



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2022**

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated August 29, 2022 and should be read in conjunction with Eguana's consolidated financial statements for the three and nine months ended June 30, 2022 ("Q3 2022" and "YTD 2022") and 2021 ("Q3 2021" and "YTD 2021") and the Company's annual audited consolidated financial statements and notes thereto for the years ended September 30, 2021 and 2020.

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 more comparative with a majority of its industry peers. Consequently, the financial statements for the fifteen months ended December 31, 2022, will be presented with comparative information for the twelve months ended September 30, 2021.

The consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 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](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, 2021, published on January 6, 2022.

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 the continued development of its distribution channels 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.

## Sales and Operations

During the third fiscal quarter the Company's primary focus was completing its manufacturing and supply chain transition to contract manufacturing partner Omega EMS, based in San Jose, California. To drive quality and reliability a new state of the art Inverter Functional Test (IFT) station was designed and installed by the Eguana team with a 400 unit test capacity across a two shift operation. A second IFT station has been fully commissioned at Eguana HQ and will be installed in San Jose in September 2022 with a third station set to be built, commissioned, and installed by March 2023. The total production capacity at that time will exceed 14,400 systems annually, surpassing a prior target of 10,000 unit annualized capacity. Future capacity requirements are easily fulfilled with the addition of further functional test stations.

Supply chain disruption has been minimized as a result of the collaborative Alternative Parts Program, a team integrated approach to solving supply chain risk items through design and test. Inventory investments will continue as additional and future risk components are identified. Subsequent to quarter end, the Company successfully raised an additional \$40 million CAD, with a substantial portion to be utilized for inventory investments specific to battery module and micro inverter inventory positioning.

As a result of the Omega transition, combined supply chain planning, and alternate parts program, as well as future inventory investment plans, the Company expects steady monthly increases in production throughput on a go forward basis. First pass yield has also steadily increased since plant commissioning commenced in June, which is a trend management expects to continue until throughput matches production capacity. Production output will be key to ESS growth as demand continues to increase for Eguana and white labelled product. At current, the Company has a pipeline of approximately \$27 million CAD with expected growth in all areas of the business.

PowerCenter+ (DPC) distribution channel expansion executed through the second quarter has increased branch level orders across multiple distributors and regions. Orders have been inclusive of the 5kW LFP Evolve and recently launched micro inverters. The 10K Max product is set to launch in the coming months with full certification now complete. Procurement has been completed to support the pending launch, which will be in conjunction with a new white label partner. Additional distribution branches will be systematically opened and balanced with the Eguana dealer training program and general product availability, a critical priority for distributors. Management expects to see a steady growth trajectory across the entire product suite.

Momentum resumed in Hawaii's Battery Bonus program with changes to the program structure, resulting in \$2.4M in new orders subsequent to the quarter end. The Battery Bonus program was established to address a gap in peaking capacity on the island of Oahu, driven by the scheduled retirement of the island's only coal facility, by using a fleet of residential home energy storage systems charged with solar power. The program launched mid-2021 with the first phase targeting retrofits to existing solar systems installed under the original NEM tariff program. Battery Bonus program rules have now been modified to encourage faster uptake by compensating system owners under the island's popular CGS and CGS+ tariffs. The changes will make the program attractive for most solar homeowners and is expected to accelerate installations in 2022 and beyond.

During the second quarter Eguana expanded its power electronics offering with the addition of a suite of micro inverters, Eguana Enfuse. The inverters, which are available in single, dual, and quad configurations, deliver ultimate flexibility for residential rooftop solar installations. The Enfuse line delivers up to 15% more energy annually, as compared to traditional products, by having the ability to accept up to 30% more power.

The micro inverter line is premium branded in North America and market acceptance has exceeded Company expectation. Shipments commenced in June with early installer and distributor orders being fulfilled. Management expects the rapid uptake to continue quarter over quarter as the residential solar markets continue growing at a 17% compounded annual growth rate. The Eguana Enfuse line is planned to be released later this year into European and Australian markets.

