MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated August 29, 2023 and should be read in conjunction with Eguana's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2023 ("Q2 2023" and "YTD 2023") and 2022 ("Q2 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 second quarter of 2023 is technically the third quarter of 2022, both at June 30th, in the respective years.

The Q2 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 Eguana'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 electric power. 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. DER 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 examples of virtual power plants existing in the United States, Europe, and Australia.

The world's energy demands, which have been conservatively estimated to double 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 a cost-effective solution 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 the electric vehicle movement. 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 the use of smart cloud-based applications, to connect to fleets of systems and from the grid operators. This approach provides a three-pillar revenue stack for Eguana with the roof (solar generation), the wall (energy storage solutions, and the cloud (fleet management and recurring revenue from utility operators).

Strategically, the Company continues developing distribution partnerships, opening branch locations, and increasing product-to-consumer channels, along with expanding sales, technical support and training capacity, particularly in North American and Australian markets. Additionally, Eguana has vertically integrated its sales operations in Australia, to include full turn-key installation services, which has begun delivering positive growth and larger opportunities.

Eguana employees and external partners are critical to its success. The Company is adding key business development and technical team members to achieve regional and country certification requirements, and to improve Eguana cloud, battery management solutions and battery integration and development.

The Company continues to advance objectives in hardware and software development and market adoption, which are expected to have significant and positive long-term impact on growth and global positioning objectives. These include, to name a few, moving the 10kW whole home product to full scale manufacturing, expanding the Energy Management System software license for direct control from the utility to the ESS, advancing Eguana Cloud development to allow for the recurring revenue, and surpassing five hundred unique enrollments and completions with the Eguana university, the Company's online solutions and training platform.

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.

Eguana's goal is building a vertically integrated ecosystem, with the electronics platforms and proprietary software, for modernization of the power grid.

Sales and Operations

The second quarter is traditionally a slower sales period, due to general seasonality of the business. Demand is traditionally stronger in the latter quarters of the year as timing to consumer rebates, particularly investment tax credits, is often tied to year end taxes.

During the second quarter, the Company concentrated on additional installer training, expanding business development, furthering product development, in hardware and software and advancing partnership opportunities. These efforts, although not immediate orders, are expected to turn into stronger sales in the second half of this year and into next year.

Eguana 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 Eguana. Management believes this strategy with brand recognition, will help Eguana to compete in the more competitive USA market. Globally elsewhere, the Company continues to sell under its Eguana brand.

Distribution branch level market feedback has been clear that channel partners are continuing to place high priority on product availability, particularly as it relates to reorders. As a result, Eguana and its partners ramped inventory levels during the busy end of 2022. Unfortunately, as other market participants have found, demand in early 2023 stalled due to a variety of macro-economic factors, such as high interest rates, high inflation and uncertain policy frameworks and incentives. This caused slow sell through in the distribution channels and lagging sales in the first and second quarters. Management believes this is starting to ease and has seen increased shipments in past 90 days. However, general market sentiment remains cautious because of the stagnant US growth outlook.

Adding to the near-term positive outlook is a recent change in utility engagement within the energy storage sector and the noted drive for utilities to roll out VPP's. Management believes this is the tipping point to drive mass adoption of grid tied energy storage devices as ESS' provide a host of advantages for key stakeholders including the consumer, the utility, the manufacturer, and 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 significant impact on consumer purchasing bringing the return-on-investment time in most regions to sub 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 has been developed to support all grid related VPP functions. Eguana also has a fully integrated cloud-based software platform, 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 announced a partnership with Virtual Peaker, a leading DERMS software platform provider. The Virtual Peaker (VP) platform has been fully integrated with the Eguana Cloud which also opens up recurring revenue channels. Combined, the Eguana/VP integrated system has been accepted into the Portland General Electric's (PGE) Smart Battery Program. In addition to PGE, the companies are active with more than a dozen utilities across the United States.

