# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated November 29, 2023 and should be read in conjunction with Eguana's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2023 ("Q3 2023" and "YTD 2023") and 2022 ("Q3 2022" and "YTD 2022") and the Company's annual audited consolidated financial statements and notes thereto for the fifteen-month period ended December 31, 2022 and year ended September 30, 2021, the Annual Financial Statements.

In the previous year, the Board of Directors changed the Company's year end from September 30 to December 31, to be more comparative with the majority of its industry peers. Consequently, the Annual Financial Statements ended December 31, 2022, included 15 months of financial information and was comprised of five quarters. As a result, the comparative period for the third quarter of 2023 is technically the fourth quarter of 2022, both at September 30th, in the respective years.

The Q3 2023 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.

## OVERVIEW AND UPDATE

A detailed overview of the Company's core business, its products, the market for the Company's products, and the Company's business strategy is provided in the MD&A for the fifteen-month period ended December 31, 2022, published on May 1, 2023.

***Safe - Reliable - Renewable***

Eguana's mission is to become a global leader in residential and small commercial grid-connected energy storage solutions (ESS), which are expected to be an essential contributor to electrification and migration to a distributed power grid, also referred to as distributed energy resources (DERs) or distributed energy management (DEM). In short, to be the leader in power grid modernization, globally.

Power grid modernization refers to the upgrades and expansion needed to accommodate rapidly growing energy needs and to optimize the generation, transmission, and distribution of electricity. Modernization will require decarbonization, decentralization and digitization. All these factors come into play with the concept of a Virtual Power Plant (VPP). A VPP is a cloud-based distributed power plant that aggregates the capacities of various DERs, for the purposes of sharing power generation, trading or selling power, and demand side optimization for load reduction and demand management. Assets in a VPP can include photovoltaic solar, energy storage, electric vehicle chargers, and demand-responsive devices (such as water heaters, thermostats, and other smart appliances), with VPPs already existing in the United States, Europe, and Australia.

The world's energy demands, which have been conservatively estimated as doubling by 2050, are not only growing but shifting, away from non-renewable sources to renewable ones. From fossil fuel-based energy, to solar, wind, water and nuclear. Most renewable energy source generation is intermittent, which creates complexity in power grid management from a supply and demand perspective. Fully integrated grid-tied ESS becomes critical to grid management, as additional renewable generation comes online and this is expected to drive broad adoption of ESS technology, to deliver cost-effective solutions and to transition to a distributed power grid. Globally, the shift to more and greener energy sources is necessary to support the goals of net-zero carbon reduction objectives and, also to support the exponential electricity needs that are anticipated with global electric vehicle adoption. Other macro-economic factors are in play to accelerate the shift and three very important ones are affordability, stability, and security of the electricity system, for all consumers. Perhaps along the lines of slow and then rapid adoption of phones, to smart phones, to everyone has one, grid modernization is anticipated to have similar scale global impacts.

To achieve our strategy, at the end of 2022, the Company expanded its power electronics offering, to include a line of micro inverters, a critical component in residential rooftop solar segments. This allows us to effectively connect to the roof, where solar generation occurs, into the Company's energy storage systems, on the wall, and further, with Eguana Cloud, to utilize smart cloud-based applications, to aggregate and connect to fleets of systems, for virtual power plant grid operations. This approach provides a three-pillar revenue stack for the Company with the roof (solar generation), the wall (energy storage solutions, and the cloud (fleet management and recurring revenue from utility operators). We sell our products through solar distributors who sell to installers in each region, and also direct by partnerships with utility companies and finance companies, who interface with the customer and promote adoption of solar solutions. The Company's primary markets are North America, Europe and Australia.

Strategically, the Company continues developing distribution partnerships, and expanding sales, technical support and training capacity. Additionally, the Company has vertically integrated its sales operations in Australia, to include full turn-key solar installation services, which has begun delivering positive growth and larger opportunities, in the Australian market.

The Company's employees and external partners are critical to its success. In the first half of 2023, the Company added key business development and technical team members, to achieve regional and country certification requirements, and to improve Eguana cloud services development, battery management solutions and battery integration and development.

The Company continues to advance hardware and software development and market adoption efforts, which are expected to have significant positive long-term impacts on growth and global positioning. These include, to name a few, moving the 10kW whole home product to full scale manufacturing, launching the simplified Essential Whole Home ESS, expanding the Energy Management System software license for direct control from the utility to the ESS, advancing Eguana cloud services development to allow for recurring revenue streams, and rapid enrollment growth into Eguana University, the Company's online training platform, achieving 1,200 plus installers enrollments within the distribution network.

In North America, the Inflation Reduction Act of 2022 ("IRA") was enacted and provides an extension of the investment tax credit ("ITC"), aimed at incentivizing clean energy adoption. Under the IRA, the ITC was extended until 2032 to allow a qualifying homeowner to deduct 30% of the cost of installing residential solar systems from their U.S. federal income taxes, thereby returning a material portion of the solar system purchase price to homeowners. This current IRA extension provides that the ITC for residential solar systems will remain at 30% through the end of 2032, reduce to 26% for 2033, reduce to 22% for 2034, and further reduce to 0% after the end of 2034, unless it is extended. Additionally, the IRA included a 10% ITC for solar system components that are manufactured with a minimum domestic content.

The International Energy Association reported in June 2023 (IEA (2023), Renewable Energy Market Update - June 2023), IEA, Paris that annual addition of wind and solar in the USA is set to increase by approximately 40% in 2023, with solar setting a new record. The report also highlights strong growth in 2024.

Federal policy in the USA and overall mindsets, which provide financial incentives to homeowners and drive adoption of renewable power solutions, are seen as favorable to our business. The Company's mission and strategy aligns to support grid modernization and green electricity solutions, at the point of generation and consumption.

**Sales and Operations**

During the third quarter, the Company continued its efforts on Eguana University, additional installer training, business development, development and certification, in hardware and software and partnership opportunities, particularly in the VPP space. These efforts are expected to support sales growth for the balance of year and into 2024. Sales in the third quarter were slightly stronger than the second quarter. Overall negative macro-economic factors continue to constrain the industry for almost all renewables and consumer spending due to inflation and high-interest rates.

The Company continues its white-label partnership with the Duracell brand in the USA and most orders flow through the branch level, which in turn drives blanket product orders to the Company. Management believes this strategy with brand recognition, will help the Company to compete in the more competitive USA market. Globally elsewhere, the Company continues to sell under its Eguana brand.

Distribution branch level market feedback was clear that channel partners placed a high priority on product availability, particularly the ability for quick reorders. As a result, at the end of 2022, the Company and its partners ramped inventory levels, to prepare for future demand. Unfortunately, as other market participants have detailed, demand in early 2023 stalled due to a variety of macro-economic factors, such as high interest rates, high inflation and changing policy frameworks and incentives. This caused slow sell through in the distribution channels and sales started to lag in March 2023. General market sentiment remains cautious, with some reports of a stagnant US growth outlook, into mid 2024. This overall market stall had a follow-on affect for the Company and its Duracell partner, as each was holding receivables or inventory, and this has impacted near-term liquidity flexibility.

Fortunately, management believes the near-term outlook in the VPP space is positive and the Company is seeing direct utilities engagement, with major utility companies, within the energy storage sector. Some utility companies are pursuing strategies for VPP rollouts, such as smart battery programs and bill credits. Management believes this is an indication of consumer adoption of grid-tied energy storage devices, and we believe the Eguana ESS provides a host of advantages to participants including the consumer, the utility, the manufacturer, along with the DERM's (distributed energy resource management) software providers.

