Management Discussion and Analysis

For The Year Ended September 30, 2014

The following discussion and analysis as of January 28, 2015 should be read in conjunction with the Consolidated Financial Statements of Eguana Technologies Ltd. ("Eguana", or the "Company") and notes for the year ended September 30, 2014.

Additional information relating to the Company including our Consolidated Financial Statements, Management Discussion and Analysis, news releases, and other required filing documents is available on SEDAR at www.sedar.com and on our website at *www.eguanatech.com. The aforementioned documents are issued and made available in accordance with legal requirements but are not incorporated by reference into this MD&A.*

FORWARD LOOKING INFORMATION

This Management Discussion and Analysis ("MD&A,") especially but not limited to this section, contains certain forward-looking statements within the meaning of National Instruments and other relevant securities legislation relating but not limited to our operations, anticipated financial performance, business prospects and strategies. Forward-looking information includes statements that are not statements of historical fact and address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans, 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 timetable, extent of solar resources and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

In particular we include:: statements concerning the value of our Bi-Direx power control and conversion systems ("PCS"), statements concerning growth potential for energy storage in European and North American markets; statements concerning the economic drivers of distributed energy storage; planned production increases of our Bi-Direx PCS products; potential changes in Hawaii which will drive increased use of energy storage; statements concerning growth in North American residential solar markets; characteristics of demand for commercial distributed energy; statements concerning our business strategy; statements concerning plans to roll out new products in 2015; statements concerning our estimated future product sales revenues; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

Our assumptions and the conclusions that we draw represent forward-looking information. While valuable in assessing our future prospects, forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein.

Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of this MD&A. All subsequent forward-looking information attributable to the Company herein is expressly qualified in their entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to forward-looking information contained in this MD&A to reflect events or circumstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

BUSINESS OVERVIEW:

COMPANY OVERVIEW

We are a leading supplier of power control and power conversion technology for the distributed energy storage sector of the power industry. We design and manufacture products which provide the critical power control and conversion functionality needed to create energy storage systems. Our technology is scalable to higher power ratings; however our focus remains on the lower power ratings required for energy storage systems (sometimes referred to as “ESS”) that are “distributed” across the power grid near the point of electricity consumption.

Our products charge and discharge batteries converting alternating current to direct current (charge function) and converting direct current to alternating current (discharge function) in a seamless bi-directional conversion process. Our products are the critical point of connectivity of an energy storage system with the power grid and the consumer or “load” and are the focus of regulatory control over the interconnection of ESS to the power grid.

Our business is global. Our primary markets are in Europe, the United States and Japan.

Our Markets

Distributed energy storage is a disruptive technology that will change the way in which consumers and businesses connect to conventional electrical utilities to source higher quality electrical energy for their needs at lower costs and greater reliability. There are multiple applications including storing renewable energy especially solar produced at low demand periods to meet peak demand at other times of day, providing peak shaving capacity, providing voltage control and frequency regulation to the power grid; and providing back up power to quick charge an electric vehicle.

At this juncture we believe demand for our products will be driven by the following factors:

Solar Self Consumption or Time Shifting:

Distributed energy storage systems (sometimes called “ESS”) enable the owners of solar PV systems to store electricity produced during the day and to use it to reduce the amount of electricity purchased from the power grid in the evening. Demand for solar self-consumption has emerged in the past 2 years as a result of the combination of rapidly declining costs of solar electricity and lower battery costs which make storing solar power an economic alternative to utility supplied power. Solar self-consumption has its greatest value in markets where the homeowner’s alternative cost of power from the utility is high and where there are limited incentives to generate solar power for sale to the power grid. This is the case in many European countries, especially Germany and Italy, where demand for solar storage is expected to grow significantly.

We estimate that approximately 20% of solar PV systems installed in Germany in 2014 included energy storage a total of approximately 10,000 systems. EUPD, a German research firm, estimates that

demand will grow to grow to more than 100,000 households per year by 2020 and that more than 50% will be retrofits rather than new systems.

Grid Quality Services

Increased levels of solar distributed solar, especially on residential feeders, impact the ability of the utility to balance loads, control voltages within the prescribed ranges, and maintain frequency control. These power quality issues have the potential to limit the growth of residential solar PV systems, which are valued for the lower cost power and for the beneficial impact on the environment.