In addition to the Virtual Peaker partnership, Eguana has ongoing software integration projects with 4 additional DERMS software providers and utilities. Eguana's advanced electronics platform has key advancements in accuracy, measurement, and efficiency that is 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 Eguana'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 500 partners 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, and alternate parts program, as well as future inventory investment plans, the Company expects steady and improving margins, on a go forward basis. Production output will be key to ESS growth, as demand continues to increase for Eguana and white labelled product. Eguana's current production capacity for ESS is 25,000 units per year. Eguana 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 quarter negative margin impacts have been driven primarily by second half 2022 lithium battery price increases (4.1%), increased freight costs (1.9%), and increased tariff impacts on materials imported into the US from China (2.2%). The Company expects to reverse the impacts to 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 relocated out of China to reduce and 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 Eguana providing installation and support services, alongside its industry leading product line. The Company is pursing 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 VPP. The Company is also in discussion with multiple home builders, 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, Eguana expects sales growth in Australia, and similar VPP collaborations in North America.

In Europe, due to supply chain availability challenges from a prior battery partner, Eguana recently recertified its Enduro products with a Pylontech battery module. Initial shipments have commenced, with growth expected in the latter part of the year. Based on the market opportunities, the Company has also begun development of a 3.7kW cascading tower format product, for Europe and Australia.

SUMMARY OF QUARTERLY RESULTS

	2023		2022					2021
	Q2	Q1	Q5	Q4	Q3	Q2	Q1	Q4
Sales [(2)]	2,067,624	5,855,247	10,357,667	2,602,195	2,317,334	285,130	1,264,549	12,121,716
Net loss [(2)]	(9,020,179)	(5,314,239)	(6,599,160)	(2,001,516)	(3,163,186)	(2,402,936)	(2,661,474)	(2,480,361)
Per share [(1)]	(0.02)	(0.01)	(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.

Nature of Operations

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

The Company's ability to continue as a going concern, fund operations and execute its strategy, until it is able to start generating profit and positive cash flows from operations, is dependent on future profitable operations, cash flow from operations and any necessary financing, to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company has cash of $4.8 million and working capital of $22.6 million, as at June 30, 2023. The working capital is dependent on cash collections from a major customer who has been slow to pay, and the Company is working closely with the customer. Based on management's assumptions and estimates for the timing and amount of collections, the Company expects it will have sufficient liquidity to finance operations for more than twelve months. If there is a significant delay in the receipt of this receivable, it could impact the Company's liquidity position and require the Company to seek additional debt and/or equity financing.

2023 OPERATING RESULTS

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

	Q2 2023	Q2 2022	**YTD 2023**	YTD 2022
Sales	**2,067,624**	2,317,334	**7,922,871**	2,602,464
Cost of goods sold	**2,066,876**	2,316,322	**7,769,953**	2,529,804
Gross margin	**748**	1,012	**152,918**	72,660
Expenses				
General and administrative	**1,138,344**	511,131	**1,854,901**	1,254,528
Selling and marketing	**812,067**	609,509	**1,401,487**	1,127,461
Product development	**1,515,157**	705,178	**2,834,571**	1,119,903
Operations	**398,528**	299,395	**712,061**	583,762
Amortization	**198,191**	133,149	**394,429**	272,239
Share-based compensation	**225,838**	426,414	**454,418**	917,731
	4,288,125	2,684,776	**7,651,867**	5,275,624
Operating loss	**(4,287,377)**	(2,683,764)	**(7,498,949)**	(5,202,964)
Financing costs	**(1,954,371)**	(546,935)	**(3,960,192)**	(590,245)
Expected credit loss	**(503,516)**	-	**(581,719)**	-
Unrealized foreign exchange loss	**(259,611)**	10,980	**(361,603)**	836
Other expense	**(2,053,184)**	-	**(2,053,184)**	-
Other income	**37,880**	56,533	**121,229**	226,251
Net loss before tax	**(9,020,179)**	(3,163,186)	**(14,334,418)**	(5,566,122)
Current tax expense	**-**	-	**-**	-
Net loss	**(9,020,179)**	(3,163,186)	**(14,334,418)**	(5,566,122)

Sales

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, to provide consumer flexibility, while meeting regional certification and safety requirements. 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, 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 white-labelled and other premium white-label branded names. The suite of micro inverters includes single, dual, and quad port configurations, maximizing system flexibility, installation simplicity, 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 Eguana 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, VPP programs, and other fleet aggregation services. 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 and trained 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 500 new installers, which creates the on-the-ground sales force, with limited customer acquisition cost.

For the three-month period ended June 30, 2023, sales were $2.1 million, a decrease of 11% compared to the comparative quarter ended June 30, 2022, of $2.3 million.

