Inventory	3	**4,650,320**	5,894,125
Prepaid expenses and deposits		**855,907**	930,463
		9,491,683	13,940,452
Non-current:			
Property and equipment		**722,484**	498,486
Intangible assets		**142,220**	158,023
Right-of-use assets	4	**1,235,241**	317,229
		11,591,628	14,914,190
Liabilities			
Current:			
Accounts payable and accrued liabilities		**2,439,031**	3,094,030
Warranty provision		**462,230**	460,153
Deferred revenue		**93,157**	95,446
Income tax payable	2c	**238,857**	-
Current portion of long-term debt	5	**-**	283,239
Derivative liability	5	**1,250,490**	1,270,950
Preferred shares	6	**-**	5,196,678
Current portion of lease liability	8	**297,146**	183,682
Current portion of other liabilities	7	**359,117**	649,884
		5,140,028	11,234,062
Non-current:			
Lease liability	8	**1,001,376**	188,825
		6,141,404	11,422,887
Shareholders' equity (deficiency)			
Common shares	9	**82,886,556**	75,293,880
Preferred shares	10	**1**	567,155
Warrants	11	**2,222,227**	2,896,568
Contributed surplus	12	**13,000,233**	12,285,282
Foreign currency translation reserve		**(287,159)**	(244,358)
Deficit		**(92,371,634)**	(87,307,224)
		5,450,224	3,491,303
		11,591,628	14,914,190

Going concern (Note 2(b)), Subsequent events (Note 18)

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

Eguana Technologies Inc.

Condensed interim consolidated statements of net loss and comprehensive loss

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

Stated in Canadian dollars
Unaudited

		Three months ended		Six months ended	
	Note	**2022**	2021	**2022**	2021
				(Recast Note 2c)	
Sales and engineering services	16	**285,130**	347,582	**1,549,679**	2,671,369
Cost of goods sold		**213,482**	333,752	**1,467,620**	2,467,602
Gross margin		**71,648**	13,830	**82,059**	203,767
Expenses					
General and administrative		**1,299,125**	1,097,880	**2,010,900**	1,907,901
Selling and marketing		**529,262**	472,150	**1,142,820**	928,184
Product research and development		**439,418**	419,179	**985,463**	850,260
Operations		**323,043**	194,909	**669,260**	436,851
		2,590,848	2,184,118	**4,808,443**	4,123,196
Operating Loss		**(2,519,200)**	(2,170,288)	**(4,726,384)**	(3,919,429)
Financing costs	14	**(43,310)**	(743,653)	**(285,351)**	(1,455,300)
Unrealized foreign exchange (loss) gain		**(10,144)**	79,006	**14,249**	184,492
Other income		**169,718**	-	**171,933**	-
Net loss before tax		**(2,402,936)**	(2,834,935)	**(4,825,553)**	(5,190,237)
Current tax expense	2c	**-**	-	**(238,857)**	-
Net loss		**(2,402,936)**	(2,834,935)	**(5,064,410)**	(5,190,237)
Foreign currency translation adjustment		**(34,387)**	(31,425)	**(42,801)**	(93,446)
Total comprehensive loss		**(2,437,323)**	(2,866,360)	**(5,107,211)**	(5,283,683)
Loss per common share					
Basic and diluted		**(0.01)**	(0.01)	**(0.01)**	(0.02)
Weighted average number of common shares					
Basic and diluted		**373,320,728**	258,011,945	**383,439,064**	246,316,788

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

Eguana Technologies Inc.

Condensed interim consolidated statements of change in equity (deficiency)

