Condensed interim consolidated financial statements of

Eguana Technologies Inc.

March 31, 2021

(Unaudited)

Eguana Technologies Inc.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
Unaudited

	Note	**March 31 2021**	September 30 2020
Assets			
Current:			
Cash		**15,028,463**	527,702
Accounts receivable		**429,246**	684,307
Inventory	3	**2,256,863**	1,544,105
Prepaid expenses and deposits		**1,636,468**	253,363
		19,351,040	3,009,477
Non-current:			
Development costs		**3**	3
Property and equipment		**382,967**	435,209
Right-of-use assets		**414,826**	347,315
		20,148,836	3,792,004
Liabilities			
Current:			
Accounts payable and accrued liabilities		**3,821,159**	4,051,734
Warranty provision		**520,938**	507,929
Deferred revenue		**109,297**	610,913
Current portion of long-term debt	5	**746,277**	1,314,756
Derivative liability	5	**1,168,807**	1,152,000
Current portion of lease liability	8	**293,981**	154,199
Current portion of other liabilities	8	**511,401**	450,376
		7,171,860	8,241,907
Non-current:			
Long-term debt	5	**-**	298,066
Debentures	6	**4,226,691**	7,288,750
Preferred shares	7	**4,698,295**	4,322,486
Lease liability	8	**176,889**	255,359
Other liabilities	8	**382,545**	842,270
		16,656,280	21,248,838
Shareholders' equity (deficiency)			
Common shares	9	**53,543,208**	45,634,694
Preferred shares	10	**567,155**	567,155
Warrants	12	**20,232,195**	2,488,365
Contributed surplus	13	**11,570,561**	10,989,832
Foreign currency translation reserve		**(323,146)**	(229,700)
Deficit		**(82,097,417)**	(76,907,180)
		3,492,556	(17,456,834)
		20,148,836	3,792,004

Going concern (Note 2(c)) and Subsequent events (Note 19)
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	**2021**	2020	**2021**	2020
			Restated (note 2(b))		*Restated* (note 2(b))
Sales and engineering services	17	**347,582**	1,805,778	**2,671,369**	4,440,939
Cost of goods sold		**333,752**	1,414,801	**2,467,602**	3,819,874
Gross margin		**13,830**	390,977	**203,767**	621,065
Expenses					
General and administrative		**1,097,880**	450,026	**1,907,901**	979,545
Selling and marketing		**472,150**	524,651	**928,184**	1,065,403
Product research and development		**419,179**	208,293	**850,260**	408,075
Operations		**194,909**	168,173	**436,851**	435,595
		2,184,118	1,351,143	**4,123,196**	2,888,618
Operating Loss		**(2,170,288)**	(960,166)	**(3,919,429)**	(2,267,553)
Financing costs	15	**(743,653)**	(835,548)	**(1,455,300)**	(1,321,899)
Loss on debt extinguishment	5	**-**	(491,692)	**-**	(491,692)
Unrealized foreign exchange (loss) gain		**79,006**	(458,855)	**184,492**	(418,219)
Other income		**-**	2	**-**	3
Net loss		**(2,834,935)**	(2,746,259)	**(5,190,237)**	(4,499,360)
Foreign currency translation adjustment		**(31,425)**	11,530	**(93,446)**	6,369
Total comprehensive loss		**(2,866,360)**	(2,734,729)	**(5,283,683)**	(4,492,991)
Loss per common share					
Basic and diluted		**(0.01)**	(0.01)	**(0.02)**	(0.02)
Weighted average number of common shares					
Basic and diluted	9	**258,011,945**	227,236,682	**246,316,788**	227,090,218