Energy storage installed alongside residential solar PV systems mitigates these issues, allowing much higher levels of solar penetration on the feeders. The same energy storage system also provides back up power to the homeowner which can be used to support home energy management systems and to provide quick charge capabilities for electric vehicles.

We believe that these values will drive increased demand for distributed energy storage from companies which are actively marketing residential solar PV systems and which have the capacity to create "fleets" of storage systems that can be accessed at scale by the electric utility.

We believe that most of the leading solar integrators and solar leasing companies will add energy storage to their product offerings over the next 12 – 18 months in order to address the power quality issues that might otherwise stall continued growth in this sector.

Utility Demand Charges:

Utilities are changing the way in which they bill for services. Increasingly, utilities are moving from a simple price per kilowatt hour of electricity consumed to a fixed charge per billing cycle for the right to demand power from the grid in addition to the per hour billing. This "demand charge" is based on the peak demand at any period of time during the billing period creating a strong economic incentive for customers with high peak power demands to reduce or eliminate the peak to a point that is closer to the average demand.

We believe that these markets will be served mainly by energy service companies who will also provide equipment financing as part of a broader energy management package. We believe that these companies will move towards creating "fleets" of behind the meter energy storage that can participate in supplying capacity and other ancillary values to the power grid.

Our Opportunity

Distributed ESS typically have lower power ratings reflecting the requirements of their environments. For example, residential systems in Europe are typically about 3kW; whereas residential systems in the USA are typically about 5kW. In commercial and light industrial applications, power ratings will be higher; although based on market feedback, we believe that a large portion of the market will be for power ratings below 60kW. Moreover, in these markets reliability on demand is more important, and asset redundancy is emerging as a critical factor. We believe that this will lead to demand for systems comprised of two or more ESS modules with lower power ratings to meet a given peak demand, instead of a single high power ESS matched to peak demand.

Conventional power inverters developed for the solar industry use a high voltage design and are difficult to use with most batteries, except with significant energy losses and added cost. Bridging the gap between the low voltage output of batteries and the high voltage input specifications of conventional inverters is a technological challenge, requiring the development of a new solar inverter and power conversion technologies which increase total system cost and reduce total system efficiencies.

We believe that there is a significant gap in the distributed energy storage market for a high efficiency low voltage PCS in power ratings ranging from 2-3kW to as high as 60kW.

Our power control and conversion technologies bridge this gap enabling low voltage batteries to be connected directly to the power grid and the load without compromising cost or conversion efficiencies. Our approach is patented internationally and proprietary to Eguana. We have incorporated our

technologies in a power control and conversion system ("PCS") which we are marketing under the Bi-Direx name.

Unlike most inverter designs, our Bi-Direx PCS design has an open industry standard control that allows the Bi-Direx platform to be easily configured to work with a wide range of battery technologies in power ratings from 1 kW to 60 kW. We believe we have one of the few battery agnostic PCS in the market; and the PCS with the highest round trip (charging and discharging) conversion efficiencies in its class.

Our Strategy

Our goal is to become the #1 provider of power control and power conversion functionality for smart grid energy storage in power ratings from 2kW to 60kW. We measure this as a 30% market share in each of the target markets. Our strategy to achieve this goal is to work through non-exclusive strategic relationships with companies which have the capability in terms of technology, market presence and channels to move our PCS products in high volume.

Our primary customers include battery manufacturers, electrical utilities, integrators of distributed solar PV systems and energy service companies which have the channels and have developed or acquired the technology gateway ("customer gateway") to interface with the consumer

Our strategy is to deliver a "plug and play" hardware solution that our customers need to connect the batteries to their customers using their own customer gateways. We have three product models each of which uses standard electronics circuits and firmware that are interchangeable for multiple battery technologies and multiple applications including single phase and three phase products.

We have designed our manufacturing model to outsource manufacturing of interchangeable sub-assemblies to multiple sub-contractors around the world but to locate final assembly and testing of the finished product close to our customers. We are able to quickly ramp production in response to changing demand conditions without significant capital investment in plant and equipment.

Our business model is designed to lever our core competencies in power electronic design and supply chain management to drive revenues in each of the major markets with material increases in capital investment and operating costs. We believe that we can achieve above average earnings on product sales revenues as the industry grows.