For the six-month periods ended March 31,

Stated in Canadian dollars

Unaudited	Common shares	Preferred shares	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance October 1, 2021	75,293,880	567,155	2,896,568	12,285,282	(244,358)	(87,307,224)	3,491,303
Net loss for the period	-	-	-	-	-	(5,064,410)	(5,064,410)
Foreign currency translation	-	-	-	-	(42,801)	-	(42,801)
Exercise of preferred shares (note 6)	4,849,910	(567,154)	-	-	-	-	4,282,756
Common shares for dividends (note 10)	597,144	-	-	-	-	-	597,144
Share issuance costs (note 10)	(11,577)	-	-	-	-	-	(11,577)
Warrants exercised (note 11)	2,148,949	-	(676,776)	-	-	-	1,472,173
Warrants issued (note 11)	-	-	2,435	-	-	-	2,435
Stock options exercised (note 12)	8,250	-	-	(750)	-	-	7,500
Share-based payments	-	-	-	715,701	-	-	715,701
Balance March 31, 2022	**82,886,556**	**1**	**2,222,227**	**13,000,233**	**(287,159)**	**(92,371,634)**	**5,450,224**
Balance October 1, 2020	45,634,694	567,155	2,488,365	10,989,832	(229,700)	(76,907,180)	(17,456,834)
Net loss for the period	-	-	-	-	-	(5,190,237)	(5,190,237)
Foreign currency translation	-	-	-	-	(93,446)	-	(93,446)
Issue of share capital, net	1,530,535	-	-	-	-	-	1,530,535
Issuance of partnership units	909,967	-	-	-	-	-	909,967
Issuance of special warrants	-	-	18,233,011	-	-	-	18,233,011
Warrants issued	-	-	128,808	-	-	-	128,808
Warrants exercised	1,490,173	-	(617,989)	-	-	-	872,184
Stock options exercised	598,063	-	-	(235,813)	-	-	362,250
Convertible debenture exercised	3,379,776	-	-	-	-	-	3,379,776
Share-based payments	-	-	-	816,542	-	-	816,542
Balance March 31, 2021	**53,543,208**	**567,155**	**20,232,195**	**11,570,561**	**(323,146)**	**(82,097,417)**	**3,492,556**

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

Eguana Technologies Inc.

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

Stated in Canadian dollars
Unaudited

	Note	Three months ended 2022	Three months ended 2021	Six months ended 2022	Six months ended 2021
				(Recast Note 2c)	
Operating activities					
Net loss		**(2,402,936)**	(2,834,935)	**(5,064,410)**	(5,190,237)
Share-based payments	12	**491,317**	384,491	**715,701**	816,542
Financing costs	14	**43,310**	743,653	**285,351**	1,455,300
Amortization and depreciation		**139,090**	83,911	**260,194**	169,119
Write down (up) of inventory		**82,913**	(32,645)	**87,646**	(32,645)
Warranty provision		**(872)**	(1,661)	**2,077**	13,009
Bad debt expense		**965**	-	**3,465**	-
Unrealized foreign exchange loss (gain)		**10,144**	(79,006)	**(14,249)**	(184,492)
		(1,636,069)	(1,736,192)	**(3,724,225)**	(2,953,404)
Net change in non-cash working capital	15	**162,466**	(2,017,483)	**247,200**	(2,712,328)
Cash flow (used in) from operating activities		**(1,473,603)**	(3,753,675)	**(3,477,025)**	(5,665,732)
Financing activities					
Proceeds from issuance of common shares, net	9	**-**	-	**(11,577)**	1,303,402
Proceeds from issuance of limited partnership units, net		**-**	-	**-**	956,724
Proceeds from issuance of special warrants, net	11	**-**	18,233,011	**-**	18,233,011
Proceeds on exercise of warrants	11	**58,442**	895,246	**1,474,608**	896,346
Proceeds on exercise of stock options	12	**7,500**	340,500	**7,500**	362,250
Repayment of long-term debt	5	**(73,498)**	(439,760)	**(292,218)**	(895,841)
Repayment of preferred share dividend	6	**-**	-	**(500,000)**	-
Repayment of leases	8	**(108,098)**	(65,203)	**(200,752)**	(129,965)
Repayment of other liabilities	7	**(155,775)**	(379,379)	**(317,696)**	(544,058)
Cash flow (used in) from financing activities		**(271,429)**	18,584,415	**159,865**	20,181,869
Investing activities					
Property and equipment additions		**(147,726)**	(10,704)	**(315,506)**	(15,376)
Cash flow used in investing activities		**(147,726)**	(10,704)	**(315,506)**	(15,376)
Effects of exchange rate changes on cash held in foreign currencies		**(21,681)**	-	**(68,587)**	-
Net change in cash		**(1,914,439)**	14,820,036	**(3,701,253)**	14,500,761
Cash, beginning of period		**2,817,108**	208,427	**4,603,922**	527,702
Cash, end of period		**902,669**	15,028,463	**902,669**	15,028,463

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

1. Description of the business

Eguana Technologies Inc. ("the Company"), incorporated under the *Alberta Business Corporations Act*, designs and manufactures high performance residential and commercial energy storage systems. Eguana has two decades of experience delivering grid edge power electronics for fuel cell, photovoltaic and battery applications. 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 ("financial statements") were prepared in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB).

