



Management Discussion and Analysis

For The Six Months Ended March 31, 2014

The following discussion and analysis ("MD&A") as of May 28, 2014 should be read in conjunction with the Interim Consolidated Financial Statements of Eguana Technologies Inc. ("Eguana" or the "Company") and notes for the period ended March 31, 2014.

Additional information relating to the Company including our Consolidated Financial Statements, MD&A news releases, and other required filing documents is available on SEDAR at www.sedar.com and on our website at www.eguanatech.com. The aforementioned documents are issued and made available in accordance with legal requirements but are not incorporated by reference into this MD&A.

FORWARD LOOKING INFORMATION

This MD&A, especially but not limited to this section, contains certain forward-looking statements within the meaning of National Instruments and other relevant securities legislation relating but not limited to our operations, anticipated financial performance, business prospects and strategies. Forward-looking information includes statements that are not statements of historical fact and address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as investment objectives and strategy, the development plans, the Company's intentions, results of operations, levels of activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), business prospects and opportunities, construction timetable, extent of solar resources and future growth and performance. When used in this MD&A, statements to the effect that the Company or its management "believes", "expects", "expected", "plans", "may", "will", "projects", "anticipates", "estimates", "would", "could", "should", "endeavours", "seeks", "predicts" or "intends" or similar statements, including "potential", "opportunity", "target" or other variations thereof that are not statements of historical fact should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. The Company believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

In particular we include: statements on the future size of the distributed energy storage market; statements concerning the advantages of our products and technologies which make assumptions concerning manufactured costs, statements concerning sales and average selling prices; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

These are described in greater detail in our MD&A in respect of the fiscal year ending September 30, 2013 and dated January 28, 2014, which may be found on SEDAR at www.sedar.com and on our website.

Our assumptions and the conclusions that we draw represent forward-looking information. While valuable in assessing our future prospects, forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of this MD&A. All subsequent forward-looking information attributable to the Company herein is expressly qualified in their entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to forward-looking information contained in this MD&A to reflect events or circumstances that occur after the date of this MD&A or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

BUSINESS OVERVIEW: HISTORY, VISION AND STRATEGY, AND CORE BUSINESS

A detailed overview of Eguana's business, including a summary of our history, business strategy, industry outlook, and core business is provided in the Management Discussion and Analysis ("MDA") for the financial year ended September 30, 2013 which may be found, together with all our public documents, at www.sedar.com.

SIGNIFICANT DEVELOPMENTS

Revenue Growth: Revenue growth is at an inflection point: Sonnenbatterie has increased its 12 month forecasts so that it is now in line with minimum commitments under its Supply Contract with the Company. Revenues for Q2 (March 31, 2014) were \$396,357. Year to date revenues year are \$885,706. Revenues for Q3 (June 30, 2014) are expected to be approximately \$1.1 million.

The Company's high volume manufacturing line in Durach, Germany is now in production with a capacity of 1,000 units per month, which is incremental to the 1,000 unit per month production capacity at the Calgary plant. Our business model allows Eguana to ramp production to high volumes with minimal working capital requirements and limited new investment in capital equipment.

During Q2 we completed installation and commissioning processes for a high volume BiDirex manufacturing line at TQ Systems plant in Durach Germany. Production capacity at the TQS facility is for 1,000 units per month which is incremental to the 1,000 unit per month production capacity at the Calgary plant.

Changing the Model: During the current Quarter, we reached an agreement with Sonnenbatterie to assume responsibility for development and delivery of an integrated power electronics module built around the Bi-Direx power electronics sub-assembly currently being supplied by us. The change will enable a much lower cost power electronics platform which optimizes integration of the Bi-Direx platform with Sonnenbatterie's battery management system. The change is expected to take effect in Q4 (CY Q3) with future Sonnenbatterie product iterations. Product pricing remains to be negotiated as the product design progresses but is expected to result in increased revenues and margins per unit sale to Eguana.

