MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana," or the "Company") is dated May 27, 2024, and should be read in conjunction with Eguana's consolidated financial statements for the **twelve-month period ended December 31, 2023**, and the fifteen-month year ended December 31, 2023.

In 2022, the Board of Directors approved changing the Company's year end from September 30 to December 31 to have the Company's year-end financial statements be more comparative with the majority of its industry peers. Consequently, the financial statements for the twelve-month period ended December 31, 2023 ("F2023"), are being presented with comparative information for the fifteen-month period ended December 31, 2022 ("F2022") and the financial statements for the three months ended December 31, 2023, are being presented with comparative information for the three months ended December 31, 2022.

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"). 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.

Going Concern

These financial statements were prepared on a going concern basis. The going concern basis of accounting assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments, in the normal course of business. The Company's intention is to continue to fund operations by adding revenue and positive cash flow, managing outgoing cash flows, and seek additional financing in the capital markets through debt and/or equity. The Company's ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements. There is no guarantee that the Company will be able to secure additional financings in the future at terms that are favourable, or at all.

At December 31, 2023, the Company had not achieved profitable operations since its inception and had an accumulated deficit of $139,725,247 and had negative cash flow of $14,221,480 and incurred a net loss of $35,589,751 for the year ended December 31, 2023.

The Company had a working capital deficit of $63,851 as at December 31, 2023, and the Company missed its scheduled payment of US $383,378 that was due on the loan agreements with the Company's senior lender under its long-term debt agreements ("Senior Lender") on December 1, 2023. Although the Company had verbal agreement with the Senior Lender to defer the payment, which was a technical default, and hence the balance of the long-term debt was classified as current, in the F2023 financial statements. Subsequent to December 31, 2023, the Company made the missed payment, however, the Company has continued to miss or defer monthly loan payments in 2024, based on verbal agreement and ongoing discussions with the Senior Lender. On May 7, 2024, the Company and the Senior Lender entered into a forbearance agreement, which includes deferral of payments up to and including June 1, 2024, but that is predicated on subjective conditions that if not complied with render the forbearance to be terminated. In the first quarter of 2024, management returned certain inventory back to its original manufacturer, generating cash proceeds of $3,929,296.). Although the inventory return has provided additional liquidity and the deferral of loan payments will assist with cash flow management and the overall liquidity position, there is material uncertainty as to whether sufficient cash will be available to make future loan payments (which would represent events of default) and to address other financial obligations of the Company. Management will be reliant on the continued support of lenders, suppliers, and other providers to the Company, as the Company is forecasting requiring additional cash to continue to fund operations and settle its obligations. The Company will need both the continued support of its existing lenders, and to raise significant additional financing either through further inventory returns, collection of accounts receivable, equity issuances, additional debt financings, and/or sales of business lines in order to be able to meet both its existing and future obligations. There is no guarantee that the Company will be successful in this regard. These facts create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

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

OVERVIEW

The Company

Eguana Technologies Inc. ("the Company"), incorporated under the Alberta Business Corporations Act, designs, markets, manufactures, and sells fully integrated energy storage solutions, for residential, commercial, and utility applications, based on its proprietary advanced power electronics platform, for global markets. The Company also sells a suite of micro inverter products, along with its energy management software platform, the Eguana Cloud, which are fully integrated within its energy storage platform, providing consumers with full solar plus storage system architecture, for residential and commercial applications. The vertically integrated stack is centered around its proprietary advanced power electronics platform and the Eguana Cloud software platform. The ecosystem typically contains all or a combination of fully integrated energy storage systems ("ESS"), micro inverters, and cloud-based software required to aggregate systems into fleets, or power grid assets, delivering a suite of virtual power plant ("VPP") functions.

The Company, incorporated under the Alberta Business Corporations Act, is a publicly traded company headquartered in Calgary, Alberta, Canada, and its shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol "EGT" and on the Over-the-Counter Bulletin Board (OCT-BB) under the symbol "EGTYF".

The Eguana Solutions

Fully integrated energy storage solutions consist of four major components, the software controller (the energy management system or "EMS"), the battery module, the advanced power control technology, and cloud-based data management. Eguana has developed and commercialized both hardware and software platforms to accelerate grid modernization and resilience with many of the Company's patents within the hardware, design, and software of the advanced power controls of the ESSs. The Company focused on its vertically integrated ecosystem to provide value to all key stakeholders through the power grid transition, including the homeowner, the electricity retailer, the system operator, and the distribution utility. Utilities have begun rolling out virtual power plant (VPP) programs to perform critical grid functions including end of line voltage control and demand response to maximize efficiency, and more specifically feeder line efficiencies. Eguana hardware and software solutions were designed and certified to work as single homeowner units or as an aggregated fleet of systems which can operate as one large system, even when distributed throughout the grid.

The Company's smart power control technology has multiple functions within the ESS with primary functions relating to power conversion and the charging and discharging of batteries or storage devices, in a seamless bi-directional conversion process. Eguana's technology provides the critical central point for connectivity of the energy ecosystem and provides regulatory and certification control over the interconnection of the ESS, to the power grid and the consumer.

The ESSs are software driven, battery agnostic, and factory assembled energy storage solutions, which provide a host of critical functions, as global power grids transition to intelligent distributed or VPP based solutions. Key features include flexible capacity and power, simple installation processes, remote diagnostic and update capabilities, and remote battery recovery, which are intended to work seamlessly together and to differentiate Eguana's product offerings.

Eguana continues to focus on distributed energy storage and residential solar applications located at the point of energy consumption, commonly referred to as the "edge of the power grid" or "behind the meter". The Company believes these applications and storage solutions are the most cost-effective way to manage power grid capacity expansion, while delivering multiple value streams to the key stakeholders including the consumer, the electricity retailer, the distribution utility, and the system operator.

Eguana's advanced power controls are one of the Company's core assets including sixteen patents and pending patents globally. At the system level, Eguana maintains competitive advantage through its software-driven open controls architecture, its core technology efficiency advantage, and its energy storage integration capabilities. At the system installer and consumer level, the Company has developed and built-in a range of features to enhance the consumer experience, including expandable storage capacity, simplified system installation, remote commission and diagnostic capability, and remote battery recovery capability. At the utility or grid operator level, the Company has developed Eguana Cloud, which provides access to fleets of systems that can be dispatched for intelligent grid operations and will provide the Company with recurring revenue models, for access, monitoring, demand response, and other VPP grid functions.

