Condensed interim consolidated financial statements of

Eguana Technologies Inc.

December 31, 2021

(Unaudited)

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
Unaudited

	Note	**December 31 2021**	September 30 2021
Assets			
Current:			
Cash		**2,817,108**	4,603,922
Accounts receivable		**3,235,900**	2,511,942
Inventory	3	**4,719,139**	5,894,125
Prepaid expenses and deposits		**892,547**	930,463
		11,664,694	13,940,452
Non-current:			
Property and equipment		**623,037**	498,486
Intangible assets		**150,122**	158,023
Right-of-use assets	4	**1,315,851**	317,229
		13,753,704	14,914,190
Liabilities			
Current:			
Accounts payable and accrued liabilities		**2,411,748**	3,094,030
Warranty provision		**463,102**	460,153
Deferred revenue		**93,310**	95,446
Current portion of long-term debt	5	**71,603**	283,239
Derivative liability	5	**1,269,730**	1,270,950
Preferred shares	6	**-**	5,196,678
Current portion of lease liability	8	**294,378**	183,682
Current portion of other liabilities	7	**506,469**	649,884
		5,110,340	11,234,062
Non-current:			
Lease liability	8	**1,074,219**	188,825
		6,184,559	11,422,887
Shareholders' equity (deficiency)			
Common shares	9	**82,804,447**	75,293,880
Preferred shares	10	**1**	567,155
Warrants	11	**2,237,644**	2,896,568
Contributed surplus	12	**12,509,666**	12,285,282
Foreign currency translation reserve		**(252,772)**	(244,358)
Deficit		**(89,729,841)**	(87,307,224)
		7,569,145	3,491,303
		13,753,704	14,914,190

Going concern (Note 2(b))

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-month periods ended December 31,

Stated in Canadian dollars
Unaudited

	Note	**2021**	2020
Sales and engineering services	16	**1,264,549**	2,323,787
Cost of goods sold		**1,254,138**	2,133,850
Gross margin		**10,411**	189,937
Expenses			
General and administrative		**711,775**	810,021
Selling and marketing		**613,558**	456,034
Product research and development		**546,045**	431,081
Operations		**346,217**	241,942
		2,217,595	1,939,078
Operating Loss		**(2,207,184)**	(1,749,141)
Financing costs	14	**(242,041)**	(711,647)
Unrealized foreign exchange gain		**24,393**	105,486
Other income		**2,215**	-
Net loss		**(2,422,617)**	(2,355,302)
Foreign currency translation adjustment		**(8,414)**	(62,021)
Total comprehensive loss		**(2,431,031)**	(2,417,323)
Loss per common share			
Basic and diluted		**(0.01)**	(0.01)
Weighted average number of common shares			
Basic and diluted	9	**373,120,827**	234,621,632

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 three-month periods ended December 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	-	-	-	-	-	(2,422,617)	(2,422,617)
Foreign Currency Translation	-	-	-	-	(8,414)	-	(8,414)
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)	2,075,090	-	(661,359)	-	-	-	1,413,731
Warrants issued (note 11)	-		2,435				2,435
Share-based payments	-	-	-	224,384	-	-	224,384
Balance December 31, 2021	**82,804,447**	**1**	**2,237,644**	**12,509,666**	**(252,772)**	**(89,729,841)**	**7,569,145**
Balance October 1, 2020	45,634,694	567,155	2,488,365	10,989,832	(229,700)	(76,907,180)	(17,456,834)
Loss for the period	-	-	-	-	-	(2,355,302)	(2,355,302)
Other comprehensive loss	-	-	-	-	(62,021)	-	(62,021)
Issue of share capital	1,245,513	-	-	-	-	-	1,245,513
Issuance of partnership units	909,967	-	-	-	-	-	909,967
Warrants issued	-	-	104,977	-	-	-	104,977
Warrants exercised	1,513	-	(744)	-	-	-	769
Stock options exercised	42,752	-	-	(21,001)	-	-	21,751
Convertible debenture exercised	98,169	-	-	-	-	-	98,169
Share-based payments	-	-	-	432,051	-	-	432,051
Balance December 31, 2020	**47,932,608**	**567,155**	**2,592,598**	**11,400,882**	**(291,721)**	**(79,262,482)**	**(17,060,960)**

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-month periods ended December 31,