Revenue for this quarter slowed due to a variety of macro-industry factors. By comparison, sales in the most recent three-month period ended March 31, 2023, were $5.9 million. The decrease in sales is due to typical seasonality within the sector, along with elevated inventory positions within the distribution networks, as a result of their higher inventory levels exiting the 2022-year end. Cyclically, sales tend to slow post year-end based on distribution network and consumer purchasing patterns and investment tax credit timing. This was compounded by the macro factors of high inflation and high interest rates, which has limited consumer access to financing and quelled consumer spending.

However, the Company does expect to see more consistent revenue growth in the upcoming quarters as macro factors are expected to flatten and consumer spending to adapt. Management also anticipates global energy prices to continue to rise, with economic incentives to return, driving consumers to clean energy solutions such as solar and ESS. Alongside this, Eguana anticipates strong sales traction and increasing adoption rates as VPP collaboration efforts begin to roll off.

Gross margin

Gross margin for power electronics is negligible at these lower levels of revenue and similar to the same comparative quarter ended June 30, 2022.

Margin was negligible this quarter, primarily due to the low sales volume. During the quarter, the Company serviced some in-field units and incurred higher than normal warranty costs, related to required battery module firmware updates, of approximately $70,000. These additional costs are expected to be recovered from the battery partner. Management anticipates margin improvements in back half of the year. Currently, each unit sold has approximately 1.9% in freight cost above standard pre-pandemic freight rates. Additionally, battery costs have seen an increase of 4% per standard 5kW Evolve sold. Both of these costs are expected to normalize through the next quarters providing approximately an additional 6% margin.

Additional product cost reduction initiatives are likely to contribute positively. Certain materials and sub assembly procurement activities were transitioned outside of China, which has a direct impact by reducing or removing import tariff costs on components. On components currently in inventory, each 5kW system sold has an additional cost of approximately 2.2% in tariffs, which will fall off as components are consumed through manufacturing. Cost reduction initiatives relative to battery supply chains and power electronics development are expected to launch later this year and in 2024, driving additional targeted 10% to 14% margin gains over the next 18 months.

Expenses

Quarter Ended June 30, 2023

Expenses for the three months ended June 30, 2023, were $4,288,125 an increase of $1.6 million, or 60%, from $2,684,776 for the three months ended June 30, 2022.

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, realized foreign exchange gains and losses and amortization.

G&A expenses increased by approximately $0.6 million as compared to the comparative quarter ended June 30, 2022. This increase is primarily due to higher professional fees; including legal ($75,000), audit, review, and tax ($0.2 million), and investor relations ($70,000) which are related to the Company's growth and corporate restructuring efforts, in comparison to the comparative quarter last year. In addition, salary and wages for administrative staff increased approximately $157,000 as the team grew with the company's growth. To attract top talent, staff recruitment costs also increased.

Selling, marketing and business development ("SM&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 relate to business development.

For the quarter ended June 30, 2023, SM&BD costs increased by approximately $0.2 million as compared to the comparative quarter ended June 30, 2022. The increase primarily relates to travel and business development costs, as sales efforts and sales personnel have increased, alongside the Company's growth objectives. Due to global travel restrictions with the pandemic in 2022, these opportunities were restricted, resulting in lower costs throughout most of 2022.

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 increased by $0.8 million as compared to the comparative quarter ended June 30, 2022. This is mainly due to additional salaries and benefits associated with a larger technical development team of approximately $0.2 million and higher product certification, testing and consumables expenses during the quarter of approximately $0.4 million. Certification processes incur freight costs for shipping product cross borders and higher freight costs were also experienced in the current quarter related to increased certification efforts compared to the 2022 quarter.

Operations

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

For the quarter ended June 30, 2023, operations costs increased slightly, by approximately $0.2 million, as compared to the comparative quarter ended June 30, 2022. This is primarily due to North American production shifting to Eguana's contract manufacturer, based in the USA.

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 approximately $65,000 for the quarter ended June 30, 2023 compared to the quarter ended June 30, 2022. This increase is a result of a higher asset base, as compared to the comparative quarter. This is due to investment in leasehold improvements, lab equipment and vehicle leases.

