



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2020**

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Inc. ("Eguana", or the "Company") is dated August 24, 2020 and should be read in conjunction with Eguana's condensed interim consolidated financial statements for the three and nine months ended June 30, 2020 ("Q3 2020" and "YTD 2020") and for the three and nine months ended June 30, 2019 ("Q3 2019" and "YTD 2019") and the annual consolidated financial statements for the years ended September 30, 2019 and 2018.

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all references to \$ in this MD&A are to Canadian dollars. References to US\$ or US dollars herein are to United States dollars.

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

### **OVERVIEW AND UPDATE**

A detailed overview of the Company's core business, its products, the market for Eguana's products, and the Company's business strategy is provided in the MD&A for the financial year ended September 30, 2019, published on January 23, 2020.

Eguana's mission is to become a global leader in residential and small commercial grid tied energy storage systems. Strategically, the Company remains committed to delivering continued growth in its distribution channel development by expanding sales, technical support and training, and operational capabilities in high demand markets.

Eguana's employees and partners are critical for its success, and as such the Company places the highest priority on their health and safety. To mitigate and manage the potential spread of COVID-19 a series of measures have been implemented in each location, including remote work, limited office attendance and close interaction, and new sanitation protocols. As a result, to date personnel issues have been minimized.

The COVID-19 global pandemic continues to constrain supply chains, ports, and logistical networks around the world as economies reopen under varying safety measures and government guidance, including certain regions that Eguana operates in on both the supply and demand sides of the business. Although the Company has delivered record revenues fiscal year to date, growth has been constrained by battery and component shortages, which have in turn increased the Company's backlog of orders. Management believes all supply chain partners have returned to pre COVID capacities, however expects risks related to transit times to remain for the balance of the calendar year.

The United States, primarily California and Hawaii, continue to be key growth markets for Eguana where its distributor and dealer network is approaching 200 partners. Emphasis remains on upfront product features and installation training to provide a seamless consumer experience. Hawaii installations are following the same trend as the prior year, with increasing orders as consumers look to take advantage of tax incentives prior to December 31, 2020. In California, the Company has launched a Cobalt free Evolve LFP to give consumers a choice in battery chemistry. Both solutions, the Evolve NMC (Nickel Manganese Cobalt) and Evolve LFP (Lithium Iron Phosphate), are based on the Company's proprietary advanced power controls solution and maintain key product features including remote auto recovery of battery modules, flexible battery capacity, simple installation processes, back up power functions and remote commissioning and diagnostic capability.

Eguana has scheduled its Sunnova field trials in September for the Moixa AI based Evolve, which was developed as part of a previously announced development deal with partner ITOCHU Corporation ("ITOCHU"). Field trials were originally scheduled in late July however were delayed as a result of travel restrictions with respect to COVID-19. Beta systems have been running for several months without issue and have been designed for virtual power plant ("VPP") and residential applications.

The Company successfully increased its letters of guarantee from EDC (Export Development Canada) for our contract manufacturing partners ahead of expected growth in the European market. During the quarter, Eguana structured a baseline demand of 50 systems per month with partner Hanwha QCells ("QCells") to stabilize production and assembly processes. This manufacturing consistency will also provide for margin improvement in the coming quarters with respect to the Enduro product. The Company is also reviewing the certification process for the Elevate for European markets.

Material shipments were restarted into the Australian market to service a backlog of orders which will be recognized in the fourth fiscal quarter. Additionally, the Australian team successfully increased its dealer partners and expects to see sales traction increase in the balance of the calendar year. The Company has begun negotiations with a tier one solar company in Australia with the intention of realizing national coverage with the Evolve LFP product.

Eguana has completed its battery supply transition to partner ITOCHU to reduce upfront working capital requirements and the reduction of its cashflow cycles. This was a critical step to realizing the growth potential of the Company as energy storage continues its path to mainstream adoption.