Operations

We supply our Bi-Direx PCS functionality under three product models:

OEM Sales:

Our OEM business encompasses sales of critical components needed to provide the power conversion and control functionality of our technology to the manufacturer of integrated energy storage systems. The principal components are the power electronics circuits and embedded firmware, which are delivered as a sub-assembly and the magnetic components. Each is typically manufactured in different locations by us or by our contract manufacturers or suppliers and delivered separately to our customer for integration by the customer at its site.

This model requires a high level of engineering capacity on the part of the customer and continuous support from our engineering group especially for new product development.

Bi-Direx Sales:

Our Bi-Direx business encompasses sales of stand-alone Bi-Direx where the components are assembled by us in an enclosure and supplied to our customers for use with an ESS developed by them. In these applications we take no responsibility for integration of the Bi-Direx PCS into the ESS, although we will typically provide engineering support services for a fee. During the 2014 fiscal period most Bi-Direx PCS sales were to developers of advanced battery technologies to support development and demonstration of the ESS.

AC Battery Sales:

An AC Battery is an integrated and certified combination of the PCS and Battery including the battery management system ("BMS") but excluding the customer gateway or supervisory controller. The AC Battery is turn-key energy storage appliance that requires only a grid connection and a dispatch signal to provide a fully functional and durable energy storage installation. Our go to market strategy for this product model is to certify an AC Battery that can be easily adapted to manage customer selected batteries. We will then manufacture and sell the complete AC Battery minus the batteries to the customer. In some cases, we will also install the battery on behalf of the customer, charging a fee for final assembly and testing.

We manage our operations through a Sales and Operations (S&OP") planning process which updates our assessment of market conditions monthly, measures and aligns our operations across the same period, and adjusts our production and capacity plans to match anticipated changes to the demand mix. We believe our S&OP process enables us to maintain optimal inventory positions, manage capacity and working capital, while minimizing financial risk to the company.

MANAGEMENT DISCUSSION OF 2014 OPERATING RESULTS

Overview

During 2014, we devoted most of our operational and engineering resources towards supporting our primary customer in Europe - Sonnenbatterie GmbH ("Sonnenbatterie") - to bring its suite of products to the German residential solar self-consumption market. This included support for integration of our Bi-Direx PCS sub-assemblies into the finished Sonnenbatterie products, developing product enhancements to simplify and de-risk field installation and developing an integrated supply chain. During this period Sonnenbatterie brought 8 different single phase and three phase products to market based on the Bi-Direx platform. During Q4 '14, Sonnenbatterie successfully introduced the "ECO" - a high volume product targeting middle income homes in Germany.

We use an OEM model for deliveries to Sonnenbatterie delivering the Bi-Direx PCS as three sub-assembly components – power electronics, transformers and other magnetic components – which are then assembled by Sonnenbatterie at its facility in Wildpoldsried. We manufactured the power electronics subassembly at our facility in Calgary during the first half of the year; but shifted this production to a contract manufacturing facility in Durach, Germany. Transformers and magnetic sub-assemblies are sourced from Asia and India, based on approved prototyping in North America.

During 2014, we shifted most of our limited business development resources to bringing the Bi-Direx PCS to the USA. Throughout most of this period we initially targeted developers of battery technologies and integrators of distributed systems for micro-grids with a view to establishing Eguana as the technology leader in these sectors. We believe that we were successful, and that most of the industry now recognizes Eguana's technology leadership in the lower power ratings.

More importantly, however, our expectations for the US market changed considerably during 2014. Whereas we entered the year with the view that the residential segment would be limited to high end back up power systems, we now believe that demand will be driven by a combination of grid quality issues and solar self- consumption and will be very much larger than anticipated. These expectations are discussed under the heading "Management's Discussion of 2015 Outlook."

We entered 2014 with a target of beginning commercial sales in Japan by the end of the calendar year (Q1 '15). Japan has disappointed mainly due to changes in the internal market, which saw demand for energy storage flatten as a result of pending regulatory changes. We expect this to change as Japan deregulates its electrical industry in 2016, and we have continued to work on building relationships for that market. In the meantime, we secured Japanese patents on our core technologies and we are in the final stages of certification of the inverter platform for the Japanese market.

New Product Development

During Q4 '14 and into Q1 '15 we devoted engineering resources to developing two AC Battery platforms for the US market. A 5kW single phase AC Battery targets the residential market; and a 15kW three phase AC Battery targets commercial and light industrial market. Each meets all the smart grid requirements and will be built on a high volume modular approach by a contract manufacturer.