Share-based compensation

For the quarter ended June 30, 2023, share-based compensation expense decreased by approximately $0.2 million, as compared to the comparative quarter ended June 30, 2022. In June 2022, the Company issued 1.0 million options to a capital markets advisory firm that vested immediately. This resulted in an increased stock-based compensation expense in the comparative quarter. In contrast, in the June 2023 quarter, only 250,000 options were issued with a vesting period over 3 years.

Six Months Ended June 30, 2023

Expenses for the six months ended June 30, 2023, were $7,651,867 an increase of $2.4 million, or 45%, from $5,275,624 for the six months ended June 30, 2022.

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

G&A expenses for the six months ended June 30, 2023, increased by approximately $0.6 million, as compared to the six months ended June 30, 2022. Approximately $230,000 of this increase is associated with additional finance personnel salary costs and recruitment costs. Also, the Company incurred increased insurance and professional fees in the current period, reflecting its expansion over the past year.

Selling, marketing and business development ("SM&BD")

SM&BD for the six months ended June 30, 2023, increased by approximately $0.3 million, as compared to the six months ended June 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 2 additional SM&BD personnel, in North America and in July 2023, added 3 more sales personnel in Australia for growth.

Product development

Product development costs increased by approximately $1.7 million, for the six months ended June 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 $0.5 million of this increase is salary and wages for additional technical personnel and approximately $0.9 million is third-party outside services for certification, testing and development and the associated freight costs of product development work. Since the start of 2023, the Company has added 5 additional product development personnel, mostly related to Eguana Cloud development.

Operations

Operations costs remained relatively consistent with a small increase of approximately $0.1 million for the six months ended June 30, 2023, as compared to the comparative quarter ended June 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 small increase is related to salaries and operations freight and is consistent with overall Company expansion.

Amortization

Amortization costs increased by approximately $122,000 for the six-month period ended June 30, 2023, compared to the six-month period ended June 30, 2022. This increase is a result of a higher asset base, as compared to the comparative quarter. This is due to investment in leasehold improvements, lab equipment and vehicle leases.

Share-based compensation

Share-based payments were $491,317 for the six-month period ended June 30, 2023, down from $917,731 from the same period in 2022. Share-based expenses in 2022 relate to one million of options issued in February and one million in June, with immediate vesting (and therefore, immediately expensed in the period), to the same capital market advisory firm. In comparison, in 2023 only 250,000 options were granted and did not have immediate vesting. These options will vest over the typical three-year term – which results in the share-based expense recognition stretching over the vesting period.

Financing Costs

The following table details the items that comprise financing costs for the periods.

	Q2 2023	Q2 2022	**YTD 2023**	YTD 2022
Accretion of convertible Debenture	**1,267,609**	-	**2,487,657**	-
Accretion of long-term debt	**595,519**	354,284	**1,239,089**	356,047
Change in fair value on derivative liability	**61,329**	141,530	**172,388**	122,290
Lease interest	**29,914**	36,033	**61,058**	74,689
Accretion of other liabilities	**-**	15,088	**-**	37,219
	1,954,371	546,935	**3,960,192**	590,245

Financing costs in for the three months ended June 30, 2023, were $2.0 million, as compared to the comparative quarter ended June 30, 2022, of $0.5 million. The increase is due to the new unsecured convertible Debenture ("Debenture") in August 2022 and a change in long-term senior debt in April 2022 ("New Senior Loan"), and hence higher accretion increases associated with both. Specifically, quarterly accretion on convertible debentures and long-term debt, in this second quarter 2023, was $1.3 million and $0.6 million respectively, compared to lower accretion in the three months ended June 30, 2022, of $nil and $0.4 million, respectively. Offsetting these increases, the fair value of the New Senior Loan derivative liability was lower, with a resulting quarterly decrease of $0.1 million associated with the change in fair value as compared to the previous year. Further, small decreases in lease interest for the Company's head office space, and accretion of other liabilities were reported for the three months ended June 30, 2023.

Financing costs for the six-month period ended June 30, 2023, were $4.0 million, as compared to the comparative six months ended June 30, 2022, of $0.6 million, similarly related to the New Senior Loan and Convertible Debenture. Specifically, accretion for the six months ended June 30, 2023, was $2.5 million and $1.2 million respectively, compared to lower accretion in the six months ended June 30, 2022, of $nil and $0.4 million, respectively. Offsetting these increases, the fair value of the New Senior Loan derivative liability was lower, with a resulting decrease for the six months ended June 30, 2023 of $0.1 million associated with the change in fair value as compared to the previous year. Further, small decreases in lease interest for the Company's head office space, and accretion of other liabilities were reported for the six months ended June 30, 2023.