### Q3 2020 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three and nine months ended June 30, 2020 and 2019.

	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Sales and engineering services	2,179,891	774,670	6,620,830	2,602,457
Cost of goods sold	1,908,224	834,804	5,728,098	2,497,803
Gross margin	271,667	(60,134)	892,732	104,654
Expenses				
General and administrative	463,847	585,803	1,443,392	1,894,065
Selling and marketing	503,024	686,538	1,568,427	2,169,412
Product research and development	223,668	336,485	631,743	850,731
Operations	206,079	198,977	641,674	579,642
	1,396,618	1,807,803	4,285,236	5,493,850
<b>Loss before undernoted items</b>	<b>(1,124,951)</b>	<b>(1,867,937)</b>	<b>(3,392,504)</b>	<b>(5,389,196)</b>
Financing costs	(768,998)	(400,136)	(2,120,211)	(1,069,188)
Unrealized foreign exchange gain (loss)	130,404	37,925	(287,815)	(55,973)
Other income	2,310	1,938	2,313	3,242
<b>Net loss</b>	<b>(1,761,235)</b>	<b>(2,228,210)</b>	<b>(5,798,217)</b>	<b>(6,511,115)</b>

#### *Sales and engineering services*

The Company's revenue is derived from the sale of energy storage systems which are available in multiple size configurations to meet individual consumer and regional requirements. The systems, which are branded the Evolve NMC, the Evolve LFP, the Enduro, and the Elevate, maintain approximately 90% bill of material consistency throughout the electronics topology, where many of the Company's proprietary patents reside. Each system is capable of performing both customer and grid related services including solar self-consumption and back-up power along with a full suite of grid services including frequency and voltage control, as well as fleet aggregation for VPP's.

The Company's customer base is addressed primarily through global distributors and large installers, who in turn market and sell Eguana systems through their customer networks. Through a series of online and in person training programs, the Company ensures both its customers and installation partners are appropriately educated and trained on product features and installation best practices prior to sales, as all installation, maintenance and subscriptions are the responsibility of the distributor or installer.

For the three-month period ended June 30, 2020, sales were \$2,179,891, consisting of \$1,867,835 in product sales and \$312,056 in engineering services, and represented a 181.4% increase over sales of \$774,670, derived wholly from product sales, for the same period in 2019. For the nine month period ended June 30, 2020, sales were \$6,620,830, the highest year-to-date revenue in the Company's history, consisting of \$5,572,415 in product sales and \$1,048,415 in engineering services, a 154.4%

increase from the same period in 2019. The sales increase was as result of consistent order growth through increasing distribution and direct partner channels.

The Company does expect to see continued quarterly fluctuations in revenues generated from the Company's various markets, sales regions, and sales channels due to variability associated with the timing of customer purchase decisions as well as the continued global impact of the COVID-19 pandemic on global supply chains.

### *Gross margin*

For the three months ended June 30, 2020, product sales resulted in a gross margin improvement of 9.0% from negative 7.8% (-\$60,134) to positive 1.2% (+\$21,864). Energy storage system gross margins were negatively impacted due to continued supply plan adjustments as a result of the COVID-19 pandemic. The Company assessed the supply chain risks and took the decision to reroute materials to its Calgary headquarters given the uncertainty associated with the logistical capabilities in China and Italy. This increased logistical and expediting costs, however allowed the Company to continue producing product for its customers increasing its sales revenues.

Gross margins for energy storage systems were 1.1% or \$59,312 for the nine months ended June 30, 2020. Energy storage system gross margins for the same period in 2019 were \$104,654 or 4.0%. The COVID-19 pandemic has created unprecedented risks within global supply chains caused by lockdowns throughout many countries, including some of which remain part of Eguana's supply chain. As a result, the Company notes a further risk in component and logistics costs as contract manufacturing and supply partners continue recovery efforts. Therefore, an inherent risk remains to realizing the Company's short-term gross margin improvement plans. Planned cost reduction activities for North American and Australian Evolve products, including both the NMC and LFP, are expected to improve gross margins along with improvements from supply chain and product assembly efficiencies through contract manufacturing partners.

