MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated August 29, 2024 and should be read in conjunction conjunction with Eguana's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2024 ("Q2 2024") and the Company's annual audited consolidated financial statements for the year ended December 31, 2023, the Annual Financial Statements.

The 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 Forward-Looking Statements section of this MD&A, which provides information on forward-looking information and other information. Additional information relating to the Company, including Eguana's financial statements, the Company's most recently completed Annual Information Form, news releases, and other required filing documents are available on SEDAR, at www.sedarplus.ca The aforementioned documents are issued and made available in accordance with legal and reporting requirements but are not incorporated by reference into this MD&A.

Going Concern

These financial statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments, in the normal course of business. The Company's intention is to continue to fund operations by adding revenue and positive cash flow, collecting outstanding receivables, managing outgoing cash flows, and seeking additional financing in the capital markets, through debt and/or equity. The Company's ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements.

There is material uncertainty as to whether sufficient cash will be available to make future loan payments (which would represent events of default) and to address other contractual obligations of the Company. Management will be reliant on the continued support of lenders, suppliers, other providers to the Company, equity investors, and current and new customers, as the Company is forecasting requiring additional cash to continue to fund operations and settle its obligations. There is no guarantee that the Company will be successful in this regard. These facts create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

At June 30, 2024, the Company had not achieved profitable operations since inception and had an accumulated deficit of $148.3 million (December 31, 2023 - $139.7 million), incurred a net loss of $7.8 million for the six months ended June 30, 2024 (June 30, 2023 – $14.0 million) and had cash flow from (used in) operating activities of $0.9 million (June 30, 2023 – $9.9 million) for the six months ended June 30, 2024.

The Company had a working capital deficit of $6.5 million as at June 30, 2024. The working capital is highly dependent on cash collections from a major customer who has been slow to pay, and the Company is working closely with the customer. Based on management's estimates for the timing and amount of collections, the Company expects it will have sufficient liquidity for operations for more than twelve months. If there is a significant delay in the receipt of this receivable, it could impact the Company's liquidity position and require the Company to seek additional debt and/or equity financing.

The Company missed its scheduled payments of US $383,378 that was due on its loan agreement with its senior long-term debt (“Lender”) on December 1, 2023, which is an event of default under the terms of the loan agreement. Although the Company has made some arrears payments in January and April, it has continued to miss its’ monthly loan payments throughout 2024. On May 7, 2024, the Company and the Lender entered into a forbearance agreement, which included deferral of payments up to and including June 1, 2024. Further on August 27, 2024, the Company and the Lender entered into an updated forbearance agreement whereby the Lender has agreed to a deferral of payments up to and including September 1, 2024, both forbearances were predicated on certain subjective conditions that if not complied with render the forbearance to be terminated.

Management is reliant on the continued support of lenders, suppliers, and other providers to the Company, as the Company is forecasting requiring additional cash to continue to fund operations and settle its obligations. The Company is behind in its regular payments to vendors, various contractual payments to vendors and rent payments. The Company will need the continued support of its existing vendors and lenders, and to create cash inflows either through new sales, further inventory returns, collection of accounts receivable, equity issuances, additional debt financings, and/or sales of business lines, in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard. If the liquidity situation continues, it may have continued operational impacts, such as impaired reputation, low employee morale and productivity plus employee turnover, negative implications with suppliers, vendors, landlords, lenders and shareholders, and exposure to downgrading credit and legal claims. These facts create material uncertainties that may cast significant doubt on the Company’s ability to continue as a going concern.

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

OVERVIEW

The Company

Eguana Technologies Inc. (“the Company”) designs, markets, manufactures, and sells fully integrated energy storage solutions, for residential, commercial, and utility applications, based on its proprietary advanced power electronics platform, for global markets. The Company, incorporated under the Alberta Business Corporations Act, is a publicly traded company headquartered in Calgary, Alberta, Canada, and its shares trade on the TSX Venture Exchange (the “TSX-V”) under the symbol “EGT” and on the Over-the-Counter Bulletin Board (OCT-BB) under the symbol “EGTYF”.

The Market and Eguana’s Strategy

At the grid level, advanced power control and communication networks are enabling Virtual Power Plants (“VPP’s”), grid services and power grid efficiency, for utility companies. Once deployed, energy storage solutions will provide a wide range of services to utilities, as well as the electricity markets, improving its return on investment by stacking both revenue and cost savings streams. Aggregating fleets of distributed energy storage devices enable deployed systems to deliver low-cost grid services, at the same time as delivering electricity cost savings to consumers. Fleet aggregated solutions, at the home or commercial unit, allow for increased energy and more responsive energy usage, thus enabling utilities to add capacity, without the traditional capital-intensive projects of adding production and transmission. The aggregated fleet is always an environmentally friendly way of utilizing assets, at the point of consumption, with green solar solutions.

This “smart” grid, or grid 2.0, can reduce massive capital deployment requirements for utility and power, while delivering additional grid services, including voltage and frequency regulation, spinning reserve, and solar self-consumption or time shifting. From the consumer perspective, residential and small commercial hosts benefit from electricity savings, reduced cost volatility, backup power availability, and additional forms of compensation from the aggregator or fleet owner by participation in VPPs (allowing the utility operator access to the host system from time to time). Management believes that utility and VPP engagement will drive adoption, as intelligent grid infrastructure is required to support on-going electrification and the electric vehicle movement.