Each platform is agnostic to the battery technology and the final integration process is reduced to a simple software integration between the Bi-Direx PCS control software and the control software of the battery management system.

We also devoted resources to creating greater controls that will limit field installation error, provide protective limits to the potential misuse of the batteries and to reducing manufactured product costs.

Product Sales Revenues and Margins

Total revenue from product sales and services increased from $489,349 in Q1 '14 to $921,639 in Q4 '14 (September 30) totalling $2,284,764 for the entire year. By comparison, our revenue from product sales and services in 2013 was $376,526.

Average product margins across the year were below our targets for the European OEM model, although not entirely unexpected, given the volatility of an emerging market and a new product launch. Product margins on sales in the US are in line with industry standards.

Two factors were primarily responsible for lower margins on European OEM sales. First, a change in product mix from that originally negotiated with Sonnenbatterie resulted in a bias in demand toward lower power ratings with lower margins. Second, volatility in demand forecasts during the product launch period required us to expedite deliveries more than anticipated. We chose to absorb expediting costs as an investment in the long term relationship.

We are on track to return product margins for the European OEM model to industry standards with modest price increases and identified product costs reductions. With the completion of an equity raise in Q1 '15, we are also able to invest a modest amount of working capital in long lead time magnetic components to eliminate expediting costs.

Operating Costs

Operating costs have remained on plan and steady year over year, notwithstanding increase shipping volumes and a significant contribution to supporting integration of our Bi-Direx PCS into the Sonnenbatterie product line. Our basic operating model is designed to maintain the low operating costs while we ramp production and drive an increasingly higher earnings to revenue ratio as we grow our business.

- Operating costs were $725,045 down $85,170 (11%) from $810,215 in 2013. These costs are mainly associated with supply chain management related to production for Sonnenbatterie. Included in this amount are salaries and benefits of employees directly allocated to this function, direct costs incurred to support production in Germany and 100% of our COO's compensation.
- Product development costs were $950,574 in 2014 down $58,467 (6%) from $1,009,041 in 2013. Included in product development costs are the cost of test equipment used in the product development process, market analysis in support of new product definition, salaries and benefits of our entire engineering group, and 100% of our CTO's compensation.
- We increased our investment in selling and marketing during 2014 by $76,674 (16%) to $548,408 from $471,734 for the same period in 2013. Included in these costs are salaries and benefits of personnel employed in marketing and customer account relationships travel and costs and costs of trade shows.
- G&A increased by $230,645 (16%) to $1,680,469 from $1,449,824 in 2013. G&A expense consists primarily of salaries, (including the value of stock options for all employees) employee benefits and

overhead expenses that are not otherwise allocated to the earlier categories, including those related to corporate maintenance charges, occupancy, all professional fees, investor relations fees and travel costs.

MANAGEMENT DISCUSSION OF 2015 OUTLOOK

We expect revenues to continue to track higher in 2015. Revenues for Q1, 2015 are estimated at $1.35 million even with December shipments at roughly 50% of our average for October and November. We believe that demand for our products during 2015 will come primarily from Sonnenbatterie in Europe with increasing demand from a number of different sources in the United States.

In Europe we will continue to invest resources in product enhancements that will help Sonnenbatterie to grow its customer base and increase market share over its plus 30% market share in 2014.

In the United States we expect demand to come from several different sources:

1. We expect to see increased demand from multiple sources for residential energy storage to address the utility power quality issues identified earlier. We believe that the greatest demand should come from companies offering solar leasing packages as these companies are best positioned to aggregate fleets of storage to address power quality issues. We also have demand from specialty companies targeting the frequency regulation market and conventional integrators of solar PV systems.

   Our goal for this segment of the market is to gain at least 30% of the market through direct sales of our AC Battery to solar leasing companies, large system integrators and indirectly through Sonnenbatterie which has indicated that it will have products in the market later this year.

   We are well advanced in development and certification of an outdoor rated Bi-Direx AC Battery for Tier 1 Batteries and are targeting commercial production early in Q3 ’15.

2. We expect Hawaii to lead US demand for residential storage in 2015. Hawaii is already experiencing grid power quality issues based on high levels of solar penetration for which storage is a solution. Hawaiian Electric Company (“HECO”) recently announced changes to its pricing structure for surplus solar electricity generated by residential systems to reduce the amount paid for solar delivered to the power grid. If accepted by the State regulatory authority we believe it will lead to increased demand for energy storage systems on the European self-consumption model as Hawaii has very high utility electricity pricing.