In Australia, Eguana has recorded and installed its first system sales this quarter. The Company is focused on building its processes and capacity around its headquarters in South Australia with the goal of expanding into other regions to support national business objectives. Both homebuilders and VPP providers have expressed a strong interest in Eguana providing installation and support services alongside its industry leading product line which reduces performance and customer satisfaction risk.

New FCAS market regulations were finally published this quarter and the Company is in the process of demonstrating its compliance with the performance and self-reported verification requirements in order to take a leading position in this new market with utility partner Simply Energy.

The Company remains in discussion for a white label agreement with a utility in France, inclusive of both the ESS and micro inverter. Enfuse micro inverters will be first mover with pilot project getting planned for later this year. Management expects the Enduro systems to follow through 2023.

## **Development**

With its manufacturing transition to Omega complete, the Company continued increasing its lab and development personnel including Eguana Cloud and lab team members. Team growth will continue as development support for new white label partners is expected with software and hardware. The APP will remain the near term focus while global supply chains remain unstable. In addition to the APP, the development team will continue multiple high-level initiatives defined as Power Electronics Expansion, Eguana Cloud Services, and new battery integration for future products.

## **COVID-19 IMPACT**

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 its business. Although the Company delivered record revenues in fiscal 2020 and record product revenues in fiscal 2021, growth remains constrained by raw material component shortages, and increased transit times for both incoming raw materials and outgoing finished goods. As a result, the Company has developed an Alternate Parts Program to further help mitigate material risk. The APP will remain in place until all bill of material related components become available under standard lead times.

## 2022 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three and six-months ended June 30, 2022, and 2021.

|   | Q3 2022            | Q3 2021     | YTD 2022           | YTD 2021    |
|---|--------------------|-------------|--------------------|-------------|
| Sales                                   | <b>2,317,334</b>   | 1,381,504   | <b>3,867,013</b>   | 4,052,873   |
| Cost of goods sold                      | <b>2,316,322</b>   | 1,304,229   | <b>3,783,942</b>   | 3,771,831   |
| Gross margin                            | <b>1,012</b>       | 77,275      | <b>83,071</b>      | 281,042     |
| Expenses                                |                    |             |                    |             |
| General and administrative              | <b>996,620</b>     | 1,079,995   | <b>3,007,520</b>   | 2,987,896   |
| Selling and marketing                   | <b>620,818</b>     | 475,689     | <b>1,763,638</b>   | 1,403,873   |
| Product research and development        | <b>729,870</b>     | 451,366     | <b>1,715,333</b>   | 1,301,626   |
| Operations                              | <b>337,468</b>     | 380,183     | <b>1,006,728</b>   | 817,034     |
|   | <b>2,684,776</b>   | 2,387,233   | <b>7,493,219</b>   | 6,510,429   |
| <b>Operating loss</b>                   | <b>(2,683,764)</b> | (2,309,958) | <b>(7,410,148)</b> | (6,229,387) |
| Financing costs                         | <b>(546,935)</b>   | (330,668)   | <b>(832,286)</b>   | (1,785,968) |
| Unrealized foreign exchange (loss) gain | <b>10,980</b>      | (95,950)    | <b>25,229</b>      | 88,542      |
| Other income                            | <b>56,533</b>      | 7,130       | <b>228,466</b>     | 7,130       |
| <b>Net loss before tax</b>              | <b>(3,163,186)</b> | (2,729,446) | <b>(7,988,739)</b> | (7,919,683) |
| Current tax expense                     | -                  | -           | <b>(238,857)</b>   | -           |
| <b>Net loss</b>                         | <b>(3,163,186)</b> | (2,729,446) | <b>(8,227,596)</b> | (7,919,683) |