Based on our experience with the Sonnenbatterie integration process and feedback from prospective customers we will begin to adjust our model to offer a similar integrated module that can be modified to accommodate multiple battery options. This will enable customers to move quickly and easily to the lowest cost battery option as well as delivering an overall lower cost and more reliable balance of system.

US Residential Market: Under our letter of intent with Sonnenbatterie, we have agreed to extend the exclusive arrangement with Sonnenbatterie in Europe to include US residential applications. US market conditions are very dynamic at this time and we believe that Sonnenbatterie will take a significant share of conventional installer market based on a superior product design and track record in Germany.

Key Design Wins: During Q2, we continued to execute on our strategy to position Bi-Direx as the technology leader for the next generation of battery technologies for distributed "edge of grid" applications.

Edge of grid is an expression being applied to decentralized or distributed generation and storage systems in lower power ratings in contrast to large scale generation or storage.

- During Q2 we received follow on commercial orders from a Fortune 500 US defense contractor to power a high performance flow-battery technology as part of a scalable (10kW – 100kW) turnkey energy storage system for military and industrial micro-grids.
- During the current Quarter a leading developer of low cost lithium battery technology successfully completed Bi-Direx field trials intended to demonstrate the value of Bi-Direx platform targeting remote power for telecommunications towers, village power, diesel optimization and military power on demand applications.
- During the current Quarter, the Bi-Direx inverter was selected by an award winning developer for use in the development and demonstration of an advanced battery technology which combines unique chemistry and an innovative design to use readily available low cost materials low to deliver a low cost structure, flexible system response, and a long life cycle.
- During Q2 Germany's prestigious Fraunhofer Institute selected Bi-Direx to demonstrate the capability of distributed energy storage to participate in supplying primary (spinning) reserve markets for the power grid. Fraunhofer chose Bi-Direx for its flexibility and advanced control features that enable creative control strategies to achieve higher penetration of distributed generation onto the grid.

Improved Balance Sheet: During Q2, the holders of First Preferred Shares approved an amendment to the First Preferred Shares which removed the mandatory redemption of the shares at the end of 5 years. The effect of the amendment is to modify much of the First Preferred Shares from "debt like" instruments into "equity" with holders of the First Preferred Shares being entitled only to a preference on liquidation of the Company; or at the option of the holders to common shares of the Company on conversion of the First Preferred Shares.

Under IFRS reporting rules only the face amount of the First Preferred Shares is transferred to equity because unpaid 8% dividends which are added or "accrued" to the redemption amount are convertible into common shares based on market value of the common shares at the time of conversion. The accrued dividends continue to be treated as long term debt albeit with no fixed term.

Equity Financing: The agreement with Sonnenbatterie to supply the integrated electronics module for future product iterations and to certify a Sonnenbatterie product for the US market will create unplanned short term demands on our engineering capacity. This problem is exacerbated by our success in positioning Bi-Direx for next generation battery technologies, each of which requires an engineering effort to execute on integration.

To enable us to meet increased demand for resources Eguana announced a plan to raise \$2 million in the form of Units comprised of one common share and ½ a common share purchase warrant exercisable for 18 months at \$0.60 per share. On May 28, 2014, Eguana closed on the first tranche of equity issuing 2,431,875 Units to raise gross proceeds of \$975,000 on a non-brokered basis. We expect to complete the offering during the current Quarter.

OUTLOOK

We will continue to maintain and execute on the strategies that we set for Eguana when we repositioned for the energy storage market. These are to build strategic relationships in the key markets with companies which have the channels to move product in high volumes and to position Eguana as the technology leader with next generation battery technologies.

These strategies are working. Based on firm orders under the Sonnenbatterie Supply Contract, revenues are expected to exceed \$1 million per month by mid-summer of this year based on sales of the power

electronics sub-assembly. We expect these to increase materially as we move to the new product model in Q1 2015.

Sonnenbatterie is executing on its plan to have 83 Sonnenbatterie Centers which provide the primary distribution channels in Europe by the end of this calendar year. It has also created OEM relationships with the several of Europe's largest utilities with one of Europe's largest suppliers of home appliances.