Eguana designs, markets, manufactures, and manages networked fleets of energy storage systems that deliver a full suite of grid services to utilities to accelerate power grid modernization. The energy transition is driving increased electrification of our energy systems, and energy storage will be a major enabler of that transition. Eguana's energy storage systems ("ESS") are installed on customer premises at the edge of the grid, where electricity is consumed, and operated as a VPP through the Eguana Cloud fleet management software platform. These energy storage systems can be utility or customer owned and deliver value to each stakeholder through a mix of grid services for the utility and backup power and bill savings to the customer, depending on the commercial agreement between the utility and the customer, all managed by the Eguana Cloud platform.

Eguana's proprietary power control system ("PCS") and Cloud technologies consists of 4 key modules that have been internally developed for specific stakeholders. The modules including the Engage for consumers, the Ensight for installers, Exchange for utility, and Edge for distribution system operators, form the backbone of the complete Eguana solution. The Company sources battery cells from leading global lithium battery partners, to ensure cost and technology competitiveness, which are then fully integrated with the PCS and Cloud gateway to deliver a complete VPP enabled Energy Storage System. Once installed, the networked fleet of ESS' can be programmed and dispatched through Eguana Exchange to deliver system-wide services such as frequency control or demand response, or through Eguana Edge to provide local support for feeders such as load balancing and voltage levelling to enable additional capacity required to manage increased energy demand from population growth and higher penetration of EV charging and rooftop solar along the feeder.

Eguana has spent the past two decades commercializing these technologies to support the transition that is happening now. The energy storage solutions have been designed from the ground up to deliver grid services to utilities at the grid edge and the fleet management tools enable clear and detailed visibility into real time grid conditions along with fast, secure and accurate response to dispatch commands. Eguana products are preferred by contractors for their ease of installation, training and support programs, and long, reliable service-life. The Eguana platform is state-of-the-art and future-ready today, having been proven with the full range of energy storage technologies from hydrogen to redox, liquid metal and all of today's advanced lithium chemistries.

Electrification of everything from household appliances to vehicles is increasing demand for power, which continues to complicate planning decisions across the utility landscape. Proposals for new generation are major headlines, however industry insiders understand the difficult and important work required for new transmission and distribution infrastructure necessary to bring added electricity to where it is used, at the grid edge. The traditional approach involves large project investments with long lead times. The current approach is advanced electronics and software control, to build flexible capacity, incrementally as needed, and where needed.

Although thermostats, EV chargers and other flexible loads can contribute to grid infrastructure solutions, energy storage solutions are the most flexible, versatile, and valuable asset in VPP environments. These assets can be owned by either the utility, the homeowner, or a third party, who retains control over the priority of services delivered from the asset and can earn compensation from other stakeholders for services delivered to them. Utilities have had success enrolling thermostats and EV chargers through customer-owned Bring Your Own Device ("BYOD") programs but have not been able to translate those early successes into energy storage devices due to the fact that most energy storage systems are sold to customers who are motivated to reduce their dependency on the utility.

Eguana believes that utility ownership will be the winner long term, and is pursuing a two-pronged strategy:

1. Utility direct sales: For utilities that have come to this realization already, Eguana will sell direct;
2. BYOD Accelerator: For utilities that still need to prove out the ESS value proposition prior to direct purchase, Eguana partners with local electrical contractors to deliver energy storage systems bundled with the BYOD incentives, avoiding the markups in the solar+storage distribution channel and offering a value proposition based on utility partnership.

In 2024, the Company launched the Eguana Edge™, one of the key modules of the Eguana Cloud platform, is a utility feeder load balancer that provides utilities with a fleet of energy storage assets, which are managed in real time, to stabilize feeder loading and voltage quality. The Eguana Edge™ presents this fleet as a single asset for DERMS integration, to deliver system level ancillary services, including demand response, frequency regulation, and spinning reserve. Eguana is currently demonstrating Eguana Edge™, with utilities in Canada and the USA, on distressed feeder lines that require end-of-line voltage support or have a high penetration of solar.

Eguana Edge™ consists of a suite of Eguana's energy storage solution products, combined with Eguana's fleet management software and operations and maintenance services. Eguana Edge™ can be deployed as a customer owned fleet, however, it delivers the highest value when deployed as a utility owned asset, offering resiliency to their customers, in exchange for hosting and accessing the systems. Eguana's strategy is to build utility partnerships and earn recurring revenue from the services delivered to the utilities from the aggregated energy storage fleet.

2024 OPERATING AND FINANCIAL RESULTS

Nature of Operations

These financial statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has incurred losses and has largely funded operations and development through issuance of debt and equity.

The Company's ability to continue as a going concern, fund operations and execute its strategy, until it is able to start generating profit and positive cash flows from operations, is dependent on future profitable operations, cash flow from operations and any necessary financing, to meet its obligations and repay its liabilities arising from normal business operations when they come due. There is material uncertainty as to whether sufficient cash will be available to make future loan payments (which would represent events of default) and to address other contractual obligations of the Company. There are material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The following tables set forth a summary of the results of operations and key balance sheet and cash flow data items, for the three and six months ended June 30, 2024 and 2023.