The vertical integration from battery to cloud has created a strategic position for Eguana as a renewable energy ecosystem, with internal control of its own Power Control System ("PCS"), access to global markets with certified and VPP compliant products, plus self-certification capabilities, a capital light business and a revenue model with various revenue streams, including recurring SAAS based opportunities.

The Market and Eguana's Strategy

The solar markets over the past 18 months have been extremely volatile, particularly within the residential rooftop markets. Lower demand, slow distribution sell-through, decreased pricing and competition, have negatively impacted Eguana's revenue and cashflows. On the macro-side however, the demand for power and electrification continues to grow, but utility and consumer adoption is lagging.

Eguana's mission is to become a global leader in residential and small commercial grid-tied energy storage systems, which will be a key component to electrification and migration to an intelligent distributed power grid. To lever delivering against this mission, the Company expanded its power electronics offering to include a line of micro inverters, a critical component in residential rooftop solar segments, providing energy to storage systems, which in turn play a key role in power grid transformation and the required electric vehicle infrastructure. Additionally, the Company has developed the Eguana Cloud, a secure and scalable cloud services platform to modernize VPP infrastructure and to provide fleet and system level access and aggregation, for utility and grid operators.

During 2023, high interest rates and inflation, plus policy uncertainty have curtailed demand across the entire solar industry. This has resulted in lagging sales for most companies across the sector, including installers, distributors, and manufacturers. Eguana has felt this lower demand, resulting in lagging sales in F2023. This has resulted in a redirected emphasis to deploy the Eguana ecosystem through VPP channels, and directly through utility driven partnerships. During 2023, Eguana signed several utility partnerships, aimed at bringing the Eguana ESS and Cloud platforms to grid-connected consumer applications.

Global electrification continues to put significant demand on aging power grid infrastructure. At the current growth rates, electricity grids will be required to deliver at least double the energy of today, within twenty-five years. The introduction and advancement of electric vehicles (“EV’s”) is likely to shorten this time frame, as EV demand continues to accelerate and with that increases in power consumption. This puts pressure on the electricity grid to deliver more power, reliability and at a reasonable cost.

Generally, renewable energy markets have segmented into two primary categories, intelligent grid infrastructure (utility VPP driven) and self-generated energy consumption (consumer ESS driven). Management believes long-term renewable energy markets will be characterized by the transition to an intelligent power grid, whereby power generation from residential rooftop solar systems delivers electricity to fleets of distributed storage systems that are aggregated and controlled by system operators and energy services companies. Both consumer and utility demand can work together for the adoption of solutions, but at what speed and when, are yet to be truly determined. Integrated energy storage solutions at the residential level provide utilities control of intermittent renewable generation driving grid efficiency within the power grid’s feeder lines.

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

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

2023 OPERATING AND FINANCIAL RESULTS

The following tables set forth a summary of the results of operations and key balance sheet and cash flow data items, for the three months ended and the annual periods for the twelve-month period ended December 31, 2023 (F2023) and fifteen-month year ended December 31, 2022 (F2022).

	Three months ended		**Periods ended** (1)(2)	
	Dec 31, 2023	Dec 31, 2022	**Dec 31, 2023** (1)	Dec 31, 2022 (2)
FINANCIAL RESULTS				
Sales and engineering services	**984,627**	**10,357,667**	**11,458,590**	16,826,875
Cost of goods sold	**1,309,344**	**9,957,735**	**11,526,871**	16,458,500
Cost of goods sold – inventory impairment	**1,726,511**	**-**	**2,052,274**	135,156
Gross margin	**(2,051,228)**	**399,932**	**(2,120,555)**	233,219
Expenses				
General and administrative	**1,491,087**	2,383,145	**3,980,310**	3,018,290
Selling and marketing	**750,593**	754,717	**2,816,235**	2,971,186
Product research and development	**619,949**	1,133,961	**4,587,846**	4,179,164
Operations	**497,561**	286,758	**1,627,552**	1,356,801
Amortization	**210,401**	155,023	**802,803**	681,785
Share-based compensation	**159,603**	121,428	**849,573**	1,455,370
	3,729,194	4,835,032	**14,664,319**	13,662,569
Operating Loss	**(5,780,422)**	**(4,435,100)**	**(16,784,874)**	(13,429,350)
Financing costs	**(1,942,486)**	(2,052,155)	**(7,970,677)**	(4,044,091)
Unrealized foreign exchange (loss) gain	**(59,653)**	(150,286)	**(301,878)**	(174,861)
Expected credit loss	**(8,200,710)**	(1,388,668)	**(9,988,715)**	(1,388,668)
Impairment of property and equipment	**(36,796)**	-	**(36,796)**	-
Loss on disposal of property and	**(33,543)**	-	**(33,543)**	-
Other income (expense)	**631,493**	1,4267,049	**(442,041)**	263,826
Net loss before tax	**(15,422,117)**	**(6,599,160)**	**(35,558,524)**	(18,773,144)
Income tax	**(31,227)**	-	**(31,227)**	(238,857)
Deferred income tax	**-**	-	**-**	2,183,729
Net loss	**(15,453,344)**	**(6,599,160)**	**(35,589,751)**	(16,828,272)

(1) December 31, 2023, information presented represents the 12-month period from January 1, 2023, to December 31, 2023.
(2) December 31, 2022, information presented represents the 15-month period from October 1, 2021, to December 31, 2022, due to a change in year end.

	Three months ended		Periods ended [1][2]	
	Dec 31, 2023	Dec 31, 2022	**Dec 31, 2023** [1]	Dec 31, 2022 [2]
BALANCE SHEET				
Cash			**814,003**	15,035,483
Total Assets			**21,457,496**	47,402,629
Total Debt			**46,583,801**	43,779,334
CASH FLOW				
Operating Cash Flow before changes in non-cash working capital	**(5,254,703)**	(2,800,008)	**(13,295,138)**	(10,990,962)

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2023[2]				2022[2]				
	Q4	Q3	Q2	Q1	Q5	Q4	Q3	Q2	Q1
Sales	984,627	2,551,092	2,067,624	5,855,247	10,357,667	2,602,195	2,317,334	285,130	1,264,549
Net (loss)	(15,453,344)	(5,801,989)	(9,020,179)	(5,314,239)	(6,599,160)	(2,001,516)	(3,163,186)	(2,402,936)	(2,661,474)
Per share [1]	(0.03)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

(1) Basic and diluted.
(2) Fiscal 2023 represents twelve months from January 1, 2023, to December 31, 2023. Fiscal 2022 represents a fifteen-month period, from October 1, 2021, to December 31, 2023, as part of the transition from a change in year end from September to December.