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
						Restated (note 2(b))	
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) (note 9)	1,530,535	-	-	-	-	-	1,530,535
Issuance of partnership units (note 11)	909,967	-	-	-	-	-	909,967
Issuance of special warrants (note 12)	-	-	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**
Balance October 1, 2019	45,366,483	567,155	1,187,433	10,679,365	(152,888)	(68,668,528)	(11,020,980)
Loss for the period	-	-	-	-	-	(4,499,360)	(4,499,360)
Other comprehensive loss	-	-	-	-	6,369	-	6,369
Issue of share capital	58,349	-	-	-	-	-	58,349
Warrants issued	-	-	1,135,183	-	-	-	1,135,183
Warrants expired	-	-	(88,634)	88,634	-	-	-
Convertible debenture exercised	35,941	-	-	-	-	-	35,941
Share-based payments	-	-	-	53,057	-	-	53,057
Balance March 31, 2020	**45,460,773**	**567,155**	**2,233,982**	**10,821,056**	**(146,519)**	**(73,167,888)**	**(14,231,441)**

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 six-month periods ended March 31,

Stated in Canadian dollars
Unaudited

	Note	Three months ended 2021	Three months ended 2020	Six months ended 2021	Six months ended 2020
			Restated (note 2(b))		*Restated* (note 2(b))
Operating activities					
Net loss		**(2,834,935)**	(2,746,259)	**(5,190,237)**	(4,499,360)
Share-based payments	13	**384,491**	15,141	**816,542**	53,057
Financing costs	14	**743,653**	835,548	**1,455,300**	1,321,899
Loss on debt extinguishment	5	**-**	491,692	**-**	491,692
Amortization of capital assets		**33,956**	43,589	**67,618**	89,608
Amortization of lease assets		**49,955**	42,900	**101,501**	86,522
Write up of inventory	3	**(32,645)**	-	**(32,645)**	
Warranty provision		**(1,661)**	36,514	**13,009**	90,153
Unrealized foreign exchange loss (gain)		**(79,006)**	458,855	**(184,492)**	418,219
		(1,736,192)	(822,020)	**(2,953,404)**	(1,948,210)
Net change in non-cash working capital	16	**(2,017,483)**	(2,091,232)	**(2,712,328)**	308,555
Cash flow used in operating activities		**(3,753,675)**	(2,913,252)	**(5,665,732)**	(1,639,655)
Financing activities					
Cost from modification of long-term debt	5	**-**	(41,691)	**-**	(41,691)
Proceeds from issuance of bridge loan	4	**-**	-	**-**	280,000
Cost of issuing bridge loan	4	**-**	-	**-**	(3,745)
Proceeds from issuance of convertible debenture	6	**-**	5,000,000	**-**	5,000,000
Cost of issuing convertible debenture	6	**-**	(104,331)	**-**	(104,331)
Proceeds from issuance of common shares	9	**-**		**1,500,000**	
Cost of issuing common shares	9	**-**		**(196,598)**	
Proceeds from issuance of limited partnership units	11	**-**	-	**1,150,000**	-
Cost of issuing limited partnership units	11	**-**	-	**(193,276)**	-
Proceeds from issuance of special warrants	12	**20,000,000**		**20,000,000**	
Cost of issuing special warrants	12	**(1,766,989)**		**(1,766,989)**	
Proceeds on exercise of warrants	12	**895,246**	-	**896,346**	-
Proceeds on exercise of stock options	13	**340,500**		**362,250**	
Repayment of long-term debt	5	**(439,760)**	(270,715)	**(895,841)**	(424,594)
Repayment of leases	8	**(65,203)**	(56,998)	**(129,965)**	(115,470)
Repayment of other liabilities	8	**(379,379)**	(55,854)	**(544,058)**	(98,226)
Cash flow from financing activities		**18,584,415**	4,470,411	**20,181,869**	4,491,943
Investing activities					
Capital asset additions		**(10,704)**	(113,094)	**(15,376)**	(121,498)
Cash flow used in investing activities		**(10,704)**	(113,094)	**(15,376)**	(121,498)
Net change in cash		**14,820,036**	1,444,065	**14,500,761**	2,730,790
Cash, beginning of period		**208,427**	1,766,895	**527,702**	480,170
Cash, end of period		**15,028,463**	3,210,960	**15,028,463**	3,210,960

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, 2020 and 2019, 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, 2020.