	Q2 2024	Q2 2023	**YTD 2024**	YTD 2023
Sales	**660,395**	2,067,624	**1,615,593**	7,922,871
Cost of goods sold	**592,753**	2,066,876	**1,477,203**	7,769,953
Gross margin	**67,647**	748	**138,390**	152,918
Expenses				
General and administrative	**714,828**	1,127,454	**1,409,881**	1,831,521
Selling and marketing	**186,108**	663,225	**434,759**	1,104,960
Product development	**454,719**	1,515,157	**684,481**	2,834,571
Operations	**290,119**	377,032	**740,631**	684,243
Amortization	**186,817**	186,824	**356,369**	371,697
Share-based compensation	**87,092**	225,838	**180,160**	454,418
	1,919,683	4,095,530	**3,806,281**	7,281,410
Operating loss	**(1,852,041)**	(4,094,782)	**(3,667,891)**	(7,128,492)
Financing costs	**(2,077,125)**	(1,950,693)	**(4,118,141)**	(3,952,492)
Expected credit recovery (loss)	**63,613**	(503,516)	**63,613**	(581,719)
Foreign exchange gain (loss)	**(279,750)**	(259,611)	**(130,625)**	(361,603)
Other income	**15,256**	37,880	**225,441**	121,229
Other expenses	**(63,699)**	(2,053,184)	**(128,451)**	(2,053,184)
Net loss before tax	**(4,193,746)**	(8,823,906)	**(7,756,054)**	(13,956,261)
Current tax expense	**-**	-	**-**	-
Net loss from continuing operations	**(4,193,746)**	(8,823,906)	**(7,756,054)**	(13,956,261)
Net loss from discontinued operations	**(641,229)**	(196,273)	**(829,292)**	(378,157)
Net loss	**(4,834,975)**	(9,020,179)	**(8,585,346)**	(14,334,418)

SUMMARY OF QUARTERLY RESULTS

	2024		2023				2022	
	Q2	Q1	Q4	Q3	Q2	Q1	Q5	Q4
Sales(2)	660,395	955,198	984,627	2,551,092	2,067,624	5,855,247	10,357,667	2,602,195
Net loss(2)	(4,834,975)	(3,750,371)	(15,453,344)	(5,801,989)	(9,020,179)	(5,314,239)	(6,599,160)	(2,001,516)
Per share(1)	(0.01)	(0.01)	(0.03)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)

1. Basic and diluted.
2. Fiscal 2022 represents a fifteen-month period due to a change in year end from September to December. 2022 Q5 is for the quarter ended December 31, 2022 and 2023 Q4 is for the quarter ended September 30.

Quarter over quarter results have been negatively impacted by the slow down in the overall solar industry, negatively impacted by rising interest rates and high inflation, among other macro-economic factors, for the past 15 months. Following the end of 2022 and the start of 2023, sales declined due to this industry demand shift. In these strong quarters, sales were made to the major USA partner, who had orders in the distribution channels, and the industry came to a significant halt, which impacted all companies in the solar industry. The following quarter of quarter analysis for the three and six months ended June 30, 2024, reflects this negative shift.

2024 Second Quarter - Three Months Ended June 30, 2024

Sales

For the three months ended June 30, 2024, sales were $660 thousand, a decrease of $1.4 million or 68% from the comparative three months ended June 30, 2023, of $2.1 million.

Relative to the most recent prior quarter, revenue for this quarter of $660 thousand decreased by $295 thousand or 30.8% as compared to $955 thousand in the three months ended March 31, 2024.

The decrease in revenue during the quarter was as a result of the solar industry being negatively impacted by rising interest rates and high inflation, among other macro-economic factors, for the past 15 months. Liquidity issues of a key customer, also impacted by the underperforming solar market, negatively impacted sales after the first quarter of 2023 and continue into 2024. The significant impact of this revenue decline is somewhat offset by sales in the Australian rooftop solar business, which was not active in the comparative period in 2023.

Gross margin

Gross margin was $67 thousand or 10.2% for the three months ended June 30, 2024, an increase as compared to gross margin of $1 thousand or 0.0% in the comparative three months ended of 2023. This is due to the difference in revenue streams in comparison to the prior year, shifting to a majority of sales in installation services.

Overall gross margin remains low as the industry slowed and customers became more price sensitive, with rising interest and high inflation. With lower-than-expected sales volume, in this constrained marketplace, gross margin continues to remain low.

Operating expenses

Expenses for the three months ended June 30, 2024, were $1.9 million as compared to $4.1 million in the three months ended June 30, 2023, a decrease of $2.2 million or 53.1%. Large overall cost reductions were achieved with lower headcount and decreased spending in all categories.

General and administrative expenses ("G&A")

G&A expenses consist primarily of salaries, employee benefits and overhead expenses that are not otherwise allocated to other categories, occupancy, all professional fees, investor relations costs, travel costs, and realized foreign exchange gains and losses.

G&A expenses decreased by $413 thousand as compared to the comparative quarter ended June 30, 2023, as a result of the Company making strong efforts to control spending and some personnel reductions in finance and administration. Partially offsetting these reductions during the quarter were increased costs for insurance, legal and audit.