Engineering services contributed \$249,803 to the margin in Q3 2020 and \$833,420 for the nine months ended June 30, 2020 for services provided to Itochu Corporation to develop and certify proprietary residential storage system. There were no engineering services in 2019.

### *Expenses*

Operating costs for the three months ended June 30, 2020 were \$1,396,618, down \$411,185 representing a 22.7% decrease from the same period in 2019.

- General and administrative expenses ("G&A") decreased by \$121,956 in Q3 2020 as compared to Q3 2019. The decrease in G&A cost can be attributed to realized foreign exchange gains due to the strengthening of the Canadian dollar in the quarter. Legal costs have also decreased compared to Q3 2019, as the prior year had added costs related to the ongoing German legal dispute for the cancellation of a supply agreement. Additionally, Q3 2020 saw a decrease in share-based compensation expense due to the passing of time associated with older options, which are valued on a graded vesting basis.

G&A expenses consist primarily of salaries (including the value of stock options for all employees), employee benefits and overhead expenses that are not otherwise allocated to other categories, occupancy, all professional fees, investor relations costs, travel costs, realized foreign exchange gains and losses and amortization.

- Selling and marketing costs in Q3 2020 decreased \$183,514 as compared to Q3 2019. This decrease is almost entirely due to the reduction in travel for sales and marketing opportunities

associated with global restrictions due to the COVID-19 pandemic, as well as cancelled trade shows.

Included in these costs are salaries and benefits of personnel employed in marketing and customer account relationships, travel, costs of trade shows, and portions of the Executive Vice President's ("EVP") and the Chief Executive Officer's ("CEO") compensation that relate to business development.

- Product research and development costs in Q3 2020 decreased \$112,817 as compared to Q3 2019. This decrease is due to staff salary allocation to costs of goods sold for time spent on the new engineering development contract, which has decreased time spent on R&D specific projects compared to the prior year.

Included in product research and development are costs associated prototype development and certification, market analysis in support of new product definition, salaries and benefits of the engineering group, and a portion of the EVP compensation.

- Operations costs in Q3 2020 remained relatively consistent with costs from the same period in 2019.

Operations costs include salaries and benefits of employees directly allocated to this function and overhead cost allocations to support the operations personal.

Operating costs for the nine months ended June 30, 2020 were \$4,285,236 down \$1,208,614 from \$5,493,850 representing a 22.0% decrease for the nine months ended June 30, 2019.

- G&A expenses ("G&A") decreased by \$450,673 for the nine months ended 2020. The decrease in G&A cost can primarily be attributed to the reduced legal costs associated with the ongoing legal dispute in Germany, as well as a reduction in share-based payments due to certain options reaching the end of their graded vesting life. Consultants costs associated with the setup of new foreign operations were also reduced. These reductions are offset by increases in salaries and benefits for added positions to support the Company's global growth plans.
- Selling and marketing for the nine months ended June 30, 2020 decreased by \$600,985 as compared to the nine months ended June 30, 2019. This decrease is due to the non-reoccurring costs associated with the setting up of the Australian and German offices in the first half of 2019, including travel, trade shows, and consultants. Additionally, due to the global COVID-19 restrictions, overall global travel has been significantly reduced.
- Product research and development costs decreased by \$218,988 for the nine months ended 2020. This decrease is due to staff salary allocation to costs of goods sold for time spent on the new engineering development contract, which has decreased time spend on R&D specific projects compared to 2019.
- Operating costs increased slightly by \$62,032 for the nine months ended 2020. This is attributed to an increase in salaries and benefits associated with additional personnel to support the Company's growth

### *Financing Costs*

Financing costs in Q3 2020 were up \$368,862 as compared to Q3 2019. This increase is almost entirely due to the accretion of the convertible debentures issued in the second half of fiscal 2019, in addition to the recent convertible debentures issued in March of 2020.