2023 Fourth Quarter - Three Months ended December 31, 2023, and 2022

Sales

For the three-month year ended December 31, 2023, sales were $984,627, which represented a 90.5% decrease over sales of $10,357,667 for the same period in 2022. The decrease in revenue can be attributed to the weakening of demand felt across the entire North American solar industry. December 2022 quarter was a record revenue quarter for the company, and the entire market has continued to lag from what are generally normal demand levels.

Gross margin

Gross margins were negative 208%, or negative $2,051,228, for the three months ended December 31, 2023, compared to gross margins for the same period in 2022 of $399,932, or 3.9%. The low gross margin is primarily due to the non-cash inventory impairment charges.

In the quarter ended December 31, 2023, the Company recognized an inventory impairment of $1,726,511 (2022 – nil). During the 2023 fourth quarter, the Company partially wrote down surplus inventory components, in excess of its current demand targets that have been realigned, given the poor nature of the solar industry. The inventory impairment also includes older components no longer used in production and considered to have limited future economic benefit.

Operating Expenses

Operating expenses for the three months ended December 31, 2023, decreased by $1,199,391, or 26.3%. The reduction is mostly attributed to lower selling, general and administrative costs, as the Company implemented cost saving measures across the Company, including fewer staff in all areas, due to permanent and temporary layoffs in the fourth quarter of 2023.

Expected credit loss (“ECL”)

At the end of 2022 and the first quarter of 2023, the Company reported strong revenue growth, mostly in the North American market. A majority of this revenue was from a major customer, who has been and remains slow paying. This customer represents 95% of total accounts receivable, which at December 31, 2023, had $6,108,831 (net of ECL of $11,308,997) of total accounts receivable over 90 days past due. This customer continues to be delayed in making payments.

The Company originally recognized a credit loss provision at year-end December 31, 2022, and has been adjusting the provision on a quarterly basis. An additional estimated credit loss was recognized for the three months ended December 31, 2023, of $8.2 million (December 31, 2022 – $1.4 million) and the total credit loss for the year ended December 31, 2023, is $9.9 million (2022 – $1.4 million). The large ECL provision impacted the net loss for the quarter Company applied significant judgment to estimate the ECL provision based on customer-specific factors, including past payment history, known customer business factors, and customer’s access to capital, plus judgements for the expected timing of future consideration, and discount rates, to account for the time value of money. Further general and industry specific economic conditions are also included in the assessment of ECL. As the overall industry has not recovered and industry sell-through remains slow, especially in an industry that generally is stronger at the end of the year, the collection risk was heightened. Further slower than expected payment frequency and amounts were factored into the ECL provision.

Net Loss

Net loss for the three months ended December 31, 2023, increased by $8,854,184 as compared to the quarter ended December 31, 2022, and this is attributed to lower sales, lower margin, plus higher other expense items, including estimated credit loss, and unrealized foreign exchange.

Annual Results - Twelve and Fifteen Months ended December 31, 2023, and December 31, 2022

Each of the following variance changes for the periods will be impacted by the twelve-month period F2023 versus the fifteen-month comparative F2022.

Sales

Sales decreased 32.1% to $11,458,590 in fiscal 2023 in comparison to $16,826,875 in 2022. Mid-way through F2023, the solar industry was negatively impacted by rising interest rates and high inflation, among other macro-economic factors and F2023 sales declined, after the first quarter, due to this demand shift. Liquidity issues of a major customer, also impacted by the underperforming solar market, negatively impacted F2023 sales.

Gross margin

Overall gross margin remains low as the industry slowed and customers became more price sensitive, with rising interest and high inflation. Gross margin decreased to negative 18.5%, or negative $2,120,555, for the year ended December 31, 2023, compared to the period ended December 31, 2022, wherein gross margin was $233,219, or 1.4%. Margins have also been negatively impacted by inventory impairments.

In the year ended December 31, 2023, the Company recognized an inventory impairment of $2,052,274. There was no inventory impairment in the comparative year. Inventory impairment primarily relates to the North America product inventory, given the slow solar industry, in this market region, during 2023.

Operating Expenses

Operating costs, excluding amortization and share-based compensation, in F2023 were $13,011,943, up from $11,525,441 in F2022 representing a 12.8% increase period over period. Normalized for the twelve months in F2022, as compared to the fifteen months, using a monthly average, operating expense would be $9,220,353 for twelve months in 2022. This reflects a much higher increase in F2023 of approximately 41.1%. Expenses were higher in almost all areas due to increased headcount for much of the year, tempered by reductions in fourth quarter and overall higher costs with the addition and expansion in the Australian branch, with the rooftop solar installation services.

- General and Administrative ("G&A") expenses consist primarily of salaries, employee benefits and overhead expenses that are not otherwise allocated to other categories, occupancy, all professional fees, investor relations costs, travel costs, and realized foreign exchange gains and losses. G&A expenses increased by $962,020 for the year ended December 31, 2023. The department saw a growth in administrative personnel year-over-year. Administrative staff costs accounted for $170 thousand of the total increase. Additional increases can be attributed to increased annual insurance costs and requirements ($119 thousand), and investor relation expenses ($215 thousand).
- Selling and business development ("S&BD") costs include salaries and benefits of personnel employed in marketing and customer account relationships, travel, costs of trade shows, and portions of the Chief Executive Officer's ("CEO") compensation that relates to business development. Selling and marketing for the year ended December 31, 2023, decreased by $154,951 as compared to the fifteen-month period ended December 31, 2022. However, when compared to using a monthly average for twelve months in 2022, there was increase due to the addition of technical and sales personnel in North America to execute the North American sales strategies. Correlated with this increase in personnel were higher travel and marketing costs. The remaining difference is due to the change in year end, resulting in a twelve-month fiscal period compared to a fifteen-month fiscal period in the previous year.
- Product research and development costs increased by $408,682 for the period ended December 31, 2023. More than half of this increase is due to the increase in salaries and wages for the R&D team as the Company added personnel, in preparation for new developments related to Eguana Cloud and energy management software advancement, new product development, battery management system, and micro-inverter integration. The remaining increase is due to new product design and development expenses. The remaining difference is due to the change in year end, with a twelve-month fiscal period compared to a fifteen-month period in the previous year.
- Operations costs include salaries and benefits of employees directly allocated to this function, overhead cost allocations to support the operations personnel and a portion of the COO's compensation. Operations costs increased by $270,751 for the year ended December 31, 2023. The increase in operations can be attributed to higher inventory storage costs as the Company has additional inventory storage locations as compared to the comparative fifteen-month period. Business travel related to inventory management efforts also increased during the current year. Operations staff costs also increased due to additional operations personnel; however, this headcount cost increase is mitigated by the mid-December staff furlough.

