## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

*This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated March 1, 2017 and should be read in conjunction with the Eguana's condensed interim consolidated financial statements for the three months ended December 31, 2016 and 2015 and the annual consolidated financial statements for the years ended September 30, 2016 and 2015.*

*The condensed interim consolidated 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 Advisory Section of this MD&A which provides information on forward looking information and other information. Additional information relating to the Company, including Eguana's Consolidated Financial Statements, the Company's most recently completed Annual Information Form, news releases, and other required filing documents is available on SEDAR at www.sedar.com. The aforementioned documents are issued and made available in accordance with legal requirements but are not incorporated by reference into this MD&A.*

### OVERVIEW

A detailed overview of the Company's core business, the market for Eguana's products, and the Company's business strategy is provided in the MD&A for the financial year ended September 30, 2016.

### OUTLOOK AND PRIORITIES

#### United States

*Residential*

In the first quarter of 2017 the Company continued to expand its activities in the United States residential market with its certified AC Battery. Hawaii and California remain the recognized growth areas, and the Company has achieved early market traction with its Hawaiian partner. Although market dynamics have improved significantly with respect to interconnection approvals in Hawaii, localised building permitting delays have stopped all interconnected storage installations throughout the region. The Company believes this is a short-term situation and expects mass installation to commence in the coming weeks. With regulatory interconnection permitting hurdles resolved, Eguana's focus has shifted to supporting roll-out execution and after-sales support for its partners as market installations ramp up. Hawaii's Customer Grid Supply program was fully subscribed in the fall, shifting all sales focus on the islands to the Customer Self Supply program which requires energy storage solutions alongside residential solar installations. As a result, Eguana expects to maintain orders momentum while the initial installation backlog is installed and commissioned.

In addition to the expectations in Hawaii, the Company has been engaged with a prominent solar manufacturer in California with a global installer network. During the quarter Eguana's engineering team completed initial technical reviews and demonstration phases of its AC Battery. The Company intends to complete the final field demonstrations over the next two quarters and upon success the AC Battery will be promoted as a residential energy storage solution alongside the partner's micro inverter technology.

*Commercial*

The Company continues to see increased interest in a 15kVA/30kWh factory integrated and assembled product for small commercial applications. Pilot work with current customers is underway with the existing residential AC Battery in anticipation of the commercial AC Battery release. Several of these customers have completed basic product integration and now await beta units of the commercial product to complete the evaluation cycle. The Company is currently in the process of closing on multiple lead orders from selected partners for delivery in the first half of calendar 2017. Additionally, the Company is seeing increased value of the commercial product within the electric vehicle (EV) charging infrastructure segment and has now been included in the planning phase of multiple EV charging demonstrations. Commercial AC Battery development is planned to have beta units, and enter the certification process, at the end of the current quarter. To Eguana's knowledge, there appears to be no other product in the market today meeting this defined industry gap for small commercial applications.

**Europe**

The Company's primary European objective remains alignment with the stationary energy storage product development roadmap of its German automotive partner, delivering the required power control solutions and battery integration for their residential applications. First development services revenue has been recognized and the Company is in discussions for further development work for next generation products. Additionally, in calendar 2016 Eguana achieved VDE 4105 and G59/1 certifications for its residential AC Battery and Bi-Direx platforms covering most of Europe, including the United Kingdom, Germany, Austria, Switzerland, France, Greece and other smaller European countries to execute the Company's AC Battery and Bi-Direx focused strategy. The Company is also currently engaged in multiple discussions with European players for both the AC Battery and custom integration applications.

**Australia**

The Company, through its sales and marketing partnership with the Itochu Corporation, has completed early shipments and installations of its certified AC Battery into the Australian residential market. The Company has completed and will continue training and support functions ensuring the successful volume launch across the balance of the year. Initial volume orders are expected during the second quarter with shipments commencing early spring. In addition to the residential roll out, the Company is engaged with two major utilities in Australia, both of which are completing the evaluation phase for grid services functionality. It is widely accepted in the industry, and the view of the Company, that the Australian market will see growth in 2017 as a result of decreases in the solar feed in tariff program.

**Advanced Integration**

Strategically, the Company has begun leveraging its system integration expertise to provide the residential and commercial AC Batteries inclusive of the battery modules. The fully integrated, factory ready, system simplifies the distribution chain, utilizes the core technology advanced integration features, and real time co-ordination with the battery management system maximizing the round-trip efficiency and depth of discharge, while ensuring the full life of the battery. The advanced integration also automates fault recovery and commissioning processes, minimizing required on-site time for installers, delivering further cost and reliability advantages.