   HECO has also announced 1,000 pilot solar storage projects for the Hawaiian Islands. We have announced a contract to supply Bi-Direx to E-Gear LLC a Hawaii based company; and our expectation is that we will play a role in providing Bi-Direx PCS for these systems. We believe that HECO’s experience will be closely watched by other US utilities and regulators especially in California which is seeing some of the same imbalance issues as HECO on many residential feeders across the State.

3. We have visibility on demand from energy services companies for AC Batteries in lower power ratings (15kw to 60kW) for commercial and light industrial applications to reduce utility demand charges though behind the meter peak shaving.

   Our strategy is to deliver a 15kW factory built module which will have an installed cost that is lower than custom engineered systems in higher power ratings. System reliability is critical in this application and we believe that the market will favor the redundancy of two or more factory built modules to meet a given power rating over a single custom engineered system designed to precisely match the peak

   Our goal in this segment is to supply 30% of the total market with AC Batteries designed for multiple Tier 1 batteries. We are well advanced in development and certification of a 15kW AC Battery for Tier 1 lithium batteries with targeted deliveries in Q3 ‘15.

4. Several flow battery manufacturers are working with multiple Bi-Direx PCS solutions to create products for this market in higher power ratings and we expect to see demonstration projects during 2015 and commercial demand in 2016.

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES

Our significant accounting policies have been disclosed in note 4 of the annual audited consolidated financial statements.

Net Loss and Comprehensive Loss

Our Net Loss for the year ended September 30, 2014 was $7,147,276 a decrease of $1,109,742 over the Net Loss of $8,256,988 in 2013. The Net Loss is impacted materially (44%) by Non-cash items tied to the financial reporting of our First Preferred Shares which have been converted to common shares and participating royalty debentures under IFRS Accounting Standards. Most of these items are not expected to recur in 2014.

Excluding the non-cash items the Net Loss for 2014 was $3,495,252.

Non-cash items impacting the Net Loss were

i. Accretion of $1,525,161 in respect of the 8% annual dividend on First Preferred Shares that was not declared or paid. Under the terms of the First Preferred Shares the 8% dividend preference was added or "accreted" to the amount to which the holder of First Preferred Shares is entitled on redemption or on liquidation of the Company. Accreted dividends also adjust the conversion ratio of the First Preferred Shares to increase the number of common shares issued on the conversion by an amount equivalent the number of common shares that would be issued if the accreted amount was paid in common shares are the closing price on the day before the notice of conversion. Accreted dividends are characterized as interest under IFRS accounting standards and are a charge to Earnings.

ii. A non-cash loss of $460,933 was recognized during the year as a result of the removal of the mandatory 5 year redemption feature of the First Preferred Shares. The calculation of gain or loss on such event is mandated by rules specified in IFRS accounting standards.

iii. An increase in the warranty provision by $25,579 to $137,579 to reflect increased sales of the BI-Direx PCS. Warranty provisions are an estimate of potential failure and are adjusted each year based on experience with the product and the number of units under warranty in the year

iv. Under IFRS accounting standards notional interest is accrued or "accreted" on the participating royalty debenture using by a complex formula aimed at identifying the value of embedded derivatives based on the Company's forecast revenues. The amount accreted for the year ended September 30, 2014 was $465,626 ($148,896 at September 30, 2013) although the actual interest paid, including the percentage paid based upon revenue, was in fact $186,249 (September 30, 2013 - $41,142).

v. An adjustment of the value of embedded derivatives the calculation of which is mandated by IFRS Accounting Standards resulting in a non-cash loss gain of $234,310 during 2014.

vi. Accrued non cash interest on the Energy Northwest obligation in excess of actual payments of US$7,000 was $13,785 for the year ending September 30, 2014.

Sales and Gross Margin

Total revenue from product sales and services increased from $489,349 in Q1 '14 to $921,639 in Q4 '14 (September 30) totalling $2,284,764 for the entire year. By comparison, our revenue from product sales and services in 2013 was $376,526.

Average product margins across the year were below our targets for the OEM model, although not entirely unexpected, given the volatility of an emerging market and a new product launch. While product

margins on sales in the US including OEM model sales are in line with industry standards, the volumes were not consequential in affecting total margins.