Selling and business development ("S&BD")

These costs include salaries and benefits of personnel employed in marketing and customer account relationships, travel, costs of trade shows, and portions of the Chief Executive Officer's ("CEO") compensation that relates to business development.

For the three months ended June 30, 2024, S&BD costs decreased by $477 thousand as compared to the comparative quarter ended June 30, 2023. The decrease primarily relates to salaries and benefits along with travel and business development costs, as the number of sales personnel was reduced, to respond to current market conditions. Specifically for 2024, the Company no longer maintained a USA sales and support team as those positions were substituted by existing personnel in Canada. This was partially offset by sales costs of the Company's integrated solar operation in Australia, in which additional personnel, marketing and selling efforts continued in the second quarter of 2024, prior to the decision to separate from Solarlab and reduce the ongoing cash costs of Australia.

Product development

Product development costs include prototype development and certification, market analysis in support of new product definitions, salaries and benefits of the engineering group, and a portion of the Chief Operating Officer's ("COO") compensation.

Product development costs decreased by $1.1 million as compared to the comparative quarter ended June 30, 2023. The Company is making strong efforts to control spending and prioritize development projects. Personnel costs decreased as the Company downsized its product development team near the end of 2023, responding to the lower market conditions, which continue in 2024.

Operations

Operations costs include salaries and benefits of employees directly allocated to this function, overhead cost allocations to support the operations personnel and a portion of the COO's compensation.

For the three months ended June 30, 2024, operations costs decreased by $87 thousand as compared to the comparative quarter ended June 30, 2023. This decrease is primarily due to the Company making strong efforts to reduce spending and strategic cost reductions. Specifically, personnel costs decreased in the second quarter as the Company reduced personnel in Australia relating to not completing the Solarlab business acquisition.

Amortization

Amortization costs are non-cash expenses related to the amortization of the Company's capital assets, intangible assets and right-of-use leased assets.

Amortization costs were consistent for the three months ended June 30, 2024, as compared to the three months ended June 30, 2023, as there has not been much spending on new capital assets.

Share-based compensation

Share based compensation expense is a non-cash expense related to the Company rewarding employees and related parties with equity ownership rights. Share-based compensation expense is recognized over the options vesting period.

For the three months ended June 30, 2024, share-based compensation expense decreased by $139 thousand, as compared to the comparative quarter ended June 30, 2023. This decrease in expense is due to less stock options being granted year over year, plus some vesting periods of previous options becoming fully vested.

Expected credit loss (“ECL”)

At the end of 2022 and the first quarter of 2023, the Company reported strong revenue growth, mostly in the North American market. A majority of this revenue was from a major customer, who has been and remains slow paying. This customer represents 79% of total accounts receivable, which as at June 30, 2024, had $7.4 million of total accounts receivable over 90 days past due. This customer continues to be delayed in making payments.

The Company originally recognized a credit loss provision at year-end December 31, 2022, and has been adjusting the provision on a quarterly basis. During the six months ended June 30, 2024, the Company recorded a reduction in ECL to reflect value received from inventory obtained as an offset to net accounts receivable with the major customer. As a result, the Company has a provision for this customer at June 30, 2024, in the amount of $7.4 million. The Company received additional payments during the six months ended June 30, 2024 and recognized a recovery of $64 thousand recorded against the ECL provision.

During the three months ended June 2024, a price concession was provided to a major customer that resulted in a credit to accounts receivable, with an offset to expected credit loss of USD $415,000. Based on new market information for inventory previously sold to the customer, and in good faith, the Company agreed to a one-time credit, reflecting market pricing through a new sales channel that is now available but only at a lower special selling price. This does not impact the Company’s existing inventory.

The Company applied significant judgment to estimate the ECL provision based on customer-specific factors, including past payment history, known customer business factors, and customer’s access to capital, plus judgements for the expected timing of future consideration, and discount rates, to account for the time value of money. Further general and industry specific economic conditions are also included in the assessment of ECL. As the overall industry has not recovered and industry sell-through remains slow, especially in an industry that generally is stronger towards the end of the year, the collection risk was heightened. In addition, slower than expected payment frequency and amounts were factored into the ECL provision.

Financing costs

Financing costs include non-cash expenses such as accretion, fair value changes and imputed lease liability interest. Financing costs in for the three months ended June 30, 2024, were $2.1 million, as compared to the comparative quarter ended June 30, 2023, of $2.0 million. The amounts are comparable year over year as the makeup of outstanding debts are similar. There are offsetting variance amounts of interest affected by foreign exchange and change in the fair value of derivative liability.

Unrealized foreign exchange loss

The $20 thousand increase in unrealized foreign exchange loss for the three months ended June 30, 2024, as compared to the three months ended June 30, 2023, is primarily due to the strengthening of the US dollar in 2024.

Other income and expense

For the three months ended June 30, 2024, other expense of $64 thousand was reported, and other income of $15 thousand was reported. The detail of these items is outlined in the financial statements. In the first quarter of 2024, the Company reported other expenses related to transaction costs for the Australian business and other income relating to a gain on return of certain inventories.