Expected credit loss

During the previous two quarters, 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 has been slow to pay. Management continues to work closely with the partner and expects the full amounts outstanding to be collected.

The Company has one customer that represents 91% of total accounts receivable. At June 30, 2023, this customer had approximately $14.5 million of accounts receivable over 90 days, The customer continues to be delayed in making payments on its outstanding receivable balance but has made some progress payments. The Company originally recognized a credit loss provision at year-end December 31, 2022, and adjusts the provision on a quarterly basis. An additional estimated credit loss was recognized for the three months ended June 30, 2023, of $503,516 (June 30, 2022 - $nil). This 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 required, taking into consideration historical default rates, and forecasted economic conditions in the assessment, amongst other factors. As a major customer, the Company continues to work with the customer to collect payments and review future sales and ordering processes. Management believes the full amount will be received from the customer.

Unrealized foreign exchange loss

The $270,591 increase in unrealized foreign exchange loss for the three months ended June 30, 2023, as compared to the three months ended June 30, 2022, is primarily a result of a significantly higher balance in US denominated accounts receivable and weakening of the US dollar as at June 30, 2023, in comparison to the prior year. This is offset by increased gains associated with US denominated debt as compared to the same period in the previous year due to the weakening of the US dollar in comparison to the prior periods. For the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, there was a $362,439 increase in unrealized foreign exchange loss from the same factors.

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 targeted operation towards Eguana's third party logistics provider, which included the three truckloads. 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. The theft was immediately reported to the police and insurance and the Company is pursuing recovery from its insurance provider. The timing and final amounts of the insurance recovery are not certain, and the Company has not recorded the insurance proceeds in the financial statements. Subsequent to June 30, 2023, the Company received partial insurance proceeds of $623,913 USD and further proceeds are being pursued with the insurer for the balance of the loss.

Other income

Other income in the three months ended June 30, 2023, was $37,880 as compared to the comparative quarter ended June 30, 2022, of $nil. This increase is primarily due to interest income earned in the current quarter on funds in short-term saving accounts. For the six months ended June 30, 2023, other income decreased to $121,229, as compared to the comparative quarter ended June 30, 2022, of $226,251. This decrease is related to after sales services provided by Eguana on behalf of a third-party vendor as a most significant portion of the work was completed in the 2022 period.

Net Loss

Net loss for the three-month ended June 30, 2023, increased by $5,856,993, as compared to the three months ended June 30, 2022. The increase in net loss can primarily be attributed to increased financing costs by $1,407,436 due to higher debt and financing levels in the current period and increased operating expenses of $1,603,349, due to additional personnel, throughout all departments of the organization, in addition to prioritization of certification efforts to release new product to the market in 2023. Expected credit loss negatively impacted the margin by 503,516 this quarter, however, no such loss was incurred in the comparable quarter. Unrealized foreign exchange loss also had an unfavourable outcome on net loss by $270,591, compared to the same three-month period in 2022. Lastly, other expense contributed 2,053,184 to the net loss, which is in relation to the value of the inventory items stolen in transit. Management is pursing insurance recoveries for the loss, which will net against other expense, in future periods, once received.

FINANCIAL RESULTS

	Q2 2023	Q2 2022	**YTD 2023**	YTD 2022
Operating activities				
Net loss	**(9,020,179)**	(3,163,186)	**(14,334,418)**	(5,566,122)
Share-based payments	**225,838**	426,414	**454,418**	917,731
Financing costs	**1,954,371**	546,935	**3,960,192**	590,245
Amortization and depreciation	**198,191**	133,149	**394,429**	272,239
Write down of inventory	**10,429**	-	**12,562**	82,913
Warranty provision	**102,893**	123,400	**200,992**	122,528
Bad debt expense	**-**	-	**-**	965
Expected credit loss	**503,516**	-	**581,719**	-
Other expense	**2,053,184**	-	**2,053,184**	-
Unrealized foreign exchange loss (gain)	**259,611**	(10,980)	**361,603**	(836)
	(3,712,146)	(1,944,268)	**(6,315,319)**	(3,580,337)
Net change in non-cash working capital	**45,545**	(4,369,430)	**(3,425,480)**	(4,206,964)
Cash flow used in operations	**(3,666,601)**	(6,313,698)	**(9,740,798)**	**(7,787,301)**
Cash flow used in financing	**(1,067,099)**	7,124,348	**403,612**	6,852,919
Cash flow used in investing	**(536,186)**	(93,614)	**(760,289)**	(241,340)
Effects of exchange rate changes on cash held in foreign currencies	**(59,248)**	33,554	**(90,177)**	11,873
Net change in cash	**(5,329,135)**	750,590	**(10,187,653)**	(1,163,849)