Two factors were primarily responsible for lower margins on OEM sales in Europe. First, a change in product mix from that originally negotiated with Sonnenbatterie resulted in a bias in demand toward lower power ratings with lower margins in the second half of the year. Second, volatility in demand forecasts during the Sonnenbatterie product launch required us to expedite deliveries more than anticipated. We chose to absorb expediting costs as an investment in the long term relationship.

We are on track to return product margins for the OEM model to industry standards with modest price increases and identified product costs reductions that are targeted to take effect during our Q3 '15. With the completion of an equity raise in Q1 "15, we are now able to invest a modest amount of working capital in long lead time magnetic components to eliminate expediting costs.

Summary of Quarterly Results

	2014				2013			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Sales	921,639	477,419	396,357	489,349	243,778	15,819	46,768	70,161
Net (loss)	(3,070,391)	(1,536,377)	(489,286)	(2,051,222)	(3,497,288)	(1,843,602)	(1,276,247)	(1,639,851)
Per share – basic and diluted	(0.06)	(0.05)	(0.02)	(0.08)	(0.16)	(0.09)	(0.06)	(0.08)

Summary of Annual Information

	2014	2013
Revenues	2,284,764	376,526
Net loss	(7,147,276)	(8,256,988)
Per share – basic and diluted	(0.22)	(0.39)
Total assets	3,842,305	2,930,111
Non-current liabilities	1,870,595	4,823,560
Declared dividends	-	-

Liquidity and Capital Resources

Liquidity, as measured by working capital, was decreased by $4,179,517 to ($5,342,364) at September 30, 2014 by comparison to ($9,521,881) at September 30, 2013. Of this amount $4,244,514 was attributable to the removal of the mandatory redemption provisions of the First Preferred Shares during the year. Under IFRS accounting standards we are required retain a current liability of $4,244,514 in respect of the accreted dividend component of the First Preferred Shares since the Company can be obliged at any time to issue common shares on conversion having a market value equal to the accreted amount.

Excluding the current liability in respect of the accreted dividend component of the First Preferred the adjusted working capital would have been ($507,850) on September 30, 2014. The components of the adjusted working capital are cash of $55,960, component inventory totaling $1,081,191, prepaid expenses and deposits in the amount of $303,881, which are mainly accrued finance costs and accounts receivables and advances in the amount of $1,692,733.

Accounts payable and accrued liabilities at September 30, 2014 were $2,143,965 compared to $2,102,512 at September 30, 2013.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of $1.5 million. As of September 30, 2014 the outstanding balance on the operating line was $955,104**.** Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

Subsequent to year end, the Company raised total gross proceeds of $5.131 million through a private placement of 16,057,903 million Units consisting of one common share and one half common share purchase warrant and 314 EGT Markets Limited Partnership Units. See Note 32 of the consolidated financial statements for additional information.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises, and consulting, service agreements, which have been disclosed in the note 28 to the Financial Statements.

Related Party Transactions

As disclosed in the consolidated financial statements (Note 22), the Company had the following related party transactions:

Included in general and administrative expense is salaries and benefits for key management personnel and directors of $378,887 for the year ended September 30, 2014 (2013 - $337,979) and share based compensation of $30,319 for the year ended September 30, 2014 (2013 - $30,883). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $198,000 for the year ended September 30, 2014 (2013 – $194,000).

Financing costs of $74,091 for the year ended September 30, 2014 (2013 - $15,361) related to the debentures and Series 15 First Preferred Shares held by key management personnel and directors are included in the statement of loss. Interest payments amounted to $15,848 (2013 - $3,910) for the year ended September 30, 2014.

Included in accounts payable and accrued liabilities is $122,476 (September 30, 2013 - $139,421) due to directors and members of key management personnel.

In April 2013, key management personnel and directors subscribed for $80,000 of First Preferred Shares Series 15 and received 96,000 detachable warrants valued at $6,432 (See Note 14 of the consolidated financial statements for additional information).

Key management personnel and directors subscribed for $240,000 of the debentures (Note 13) issued in August 2013 and paid $210,000 as a result of the initial discount. They also received 72,000 shares valued at $26,640 and 48,000 warrants valued at $3,880.

Key management personnel and directors subscribed also subscribed for $330,000 of the unit issuance in December 2014 (See subsequent event Note 32 of the consolidated financial statements for additional information).

