



Management Discussion and Analysis

For The 9 Months Ended, June 30 2015

The following discussion and analysis as of August 31, 2015 should be read in conjunction with the consolidated financial statements of Eguana Technologies Ltd. ("Eguana", or the "Company") and notes for the three months ended June 30, 2015.

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 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; statements concerning our business strategy; statements concerning plans to roll out new products; 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: HISTORY, VISION AND STRATEGY, AND CORE BUSINESS

A detailed overview of Eguana's business, including a summary of our history, business strategy, industry outlook, and core business is provided in the MD&A for the financial year ended September 30, 2014 which may be found, together with all our public documents, at www.sedar.com.

MANAGEMENT DISCUSSION OF FIRST 9 MONTH RESULTS

Operations

Product sales revenues during the first three quarters of the 2015 fiscal year totaled \$4,639,933 by comparison to \$1,363,125 for the same period in 2014. Revenues for the 3rd Quarter were \$1,552,853 up from \$477,419 in 2014 and roughly the same as the previous quarter. Approximately 95% of Q3 revenues were from sales into the European residential self-consumption markets.

Margin year to date improved although remained below expectation at negative 14%, Q3 negative margin impact was primarily driven from arbitrary inverter pricing increases from our current German contract manufacturer and the conversion of a prior paid deposit with our previous magnetics supplier to cost of goods due to the uncertainty of recovery. Previously agreed selling price increases to Sonnenbatterie have not been recognized in our financials although the company will continue to negotiate the result.

Poor margins on Sonnenbatterie deliveries were one of the reason for not extending the supply contract. An announced change to a new contract manufacturer and better pricing on new OEM contracts will deliver higher industry standard margins

Operating Costs

Operating costs have remained flat versus prior year as planned. Year to date operating costs for 2015 were \$3,096,366 by comparison to \$3,087,375 for the same period last year. We have taken the decision to provide for \$238,343 in Spanish VAT recoveries related to operations conducted several years ago y due to a low probability of recovery. This amount has been included in our General and Administrative expense for the Quarter.

Our operating model has been specifically designed to maintain flat operating cost structures during revenue growth periods. We are currently tracking over three times revenue versus prior year with no increase in operational costs. We are budgeting slight increases in the coming year to reflect an increased investment in cost reduction and product development initiatives. These changes however will not be material and are primarily related to increasing our development and technical resources. The Net Operating Loss after adjusting for non-cash items was (\$1,407,787) by comparison (\$917,319) for the same period last year reflecting the impact of the negative margin incurred year to date.

New Product Development

As previously announced, our first product in our AC Battery product line was launched in June 2015 at Greentech Media's Grid Edge Live conference in San Diego. The residential AC Battery product has already generated lead orders from a range of customers in targeted channels and pilot production and customer training and support will remain the product development focus through the current quarter.

The AC Battery is a turn-key energy storage system which requires only a grid connection and a dispatch signal to provide a fully functional and durable energy storage installation to the consumer. The only additional hardware required by the customer is the control and communications solution for remote dispatch and monitoring. These requirements vary from market to market and application to application. The control and communications system is the primary means by which our customers differentiate themselves from each other.

In June we were awarded up to \$250,000 in funding from Alberta Innovates Energy and Environment Solutions to support the development and demonstration of a 15kVA AC Battery for commercial buildings. The development plan for this new product introduction will be finalized and contracted with AI-EES during the current quarter with initial deployments targeted in early 2016. This product is in addition to the current development path of our commercial AC Battery.

Outlook and Priorities

Eguana remains very well positioned to benefit from the growth in the distributed generation markets in the US and across Europe. We are on track with our 2016 strategy to be a top 3 provider of power control systems in our targeted channels. Our focus will be execution.

Bi-Direx is recognized across the industry as a market leader in its power ratings and one of the only power control systems that can be easily adapted to meet the requirements and regulations of all the leading demand markets. It is certified, field tested and proven in thousands of installations.