### Sales

The Company's revenue is derived from the sale of ESS' which are available in multiple size configurations to meet individual consumer and regional requirements. The systems, which are branded the Evolve NMC (nickel manganese cobalt), the Evolve LFP (lithium iron phosphate), the Enduro, and the Elevate, maintain approximately 90% bill of material consistency throughout the advanced electronics platform providing a standardized product topology where many of the Company's proprietary patents reside. Each feature rich system is capable of performing consumer related functions including solar self-consumption with seamless back-up power as well as a full suite of VPP services for fleet aggregators including frequency and voltage control, reactive power management, and spinning reserve. Additionally, the Company expanded its power controls platform to include solar PV micro inverter solutions named the Eguana Enfuse (Enfuse). The suite of micro inverters are inclusive of single, dual and quad port configurations, maximizing system flexibility, installation, simplicity, and reliability. Micro inverters play a key role in residential rooftop solar and are critical to the energy and power grid transformation. The Company recorded its first sales of the Enfuse in Q3 2022.

The Company's customer base is addressed primarily through its dealer network inclusive of large residential installers and global distributors, who, in turn, market and sell Eguana products through their customer networks to the end consumer. Additionally, in certain markets, the Company has white label

products for large scale partners who have the ability to wrap financing around the solutions and target both solar self-consumption consumers, VPP programs, and other fleet aggregation services. 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 and commissioning 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, 2022, product sales were \$2,317,334 (5,045 units comprised of Evolve, Enduro, Elevate and Enfuse) an increase of 73.5% compared to prior period product sales of \$1,335,952 for the same period (153 units comprised of Evolve, Enduro, and Elevate). Increase in Q322 ESS revenue was driven through the addition of the micro inverter solutions in the third quarter. For the nine-month period ended June 30, 2022, product sales were \$3,867,013 (5,237 units comprised of Evolve, Enduro, Elevate and Enfuse), a 3.5% decrease from \$4,007,321 (458 units comprised of Evolve, Enduro, and Elevate) of the same period in the previous year. Year to date revenue has been impacted, primarily through the second quarter, as the Company transitioned its manufacturing to partner Omega EMS. Through the second and third quarters the Company, through the development of its Alternate Parts Program, was successful in solving key supply chain issues that had previously limited product availability. Additionally, Eguana maintained considerable focus on the micro inverter launch into the US residential solar market, which utilized key ESS resources short term. This was offset with the addition of the Enfuse line in the third quarter of 2022.

Engineering revenue was \$45,552 for both the three and nine month periods ending June 30, 2021, respectfully, for pre-work with FREYR AS related to defining battery module and battery management system design related to next generation semi solid state lithium technology. There was no comparable revenue for the period ending June 30, 2022.

The Company does expect to see more consistent revenue growth with the addition of the Enfuse Micro Inverter line, which has a significantly less complex supply chain as compared to an ESS. Shipping costs, port related delay, and global supply chain impacts of the COVID 9 pandemic may continue to drive short term variability in product revenue and margins, however management believes this to be short term.

#### *Gross margin*

Gross margins for product sales were 0.04% or \$1,012 for the three months ended June 30, 2022, compared to positive gross margins for the same period in 2021 of \$48,128 or 3.6%. This decrease is primarily due to inventory rationalization related to winding down Canadian supply chain activities and transitioning supply chain and operational activities to Omega. The net value of the inventory adjustments totalled \$181,974. This is offset with growth in product margins as the Company expanded its power controls platforms. YTD 2022 gross margins for product sales were 2.1% or \$83,071. Gross margins for the same period in 2021 were \$251,895 or 6.3%. These lower margins are primarily associated with negative inventory change adjustments, continued global supply chain risk and high, fluctuating raw material and logistic costs. With the manufacturing operations transition complete the Company expects to see a reversal and steady growth in gross margins with short term fluctuations remaining relative to logistics costs.

Engineering services contributed \$29,147, or 64.0% to the margin in Q3 and YTD 2021. There was no comparable engineering services in 2022.