## Q1 2017 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three months ended December 31, 2016 and 2015.

| | | **Q1 2017** | Q1 2016 |
|---|---|---|---|
| Sales and engineering services | | **271,260** | 228,376 |
| Cost of goods sold | | **59,739** | 301,289 |
| Gross margin | | **211,521** | (72,913) |
| Expenses | | | |
| General and administrative | | **368,775** | 462,763 |
| Selling and marketing | | **223,679** | 229,394 |
| Product research and development | | **272,083** | 136,007 |
| Operations | | **137,881** | 124,203 |
| | | **1,003,418** | 952,367 |
| **Loss before undernoted items** | | **(791,897)** | (1,025,280) |
| Financing costs | | **(101,588)** | (154,944) |
| Gain (loss) on debentures | - | - | (18,433) |
| Other income | | **5,982** | 5 |
| **Net loss** | | **(887,503)** | (1,198,652) |

**Three Months ended December 31, 2016 and 2015**

*Sales and engineering services*

Despite building permit delays in Hawaii, sales and engineering services increased in Q1 2017 as compared same quarter in 2016. Energy storage system sales in Q1 2017 were $31,917 and were primarily derived in the USA and Canada from design wins with new customers. In Q1 2016, energy storage sales were primarily generated in the USA for net zero community demonstration installations and customers with new battery technologies who require inverters to commercialize their product. The Company generated $239,343 of sales through engineering services provided to the German automotive partner. This contract allowed for Eguana to bill for the engineering services and prototyping while customizing Eguana's inverter technology for the partner's ESS. No engineering service revenue was realized in Q1 2016.

The Company expects to continue to see quarterly fluctuations in the revenues generated from the Company's various markets, sales regions and sales channels due to variability associated with the timing of customer purchase decisions.

*Gross margin*

Gross margins from product sales were positive in Q1 2017 at 3.7% or $1,166 as compared to a negative gross margin in Q1 2016 of 31.9% ($72,913). In Q1 2016, gross margin was negatively affected by lagging European transformer inventory received after fiscal 2015 and non-recurring engineering charges. Gross margins were 88% or $210,355 from engineering services.

*Expenses*

Operating costs for Q1 2017 were $1,003,418, up from $952,367 in Q1 2016.

- General and administrative expenses ("G&A") decreased 20.3% in Q1 2017. The decrease in G&A cost is primarily due to a favorable change in foreign exchange rates which resulted in a foreign exchange gain in Q1 2017 rather than a foreign exchange loss in Q1 2016. G&A expenses consist primarily of salaries (including the value of stock options for all employees), employee benefits and overhead expenses that are not otherwise allocated to other categories, occupancy, all professional fees, investor relations costs, travel costs, unrealized foreign exchange gains and losses and amortization.
- Selling and marketing costs in Q1 2017 remained relatively consistent with Q1 2016. Included in these costs are salaries and benefits of personnel employed in marketing and customer account relationships, travel, costs of trade shows and a portion of the Chief Technology Officer's ("CTO") salary.
- Product research and development costs in Q1 2017 increased 107.8% from Q1 2016. The increase is primarily due to certifications of the residential AC Battery for European and Australian markets, continued development of the Company's Commercial AC Battery product, costs associated with integration with LG's new JH3 battery, and a third party bankability study for the residential AC Battery. Product research and development cost in Q1 2016 included a recovery of certification costs. Included are costs associated with prototype development and certification, market analysis in support of new product definition, salaries and benefits of the engineering group, and a portion of the CTO compensation.

*Financing Costs*

Financing costs in Q1 2017 were down 34.4% from Q1 2016. The decrease is primarily attributable to a decrease in interest associated with the debentures, and no amortization of financing fees.

**Analysis of Use of Proceeds**

The following table sets forth a comparison of planned use of proceeds from the June 30, 2016 equity financing with amounts expended to December 31, 2016.

| | **Planned** | **Incurred to Q1 2017** |
|---|---|---|
| Repayment of debt | $2,000,000 | $584,987 |
| Hiring of new employees | 600,000 | 39,624 |
| Office relocation and capital improvements to research lab | 500,000 | - |
| Acquisition of production equipment | 300,000 | 23,003 |
| Marketing and business development initiatives | 300,000 | 149,676 |
| | $3,700,000 | $797,290 |

Repayment of Eguana's debt is currently made on a quarterly basis.