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, 2020 audited consolidated financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 31, 2021.

(b) Restatement

During the preparation of the condensed interim consolidated financial statements for the three-month period ended December 31, 2020, management identified an overstatement of $167,000 in the revenue recorded in the comparative period ended December 31, 2019. This revenue should instead have been allocated to the second quarter ended March 31, 2020. Management also identified an understatement of cost of goods sold of $17,600 which had originally been booked within product research and development expenses.

As previously disclosed in the September 30, 2020 Management Discussion and Analysis, due to an update to the accounting treatment associated with the senior debt amendment in Q2 2020 from a debt modification to a debt extinguishment, the Company recorded a non-cash increase of the net loss for the six-month period ended March 31, 2020 of $491,692, of which only $29,314 was previously recorded within financing expenses. The amount previously recorded of $29,314 has been reclassed to be included within loss on debt extinguishment as noted below.

The impact of the errors on the March 31, 2020 condensed interim consolidated financial statements is summarized below:

Stated in Canadian dollars

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

	Three-month period ended March 31, 2020 before restatement	Restatement	Three-month period ended March 31, 2020 as restated
Sales and engineering services	1,638,778	167,000	1,805,778
Cost of goods sold	1,432,401	(17,600)	1,414,801
Gross Margin	206,377	184,600	390,977
Product research and development	190,693	17,600	208,293
Loss before undernoted items	(1,127,166)	167,000	(960,166)
Financing costs	(864,862)	29,314	(835,548)
Loss on debt extinguishment	-	(491,692)	(491,692)
Net loss	(2,450,881)	(295,378)	(2,746,259)
Total comprehensive loss	(2,439,351)	(295,378)	(2,734,729)

	Six-month period ended March 31, 2020 before restatement	Restatement	Six-month period ended March 31, 2020 as restated
Financing costs	(1,351,213)	29,314	(1,321,899)
Loss on debt extinguishment	-	(491,692)	(491,692)
Net loss	(4,036,982)	(462,378)	(4,499,360)
Total comprehensive loss	(4,030,613)	(462,378)	(4,492,991)

Extract from the condensed interim consolidated statement of cash flows

	Three-month period ended March 31, 2020 before restatement	Restatement	Three-month period ended March 31, 2020 as restated
Net loss	(2,450,881)	(295,378)	(2,746,259)
Financing costs	864,862	(29,314)	835,548
Loss on debt extinguishment	-	491,692	491,692
Net change in non-cash working capital	(1,936,232)	(155,000)	(2,091,232)

Stated in Canadian dollars

	Six-month period ended March 31, 2020 before restatement	Restatement	Six-month period ended March 31, 2020 as restated
Net loss	(4,036,982)	(462,378)	(4,499,360)
Financing costs	1,351,213	(29,314)	1,321,899
Loss on debt extinguishment	-	491,692	491,692

(c) 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 March 31, 2021, the Company had not achieved profitable operations since its inception and had accumulated a deficit of $82,097,417 (September 30, 2020 - $76,907,180), incurred a net loss for the six-month period ended March 31, 2021 of $5,190,237 (March 31, 2020 - $4,499,360) and cash flow used in operating activities was $5,665,732 (March 31, 2020 - $1,639,655). Whether and when the Company can attain profitability from operations is uncertain. At March 31, 2021 the Company has a positive working capital of $12,179,180 (September 30, 2020 – deficiency $5,232,430). 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 completed a $20 million private placement in February 2021 (Note 12) and may need to also seek additional financing through the issuance of common shares, first preferred shares, units of EGT Markets Limited Partnership and debentures to meet its continuing operating requirements. The outcome of these matters cannot be predicted at this time.

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.

(d) 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.

Stated in Canadian dollars

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

3. Inventory

	March 31 2021	September 30 2020
Finished goods	**1,294,524**	574,136
Components	**962,339**	969,969
	2,256,863	1,544,105

As at March 31, 2021, $2,198,960 (September 30, 2020 - $1,370,244) of inventory was carried at cost and $57,903 (September 30, 2020 - $173,861) was carried at net realizable value. $32,645 of inventory was written-up for the period ended March 31, 2021 (2020 - $nil).

