# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE YEAR ENDED SEPTEMBER 30, 2016

*This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated January 27, 2017 and should be read in conjunction with the Eguana's consolidated financial statements for the years ended September 30, 2016 and 2015.*

*The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all references to $ in this MD&A are to Canadian dollars. References to US$ or US dollars herein are to United States dollars.*

*Please read the Advisory Section of this MD&A which provides information on forward looking information, non-GAAP measurements, and other information. Additional information relating to the Company, including Eguana's Consolidated Financial Statements, the Company's most recently completed Annual Information Form, news releases, and other required filing documents is available on SEDAR at www.sedar.com. The aforementioned documents are issued and made available in accordance with legal requirements but are not incorporated by reference into this MD&A.*

## OVERVIEW

### Company

Eguana designs and manufactures power control solutions for grid interactive energy storage systems. Fully integrated energy storage systems ("ESS") consist of three major components, the software controller (the energy management system or "EMS"), the battery, and the advanced power controls.

The Company's smart power control solutions charge and discharge batteries, converting alternating current (AC) to direct current (DC) to charge and converting DC to AC to discharge batteries in a seamless bi-directional conversion process. Eguana's products are also the point of connectivity to the energy storage system and provide regulatory control over the interconnection of the energy storage system to the power grid and the consumer.

Based on Eguana's core power electronics technology, its products are designed and delivered as a value-added, factory assembled, energy storage system, with its power controls pre-integrated and certified with lithium batteries ("AC Battery") or as a set of power controls sub-assemblies ("Bi-Direx") for integration by the Company's partners into their own AC Battery products, with their own batteries. Eguana's focus is on distributed energy storage located at the point of consumption, or the edge of the power grid. The Company believes edge of grid, or behind the meter, applications are the most cost effective way to manage the power grid delivering multiple value streams to the key stakeholders; the customer, the electricity retailer, the distribution utility and the system operator.

Management of Eguana believes that distributed energy storage continues to have significant growth potential in the renewable energy sector. The Eguana AC Battery and Bi-Direx product lines are standardized, globally patented and commercially certified for distribution in major markets.

Intellectual property is one of the Eguana's core assets, and includes 16 patents and pending patents globally. Eguana's competitive advantage is based on its software-driven open controls architecture, its core technology efficiency advantage and its energy storage integration capabilities.

**The Market**

The market for distributed energy storage is driven by the need to smooth-out growing renewable energy generation on local and national electric power grids, and by the combination of falling battery costs and advanced control and communication networks. Once deployed, energy storage can provide a range of services to the utility and the electricity market, improving its return on investment by stacking these different revenue and savings streams. Aggregating fleets of distributed energy storage enables deployed systems to deliver low cost grid services at the same time as delivering electricity cost savings to the host.

Management believes that the long-term market will be characterized by fleets of distributed storage deployed and controlled by an aggregator to deliver grid services, and that the individual storage systems will earn their floor or wall space from commercial or residential hosts by delivering electricity savings, reducing cost volatility, providing backup power, or receiving some other form of compensation from the fleet owners.

However, until the new regulatory models supporting grid services are more clearly proven through real world pilots, the market is being driven primarily by the hosts themselves seeking those "behind the meter" value propositions, sometimes including a contract with the system financier to make their system available for grid services, or sometimes with an option to opt-in to grid services opportunities in the future.

The host applications define the product configuration and bill savings opportunities, and can be generally categorized into three segments:

*Residential solar + storage*

This is an evolution of the original value proposition of rooftop solar photovoltaic ("PV") systems, as rate structures change to recognize the growing importance of distributed solar to our energy supply. High feed in tariffs and net metering (essentially using the grid as a battery) originally encouraged export of excess solar generation to the grid, but falling feed-in tariffs that are now significantly below retail rates and the repeal of net metering that has begun to cascade across the USA, are motivating homeowners to store their excess generation during the day and use it at night. This, combined with the ability to arbitrage time of use rates and to provide backup power during grid outages, is generally the economic value proposition for the residential customer.

*Demand Charge Savings for Commercial buildings*

In many jurisdictions, rate structures for commercial buildings include demand charges, in addition to the energy charges and fixed charges that are typical of residential rate structures. Demand charges are based on the peak power draw recorded during the previous billing period or over the previous year. Since these charges can typically account for two thirds of a commercial building power bill, reducing them can provide significant value, and in certain jurisdictions the demand charge reductions alone result in a payback of less than three years on a commercial storage system. However, the return on investment calculation is quite complex and sensitive to actual operating results, so this market is currently served primarily by third party owners who install the system at the host location on a "shared savings" basis, rather than by selling the product to the host. This financeable, third party ownership model makes this an attractive early market for aggregators looking to build up a base fleet of storage systems while the grid services market matures.