Net loss

Net loss for the three months ended June 30, 2024, decreased by $4.5 million, as compared to the three months ended June 30, 2023. The decrease in net loss can primarily be attributed to decreased operating expenses by $2.2 million, due to lower selling, general and administrative costs, as the Company implemented cost saving measures across the Company. These measures implemented in the fourth quarter of 2023 continued throughout 2024. In addition, unrealized foreign exchange for the three months ended June 30, 2024, had a negative impact on net loss of $280 thousand (three months ended June 30, 2023 – negative impact of $259 thousand).

2024 Year to Date - Six Months Ended June 30, 2024

Sales

For the six months ended June 30, 2024, sales were $1.6 Million, a decrease of $6.3 million or 79.6% from the comparative six months ended June 30, 2023, of $7.9 million.

The decrease in revenue during the six months ended is related to the solar industry being negatively impacted by rising interest rates and high inflation, among other macro-economic factors. The significant impact of this revenue decline is somewhat offset by sales in the Australian rooftop solar business, which was not active in the comparative period in 2023.

Gross margin

Gross margin was $138 thousand or 8.6% for the six months ended June 30, 2024, an decrease as compared to gross margin of $153 thousand or 1.9% in the comparative six months ended of 2023. The increase in gross margin percentage is due to the difference in revenue streams in comparison to the prior year, shifting to a majority of sales from installation services.

Operating expenses

Expenses for the six months ended June 30, 2024, were $3.8 million as compared to $7.3 million in the six months ended June 30, 2023, a decrease of $3.5 million or 47.7%. Large overall cost reductions were achieved with lower headcount and decreased spending in all categories.

General and administrative expenses ("G&A")

G&A expenses decreased by $422 thousand as compared to the comparative six months ended June 30, 2023 as a result of the Company making strong efforts to control departmental spending. This decrease is primarily due to decreased salaries and wages and general expenditures including travel costs. Offsetting these reductions during the quarter are increased insurance, legal and audit fees.

Selling and business development ("S&BD")

For the six months ended June 30, 2024, S&BD costs decreased by $670 thousand as compared to the comparative six months ended June 30, 2023. The decrease primarily relates to salaries and benefits along with travel and business development costs, as the number of sales personnel was reduced, to respond to current market conditions. This is partially offset from efforts to promote the Company's integrated solar presence in Australia, in which additional marketing and advertising efforts were continued in the first half of the year 2024.

Product development

Product development costs decreased by $2.2 million as compared to the comparative six months ended June 30, 2023. The Company is making strong efforts to control departmental spending. Personnel costs decreased in the fourth quarter as the Company downsized its product development team, subsequent to the end of the third quarter of 2023, to respond to the current market conditions, which has continued through the first six months of 2024.

Operations

For the six months ended June 30, 2024, operations costs increased by $56 thousand as compared to the comparative quarter ended June 30, 2023. This increase is primarily due to additional inventory storage facilities utilized in the USA, and the expanded Australia operations team for rooftop solar installation services, which both directly increases operations expenses. In addition, salaries and personnel related expenses were higher in the quarter as additional operations staff were added during the year in Australia, in comparison to the six months ended June 30, 2023. Overall, the increases were partially offset by the Company making strong efforts to control spending and cost reductions. Personnel costs decreased in the second quarter as the Company reduced personnel in Australia relating to not completing the Solarlab business acquisition.

Amortization

Amortization costs decreased by $15 thousand for the six months ended June 30, 2024, as compared to the six months ended June 30, 2023. This decrease is a result of property and equipment disposals and impairments in at the end of last year, with a lower asset base being depreciated.

Share-based compensation

For the six months ended June 30, 2024, share-based compensation expense decreased by $274 thousand, as compared to the comparative six months ended June 30, 2023. This decrease in expense is due to less stock options being granted year over year, plus some vesting periods of previous options becoming fully vested.

Expected credit loss ("ECL")

During the six months ended June 30, 2024, the Company recorded a recovery in ECL of $64 thousand for payments received.

During the three months ended June 2024, a price concession was provided to a major customer that resulted in a credit to accounts receivable, with an offset to expected credit loss of USD $415,000. Based on new market information for inventory previously sold to the customer, and in good-faith, the Company agreed to a one time credit, reflecting market pricing through a new sales channel that is now available but only at a lower special selling price. This does not impact the Company's existing inventory.

The ending balance of the expected credit loss provision, at June 30, 2024, was $9.1 million.

Financing costs

Financing costs include non-cash expenses such as accretion, fair value changes and imputed lease liability interest. Financing costs for the six-month period ended June 30, 2024, were $4.1 million, as compared to the comparative six months ended June 30, 2023, of $4.0 million, due to similarly comparable year over year as the composition of outstanding debts are similar. The increase is due to offsetting amounts of interest affected by foreign exchange and change in the fair value of derivative liability.

Unrealized foreign exchange loss

The $131 thousand increase in unrealized foreign exchange loss for the six months ended June 30, 2024, as compared to the six months ended June 30, 2023, is primarily a result of a strengthening of the US dollar over the six months ended June 30, 2024.

Other income and expense

For the six months ended June 30, 2024, other expenses of $128 thousand was reported, and other income of $225 thousand was reported. In the first six months of 2024, the Company reported other expenses related to transaction costs for the Australian business and other income relating to a gain on return of certain inventories.