Stated in Canadian dollars
Unaudited

	Note	2021	2020
Operating activities			
Net loss		**(2,422,617)**	(2,355,302)
Share-based payments	12	**224,384**	432,051
Financing costs	14	**242,041**	711,647
Amortization and depreciation		**121,104**	85,208
Warranty provision		**2,949**	14,670
Write down of inventory		**4,733**	-
Bad debt expense		**2,500**	
Unrealized foreign exchange gain		**(24,393)**	(105,486)
		(1,849,299)	(1,217,212)
Net change in non-cash working capital	15	**(154,123)**	(694,846)
Cash flow (used in) from operating activities		**(2,003,422)**	(1,912,058)
Financing activities			
Proceeds from issuance of common shares	9	**-**	1,500,000
Cost of issuing common shares	9	**(11,577)**	(196,598)
Proceeds from issuance of limited partnership units		**-**	1,150,000
Cost of issuing limited partnership units		**-**	(193,276)
Proceeds on exercise of stock options	12	**-**	21,751
Proceeds on exercise of warrants	11	**1,416,166**	1,100
Repayment of long-term debt	5	**(218,720)**	(456,081)
Repayment of preferred share dividend	6	**(500,000)**	-
Repayment of leases	8	**(92,654)**	(64,762)
Repayment of other liabilities	7	**(161,921)**	(164,679)
Cash flow from financing activities		**431,294**	1,597,455
Investing activities			
Property and equipment additions		**(167,780)**	(4,672)
Cash flow used in investing activities		**(167,780)**	(4,672)
Effects of exchange rate changes on cash held in foreign currencies		**(46,906)**	-
Net change in cash		**(1,786,814)**	(319,275)
Cash, beginning of period		**4,603,922**	527,702
Cash, end of period		**2,817,108**	208,427

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 IAS 34 Interim Financial Reporting.

These financial statements do not comprise all the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the years ended September 30, 2021 and 2020, which were prepared in accordance with 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 March 1, 2022.

(b) Going concern

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

At December 31, 2021, the Company had not achieved profitable operations since its inception and had accumulated a deficit of $89,729,841 (September 30, 2021 - $87,307,224), incurred a net loss for the three-month period ended December 31, 2021 of $2,422,617 (December 31, 2020 - $2,355,302) and cash flow used in operating activities was $2,003,422 (December 31, 2020 – $1,912,058). Whether and when the Company can attain profitability from operations is uncertain. At December 31, 2021 the Company has a positive working capital balance of $6,554,354 (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, and debentures to meet its continuing operating requirements.

These consolidated 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) COVID-19

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. The situation remains dynamic and it is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its 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

	December 31 2021	September 30 2021
Finished goods	**508,038**	485,616
Components	**4,211,101**	5,408,509
	4,719,139	5,894,125

As at December 31, 2021, $4,693,600 (September 30, 2020 - $5,868,589) of inventory was carried at cost and $25,539 (September 30, 2020 - $25,536) was carried at net realizable value. $4,733 of inventory was written-down for the period ended December 31, 2021 (December 31, 2020 - $nil). During the quarter, Eguana transferred $0.6 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 (loss) on foreign exchange	868	-	868
Balance December 31, 2021	**1,662,129**	**102,300**	**1,764,429**
Accumulated amortization and impairment			
Balance October 1, 2021	346,612	31,992	378,604
Amortization	64,954	5,020	69,974
Balance December 31, 2021	**411,566**	**37,012**	**448,578**
Carrying Value December 31, 2021	**1,250,563**	**65,288**	**1,315,851**

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	-	8,866	8,866
Repayment	-	(218,720)	(218,720)
Fair value gain on derivative liability	(1,220)	-	(1,220)
Gain on foreign exchange	-	(1,782)	(1,782)
Balance December 31, 2021	**1,269,730**	**71,603**	**1,341,333**
Less: current portion	**(1,269,730)**	**(71,603)**	**(1,341,333)**
	-	**-**	**-**

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 September 30, 2021, 2,951,733 warrants were exercisable (2020 – 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 $1,269,730 at December 31, 2021.