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2021 and 2020, which were prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements follow the same accounting policies as outlined in Notes 2 and 4 of the audited consolidated financial statements for the year ended September 30, 2021.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the September 30, 2021 and 2020 audited consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 30, 2022.

(b) Going concern

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

At March 31, 2022, the Company had not achieved profitable operations since its inception and had accumulated a deficit of $92,371,634 (September 30, 2021 - $87,307,224), incurred a net loss for the six-month period ended March 31, 2022 of $5,064,410 (March 31, 2021 - $5,190,237) and cash flow used in operating activities was $3,477,025 (March 31, 2021 – $5,665,732). Whether and when the Company can attain profitability from operations is uncertain. At March 31, 2022 the Company has a positive working capital balance of $4,351,655 (September 30, 2021 –$2,706,390). The lack of profitable operations results in material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The ability to continue as a going concern is dependent on completing equity or debt financings and generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. To address its financing requirements, the Company may need to seek financing through the issuance of common shares, preferred shares, units of EGT Markets Limited Partnership, debentures, or traditional debt to meet its continuing operating requirements.

Stated in Canadian dollars

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

(c) Recast of prior quarter

During the preparation of the financial statements for the period ended March 31, 2022, management identified a Part VI.1 current tax accrual which should have been recorded at the time of the preferred share dividend settlement (note 6) in the previous quarter ended December 31, 2021 in the amount of $238,857. The immaterial error has been corrected in the interim financial statements for the three and six months ended March 31, 2022 by recasting the three-month period ended December 31, 2021.

The impact of the errors on the December 31, 2021 condensed interim consolidated financial statements is summarized below:

Extract from the condensed interim consolidated statement of financial position

	Three-month period ended December 31, 2021 as reported	Adjustment	Three-month period ended December 31, 2021 as recast
Income tax payable (current)	-	(238,857)	(238,857)

Extract from the condensed interim consolidated statement of loss and comprehensive loss

	Three-month period ended December 31, 2021 as reported	Adjustment	Three-month period ended December 31, 2021 as recast
Current tax expense	-	(238,857)	(238,857)
Net loss	(2,422,617)	(238,857)	(2,661,474)
Total comprehensive loss	(2,431,031)	(238,857)	(2,669,888)

Extract from the condensed interim consolidated statement of cash flows

	Three-month period ended December 31, 2021 as reported	Adjustment	Three-month period ended December 31, 2021 as recast
Net loss	(2,422,617)	(238,857)	(2,661,474)
Net change in non-cash working capital	(154,123)	238,857	84,734

(d) COVID-19 and Geo-political Events

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. Government authorities have approved the rollout of COVID-19 vaccines and easing of restrictions implemented to prevent the spread of COVID-19, however there is no certainty when economic activity will return to pre COVID-19 levels. Additionally, in early 2022, Russia's invasion of the Ukraine has raised global concerns over the already susceptible economic downturn, raising global concerns over disrupted supply chain channels, and in turn material supply constraints. These global situations remain dynamic and it is currently not possible for the Company to predict the duration or magnitude of potential adverse impacts of the pandemic or Russia's invasion of the Ukraine or their effects on the Company's business or ability to raise funds.

Estimates and judgments made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of estimation uncertainty during this volatile period.

Stated in Canadian dollars

3. Inventory

	March 31 2022	September 30 2021
Finished goods	**411,249**	485,616
Components	**4,239,071**	5,408,509
	4,650,320	5,894,125

As at March 31, 2022, $4,593,329 (September 30, 2021 - $5,868,589) of inventory was carried at cost and $56,991 (September 30, 2021 - $25,536) was carried at net realizable value. $87,646 of inventory was deemed impaired and written-down for the period ended March 31, 2022 (March 31, 2021 - $32,645 reversal of previous impairment). During the six months ended March 31, 2022, Eguana transferred $0.9 million of raw component inventory to its manufacturing partner, Omega EMS ("Omega"). Eguana and Omega announced a manufacturing partnership on November 2, 2021.