Net loss

Net loss for the six months ended June 30, 2024, decreased by $5.7 million, as compared to the six months ended June 30, 2023. The decrease in net loss can primarily be attributed to decreased operating expenses by $3.5 million, due to lower selling, general and administrative costs, as the Company implemented cost saving measures across the Company. These measures implemented in the fourth quarter of 2023 continued in the first six months of 2024. In addition, unrealized foreign exchange for the six months ended June 30, 2024, had a negative impact on net loss of $131 thousand (six months ended June 30, 2023 – negative impact of $362 thousand).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company manages its capital closely as it focuses on near and medium-term liquidity, to fund the Company's operating activities and other financial obligations through the current market downturn. At present, the capital structure of the Company is primarily composed of shareholders' equity and debt. The Company's approach has been to access capital primarily through equity issuances, asset based lending, and other alternative forms of debt financing. The Company's operating cash requirements, including amounts anticipated to meet near and medium liquidity requirements, are continuously monitored, and adjusted as input variables and industry conditions change. These key variables include, but are not limited to, timing of receivable collections or other cash inflows, anticipated expenditures, debt payments and cash outflows, and access to equity and debt markets. As these variables change, liquidity risks may necessitate the need for the Company to negotiate with its long-term debt lenders, carefully manage short-term liquidity and pursue other forms of financing. There is no assurance that adequate funds from operations, equity or debt will be available to the Company when needed and in the amounts required, to effectively manage liquidity.

Access for liquidity through the capital markets may be negatively impacted by a pending downgraded listing in the USA. Eguana was recently notified, by the OTCQB in the USA, of the low trading price for the stock and potential removal of the EGTYF stock from the OTCQB marketplace, with a downgrade the "pink" market. The USA capital market access and costs was under consideration by the Company's management as to overall stock and stakeholder benefit and the impact of a downgrade is not known at this time.

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital as at June 30, 2024, was a working capital deficit of $6.5 million (December 31, 2023 – $64 thousand). The Company has $6.1 million in accounts payables and accrued liabilities as at June 30, 2024 (December 31, 2023 - $6.8 million).

Cash Flows

From inception, operational activities have not been sufficient, on their own, to finance the Company's requirements. Financing consists primarily of equity offerings that have been used to supplement revenue streams. The development of applications utilizing SAF as well as its production process involve significant financial risks, including the ability of the Company to develop and penetrate new markets, obtain additional financing as required, achieve profitable production and the ability for the Company to be able to successfully assert its intellectual property rights and protect against patent infringement. The Company has incurred significant operating losses and cash outflows from operations.

Cash from operating activities for the three months ended June 30, 2024, was $1.4 million compared to cash used in operating activities of $3.8 million for the three months ended June 30, 2023. The decrease is related to a reduction in net loss and cash used in non-cash working capital, largely due to the large swing in accounts receivable offset by changes in accounts payable.

Cash used in financing activities for the three months ended June 30, 2024, was $1.3 million compared to $1.1 million for the three months ended June 30, 2023. Cash used in operations in the three months ended June 30, 2024, related to repayments of long-term debt, and repayment of the short-term loan. Cash provided by financing activities for the three months ended June 30, 2023, related to repayments of long-term debt, net of the conversion of common share warrants.

Cash from investing activities for the three months ended June 30, 2024, was $10 thousand compared to cash used of $536 thousand, for the three months ended June 30, 2023. Investing activities relate to the investment in lab equipment for product testing and development, office leasehold improvements, vehicles and software intangible assets.

Capital Expenditures

For the three and six months ended June 30, 2024, capital expenditures totaled $nil (2023 - $200 thousand) and $5 thousand (2023 - $376 thousand), respectively. These lower expenses were for the purchase of a vehicle.

During the six months ended June 30, 2024, the Company recorded purchase of intangibles related to software of $340 thousand, as compared to the prior six months ended June 30, 2023, where no intangible purchases were made.

Outstanding Debt and Equity

As At	June 30, 2024	December 31, 2023	Increase (Decrease)	Primary factors explaining the change
Outstanding Debt				
Current portion of long-term debt	**8,160,439**	8,209,409	**(48,970)**	Decreased due to payments made during the year, offset by foreign exchange fluctuations
Derivative liability	**3,268,062**	2,883,556	**384,506**	Increased due to shorter period to exercise date, increasing the fair value. Offset by exchange rate fluctuations.
Current portion of lease liability	**179,586**	154,792	**24,794**	Increased due to renewed office lease and new vehicle leases
Convertible unsecured debenture	**28,390,462**	26,735,765	**1,654,697**	Increased due to accretion on debenture, offset by interest, and deferred payments
Lease liability	**1,206,935**	694,262	**512,673**	Increased due to renewed office lease and new vehicle leases, less future lease payments.
Total Debt	**41,205,484**	**38,677,784**	**2,527,700**	

Senior Loan

As at June 30, 2024, the Company reflected the long-term debt amounts as a total current liability. Eguana has been and continues to work with the senior lender of this long-term debt and has received payment deferrals since December 1, 2023, up to May 2024. Partial or full payments were delayed for the December 1, 2023, January 1, 2024, February 1, 2024, and March 1, 2024, payments. Interest amounts for the December 1, 2023, and January 1, 2024, payments, were made in early 2024. And as part of ongoing negotiations, a payment in the amount of approximately $638 thousand USD was made on April 2, 2024, which represented the outstanding principal amounts due for December 1, 2023, and January 1, 2024. On May 7, 2024, the Company entered into a forbearance agreement with the lender whereby the Lender has agreed to a deferral of payments up to and including June 1, 2024, but that is predicated on subjective conditions that were complied with. On August 27, 2024, the Lender provided an updated forbearance agreement whereby the Lender has agreed to a deferral of payments up to and including September 1, 2024, predicated on the same subjective conditions that if not complied with render the forbearance to be terminated. Negotiations with the lender are ongoing and the Lender has not taken any action.