Consumer rebates from the utility as part of the VPP program, coupled with ITC's and energy bill reduction, will have a positive impact on consumer purchasing, bringing the return-on-investment time, in most regions, to less than five years. Additionally, the consumer maintains the benefit of back-up power and resiliency from brown outs, and storm driven or grid event black outs. The utility has the benefit of removing renewable intermittency on the grid, as well as grid management features including spinning reserve, frequency, and voltage regulation. The Eguana storage platform was developed to support all grid-related VPP functions. The Company also has a fully integrated cloud-based software platform (Eguana Cloud), which allows the Company to operate installed systems as fleets, whereby utilities pay monthly for access to these fleets on a system level basis delivering a monthly recurring revenue stream.

To expedite VPP channel execution, the Company has partnered with a leading DERMS software platform provider, Virtual Peaker and also recently with AutoGrid. In addition to these partnerships, the Company has ongoing software integration projects with 4 additional DERMS software providers. These DERMS platforms have been fully integrated with the Eguana Cloud service, which also creates the opportunity for recurring revenue channels.

Further, Eguana has signed partnerships with major utility companies, such as Simply Energy, Portland General Electric and Massachusetts Municipal Wholesale Electric Company, and are engaging with more than a dozen more utilities. The Company's advanced electronics platform has key advancements in accuracy, measurement, and efficiency that are attractive to DERMS and utility partners.

The Company continues to focus on dealer/installer partner training through Eguana University, an online training program designed to reduce customer acquisition costs, train product and installation best practices, reduce installation error risk, and provide for a best-in-class consumer experience. Installers are the Company's boots on the ground sales team that engages directly with the end consumer on product sales, features, installation and commissioning. Currently there are over 1,200 participants in or completed training modules to properly sell and install the Eguana product ecosystem.

As a result of the manufacturing transition to our third-party contractor in California, combined supply chain planning, battery cost reductions, tariff savings and alternate parts program, the Company believe margins will improve. Production capacity will be key to ESS growth, when demand rebounds for Eguana and white labelled product ESS products. The Company's current production capacity for ESS is 25,000 units per year. The Company has a good supply of microinverter inventory in the USA and delivery for additional inventory is constrained only by shipping times from our third-party supplier overseas. Recent low margin is caused by a variety of factors including, low sales levels, existing higher cost battery components from 2022 purchases, pandemic freight costs, and tariffs. The Company expects improved gross margin as freight rates are returning to normal levels, 2024 battery pricing is below 2022 costs, and the supply chains for certain components have been rationalized to reduce or eliminate tariff impacts.

In Australia, the strategic step to deliver revenue throughout the value-chain from roof to grid is starting to bear fruit. With Company headquarters in South Australia, the business is expanding into other regions to support national business objectives, including home builder and VPP strategies. Key relationships in both channels have expressed a strong interest in the Company providing installation and support services, alongside its industry leading product line. The Company has finalized a major VPP business partnership, with a major utility provider in Australia. This collaboration includes joint marketing efforts, including direct marketing to their seven hundred thousand plus customer base, as well as broad based indirect marketing programs through media and digital, detailing rebate structures for the frequency controlled ancillary service ("FCAS") VPP. The Company is also in discussion with multiple home builders and multi-residential complexes, as Australia transitions to its 7-star home rating requirement for all new home construction, which is expected to drive solar and storage installations. As these efforts gain traction, the Company expects sales growth in Australia.

In Europe, due to supply chain availability challenges from a former battery partner, the Company recently recertified its Enduro products, with a new battery module. During the Quarter, the Company announced its partnership with Finanzdesk. The initial order occurred subsequent to quarter end and the Company anticipates growth in 2024. Based on the market opportunities, the Company has also begun development of a 3.7kW cascading tower format product, for Europe and Australia.

**Expenses and Financial Position**

In October 2023, the Company proceeded with a staff rationalization, across all geographies, and reduced headcount by approximately 22 percent. With restructuring of functional areas and focus on near-term priorities, management believes this reduction will not affect near and medium-term operations or objectives.

As reported in the Company's financial statements, accounts receivable collection delays continue to create near-term liquidity problems. Management is working very closely with the key customer and payments are being received. However, with ongoing sales activities, the accounts receivable balance remains high. And until the industry recovers with stronger sales, management believes this slow payment approach will constrain Eguana's financial position, into 2024.

As an update to the inventory theft that was reported in the Company's new release on August 29, 2023, most of the inventory was recovered. The Company had three truckloads of inventory components stolen, when they were being transferred between warehouse locations. The inventory items had a cost of $2.1 million and were written off in the Company records, for the period ended June 30, 2023. The police investigation that occurred subsequently recovered two of the truck loads that had been diverted to random warehouses. The third truckload has not been found and insurance proceeds have been received, totaling $840.9 thousand, and the proceeds have been recorded in the Company's records for the three months ended September 30, 2023.

To respond to these factors, management has undertaken a private placement offering up to $2.0 million, as announced on November 23, 2023. This is expected to provide liquidity in the near term, so other positive cash flow items come into play, such as increased sales, turning inventory, collecting receivables or increased borrowings. However, given the Company continues to use cash in operating activities and has not yet achieved profitable operations, any significant delay or variance in the anticipated collection pattern from this major customer receivable, could significantly impact the Company's liquidity position and require the Company to seek additional debt, equity financing or create additional liquidity from the Company's current assets. There is no certainty that other cash will be available. These factors could create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

## SUMMARY OF QUARTERLY RESULTS

| | 2023 | | | 2022 | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q3** | **Q2** | **Q1** | Q5 | Q4 | Q3 | Q2 | Q1 |
| Sales [2] | **2,551,092** | **2,067,624** | **5,855,247** | 10,357,667 | 2,602,195 | 2,317,334 | 285,130 | 1,264,549 |
| Net loss [2] | **(5,801,989)** | **(9,020,179)** | **(5,314,239)** | (6,599,160) | (2,001,516) | (3,163,186) | (2,402,936) | (2,661,474) |
| Per share [1] | **(0.01)** | **(0.02)** | **(0.01)** | (0.01) | (0.01) | (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. Fiscal 2021 represents a typical twelve-month period.

### 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.

At September 30, 2023, the Company had not achieved profitable operations since its inception and had an accumulated deficit of $124.3 million (September 30, 2022 - $97.5 million), incurred a net loss of $20.1 million for the nine months ended September 30, 2023 (September 30, 2022 – $9.8 million) and had cash flow used in operating activities of $10.5 million (September 30, 2022 – $13.4 million). Whether and when the Company can attain profitability from operations is uncertain.

Although, the Company had a working capital of $17.8 million, including cash of $2.8 million, as at September 30, 2023, a significant portion of the working capital balance is comprised of accounts receivable of $22.1 million. Further, the accounts receivable balance includes a significant balance of $19.3 million from a major customer who has been slow to pay, requiring management to work closely with them to develop and monitor collection plans. Based on management's assumptions and estimates for the timing and amount of collections, and ongoing business activities, including financing with debt and/or equity and potentially using the existing current assets for liquidity, the Company believes it will have liquidity to finance operations, into 2024. However, given the Company continues to use cash in operating activities and has not yet achieved profitable operations, any significant delay or variance in the anticipated collection pattern from this major customer receivable, could significantly impact the Company's liquidity position and require the Company to seek additional debt and/or equity financing. There is no certainty that this debt and/or equity financing would be available. 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.