*Electric vehicle ("EV") charging deployments*

While EV charging applications end up on residential or commercial property and could be considered another load on a residential or commercial power bill, EV charging has some unique characteristics that make it a distinct and potential high growth channel for distributed energy storage:

- EV charging can be a significant new load added to the building, which could significantly impact a consumer's power costs and therefore increases the motivation to add on-site generation and storage; and
- EV chargers (especially public chargers) are typically deployed along with a control and monitoring network that is used to provide customer visibility, support customer service and manage customer billing. Such a network can be expanded to control on-site energy storage systems with little additional cost, increasing the revenue/savings value for each physical location on the network and reducing the deployed cost of energy storage fleets; Each of the above market segments appears to varying degrees in each region in which Eguana operates. Specific drivers in each regional market are described in more detail below.

*USA*

The US market has the highest long-term potential due to its overall size and the range of innovative regulatory and financing models currently being developed, but the market is limited at present to a handful of states, each with its own particular "behind the meter" economic drivers. As new regulations, rate structures, and financial products come into play, the US market is expected to rapidly expand and become the largest global opportunity for distributed energy storage.

The primary application for distributed energy storage in the USA at present is for commercial demand charge management, especially in California where demand charges have been steadily increasing over the past decade.

The residential market opportunity is currently concentrated in Hawaii, where new customer grid supply and customer self-supply programs incentivize energy storage through reduced export rates and non-export requirements, and among utility pilots of residential storage to provide grid services across the country. Elsewhere, residential demand is characterized by premium backup power and time of use arbitrage, and deployments will be supported with state level incentives, most notably in California.

*Australia*

Australia is expected to be the fastest growing distributed energy storage market in 2017. While the market size is relatively small, Australia has a combination of the self-consumption drivers from Europe and regulatory innovation from the USA, creating a range of attractive opportunities for distributed storage. Utilities are proactively becoming involved in the business by financing and deploying customer sited systems, a PV retrofit market is developing for customers whose export compensation rates are falling to near zero, and new PV installations are expected to have a high storage attach rate.

*Europe*

The European market is currently the world's largest market for distributed energy storage, and is focused primarily on the residential self-consumption application. Commercial building opportunities are limited by the subsidized rates paid by commercial electricity customers according to industrial policy in many EU countries. While grid services have not played a major role in Europe to date, management expects to see deployments of distributed storage fleets focused initially on the secondary reserve (capacity) market.

Historically, Europe has been dominated by Germany's national market, as is expected from Germany's leadership in rooftop solar PV. As was the case with the PV market, the storage market is now spreading to other European countries including Italy, Spain, and the UK. While some German integrators are expected to carry their success to these other European markets, regional integrators are also expected to have success based on offerings differentiated to each country's specific market needs.

**Eguana's Strategy**

The Company believes that in order for energy storage to deliver significant impact quickly, the industry requires standardized, certified, high volume, low cost, integrated product solutions. However, global market conditions and regulatory requirements vary significantly and cover a wide range of applications, thus creating a barrier to design and manufacture such products.

Eguana believes that the best approximation to standardization is a pre-integrated, factory assembled, battery and power control system with flexible storage capacity and an open controls interface to support locally optimized EMS. In this format, the product can be standardized for high volume manufacturing while providing a completely integrated energy storage system meeting the unique requirements of each market.

Eguana's 2017 strategy is to build on key relationships in the three critical geographies (United States, Australia and Europe) to deliver value through two specific channels, Bi-Direx sub assembly customer integration and AC Battery system sales with sales and marketing partners.

The Bi-Direx sub assembly set delivers a certified set of power controls that can be easily integrated in multiple configurations into partner form factors. This flexibility reduces partner cost and time to market, while delivering the same features as the AC Battery.

Eguana's AC Battery delivers the fully integrated, factory assembled solution in a standard or customized enclosure that meets safety and grid interconnection, and installation requirements for each market as a fully certified energy storage appliance. By standardizing the electronics and controls integration, our sales and marketing partners have a market ready energy storage solution. Eguana will continue to develop partner relationships across the integrator, utility, distributor, and installer channels.

The pursuit of this strategy allows the Company to achieve high volume production sooner, which opens the opportunity to invest in platform cost reductions that benefit all stakeholders, while enabling customized controls and enclosures to meet individual market and customer requirements.

## OUTLOOK AND PRIORITIES

Volume and Growth

In 2016 the Company met its objectives to expand and enter the United States and Australian residential markets with its certified residential AC Battery. However, neither market performed to industry growth expectations as adoption rates and installations were obstructed by regulatory hurdles in both markets. Eguana continues to have strategic partners in place for 2017 and with early order traction and demand visibility, the Company's expectation is to realize volume growth in both segments as overall market traction increases.