The long-term debt was entered into during 2022 and included an agreement to issue common share purchase warrants. The details of these items are outlined in the notes to the financial statements.

Convertible Debenture

The Company has an outstanding convertible debenture of $28.4 million at June 30, 2024. The debenture was entered into during 2022 and $7.3 million was recorded as an equity component of the debenture. The details of these items are outlined in the notes to the financial statements.

During 2024, the Company has deferred any interest payments or shares in lieu, by mutual agremeent with the debenture holder. On January 31, 2024, the Company signed a memorandum of understanding with the holder of the Debentures amending the payment deadline for the interest payment that was due on March 1, 2024, to August 31, 2024. On August 13, 2024, the Company signed an updated memorandum of understanding with the holder of the Debentures amending the payment deadline for the interest payment that was due on March 1, 2024, and the interest payment due on September 1, 2024, both deferred to March 31, 2025. The memorandum of understanding included language outline that notwithstanding the extensions, the Company will make commercially reasonable best efforts to issue the interest payment as early as possible.

During the year ended December 31, 2023, the holder converted interest earned on the unsecured convertible debenture totaling $2,310,000 into common shares. In March 2023, 4,242,617 common shares were issued and in September 2023 13,580,094 common shares, in lieu of the interest payments due on March 1, 2023 and September 1, 2023.

Shareholders' Equity and Shares Outstanding

The following amounts are current as at August 29, 2024.

- Common shares issued and outstanding for 448,956,022, with no change from June 30, 2024.
- Common share purchase warrants representing the right to acquire 16,234,309 common shares, with no change from June 30, 2024.
- The Company has 15,172,001 stock options outstanding, with no change from June 30. These stock options entitle the holders thereof to acquire up to 15,172,001 common shares. 11,987,611 stock options have vested as of today's date. The weighted average exercise price of the vested options is $0.30 per share.

Related Party Transactions

The Company has routine transactions with related parties, and these are outlined in the annual financial statements. The largest transactions are wages and benefits paid to officers and fees paid to directors.

Legal Disputes

The Company is involved in a long-running dispute with a prior customer in Germany, for the cancellation of a supply contract. Eguana has a claim to recover 1.5 million Euros ($2.1 million CAD) for unpaid invoices and interest, along with the option to claim an additional 904 thousand Euros ($1.3 million 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 value. The above noted prior customer has counter claims for warranty concerns related to the Company's first-generation product. Management believes this counter claim is without merit and that any product failures are tied directly to a fundamental system failure, for which the customer was solely responsible.

On April 29, 2024, the Company received a legal demand from a supplier for payment on an open purchase order. The Company ordered inventory with a deposit (see Note 4) and understood that the supplier would hold the products. The vendor is demanding payment of US $2.3 million and outlining they will dispose of the products. The Company has responded with its own legal letter outlining why there is no dispute or amount owing. The dispute may result in the deposit on the inventory, outlined in Note 5, being forfeited, and hence written off to a loss by the Company. Management is negotiating with the supplier to take back the products and/or refund all or a portion of the deposit paid.

The Company is subject to other legal claims with landlords, suppliers and employees. Subsequent to quarter end, the Company agreed to pay costs associated with the early termination of a property lease totaling $40,000, and to payment of any regular rent amounts in arrears.

ACCOUNTING POLICIES

Critical Accounting Judgements and Estimates

The judgements and estimates used in the preparation of the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2024, have been applied consistently for all periods presented and are unchanged from the judgments and estimates disclosed in the notes to the consolidated financial statements as at December 31, 2023.

IFRS Standards Issued Not Yet Effective and Amendments

There are no standards that have been issued, but not yet effective, that the Company anticipates having a material effect on the consolidated financial statements once adopted.

Reporting Regulations

In June 2023, the International Sustainability Standards Board ("ISSB") issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures which are effective for annual reporting periods beginning on or after January 1, 2024. These standards provide for transition relief in IFRS S1 that allows a reporting entity to report on only climate-related risks and opportunities in the first year of reporting under the sustainability standards. There is no requirement for public companies in Canada to adopt the ISSB standards until the Canadian Securities Administrators ("CSA") and Canadian Sustainability Standards Board ("CSSB") have issued a decision on reporting requirements in Canada.

The CSA are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standard, including the effective annual reporting dates. The CSA issued proposed National Instrument NI-51-107 - Disclosure of Climate-related Matters in October 2021. The CSA intends to consider the ISSB standards in addition to development in United States reporting requirements in its decision relating to development of climate-related disclosure requirements for Canadian reporting issuers. While the Corporation is actively reviewing the ISSB standards, as well as recently released CSSB proposals, it has not yet determined the impact on future financial statements nor has it quantified the costs to comply with such standards.