We have moved to strengthen this relationship with what we believe to be a very synergistic partnership, and we have committed to explore other ways to lever the complementary capabilities of the two companies. We expect to have a Sonnenbatterie product in the US market by September of 2014.

We now have visibility on revenue in Japan for 2015 and in the US this year although not at the order of magnitude as Europe.

In little over a year we have successfully positioned Eguana in the U.S. as the technology leader for lower cost next generation batteries. Our goal in working with the battery companies is to make Bi-Direx the preferred power electronics option for integrators of systems or integrated product solutions. These integrators may be the battery companies themselves or independents system integrators.

Based on market feedback we expect that the bulk of demand will be for an integrated power electronics module that will accommodate a range of battery alternatives which will enable the product developers to select the lowest cost option without the need to change control strategies which is time consuming and costly.

Management Discussion of Financial Results

The Company's significant accounting policies have been disclosed in Note 4 of the annual audited consolidated financial statements.

Net loss and comprehensive Loss

The Net Loss for the six months ended March 31, 2014 was \$1,409,989, after adjusting for non-cash items, an increase of \$229,278 from \$1,180,711 for the same six months in 2013.

Non-cash items increased the net loss for the Six Months by \$1,130,519 down from \$1,735,387 for the same period in 2013. A significant portion of the non-cash item that increase the net loss will be reduced as a result amendment of the First Preferred Shares effective as of February 27, 2014. The items increasing the net loss for the Six Months are:

- i. Accretion on preferred shares in the amount of \$1,525,161 (2013 - \$1,326,939). This increase is as a result of the compounding effect of the cumulative dividend. Since the amendment of the preferred shares to remove the redemption terms (February 27, 2014) an additional amount of \$98,673 has been recorded to reflect the fair value adjustment on the cumulative dividends to March 31, 2014.
- ii. A gain of \$1,127,867 has been recognized on the modification of the preferred shares redemption terms. An additional gain of \$515,807 has been recognized directly to the statement of change in equity to reflect the portion of the gain related to the equity portion of the preferred shares.
- iii. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was \$108,419 (2013 - \$132,000). This amount is decreased as a result of extending the terms of the Standby Equity agreement resulting in a longer amortization period.
- iv. Under IFRS accounting standards interest is accrued or "accreted" on the participating royalty debentures issued in 2012 and 2013. Under IFRS rules the amount is determined by a complex formula aimed at identifying the value of embedded derivatives based on the Company's forecast revenues. Accreted interest on the royalty debenture required by IFRS accounting in excess of cash interest of \$54,560 (2013 - \$20,682) increased the net loss by \$159,594 (2013 - \$28,763). Pursuant to IFRS, a fair value adjustment on the debenture increased the loss by \$15,416 for the period (2013 - (\$60,458)).
- v. IFRS also requires accretion of an amount in respect of the total potential royalty payable to the Government of Canada obligation to repay government contributions to research and development that exceeds the actual royalty. The accreted amount of \$24,754 (2013 - \$26,499) exceeded the actual royalty paid in the period (\$10,000) by \$14,754 increasing the net loss.
- vi. Accrued non cash interest on the Energy Northwest obligation was \$6,693 for the six months ended March 31, 2014 as compared to \$8,537 for the six months ended March 31, 2013.
- vii. A decrease in the warranty provision by \$29,000 as a result of the passing of time on the older warranties, with newer products having a much lower failure rate than older products.
- viii. Amortization of capital assets and capitalized development costs of \$278,759 for the six months ended March 31, 2014 (2013 - \$219,963).
- ix. Share based payments expense increased the net loss by \$75,150 at March 31, 2014; whereas there was a reduction of \$21,745 for the same period in 2013.

During the 2013 year, certain bookkeeping errors were noted in regards to accounts payable and inventory. Although management does not regard the amounts as material to the value of the business the Company restated \$310,000 for inventory in 2012 and \$275,000 for accounts payable into 2011 and 2012 (4th qtr). Both items resulted in an increase in Cost of Sales for the respective period. See note 6 to the annual audited consolidated financial statements.