## Expenses

Expenses for the three months ended June 30, 2022, were \$2,684,776 up from \$2,387,233 in the same period in 2021, representing a 12.5% increase year over year.

- General and administrative expenses (“G&A”) decreased by \$83,375 in Q3 2022 as compared to Q3 2021. Q3 2021 saw a grant of 1.5 million options to a capital markets advisory firm that fully vested, therefore were fully expensed, on grant. Comparably, Q3 2022 had only 1.0 million options granted to the same capital markets advisory firm, with the same terms, resulting in a decrease in non-cash share-based payments of \$234,144. This is partially offset by realized foreign exchange loss from more volatile currency markets, increases in salaries and benefits due to additional position requirements to accommodate growth, and higher amortization expenses due to increased capex spending.

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 expenses in Q3 2022 increased by \$145,129 as compared to Q3 2021. Almost all of this increase is due to travel and business development costs as sales efforts and sales personnel have increased alongside the Company’s growth objectives. Due to global travel restrictions with the pandemic in 2021, these opportunities were negatively impacted, resulting in lower costs in Q3 2021.

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 Chief Executive Officer’s (“CEO”) compensation that relate to business development.

- Product research and development costs increased by \$278,504 in Q3 2021, compared to the previous year. This is mainly due to higher salaries and benefits associated with a larger research and development team as well as related staff recruitment fees incurred while hiring for the team.

Included in product research and development are costs associated with prototype development and certification, market analysis in support of new product definition, salaries and benefits of the engineering group, and a portion of the Chief Operating Officer’s (“COO”) compensation.

- Operations costs in Q3 2022 decreased by \$42,715 as compared to Q3 2021. The majority this difference can be attributed to casual labor and third-party partner after sales service costs incurred in the Q3 of the prior year that were not incurred in Q3 2022. This is primarily due to North American production shifting to Eguana’s contract manufacturer, Omega EMS.

Operations costs include salaries and benefits of employees directly allocated to this function, overhead cost allocations to support the operations personnel and portions of the COO’s compensation (from fiscal 2021 onward).

Expenses for the nine months ended June 30, 2022, were \$7,493,219 an increase of \$982,790, or 15.1%, from \$6,510,429 for the nine months ended June 30, 2021.

- G&A expenses remained consistent with costs from the same period in 2021.
- Selling and marketing for the nine months ended June 30, 2022, increased by \$359,765 as compared to the nine months ended June 30, 2021. Approximately \$297,000 of this increase is associated with additional sales and technical sales personnel growth in North America to execute the PowerCenter+ and microinverter sales strategies. Additional increases are a result of increased travel, associated meals, and marketing costs as global travel restrictions ease.

- Product research and development costs increased by \$413,707 for the nine months ended June 30, 2022. This increase is almost entirely due to the increase in salaries and wages for the R&D team as the Company expanded personnel in preparation for new developments related to Eguana Cloud Services and energy management software advancement, new products development, battery, battery management system, and micro inverter integration.
- Operations costs increased by \$189,694 for the nine months ended June 30, 2022, compared to the same period in the previous year. Two-thirds of this increase is associated with the global freight cost increases, with the remainder being due to a number of smaller factors, including increases in salaries and rent associated with the new office space.

#### *Financing Costs*

Financing costs in Q3 2022 were up \$216,267 as compared to Q3 2021. This is primarily associated with accretion increases associated with the entering into a new loan agreement (“New Senior Loan”) the Company entered into at the beginning of April 2022. Specifically, quarterly accretion was \$354,284 in Q3 2022, compared to low accretion of \$26,765 in Q3 2021 as the previous Senior loan was nearing the end of its term. Alongside this increase in debt, the warrant derivative liability for Q3 2022 also increased, therefore the Company saw an increase of \$116,360 associated with the change in fair value as compared to the previous year. Offsetting these increases was a reduction in accretion of \$195,532 associated with the preferred shares, as all had been converted in Q1 2022.