Financing costs for the nine-month period ended June 30, 2020 were \$1,051,023 higher than the same period in 2019 due primarily to the addition of the convertible debenture accretion in Q3 2019, Q4 2019 and Q2 2020, as well as a full nine months of preferred share accretion for YTD 2020. Fiscal 2020 also

saw an increase in accretion due to the short-term bridge loan, which was fully repaid in April 2002. This increase is offset with a reduction in long-term debt accretion due to an amendment with the Company's Senior Lender, wherein the monthly payments were reduced and comprised of interest only for four months for November 1, 2019 through February 1, 2020.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

Operating activities	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Net loss	(1,761,235)	(2,228,210)	(5,798,217)	(6,511,115)
Share-based payments	22,420	51,441	75,477	284,754
Financing costs	768,998	400,135	2,120,211	1,069,187
Amortization of capital assets	39,992	45,228	129,600	120,078
Amortization of leased assets	49,523	-	136,045	-
Warranty provision	44,439	37,166	134,592	89,589
Bad debt expense	-	397	-	397
Unrealized foreign exchange (gain) loss	(130,404)	(37,925)	287,815	55,973
	(966,267)	(1,731,768)	(2,914,477)	(4,891,137)
Net change in non-cash working capital	(689,948)	734,390	(381,393)	35,696
<b>Cash flow used in operations</b>	<b>(1,656,215)</b>	<b>(997,378)</b>	<b>(3,295,870)</b>	<b>(4,855,441)</b>

### Net Loss

Net loss for Q3 2020 decreased by \$466,975 over the net loss in Q3 2019. The decrease in net loss is driven by decreased operating costs for the business and the addition of engineering revenue associated with a 2020 development contract. This is offset with an increase in financing costs associated with all three tranches of the convertible debentures.

### Share-based Payments

Share-based payments were \$75,477 in the nine-month period ended June 30, 2020, down from \$284,754 from the same period in 2019. This is due to the passing of time of older option grants, as each tranche is recognized on a graded vesting basis over the period in which the option vests.

### Finance Costs

Financing cost for the nine-month period ended June 30, 2020 were higher than the same period in 2019 primarily due to the accretion of the convertible debentures issued in the second half of fiscal 2019 as well as the recent \$5M convertible debentures issued in March of 2020.

### Unrealized Foreign Exchange (Gain) Loss

Unrealized foreign exchange gain for the three months ended June 30, 2020 resulted from a favourable shift in foreign exchange, specifically the strengthening of the Canadian dollar against the US dollar for the long-term US denominated senior debt. However, for the nine months ended June 30, 2020, the unrealized foreign exchange was still in a loss position when comparing US/CAD exchange rates to the prior year. Unrealized foreign exchange for the comparative periods in 2019 saw a consistent trend to 2020

## Summary of Quarterly Results

	2020				2019			2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	2,179,891	1,638,778	2,802,161	825,492	774,670	973,140	854,647	119,069
Net (loss)	(1,761,235)	(2,450,881)	(1,586,101)	(2,629,525)	(2,228,210)	(2,160,438)	(2,122,467)	(1,638,569)
Per share (1)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

(1) Basic and diluted

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

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

Eguana repaid \$906,088 in financing activities in Q3 2020 (Q3 2019 - received \$2,234,939) and used \$1,656,215 in operations during Q3 2020 (Q3 2019 –\$997,378).

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital deficit at the end of Q3 2020 was \$3,992,851 (September 30, 2019 – \$3,048,553).

As at June 30, 2020 the Company had net liabilities of \$15,554,110, which increased from \$11,020,980 at September 30, 2019. This can be primarily be attributed to the issuance of new convertible debentures in Q2 2020.

The Company has recorded \$4,629,238 in accounts payables and accrued liabilities, of which \$1,223,810 is in dispute as of June 30, 2020. In addition, the Company has \$1,735,615 in long-term debt, \$1,139,993 in debentures, \$216,972 in lease obligations, and \$199,166 in other liabilities payable over the next 12 months.