## 2023 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three and nine months ended September 30, 2023, and 2022.

| | **Q3 2023** | Q3 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|
| **Sales** | **2,551,092** | 2,602,195 | **10,473,963** | 5,204,659 |
| **Cost of goods sold** | **2,447,574** | 2,851,979 | **10,217,527** | 5,381,783 |
| **Cost of goods sold – impairment** | **325,763** | - | **325,763** | - |
| Gross margin | **(222,245)** | (249,784) | **(69,327)** | (177,124) |
| **Expenses** | | | | |
| General and administrative | **634,322** | 339,451 | **2,489,223** | 1,593,979 |
| Selling and business development | **664,155** | 486,191 | **2,065,642** | 1,613,652 |
| Product development | **1,133,326** | 1,330,017 | **3,967,897** | 2,449,920 |
| Operations | **417,930** | 242,108 | **1,129,991** | 825,870 |
| Amortization | **197,973** | 133,392 | **592,402** | 405,631 |
| Share-based compensation | **235,552** | 191,827 | **689,970** | 1,109,558 |
| | **3,283,258** | 2,722,986 | **10,935,125** | 7,998,610 |
| **Operating loss** | **(3,505,503)** | (2,972,770) | **(11,004,452)** | (8,175,734) |
| Financing costs | **(2,067,999)** | (1,159,650) | **(6,028,191)** | (1,749,895) |
| Expected credit loss | **(1,206,286)** | - | **(1,788,005)** | - |
| Unrealized foreign exchange loss | **119,378** | (49,804) | **(242,225)** | (48,968) |
| Other income (expense) | **840,933** | - | **(1,212,251)** | - |
| Miscellaneous income | **17,488** | (3,021) | **138,717** | 223,230 |
| **Net loss before tax** | **(5,801,989)** | (4,185,245) | **(20,136,407)** | (9,751,367) |
| Deferred tax recovery | **-** | 2,183,729 | **-** | 2,183,729 |
| **Net loss** | **(5,801,989)** | (2,001,516) | **(20,136,407)** | (7,567,638) |

## 1. Sales and Gross Margin

The Company's revenue is primarily derived from the sale of power electronics, including fully integrated energy storage solutions ("ESS")' and micro inverters. The ESS have been designed to be battery agnostic and are available in both NMC (nickel manganese cobalt) and LFP (lithium iron phosphate) chemistries, with multiple power and capacity configurations, providing consumer flexibility, while meeting regional certification and safety standards. The ESS also maintains approximately 90% bill of material consistency throughout the advanced power electronics platform, providing a globally standardized product, which is where many of the Company's proprietary patents reside. Each feature rich system is capable of performing consumer related functions, including solar self-consumption and seamless back-up power, as well as a full suite of VPP services for fleet aggregators and utilities, including frequency and voltage control, reactive power management, and spinning reserve. The micro inverters, an expansion of the Company's power controls offering, are sold under both Eguana, Duracell brand names. The suite of micro inverters includes single, dual, and quad port configurations, provides a wide range of system configurations, which maximize system flexibility, installation simplicity, efficiency and reliability. Micro inverters continue to play a key role in residential rooftop solar and are critical to the power grid and energy transformation.

The Company's customer base is addressed primarily through an installer dealer network, inclusive of large residential solar installers and global distributors, who, in turn, market and sell the Company's products, through their customer networks, to the end consumer. Additionally, in certain markets, the Company has white label products for large scale partners who have the ability to wrap financing around the solutions and target both solar self-consumption consumers, utility and aggregator VPP programs, as well as other fleet aggregation service providers. Since ESS installations are technical, Eguana training, through a series of online and in person programs (“Eguana University”), ensures both its customers and installation partners are appropriately educated, trained and certified on all product features, installation best practices, and software-based commissioning, prior to selling partners’ first sales. All installation, maintenance and subscriptions are the responsibility of the distributor or installer, putting additional importance on training. Since launching Eguana University, in December 2022, the Company has enrolled and trained over 1,200 course enrollments and trained over 500 new installers, which creates the on-the-ground sales force, while limiting future customer acquisition cost.

## Three Months Ended September 30, 2023

### Sales

For the three months ended September 30, 2023, sales were $2.6 million, is consistent with the comparative three months ended September 30, 2022, of $2.6 million.

Revenue for this quarter of $2.6 million increased by 23.3% as compared to $2.1 million in the three months ended June 30, 2023.

The increase in revenue during the quarter was as a result of increased sales of inverters and solar systems. The Company expects to see more consistent revenue growth in the upcoming quarters as macro factors are expected to flatten and consumer spending to adapt. In addition, management expects global energy prices to continue to rise, with economic incentives to return, driving consumers to clean energy solutions, such as solar and energy storage. Additionally, the Company anticipates strong sales traction and increasing adoption rates as VPP collaboration efforts begin to roll out.

### Cost of goods sold - impairment

In the three months ended September 30, 2023, the Company recognized inventory impairment of $325.8 thousand (2022 - $nil), for older components no longer used in production and considered to have limited future economic benefit.

### Gross margin

Gross margin of negative $222.2 thousand for power electronics increased to negative 8.7% for the three months ended September 30, 2023, as compared to gross margin of negative $249.8 thousand or negative 9.6% in the comparative quarter of 2022. In the comparative quarter of 2022 margin was low due to one-time transactions which had a negative impact on the margin.

With lower-than-expected sales volume, in this constrained marketplace, gross margin remains low. The Company continues to experience higher than normal warranty costs related to a battery module firmware update but is expecting these to be recovered by the battery partner in Q4 2023. Currently, each unit sold has higher freight cost, above standard pre-pandemic freight rates and high battery costs. Certain materials and sub assembly procurement activities were transitioned outside of China, which has a positive impact by reducing or removing import tariff costs on components. Other cost reduction initiatives and overall, the lower cost of batteries, are anticipated to also have a positive impact on gross margin in 2024.

## Nine Months Ended September 30, 2023

### Sales

For the nine months ended September 30, 2023, sales were $10.5 million, more than double the sales for the nine months ended September 30, 2022, of $5.2 million.

Revenue for the nine months ended September 30, 2023, was positively impacted by strong sales in the first three months of 2023, and sales related to the micro-inverter product line, which was not part of the Company's product line in the first nine months of 2022.

**Cost of goods sold - impairment**

In the nine months ended September 30, 2023, the Company recognized inventory impairment of $325.8 thousand (2022 - $nil), for older components no longer used in production and considered to have limited future economic benefit.

**Gross margin**

Gross margin of negative $69.3 thousand, for the nine months ended September 30, 2023, increased, as compared to gross margin of negative $177.1 thousand in the comparative quarter of 2022. In the comparative quarter of 2022 margin was low due to one-time transactions, which had a negative impact on the margin.

## 2. Operating Expenses

### Three Months Ended September 30, 2023

Expenses for the three months ended September 30, 2023, were $3.3million as compared to $2.7 million in the three months ended September 30, 2022, an increase of $560 thousand or 20.6%.

**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 increased by $294.9 thousand as compared to the comparative quarter ended September 30, 2022. This increase is primarily due to higher legal expenses incurred for the corporate office and our Australia business and increased salary and wages for administrative staff.