Revenue and expense transactions are in the normal course of operations and were based on the exchange value of the service provided, which approximates those amounts of consideration with third parties.

Disclosure of Outstanding Share Data

As at January 28, 2015, 83,207,236 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 17,441,356 common shares at an average exercise price of $0.38 per share (See Note 18 of the consolidated financial statements for additional information). The Company had employee stock options outstanding entitling the holders thereof to acquire up to 3,079,519 common shares of which options to acquire common shares up to 1,369,372 had vested. The weighted average exercise price of the vested options is $0.36 per share.

The conversion ratio for First Preferred Shares includes a fixed conversion on the initial redemption price and a variable conversion of unpaid dividends accrued to the date of conversion. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior. In December 2014, the Company issued 27,986,575 common shares on the conversion of all remaining outstanding series of preferred shares, except one (1) Series 8 First Preferred Share, on the date of conversion. The one Series 8 First Preferred Shares is owned by DHTV and is tied to the Investor Rights Agreement between the Company and DHTV

The conversion included accreted dividends of $4,248,047 that were also converted into common shares.

Financing Costs

A substantial portion of the financing costs recognized in the year are non-cash, in that the cost is accrued, but is not paid. The largest component represents 8% dividends on First Preferred Shares which are “accreted” and added to the redemption value of the Preferred Shares. In prior years, the largest portion of non-cash financing costs was the provision for the potential liability to compensate Energy Northwest for contributions made to the Company in developing its step wave power converter. Based on the development of the STX platform management determined that there was no possibility that the Company would be required to make any payments to Energy Northwest in excess of the minimum annual payment of $7,000US.

Accretion accrued for the First Preferred Shares was $1,525,161 for the year ended September 30, 2014 compared to $2,943,816 for the same period in 2013. Interest accreted for the participating debentures issued in 2012 and 2013 was $465,626 for the year ended September 30, 2014 ($148,896 at September 30, 2013). The interest paid, including the percentage paid based upon revenue, was $156,769 (September 30, 2013 - $113,652).

Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $263,082 compared to $281,941 for the year ended September 30, 2013. Accretion of the obligation to repay government contributions to research and development was $50,715 compared to $48,155 for the year. Interest on the Energy Northwest obligation was $13,785 for the year ending September 30, 2014.

The debentures and the government grant obligation are adjusted on a quarterly basis to reflect the Company’s current forecast and the result that has on the amounts payable under these agreements. As a result of a more positive future forecast post 2014, the fair value of the embedded derivative associated with the debentures has increased resulting in a loss of $234,310 to the Company. Interest on bank debt was $37,187 for the year ending September 30, 2014 as compared to $68,596 for the

same period in 2013. This decrease of $31,409 is as a result of reducing the amount outstanding on the bank debt

Foreign Exchange

Our contract manufacturing is priced in U.S. dollars and in Euros, as is the custom in the electronics industry but our sales are priced in Canadian dollars, Euros and US dollars. As a result we are exposed to fluctuations in the Canadian dollar value relative to the U.S. dollar and the Euro. We do not hedge these exchange risks and have no plans to do so until our volumes are more stable.

RISKS AND UNCERTAINTIES

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, 2014, the Company had not yet achieved profitable operations since its inception and had accumulated a deficit of $36,614,985 (2013 - $31,594,506). Also, after taking into account, the non-cash obligation in respect of accreted dividends on First Preferred Shares, the Company recognized a cash flow deficiency from operations in 2014 of $4,138,419 (2013 - $2,505,782).

Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may also be adversely impacted by the loss of customers and falling sales per customer.

To address these concerns, the Company has since September 30 2014, converted all First Preferred Shares to common shares to remove the current liability of $4,244,514 from the working capital calculation. It also raised $5.13 million of gross proceeds through the issuance of common shares, common share purchase warrants and EGT Markets Limited Partnership Units.

Operating Losses

We are in the growth phase of our business and are 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. Our 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 our products represents a challenge for the Company. While the competitive advantages to the solar industry and the energy storage sector are material our small size and limited financial resources is a deterrent to customers. We are adjusting our strategy to address this risk through OEM, private labelling and/or licensing relationships which will provide better access to the market and alleviate customer concerns.