Cash Flow Used in Operations

Cash flow used in operations for the six months ended March 31, 2014 was \$(2,217,190) compared to \$(786,131) for the six months ended March 31, 2013. This is primarily a result of a \$1,400,000 swing in the non-cash working capital as a result of establishing payment terms to gradually pay off outstanding vendors, as well as an increase in accounts receivable as a result of increased sales activity.

Sales and Gross Margin

Sales for the six months ended March 31, 2014 were \$885,706 compared to \$116,929 for 2013. The increase in sales revenues is due primarily to our contract with Sonnenbatterie and the delivery of Bi-Direx units in accordance with that contract.

Cost of sales for the six months ended March 31, 2014 were \$594,235. The amount is comprised of cost of sales on product of \$627,702 for a realized gross margin on products sales of (29%). Other cost of sales items are inventory adjustments and warranty.

We expect margins on products to be delivered under the Sonnenbatterie contract and other contracts to be above 40% as we move into higher volumes and reduce logistics costs by locating product assembly close to Sonnenbatterie in Germany. With our change in strategy we do not expect to incur significant variable costs of sales in the future. The result will be a much better contribution to the bottom line.

Operating Costs

During the six months ended March 31, 2014, operating costs fluctuated as some were reduced but others were increased to meet the ongoing business requirements.

- We increased operating costs (manufacturing and logistics overhead) costs by \$115,367 (30%) from \$384,644 for the six months ended March 31, 2013 to \$500,011 for the six months ended March 31, 2014 primarily as a result of increased travel and increased freight costs related to business dealings in Germany.
- General and administrative costs ("G&A") (which include stock based compensation) increased by \$163,762 (24%) from \$672,769 for the six months ended March 31, 2013 to \$836,531 for the six months ended March 31, 2014. This increase is a result of increased salaries and benefits (\$122,000), increased stock based compensation as a result of re-pricing of options (\$97,000), increased travel (\$55,000) and other miscellaneous increases (\$46,000), offset by decreased legal and audit fees (\$90,000), decreased rent due to moving offices (\$66,000). G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees, investor relations fees and travel.
- We increased our investment in selling and marketing by \$1,267 (0.5%) to \$241,191 for the six months ended March 31, 2014 compared to \$239,924 for the same period in 2013.
- Product research and development costs for the six months ended March 31, 2014 were up by \$3,389 to \$449,194 from \$445,805 for the six months ended March 31, 2014. The increase reflects a re-focusing of costs towards integration with the Sonnenbatterie platform during the current fiscal period and is a decrease in costs of \$49,077 offset by an increase in amortization of development costs of \$52,466.
- In 2012, the Company determined to accelerate the amortization of development costs over three years as a result of the development of the STX inverter platform which replaces the previous platform.

Financing Costs

A substantial portion of the financing costs recognized in the period are non-cash, in that the cost is accrued, but is not paid. The largest component represents accretion on First Preferred Shares which was added to the redemption value of the Preferred Shares. In prior years, the largest portion of non cash

financing costs was the provision for the potential liability to compensate Energy Northwest for contributions made to the Company in developing its step wave power converter. Based on the development of the STX platform management determined that there was no possibility that the Company would be required to make any payments to Energy Northwest in excess of the minimum annual payment of \$7,000US.

Accretion for the First Preferred Shares was \$1,525,161 for the six months ended March 31, 2014 compared to \$1,326,939 for the same period in 2013. Interest accreted for the royalty debentures issued in 2012 and 2013 was \$214,154 for the six months ended March 31, 2014 (\$49,445 at March 31, 2013). The interest paid, including the percentage paid based upon revenue, was \$54,560 (March 31, 2013 - \$20,682). Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was \$108,419 compared to \$132,000 for the six month periods ending March 31. Accretion of the obligation to repay government contributions to research and development was \$24,754 compared to \$26,499 for the period. Interest on the Energy Northwest obligation was \$6,693 for the six months ended March 31, 2014 as compared to \$8,537 for the six months ended March 31, 2013.

The debentures and the government grant obligation are adjusted on a quarterly basis to reflect the Company's current forecast and the result that has on the amounts payable under these agreements.