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, in the year ended December 31, 2023, increased by $121,045 as compared to the fifteen months ended December 31, 2022. This increase is a result of a higher asset base after investments in leasehold improvements, lab equipment and vehicle leases incurred since the comparative December 2022 fifteen-month period, offset slightly by the shorter fiscal period.

Share-based compensation expense

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

For the year ended December 31, 2023, share-based compensation expense decreased by $605,797 as compared to the fifteen months ended December 31, 2022. Share-based expenses in 2022, relate to one million stock options issued in February 2022 and one million stock options issued in June 2022, each with immediate vesting (and therefore, immediately expensed in the period), to the same capital market advisory firm. In comparison, in 2023 only 250 thousand stock options were granted and did not have immediate vesting. Such stock options will vest over a three-year period and share-based expenses will be recognized over that vesting period.

Expected credit loss

The Company recognized a credit loss provision for the year ended December 31, 2023, of $9.9 million (December 31, 2022 – $1.4 million). The ECL negatively impacted the net loss for the year.

Financing Costs

Financing costs include non-cash expenses such as accretion, fair value changes and imputed lease liability interest.

	Q4 2023	Q4 2022	**YTD 2023**	YTD 2022
Accretion of convertible debenture	**1,356,833**	1,214,149	**5,162,578**	1,603,191
Accretion of long-term debt	**488,411**	730,926	**2,266,791**	1,528,981
Change in fair value on derivative liability	**68,296**	73,640	**422,817**	495,071
Lease interest	**28,946**	33,440	**118,491**	163,509
Accretion of preferred shares	**-**	-	**-**	183,222
Accretion of other liabilities	**-**	-	**-**	70,117
	1,942,486	2,052,154	**7,970,677**	4,044,091

Financing costs for the twelve months ended December 31, 2023, were $3,926,586 higher than the fifteen- month period ended December 31, 2022. The increase is due to higher accretion costs associated with the unsecured convertible Debenture ("Debenture") acquired in August 2022 and the change in long-term senior debt in April 2022 ("New Senior Loan"). Accretion on the unsecured convertible debenture and long-term debt accounted for $3,559,387, and $737,810 of the net increase. This increase is offset by a decrease in accretion of other liabilities by $70,117 and preferred shares of $183,222 as both were repaid during F2022.

Unrealized foreign exchange

Unrealized foreign exchange loss increased by $127,017, for the year ended December 31, 2023, as compared to the fifteen months ended December 31, 2022, is primarily a result of a weaker CAD dollar exchange rate relative to the USD as at December 31, 2023, having a negative foreign translation impact on the Company's US denominated debt and accounts payable. This is offset by foreign exchange losses associated with US denominated accounts receivable as compared to the same period in the previous fifteen-month period due to the weakening of the US dollar.

Other income and expense

For the F2023, other expense of $442,041 was reported, and for F2022 other income of $263,826 was reported. The detail of these items is outlined in the financial statements. In F2023, the Company reported other expenses related to transaction costs for the Australian business, which was partially offset by income related to funds received from insurance proceeds, related to stolen inventory components during shipping, neither of which were present nor recorded in F2022.

Loss on disposal of property and equipment

During the year ended December 31, 2023, the Company wrote-off fully amortized property and equipment that was dated and no longer in use. In addition, the Company impaired lab equipment that was no longer operational and recorded an impairment loss of $36,796 and disposed of lab equipment that was no longer in use and recorded a loss on disposal of $33,542.

Net Loss

Net loss before tax for the year ended December 31, 2023, increased by $16,815,380 compared to the fifteen-month period ended December 31, 2022. The increase in net loss before tax can primarily be attributed to low margins, with slightly higher expense but also due to the increase in financing costs associated with the new Senior Loan as well as the ITOCHU debentures, both issued in F2022. In addition, the Company booked a provision for an expected credit loss of $9.9 million associated with large receivable from a major customer who remains slow paying and in arrears. Management is working closely with the customer, with some ongoing collaboration efforts, as outlined in the subsequent events note, and believes the balance net of ECL will be collected. Management will pursue full collection of all receivables but has recognized a significant portion of the receivables balance due to slow and with small and inconsistent payments being received.

Final net loss is $35,589,751 for F2023 as compared to $16,828,272 for F2022.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company manages its capital closely as it focuses on near and medium-term liquidity, with the goal of executing strategic objectives to drive longer-term profitability and liquidity. At present, the capital structure of the Company is primarily composed of shareholders' equity and debt. The Company's approach has been to access capital primarily through equity issuances, asset based lending, and other alternative forms of debt financing. The Company actively manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile.

Eguana used cash flow from financing activities of $1,942,448 in F2023 (2022 – received $44,609,195) and used $11,675,553 in operations during F2023 (2022 – used $33,696,960).

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital as at December 31, 2023, was a working capital deficit of $63,851 (December 31, 2022 - $33,668,450). The Company has $6,868,443 in accounts payables and accrued liabilities.

The Company is involved in a long-running dispute with a prior customer in Germany, for the cancellation of a supply contract. Eguana has a claim to recover 1,479,332 Euros ($2,138,818 CAD) for unpaid invoices and interest, along with the option to claim an additional 903,584 Euros ($1,306,402 CAD) for European inventories purchased to fulfil this contract. Litigation is inherently uncertain and while legal counsel advises that the Company has a strong case, the receivable is being carried on the books at near zero value. The above noted prior customer has counter claims for warranty concerns related to the Company's first-generation product. Management believes this counter claim is without merit and that any product failures are tied directly to a fundamental system failure, for which the customer was solely responsible.

Cash Flows

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

Cash used in operating activities for the twelve months ended December 31, 2023, was $11,675,553 compared to $33,696,960 for the fifteen-month period ended December 31, 2022. The decrease is related to cash used in non-cash working capital, largely due to the large swing in accounts receivable in F2022.

Cash used in financing activities for the twelve months ended December 31, 2023, was $1,942,448 compared to for the fifteen months ended December 31, 2022, cash provided by financing of $44,609,195. Cash used in operations in F2023 related to repayments of long-term debt, net of the conversion of common share warrants. Cash provided by financing activities in F2022, relates to proceeds from the issuance of long-term debt, warrants and convertible debentures. and proceeds from the closing of a private placement.