FINANCIAL POSITION

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

As At	June 30, 2023	December 31, 2022	Increase (Decrease)	Primary factors explaining the change
Assets				
Cash	**4,847,830**	15,035,483	**(10,187,653)**	Decreased due to use of cash in operations
Accounts receivable	**18,018,472**	13,516,936	**4,501,536**	Increased due to sales and slower collections
Inventory	**9,803,337**	7,039,779	**2,763,558**	Increased due to additional micro inverters
Prepaid expenses and deposits	**3,087,089**	9,202,248	**(6,115,159)**	Decreased due to reduced inventory deposits
Property and equipment	**1,613,397**	1,445,765	**167,632**	Increased due to capital additions
Other assets	**1,355,176**	1,162,418	**192,758**	Increased due to software license investment
	38,725,301	47,402,629	**(8,677,328)**	
Liabilities and Equity				
Accounts payable and accrued liabilities	**5,314,681**	4,228,700	**1,085,981**	Increased due to higher operating costs incurred
Other liabilities	**655,507**	607,143	**48,364**	Increased due to warranty provisions
Current debt	**7,184,192**	6,290,153	**894,039**	Increased due to derivative liability fair value
Non-current debt	**31,463,267**	32,653,338	**(1,190,071)**	Decreased due to debt payments
Shareholders' equity (deficit)	**(5,892,346)**	3,623,295	**(9,515,641)**	Decreased due to net losses during the period
	38,725,301	47,402,629	**(8,677,328)**	

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Working Capital

As At	**June 30, 2023**	December 31, 2022	**Increase (Decrease)**	Primary factors explaining the change
Working Capital				
Total current assets	**35,756,728**	44,794,446	**(9,037,718)**	Decreased due to use of cash in operations
Total current liabilities	**13,154,380**	11,125,996	**2,028,384**	Increased due to accounts payable and higher current portion of long-term debt
Working capital surplus	**22,602,348**	**33,668,450**	**(11,066,102)**	

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

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 June 30, 2023, was $22.6 million (December 31, 2022 – $33.7 million). The working capital is dependent on cash collections from a major customer who has been slow to pay, and. the Company continues to work closely with the customer. Based on management's assumptions and estimates for the timing and amount of collections, the Company expects it will have sufficient liquidity to finance operations for more than twelve months. If there is a significant delay in the receipt of this receivable, it could impact the Company's liquidity position and require the Company to seek additional debt and/or equity financing.

The Company 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	June 30, 2023	December 31, 2022	Increase (Decrease)	Primary factors explaining the change
Outstanding Debt				
Current portion of long-term debt	**4,323,013**	3,571,470	**751,543**	Increased due to higher accretion on long term debt continuity.
Derivative liability	**2,633,127**	2,460,739	**172,388**	Increased due to shorter period to exercise date, increasing the fair value. Offset by lower exchange rate.
Current portion of lease liability	**228,052**	257,944	**(29,892)**	Decreased due to warehouse lease term ended. Less future lease payments.
Long-term debt	**5,425,828**	7,887,545	**(2,461,717)**	Decreased due to monthly debt repayments and lower exchange rate.
Convertible unsecured debenture	**25,225,337**	23,883,187	**1,342,150**	Increased due to accretion on debenture, offset by interest.
Lease liability	**812,102**	882,606	**(70,504)**	Decreased due to warehouse lease term ended. Less future lease payments.
Total Debt	**38,647,459**	**38,943,491**	**(296,032)**	

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 USD$10.0 million with Western Technology Investment (the "Lender"). The first USD $5.0 million was available immediately, while the additional USD$5.0 million is available through August 31, 2022, upon the Company achieving revenue of at least CAD$14.0 million between May 1, 2022, and July 31, 2022, and the Company having unrestricted cash of CAD$10.0 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) USD$1,500,000; and (ii) the product obtained by multiplying USD$1,500,000 by the percentage of the principal amount of the Loan actually advanced by the Lender relative to US$10,000,000. These warrants are recorded as a warrant derivative liability at fair value through profit or loss. The Company drew USD$5.0 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 USD$5.0 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 by ITOCHU in the amount of $33.0 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 $453,420 were allocated between the liability and equity portion of the Debenture.