Eguana achieved multiple residential AC Battery certifications in 2016 including Australia, Germany, and the United Kingdom. In addition to the residential product, the Company is on track to certify its factory assembled commercial three phase system for North America and will begin utility and small commercial beta testing with selected partners in the first half of calendar 2017.

### United States

*Residential*

Hawaii and California remain the recognized growth areas within the US energy storage market, and the Company has achieved early market traction with its Hawaiian partner. With regulatory permitting hurdles resolved, Eguana's focus will shift to supporting roll-out execution and after-sales support for its partners as market installations ramp up.

*Commercial*

The commercial "behind the meter" market continues to evolve, and the Company is seeing increased interest in a 15kVA/30kWh factory integrated and assembled product for small commercial applications. Pilot work with current customers has begun with the existing residential AC Battery in anticipation of the commercial AC Battery release. Several of these customers have progressed through initial testing phases. At present, and to the Company's knowledge, there appears to be no product on the market currently meeting this defined industry gap for commercial applications.

### Europe

The Company's primary European objective remains alignment with the stationary energy storage product development roadmap of its German automotive partner, delivering the required power control solutions and battery integration for their residential applications. Additionally, Eguana has achieved VDE 4105 and G59/1 certifications for its residential AC Battery and Bi-Direx platforms covering the United Kingdom, Germany and the Benelux countries to execute the Company's AC Battery and Bi-Direx focused strategy. The Company is currently engaged in multiple discussions with European players for both the AC Battery and custom integration applications.

### Australia

Upon receiving Australian certification for its AC Battery, the Company, through its sales and marketing partnership with the Itochu Corporation, has begun early shipments into the Australian residential market. The Company will continue training and support functions ensuring a successful volume launch across the balance of the year. It is widely accepted, and the view of the Company, that the Australian market will see growth in 2017 as a result of decreases in the solar feed in tariff program.

## SELECT ANNUAL INFORMATION

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Revenue | **698,664** | 6,007,008 | 2,284,764 |
| Net loss | **(4,834,901)** | (8,788,807) | (7,147,276) |
| Basic and diluted earnings (loss) per share | **(0.03)** | (0.07) | (0.22) |
| Total assets | **5,721,292** | 4,875,815 | 3,843,305 |
| Total non-current financial liabilities | **1,240,604** | 1,829,356 | 1,870,595 |
| Distributions or cash dividends | **Nil** | Nil | Nil |

### Revenue

The decline in revenue in 2016 is primarily due to the loss of the Company's major customer in Germany in August 2015. As a result of the loss of the customer, the Company was required to write-off European inventory that was specific to this customer and impair the customer's receivable due to the inherent risks of resulting litigation; thus, reducing the Company's working capital. In 2016 the Company has been rebuilding its customer base by targeting new customers in the US and Australia.

The increase in revenue in 2015 was primarily due to increasing sales in Germany in that year.

### Net Loss

The decrease in net loss in 2016 is primarily attributable to a positive gross margin in 2016, a bad debt recovery in 2016 as compared to a bad debt expense in 2015 and a settlement recovery in 2016 as compared to a settlement expense in 2015.

The increase in net loss in 2015 is primarily attributable to an impairment of inventory in that year, a bad debt expense of $1,770,710 and settlements of $ 642,958 in 2015, partially offset by a decrease in financing costs.

**Total Assets**

The increase in assets in 2016 is primarily due to a financing, and resultant increase in cash, at year-end.

The increase in assets in 2015 is primarily due to a financing, and resultant increase in cash, at year-end, partially offset by a write-down of accounts receivable and inventory.

**Total Non-Current Liabilities**

The decrease in total non-current liabilities in 2016 is primarily due to repayment of debentures in the year.