Cash used in investing activities. for the twelve months ended December 31, 2023, was $598,407 compared to $1,070,527, for the fifteen-month period ended December 31, 2022. Investing activities relate to the investment in lab equipment for product testing and development, office leasehold improvements and software intangible assets.

Outstanding Debt

Senior Loan

As at December 31, 2022, the Company reflected the long-term debt amounts as a total current liability. As a result of a missed payment on December 1, 2023, the Company was in technical default. As mentioned, Eguana has been and continues to work with the senior lender of this long-term debt and has received payment deferrals since December 1, 2023, up to May 2024. Partial or full payments were delayed for the December 1, 2023, January 1, 2024, February 1, 2024, and March 1, 2024, payments. Interest amounts for the December 1, 2023, and January 1, 2024, payments, were made in early 2024. And as part of ongoing negotiations, a payment in the amount of approximately $638 thousand USD was made on April 2, 2024, which represented the outstanding principal amounts due for the December 1, 2023, and January 1, 2024, payments and a payment was made for interest only for May 1, 2024.

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

Convertible Debenture

The Company has an outstanding convertible debenture of $34.0 million, which includes principal and accrued interest to December 31, 2023. The debenture was entered into during 2022 and $7.3 million was recorded as an equity component of the debenture. The details of these items are outlined in the notes to the financial statements.

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

Shareholders' Equity and Shares Outstanding

The following amounts are current as of As at May 27, 2024.

- Common shares issued and outstanding for 448,956,022, with no change from December 31, 2023.
- Common share purchase warrants representing the right to acquire 16,234,309 common shares, with no change from December 31, 2023.
- The Company has 15,172,001 stock options outstanding, a decrease of 3,765,389 from December 31, 2023, due to the forfeiture of stock options. These stock options entitle the holders thereof to acquire up to 15,172,001 common shares. 11,987,611 stock options have vested as of today's date. The weighted average exercise price of the vested options is $0.30 per share.

Other Financial Items

Off-Balance Sheet Items

As at December 31, 2023, the Company does not have any material 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 2023, capital and intangible expenditures totaled $598,407 (2022 - $1,189,827) and were primarily incurred for product development equipment, some additional leasehold improvements in the head office and general computer hardware and software.

Related Party Transactions

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

New accounting standards issued but not yet effective.

Amendments to existing standards and new accounting requirements have been released that are effective January 1, 2024. The Company does not anticipate the new requirements to have a material impact on the financial statements.

SUBSEQUENT EVENTS

There were various subsequent events, disclosed in the financial statements. The items relate to a variety of liquidity focused operational and financial decisions and are outlined briefly below.

On January 1, 2024, the Company entered into an agreement with its major customer and an existing third-party vendor, to provide various offsets to the outstanding balance of accounts receivable due to the Company, ("the Agreement"). The major customer with a significant outstanding accounts receivable balance, has agreed to transfer back inventory ("the Inventory Transfer") to the Company and provide the Company with a manufacturing credit ("the Manufacturing Credit") for future services to be performed by the third-party vendor. Pursuant to the Agreement, the Company agreed to absorb a costing reduction adjustment ("Cost Adjustment") that will be provided by way of a credit to the outstanding accounts receivable balance of the customer. Total adjustments will net against the existing receivables balance and total $6.5 million USD. These offsets were provided in exchange for valuable consideration. The Agreement also established a payment plan, implementing arrears interest, at a rate of 12.5% on any missed payments, and a related security agreement to Eguana's benefit.

Not specifically outlined in the Collaboration Agreement, in February 2024, Eguana issued a purchase order for $800,000, to obtain finished goods inventory from this major customer, with the intent of using those units for Canadian deployment into VPP opportunities. This purchase order will be netted against the customer's accounts receivable balance.

On January 31, 2024, the Company signed a memorandum of understanding with ITOCHU Corporation amending the payment deadline for the interest payment that is due on March 1, 2024, to August 31, 2024, with no additional consideration.

On March 8, 2024, the Company closed short-term bridge loan unsecured financing in the principal amount of approximately $220,000, with certain insider lenders, repayable on April 30, 2024, with interest at 5% per month. These funds were repaid, with interest accrued to the repayment date only, on April 25, 2024.

On February 2, 2024, the Company entered into a Supplementary Agreement to the Cooperation Termination Agreement, with a major supply partner for an Inventory Return. Based on the agreement, the total Inventory Return of inventory components is US $579,390, plus import and drayage, for expected total proceeds of US $582,088.

On April 29, 2024, the Company received a legal demand letter from a supplier for payment on an open purchase order. The Company ordered inventory with a deposit and understood that the supplier would hold the products. The vendor is demanding payment of US $2.3 million. The Company has responded with its own legal letter outlining why there is no dispute or amount owing. The dispute may result in the deposit on the inventory being forfeited, and hence written off as a loss by the Company.

On May 7, 2024, the Company entered into a forbearance agreement, with one of its lenders, whereby the Lender has agreed to a deferral of payments up to and including June 1, 2024, but that is predicated on subjective conditions that if not complied with will render the forbearance to be terminated.

RISK FACTORS AND RISK MANAGEMENT

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

Going Concern

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

Operating Losses

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

The Company had cash of $0.8 million as at December 31, 2023, providing tight liquidity, due largely to the Company's cash used in operations during the year. The Company continues to rely upon completing equity and debt financings until it is able to start generating profit and positive cash flows from operations in the future, in order to pay its liabilities and contractual obligations as they come due and enable the Company to continue operations.

Need for Additional Capital and Access to Debt and Equity Financing

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

There is no assurance that additional debt or equity financing, if required, will be available to the Company when needed or on terms acceptable to Eguana. The Company's inability to obtain additional financing to support ongoing operations or to fund capital expenditures or acquisitions and business combinations may have a material adverse effect upon the Company.

Inability to Meet Debt Service Obligations

The Company has previously deferred its financial obligations as they become due and may continue to struggle to meet its financial obligations in the future. The Company has various debt obligations which include monthly payment of principal and interest and semi-annual interest and payment at maturity. In the event that the Company does not obtain additional financing or achieve positive cash flows, the Company may not have sufficient available capital to meet its debt obligations.

Share Price Fluctuations

The Company's market capitalization is small and the market price of the Common Shares is likely to be volatile, and investors may not be able to resell shares at, or above, the purchase price paid for such Common Shares due to fluctuations in the market price of the Common Shares, including changes in price caused by factors unrelated to its operating performance or prospects.