**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 September 30, 2023, S&BD costs increased by $178 thousand as compared to the comparative quarter ended September 30, 2022. The increase primarily relates to salaries and benefits along with travel and business development costs, as sales personnel and sales efforts have increased, to achieve the Company's growth objectives. In addition, in order to promote the Company's integrated solar presence in Australia, additional marketing and advertising efforts were implemented resulting in an increase in marketing expenses in the three months ended September 30, 2023.

**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 $196.7 thousand as compared to the comparative quarter ended September 30, 2022. This decrease is mainly due to less product development spending related to product certification testing and other project development costs, which accounts for approximately $400 thousand of the decrease. The Company is making strong efforts to control departmental spending. This is offset by a $192 thousand increase in salaries and benefits associated with a larger technical development team and the increase in the Eguana software team. Personnel costs are expected to decrease in the fourth quarter as the Company downsized its product development team, subsequent to the end of the third quarter, to respond to the current market conditions.

## 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 September 30, 2023, operations costs increased by $175.8 thousand as compared to the comparative quarter ended September 30, 2022. This increase is primarily due to additional storage facilities utilized in the US, which directly increases operations expenses. In addition, salaries and personnel related expenses were higher in the quarter as additional operations staff were hired during the year to facilitate the integrated solar installation business in Australia.

## 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 increased by $64.6 thousand for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022. This increase is a result of a higher asset base after investments in leasehold improvements, lab equipment and vehicle leases, as compared to the comparative quarter.

## Share-based compensation

For the three months ended September 30, 2023, share-based compensation expense increased by $43.7 thousand, as compared to the comparative quarter ended September 30, 2022. This moderate increase is related to options granted since September 30, 2022, that directly increases the current share-based compensation expense compared to the comparable period.

### Nine Months Ended September 30, 2023

Expenses for the nine months ended September 30, 2023, were $10.9 million, an increase of $2.9 million or 36.3%, from $8.0 million for the nine months ended September 30, 2022.

## General and administrative expenses ("G&A")

G&A expenses for the nine months ended September 30, 2023, increased by $895.2 thousand as compared to the nine months ended September 30, 2022. $350 thousand of this increase relates to legal expenses incurred in the current year. $115 thousand of the increase relates to audit and financial advisory related expenses incurred for the current nine-month period. Approximately, $245 thousand of the increase relates to additional salaries, wages, recruitment costs, and benefits for administrative staff and $60 thousand of the increase relates to additional insurance expense incurred.

## Selling and business development ("S&BD")

S&BD for the nine months ended September 30, 2023, increased by $452 thousand as compared to the nine months ended September 30, 2022. Approximately half of this increase is associated with additional sales and technical sales personnel in Australia, as the Company pursues strategic opportunities with VPP, home builder and integrated solar solutions. Additional increases are a result of increased travel, as global travel restrictions ease and increased marketing costs. Since the start of 2023, the Company has added two additional SM&BD personnel, in North America and in July 2023, added business development managers in Australia for growth.

## Product development

Product development costs increased by $1.5 million for the nine months ended September 30, 2023. This increase is primarily due to the increase in salaries and wages for the technical team as the Company expanded personnel in preparation for new developments related to Eguana Cloud Services, energy management software advancements, product enhancements, battery management, and micro inverter integration. Approximately $665 thousand of this increase is salary and wages for additional technical personnel and approximately $550 thousand is third-party outside services related to product certification, testing and development and the associated freight and travel costs of product development work. Since the start of 2023, the Company has added five additional personnel, mostly related to Eguana Cloud Services development.

**Operations**

Operations costs increased by $304 thousand for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. While the operating expenses would have trended higher due to higher activity, the subcontracted manufacturing allows the business to absorb some higher activity, without adding significant staff or other operational costs. The increase is related to salaries and operations freight and is consistent with overall Company expansion.

**Amortization**

Amortization costs increased by $186.8 thousand for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. This increase is a result of a higher asset bases for leasehold improvements, lab equipment and vehicle leases, as compared to the comparative period in 2022.

**Share-based compensation**

Share-based payments were $690 thousand for the nine months ended September 30, 2023, down from $1.1 million in the nine months ended September 30, 2022. Share-based expenses in 2022 relates to one million of options issued in February 2022 and one million in June 2022, with immediate vesting (and therefore, immediately expensed in the period), to the same capital market advisory firm. In comparison, in 2023 only 250 thousand options were granted and did not have immediate vesting. These options will vest over a three-year period and share-based expense will be recognized over the vesting period.

## 3. Financing Costs

As a large expense, the following table is provided to outline financing costs for the periods. Financing costs include multiple non-cash expenses such as accretion, fair value changes and imputed lease liability interest.

| | **Q3 2023** | Q3 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|
| Accretion of convertible debenture | **1,318,088** | 389,043 | 3,805,745 | 389,043 |
| Accretion of long-term debt | **539,291** | 433,141 | 1,778,380 | 790,408 |
| Change in fair value on derivative liability | **182,133** | 300,361 | 354,521 | 421,431 |
| Lease interest | **28,487** | 34,241 | 89,545 | 108,930 |
| Accretion of other liabilities | **-** | 2,864 | - | 40,083 |
| | **2,067,999** | 1,159,650 | 6,028,191 | 1,749,895 |

Financing costs in the three months ended September 30, 2023, were $2.1 million as compared to the three months ended September 30, 2022, of $1.2 million. The increase is mainly due to the higher accretion costs associated with the new unsecured convertible Debenture (“Debenture”) acquired in August 2022 and the change in long-term senior debt in April 2022 (“New Senior Loan”). Accretion on the Debenture and long-term debt, in the three months ended September 30, 2023, was $1.3 million and $539.3 thousand respectively, compared to lower accretion in the three months ended September 30, 2022, of $389 thousand and $433.1 thousand, respectively. These increases were offset by the decrease in the fair value of the New Senior Loan derivative liability, with a resulting quarterly financing cost of $182.1 thousand associated with the change in fair value as compared to the three months ended September 30, 2022, of $300.4 thousand. In addition, lease interest for the Company’s head office space and accretion of other liabilities decreased in the three months ended September 30, 2023, as compared to the three months ended September 30, 2022.

Financing costs for the nine months ended September 30, 2023, were $6.0 million, as compared to $1.7 million in the nine months ended September 30, 2022. As noted previously, the increase is a result of accretion on the Debenture and the New Senior Loan in the nine months ended September 30, 2023, of $3.8 million and $1.8 million respectively, compared to $389 thousand and $790.4 thousand, respectively, in the nine months ended September 30, 2022. These increases were offset by a decrease in the fair value of the New Senior Loan derivative liability, which resulted in a financing cost for the nine months ended September 30, 2023, of $354.5 thousand compared to the nine months ended September 30, 2022, of $421.4 thousand. In addition, lease interest for the Company's head office space and accretion of other liabilities decreased in the nine months ended September 30, 2023.

## 4. Expected credit loss

In the fifth quarter of 2022 and the first quarter of 2023, the Company reported strong revenue growth, mostly in the North American market. A significant portion of this revenue was from a major USA partner, who is slow paying. This one customer represents 93% of total accounts receivable. At September 30, 2023, this customer had approximately $13.9 million, net of expected credit loss, of accounts receivable over 90 days, The customer continues to be delayed in making payments on its outstanding receivable balance but is making bi-weekly progress payments.