4. Right-of-use assets

	Buildings	Vehicles	Total
Cost			
Balance October 1, 2021	649,816	46,017	695,833
Additions	1,011,445	56,283	1,067,728
Gain on foreign exchange	3,138	29	3,167
Balance March 31, 2022	**1,664,399**	**102,329**	**1,766,728**
Accumulated amortization and impairment			
Balance October 1, 2021	346,612	31,992	378,604
Amortization	142,247	10,636	152,883
Balance March 31, 2022	**488,859**	**42,628**	**531,487**
Carrying Value March 31, 2022	**1,175,540**	**59,701**	**1,235,241**

Stated in Canadian dollars

	Buildings	Vehicles	Total
Cost			
Balance October 1, 2020	504,518	28,217	532,735
Additions	152,359	17,784	170,143
Gain (loss) on foreign exchange	(7,061)	16	(7,045)
Balance September 30, 2021	**649,816**	**46,017**	**695,833**
Accumulated amortization and impairment			
Balance October 1, 2020	172,387	13,033	185,420
Amortization	174,225	18,959	193,184
Balance September 30, 2021	**346,612**	**31,992**	**378,604**
Carrying Value September 30, 2021	**303,204**	**14,025**	**317,229**

5. Long-term debt and derivative liability

	Derivative liability	**Long-term debt**	**Total**
Balance October 1, 2020	1,152,000	1,612,822	2,764,822
Accretion and accrued interest	-	147,474	147,474
Repayment	-	(1,399,587)	(1,399,587)
Fair value loss on derivative liability	118,950	-	118,950
Gain on foreign exchange	-	(77,470)	(77,470)
Balance September 30, 2021	1,270,950	283,239	1,554,189
Accretion and accrued interest	-	10,629	10,629
Repayment	-	(292,218)	(292,218)
Fair value gain on derivative liability	(20,460)	-	(20,460)
Gain on foreign exchange	-	(1,650)	(1,650)
Balance March 31, 2022	**1,250,490**	**-**	**1,250,490**
Less: current portion	**(1,250,490)**	**-**	**(1,250,490)**
	-	**-**	**-**

In December 2017, the Company entered into a loan agreement for general working capital purposes for up to USD$3,000,000 (the "Senior Loan"). The Corporation drew USD$1,500,000 in December 2017, USD$750,000 in August, 2018, and USD$750,000 in October, 2018. Each draw bears interest at a rate of 12.5% per annum, with both principal and interest paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw.

The loan has first priority over all assets of the Company. The Company may prepay the loan by paying all scheduled but unpaid payments. If prepayment occurs after 12 months, the Company will receive a 15% discount off future interest owed. If prepayment occurs after 15 months, the Company will receive a 25% discount off future interest owed. If prepayment occurs after 21 months, the Company will receive a 35% discount off future interest owed.

On December 31, 2019, the Company entered an amendment with the Senior Lender to the original loan agreement, wherein the monthly payments were reduced and comprised of interest only for four months commencing November 1, 2019 through February 1, 2020. The Senior Loan will continue to bear interest at a rate of 12.5% per annum and will now be repaid February 1, 2022. In consideration, 4,161,333 common share purchase warrants were issued on January 22, 2020, at a price of $0.06 per warrant for a period of five years, with an expiry date of January 22, 2025. The fair value of the amended loan was determined by applying a risk-adjusted rate of 18.1% to discount the contractual cash over the remaining life of the loan. The book value of the loan prior to amendment was then deducted from the new fair value, resulting in a loss on extinguishment of debt of $80,794 in the second quarter of 2020

The fair value of the warrant component was determined by using the Black-Scholes option pricing model using a nil dividend yield, a 1.46% interest rate and a volatility of 77.10%. The fair market value at issuance was $410,898, also recognized as part of the loss of extinguishment in the second quarter of 2021.

As part of the original Senior Loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of $0.17 CAD and an expiry date of December 20, 2022. As at March 31, 2022, 2,951,733 warrants were exercisable (September 30, 2021 – 2,951,733). The vested unexercised warrants are exchangeable at the option of the holder for $1,000,000 USD after the earlier of a liquidity event or September 30, 2021. These warrants are recorded as a warrant derivative liability at fair value through profit or loss.

The Company has measured the fair value of the warrant derivative liability associated with the original Senior Loan with the residual assigned to the loan. The warrant derivative liability was estimated using the higher of the present value of the warrant exchange payment and the option pricing model. Financing fees of $53,136 were allocated between the long-term loan and the derivative liability. The long-term loan is a financial liability and will be accreted to its face value over the term of the loans using an effective interest rate of 27%, 18% and 18%, respectively.