Europe

Although European top line revenues for this Quarter and next will be impacted by the loss of the Sonnenbatterie business, we have identified and are in advanced discussions to replace and surpass volumes originally forecasted for Europe through the first calendar Quarter of 2016. Discussions are ongoing with two world class companies to provide the Bi-Direx power control system for residential solar energy storage systems under the same sub assembly model as was previously supplied to Sonnenbatterie and all remaining inventories will be utilized through these channels.

In the United Kingdom our customer is targeting utility installations of solar to meet grid stabilization requirements. Germany and Italy will remain residential self-consumption markets where Bi-Direx is perfectly suited. In each case, integration of power control and battery management software is expected to take place during calendar Q4 with commercial production starting in Q1 2016.

Details of these relationships will be released as the contract negotiations are confirmed and confidentiality restrictions are lifted. The reader is cautioned that while management is optimistic that it will secure long term supply contracts there is no assurance that this will occur.

United States

Our US strategy remains unchanged. We believe that Hawaii will lead the U.S. market and initial demonstration orders have been received for the LG AC Batteries from our partner in Hawaii. Deliveries are scheduled in Q1 and we expect steady growth to follow. The delay in the market was driven by regulatory controversy in the State however our best indication is that this is being resolved and the expected demand will begin to ramp.

Our expectation is that Hawaii this will be the leading US market in 2016 as the two main solar storage market drivers are present. Utility grid stabilization is required as a result of the high percentage of residential rooftop solar installations along with the economic drivers for residential solar self-consumption. Because we are selling the AC Battery into this market revenues and margins per unit are expected to be significantly higher than in Europe.

During this Quarter we received initial purchase orders for our 5kW LG AC Battery from one of North America's largest solar developers for demonstration projects in California scheduled for September and October. We are optimistic and expect this will lead to a longer term relationship for North America and other markets where our customer is active. We expect to be in a position to announce the name of our customer and details of the commercial relationship by the end of the current Quarter.

We have contracted with one of North America's largest distributors of electrical products which will private label the LG AC Battery/Geli combination for resale to its customer base in the U.S. Details on this relationship are expected to be available before the end of the Quarter when full integration of the home energy management software is complete. Our customer has begun booking orders for the next Quarter.

We are well advanced in development of an AC Battery for commercial applications principally for small commercial and retail behind the meter demand response applications where we are operating under an agreement in principle for distribution of these products with one of Japan's largest trading houses.

Our larger AC Batteries will come in a standard configuration with 30 kilowatt hours of storage capacity and will follow our modular approach for additional storage capacity. We are targeting delivery to the US market of both indoor and outdoor rated products beginning in calendar Q2 of 2016 with two tier 1 Asian Lithium ion battery manufacturers. These are in addition to our residential AC Battery developed in partnership with LG Chem.

Financial

Current accounts receivable from Sonnenbatterie at the period end totaled \$1,166,495, which excludes an increased selling price agreed with Sonnenbatterie but the settlement of which remains in negotiation. Accounts payable represents actual payables and accruals related primarily to our two major supply partners. The transition to the AC Battery strategy has driven the need for additional working capital. The company remains in discussion with potential investors to satisfy these requirements.

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 three months ended June 30, 2015 was \$1,376,971 an improvement of \$160,792 over a loss of \$1,536,377 in the same quarter ended June 30, 2014.

Non-cash items impacting the Net Loss were

- i. Under IFRS accounting standards notional interest is accrued or "accreted" on the participating royalty debenture by using a complex formula aimed at identifying the value of

embedded derivatives based on the Company's forecast revenues. The amount accreted for the nine months ended June 30, 2015 was \$415,095 (\$328,972 at June 30, 2014) although the actual interest paid for the nine month period, including the percentage paid based upon revenue, was in fact \$167,143 (\$84,500 at June 30, 2014).