Economic Conditions

Current and future unfavourable economic conditions could negatively impact Eguana's financial viability, increase financing costs, decrease net income, or increase net loss and limit access to the capital markets. If demand for solar energy solutions declines or is stagnant, Eguana's business will suffer. Other macro-economic conditions such as reductions, eliminations or expiration of certain government subsidies or incentives, will likely reduce demand for our solutions.

Global Instability

Conflict and war, in other parts of the world has led to heightened volatility in the global markets and increased inflation, and consumer cautiousness. At times, governments respond with changing policy frameworks, including sanctions and export control measures, and may impose additional sanctions or export control measures in the future, which have and could in the future result in, among other things, severe or complete restrictions on exports and other commerce and business dealings in certain regions. Currently, the Company does not have any direct exposure or connection to regions undergoing conflict or war, but international impacts can be rapidly changing, and it is uncertain as to how such events and any related economic sanctions will continue to impact the global economy and commodities markets. Any negative developments in respect thereof could have a material adverse effect on the Company's business, operations, or financial condition.

Interest Rates Uncertainty

High interest rates may impact the Company's ability to finance its future growth, which could negatively impact our financial condition and performance. High interest rates, or an uncertain interest rate environment, will likely negatively impact demand. The Company manages interest rate risk by structuring its financing to stagger the maturities of its debt, thereby mitigating the exposure to interest rate and other credit rate fluctuations. However, there can be no assurance that the Company will be able to continue to stagger and fix its debt in the future on favorable terms or at all.

Inflation in Canada and the U.S. is currently at historically high levels. The rate of inflation impacts the general economic and business environment in which the Company operates. Recent inflationary pressures experienced domestically and globally, external supply constraints, tight labor markets and strong demand for goods and resources, together with the imposition by governments of higher interest rates or wage and price controls as a means of curbing inflationary increases may adversely affect our financial condition and results of operations. If inflation at elevated levels persists and interest rates continue to climb, an economic contraction is possible. Higher inflation and the prospect of moderated growth also negatively impacts the debt and equity markets in which the Company seeks capital, and in turn might impact our ability to obtain capital in the future on favorable terms, or at all. While the Company's market position provides it with flexibility to navigate volatile economic conditions, there can be no assurances regarding the impact of a significant economic contraction on the business, operations, and financial performance of the Company.

Emerging Market

Distributed energy storage is an emerging market that is highly dependent on growth in the solar power industry, regulatory policies affecting electrical utilities, and the use of grid interactive storage solutions to address increased use of renewable energy. Growth in this market is also highly dependent on the cost of batteries. In such emerging markets, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. The development of a mass market for Eguana's products may be affected by many factors, some of which are beyond its control, including the emergence of newer, more competitive technologies and products, the cost of fuels used by Eguana's products, regulatory requirements, consumer perceptions of the safety of its products and related fuels, and end-user reluctance to buy a new product. If a mass market fails to develop, or develops more slowly than Eguana anticipates, the Company may never achieve profitability. In addition, Eguana cannot guarantee it will continue to develop, manufacture or market its products if sales levels do not support the continuation of the product.

Dependence on Customers and Managing Customer Expectations

Eguana's strategy depends heavily on the ability of its customers to develop markets for the products into which the Company's components are integrated. The Company mitigates this risk by partnering closely on the demand planning, customer support and marketing Eguana's technology advantage. Eguana's failure to meet a customer's expectations in the performance of its services, and the risks and liabilities associated with serving customers could give rise to claims against Eguana.

The loss of, or events affecting, our major customer could reduce our sales and have a significant adverse effect on our business, financial condition, and results of operations.

Demand for Distributed Solar Generation in Residential Markets

A significant portion of the demand for Eguana's products assumes that demand for distributed solar in residential markets will continue and/or that utilities companies will begin to procure energy storage solutions directly, to connect to the grid. Historically, demand for solar power has been incentivized by government pricing policies for solar electricity capital grants and tax credits. The Company believes that this period is ending, and solar power must compete on basic economics, where, in many regions, it has become the lowest cost of energy. The Company believes, as do many analysts, that solar is competitive in many high-density markets and that solar power, especially in residential markets, will continue to grow at rates that are similar to the past 3 years. This may not occur and if not, demand growth will likely be slower than anticipated for energy storage connected to new systems.

Market Acceptance

Market acceptance of Eguana's products may represent a challenge for the Company. While the Company has certain technical, competitive advantages compared to other participants in the solar industry and the energy storage sector, Eguana's relatively small size and limited financial resources may be a deterrent to some customers. Further, the market acceptance of Eguana's products depends on a number of factors including, but not limited to, awareness of a product's availability and benefits; the price and cost-effectiveness of our products relative to competing products; general competition; and the effectiveness of marketing and distribution efforts.

Any factors preventing or limiting the market acceptance of our products could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has adjusted its strategy to address this risk through partnering with OEMs, private labelling and/or licensing relationships, and solar financing companies in order to provide better access to the market.

Competition and Technological Change

The Company is in a highly competitive global growth market. It may not be able to compete effectively in these markets, and the Company may lose or fail to gain market share. Competition and technological change may also result is downward pricing pressure for the Company's products, which could negatively impact sales and gross margins.

Eguana faces a number of competitors, many of whom are larger and have greater resources as compared to Eguana. The Company expects to face increasing competition in the future. Eguana's competitors may develop products based on new or proprietary technology that have competitive advantages over its products. Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources. Eguana's competitors may enter into strategic or commercial relationships on terms that increase their competitiveness. These competitors may be able to respond more quickly to changing customer demand, and devote greater resource to developing, marketing, and selling their products.

The Company's business model is highly dependent on market acceptance of the value propositions for its technology. Even if the Company is successful in gaining market acceptance for its value propositions, there is always the possibility that one of more competitors will develop new technology that enables the same value propositions at the same or better cost than the Company is able to achieve and Eguana's business would be adversely affected. It is also possible that one or more of Eguana's competitors will attempt to copy its approach and challenge the validity of its patents. While the Company believe that its patents and other intellectual property are defensible, there is no assurance that a court will not find to the contrary, negatively affecting the value of Eguana.

Lack of Success in Product Commercialization

Eguana may not be able to achieve commercialization of its products on the timetable it anticipates, or at all. Eguana cannot guarantee that it will be able to develop commercially viable products on the timetable it anticipates. In addition, before Eguana releases any product to market, such products are subjected to numerous field tests. These field tests may encounter problems and delays for a number of reasons, many of which are beyond our control. If these field tests reveal technical defects or reveal that these products do not meet performance goals, the commercialization schedule could be delayed, and potential purchasers may decline to purchase these products.