Financing costs for the nine-month period ended June 30, 2022, were \$953,682 lower than the same period in 2021 due primarily to the reduced accretion associated with debentures, which were fully converted by April 2021, representing a \$763,609 reduction in financing costs in comparing the two years. Additionally, due to the converted preferred shares, accretion decreased by \$388,119. Additional smaller changes offsetting these reductions were increased in the fair valuation of the derivative liability as well as an increase in lease interest with the Company’s new head office space.

#### *Other income*

Other income in Q3 2022 was up \$49,403 as compared to Q3 2021 and up \$221,336 for the nine-month period ended June 30, 2022, compared to the same period in 2021. This increase is primarily due to after sales services provided by Eguana on behalf of a third-party vendor.

## MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

| Operating activities                    | Q3 2022            | Q3 2021     | YTD 2022           | YTD 2021     |
|---|--------------------|-------------|--------------------|--------------|
| Net loss                                | <b>(3,163,186)</b> | (2,729,446) | <b>(8,227,596)</b> | (7,919,683)  |
| Share-based payments                    | <b>426,414</b>     | 660,558     | <b>1,142,115</b>   | 1,477,100    |
| Financing costs                         | <b>546,935</b>     | 330,668     | <b>832,286</b>     | 1,785,968    |
| Amortization and depreciation           | <b>133,149</b>     | 74,621      | <b>393,343</b>     | 243,740      |
| Write (up) down of inventory            | -                  | 792         | <b>87,646</b>      | (31,853)     |
| Warranty provision                      | <b>123,400</b>     | 19,929      | <b>125,477</b>     | 32,938       |
| Bad debt expense                        | -                  | -           | <b>3,465</b>       | -            |
| Unrealized foreign exchange (gain) loss | <b>(10,980)</b>    | 95,950      | <b>(25,229)</b>    | (88,542)     |
|   | <b>(1,944,268)</b> | (1,546,928) | <b>(5,668,493)</b> | (4,500,332)  |
| Net change in non-cash working capital  | <b>(4,369,430)</b> | (5,075,160) | <b>(4,122,230)</b> | (7,787,488)  |
| <b>Cash flow used in operations</b>     | <b>(6,313,698)</b> | (6,622,088) | <b>(9,790,723)</b> | (12,287,820) |

### *Net Loss*

Net loss for Q3 2022 increased by \$433,740 over the net loss in Q3 2021. This is due to operating expenses increases of \$297,543 associated with personnel growth throughout the organization as well as an increase in financing expenses of \$216,267, primarily associated with the New Senior Loan, which commenced in Q3 2022. This is offset with gains in unrealized foreign exchange and other income.

### *Share-based Payments*

Share-based payments were \$1,142,115 for the nine-month period ended June 30, 2022, down from \$1,477,100 from the same period in 2021. This is due to YTD 2021 expenses associated with the grant of 1.5 million options which vested immediately, and 4.5 million options having accelerated vesting terms of 6 months and a life of 3 years, both to a capital markets advisory firm. This is in comparison to YTD 2022 having 1.0 million of options issued in February and 1.0 million in June with immediate vesting to the same capital market advisory firm.

### *Unrealized Foreign Exchange Gain*

The \$63,313 decrease in unrealized foreign exchange gain for YTD 2022 compared to YTD 2021 is primarily a result of an increased balance in US denominated debt and strengthening of the US dollar as at June 30, 2022, in comparison to the prior year. This is offset by increased gains associated with US denominated accounts receivable as compared to the same period in the previous year due to the strengthening of the US dollar in comparison to the prior periods.