RISK FACTORS AND RISK MANAGEMENT

As an early stage, growing company active in the renewables industry, the Company faces operational and financial risks inherent in the growth stage in the industry. These risks may affect results of operation and financial condition. To date, the Company has not had net earnings or positive operating cash flows. An investment in Eguana's common shares should therefore be considered speculative. Investors should carefully consider all the risk factors. The Company strives to manage the risks, however, risk management does not eliminate risks. Outlined below are the risks management believes are the most important in our current business context.

Additional information relating to the Company's Risk Factors and Risk Management can be reviewed in the Financial Statements, news releases, and other required filing documents on SEDAR+, at www.sedarplus.com.

Going Concern

As discussed above, the Company will require additional capital in F2024 to continue its operations. The Company is actively pursuing various avenues, including equity and debt financing, to increase its liquidity and capital resources. Although the Company has historically been successful in obtaining financing in the past, there can be no assurances that the Company will be able to obtain adequate financing in the future. This represents a material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern. The financial information presented does not include the adjustments to the amounts and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. These adjustments may be material. If the Company is not able to raise capital, it may be forced to cease operations.

Inability to Meet Debt and Ongoing Obligations

The Company has deferred various financial obligations as they become due and may continue to struggle to meet its financial obligations in the future.

The Company is reliant on the continued support of lenders, suppliers, and other providers to the Company, as the Company is forecasting requiring additional cash to continue to fund operations and settle its obligations. The Company has various debt obligations, which include monthly payment of principal and interest and semi-annual interest and payment at maturity. The Company is behind in its regular payments to lenders, vendors, various contractual payments and rent payments. The Company will need the continued support of its existing vendors and lenders, and to create cash inflows either through new sales, further inventory returns, collection of accounts receivable, equity issuances, additional debt financings, and/or sales of business lines, in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard. If the liquidity situation continues, it may have continued operational impacts, such as impaired reputation, low employee morale and productivity plus employee turnover, negative implications with suppliers, vendors, landlords, lenders and shareholders, and exposure to downgrading credit and legal claims. In the event that the Company does not obtain additional financing or achieve positive cash flows, the Company may not have sufficient available capital to meet its obligations.

Operating Losses

The Company is subject to the risks of an early-stage company, including uncertainty of revenues, markets and profitability, and the need to raise additional funding. As is common with companies at this stage, it is likely that marketing and operating costs will exceed net sales revenues. Currently Eguana continues to generate negative cash flow from operations. Eguana's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early-stage, particularly companies in relatively new and evolving markets.

The Company had cash of $0.2 million as at June 30, 2024, providing tight liquidity, due largely to the Company's cash used in operations during the year and the result of a slow paying customer. The Company continues to rely upon completing equity and debt financings until it is able to start generating profit and positive cash flows from operations in the future, in order to pay its liabilities and contractual obligations as they come due and enable the Company to continue operations.

Need for Additional Capital and Access to Debt and Equity Financing

In order to fund its operations, Eguana will need to raise additional capital from lenders and/or equity markets in the future. The capital required to execute on the Company's strategy is tied to working capital, increased investment in new product development, increased investment in human resources including marketing, sales, and after sales service, and investment in realizing additional cost reduction activities. If Eguana is unable to raise the capital on reasonable terms, its growth could be limited, and its operations could be materially and adversely impacted. If Eguana issues Common Shares, or securities convertible into Common Shares, in order to obtain additional financing, shareholders may suffer additional dilution.

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 may have a material adverse effect upon the Company.

ADVISORY SECTION

Statement of Management Responsibility for Quarterly Filings

This MD&A was prepared by management of Eguana and approved by the Board of Directors of Eguana on August 29, 2024.

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 Company and have reviewed this MD&A and the accompanying condensed interim consolidated financial statements.

The Chief Executive Officer ("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 unaudited condensed interim 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 unaudited condensed interim 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 Company, as of the date of and for the period presented in the interim 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 Company 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 Company 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 IASB 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 Company’s ability to continue its operations, including its need for additional capital, its reliance on cash collection, and the potential impact of delays in such collections; statements concerning the Company’s strategy in the utility and VPP markets; statement concerning ongoing legal claims and disputes; statements concerning the Company’s expectations of future relationships and the size of the market; 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, including the continued support of lenders, suppliers, other providers, equity investors and customers, as well as the Company’s ability to secure additional financing and manage its liquidity.

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 continue as a going concern; (ii) the Company's ability to achieve its growth strategy; (iii) the demand for the Company’s products and fluctuations in future revenues; (iv) the Company's business model and assumptions; (v) expectations of growth in the industry in which the Company operates and the markets in which the Company’s products are sold; (vi) sufficiency of current working capital to support future operating and working capital requirements; (vii) the stability of general economic and market conditions; (viii) currency exchange rates and interest rates; (ix) equity and debt markets continuing to provide the Company with access to capital; (x) the Company’s continued compliance with contractual terms such as debt agreements, vendor agreements, and third party intellectual property rights; (xi) the Company’s ability to resolve and avoid significant legal disputes and (xii) that the risk factors noted above and in the Company’s December 31, 2023 Management Discussion and Analysis, 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.

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.