The remaining planned use of proceeds is expected to occur in remainder of 2017.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

| Operating activities | Q1 2017 | Q1 2016 |
|---|---|---|
| Net loss | **(887,503)** | (1,198,652) |
| Share-based payments | **17,913** | 53,704 |
| Finance costs | **101,528** | 154,944 |
| Amortization of capital assets | **23,955** | 23,456 |
| Loss on debentures | - | 18,433 |
| Warranty provision | **217** | 4,035 |
| Amortization of deferred lease inducement | **(3,900)** | (3,900) |
| Unrealized foreign exchange (gain) loss | **(49,049)** | 4,826 |
| Write down of inventory | - | 64,321 |
| | **(786,839)** | (878,833) |
| Net change in non-cash working capital | **(484,252)** | (330,217) |
| **Cash flow used in operations** | **(1,281,091)** | (1,209,050) |

### Net Loss

Net loss for Q1 2017 decreased $311,149 over the net loss in Q1 2016. The decrease in net loss is primarily attributable to an improvement gross margin in Q1 2017, revenue from services and lower financing costs. The decrease was partially offset by higher expenses related to product research and development.

### Share-based Payments

Share-based payments were $17,913 in Q1 2017, down from $53,704 in Q1 2016. The option expense in Q1 2016 related to options that vested immediately for two new employees. The Q1 2017 expense relates to employee options that vest over three years.

### Finance Costs

Finance costs in Q1 2017 decreased $53,326 over the finance costs in Q1 2016. The decrease in finance costs is primarily due to a decrease in interest on debentures and financing fees being fully amortized in 2016.

### Unrealized Foreign Exchange (Gain) Loss

Unrealized foreign exchange gain in Q1 2017 resulted from a favourable shift in foreign exchange rates during the quarter. In Q1 2016 the change in foreign exchange rates were unfavourable and resulted in the recognition of a loss.

## Summary of Quarterly Results

| | 2017 | 2016 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Sales | 31,917 | 9,036 | 284,980 | 176,272 | 228,376 | 1,367,075 | 1,552,853 | 1,545,575 |
| Net (loss) | (887,503) | (1,119,216) | (1,195,551) | (1,321,482) | (1,198,652) | (4,587,408) | (1,376,971) | (1,328,286) |
| Per share (1)(2) | (0.00) | (0.01) | (0.01) | (0.01) | (0.01) | (0.05) | (0.02) | (0.02) |

(1) Basic and diluted

(2) 2016 annual earnings per share is ($0.03) which differs from the summary above because of rounding.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

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. 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 makes adjustments relative to changes in economic conditions and the Company's risk profile.

Cash used in financing activities in Q1 2017 was $277,303, and the Company used $1,281,091 in operations during Q1 2017.

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 end of Q1 2017 was $477,487 (Q1 2016 – ($2,493,478)).

As at December 31, 2016 the Company had net liabilities of $240,083 which increased from $3,667,269 in the same quarter in the previous year, primarily due to the issuance of common shares.

The Company is required to repay $780,000 in debentures, $435,690 in other liabilities, $205,648 in purchase obligations, and $70,200 in lease obligations over the next 12 months.

No unusual trends or fluctuations are expected outside the ordinary course of business.

The Company is currently in a dispute with a prior customer as a result of the cancellation of a supply contract. A claim has been prepared to recover 1,479,332 Euros ($2,090,148 CAD) for unpaid invoices and interest, along with the option to claim an additional 903,584 Euros ($1,276,674 CAD) for European inventories purchased to fulfil this contract. Litigation is inherently uncertain and while legal counsel advises that the Company has a strong case, the receivable is being carried on the books at near zero. A favorable outcome in the dispute would increase the current assets of the Company.

The above noted prior customer has made warranty claims related to the Company's first generation, 3-phase Comfort series product. Management believes this claim is without merit and that any product failures are tied directly to a fundamental system failure in the design for which the customer was solely responsible.

The Company's former contract manufacturer submitted a claim in the Court of Queen's Bench in Alberta against Eguana for 1,534,000 Euros ($2,167,400 CAD) related to the cancellation of the above noted supply contract. The Company is disputing 799,000 Euros ($1,128,900 CAD) of the amount the contract manufacturer has claimed. The Company has recorded in its financial statements the undisputed amount, therefore a successful defense of the claim submitted by the former contract manufacturer would have no impact on the Company's liquidity. The Company has counter claimed the contract manufacturer for 6.8 million Euros.

### Outstanding Debt

The Company had $1,429,500 of Series I, II and III debentures outstanding at the beginning of the 2017 fiscal year. During the quarter Eguana paid $224,500. The Company has $1,205,000 in principal outstanding as at December 31, 2016.