## 2016 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three months and years ended September 30, 2016 and 2015.

| | **Q4 2016** | Q4 2015 | **2016** | 2015 |
|---|---|---|---|---|
| Sales | **9,036** | 1,367,075 | **698,664** | 6,007,008 |
| Cost of goods sold | **(73,763)** | 2,833,811 | **652,017** | 8,133,768 |
| Gross margin | **82,799** | (1,466,736) | **46,647** | (2,126,760) |
| Expenses | | | | |
| General and administrative | **895,953** | 427,584 | **2,353,942** | 1,795,140 |
| Selling and marketing | **164,133** | 268,869 | **785,142** | 731,416 |
| Product research and development | **198,474** | 123,011 | **717,753** | 652,089 |
| Operations | **195,136** | 158,399 | **538,666** | 640,368 |
| Bad debt expense (recovery) | **(10,330)** | 1,515,494 | **(10,330)** | 1,770,710 |
| Settlements | **(119,090)** | 642,958 | **(119,090)** | 642,958 |
| | **1,324,276** | 3,136,315 | **4,266,083** | 6,232,681 |
| **Loss before undernoted items** | **(1,241,477)** | (4,603,051) | **(4,219,436)** | (8,359,441) |
| Financing costs | **120,354** | (175,604) | **(600,770)** | (839,910) |
| Gain (loss) on debentures | - | 192,531 | **(18,433)** | 410,109 |
| Other income | **1,908** | (1,283) | **3,738** | 435 |
| **Net loss** | **(1,119,216)** | (4,587,407) | **(4,834,901)** | (8,788,807) |

**Twelve Months ended September 30, 2016 and 2015**

*Sales and Gross Margin*

The decline in revenues in 2016 is primarily due to the loss of the Company's major customer in Germany in August 2015. In 2015, revenues were primarily generated in Germany with limited prototype sales in the USA, or elsewhere. Revenues in 2016 were primarily derived in the USA with some prototype revenues in Europe and Australia.

The Company expects to continue to see quarterly fluctuations in the revenues generated from the Company's various markets, sales regions and sales channels due to variability associated with the timing of customer purchase decisions.

Gross margins from product sales were positive in 2016 at 6.7% or $46,647 as compared to a negative gross margin in 2015 of 35.4% ($2,126,760). In 2015, gross margin was negatively affected by an inventory impairment of $1,251,263 (2016 – $nil) and by non-recurring expediting cost and rework cost of $661,966.

*Expenses*

Operating costs for 2016 were $4,266,083, down from $6,232,681 in 2015.

- General and administrative expenses ("G&A") increased 31.1% in 2016. After adjusting for the year over year increases in non-cash G&A expenses with respect to amortization ($27,836) and share based payments ($631,734), cash expenditures with respect to G&A were down slightly. G&A expenses consist primarily of salaries (including the value of stock options for all employees), employee benefits and overhead expenses that are not otherwise allocated to other categories, occupancy, all professional fees, investor relations costs, travel costs, unrealized foreign exchange gains and losses and amortization.

- Selling and marketing costs in 2016 were up 7% from 2015. The Company continued business development activities in the USA and Australia, in addition to activities in Europe, and has increased resources for execution, however less has been spent on tradeshows and sponsorship. Included in these costs are salaries and benefits of personnel employed in marketing and customer account relationships, travel, costs of trade shows and a portion of the Chief Technology Officer's ("CTO") salary.

- Product research and development costs in 2016 remained relatively consistent with 2015. Included are the costs associated with prototype development and certification, market analysis in support of new product definition, salaries and benefits of the engineering group, and a portion of the CTO compensation.

*Financing Costs*

Financing costs in 2016 were down 28% from 2015. The decrease is primarily attributable to the expiry of the Energy Northwest obligation, a decrease in the fair value of the debentures' embedded derivative, conversion of preferred to common shares in 2015 and no interest on bank debt in 2016 due to the cancelation of the line of credit.

The decrease was offset by higher accretion on the government grant obligation, an increase in in the amortization of financing fees due to the removal of the line of credit and higher accretion of other liabilities which were incurred at the end of 2015.

*Gain (Loss) on Debentures*

Loss on debentures in 2016 was $18,433, down from a gain on debentures of $410,109 in 2015. In 2015 the Company changed its expectation on the timing of principal repayment which caused the gain.

**Three Months ended September 30, 2016 and 2015**

*Sales and Gross Margin*

As noted above, the decline in revenues in Q4 2016 is primarily due to the loss of the Company's major customer in Germany in August 2015.

Due to regulatory permitting delays of all grid connected energy storage systems installations did not occur in Hawaii in Q4, limiting the Company's shipments to its Hawaiian partner and the ability to recognize revenue.

*Expenses*

- The increase in G&A expenses in Q4 2016 is primarily a result of share based payments for corporate advisory services.

- Selling and marketing costs in Q4 2016 decreased primarily as a result of lower spending on tradeshows and sponsorships.

*Financing Costs*

The decrease is primarily attributable to the expiry of the Energy Northwest obligation in Q4 2016.

**Analysis of Use of Proceeds**

The following table sets forth a comparison of planned use of proceeds from the June 30, 2016 equity financing with amounts expended to September 30, 2016.

| | Planned | Incurred in Q4 2016 |
|---|---|---|
| Repayment of debt | $2,000,000 | $349,517 |
| Hiring of new employees | 600,000 | 22,767 |
| Office relocation and capital improvements to research lab | 500,000 | - |
| Acquisition of production equipment | 300,000 | 8,249 |
| Marketing and business development initiatives | 300,000 | 76,852 |
| | $3,700,000 | $457,385 |

Repayment of Eguana's debt is currently made on a quarterly basis.