The derivative liability is carried at fair value through profit and loss and re-measured at each reporting date. The higher fair value was the present value of the warrant exchange payment which was determined to be $1,250,490 at March 31, 2022.

On February 1, 2022, the value of the Senior Loan was repaid in full.

Stated in Canadian dollars

6. Series A Preferred shares

	Debt component of preferred shares	Equity component of preferred shares (note 10)	Total
Balance October 1, 2020	4,322,486	567,154	4,889,640
Accretion	874,192	-	874,192
Balance September 30, 2021	5,196,678	567,154	5,763,832
Accretion	183,222	-	183,222
Conversion of preferred shares	(4,282,756)	(567,154)	(4,849,910)
Dividends paid	(500,000)	-	(500,000)
Dividends converted to shares	(597,144)	-	(597,144)
Balance March 31, 2022	**-**	**-**	**-**

On December 17, 2021, the Company's largest shareholder, DHCT II Luxembourg SARL ("DHCT"), and sole holder of the Series A Preferred shares, elected to convert all outstanding 434,860 Series A preferred shares into 18,119,167 common shares. In respect of the accretive dividend payable on the Series A Shares, the Company paid DHCT $500,000 and issued 1,326,986 common shares at a price of $0.45 for the remaining outstanding dividend amount. Transaction costs of $11,577 were allocated against common shares. Following this transaction and concurrent exercise of warrants (Note 11), DHCT owns greater than 20% of all outstanding common shares of the Company.

Stated in Canadian dollars

7. Other liabilities

	Settlement Agreement	Contingent liability settlement	Legal settlement	Total
Balance October 1, 2020	217,661	124,334	950,651	1,292,646
Accretion	36,229	14,367	149,839	200,435
Repayments	(157,380)	(209,327)	(499,908)	(866,615)
Loss on prepayment of contingent liability	-	75,706	-	75,706
Gain on foreign exchange	-	(5,080)	(47,208)	(52,288)
Balance September 30, 2021	96,510	-	553,374	649,884
Accretion	7,190	-	44,975	52,165
Repayments	(81,111)	-	(236,585)	(317,696)
Gain on foreign exchange	-	-	(25,236)	(25,236)
Balance March 31, 2022	22,589	-	336,528	359,117
Less: current portion	(22,589)	-	(336,528)	(359,117)
	-	-	-	-

In March 2021, the Company paid in full, the settlement of a contingent liability with a third party who provided consulting services. The obligation was fair valued at inception at US$111,879 using Level 2 valuation techniques with a discount rate of 27%. The repayment resulted in a non-cash loss of $75,706.

8. Lease Liability

	Total
Balance October 1, 2020	409,558
Addition of lease liability	170,143
Interest	54,920
Repayments	(248,419)
Loss on foreign exchange	(13,695)
Balance September 30, 2021	372,507
Addition of lease liability	1,067,728
Interest	59,795
Repayments	(200,752)
Loss on foreign exchange	(756)
Balance March 31, 2022	**1,298,522**
Less: current portion	**(297,146)**
	1,001,376

Stated in Canadian dollars

9. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2020	229,291,410	45,634,694
Issuance of common shares	10,000,000	1,500,000
Share issuance costs	-	(254,487)
Issuance of common shares for debt, net	801,071	340,841
Issuance of common shares on closing of special warrant private placement	50,000,000	20,000,000
Special warrant private placement costs	-	(2,988,985)
Issuance of partnership units	7,665,900	1,150,000
Partnership unit costs	-	(240,033)
Exercise of debentures	60,180,006	7,619,071
Exercise of warrants (note 11)	8,856,525	1,934,716
Exercise of stock options (note 12)	1,625,000	598,063
Balance September 30, 2021	368,419,912	75,293,880
Conversion of preferred shares (note 6)	18,119,167	4,849,910
Issuance of common shares for dividends, net (note 6)	1,326,986	597,144
Share issuance costs	-	(11,577)
Exercise of warrants (note 11)	5,983,539	2,148,949
Exercise of stock options (note 12)	25,000	8,250
Balance March 31, 2022	**393,874,604**	**82,886,556**

Weighted average number of common shares

The weighted average number of shares as at March 31, 2022 and September 30, 2021 were determined by excluding preferred shares, stock options and warrants as the Company was in a loss position.

10. Preferred shares

Authorized

The Corporation is authorized to issue an unlimited number of convertible $10, 8% redeemable First Preferred shares, issuable in series.