4. Bridge loan

On November 29, 2019, the Company entered into a short-term bridge financing transaction (“Bridge Loan”) in the amount of $280,000, with certain accredited investors, including the Company’s Chief Executive Officer. The principal amount of the Bridge Loan bore an interest rate of 12.0% per annum for the initial three-month period, and 24.0% per annum each month thereafter and held a maturity date of May 29, 2020. The Company had the right to prepay at any time a partial or the entire balance of the Bridge Loan outstanding together with accrued interest, without notice, penalty, or bonus. An administrative fee of 10% on the initial principal amount is due and payable on the earlier of payment or maturity date. On April 7, 2020, the Company repaid the full amount outstanding on the Bridge Loan.

Stated in Canadian dollars

5. Long-term debt and derivative liability

	Derivative liability	Long-term debt	Total
Balance October 1, 2019	874,627	2,495,615	3,370,242
Loss on extinguishment of debt	-	491,692	491,692
Fair value allocation to warrant exchange	-	(410,898)	(410,898)
Accretion and accrued interest	-	360,381	360,381
Repayment	-	(1,371,871)	(1,371,871)
Fair value loss on derivative liability	277,373	-	277,373
Loss on foreign exchange	-	47,903	47,903
Balance September 30, 2020	1,152,000	1,612,822	2,764,822
Accretion and accrued interest	-	103,141	103,141
Repayment	-	(895,841)	(895,841)
Fair value loss on derivative liability	16,807	-	16,807
Gain on foreign exchange	-	(73,845)	(73,845)
Balance March 31, 2021	**1,168,807**	**746,277**	**1,915,084**
Less: current portion	**(1,168,807)**	**(746,277)**	**(1,915,084)**
	-	**-**	**-**

The derivative liability is carried at fair value through profit and loss and re-measured at each reporting date. The fair value was the present value of the warrant exchange payment using a discount rate of 16% and the value was determined to be $1,168,807 at March 31, 2021.

On December 31, 2019, the Company entered an amendment, that was finalized in January 2020, 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 an effective interest 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 January 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 loss on extinguishment.

Stated in Canadian dollars

6. Debentures

	Debt component of convertible debenture	Warrant component of convertible debenture (note 12)	Total
Balance October 1, 2019	3,018,560	895,184	3,913,744
Convertible debenture	4,000,000	1,000,000	5,000,000
Transaction costs	(83,465)	(20,866)	(104,331)
Interest	(695,551)	-	(695,551)
Accretion	1,199,841	-	1,199,841
Conversion to common shares	(150,635)	-	(150,635)
Balance September 30, 2020	7,288,750	1,874,318	9,163,068
Interest	(418,932)	-	(418,932)
Accretion	736,649	-	736,649
Conversion to common shares	(3,379,776)	-	(3,379,776)
Balance March 31, 2021	**4,226,691**	**1,874,318**	**6,101,009**

On February 18, 2020 the Company entered into a shares for debt agreement with its largest shareholder, DHCT II Luxembourg SARL ("DHCT"), wherein the Company amended the interest payment schedule of the convertible debenture certificate dated August 8, 2019, held by DHCT. The agreement settled $60,000 of interest due through the issuance 545,454 common shares at a price of $0.11 per share (note 13). The Company incurred transaction costs of $1,651.