The remaining planned use of proceeds is expected to occur in 2017.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

| **Operating activities** | **2016** | 2015 |
|---|---|---|
| Net loss | **(4,834,901)** | (8,788,807) |
| Share-based payments | **746,609** | 114,038 |
| Finance costs | **600,770** | 839,910 |
| Amortization of capital assets | **105,107** | 77,271 |
| (Gain) loss on debentures | **18,433** | (410,109) |
| Warranty provision | **3,389** | 111,291 |
| Amortization of deferred lease inducement | **(15,600)** | (15,600) |
| Unrealized foreign exchange gain | **(3,705)** | - |
| Write down of inventory | - | 1,251,263 |
| Change in other liabilities | - | 814,590 |
| | **(3,379,898)** | (6,006,153) |
| Net change in non-cash working capital | **(797,238)** | 2,187,094 |
| **Cash flow used in operations** | **(4,177,136)** | (3,819,059) |

**Net Loss**

Net loss for 2016 decreased $3,953,906 over the net loss in 2015. The decrease in net loss is primarily attributable to an improvement gross margin in 2016, a bad debt recovery in 2016 as compared to a bad debt expense in 2015 and a settlement recovery in 2016 as compared to a settlement expense in 2015.

**Share-based Payments**

Share-based payments were $746,609 in 2016, up from $114,038. The increase was substantially due to a share-based payment for corporate advisory services incurred during the year and to a lesser extent employee incentive options issued.

## Summary of Quarterly Results

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Sales | 9,036 | 284,980 | 176,272 | 228,376 | 1,367,075 | 1,552,853 | 1,545,575 | 1,541,505 |
| Net (loss) | (1,119,216) | (1,195,551) | (1,321,482) | (1,198,652) | (4,587,408) | (1,376,971) | (1,328,286) | (1,496,142) |
| Per share (1)(2) | (0.01) | (0.01) | (0.01) | (0.01) | (0.05) | (0.02) | (0.02) | (0.03) |

(1) Basic and diluted
(2) 2016 annual earnings per shares is ($0.03) which differs from the summary above because of rounding.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The Company manages its capital with the prime objectives of safeguarding the business as a going concern, creating investor confidence, maximizing long-term returns and maintaining an optimal structure to meet its financial commitments and to strengthen its working capital position. At present, the capital structure of the Company is primarily composed of shareholders' equity. The Company's strategy is to access capital, primarily through equity issuances, asset based lending, and other alternative forms of debt financing. The Company actively manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile.

Cash generated from financing activities in 2016 was $5,138,702, and the Company used $4,177,136 in operations of during the year.

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital, at the end of the year was $1,570,491.

As at September 30, 3016 the Company had net assets of $614,705 which increased from ($3,214,935) in the previous year, primarily due to the issuance of common shares.

The Company is required to repay $942,834 in debentures, $430,229 in other liabilities, $205,648 in purchase obligations and $70,200 in lease obligations over the next year.

No unusual trends or fluctuations are expected outside the ordinary course of business.

The Company is currently in a dispute with a prior customer as a result of the cancellation of a supply contract. A claim has been prepared to recover 1,479,332 Euros ($2,128,167 CAD) for unpaid invoices and interest, along with the option to claim an additional 903,584 Euros ($1,299,353 CAD) for European inventories purchased to fulfil this contract. Litigation is inherently uncertain and while legal counsel advises that the Company has a strong case, the receivable is being carried on the books at near zero. A favorable outcome in the dispute would increase the current assets of the Company.

The above noted prior customer has made warranty claims related to the Company's first generation, 3-phase Comfort series product. Management believes this claim is without merit and that any product failures are tied directly to a fundamental system failure in the design for which the customer was solely responsible.

The Company's former contract manufacturer submitted a claim in the Court of Queen's Bench in Alberta against Eguana for 1,534,000 Euros ($2,206,000 CAD) related to the cancellation of the above noted supply contract. The Company is disputing 799,000 Euros ($1,149,000 CAD) of the amount the contract manufacturer has claimed. The Company has recorded in its financial statements the undisputed amount, therefore a successful defense of the claim submitted by the former contract manufacturer would have no impact on the Company's liquidity. The Company has counter claimed the contract manufacturer for 6.8 million Euros.

### Outstanding Debt

The Company had $2,383,000 of Series I, II and III debentures outstanding at the beginning of the 2016 fiscal year. During the year Eguana paid $1,032,363. The Company has $1,429,500 in principal outstanding as at September 30, 2016.