- ii. A gain of \$217,578 was recognized in the nine months ended June 30, 2015 (\$nil at June 30, 2014) to account for the change in value of the debentures and the embedded derivatives. The gain resulted from a delay in the estimated call date of the debentures.
- iii. Accrued non cash interest on the Energy Northwest obligation was \$12,440 for the nine months ended June 30, 2015 as compared to \$10,153 for the nine months ended June 30, 2014.
- iv. Amortization of capital assets and capitalized development costs was \$51,711 for the nine months ended June 30, 2015 (\$420,969 for the nine months ended June 30, 2014).
- v. Share based payments expense was \$37,635 for the nine months ended June 30, 2015; whereas the amount was \$98,656 for the same nine month period in 2014.

Sales and Gross Margin

Total revenue from product sales and services increased from \$1,363,125 in the nine months ended June 30, 2014 to \$4,639,933 for the same period in 2015. By comparison, our revenue from product sales and services for the year ended September 30, 2014 was \$2,284,764. Gross margins for the nine months were negative at (\$660,024) due to a number of factors described earlier which increased costs of sale to \$5,299,957.

Summary of Quarterly Results

	2015	2015	2015	2014	2014	2014	2014	2013
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Sales	1,552,853	1,545,575	1,541,505	921,639	477,419	396,357	489,349	243,778
Net loss	(1,387,156)	(1,328,286)	(1,577,596)	(3,070,391)	(1,536,377)	(489,286)	(2,051,222)	(3,497,288)
Per share – basic and diluted	(0.02)	(0.02)	(0.03)	(0.06)	(0.05)	(0.02)	(0.08)	(0.16)

Liquidity and Capital Resources

Liquidity, as measured by working capital, at the end of the quarter was (\$1,177,556). The change from fiscal Q3 2014 (\$4,752,364) was primarily attributable to conversion of First Preferred Shares into Common Shares and an equity raise of \$5.131 million during Q1, 2015.

The components of working capital are cash: \$462,466; accounts receivable: \$1,744,644, inventory: \$1,325,715, prepaid expenses and deposits: \$459,526. Accounts payable and accrued liabilities at June 30, 2015 were \$2,782,356 compared to \$1,983,985 at June 30, 2014.

The Company has an operating line with HSBC Canada of \$1.5 million which is secured by a standby equity commitment by Doughty Hanson and a general security agreement. As of June 30, 2015, the outstanding balance on the operating line was \$1,143,099 (\$262,402 at June 30, 2014). Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises, consulting and service agreements which have been disclosed in note 20 to the financial statements.

Disclosure of Outstanding Share Data

As at August 31, 2015, 84,005,213 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 17,570,706 common shares at an average exercise price of \$0.38 per share (See Note 12 of the consolidated financial statements for additional information). The Company has employee stock options outstanding entitling the holders thereof to acquire up to 5,092,946 common shares of which 1,626,730 had vested. The weighted average exercise price of the vested options is \$0.32 per share.

In December 2014, all outstanding series of First Preferred Shares, except one Series 8 First Preferred share were converted to common shares (See Note 9 of the consolidated financial statements for additional information). The one Series 8 First Preferred share is held by Doughty Hanson Technology Ventures ("DHTV") pursuant to the Investor Rights Agreement between the Company and DHTV.

Financing Costs

Amortization of the financing costs associated with the standby equity agreement with DHTV was \$93,184 compared to \$144,080 for the nine months ended June 30, 2014. Accretion of the obligation to repay government contributions to research and development was \$8,130 compared to \$37,683 for the nine months ended June, 2014. Interest on the Energy Northwest obligation was \$12,440 for the nine months ended June 30, 2015, compared to \$10,153 for the nine months ended June 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 delay in the planned call date of the debentures, during the second quarter of 2015, a gain of \$217,578 was recognized to reflect the change in fair value of the related derivatives. Interest on bank debt was \$11,493 for the nine months ended June 30, 2015 as compared to \$31,234 for the same period in 2014.

Foreign Exchange

Our contract manufacturing is priced in US 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 US dollar and the Euro.

Risks and Uncertainties

Our risks and uncertainties are detailed in the annual MD&A filed on SEDAR on January 27, 2015 and have not materially changed since that time.