On March 13, 2020 the Company closed a strategic investment with ITOCHU Corporation ("ITOCHU") and issued 5,000 unsecured convertible debentures at a price of $1,000 per debenture ("ITOCHU Debentures"), for total gross proceeds of $5,000,000. Each ITOCHU debenture is convertible into Units of the Company, at a price of $0.15 per unit. Each Unit consists of one Common Share and one-half of one Warrant. Each whole Warrant shall enable the holder thereof to acquire an additional Common Share at a price of $0.20 per share for a period of three years following the closing date of the issuance of the ITOCHU Debentures. The ITOCHU Debentures bear interest at 10% per annum, paid semi-annually in cash or additional common shares, and mature on March 13, 2023. The debt component was measured at the issue date at the present value of the cash interest and principal payments using a discount rate of 20% and a three-year term. The difference between the amount recorded for the debt component and the face value of the debentures is recorded in the statement of changes in equity (deficiency) as warrants. In connection with issuing the ITOCHU debentures, the Company incurred transaction costs of $104,331 that were allocated on a pro-rata basis to the carrying values.

On August 10, 2020 the Company entered into a shares for debt agreement with DHCT, following prior practices with its largest shareholder. The agreement settled $60,000 of accrued interest due through the issuance 461,538 common shares at a price of $0.13 per share (note 9). The Company incurred transaction costs of $2,338.

On February 19, 2021 the Company elected to exercise its right to convert the remaining principal amounts of its June 21, 2019 and August 8, 2019 debentures into common shares of the company on March 22, 2021 as the volume weighted average trading price of the Company's common shares exceeded $0.30 for a period of 20 consecutive trading days. Holders of $1.7M in debentures voluntarily elected to convert immediately on February 19, 2021 and entered into debt settlement agreements with the Company, where in $57,613 worth of accrued interest was settled by issuing a total of 115,218 common shares at a price of $0.50 per share (note 9). The Company incurred transaction costs of $2,000. 16,767 common shares were issued to related parties consisting of directors and executives of the Company.

Stated in Canadian dollars

On March 22, 2021, the remaining $1.9M of debentures associated with the June 21, 2019 and August 8, 2019 issuance were converted into common shares. The holders had a prior option to convert remaining interest due into common shares or take payment in cash. On April 4, 2021 holders of $2,180 of interest elected to enter into debt settlement agreements, through the issuance of 4,588 common shares at a price of $0.475 per share (note 9). The Company incurred transaction costs of $511.

On March 15, 2021 the Company entered into a shares for debt agreement with ITOCHU. The agreement settled $247,945 of accrued interest due through the issuance 590,345 common shares at a price of $0.42 per share (note 9). The Company incurred transaction costs of $1,740.

7. Series A Preferred shares

	Debt component of preferred shares	Equity component of preferred shares (note 10)	Total
Balance October 1, 2019	3,621,769	567,154	4,188,923
Accretion	700,717	-	700,717
Balance September 30, 2020	4,322,486	567,154	4,889,640
Accretion	375,809	-	375,809
Balance March 31, 2021	**4,698,295**	**567,154**	**5,265,449**

Stated in Canadian dollars

8. Other liabilities

	Settlement Agreement	Contingent liability settlement	Legal settlement	Total
Balance October 1, 2019	314,581	131,815	-	446,396
Legal settlement liability	-	-	905,182	905,182
Accretion	60,460	31,827	45,183	137,470
Repayments	(157,380)	(39,993)	-	(197,373)
Loss on foreign exchange	-	685	286	971
Balance September 30, 2020	217,661	124,334	950,651	1,292,646
Accretion	21,490	14,368	84,701	120,559
Repayments	(78,690)	(209,327)	(256,041)	(544,058)
Loss on prepayment of contingent liability	-	75,706	-	75,706
Gain on foreign exchange	-	(5,081)	(45,826)	(50,907)
Balance March 31, 2021	**160,461**	**-**	**733,485**	**893,946**
Less: current portion	**(135,451)**	**-**	**(375,950)**	**(511,401)**
	25,010	**-**	**357,535**	**382,545**

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.