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

The Company is currently in a dispute with a prior customer in Germany as a result of the cancellation of a supply contract. A claim has been prepared to recover 1,479,332 Euros (\$2,213,229 CAD) for unpaid invoices and interest, along with the option to claim an additional 903,584 Euros (\$1,351,852 CAD) for European inventories purchased to fulfil this contract. Litigation is inherently uncertain and while legal counsel advises that the Company has a strong case, the receivable is being carried on the books at near zero. A favorable outcome in the dispute would increase the current assets of the Company.

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

The Company's former contract manufacturer submitted a claim in the Court of Queen's Bench in Alberta against Eguana for 1,534,000 Euros (\$2,295,028 CAD) related to the cancellation of the above noted supply contract. The Company is disputing 799,000 Euros (\$1,195,389 CAD) of the amount the contract

manufacturer has claimed. The Company has recorded in its financial statements the undisputed amount, therefore a successful defense of the claim submitted by the former contract manufacturer would positively impact the Company. The Company has counter claimed the contract manufacturer for 6.8 million Euros (\$10.6M CAD).

Subsequent to quarter end the Company entered into a settlement agreement with the contract manufacturer, where the Company has agreed to pay: (i) 650,000 Euros, to be paid over a period of 24 months commencing on October 1, 2020; and (ii) 100,000 Euros, to be paid upon the occurrence of certain events, but in any case, no later than June 30, 2022.

### **Outstanding Debt**

In December 2017, the Company issued \$1,500,000 USD of debt, bearing an interest rate of 12.5% per annum which will be repaid in equal instalments starting in July 2018 for 30 months. In August 2018, the Company drew an additional \$750,000 USD bearing an interest rate of 12.5% per annum which will be repaid in equal instalments starting in March 2019 for 30 months. In October 2018, the Company drew the remaining \$750,000 USD from its Senior Lender, bearing interest at 12.5% per annum, which will be repaid in equal instalments starting in May 2019 for 30 months. As part of the Senior Loan, the Company issued 2,951,733 warrants which convert into an equal number of shares with an exercise price of \$0.17 and an expiry date of December 20, 2022. The exercisable warrants are exchangeable for \$1,000,000 USD after the earlier of a liquidity event or September 30, 2021. On December 31, 2019, the Company entered an amendment with its Senior Lender to the original loan agreement wherein the monthly payments were reduced and comprised of interest only for four months commencing November 1, 2019 through February 1, 2020. The Senior Loan will continue to bear interest at a rate of 12.5% per annum and will now be repaid February 1, 2022. In consideration for this, 4,161,333 common share purchase warrants were issued on January 22, 2020, at a price of \$0.06 per warrant for a period of five years from the date of issuance.

In August 2018, the Company entered into a loan agreement for general working capital for \$1,300,000 with its largest shareholder, DHCT II Luxembourg SARL. The loan is due one month after the final Senior Loan payment is made. The loan bore interest at a fixed annual rate of 8%. The interest is paid at the same time the loan is repaid. As consideration for the advance of the DHCT loan, which has a second priority lien on all the assets of Eguana and its material subsidiaries, the Company issued common shares purchase warrants, entitling the Lender to purchase an aggregate of up to 1,238,095 common shares at a price of \$0.21 per common share for a period of three years from the date of the loan.

In December 2018, the Company issued 715 Limited Partnership units at a price of \$1,000 per unit resulting in gross proceeds of \$715,000 via its subsidiary EGT Markets Limited Partnership. In February 2019, Eguana exercised its right to convert 715 EGT Markets Limited Partnership units to common shares of Eguana and issued 3,575,000 shares.

On February 7, 2019, the Company issued 300,000 shares of newly created Series A First Preferred Shares (the "Series A Shares") at \$10.00 per Series A Share (the "Issue Price") for aggregate gross proceeds of \$3,000,000 (the "Offering"). The Series A Shares were issued and sold to the Company's largest shareholder, DHCT II Luxembourg SARL (the "Investor"), the investment vehicle of funds managed by Doughty Hanson & Co Managers Limited. The Series A Shares are convertible by the Investor at any time into common shares of the Company at a price of \$0.24 per common share. The Company may force conversion of the Series A Shares once its TSX-V listed share price is equal to or greater than \$0.60 for at least 60 consecutive days. In connection with the Offering, the Company and the Investor also entered into a loan settlement and conversion agreement whereby an additional 134,860 Series A Shares were issued to the Investor at the Issue Price to replace the existing \$1,300,000 secured loan facility.