Interest on bank debt was \$13,248 for the six months ended March 31, 2014 as compared to \$37,987 for the same period in 2013. This decrease of \$24,739 is as a result of reducing the amount outstanding on the bank debt towards the end of the year, offset by an increase in the rate of 0.25% as a result of removing the covenants.

Foreign Exchange

Our contract manufacturing is priced in U.S. dollars, as is the custom in the electronics industry but our sales are priced in Canadian dollars, Euros and US dollars. As a result we are exposed to fluctuations in the Canadian dollar value relative to the U.S. dollar and the Euro. We do not hedge these exchange risks and have no plans to do so until our volumes are more stable.

Summary of Quarterly Results

For the periods ended:

	2014		2013			
	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Sales	396,357	489,349	243,778	15,819	46,728	70,161
Net loss	(489,286)	(2,051,222)	(3,497,288)	(1,843,602)	(1,276,247)	(1,639,851)
Per share – basic and diluted	(.02)	(.07)	(0.16)	(.09)	(0.06)	(0.08)

Summary of Annual Information

	2014 (2 quarter)	2013 (4 quarters)
Revenues	885,706	376,526
Net loss	(2,540,508)	(8,256,988)
Per share – basic and diluted	(.09)	(0.39)
Total assets	3,499,868	2,930,111
Non-current liabilities	5,951,331	4,823,560
Declared dividends	-	-

Summary of expenses

The following tables set forth the breakdown of the major components of the various departments within the Company.

Product research and development

	Q2 2014	Q2 2013
Employee Compensation	159,681	153,848
Consumables	(11,571)	64,083
Travel	22,478	16,220
Other	28,139	13,652
Amortization	250,467	198,002
Total	449,194	445,805

Operations

	Q2 2014	Q2 2013
Employee Compensation	318,832	322,685
Consumables	15,230	2,763
Travel	35,393	5,024
Freight and storage	90,067	26,336
Other	40,489	27,836
Total	500,011	384,644

Sales and marketing

	Q2 2014	Q2 2013
Employee Compensation	87,657	114,987
Travel	13,677	39,271
Marketing	53,065	37,370
Other	86,792	48,296
Total	241,191	239,924

General and administration

	Q2 2014	Q2 2013
Employee Compensation	284,547	162,640
Stock based compensation	75,150	(21,745)
Travel	55,460	-
Rent	58,878	124,654
Audit & accounting fees	115,039	129,021
Legal fees	28,086	104,018
Bad debts	-	-
Other	191,079	152,220
Amortization	28,292	21,961
Total	836,531	672,769

Liquidity and Capital Resources

Liquidity, as measured by working capital, was \$(965,678) at March 31, 2014 by comparison to \$(9,521,881) at September 30, 2013. Of this change of \$8,556,203, \$8,688,848 related to the preferred shares. On February 27, 2014, the preferred shareholders approved removing the mandatory redemptions on all series of preferred shares. This change resulted in equity on preferred shares increasing from \$4,079,759 to \$10,637,861, reflecting the number of preferred shares outstanding at their original redemption price of \$10 per share.

Removing the redemption requirements on the Preferred Shares has reduced the current deficit by \$1,643,674.

As a result of the removal of the redemption terms, the preferred shares portion of the preferred shares with a fixed conversion price can be reclassified as equity. The remaining balance of the conversion price is based on the market price of common shares the day prior to the conversion by the preferred shareholder and therefore, does not meet the definition of equity as per IAS 32. As a result, a liability has been recorded as other financial liabilities on the statement of financial position. This liability will be adjusted each quarter to reflect the fair value of the liability.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of \$1.5 million. As of March 31, 2014 the outstanding Company's operating line was \$976,763. Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises and equipment, which have been disclosed in the note 23 to the Financial Statements.