Lease liability

	Total
Balance October 1, 2019	551,796
Accretion	63,992
Repayments	(240,205)
Loss on foreign exchange	33,975
Balance September 30, 2020	409,558
Addition of lease liability	167,781
Accretion	26,629
Repayments	(129,965)
Loss on foreign exchange	(3,133)
Balance March 31, 2021	**470,870**
Less: current portion	**(293,981)**
	176,889

Stated in Canadian dollars

9. Common shares

Authorized, unlimited number

Issued

	Number of shares	Amount ($)
Balance October 1, 2019	226,943,753	45,366,483
Issuance of common shares	1,006,992	120,000
Issuance costs	-	(3,989)
Exercise of debentures (note 6)	1,333,332	150,635
Exercise of warrants (note 12)	7,333	1,565
Balance September 30, 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 (note 6)	706,163	285,022
Issuance of partnership units (note 11)	7,665,900	1,150,000
Partnership unit costs (note 11)	-	(240,033)
Exercise of debentures (note 6)	26,846,673	3,379,776
Exercise of warrants (note 12)	7,488,931	1,490,173
Exercise of stock options (note 13)	1,625,000	598,063
Balance March 31, 2021	**283,624,077**	**53,543,208**

In November, 2020, the Company closed a private placement of 10,000,000 common shares at an issue price of $0.15 per common share, for gross proceeds of $1,500,000. In connection with the offering, the Company incurred transaction costs of $196,598, including agent commissions. The Agents also received 750,000 broker warrants (note 12), which are exercisable at a price of $0.15 per warrant for a period of two years, with an expiry date of November 17, 2022. The fair value of the warrants was determined by using the Black-Scholes option pricing model using a nil dividend yield, a 0.27% interest rate and a volatility of 104.23%. The fair market value at issuance was $57,889, also recognized as part share issuance costs.

Weighted average number of common shares

The weighted average number of shares as at March 31, 2021 and September 30, 2020 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 March 31, 2021 is as follows:

- Series 8 $1.00
- Series A $0.24

Issued

	Number of shares	Amount ($)
Series 8		
Balance October 1, 2019, September 30, 2020 and March 31, 2021	**1**	**1**
Series A		
Balance October 1, 2019, September 30, 2020 and March 31, 2021	**434,860**	**567,154**
Total preferred shares March 31, 2021	**434,861**	**567,155**
Total preferred shares September 30, 2020	**434,861**	**567,155**

11. EGT Markets Limited Partnership

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

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 November 2020, EGTLP issued 1,150 EGT Markets Limited Partnership units at a price of $1,000 per unit resulting in gross proceeds of $1,150,000. In connection with the issuance, the Company paid the agent a cash commission of $86,250 and issued 574,942 broker warrants (note 13) exercisable at a price of $0.15 per warrant for a period of two years, with an expiry date of November 2, 2022. Legal and other costs of $107,026 related to the issue of the partnership units were incurred. The fair value of the warrants was determined by using the Black-Scholes option pricing model using a nil dividend yield, a 0.26% interest rate and a volatility of 104.72%. The fair market value of the warrants at issuance was $46,757 and has been recognized as share issuance costs. If the Company exercises its right to acquire all LP units, 7,665,900 common shares will be issued.

Stated in Canadian dollars

On February 19, 2021, the Company announced that it has exercised its right to acquire all 1,150 limited partnership units in EGTLP issued on November 2, 2020 in exchange for 7,665,900 common shares in the capital of Eguana. The LP Common Shares issued in exchange for the Units were subject to resale restrictions which expired on March 3, 2021.

12. 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, 2019	26,381,762	1,677,443	28,059,205	1,187,433
Warrants issued	4,161,333	3,333	4,164,666	411,176
Warrants exercised	-	(7,333)	(7,333)	(744)
Warrants expired	(8,101,946)	(271,833)	(8,373,779)	(88,634)
Balance September 30, 2020	22,441,149	1,401,610	23,842,759	1,509,231
Special warrants issued	50,000,000	3,500,000	53,500,000	18,233,011
Warrants issued	-	1,513,475	1,513,475	128,808
Warrants exercised	(6,937,997)	(550,601)	(7,488,598)	(617,989)
Balance March 31, 2021	**65,503,152**	**5,864,484**	**71,367,636**	**19,253,061**

As consideration for the Senior Loan debt amendment (note 5), the Company issued 4,161,333 warrants to its Senior Lender. The warrants convert into an equal number of shares with an exercise price of $0.06 per common share for a period of five years from the date of the debenture.