## Summary of Quarterly Results

|                          | 2022        |             |             |             | 2021        |             |             | 2020        |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                          | Q3          | Q2          | Q1          | Q4          | Q3          | Q2          | Q1          | Q4          |
| Sales                    | 2,317,334   | 285,130     | 1,264,549   | 3,121,716   | 1,381,504   | 347,582     | 2,323,787   | 1,330,848   |
| Net (loss)               | (3,163,186) | (2,402,936) | (2,661,474) | (2,480,361) | (2,729,446) | (2,834,935) | (2,355,302) | (1,948,743) |
| Per share <sup>(1)</sup> | (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 received \$7,124,348 in financing activities in Q3 2022 (Q3 2021 – \$646,104) and used \$6,313,698 in cash flow from operating activities during the quarter (Q3 2021 – \$6,622,088).

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital at the quarter ended June 30, 2022, was \$7,422,139 (September 30, 2021 – \$2,706,390).

As at June 30, 2022, the Company had net assets of \$4,319,561 which increased from net assets of \$3,491,303 at September 30, 2021. This can primarily be attributed to reduction in preferred share debt, offset by the New Senior Loan.

The Company has recorded \$1,109,277 in accounts payables and accrued liabilities. In addition, the Company has \$2,051,097 in long-term debt, \$238,857 in current taxes, \$367,455 in lease obligations, and \$97,636 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 value. 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.

## Outstanding Debt and Equity

On November 2, 2020, the Company issued 1,150 EGTLP Class F partnership units at a price of \$1,000 per unit resulting in gross proceeds of \$1,150,000. In connection with the issuance, the Company paid the agent a cash commission of \$86,250 and issued 574,942 broker warrants at a price of \$0.15 per warrant for a period of two years, with an expiry date of November 2, 2022. Legal and other costs of \$107,026 related to the issue of the partnership units were incurred and netted against proceeds.

On November 17, 2020, the Company closed a private placement of 10,000,000 common shares at an issue price of \$0.15 per common share, for gross proceeds of \$1,500,000. In connection with the offering, the Company incurred transaction costs of \$196,598, including agent commissions, these were netted against proceeds. Agents received 750,000 broker warrants, at a price of \$0.15 per warrant for a period of two years, with an expiry date of November 17, 2022.

On February 19, 2021, the Company elected to exercise its right to convert the remaining principal amounts of its June 21, 2019, and August 8, 2019, debentures into common shares of the company on March 22, 2021, as the volume weighted average trading price of the Company's common shares exceeded \$0.30 for a period of 20 consecutive trading days. Holders of \$1.7 million in debentures voluntarily elected to convert immediately on February 19, 2021, and entered into debt settlement agreements with the Company, wherein \$57,613 of accrued interest was settled by issuing a total of 115,218 common shares at a price of \$0.50 per share. The Company incurred transaction costs of \$2,000. 16,767 common shares were issued to related parties consisting of directors and executives of the Company.

On February 19, 2021, the Company announced that it has exercised its previously announced right to acquire all 1,150 Class F limited partnership units for 7,665,900 common shares in the capital of Eguana (the "LP Common Shares"). The LP Common Shares issued in exchange for the Units are subject to resale restrictions which expired on March 3, 2021.

On February 25, 2021, the Company closed a private placement of \$20,000,000 wherein it issued 50,000,000 special warrants at a price of \$0.40. Each special warrant will be convertible into one common share of the Company without any additional consideration upon certain conditions being met. In connection with the special warrant offering, the Company granted the agents 3,500,000 of non-transferable compensation special warrants and incurred transaction costs, including agent commissions, of \$1,766,989, which were netted against proceeds.

On March 15, 2021, the Company entered into a shares for debt agreement with ITOCHU. The agreement settled \$247,945 of accrued interest due through the issuance 590,345 common shares at a price of \$0.42 per share. The Company incurred transaction costs of \$1,740, which were netted against proceeds.

On March 22, 2021, the remaining \$1.9 million of debentures associated with the June 21, 2019, and August 8, 2019, issuance were converted into common shares. The holders had a prior option to convert remaining interest due into common shares or take payment in cash. On April 4, 2021, holders of \$2,180 of interest elected to enter into debt settlement agreements, through the issuance of 4,588 common shares at a price of \$0.475 per share. The Company incurred transaction costs of \$511.