The Company originally recognized a credit loss provision at year-end December 31, 2022, and is adjusting the provision on a quarterly basis. An additional estimated credit loss was recognized for the three months ended September 30, 2023, of $1.2 million (September 30, 2022 - $nil) and the total credit loss for the nine months ended September 30, 2023, is $1.8 million (2022 - $nil). The expected credit loss is calculated based on customer-specific factors, expected timing of future cash receipts, and discount rates to account for time value of money when, taking into consideration historical default rates, and forecasted economic conditions in the assessment, amongst other factors. As a major customer, management continues to work with the customer to collect payments and has restructured future sales and ordering processes with the customer, for immediate payments. Management continues to believe the full amount will be received from the customer.

## 5. Unrealized foreign exchange loss

The $169.2 thousand increase in unrealized foreign exchange loss for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, is primarily a result of a significantly higher balance in US denominated debt and the strengthening of the US dollar at September 30, 2023, in comparison to the prior year. This is offset by foreign exchange losses associated with US denominated accounts receivable as compared to the same period in the previous year due to the strengthening of the US dollar in comparison to the prior periods. For the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, there was a $193.3 thousand decrease in unrealized foreign exchange loss. This is primarily a result of significantly higher US denominated accounts receivable as at September 30, 2023, as compared to the previous year.

## 6. Other expense

In June 2023, the Company experienced a theft of three truckloads of inventory components, when being transferred between Company warehouse locations. The theft was part of a larger targeted operation towards the Company's third-party logistics provider, which included our three truck loads. The theft was immediately reported to the police and insurance and the Company is pursuing recovery from its insurance provider. The inventory items had a cost of $2.1 million and were written off in the Company records, resulting in a loss reported in Other Expense of $2.1 million in the second quarter of 2023. In the third quarter, the Company received partial insurance proceeds of US 623.9 thousand (CAD $840.9 thousand) and recognized the amount in Other Expense to offset the original loss, resulting in a loss for nine months ended September 30, 2023, of $1.2 million. Further proceeds are being pursued with the insurer for the entire balance of the loss. However, the timing and final amounts of the remaining insurance recovery are not certain, therefore, the Company has not accrued any additional insurance proceeds in the financial statements.

## 7. Miscellaneous income

Miscellaneous income in the three months ended September 30, 2023, was $17.5 thousand as compared to $nil in the three months ended September 30, 2022. This increase is primarily due to interest income earned in the current quarter on funds invested in short-term saving accounts. For the nine months ended September 30, 2023, miscellaneous income was $138.7 thousand, as compared to the comparative quarter ended September 30, 2022, of $223.2 thousand. During the nine months ended September 30, 2022, the Company provided after sales services on behalf of a third party, which generated other income in the period. In 2023, the Company was not engaged in similar sales services, therefore, miscellaneous income is primarily generated from interest income from short term savings accounts.

## 8. Net Loss

Net loss for the three months ended September 30, 2023, increased by $3.8 million, as compared to the three months ended September 30, 2022. The increase in net loss can primarily be attributed to increased financing costs of $908.3 thousand due to higher debt and financing levels in the current period. In addition, operating expenses increased by $886.0 thousand, due to additional personnel, added throughout all departments of the organization and increased costs related to prioritization of certification efforts to release new products to the market in 2023. Expected credit loss of $1.2 million ($nil – 2022) negatively impacted the quarter. Insurance proceeds related to the stolen inventory items of US $623.9 thousand (CAD $840.9 thousand) offset the net loss for the quarter. In addition, unrealized foreign exchange for the three months ended September 30, 2023, had a positive impact on net loss of $119.4 thousand.

Net loss for the nine months ended September 30, 2023, increased by $12.6 million, as compared to the nine months ended September 30, 2022. The increase in net loss can primarily be attributed to increased financing costs of $4.3 million due to higher debt and financing levels in the current period. In addition, operating expenses increased by $3.3 million, due to additional personnel, added throughout all departments of the organization, the expanded operations in Australia and increased costs related new product certification efforts. Expected credit loss of $1.8 million ($nil – 2022) and other expenses related to the inventory loss of $1.2 million, negatively impacted the nine-month period.

## FINANCIAL RESULTS

| | **Q3 2023** | Q3 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net loss | **(5,801,989)** | (2,001,516) | **(20,136,407)** | (7,567,638) |
| Share-based payments | **235,552** | 191,827 | **689,970** | 1,109,558 |
| Financing costs | **2,067,999** | 1,159,650 | **6,028,191** | 1,749,895 |
| Amortization and depreciation | **197, 973** | 133,392 | **592,402** | 405,631 |
| Inventory write down | **13,526** | - | **26,088** | 82,913 |
| Inventory impairment | **325,763** | - | **325,763** | - |
| Warranty provision | **149,152** | 128,111 | **350,144** | 250,639 |
| Bad debt expense | **-** | - | **-** | 965 |
| Expected credit loss | **1,206,286** | - | **1,788,005** | - |
| Other (income) expense | **-** | - | **2,053,184** | - |
| Deferred tax recovery | **-** | (2,183,729) | **-** | (2,183,729) |
| Unrealized foreign exchange (gain) loss | **(119,378)** | 49,804 | **242,225** | 48,968 |
| | **(1,725,116)** | (2,522,461) | **(8,040,435)** | (6,102,798) |
| Net change in non-cash working capital | **975,971** | (3,076,202) | **(2,449,509)** | (7,283,166) |
| **Cash flow used in operations** | **(749,145)** | (5,598,663) | **(10,489,944)** | (13,385,964) |
| **Cash flow used in financing** | **(1,046,488)** | 38,672,289 | **(642,876)** | 45,525,208 |
| **Cash flow used in investing** | **(237,306)** | (285,892) | **(997,595)** | (527,232) |
| Effects of exchange rate changes on cash held in foreign currencies | **(1,232)** | (107,297) | **(91,409)** | (95,424) |
| **Net change in cash** | **(2,034,171)** | 32,680,437 | **(12,221,824)** | 31,516,588 |

## Financial Position

The following table highlights the changes in the Company's Statement of Financial Position as at September 30, 2023, as compared to December 31, 2022.

| **As At** | **September 30, 2023** | December 31, 2022 | **Increase (Decrease)** | Primary factors explaining the change |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | **2,813,659** | 15,035,483 | **(12,221,824)** | Decreased due to use of cash in operations and financing |
| Accounts receivable | **17,414,136** | 13,516,936 | **3,897,200** | Increased due to sales and slower collections |
| Inventory | **8,509,811** | 7,039,779 | **1,470,032** | Increased due to additional micro inverters |
| Prepaid expenses and deposits | **2,992,956** | 9,202,248 | **(6,209,292)** | Decreased due to reduced inventory deposits |
| Property and equipment | **1,681,480** | 1,445,765 | **235,715** | Increased due to capital additions |
| Other assets | **1,167,837** | 1,162,418 | **5,419** | Increased due to software license investment, offset by leasehold allowance received |
| | **34,579,879** | 47,402,629 | **(12,822,750)** | |
| **Liabilities and Equity** | | | | |
| Accounts payable and accrued liabilities | **5,530,521** | 4,228,700 | **1,301,821** | Increased due to higher operating costs incurred |
| Other liabilities | **690,665** | 607,143 | **83,522** | Increased due to addition to warranty provisions |
| Current debt | **7,695,840** | 6,290,153 | **1,405,687** | Increased due to derivative liability fair value |
| Non-current debt | **31,001,922** | 32,653,338 | **(1,651,416)** | Decreased due to debt payments |
| Shareholders' equity (deficit) | **(10,339,069)** | 3,623,295 | **(13,962,364)** | Decreased due to net losses during the period |
| | **34,579,879** | 47,402,629 | **(12,822,750)** | |