The ITOCHU Debentures (note 6) are convertible into Units of the Company, at a price of $0.15 per unit. Each Unit consists of one Common Share and one-half of one Warrant. Each whole Warrant shall enable the holder thereof to acquire an additional Common Share at a price of $0.20 per share for a period of three years following the closing date of the issuance of the ITOCHU Debentures. In the event the ITOCHU Debentures are converted into Units, 16,666,666 common share purchase warrants which convert into an equal number of shares with an exercise price of $0.20 per common share for a period of three years from the date of the ITOCHU Debenture will be issued. The Company measured the fair value of the ITOCHU Debenture conversion option at $979,134, net of $17,029 in transaction costs.

As consideration for the November 2020 private placement (note 9), the Company issued 750,000 warrants to its agents. The warrants convert into an equal number of shares with an exercise price of $0.15 per common share for a period of two years from the date of the warrant.

Stated in Canadian dollars

As consideration for the November 2020 brokered LP unit issuance (note 11), the Company issued 574,942 warrants to its agents. The warrants convert into an equal number of shares with an exercise price of $0.15 per common share for a period of two years from the date of the warrant.

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. 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 will be 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 is not met, each Special Warrant will be exercisable, for no additional consideration and with no further action on the part of the holder thereof, for 1.1 Common Shares.

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 $1,766,989. 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.

Subsequent to quarter end, 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.

Outstanding and exercisable warrants at March 31, 2021 were as follows:

Range of exercise prices	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.01 - $0.20	16,629,541	0.19	2.58
$0.21 - $0.30	1,238,095	0.21	0.39
$0.31 - $0.40	53,500,000	0.40	0.35
Balance March 31, 2021	**71,367,636**	**0.35**	**0.87**

Stated in Canadian dollars

In the event the ITOCHU Debenture is converted into Units, the following warrants will be issued:

Exercise price	Warrants	Weighted average exercise prices ($)	Weighted average years to expiry
$0.20	16,666,666	0.20	2.20

13. 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 22,861,000 options. The shareholders approved the Stock Option Plan on October 8, 2020. 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.

	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, 2019	6,537,052	0.27	2,265,264	0.27
Granted	2,305,000	0.15	500,000	0.09
Forfeited	(385,000)	(0.21)	(50,000)	(0.30)
Balance September 30, 2020	8,457,052	0.24	2,715,264	0.24
Granted	-	-	6,000,000	0.27
Exercised	(375,000)	(0.16)	(1,250,000)	(0.24)
Forfeited	(205,000)	(0.19)	-	-
Balance March 31, 2021	**7,877,052**	**0.24**	**7,465,264**	**0.26**

Stated in Canadian dollars

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

	Outstanding options			Exercisable options	
	Options	Weighted average price ($)	Weighted average years to expiry	Options	Weighted average price ($)
$0.01 - $0.30	10,785,000	0.20	5.07	6,885,005	0.21
$0.31 - $0.40	4,522,316	0.36	3.22	3,522,316	0.36
$0.41 - $0.50	35,000	0.44	3.05	35,000	0.44
Balance March 31, 2021	**15,342,316**	**0.25**	**4.52**	**10,442,321**	**0.26**

The total share-based compensation calculated for the three and six-months ended March 31, 2021, was $384,491 and $816,542 (2020 – $15,141 and $53,057), 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.
- 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.
- 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.

Stated in Canadian dollars

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 2021	September 30 2020
Risk free interest rate	**0.21% – 0.30%**	**0.27% – 0.36%**
Expected volatility [1]	**104% – 105%**	**107% – 114%**
Dividend yield	**-**	**-**
Expected life (years)	**3**	**3 – 10**
Weighted average fair value	**0.06 – 0.22**	**0.12**

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

14. Financial instruments fair value

The carrying value and fair value of financial instruments at March 31, 2021, is disclosed below by financial instrument category:

	Carrying value	**Fair value**
Accounts receivable	**429,246**	**429,246**
Accounts payable and accrued liabilities	**3,821,159**	**3,821,159**
Derivative liability	**1,168,807**	**1,168,807**

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company valued cash using Level 1 input and the derivative liability was measured at fair value using level 2 inputs (notes 5).