Holders of the preferred shares may convert, at any time, into that number of fully paid and non-assessable common shares equal to the then applicable Series Redemption Price divided by the conversion price. The conversion for the preferred shares includes a fixed conversion price on the initial subscription plus the conversion of accreted dividends to common shares. The accreted dividend conversion price is based on the closing price of the common shares on the day prior to the conversion.

Stated in Canadian dollars

The fixed conversion price for each of the issued series outstanding as at December 31, 2021 is as follows:

- Series 8 $1.00
- Series A $0.24

Issued

	Number of shares	Amount ($)
Series 8		
Balance October 1, 2020, September 30, 2021 and March 31, 20212	**1**	**1**
Series A		
Balance October 1, 2020 and September 30, 2021	**434,860**	**567,154**
Preferred shares converted to common shares (note 6)	(434,860)	(567,154)
Total Series A preferred shares March 31, 2022	**-**	**-**
Total preferred shares March 31, 2022	**1**	**1**

11. Warrants

Changes in the Company's warrants are as follows:

	Issued with common shares and debt (#)	Broker warrants (#)	Total purchase warrants (#)	Allocated fair market value ($)
Balance October 1, 2020	22,441,149	1,401,943	23,843,092	1,509,231
Special warrants issued	50,000,000	3,500,000	53,500,000	18,067,043
Warrants issued	16,666,666	1,513,475	18,180,141	1,107,942
Special warrants converted	(50,000,000)	-	(50,000,000)	(17,011,015)
Warrants exercised	(8,292,758)	(563,767)	(8,856,525)	(776,633)
Balance September 30, 2021	30,815,057	5,851,651	36,666,708	2,896,568
Warrants issued	-	21,000	21,000	2,435
Warrants exercised	(4,520,538)	(1,463,001)	(5,983,539)	(676,776)
Balance March 31, 2022	**26,294,519**	**4,409,650**	**30,704,169**	**2,222,227**

On February 25, 2021, the Company announced the closing of a private placement of Special Warrants ("Special Warrants) for gross proceeds of $20 million and issuance of 50 million Special Warrants at a price of $0.40 per Special Warrant, of which 590,000 warrants were purchased by key management personnel.

Stated in Canadian dollars

Each Special Warrant is exercisable into one common share without payment of any additional consideration upon certain conditions being met. The Company will use its commercially reasonable efforts to qualify the distribution of the Common Shares issuable upon exercise of the Special Warrants by way of a short form prospectus within 90 days following the closing of the Offering (the "Qualifying Condition"). The securities issued in connection with the Offering was subject to a 4-month hold period from the date of the closing of the Offering, unless the Qualifying Prospectus is filed and receipted within that time. If the Qualifying Condition was not met, each Special Warrant would be exercisable, for no additional consideration and with no further action on the part of the holder thereof, for 1.1 Common Shares.

On May 11, 2021, the Company filed the short form prospectus in connection with the special warrants. Pursuant to the terms, each special warrant was automatically exercised, for no additional consideration, into a common share.

In connection with the special warrant offering, the Company granted the agents 3,500,000 of non-transferable compensation special warrants exercisable into one common share at a price of $0.40 per warrant for a period of 24 months from closing date, and incurred transaction costs, including agent commissions, of $1,932,957. The Black-Scholes option pricing model was used to calculate the fair value of the compensation warrants using a nil dividend yield, a 0.32% interest rate and a volatility of 103.2%. The fair market value at issuance was $1,056,028. Transaction costs, including broker warrants, were netted against the carrying value of the special warrants.

On December 17, 2021, DHCT elected to exercise 4,000,000 common share purchase warrants of the Company at an exercise price of $0.20 per Warrant for gross proceeds to the Company of $800,000.

Outstanding and exercisable warrants at March 31, 2022 were as follows:

Range of exercise prices	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.01 - $0.20	28,604,169	0.19	0.77
$0.21 - $0.30	-	-	-
$0.31 - $0.40	2,100,000	0.40	1.51
Balance March 31, 2022	**30,704,169**	**0.21**	**0.82**

12. Share based payments

The Company established the Stock Option Plan, which is accounted for as equity settled, whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. The Stock Option Plan allows for a maximum term on any options of ten years. The Company, at the discretion of the board of directors, may issue up to a maximum of 36,708,000 options. The shareholders approved the Stock Option Plan on September 16, 2021. The minimum price at which the options may be granted is the closing price of the common shares on the TSX-V on the date immediately prior to the date of issue.