On April 19, 2021, ITOCHU elected to convert its balance of debentures, resulting in 33,333,333 common shares of the Company and 16,666,666 warrants. Each warrant entitles ITOCHU to acquire an additional common share at a price of \$0.20 per share until March 13, 2023. The balance of debentures remaining for the Company post ITOCHU conversion is \$nil.

In connection with the conversion, the Company entered into a shares for debt agreement with ITOCHU. The agreement settled the remaining \$41,096 of interest due through the issuance 90,320 common shares at a price of \$0.455 per share. These shares were issued and approved by the TSX-V on August 11, 2021.

In December 2021, DHCT elected to convert all 434,860 Series A preferred shares into 18,119,167 common shares. In respect of the accretive dividend payable on the Series A Shares, the Company paid DHCT \$500,000 and issued 1,326,986 common shares at a price of \$0.45 for the remaining outstanding dividend amount. Following this transaction and concurrent exercise of warrants, DHCT owns greater than 20% of all outstanding common shares of the Company.

On February 1, 2022, the Company repaid its Senior Loan in full.

On April 1, 2022, the Company entered into a new loan agreement (the "New Senior Loan") for general working capital for up to USD\$10.0 million with Western Technology Investment (the "Lender"). The first USD \$5.0 million was available immediately, while the additional USD\$5.0 million is available through August 31, 2022, upon the Company achieving revenue of at least CAD\$14.0 million between May 1, 2022, and July 31, 2022, and the Company having unrestricted cash of CAD\$10.0 at the time of the draw. The New Senior Loan bears interest at a rate of 12% per annum, per draw, with interest only payments being paid during the first six months, followed by both principal and interest being paid in equal installments over a period of 30 months commencing on the 6-month anniversary of the relevant draw. The Company may prepay the Loan by paying all scheduled but unpaid payments, subject to a scaling discount off future interest owed depending on the date of repayment.

As consideration for the advance of the Loan, the Company has entered into an agreement to issue common share purchase warrants entitling the Lender to purchase up to an aggregate of 4,934,309 common shares of the Company at a price of \$0.355 per common share for a period of five years from the date of the Loan, with 50% of the warrants issued immediately and 50% of the warrants issued ratably on subsequent draws made under the Loan, all vesting immediately. The vested unexercised warrants will be exchangeable, at the option of the holder, after the earlier of a liquidity event and September 30, 2025, for an amount equal to the sum of: (i) USD\$1,500,000; and (ii) the product obtained by multiplying USD\$1,500,000 by the percentage of the principal amount of the Loan actually advanced by the Lender relative to US\$10,000,000. These warrants are recorded as a warrant derivative liability at fair value through profit or loss. The Company drew USD\$5.0 million on April 7, 2022, resulting in the issuance of 3,700,732 common share purchase warrants and measured the fair value of the warrant derivative liability associated with the New Senior Loan with the residual assigned to the loan.

On August 22, 2022, subsequent to quarter end, the Lender approved the second tranche of the new senior loan, with the remaining USD\$5.0 million to be advanced on or about August 31, 2022. In connection with the Loan, the Lender waived the financial milestones required under the Loan Agreement.

On August 25, 2022, the Company announced it has entered into a strategic investment by the ITOCHU Corporation ("ITOCHU") of \$33.0 million in the form of unsecured convertible debentures (the "Debentures"). The Debenture will mature and be repayable on the date that is three years from the Closing Date, which is expected to be on or about August 31, 2022. The financing is subject to other customary conditions and applicable regulatory approvals, including approval by the TSX Venture Exchange. The Debenture will bear interest at a rate of 7% per annum, compounded semi-annually and payable semi-annually in either cash or with the issuance of common shares.

While the Debenture remains outstanding, at any time following the date that is four months plus one day following the Closing Date, if the Company files a financial statement in respect of a three-month period which reports stable positive net income during, and the parties mutually agree, ITOCHU will be entitled to convert all or part of the principal amount of the Debenture into Common Shares at a price of \$0.50 per Common Share.