Related Party Transactions

As disclosed in the condensed interim consolidated financial statements (Note 19), the Company had the following related party transactions:

Included in general and administrative expense is salaries and benefits for key management personnel and directors of \$75,739 and \$153,301 respectively for the three month and six month period ended March 31, 2014 (2013 - \$70,081 and \$147,549) and share based compensation of \$54,441 and \$57,908 for the three month and six month period ended March 31, 2014 respectively (2013 - \$nil and \$nil). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of \$49,500 and \$99,000 for the three and six month period ended March 31, 2014 respectively (2013 - \$37,500 and \$87,000) and share based compensation of \$nil and \$nil for the three month and six month period ended March 31, 2014 respectively (2013 - \$9,945 and \$19,889).

Financing costs of \$15,988 and \$30,884 for the three month and six month period ended March 31, 2014 (2013 - \$2,805 and \$5,539) respectively, related to the debentures and preferred shares series 15 are included in the statement of loss. Interest payments amounted to \$3,798 and \$6,384 (2013 - \$565 and 1,784) for the three month and six month period ended March 31, 2014 respectively.

Included in accounts payable and accrued liabilities is \$117,830 (September 30, 2013 - \$139,421) due to directors and members of key management personnel.

Consolidation Common Share Capital

At the Company's Annual General and Special Meeting held August 21, 2012, the Shareholders approved a resolution to reduce the stated capital of the Common Shares of the Company by \$30,000,000 reducing the deficit by the same amount and to consolidate the common share capital in a ratio of up to 1 share for each 10 shares with the ratio at a time determined by the Board of Directors. The Board of Directors subsequently determined that it would be in the best interests of the Company to consolidate Common Shares on a ratio of 1 new share for each 10 common shares held and this was completed December 26, 2012.

Disclosure of Outstanding Share Data

As at May 28, 2014, 35,558,569 common shares and 1,019,087 First Preferred Shares convertible at the option of the holder into 25,172,649 common shares, were outstanding. In addition, common share purchase warrants, representing the right to acquire 1,250,000 common shares at an exercise price of \$0.50 per share, common share purchase warrants representing the right to acquire 60,000 common shares at a price of \$0.12, common share purchase warrants representing the right to acquire 608,000 common shares at a price of \$0.50, common share purchase warrants representing the right to acquire 8,750 common shares at a price of \$0.50, common share purchase warrants representing the right to acquire 3,529,411 common shares at a price of \$0.17, common share purchase warrants representing the right to acquire 241,967 common shares at a price of \$0.45 and common share purchase warrants representing the right to acquire 1,215,938 common shares at a price of \$0.60, were also outstanding. The Company had employee stock options outstanding entitling the holders thereof to acquire up to 3,186,019 common shares of which options to acquire common shares up to 1,369,372 had vested. The weighted average exercise price of the vested options is \$0.30 per share.

The conversion ratio for First Preferred Shares includes a fixed conversion on the initial redemption price and a variable conversion of unpaid dividends accrued to the date of conversion. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to May 28, 2014 which was \$0.45. The actual number of common shares that would be issued will vary from this estimate based on the share price and

the amount of unpaid dividends at the time of conversion. As at May 28, 2014, the common shares related to the conversion of the unpaid dividends was estimated to be 7,860,411 (by comparison to 8,340,756 on September 30, 2013) and is included in the 25,172,649 disclosed above.

Risks and Uncertainties

Going Concern

The consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation 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 March 31, 2014, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of \$33,597,017, after a reclassification of \$30,000,000 from share capital (\$26,253,616 at March 31, 2013) and recognized a cash flow deficiency from operations at March 31, 2014 of \$(2,217,190) (2013 - \$(786,131)). The Company also had a working capital deficit of \$965,678. Whether and when the Company can attain profitability and positive cash flows is uncertain.

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations.

Subsequent to period end, the Company raised additional equity from the issue of common shares for gross proceeds of \$972,750.

Operating Losses

We are in the growth phase of our business and are subject to the risks associated with early stage companies, including uncertainty of revenues, markets and profitability, and the need to raise additional funding. As is common with companies at this stage of development it is likely that marketing and operating costs will exceed net sales revenues during the product launch period. Our business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development, particularly companies in relatively new and evolving markets.