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity and Working Capital

| As At | September 30, 2023 | December 31, 2022 | Increase (Decrease) | Primary factors explaining the change |
|---|---|---|---|---|
| **Working Capital** | | | | |
| Total current assets | **31,730,562** | 44,794,446 | **(13,063,884)** | Decreased due to use of cash in operations |
| Total current liabilities | **13,917,026** | 11,125,996 | **2,791,030** | Increased due to accounts payable and higher current portion of long-term debt |
| **Working capital surplus** | **17,813,536** | **33,668,450** | **(15,854,914)** | |

The Company manages its capital with the primary objectives of safeguarding the business as a going concern, creating investor confidence, maximizing long-term returns and maintaining the ability to meet its financial commitments. At present, the capital structure of the Company is primarily composed of shareholders' equity and debt. The Company's strategy is to access capital primarily through equity issuances and debt financing. The Company closely monitors its capital structure and adjusts relative to changes in economic conditions and the Company's risk profile. The quick economic downturn in the solar industry globally, in early 2023, was not anticipated and the Company has been managing through 2023 cautiously. Unfortunately, the slow collection of the accounts receivable from the Company's primary customer has constrained liquidity for the past six months. Until the industry recovers, consumer spending rebounds and/or solar energy incentives increase, management believes the slower than usual collection on account receivable will continue to constrain Eguana's financial position. Management believes the closing of the Offering, as announced on November 23. 2023, assuming approximately $2.0 million is raised, will ease the current cash flow constraints of the Company. Furthermore, management anticipates that the Closing of the Offering, along with the Company successfully collecting historical receivables from our partners and creating additional liquidity from the Company's current assets, will continue to fund the cash flow needs of the business.

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital at the quarter ended September 30, 2023, was $17.8 million (December 31, 2022 – $33.7 million). Working capital is dependent on cash collections from a major customer who has been slow to pay. The Company continues to work closely with this customer and periodic payments are being received. If there is continued 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. Refer back to Going Concern section noted on page 5.

The Company is subject to legal claims in the ordinary course of business, and these are disclosed as they occur or evolve. During the quarter there has been no significant change in legal disputes and no change in associated amounts.

**Outstanding Debt and Equity**

| As At | September 30, 2023 | December 31, 2022 | Increase (Decrease) | Primary factors explaining the change |
|---|---|---|---|---|
| **Outstanding Debt** | | | | |
| Current portion of long-term debt | **4,674,245** | 3,571,470 | **1,102,775** | Increased due to higher accretion on long term debt continuity. |
| Derivative liability | **2,815,260** | 2,460,739 | **354,521** | Increased due to shorter period to exercise date, increasing the fair value. Offset by lower exchange rate. |
| Current portion of lease liability | **206,335** | 257,944 | **(51,609)** | Decreased due to warehouse lease term ended resulting in less future lease payments. |
| Long-term debt | **4,269,585** | 7,887,545 | **(3,617,960)** | Decreased due to monthly debt repayments and lower exchange rate. |
| Convertible unsecured debenture | **25,961,179** | 23,883,187 | **2,077,992** | Increased due to accretion on debenture, offset by interest. |
| Lease liability | 771,158 | 882,606 | **(111,448)** | Decreased due to warehouse lease term ended. Less future lease payments. |
| **Total Debt** | **38,697,762** | **38,943,491** | **(245,729)** | |

**Long-Term Debt and Derivative Liability**

On April 1, 2022, the Company entered into a new loan agreement (the “New Senior Loan”) for general working capital for up to US $10 million with Western Technology Investment (the “Lender”). The first US $5 million was available immediately. An additional US $5 million was available through August 31, 2022, upon the Company achieving revenue of at least $14 million between May 1, 2022, and July 31, 2022, and the Company having unrestricted cash of $10 million at the time of the draw. The New Senior Loan bears interest at a rate of 12% per annum, per draw, with interest only payments being paid during the first six months, followed by both principal and interest being paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw. The Company may prepay the Loan by paying all scheduled but unpaid payments, subject to a scaling discount off future interest owed depending on the date of repayment.

As consideration for the advance of the Loan, the Company agreed to issue warrants entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company at a price of $0.355 per common share, for a period of five years from the date of the New Senior Loan, with 50% of the warrants issued immediately and 50% of the warrants issued ratably on subsequent draws made under the New Senior Loan, all vesting immediately. The vested unexercised warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event and September 30, 2025, for an amount equal to the sum of: (i) US $1.5 million; and (ii) the product obtained by multiplying US $1.5 million by the percentage of the principal amount of the Loan actually advanced by the Lender relative to US $10 million. These warrants are recorded as a warrant derivative liability at fair value through profit or loss. The Company drew US $5 million on April 7, 2022, and issued 3,700,732 warrants and measured the fair value of the warrant derivative liability associated with the loan, with the residual assigned to the New Senior Loan.

On August 31, 2022, the Lender waived the financial milestones required under the Loan Agreement for the second tranche of the New Senior Loan and the Company drew the additional US $5 million. This resulted in the issuance of 1,233,577 warrants.

### Convertible Unsecured Debenture

On August 31, 2022 (the Closing Date), the Company closed a strategic investment with ITOCHU in the amount of $33 million in the form of an unsecured convertible debenture (the "Debenture"). The Debenture bears interest at a rate of 7% per annum, paid semi-annually in either cash or with the issuance of shares, and matures on August 31, 2025.

While the Debenture remains outstanding, at any time following the date that is four months plus one day following the Closing Date, if the Company files a financial statement in respect of a three-month period, which reports stable positive net income and the parties mutually agree (such consent not to be unreasonably withheld), ITOCHU will be entitled to convert all or part of the principal amount of the Debenture into common shares at a price of $0.50 per common share. Additionally, beginning on the date that is four months plus one day following the Closing Date, if the Company files a financial statement in respect of a three-month period which reports stable positive net income, the daily volume weighted average trading price of the Common Shares on the TSXV is greater than $1.00 for any 20 consecutive trading days, and the parties mutually agree (such consent not to be unreasonably withheld), the Company can require ITOCHU to convert the Debenture into Common Shares at a price of $0.50 per Common Share on not less than 30 days' notice. Financing fees of $453.4 thousand were allocated between the liability and equity portion of the Debenture.

In March 2023, ITOCHU and the Company agreed to convert $1.1 million of interest owing under the Debenture into 4,242,617 common shares of the Company, in full satisfaction of the interest payment due on March 1, 2023. Additionally, ITOCHU purchased 16,666,666 common shares of the Company through the exercise of their remaining share purchase warrants, for aggregate consideration of $3.3 million. In addition, in September 2023, ITOCHU and the Company agreed to convert $1.1 million of interest owning under the Debenture into 13,580,094 of common shares of the Company, in full satisfaction of the interest payment due on September 1, 2023. Associated with this Debenture, $7.3 million was recorded in shareholder's equity. The difference between the debt component and the face value of the Debenture was classified as equity and financing fees were allocated between the liability and equity portions of the Debenture.

### Shareholders' Equity and Shares Outstanding

As at November 29, 2023, 437,656,022 common shares are issued and outstanding, no change from September 30, 2023.

As at November 29, 2023, there are 4,934,309 common share purchase warrants representing the right to acquire 4,934,309 common shares, no change from September 30, 2023.