### Term Loan Facility

During the year ended September 30, 2016, the Company repaid the outstanding line of credit with proceeds from the common shares issued in September 2015 and canceled the $1,500,000 operating line of credit.

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

### Shareholders' Equity and Shares Outstanding

As at January 27, 2017, 201,652,049 common shares are issued and outstanding. In addition, there are common share purchase warrants representing the right to acquire 17,433,684 common shares at an average exercise price of $0.29 per share outstanding.

The Company has 6,849,583 employee stock options outstanding entitling the holders thereof to acquire up to 6,849,583 common shares. The weighted average exercise price of the vested options is $0.27 per share.

The Company had the following equity issuances throughout the fiscal 2016 year:

- In December 2015, EGTLP issued 747 LP Units at a price of $1,000 per unit resulting in gross proceeds of $747,000. As partial compensation, 216,820 finders' warrants were issued with a fair market value of $12,223. In February 2016, Eguana exercised its right to convert LP Units into common shares of Eguana and issued 6,790,977 common shares. The cash cost to convert the LP Units and issue the common shares totaled $73,079;

- In April 2016, the Company issued 9,982,402 common shares at a price of $0.12 per share for gross proceeds of $1,197,888. As partial compensation, 698,768 agent warrants were issued with an exercise price of $0.12 and a term of three years. They had a fair market value at issuance of $70,089. Total cash cost of issuance was $112,531. Key personnel and directors of the Company purchased 3,125,000 common shares;

- In June 2016, the Company issued 27,272,728 common shares at a price of $0.22 per share for gross proceeds of $6,000,000. As partial compensation, 2,045,455 agent warrants were issued with an exercise price of $0.22 and a term of two years. The fair market value at issuance was $377,009. The total cash cost of issuance was $754,627;

- In July 2016, the Company issued 4,090,772 common shares at a price of $0.22 per share for gross proceeds of $899,970 related to the exercise of the over-allotment option granted to Mackie Research Capital Corporation in connection with the June 2016 common share offering. As partial compensation, 306,807 agent warrants were issued with an exercise price of $0.22 and a term of two years. The fair market value at issuance of the agent warrants was $61,734. The total cash cost of issuance was $2,106;

- In August 2016, the Company issued 1,227,273 common shares when the fair market value of the share was $0.36 a common share for advisory services received during the year; and

- Throughout the year, 1,164,776 warrants were exercised and the same number of common shares were issued, resulting in an inflow of $161,765 for the Company.

### Off-Balance Sheet Items

As at September 30, 2016, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on Eguana's financial condition, results of operations, liquidity or capital expenditures.

## CAPITAL EXPENDITURES

In 2016, capital expenditures totaled $12,372 (2015 - $174,083) and were primarily incurred with respect to new lab equipment.

## RELATED PARTY TRANSACTIONS

The Company had the following related party transaction:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Salaries and benefits** | **Share based compensation** | Salaries and benefits | Share based compensation |
| General and administrative | **249,079** | - | 405,487 | - |
| Operations | **32,500** | - | 179,250 | 3,116 |
| Product research and development | **73,409** | - | 147,046 | 2,514 |
| Selling and marketing | **81,137** | - | - | - |
| | **436,125** | - | 731,783 | 5,630 |

Included in accounts payable and accrued liabilities is $238,566 (2015 - $235,998) due to directors and members of key management personnel.

## RISK FACTORS AND RISK MANAGEMENT

### Going Concern

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

At September 30, 2016, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $50,238,693 (2015 - $45,403,793) and recognized a cash flow deficiency from operations in 2016 of $4,177,136 (2015 - $3,819,059). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.

As at September 30, 2016, the Company had working capital (deficit) of $1,570,491 (2015 – ($1,954,733)).

The ability of the Company to continue as a going concern is dependent on completing equity or debt financings and generating profitable operations in the future in order to meet liabilities as they come due. The ability to continue as a going concern may be adversely impacted by the loss of customers and/or declining sales per customer. To address its financing requirements, the Company may seek financing through the issuance of common shares, preferred shares, units of EGTLP, debentures or other securities of the Company or its subsidiaries. The outcome of these matters cannot be predicted at this time.

### Operating Losses

The Company is in the growth phase of its business and is subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability, and the need to raise additional funding. As is common with companies at this stage of development it is likely that marketing and operating costs will exceed net sales revenues during the product launch period. Eguana's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development, particularly companies in relatively new and evolving markets.