We believe that the most significant factors that affect our financial performance and results of operations are as follows:

Demand for Distributed Solar Generation in Residential Markets

A significant portion of the demand for our 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. We believe that this period is coming to an end and solar must compete on basic economics. In particular US residential markets are highly geared to tax equity financings based on a 30% federal tax credit which is due to reduce to 10% at the end of 2016. We believe, as do many analysts, that solar is competitive in many high density markets and that solar especially solar 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. There is evidence of this in Germany where new solar installations have slowed as incentive pricing (feed in tariffs) has been removed.

Differentials in Between Electricity Prices on the Power Grid and the Cost of Solar Electricity

A significant part of our business is tied to the large spread between the cost of solar electricity and the price that must be paid for electricity from the utility. We believe that the number of markets where this situation is operative will continue to grow with a commensurate growth in demand for energy storage to reduce consumer electricity costs. For example EUPD a German research firm is predicting demand for energy storage will continue to grow despite the slowing or new installations with more than 50% of demand coming for retrofits to existing systems by 2016. As guaranteed feed in tariff contracts begin to expire and homeowners receive only a fraction of the price under current pricing regime, we believe that demand for storage will expand

Continuation of Net Metering Policies for US residential markets

Net metering has been a significant incentive in driving growth in US residential solar markets and there is growing pressure to change the pricing structure on net metering in order to dampen demand. While changes to net metering will likely reduce demand for new solar PV, as it has in Germany, the changes will make solar self-consumption a much more attractive alternative in market with high residential electricity prices.

Competition and Technological Change

Because we are in a highly competitive market, we may not be able to compete effectively in these markets, and we may lose or fail to gain market share. We face a large number of competitors, many of whom are larger and have greater resources than us, and we expect to face increasing competition in the future. Our competitors may develop products based on new or proprietary technology that have competitive advantages over our products.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources than we do. Our 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 than we can.

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

Manufacturing Cost Targets

Our business model assumes that we will be able to use our low manufactured cost and our 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 our products. Our

ability to produce products that are cost effective depends on reaching efficient production levels. In addition, our production process results in the wasting of materials and supplies which must be minimized to produce cost effective products.

The failure to reach adequate production levels and efficiencies would impair our ability to profitably market our products and would have a material adverse effect on our business, results of operation and financial condition. We cannot control the cost of our raw materials. Our principal raw materials are copper and steel. The prices for these raw materials are subject to market forces largely beyond our control and have varied significantly and may vary significantly in the future.

We may not be able to adjust our product prices, especially in the short-term, to recover the costs of increases in these raw materials. Our future profitability may be adversely affected to the extent we are unable to pass on higher raw material or reduce our costs to compensate for such changes.

Operation and Supplier Risk

At our stage of development, there is a greater than normal exposure to the risk that critical components will not be available on a timely basis, negatively impacting our ability to meet delivery commitment on sales contracts. Also, with new products there is also a greater 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, we address these risks by ensuring multiple sources and working closely with our suppliers through the demand planning cycle and actively monitor critical component suppliers and in some cases invest to secure longer lead time items.

Dependence on Customers

Our strategy depends heavily on the ability of our customers to develop markets for their products into which our products are integrated. This risk is exacerbated by our strategy of focusing on applications where our technology makes a material difference to the outcome. This tends to limit the number of customers and in some cases bias the customer selection to new companies with emerging technologies or products which need our technology. We balance this risk by partnering closely on the demand planning, limiting our supply chain investment and securing financial commitments from our customers in the form of deposits and or letters of credit

Foreign Exchange

Most of our product sales are and will for the foreseeable future be made in Euros or in US dollars; whereas most of our production costs are incurred in US dollars. To date we have not hedged these transactions except in the form of cash deposits on sales and for the cost of production, and we have 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.

While the risks of these actions are mitigated by our contract manufacturing strategy which enables us to easily change where we manufacture products there can be no assurance that the various government licenses and approvals or amendments thereto that from time to time may be sought will be granted at all or with conditions satisfactory to the Company or, if granted, will not be cancelled or will be renewed upon expiry or that income tax laws and government incentive programs relating to the Company's business, and the solar energy industry generally, will not be changed in a manner which may adversely affect the Company.

Attracting and Retaining Key Personnel

Our future prospects depend to a significant extent on the continued service of our 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. If any of these events occur, it may have a material adverse effect on the

business, financial condition and results of operations of the Company or the value of the Common Shares.