As at November 29, 2023, the Company has 23,462,390 stock options outstanding, no change from September 30, 2023, due to option expiry and forfeiture. These options entitle the holders thereof to acquire up to 23,462,390 common shares, and of these 18,790,727 stock options have vested. The weighted average exercise price of the vested options is $0.30 per share.

### Capital Expenditures

In the third quarter of 2023, capital expenditures totaled $184.9 thousand (2022 - $285.9 thousand) and for the nine months ended September 30, 2023, of $561.2 thousand (2022 - $527.2 thousand). These expenditures were for lab testing equipment and corporate office leasehold improvements.

During the nine months ended September 30, 2023, the Company recorded the purchased of software intangibles of $340.3 thousand, as compared to the prior nine months ended September 30, 2022, where no intangible purchases were made.

In the third quarter of 2023, the Company received a leasehold incentive allowance of $107.6 thousand for the improvements completed on its corporate head office lease.

### Off-Balance Sheet Items

As at September 30, 2023, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

## CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The judgements and estimates used in the preparation of the unaudited condensed interim consolidated financial statements for the three months ended September 30, 2023, 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, 2022.

## RISK FACTORS AND RISK MANAGEMENT

Additional information relating to the Company's Risk Factors and Risk Management, which were previously disclosed, can be reviewed in the Financial Statements, the Company's most recently completed Annual Information Form, news releases, and other documents on SEDAR+, at www,sedarplus.ca

### Capital Management and Liquidity

The Company manages its capital on a regular basis. All capital transactions, including equity, debt, and capital leases, are analyzed by management and approved by the Board of Directors. The Company's objectives when managing capital are: (a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and (b) to facilitate the development or growth that are accretive. The Company meets these objectives by regular executive management oversight, detailed cash flow forecasting to ensure an adequate amount of liquidity, monthly review of financial results and analysis of various on-going liquidity alternatives. The Company has sought out loans, borrowings, including convertible forms and issuances of equity, as sources of financing for ongoing operations, development and growth, and may do so in the future, and these would likely be dilutive to existing shareholders. The Company may not achieve its capital management objectives, and/or the Company may be unable to raise or maintain adequate capital for its operations, which could have a material adverse effect on the Company.

The financial results for third quarter ended September 30, 2023 continue to reflect the impact of soft consumer spending due to inflation and high-interest rates and the resulting high channel inventory position. These factors constrain Eguana's sales into residential solar markets. The economic downturn in the solar industry globally, in early 2023, was not widely anticipated, and the Company has been managing through 2023 cautiously. Until the industry recovers, consumer spending rebounds and/or solar energy incentives increase, management believes residential solar sales, particularly in North American markets, will remain under forecast. Slow collection of the accounts receivable from the Company's primary customer has constrained liquidity and is expected to continue to impact the Company's short-term liquidity.

Management, along with the board of directors, continues to pursue a number of additional short-term options to ease liquidity by increasing cash inflows and reducing cash requirements. Through the end of 2023 and into 2024, management anticipates funding the cash flow needs of the business by continuing to collect historical receivables from our primary customer, creating liquidity from the Company's current assets, and increasing sales.

On November 23, 2023, the Company announced a private placement, targeted at $2.0 million, to be closed in multiple tranches. This financing is aimed to ease the current cash flow constraints of the Company. The first tranche of the private placement offering is expected to close on or about November 30, 2023. As a result of the slow industry recovery, many renewables stock prices, including Eguana, remain under significant pressure. With respect to the private placement, current shareholders may be impacted by significant dilution, resulting from the current stock price and warrants associated with the private placement.

A small number of shareholders hold a substantial number of common shares of the Company, including certain shareholders that hold more than 15% of the issued and outstanding common shares of the Company. Decisions made by these principal shareholders regarding whether to buy or sell common shares of the Company may have a material effect on the share price of the common shares of the Company. Management works with existing registered insiders to understand their long-term investment goals and review trading volumes to understand stock market dynamics that may affect the share price, but certain external factors and investor decisions are outside management's control and may have a material adverse effect on the value of the Company's securities, its operations and results and investor returns. If one of the Company's principal shareholders determines to sell all or a significant portion of its common shares of the Company, this could result in a decline in the Company's share price and could result in material losses to investors in the Company. Divestiture by a principal shareholder may also negatively affect the Company's ability to raise capital on favourable terms or at all and may result in the Company losing a valuable strategic advisor or business partner, which may have a material adverse effect on the Company's business, operations and results.

The Company's working capital may be impacted by foreign exchange. Most of the Company's sales are now and will for the foreseeable future be made in Euros, Australian dollars, or US dollars, whereas most of its production costs are incurred in Canadian and US dollars. Changes in foreign exchange rates can cause fluctuations in the Company's operating expenditures from period to period. To date the Company has not hedged these transactions except in the form of cash deposits on sales and for the cost of materials, and there are no immediate plans to do so. As a result, there is a risk that margins will be reduced due to adverse changes in these currencies relative to the Canadian dollar.

### Global Events and Global Recovery

As a company with a global footprint, we are subject to risks and exposures from the evolving macroeconomic environment, which can negatively impact our business. Some of these significant macroeconomic factors include increased global inflationary pressures and interest rates, fluctuations in foreign currency exchange rates, current or future pandemics, such as COVID-19, supply chain disruptions and/or supply constraints, potential economic slowdowns or recessions, capital markets volatility and geopolitical pressures, including the unknown impacts of current and future trade regulations or sanctions and the Russia-Ukraine and Israel-Gaza Strip armed conflicts. We continuously monitor the direct and indirect impacts of these circumstances on our business and financial results.

Additional uncertainty exists around the global recovery, following the negative impacts on global growth during the COVID-19 pandemic. As governments respond to growth inflationary pressures with interest rate changes, consumer concerns negatively influence consume spending. With high interest rates, consumer spending is curtailed. These influences could decrease demand for the Company's products.

These macro factors remain dynamic, and it is currently not possible to predict the duration or magnitude of the potential adverse impacts on the Company's business, strategic success, financials results or their effects on the Company's ability to raise funds. Any significant negative developments could have a material adverse effect on the Company's business, operations or financial condition.

## Market Factors

The Company is exposed to competitive market factors in both sales and supply, particularly in North America. The market has several large competitors that impact product pricing and provide similar alternate product choices to the installers and consumers. These same competitors vie for critical components that are part of the Company's finished products and for adoption by distributors and installers. If competition remains strong or increases, the Company may need to reduce sales prices or be impacted by higher component costs, both of which will put pressure on gross margin and profitability.

The Company has minimal control over the cost of its raw materials, and the prices for these raw materials are subject to market forces beyond the Company's control, which have varied significantly in the past and may vary significantly in the future. Costs of raw materials used in the Company's products can fluctuate due to conditions that are difficult to predict, including global competition for resources, weather conditions, consumer demand, changes in governmental trade programs, inflation, and the effects of force majeure events such as natural disasters, public health crises or wars. Volatility in the prices of raw materials, other supplies and expenses that the Company purchases could increase its cost of sales and reduce its profitability. The Company may not be able to adjust its product prices, especially in the short-term, to recover cost increases, and any product price increases implemented by the Company may result in lower sales volumes and future profitability may be adversely affected.