**Market Acceptance**

Market acceptance of Eguana's products may represent a challenge for the Company. While the Company has certain technical, competitive advantages compared to other participants in the solar industry and the energy storage sector, Eguana's relatively small size and limited financial resources may be a deterrent to some customers. The Company has adjusted its strategy to address this risk through partnering with original equipment manufacturers ("OEM's"), private labelling and/or licensing relationships in order to provide better access to the market and alleviate customer concerns.

**Demand for Distributed Solar Generation in Residential Markets**

A significant portion of the demand for Eguana's products assumes that demand for distributed solar in residential markets will continue. Historically demand for solar power has been incentivized by government pricing policies for solar electricity capital grants and tax credits. The Company believes that this period is coming to an end and solar power must compete on basic economics.

The Company believes, as do many analysts, that solar is competitive in many high-density markets and that solar power, especially in residential markets, will continue to grow at rates that are similar to the past 3 years. This may not occur and if not, demand growth will likely be slower than anticipated for energy storage connected to new systems.

**Continuation of Net Metering Policies for US residential markets**

Net metering has been a significant incentive in driving growth in US residential solar markets, however there is growing pressure to change the pricing structure on net metering. While changes to net metering may reduce demand for new solar PV, the changes could make solar self-consumption a much more attractive alternative in markets with high residential electricity prices.

**Access to Additional Debt and Equity Financing**

The contraction from which the global economy has not fully recovered combined with uncertainty in the capital markets, has led to a tightening of traditional equity and debt markets resulting in a reduced availability of external financial resources. This reduced availability of external financial resources may negatively impact the Company's ability to fund growth initiatives such as capital expenditures and acquisitions or other business combination transactions. There is no assurance that additional debt or equity financing, if required, will be available to the Company when needed or on terms acceptable to Eguana. The Company's inability to obtain additional financing to support ongoing operations or to fund capital expenditures or acquisitions and business combinations could limit Eguana's growth and may have a material adverse effect upon the Company.

**Competition and Technological Change**

The Company is in a highly competitive market. It may not be able to compete effectively in these markets, and the Company may lose or fail to gain market share. Eguana faces a number of competitors, many of whom are larger and have greater resources than the Company. The Company expects to face increasing competition in the future. Eguana's competitors may develop products based on new or proprietary technology that have competitive advantages over its products.

Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources. Eguana's competitors may enter into strategic or commercial relationships on terms that increase their competitiveness. These competitors may be able to respond more quickly to changing customer demand, and devote greater resource to developing, marketing, and selling their products.

The Company's business model is highly dependent on market acceptance of the value propositions for its technology. Even if the Company is successful in gaining market acceptance for its value propositions, there is always the possibility that one of more competitors will develop new technology that enables the same value propositions at the same or better cost than the Company is able to achieve and Eguana's business would be adversely affected. It is also possible that one or more of Eguana's competitors will attempt to copy its approach and challenge the validity of its patents. While the Company believe that its patents and other intellectual property are defensible, there is no assurance that a court will not find to the contrary, negatively affecting the value of Eguana.

**Manufacturing Cost**

Eguana's business model assumes that it will be able to use its low manufactured cost and strategy of selling proprietary electronics sub-assemblies and AC Batteries to penetrate target markets. Delays in reaching adequate rates and efficiencies in production could impair the profitability of the Company's products. Eguana's ability to produce products that are cost effective depends on reaching efficient production levels.

The Company has minimal control over the cost of its raw materials, including copper and steel. The prices for these raw materials are subject to market forces largely beyond Eguana's control and have varied significantly in the past and may vary significantly in the future.

The Company may not be able to adjust its product prices, especially in the short-term, to recover the costs of increases in these raw materials. Future profitability may be adversely affected to the extent the Company is unable to pass on higher raw material to compensate for such changes.

**Operation and Supplier Risk**

At the Company's stage of development, there is a risk that critical components will not be available on a timely basis, negatively affecting its ability to meet delivery commitment on sales contracts. In addition, with new products there may be a risk of failures in quality control, a risk that is increased by the limited resources of the Company. There is also a risk that long lead times for critical components may affect production lead times. Where possible, the Company address these risks by ensuring multiple sources of critical components, working closely with its suppliers through the demand planning cycle, actively monitoring critical component suppliers and in some cases, investing in additional inventory purchases to secure longer lead-time items.

**Dependence on Customers**

Eguana's strategy depends heavily on the ability of its customers to develop markets for the products into which the Company's components are integrated. The Company mitigates this risk by partnering closely on the demand planning, customer support and marketing Eguana's technology advantage.

**Foreign Exchange**

Most of the Company's sales are now, and will for the foreseeable future be, made in Euros or in US dollars; whereas most of its production costs are incurred in Canadian and US dollars. Changes in foreign exchange rates can cause fluctuations in the Company's operating expenditures from period to period.