Future Designs and Tests

Eguana expects to continue to incur significant costs and invest considerable resources designing and testing batteries for use with, or incorporate into, specific products, which may not translate into revenue for extended periods of time, or at all. The development by the Company of new applications for its products is a complex and time-consuming process. New battery designs and enhancements to existing battery models can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products could negatively impact Eguana's revenues. Significant revenue from these investments may not be achieved for a number of years, if at all. Moreover, these applications may never be profitable and even if they are profitable, operating margins may be low.

Failure to Protect Intellectual Property

Eguana utilizes its intellectual property, and the failure to protect that intellectual property, whether patented or not, could adversely affect its expected future growth and success. Failure to protect Eguana's existing intellectual property rights may result in the loss of exclusivity or the right to use its technologies. If Eguana does not adequately ensure its freedom to use certain technology, the Company may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation, or be enjoined from using such intellectual property. Eguana relies on patent, trade secret, trademark, and copyright laws to protect its intellectual property. However, some of its intellectual property is not covered by any patent or patent application, and the patents to which it currently has rights expire between 2019 and 2029. Eguana's present or future-issued patents may not protect its technological leadership, and its patent portfolio may not continue to grow at the same rate as it has in the past. Moreover, Eguana's patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope, and enforceability of a particular patent. Accordingly, there is no assurance that: (a) any of the patents owned by Eguana or other patents that third parties license to us will not be invalidated, circumvented, challenged, rendered unenforceable or licensed to others; or (b) any of Eguana's pending or future patent applications will be issued with the breadth of claim coverage sought by us, if issued at all. In addition, effective patent, trade secret, trademark and copyright protection may be unavailable, limited or not applied for in certain countries.

Certain of Eguana's intellectual property has been licensed to it on a non-exclusive basis from third parties, who may also license such intellectual property to others, including the Company's competitors. If necessary or desirable, Eguana may seek further licences under the patents or other intellectual property rights of others. However, Eguana may not be able to obtain such licences, or the terms of any offered licences may not be acceptable to us. The failure to obtain a licence from a third party for intellectual property Eguana uses could cause it to incur substantial liabilities and to suspend the manufacture or shipment of products or Eguana's use of processes requiring the use of such intellectual property.

Eguana may become subject to lawsuits in which it is alleged that it has infringed the intellectual property rights of others and/or commence lawsuits against others who Eguana believes are infringing upon its rights. Eguana's involvement in intellectual property litigation could result in significant expense to the Company, adversely affecting regular operations, whether or not such litigation is resolved in its favour.

Warranty Issues

Warranty claims could negatively impact gross margins and financial performance. There is a risk that warranty accrual estimates are not sufficient and Eguana 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 its reputation and the reputation of the Company's products and may have an adverse impact 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.

Manufacturing Cost

Eguana's business model assumes that it will be able to use its capital light, low manufactured cost, and strategy of selling residential and small commercial energy storage systems, based on its software driven proprietary advanced power controls, through its dealer, distribution, and OEM partner networks. Delays in reaching adequate rates and efficiencies in production could impair the profitability of the Company's products. Eguana's ability to produce products that are cost effective depends on reaching efficient production levels.

The Company has minimal control over the cost of its raw materials, including copper and steel. The prices for these raw materials are subject to market forces beyond Eguana's control and have varied significantly in the past and may vary significantly in the future.

The Company may not be able to adjust its product prices, especially in the short-term, to recover the costs of increases in these raw materials. Future profitability may be adversely affected to the extent the Company is unable to pass on higher raw material to compensate for such changes.

Operations and Supplier Risk

There is a risk that critical components, parts, and equipment will not be available on a timely basis or at a reasonable cost, negatively affecting its ability to meet sales on customer purchase orders. In addition, with new products, there may be a risk of failures in quality control, a risk that is increased by the limited resources of the Company. There is also a risk that long lead times for critical components may affect production lead times. Failure by Eguana to plan, source and monitor critical components, parts and equipment could have a material adverse effect on Eguana's business, financial condition, results of operations and cash flow.

Contract Manufacturing and Outsourcing

Eguana utilizes a capital light contract manufacturing strategy for certain sub-assemblies and finished goods within the normal course of its operations, which could become too expensive to operate due to circumstances such as trade wars and import tariffs. Contract manufacturing could lead to products of inferior quality, given the reliance on the contract manufacturer's quality control practices, supplier credit risk and third-party product and financial liability. The Company works with its partners to reduce or eliminate sole sourced items through its Alternative Parts Program; however, portions of our sourcing strategy are managed by our partners, which could lead to a loss of control of Eguana's supply chain for periods of time.

Foreign Exchange Risk

The Company records sales and expenses in various currencies. 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.

Attracting and Retaining Key Personnel

The Company's future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit, and retain key management and engineering personnel. The competition for such employees is substantial and there can be no assurance that the Company's will be successful in identifying, recruiting, or retaining such personnel.

Management of Growth

The Company could experience growth which could put a significant strain on each of the Company's managerial, operational, and financial resources. In order to manage growth, the Company must constantly improve its operational and financial systems and expand, train, and manage its employee base. The Company's operational and management systems could face increased strain as a result of expansion of the Company's technologies. The Company might not be able to effectively manage the expansion of its operations and systems and its procedures and controls might not be adequate to support its operations. Management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's products. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition will suffer. Failure to effectively manage growth could also result in difficulty launching new processing technology or enhancing existing processing technology, declines in quality or end-user satisfaction, increases in costs or other operational difficulties and any of these difficulties could have a material adverse effect on its business, prospects, financial condition, results of operations and cash flows.

Government Regulation

The products and 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 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 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. Eguana's products are currently certified for use in Germany, the United Kingdom, France, Australia, and North America. The technical associations that are prevalent in maintaining 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.

Changes in Laws and Regulations

Changes in tax and trade laws may have a material adverse effect on our business, financial condition, and results of operations. Changes in Canada-USA or China-USA trade relations, laws, or regulations and changes to USA tax or other laws, such as the imposition of or increase in tariffs or other trade barriers, could materially and adversely impact our effective tax rate, increase our costs, and reduce the competitiveness of our products. The U.S. and Canada have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty, or tariff levels. Countries impose, modify, and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for the Company to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards, and customs restrictions, could increase the cost or reduce the supply of products available to Eguana or may require Eguana to modify its supply chain or other current business practices. Any of the above risks could harm the business, financial condition, and results of operations as a result of the fact, among others, that Eguana currently sources products and materials from third-party suppliers around the world including in the United States and Eguana products are manufactured in North America and abroad.