Market Acceptance

Market acceptance of our products represents a challenge for the Company. While the competitive advantages to the solar industry and the energy storage sector are material our small size and limited financial resources is a deterrent to customers. We are adjusting our strategy to address this risk through OEM, private labelling and/or licensing relationships which will provide better access to the market and alleviate customer concerns.

Dependency on Government Policies

Our business model is highly dependent on growth of solar power and energy storage as part of the power grid in many different countries. In some markets demand for our products is still dependent on government pricing policies and incentives. If pricing policies change there is a risk that demand for our products would be materially affected. A significant assumption of our business plan is growth in the demand for electronics to be used with distributed energy systems. Although industry forecasts are very optimistic these forecasts make many assumptions the most significant of which is that the cost of high efficiency batteries will decline quickly with continued investment. This may not occur in which event the energy storage industry will develop much more slowly than we anticipate reducing demand for our products and interest in our technology.

Even with continued high growth in the solar industry markets, and growth in the energy storage sector, demand for our products can be volatile and it is more difficult to predict the nature and scope of demand for our class of products than would be the case in a more mature environment. This makes it difficult to plan production to meet demand on a timely basis adding to the financial risk of the business. While our

business model attempts to address these risks, there is no assurance that changes in market conditions will not adversely affect liquidity.

Competition and Technological Change

Because we are in a highly competitive market, we may not be able to compete effectively in these markets, and we may lose or fail to gain market share. We face a large number of competitors, many of whom are larger and have greater resources than us, and we expect to face increasing competition in the future. Our competitors may develop products based on new or proprietary technology that have competitive advantages over our products.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources than we do. Our 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 than we can.

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

Manufacturing Cost Targets

Our business model assumes that we will be able to use our low manufactured cost and our strategy of selling proprietary electronics sub-assemblies to penetrate target markets. Delays in reaching adequate rates and efficiencies in production could impair the profitability of our products. Our ability to produce products that are cost effective depends on reaching efficient production levels. In addition, our production process results in the wasting of materials and supplies which must be minimized to produce cost effective products.

The failure to reach adequate production levels and efficiencies would impair our ability to profitably market our products and would have a material adverse effect on our business, results of operation and financial condition. We cannot control the cost of our raw materials. Our principal raw materials are copper and steel. The prices for these raw materials are subject to market forces largely beyond our control and have varied significantly and may vary significantly in the future.

We may not be able to adjust our product prices, especially in the short-term, to recover the costs of increases in these raw materials. Our future profitability may be adversely affected to the extent we are unable to pass on higher raw material or reduce our costs to compensate for such changes.

OPERATION AND SUPPLIER RISK

At our stage of development, there is a greater than normal exposure to the risk that critical components will not be available on a timely basis, negatively impacting our ability to meet delivery commitment on sales contracts. Also, with new products there is also a greater 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. Where possible, we address these risks by ensuring multiple sources and working closely with our suppliers through the demand planning cycle and actively monitor critical component suppliers and in some cases invest to secure longer lead time items.

Dependence on Customers

Our strategy depends heavily on the ability of our customers to develop markets for their products into which our products are integrated. This risk is exacerbated by our strategy of focusing on applications where our technology makes a material difference to the outcome. This tends to limit the number of customers and in some cases bias the customer selection to new companies with emerging technologies or products which need our technology. We balance this risk by partnering closely on the demand planning, limiting our supply chain investment and securing financial commitments from our customers in the form of deposits and or letters of credit

Foreign Exchange

Most of our product sales are and will for the foreseeable future be made in Euros or in US dollars; whereas most of our production costs are incurred in US dollars. To date we have not hedged these transactions except in the form of cash deposits on sales and for the cost of production, and we have 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.

While the risks of these actions are mitigated by our contract manufacturing strategy which enables us to easily change where we manufacture 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.

Attracting and Retaining Key Personnel

Our future prospects depend to a significant extent on the continued service of our 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 will be successful in identifying, recruiting or retaining such personnel. If any of these events occur, it may have a material adverse effect on the business, financial condition and results of operations of the Company or the value of the Common Shares.