## Warranty Claims

There is a risk that warranty accrual estimates are not sufficient, and the Company may need to recognize additional expenses, including those related to litigation, as a result of warranty claims in excess of current expectations. Such warranty claims may necessitate changes to the Company's products or manufacturing processes and/or a product recall, all of which could hurt the Company's reputation and the reputation or its products and may have an adverse effect on its financial performance and/or on future sales. While the Company attempts to mitigate against these risks through Research and development, quality assurance and customer support and service processes, there can be no assurance that these processes are adequate. Even in the absence of any warranty claims, a product deficiency such as a design or manufacturing defect could be identified, necessitating a product recall or other corrective measures, which could hurt the Company's reputation and the reputation of its products and may have an adverse impact on its financial performance and/or on future sales. New products may have different performance characteristics from previous products.

## Cybersecurity

Security breaches and other disruptions to the Company's information technology networks and systems could substantially interfere with the Company's operations and could compromise the confidentiality of the Company's proprietary information. The Company relies on information technology systems and networks, some of which are managed by third parties, to process, transmit and store electronic information and to manage or support a variety of business processes and activities, including supply chain management, manufacturing, invoicing and collection of payments from the Company's customers. Additionally, the Company collects and stores sensitive data, including intellectual property, proprietary business information, the proprietary business information of the Company's suppliers, as well as personally identifiable information of the Company's employees, in data centers and on information technology systems. The secure operation of these information technology systems, and the processing and maintenance of this information, is critical to the Company's business operations and strategy. Despite security measures and business continuity plans, the Company's information technology systems and networks may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to errors or malfeasance by employees, contractors and others who have access to the Company's networks and systems, or other disruptions during the process of upgrading or replacing computer software or hardware, hardware failures, software errors, third-party service provider outages, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise the Company's systems and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations and reduce the competitive advantage we hope to derive from the Company's investment in technology. The Company's insurance coverage may not be available or adequate to cover all the costs related to significant security attacks or disruptions resulting from such attacks.

### Uninsured Losses

While the Company maintains certain insurance coverage, such insurance may not continue to be offered on an economically feasible basis and may not cover all events that could give rise to a loss or claim involving the Company's assets, liabilities, or operations. If the Company's insurance coverage is insufficient and it is forced to bear such losses or claims, its financial position could be materially and adversely affected. The Company's insurance policies may cover losses as a result of certain types of natural disasters, sabotage, or theft, among other things, but such coverage is not always available in the insurance market on commercially reasonable terms and is often capped at predetermined limits or exclusions that may not be adequate or appropriate. If the Company experiences a loss and makes an insurance claim, recovery from the insurance provider is uncertain or may be delayed, which could have a material adverse effect on the Company's business, operations and results. Further, the Company's insurance policies are subject to review by its insurers and may not be renewed on similar or favorable terms, or at all.

### Government Regulation and Industry Standards

The operations of the Company are subject to a variety of federal, provincial, and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Of particular relevance to the Company's business, the laws and regulations related to the interconnection of behind the meter energy resources and to the installation of lithium-based batteries are covered by an evolving set of regulations that are similar in scope but differ in detail in each region in which the Company operates. Changes to these regulations often require investment in redesign and recertification of the Company's products and may increase the cost of the product, but they may affect the Company and its competition equally creating a significant barrier to new market entrants thus limiting competition to those who make these investments and deferring any potential commoditization of our product category.

The Company's products are currently certified for use in Germany, the United Kingdom, France, Australia, and North America. The prevalent technical associations that maintain the grid interconnection and safety standards in these countries are VDE, Australian Standards, UL, IEEE, CSA, IEC, EN and FCC. The standards that are typically actively maintained for compliance by the Company are UL 1741, IEEE 1547, IEEE 2030.5, UL 9540, VDE 4105, G98, AS 4777, IEC 62109 and IEC 61000. The Company believes that it is currently in compliance with all such laws and regulations. The Company intends to invest financial and managerial resources to ensure such compliance and will continue to do so in the future; however, it is impossible for the Company to predict the cost or impact of such laws and regulations on its future operations.

Government regulation also impacts electricity pricing and subsidies. When electricity pricing increases, or stability of the electricity supply is more uncertain, consumers are more likely to look at solar alternatives and hence our products. However, each region, utility and government are responding differently to supply and demand management and to electricity pricing. Further, each is responding differently to the policy approach to subsidies and reduction, elimination and expiry of subsidy programs could dimmish consumer demand.

On March 15, 2022, the Government of Canada released a discussion paper A Clean Electricity Standard in support of a net-zero electricity sector, signaling its intent to move forward with regulations to achieve a net-zero electricity system by 2035, and is undergoing consultation to develop the regulation. This legislation was expected by the end of 2022 but has not been released. On July 26, 2022, the Government of Canada released a proposed framework for the clean electricity regulation which is the second engagement document that will guide the clean electricity regulations and set out the key elements of the regulation. Following a comment period that closed on August 17, 2022. In August 2023, the Government of Canada released the draft Clean Electricity Regulations ("CER"), outlining the details of a major new policy that is to play a critical role in decarbonizing the country's electricity grids, building on clean electricity's competitive advantage. Management has not assessed the potential impact to the Company.

## ADVISORY SECTION

### 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 revenues, capital, equity, debt, liquidity and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, insurance recoveries, construction timetables, extent of solar resource usage and future growth and performance opportunities. The words "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts", "intends", "potential", "opportunity", "target" or variations of such words of similar expressions thereto and the negatives thereof, identify forward-looking statements. In particular, this MD&A includes forward-looking statements with respect to the future dynamics and size of the solar PV and energy storage market and segments thereof; statements concerning the Company’s expectations of future relationships as well as the size of the market for power electronics; statements concerning the Company’s sales; and statements concerning factors which management believes may be relevant in assessing whether the Company’s plans are achievable.

Forward-looking statements are necessarily based upon management’s perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by the Company as of the date of such statements, outside of the Company's control and are inherently subject to significant business, economic and competitive uncertainties and contingencies, which could result in the forward-looking statements ultimately being entirely or partially incorrect or untrue. Certain forward-looking statements contained in this MD&A about prospective results of operations, financial position or cash flows may constitute “future oriented financial information”, is based on assumptions about future events, is given as at the date hereof and including economic conditions and proposed courses of action, based on management’s assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Forward-looking statements contained in this MD&A are based on various assumptions, including, but not limited to the following: timing and completion of the Offering, the use of proceeds of the Offering, receipt of TSXV approval; the ability to close the Offering as contemplated and properly allocate use of proceeds for immediate needs, such as debt service, payroll and payments; successful accounts receivable collection, creating additional liquidity with the Company’s current assets, and the Company being able to continue business operations due to cash flow constraints; success in delivering on or executing VPP and strategic partnerships; product development success and low warranty or product failures; the Company's ability to achieve its strategy for growth, margin improvement, market adoption, partnership success and other strategies; the demand for the Company’s products and fluctuations in future revenues, prices and costs; the Company's business model and assumptions; (x) expectations of growth and competition in the industry in which the Company operates and the markets in which the Company’s products are sold; sufficiency of current working capital to support future operating and working capital requirements and to solve its current cash flow constraints, which would impact the viability of the business to continue operating as a going concern or the viability of the business to continue operating altogether; the stability of general economic and market conditions; currency exchange rates and interest rates; equity and debt markets continuing to provide the Company with access to capital; the Company’s continued compliance with third party intellectual property rights; and that the risk factors, collectively, do not have a material impact on the Company's business, liquidity, operations, revenues, results and/or going concern. 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.