### **Shareholders' Equity and Shares Outstanding**

As at August 29, 2022, 401,841,703 common shares are issued and outstanding, no change from June 30, 2022.

As at August 29, 2022, there are 26,744,073 common share purchase warrants representing the right to acquire 26,744,073 common shares, no change from June 30, 2022.

As at August 29, 2022, the Company has 21,446,537 stock options outstanding, a decrease of 15,000 from June 30, 2022, due to the forfeiture of 15,000 options. These options entitle the holders thereof to acquire up to 21,446,537 common shares. 16,386,537 stock options have vested as of today's date. The weighted average exercise price of the vested options is \$0.28 per share.

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

As at June 30, 2022, 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 2022, capital and intangible expenditures totaled \$93,614 (Q3 2021 - \$57,098) and were primarily incurred with respect to the leasehold improvements and purchasing for the new corporate head office.

### **RISK FACTORS AND RISK MANAGEMENT**

#### **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.

At June 30, 2022, the Company had not achieved profitable operations since its inception and had accumulated a deficit of \$95,534,820 (September 30, 2021 - \$87,307,224), incurred a net loss for the nine-month period ended June 30, 2022, of \$8,227,596 (June 30, 2021 - \$7,919,683) and cash flow used in operating activities was \$9,790,723 (June 30, 2021 - \$12,287,820). Whether and when the Company can attain profitability from operations is uncertain. At June 30, 2022, the Company has a positive working capital balance of \$7,422,139 (September 30, 2021 - \$2,706,390). 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.

The ability 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. To address its financing requirements, the Company may need to seek financing through the issuance of common shares, preferred shares, units of EGT Markets Limited Partnership, debentures, or traditional debt to meet its continuing operating requirements.

#### **COVID-19 and Geo-political Events**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. Government authorities have approved the rollout of COVID-19 vaccines and easing of restrictions implemented to prevent the spread of COVID-19, however there is no certainty when economic activity will return to pre COVID-19 levels. Additionally, in early 2022, Russia's invasion of the Ukraine has raised global concerns over the already susceptible economic downturn, raising global concerns over disrupted supply chain channels, and in turn material supply constraints. These global situations remain dynamic and it is currently not possible for the Company to predict the duration

or magnitude of potential adverse impacts of the pandemic or Russia's invasion of the Ukraine or their effects on the Company's business or ability to raise funds.

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 shortage, increased material lead times, and 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 workplaces. Eguana has taken precautionary steps to mitigate the associated risks.

### **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-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 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 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.

## **ADVISORY SECTION**

### **Forward-Looking Statements**

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

segments thereof; statements concerning the Company's expectations of future relationships as well as the size of the market for power electronics; statements concerning the Company's sales; and statements concerning factors which management believes may be relevant in assessing whether the Company's plans are achievable.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by the Company as of the date of such statements, outside of the Company's control and are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being entirely or partially incorrect or untrue.

Certain forward-looking statements contained in this MD&A about prospective results of operations, financial position or cash flows may constitute "future oriented financial information", is based on assumptions about future events, is given as at the date hereof and including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Forward-looking statements contained in this MD&A are based on various assumptions, including, but not limited to the following: (i) the Company's ability to achieve its growth strategy; (ii) the demand for the Company's products and fluctuations in future revenues; (iii) the Company's business model and assumptions; (iv) expectations of growth in the industry in which the Company operates and the markets in which the Company's products are sold; (v) sufficiency of current working capital to support future operating and working capital requirements; (vi) the stability of general economic and market conditions; (vii) currency exchange rates and interest rates; (viii) equity and debt markets continuing to provide the Company with access to capital; (ix) the Company's continued compliance with third party intellectual property rights; and (x) that the risk factors noted above, collectively, do not have a material impact on the Company's business, operations, revenues and/or results. By their nature, forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond the Company's control, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

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