Subsequent to December 31, 2021, on February 1, 2022, the full 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	-	183,322
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 December 31, 2021	**-**	**-**	**-**

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	200,436
Repayments	(157,380)	(209,327)	(499,908)	(866,615)
Loss on prepayment of contingent liability	-	75,706	-	75,706
Gain on foreign exchange	-	(5,082)	(47,208)	(52,290)
Balance September 30, 2021	96,510	-	553,374	649,884
Accretion	4,864	-	25,170	30,034
Repayments	(42,372)	-	(119,549)	(161,921)
Gain on foreign exchange	-	-	(11,528)	(11,528)
Balance December 31, 2021	59,002	-	447,467	506,469
Less: current portion	(59,002)	-	(447,467)	(506,469)
	-	-	-	-

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	21,139
Repayments	(92,654)
Loss on foreign exchange	(123)
Balance December 31, 2021	**1,368,597**
Less: current portion	**(294,378)**
	1,074,219

Stated in Canadian dollars

9. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2020	226,943,753	45,366,483
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)	5,691,334	2,075,090
Balance December 31, 2021	**393,557,399**	**82,804,447**

Weighted average number of common shares

The weighted average number of shares as at December 31, 2021 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 December 31, 2021	**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 December 31, 2021	**-**	**-**
Total preferred shares December 31, 2021	**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	(4,228,333)	(1,463,001)	(5,691,334)	(661,359)
Balance December 31, 2021	**26,586,724**	**4,409,650**	**30,996,374**	**2,237,644**

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 December 31, 2021 were as follows:

Range of exercise prices	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.01 - $0.20	28,896,374	0.19	1.05
$0.21 - $0.30	-	-	-
$0.31 - $0.40	2,100,000	0.40	1.93
Balance December 31, 2021	**30,996,374**	**0.21**	**1.11**

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)
Forfeited	(635,000)	(0.24)	-	-
Balance September 30, 2021	7,447,052	0.24	8,965,264	0.29
Granted	4,530,000	0.37	10,000	0.28
Forfeited	(905,779)	(0.27)	-	-
Balance December 31, 2021	**11,071,273**	**0.29**	**8,975,264**	**0.29**

The following summarizes information about stock options outstanding as at December 31, 2021:

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	11,185,000	0.21	4.74	9,241,674	0.21
$0.31 - $0.40	7,361,537	0.38	5.82	3,436,537	0.36
$0.41 - $0.50	1,500,000	0.46	2.32	1,500,000	0.46
Balance December 31, 2021	**20,046,537**	**0.29**	**4.95**	**14,178,211**	**0.29**

The total share-based compensation calculated for the three months ended December 31, 2021, was $224,384 (December 31, 2020 – $432,051).

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.

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. These were issued on February 18, 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.

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

	December 31 2021	September 30 2021
Risk free interest rate	**1.62%**	0.21% – 0.49%
Expected volatility (1)	**126%**	103% – 105%
Dividend yield	**-**	-
Expected life (years)	**10**	3
Weighted average fair value	**0.27**	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

Subsequent to December 31, 2021, the Company issued an additional 160,000 stock options to employees.

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 (notes 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	
	December 31, 2021	December 31, 2020
Accretion of debentures	**-**	397,845
Accretion of other liabilities	**30,034**	63,411
Accretion of long-term debt	**8,866**	60,540
Accretion of preferred shares	**183,222**	187,500
Change in fair value on derivative liability	**(1,220)**	(11,779)
Accretion on lease liability	**21,139**	14,130
	242,041	711,647

15. Supplemental information

The changes in non-cash working capital for the three-months ended December 31, 2021 and 2020 is as follows:

	Three months ended	
	December 31, 2021	December 31, 2020
Operating activities		
Decrease (increase) in assets and liabilities		
Accounts receivable and advances	**(681,682)**	(203,385)
Inventory	**1,170,253**	74,794
Prepaid expenses and deposits	**23,196**	(1,319)
Accounts payable and accrued liabilities	**(625,261)**	(64,180)
Deferred revenue	**(40,629)**	(500,756)
	(154,123)	(694,846)

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 three-month period ended December 31, 2021 (December 31, 2020 – one). The customers had attributed sales of approximately $966,151 for the three-month period ended December 31, 2021 (December 31, 2020 - $2,053,154), respectively.

Revenue composition

The Company generated $1,264,549 of revenue (December 31, 2020 - $2,323,787) from energy storage system sales with a cost of $1,254,138 (December 31, 2020 - $2,133,850) for the three-month period ended December 31, 2021. There was no engineering revenue for the three months ended December 31, 2021 and 2020.

Geographic Sales Revenue

	Three months ended	
	December 31, 2021	December 31, 2020
Australia	**10,156**	36,428
Asia	**-**	11,862
Canada	**11,600**	-
Europe	**-**	-
United States	**1,242,793**	2,275,497
	1,264,549	2,323,787

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 ends.