Stated in Canadian dollars

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employee
Balance October 1, 2020	8,457,052	0.24	2,715,264	0.24
Granted	-	-	7,500,000	0.31
Exercised	(375,000)	(0.16)	(1,250,000)	(0.24)
Expired and forfeited	(635,000)	(0.24)	-	-
Balance September 30, 2021	7,447,052	0.24	8,965,264	0.29
Granted	4,690,000	0.37	1,010,000	0.41
Exercised	(25,000)	(0.30)	-	-
Expired and forfeited	(1,060,779)	(0.28)	(200,000)	(0.30)
Balance March 31, 2022	**11,051,273**	**0.29**	**9,775,264**	**0.31**

The following summarizes information about stock options outstanding as at March 31, 2022:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	10,805,000	0.21	4.65	8,861,674	0.21
$0.31 - $0.40	7,361,537	0.38	5.57	3,436,537	0.36
$0.41 - $0.50	2,660,000	0.41	2.25	2,500,000	0.44
Balance March 31, 2022	**20,826,537**	**0.29**	**4.67**	**14,798,211**	**0.28**

The total share-based compensation calculated for the three and six-months ended March 31, 2022, was $491,317 and $715,701 (2021 – $384,491 and $816,542), respectively.

In December 2020, the Company entered into an agreement with a capital markets advisory firm under which the firm will provide services over a term of up to 24 months for compensation consisting of incentive stock options to acquire up to an aggregate of 8,000,000 common shares. The incentive stock options are issuable as follows:

- 4,500,000 incentive stock options at a strike price of $0.24 per share, with an expiry of December 4, 2023 upon execution of the agreement (issued in December 2020).
- 1,500,000 incentive stock options at a market-based strike price to be determined if, as and when 8,012 unsecured convertible debentures issued in 2019 and 2020 convert into commons shares. Should these options be issued, they will have a 36-month term (issued in April 2021).

Stated in Canadian dollars

- 1,000,000 incentive stock options at a market-based strike price on the 12-month anniversary date of the advisory firm agreement in December 2021. Should these options be issued, they will have a 36-month term (issued in February 2022).
- 1,000,000 incentive stock options at a market-based strike price on the 18-month anniversary date of the advisory firm agreement in June 2022. Should these options be issued, they will have a 36-month term.

In January 2021, the Company granted incentive stock options to acquire 1,500,000 common shares at a strike price of $0.35 per share, with an expiry of January 15, 2024.

In April 2021, all remaining convertible debentures were converted and the Company granted incentive stock options to acquire 1,500,000 common shares at a strike price of $0.455 per share, with an expiry of April 23, 2024, under the agreement with the aforementioned capital markets advisory firm. All options granted vested immediately.

On October 8, 2021, the Company's Board of Directors approved the grant of 4,560,000 option to purchase common shares. Of the options granted, 3,425,000 were granted to directors and executives of the Company at a strike price of $0.40 per share, and 1,115,000 to employees at a strike price of $0.275 per share. The options vest in three equal tranches with the first tranche to vest October 8, 2022 and the remainder over two years with an expiry of October 7, 2031.

In January 2022, the Company issued an additional 160,000 stock options to employees.

On February 18, 2022, the Company granted incentive stock options to acquire 1,000,000 common shares at a strike price of $0.41 per share, with an expiry of February 18, 2025, under the agreement with the aforementioned capital markets advisory firm. All options granted vested immediately.

The fair values of Eguana stock options granted have been estimated on their respective grant dates using the Black-Scholes valuation model and the following assumptions:

	March 31 2022	September 30 2021
Risk free interest rate	**1.57% - 1.80%**	0.21% – 0.49%
Expected volatility (1)	**115% - 126%**	103% – 105%
Dividend yield	**-**	-
Expected life (years)	**3 - 10**	3
Weighted average fair value	**0.27 – 0.43**	0.06 – 0.29

(1) Expected volatility is estimated by considering historic average share price volatility over the same number of years as the option granted

13. Financial instruments fair value

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input, the other liabilities, debentures, preferred shares, lease liability and long-term loan were measured at fair value on initial recognition using Level 2 inputs (notes 5-8) and the derivative liability was measured at fair value using level 2 inputs (note 5).