### Term Loan Facility

During the year ended September 30, 2016, the Company repaid the outstanding line of credit with proceeds from the issuance of common shares in September 2015 and canceled the $1,500,000 operating line of credit.

As a result of the canceling of the line of credit, certain warrants were subject to accelerated expiration and the deferred financing cost were fully amortized.

### Shareholders' Equity and Shares Outstanding

As at February 27, 2017, 201,652,049 common shares are issued and outstanding. In addition, there are common share purchase warrants representing the right to acquire 17,433,684 common shares at an average exercise price of $0.29 per share outstanding.

The Company has 6,849,583 employee stock options outstanding entitling the holders thereof to acquire up to 6,849,583 common shares. The weighted average exercise price of the vested options is $0.31 per share.

The Company had no equity issuances during Q1 2017. In Q1 2016, EGTLP issued 747 LP Units at a price of $1,000 per unit resulting in gross proceeds of $747,000. As partial compensation, 216,820 finders' warrants were issued with a fair market value of $12,223.

### Off-Balance Sheet Items

As at December 31, 2016, 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.

## CAPITAL EXPENDITURES

In Q1 2017, capital expenditures totaled $12,372 (Q1 2016 - $4,123) and were primarily incurred with respect to the purchase of new lab equipment.

## RELATED PARTY TRANSACTIONS

The Company had the following related party transaction:

| | **Q1 2017** | | Q1 2016 | |
|---|---|---|---|---|
| | **Salaries and benefits** | **Share based compensation** | Salaries and benefits | Share based compensation |
| General and administrative | **72,388** | - | 54,000 | - |
| Operations | **-** | - | 12,000 | - |
| Product research and development | **12,993** | - | 11,591 | - |
| Selling and marketing | **30,316** | - | 27,046 | - |
| | **115,697** | - | 104,637 | - |

Included in accounts payable and accrued liabilities at December 31, 2016 is $214,611 (September 30, 2016 - $238,566) due to directors and key management personnel.

During Q1 2017 the Company paid $36,318 (Q1 2016 - $56,640) to its former CEO as part of a settlement agreement and incurred $25,829 (Q1 2016 - $28,146) of accretion as the obligation matures.

## RISK FACTORS AND RISK MANAGEMENT

Our risk factors and risk management are detailed in the annual MD&A filed on SEDAR at www.sedar.com on January 27, 2017 and have not materially changed since that time.

### Going Concern

The condensed interim consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At December 31, 2016, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $51,126,197 (2015 - $46,602,445) and recognized a cash flow deficiency from operations in Q1 2017 of $1,281,091 (Q1 2016 - $1,209,050). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern.
As at December 31, 2016, the Company had working capital (deficit) of $477,487 (2015 – ($2,493,478)).

The ability of the Company to continue as a going concern is dependent on completing equity or debt financings and generating profitable operations in the future in order to meet liabilities as they come due. The ability to continue as a going concern may be adversely impacted by the loss of customers and/or declining sales per customer. To address its financing requirements, the Company may seek financing through the issuance of common shares, preferred shares, units of EGTLP, debentures or other securities of the Company or its subsidiaries. The outcome of these matters cannot be predicted at this time.

## ACCOUNTING POLICIES

There have been no changes to the Company's critical accounting estimates and policies in Q1 2017. Significant accounting policies are disclosed in note 4 of the annual audited consolidated financial statements for the year ended September 30, 2016.

### Accounting Pronouncements Issued but Not Adopted

The IASB has issued the following new and revised standards and amendments, which are not yet effective for the period ended December 31, 2016:

#### (a) IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 reflects the first phase of the IASB's work on the replacement of IAS 39 "Financial Instruments, Recognition and Measurement". The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. IFRS 9 is effective for annual periods on or after January 1, 2018.

#### (b) IFRS 15, Revenue from Contracts ("IFRS 15")

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

#### (c) IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and it replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

#### (d) IAS 1, Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016.

The company is currently evaluating the impact of adopting the standards noted above.

## 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 capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, construction timetables, extent of solar resource usage and future growth and performance opportunities. The words "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts", "intends", "potential", "opportunity", "target" or variations of such words of similar expressions thereto and the negatives thereof, identify forward-looking statements. In particular, this MD&A includes forward-looking statements with respect to the 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 noted above, collectively, do not have a material impact on the Company's business, operations, revenues and/or results. By their nature, forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond the Company's control, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All of the forward-looking statements contained in this MD&A are qualified by these cautionary statements.