On June 21, 2019, the Company issued 3,012 unsecured convertible debentures (“Debentures”) by way of a private placement, at a price of \$1,000 per debenture, for total gross proceeds of \$3,012,000. Each Debenture is convertible into 6,666.67 common shares and issued with 3,333.33 warrants. The debentures bear interest at 10% per annum, paid semi-annually, and mature on June 21, 2022.

On August 8, 2019, the Company closed the second tranche of the upsized debenture private placement. The Company issued 1,215 non-brokered unsecured convertible debentures at a price of \$1,000 per debenture, for total gross proceeds of \$1,215,000. The Company’s largest shareholder, DHCT II Luxembourg SARL, subscribed for 1,200 of the total debentures issued. The second tranche of the debentures mature on August 8, 2022, with all other terms remaining identical to the first tranche.

In November 2019, the Company entered into a short-term bridge financing transaction (“Bridge Loan”) in the amount of \$280,000 bearing an interest rate of 12.0% per annum for the initial three month period, and 24.0% per annum each month thereafter, and holds a maturity date of May 29, 2020. The Company has the right to prepay at any time a partial or the entire balance of the Bridge Loan outstanding together with accrued interest, without notice, penalty, or bonus. An administrative fee of 10% is due and payable on maturity date. On April 7, 2020 the Company repaid the full amount outstanding on the Bridge Loan.

On March 13, 2020 the Company closed a strategic investment with ITOCHU and issued 5,000 unsecured convertible debentures at a price of \$1,000 per debenture, for total gross proceeds of \$5,000,000. Each Debenture is convertible into 6,666.67 common shares and issued with 3,333.33 warrants. The Debentures bear interest at 10% per annum, paid semi-annually in cash or additional common shares, and mature on March 13, 2023.

#### **Shareholders’ Equity and Shares Outstanding**

As at August 24, 2020 228,617,411 common shares are issued and outstanding, an increase of 794,871 from June 30, 2020 due the conversion of 50 convertible debenture units as well as \$60,000 of accrued convertible debenture interest, which was converted to shares at \$0.13 per share in a shares for debt agreement with DHCT, the Company’s largest shareholder. As at August 24, 2020, there are common share purchase warrants representing the right to acquire 40,513,425 common shares, no change from June 30, 2020.

As at August 24, 2020 the Company has 11,192,316 stock options outstanding, an increase of 2,240,000 from June 30, 2020, due to an annual employee stock option grant in the amount of 2,305,000, offset by the expiration of unexercised options. These options entitle the holders thereof to acquire up to 11,192,316 common shares. 8,795,659 stock options have vested as of today’s date. The weighted average exercise price of the vested options is \$0.26 per share.

#### **Off-Balance Sheet Items**

As at June 30, 2020, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on Eguana’s financial condition, results of operations, liquidity or capital expenditures.

#### **CAPITAL EXPENDITURES**

In Q3 2020, capital expenditures totaled \$68,011 (Q3 2019 - \$29,176) and were primarily with respect to the purchase of new lab test equipment.

## RELATED PARTY TRANSACTIONS

The Company had the following related party transactions with respect to salary and benefits:

Salaries and benefits	Q3 2020	Q3 2019	YTD 2020	YTD 2019
General and administrative	108,125	104,675	329,538	333,796
Selling and marketing	64,716	61,858	199,476	198,442
Product research and development	15,184	14,604	46,637	43,845
	188,025	181,137	575,651	576,083

Share based expenses to officers and a director was \$6,624 and \$33,573 for the three and nine months ended June 30, 2020 (2019 - \$24,046 and \$111,140).

Included in accounts payable and accrued liabilities is \$671,793 (September 30, 2019 - \$448,135) due to directors and key management personnel.