- 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.

Stated in Canadian dollars

15. Financing costs

	Three months ended		Six months ended	
	2021	2020	**2021**	2020
Accretion of debentures	**338,804**	228,785	**736,649**	415,047
Accretion of other liabilities	**57,148**	25,011	**120,559**	48,933
Accretion of long-term debt	**42,601**	242,656	**103,141**	287,431
Accretion of bridge loan	**-**	19,029	**-**	37,226
Accretion of preferred shares	**188,309**	171,995	**375,809**	341,759
Change in fair value on derivative liability	**28,586**	132,538	**16,807**	163,806
Loss on prepayment of contingent liability	**75,706**	-	**75,706**	-
Lease interest	**12,499**	15,534	**26,629**	27,697
	743,653	835,548	**1,455,300**	1,321,899

16. Supplemental information

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

	Three months ended		Six months ended	
	2021	2020	**2021**	2020
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	**433,864**	(912,633)	**230,479**	(651,169)
Inventory	**(754,907)**	(322,647)	**(680,113)**	860,648
Prepaid expenses and deposits	**(1,390,355)**	(771,525)	**(1,391,674)**	(655,061)
	(1,711,398)	(2,006,805)	**(1,841,308)**	(445,582)
(Decrease) increase in liabilities				
Accounts payable and accrued liabilities	**(326,060)**	46,530	**(390,240)**	305,536
Deferred revenue	**19,975**	(130,957)	**(480,780)**	448,601
	(2,017,483)	(2,091,232)	**(2,712,328)**	308,555

17. Segmented information

The Company is organized into one operating segment represented by the development and sale of storage energy system. 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.

Stated in Canadian dollars

Major customers

The Company had one customer where sales were greater than 10% of total sales in the six-month period ended March 31, 2021 (2020 – three). The customer had attributed sales of approximately $nil and $2,053,154 for the three and six-month period ended March 31, 2021 (2020 - $1,638,778 and $4,290,773), respectively.

Revenue composition

The Company generated $347,582 and $2,671,369 of revenue (2020 - $1,319,781 and $3,704,580) from energy storage system sales with a cost of $333,752 and $2,467,602 (2020 - $1,316,727 and $3,667,132) for the three and six-month period ended March 31, 2021, respectively. The Company generated $nil of revenue (2020 - $485,997 and $736,359) from engineering services with a cost of $nil (2020 - $98,074 and $152,742) for the three and six-month period ended March 31, 2021, respectively.

Geographic Sales Revenue

	Three months ended		Six months ended	
	2021	2020	**2021**	2020
Asia	**-**	318,997	**11,862**	736,359
Australia	**38,431**	-	**74,859**	52,715
Europe	**109,119**	538,689	**109,119**	832,124
United States	**200,032**	781,092	**2,475,529**	2,819,741
	347,582	1,638,778	**2,671,369**	4,440,939

18. 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 the prior year, 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.

19. Subsequent events

ITOCHU Debentures

On April 19, 2021, ITOCHU elected to convert its balance of debentures, resulting in 33,333,333 common shares of the Company and 16,666,666 warrants. Each warrant entitles ITOCHU to acquire an additional common share at a price of $0.20 per share until March 13, 2023.

The balance of debentures remaining for the Company post ITOCHU conversion is $nil.

In connection with the conversion, the Company entered into a shares for debt agreement with ITOCHU. The agreement settled the remaining $41,096 of accrued interest due through the issuance 90,320 common shares at a price of $0.455 per share.

Stock options

In April 2021, 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 a capital markets advisory firm (note 13), as all unsecured convertible debentures were converted.