Stated in Canadian dollars

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

14. Financing costs

	Three months ended		Six months ended	
	2022	2021	**2022**	2021
Accretion of debentures	**-**	338,804	**-**	736,649
Accretion of other liabilities	**22,131**	57,148	**52,165**	120,559
Accretion of long-term debt	**1,763**	42,601	**10,629**	103,141
Accretion of preferred shares	**-**	188,309	**183,222**	375,809
Change in fair value on derivative liability	**(19,240)**	28,586	**(20,460)**	16,807
Loss on prepayment of contingent liability	**-**	75,706	**-**	75,706
Lease interest	**38,656**	12,499	**59,795**	26,629
	43,310	743,653	**285,351**	1,455,300

15. Supplemental information

The changes in non-cash working capital for the three and six-months ended March 31, 2022 and 2021 is as follows:

	Three months ended		Six months ended	
	2022	2021	**2022**	2021
			(Recast Note 2c)	
Operating activities				
Decrease (increase) in assets and liabilities				
Accounts receivable and advances	**48,983**	433,864	**(632,699)**	230,479
Inventory	**(14,094)**	(754,907)	**1,156,159**	(680,113)
Prepaid expenses and deposits	**40,123**	(1,390,355)	**63,319**	(1,391,674)
Accounts payable and accrued liabilities	**49,115**	(326,060)	**(576,146)**	(390,240)
Deferred revenue	**38,339**	19,975	**(2,290)**	(480,780)
Income tax payable	**-**	-	**238,857**	-
	162,466	(2,017,483)	**247,200**	(2,712,328)

Stated in Canadian dollars

16. Segmented information

The Company is organized into one operating segment represented by the development and sale of storage energy systems. The Company provides professional services, consisting of support, training, and engineering services, to promote the use of its products; however, these activities are not evaluated as a separate business segment.

Major customers

The Company had two customers where sales were greater than 10% of total sales in the six-month period ended March 31, 2022 (2021 – one). The customers had attributed sales of approximately $218,018 and $1,184,170 for the three and six-month period ended March 31, 2022 (2021 - $nil and $2,053,154), respectively.

Revenue composition

The Company generated $285,130 and $1,549,679 of revenue (2021 - $347,582 and $2,671,369) from energy storage system sales with a cost of $213,482 and $1,467,620 (2021 - $333,752 and $2,467,602) for the three and six-month period ended March 31, 2022, respectively.

Geographic Sales Revenue

	Three months ended		Six months ended	
	2022	2021	**2022**	2021
Asia	**-**	-	**-**	11,862
Australia	**18,869**	38,431	**29,025**	74,859
Canada	**-**	-	**11,600**	-
Europe	**2,869**	109,119	**2,869**	109,119
United States	**263,392**	200,032	**1,506,185**	2,475,529
	285,130	347,582	**1,549,679**	2,671,369

17. Legal disputes

The Company is in a dispute with a prior customer as a result of the cancellation of a supply contract. The Company is seeking full collection of the accounts receivable from the customer, in addition to other amounts from the customer because of the cancellation. The collection of the outstanding receivable is uncertain due to litigation risks and the entire receivable has been provided for. The customer, in return, has made warranty claims against the Company which the Company has denied. The Company has recorded a warranty provision to cover potential warranty claims arising from all sales, including sales to the customer. In 2018, the customer made a counter claim against the Company.

There has been no change in the Euro denominated amounts for legal disputes from the prior year end.

18. Subsequent Events

On April 1, 2022, the Company entered into a loan agreement (the "Loan") for general working capital for up to US$10,000,000 with Western Technology Investment (the "Lender"), and drew $5,000,000 under the terms of the loan on April 7, 2022. The loan bears interest at a rate of 12% per annum, per draw, with interest only payments being paid during the first six months, followed by both principal and interest being paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw. The Company may prepay the Loan by paying all scheduled but unpaid payments, subject to a scaling discount off future interest owed depending the date of repayment.

As consideration for the advance of the Loan, the Company has issued common share purchase warrants, entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company at a price of $0.355 per common share for a period of five years from the date of the Loan, with 50% of the Warrants having vested immediately and 50% of the Warrants vesting ratably on subsequent draws made under the Loan. The vested unexercised Warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event for the Company and September 30, 2025, for an amount equal to the sum of: (i) US$1,500,000; and (ii) the product obtained by multiplying US$1,500,000 by the percentage of the principal amount of the Loan actually advanced by the Lender relative to US$10,000,000.