During the nine-month period ended June 30, 2020 the Company paid \$115,008 (2019 - \$115,008) to its former CEO as part of a settlement agreement and incurred \$46,344 (2019 - \$60,077) of accretion as the obligation matures.

## RISK FACTORS AND RISK MANAGEMENT

Our risk factors and risk management are detailed in the annual MD&A filed on SEDAR at [www.sedar.com](http://www.sedar.com) on January 27, 2020 and have not materially changed since that time.

### Going Concern

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

At June 30, 2020, the Company had not achieved profitable operations since its inception and had accumulated a deficit of \$74,466,745 (September 30, 2019 - \$68,668,528) and incurred a loss from operations for the nine-month period ended June 30, 2020 of \$3,392,504 (2019 - \$5,389,196). Whether and when the Company can attain profitability from operations is uncertain. The lack of profitable operations results in material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

At June 30, 2020 the Company has a working capital deficiency of \$3,992,851 (September 30, 2019 - \$3,048,553).

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

## **Government Regulation**

The operations of Eguana are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Of particular relevance to Eguana's business, the laws and regulations related to the interconnection of behind the meter energy resources and to the installation of lithium 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 with the net effect of 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 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, CSA, IEC, EN and FCC. The specific standards that are actively maintained for compliance by Eguana are VDE 4105, G98, AS 4777, UL 1741, UL 9540, IEC 62109 and IEC 61000.

## **COVID-19 Based Risk**

The COVID-19 global pandemic has created some unprecedented risks in Eguana's business, some of which are detailed here. The global supply chain has been disrupted with lockdowns in many countries, some of whose industries are part of Eguana's supply chain. There is a risk of component cost increases due to supply constraints along with expected increases in shipping and logistics costs. The short- and medium-term impacts are unprecedented in modern history and remain difficult to estimate at this time. The extent of the global economic damage remains unknown but is expected to be severe with economic recession, market volatility and political uncertainty may last many months or years as global supply chains, labour forces and credit markets recover. This may impact companies' abilities to reach the targeted sales numbers, gross margin objectives, and safe and healthy work places. Eguana has taken precautionary steps to mitigate the associated risks.

## **ACCOUNTING POLICIES**

There have been no changes to the Company's critical accounting estimates and policies in the nine months ended June 30, 2020 for the adoption effective October 1, 2019 of IFRS 16, Leases ("IFRS 16") and IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23"). Significant accounting policies are disclosed in note 4 of the annual audited consolidated financial statements for the year ended September 30, 2019.

### **Recently issued accounting pronouncements**

#### **Adoption of new and amended standards**

##### *IFRS 16, Leases*

Effective October 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The new standard requires a lessee to recognize in the statement of financial position: a liability for future lease payments (the lease liabilities) and an asset for the right to use the underlying leased asset during the lease term (the lease assets).

The Company recognized the initial effect of applying IFRS 16 as an increase in the right-of-use asset in the amount of \$551,796, with a corresponding increase to the lease liability in the same amount. The right of use asset was offset with a previously recorded lease inducement of \$41,210. Comparative information has not been restated and continues to be reported in accordance with the standards and accounting policies in effect prior to October 1, 2019.

Further details of the transition to IFRS 16 can be found in note 22 of the condensed interim consolidated financial statements ended June 30, 2020.

#### *IFRIC 23, Uncertainty over Income Tax Treatments*

Effective October 1, 2019, the Company adopted IFRIC 23, Uncertainty over Income Tax Treatments. There have been no significant changes to disclosures or measurement of income taxes as a result of this application.

#### **Accounting Pronouncements Issued but Not Adopted**

There were no new or amended accounting standards or interpretations issued during the nine months ended June 30, 2020 that are applicable to the Company in future periods.

#### **ADVISORY SECTION**

##### **Forward-Looking Statements**

This MD&A contains forward-looking information and forward-looking statements (collectively, "forward-looking statements") within the meaning of applicable securities laws that 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.