To date the Company has not hedged these transactions except in the form of cash deposits on sales and for the cost of materials, and there are no immediate plans to do so. As a result, there is a risk that margins will be reduced due to adverse changes in these currencies relative to the Canadian dollar.

**Attracting and Retaining Key Personnel**

The Company's future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit and retain key management and engineering personnel. The competition for such employees is substantial and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel.

### Government Regulation

The operations of Eguana are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Eguana believes that it is currently in compliance with such laws and regulations. Eguana intends to invest financial and managerial resources to ensure such compliance and will continue to do so in the future; however, it is impossible for Eguana to predict the cost or impact of such laws and regulations on Eguana's future operations.

## ACCOUNTING POLICIES

There have been no changes to the Company's critical accounting estimates and policies in 2016. Significant accounting policies are disclosed in note 4 of the annual audited consolidated financial statements.

### Accounting Pronouncements Issued but Not Adopted

The IASB has issued the following new and revised standards and amendments, which are not yet effective for the period ended September 30, 2016:

#### (a) IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 reflects the first phase of the IASB's work on the replacement of IAS 39 "Financial Instruments, Recognition and Measurement". The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. IFRS 9 is effective for annual periods on or after January 1, 2018.

#### (b) IFRS 15, Revenue from Contracts ("IFRS 15")

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

#### (c) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and it replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

#### (d) IAS 1, Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016.

The company is currently evaluating the impact of adopting the standards noted above.

## ADVISORY SECTION

**Statement of Management Responsibility for Annual Filings**

This MD&A was prepared by management of Eguana and approved by the Board of Directors of Eguana on January 27, 2017.

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in these filings. The Audit Committee and Board of Directors of Eguana provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed this MD&A and the accompanying financial statements.

The CEO and the Chief Financial Officer ("CFO"), in accordance with National Instrument 52-109 – Certification of Disclosure in Issuers Annual and Interim Fillings ("NI 52-109"), have both certified that they have reviewed the audited consolidated financial statements and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, that (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and (b) the audited consolidated financial statements together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation, as of the date of and for the period presented in the annual filings.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement, on a cost-effective basis, the disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109 will result in additional risks to the quality, reliability, transparency and timeliness of interim filings, annual filings, and other reports provided under securities legislation.

In contrast to the certification required for non-venture issuers under NI 52-109, the Corporation does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109.

In particular, the CEO and CFO filing this MD&A are not making any representations relating to the establishment and maintenance of:

- Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Corporation in its filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and/or reported within the time periods specified in securities legislation; and
- A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS reporting.

**Forward-Looking Statements**

This MD&A contains forward-looking information and forward-looking statements (collectively, "forward-looking statements") within the meaning of applicable securities laws that and are based on certain assumptions and analysis made by the Company's management as of the date of this MD&A. Forward-looking statements include, without limitation, statements with respect to investment objectives and strategy, the development plans of the Company, regulatory changes, availability of customers, market penetration, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, construction timetables, extent of solar resource usage and future growth and performance opportunities. The words "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts", "intends", "potential", "opportunity", "target" or variations of such words of similar expressions thereto and the negatives thereof, identify forward-looking statements. In particular, this MD&A includes forward-looking statements with respect to the future dynamics and size of the solar PV and energy storage market and segments thereof; statements concerning the Company's expectations of future relationships as well as the size of the market for power electronics; statements concerning the Company's sales; and statements concerning factors which management believes may be relevant in assessing whether the Company's plans are achievable.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by the Company as of the date of such statements, outside of the Company's control and are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being entirely or partially incorrect or untrue.

Certain forward-looking statements contained in this MD&A about prospective results of operations, financial position or cash flows may constitute "future oriented financial information", is based on assumptions about future events, is given as at the date hereof and including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Forward-looking statements contained in this MD&A are based on various assumptions, including, but not limited to the following: (i) the Company's ability to achieve its growth strategy; (ii) the demand for the Company's products and fluctuations in future revenues; (iii) the Company's business model and assumptions; (iv) expectations of growth in the industry in which the Company operates and the markets in which the Company's products are sold; (v) sufficiency of current working capital to support future operating and working capital requirements; (vi) the stability of general economic and market conditions; (vii) currency exchange rates and interest rates; (viii) equity and debt markets continuing to provide the Company with access to capital; (ix) the Company's continued compliance with third party intellectual property rights; and (x) that the risk factors noted above, collectively, do not have a material impact on the Company's business, operations, revenues and/or results. By their nature, forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond the Company's control, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

The risk factors included in this MD&A are not intended to represent a complete list of the factors that could affect the Company and the reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All of the forward-looking statements contained in this MD&A are qualified by these cautionary statements.