International Operations

Because Eguana is an Alberta Company, and because much of its business is done outside of Canada, there is a risk that foreign governments will implement protective measures which make it more difficult to export to these markets. While the risks of these actions are mitigated by Eguana's contract manufacturing strategy which enables it to easily change where it manufactures its products, there can be no assurance that the various government licenses and approvals or amendments thereto that from time to time may be sought will be granted at all or with conditions satisfactory to the Company or, if granted, will not be cancelled or will be renewed upon expiry, or that income tax laws and government incentive programs relating to the Company's business, and the solar energy industry generally, will not be changed in a manner which may adversely affect the Company.

Potential Breaches and Cyber Risk in its Information Technology Systems

Like many companies, Eguana uses and stores a wide variety of confidential and proprietary information relating to its business. Although Eguana makes significant efforts to maintain the security and integrity of its information technology and related systems, and has implemented measures to manage the risk of a security breach or disruption, there can be no assurance that the Company's security efforts and measures will be effective, or that attempted security breaches or disruptions would not be successful or damaging.

The Company devotes substantial resources to network security, data encryption, and other security measures to protect its systems and data, but these security measures cannot provide absolute security. The techniques used in attempted cyber-attacks and intrusions are sophisticated and constantly evolving and may be difficult to detect for extended periods of time. Eguana may be unable to anticipate these techniques or implement adequate preventative measures. Although to date the Company has not experienced breaches of its systems that have had a material adverse effect on its business, attacks and intrusions on the Company's systems will continue and Eguana may experience a breach of its systems that compromises sensitive company information or customer data. In addition, hardware, software, or applications Eguana develops or procures from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. If Eguana experiences a significant data security breach, it could be exposed to reputational damage and significant costs, including to rebuild its systems, modify its products and services, defend litigation, respond to government enforcement actions, pay damages or take other remedial steps, any of which could adversely affect the Company's business, results of operations, and financial condition.

Eguana may also share information with contractors and third-party providers to conduct its business. Although such contractors and third-party providers typically implement encryption and authentication technologies to secure the transmission and storage of data, those third-party providers may experience a significant data security breach, which may also detrimentally affect Eguana's business, results of operations, and financial condition.

Compliance with Environmental, Health and Safety Laws and Regulations

Eguana's operations are subject to a variety of foreign, federal, provincial, and local environmental, health and safety laws and regulations including those governing, among other things, emissions to air; discharges to water; noise; and the generation, handling, storage, transportation, treatment, and disposal of waste and other materials. Eguana could also be subject to a recall action by regulatory authorities. Violations of or liabilities under such laws and regulations could result in substantial costs, fines and civil or criminal proceedings or personal injury and workers' compensation claims.

Compliance with Anti-Bribery and Corruption Laws

Eguana's operations subject it to laws and regulations of multiple jurisdictions, as well as Canadian and U.S. laws governing international operations, which are often evolving and sometimes conflict. For example, the Foreign Corrupt Practices Act ("FCPA") and comparable U.S. and foreign laws and regulations prohibit improper payments or offers of payments to foreign governments and their officials and political parties by Canadian, U.S. and other business entities for the purpose of obtaining or retaining business. Other laws and regulations prohibit bribery of private parties and other forms of corruption. As Eguana expands its international operations it is exposed to increased risk of unauthorized payment or offers of payment or other inappropriate conduct by one of our employees, consultants, agents, or other contractors, including by persons engaged or employed by a business Eguana acquires, which could result in the Company's violation of various laws, including the FCPA. The safeguards the Company implements to discourage these practices may prove to be ineffective and violations of the FCPA and other laws may result in severe criminal or civil sanctions or other liabilities or proceedings against Eguana, including class action lawsuits and enforcement actions from the Canadian, U.S. or foreign regulators.

Legal Proceedings

Eguana is involved in litigation from time to time in the ordinary course of business. In addition to proceedings to which Eguana is currently a party, legal proceedings could be filed against Eguana in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a materially adverse effect on Eguana.

Dividends

Eguana does not anticipate declaring any cash dividends to holders of Common Shares in the foreseeable future. Consequently, investors may need to rely on sales of Common Shares, after any future price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Termination of Material Contracts

In the event that any material contracts are terminated, the payment of penalties or fees by the Company may be required. The payment of any such penalties or fees or the termination of such contracts could have a material adverse effect on the business, financial position, or results of operation of the Company or the value of the Company's securities.

Force Majeure

The occurrence of a significant event which disrupts the ability of the Company to produce or sell its products may have a material adverse effect on the business, financial position, or results of operations of the Company or the value of the Company's securities.

Forward-Looking Statements May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. See "Forward-Looking Statements" for additional information on the risks, assumptions and uncertainties found in this MD&A.

ADVISORY SECTION

Statement of Management Responsibility for Annual Filings

This MD&A was prepared by management of Eguana and approved by the Board of Directors of Eguana on May 27, 2024.

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in these filings. The Audit Committee and Board of Directors of Eguana provide an oversight role with respect to all public financial disclosures by the Company and have reviewed this MD&A and the accompanying financial statements.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), in accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers Annual and Interim Fillings* ("NI 52-109"), have both certified that they have reviewed the audited consolidated financial statements and this MD&A (the "Filings") and that, based on their knowledge having exercised reasonable diligence, that (a) the Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and (b) the audited consolidated financial statements together with the other financial information included in the Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the period presented in the annual filings.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement, on a cost-effective basis, the disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109 will result in additional risks to the quality, reliability, transparency and timeliness of interim filings, annual filings, and other reports provided under securities legislation.

In contrast to the certification required for non-venture issuers under NI 52-109, the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in NI 52-109.

In particular, the CEO and CFO filing this MD&A are not making any representations relating to the establishment and maintenance of:

- Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports filed or submitted under securities legislation is recorded, processed, summarized, and/or reported within the time periods specified in securities legislation; and
- A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s IASB reporting.

Forward-Looking Statements

This MD&A contains forward-looking information and forward-looking statements (collectively, "forward-looking statements") within the meaning of applicable securities laws that and are based on certain assumptions and analysis made by the Company's management as of the date of this MD&A. Forward-looking statements include, without limitation, statements with respect to investment objectives and strategy, the development plans of the Company, regulatory changes, availability of customers, market penetration, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, construction timetables, extent of solar resource usage and future growth and performance opportunities. The words "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts", "intends", "potential", "opportunity", "target" or variations of such words of similar expressions thereto and the negatives thereof, identify forward-looking statements. In particular, this MD&A includes forward-looking statements with respect to the 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.