In March 2023, ITOCHU and Eguana agreed to convert $1,145,507 of interest owing under the Debenture into 4,242,617 common shares of Eguana, 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 $3,333,333.

Associated with this Debenture, $7.3 million is 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 August 29, 2023, 424,075,928 common shares are issued and outstanding, no change from June 30, 2023.

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

As at August 29, 2023, the Company has 23,462,390 stock options outstanding, a decrease of 40,000 from June 30, 2023, due to the option expiry and forfeiture. These options entitle the holders thereof to acquire up to 23,462,390 common shares, and of these 17,717,411 stock options have vested. The weighted average exercise price of the vested options is $0.29 per share.

Capital Expenditures

In Q2 2023, capital expenditures totaled $200,444 (2022 - $93,614) and for the six months ended June 30, 2023 of $376,378 (2022 - $241,340). These higher expenses were related to lab testing equipment, and corporate office leasehold improvements.

During the six months ended June 30, 2023, the Company recorded purchase of intangibles related to software of $340,300, as compared to the prior six months ended June 30, 2022, where no intangible purchases were made.

Off-Balance Sheet Items

As at June 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 Eguana'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 June 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

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 Eguana'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.

Capital Management

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; (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.

A small number of shareholders hold a substantial number of common shares of the Company, including certain shareholders that hold more than 20% 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.

Warranty Claims

There is a risk that warranty accrual estimates are not sufficient and the Company may 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 Eguana's products or manufacturing processes and/or a product recall, all of which could hurt Eguana's reputation and the reputation or its products and may have an adverse effect on its financial performance and/or on future sales. While Eguana attempts to mitigate against these risks through product 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 Eguana'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. Eguana'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 Eguana 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 Eguana's business, operations and results. Further, 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 Eguana are subject to a variety of federal, provincial, and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Of particular relevance to Eguana'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 Eguana 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.

Eguana'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 Eguana are UL 1741, IEEE 1547, IEEE 2030.5, UL 9540, VDE 4105, G98, AS 4777, IEC 62109 and IEC 61000. Eguana believes that it is currently in compliance with all such laws and regulations. Eguana intends to invest financial and managerial resources to ensure such compliance and will continue to do so in the future; however, it is impossible for Eguana to predict the cost or impact of such laws and regulations on Eguana's future operations.

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 frame 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, the Government of Canada is expected to release the regulation in 2023. Management will continue to monitor the progress on these regulations and regularly assess the potential impact to Eguana, which remains uncertain.

Geo-political Events and Global Recovery

In early 2022, Russia's invasion of the Ukraine has raised global concerns over the already susceptible economic constraints. This has led to heightened volatility in markets, increased inflation, disrupted supply chain channels, and in turn material supply constraints. This global situation remains dynamic, and it is currently not possible for the Company to predict the duration or magnitude of the potential adverse impacts of Russia's invasion of the Ukraine or their effects on the Company's ability to raise funds. Any negative developments in respect of the war in Ukraine and related sanctions could have a material adverse effect on the Company's business, operations or financial condition.

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 Eguana's products.

Current and future unfavourable economic conditions, including but not limited to rising interest rates, inflation and demand and supply fluctuations, could negatively impact Eguana's financial viability, increase financing costs, decrease net income or increase net loss and limit access to capital markets.

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: (i) the Company's ability to achieve its growth strategy; (ii) the demand for the Company's products and fluctuations in future revenues; (iii) the Company's business model and assumptions; (iv) expectations of growth in the industry in which the Company operates and the markets in which the Company's products are sold; (v) sufficiency of current working capital to support future operating and working capital requirements; (vi) the stability of general economic and market conditions; (vii) currency exchange rates and interest rates; (viii) equity and debt markets continuing to provide the Company with access to capital; (ix) the Company's continued compliance with third party intellectual property rights; and (x) that the risk factors, 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.