MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

This Management's Discussion and Analysis ("MD&A") for Eguana Technologies Ltd. ("Eguana", or the "Company") is dated January 6, 2022 and should be read in conjunction with Eguana's consolidated financial statements for the years ended September 30, 2021 and 2020.

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

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

OVERVIEW

The Company

Eguana designs and manufactures energy storage systems ("ESS") for residential and small commercial grid tied applications based on its proprietary and patented, software driven, advanced power control technology. Fully integrated ESS consist of three major components, the software controller (the energy management system or "EMS"), the battery, and the advanced power control technology.

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

Eguana develops and designs fully-integrated, factory assembled, software driven energy storage solutions. Key features including flexible capacity, simple installation processes, remote diagnostic and update capabilities, and remote battery recovery will continue to differentiate Eguana's product offerings. The Company believes this approach, with developed channels in multiple markets, will help diversify against regulatory and market risks typically associated with emerging renewable energy market segments.

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

Eguana management maintains the opinion that distributed energy storage, as a result of stackable value streams, will continue to show significant growth potential in the global renewable energy marketplace. Eguana's product lines have been standardized, globally patented, and commercially certified for distribution in major markets throughout the world.

Intellectual property relating to Eguana's advanced power controls are one of the Company's core assets including 16 patents and pending patents globally. At the system level, Eguana maintains competitive advantage through its software-driven open controls architecture, its core technology efficiency advantage, and its energy storage integration capabilities. At the system installer and consumer level, the Company has developed and built in a range of features to enhance the consumer experience including expandable storage capacity, simplified system installation, remote commission and diagnostic capability, and remote battery recovery capability.

The Market

The market for distributed residential energy storage continues to be driven by two primary factors, self-generated energy consumption (consumer) and the need to smooth-out increasing renewable energy generation on local and national electric power grids (infrastructure).

At a macro level, decreasing battery costs and advancement in battery technology remain the significant drivers for increasing adoption rates of residential and small commercial energy storage solutions in all markets. Integrated energy storage has now become an economical proposition driving homeowners to utilize and consume self-generated electricity, and advanced power control and communication networks are enabling Virtual Power Plants (VPP), grid services and power grid efficiency. Once deployed, energy storage will provide a wide range of services to utilities, as well as the electricity markets, improving its return on investment by stacking both revenue and cost savings streams. Aggregating fleets of distributed energy storage can enable deployed systems to deliver low cost grid services at the same time as delivering electricity cost savings to consumers.

Management believes the long-term energy storage markets will be characterized by fleets of distributed storage systems that are aggregated and controlled by system operators and energy services companies to deliver grid services including voltage and frequency regulation, spinning reserve, and solar self-consumption or time shifting. From the consumer perspective, residential and small commercial hosts will benefit from electricity savings, reduced cost volatility, backup power, and additional forms of compensation from the aggregator or fleet owner by participation in VPPs (allowing the operator access to the host system from time to time to deliver grid services).

Host applications define product configurations and bill savings opportunities, and are generally categorized into the two following segments:

Residential Solar and Storage

The evolution of the original value proposition of rooftop solar PV systems is to combine self-generation with cost effective and efficient energy storage. High feed-in tariffs and net metering (where the power grid is essentially used as a battery) originally encouraged consumers to export excess generation to the grid. However, in maturing markets, feed-in tariffs have been declining and changes to net metering policies are driving homeowners to store excess generation during the day and use it at night. This, combined with the ability to arbitrage time of use rates and to provide backup power during grid outages, has become the economic value proposition for residential consumers.

Demand Charge savings for commercial buildings

In many jurisdictions, rate structures for commercial buildings include Demand Charges, in addition to the energy charges and fixed charges, which are typical of residential rate structures. Demand Charges are based on the “peak” power draw recorded during the previous billing period or over the previous year.

Eguana’s Strategy

Eguana’s mission is to become a global leader in residential and small commercial grid tied energy storage systems. As was the case for many, 2021 plans were drastically impacted and revised at the onset of the global coronavirus pandemic. While travel restrictions and global supply chains hampered new business development and growth opportunities, Eguana was able to remain focused on both its internal teams and external partners to continue its network and channel growth in markets where the Company had established its presence.

In 2022 Eguana will continue to be guided and constrained by the realities of the ongoing global pandemic. Beyond the travel restrictions, there will continue to be unpredictable effects on customer operations, supply chain activities, and global logistics including key shipping and ports of entry.

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.

Supply Chain

The COVID-19 pandemic continues to negatively impact global supply chains, in particular circuit board level components and semiconductor chips, which play a critical role in system communication. At the same time, changes to consumer buying patterns, electric vehicle charging infrastructure advancements, and growth in electric vehicle markets, have driven semiconductor demand to unprecedented levels. Current forecasts indicate additional global capacity will begin to come online in the second half of calendar 2022. Eguana, like many of its competitors, utilizes many of these components across its advanced power control platform and has been impacted due to these supply constraints.

In March, following the Company’s $20M private placement, management began to strategically position certain raw materials and components, including materials related to the semiconductor availability challenges, to reduce and mitigate long term impacts to product availability for customer shipments. While supply chain balancing continues, key components and sub assembly positions began to stabilize in late May 2021, with 68% of all fiscal third quarter product revenue delivered in the final three weeks of that quarter. This positioning advantage continued into the Company’s fourth quarter, creating the highest total quarterly revenue in the Company’s history, as well as the highest annual product-based revenue in the Company’s history.

The Company maintains key supply chain technology advantages through the ownership of its advanced power controls platform, which provide the basis for all Eguana energy storage solutions. In addition to product cycle and time to market speed, platform ownership allows for quick alternate component testing and replacement, as the Company does not need to rely on third party partners for test verification processes. This process was paramount through the third quarter, with multiple component substitutions keeping production lines running. This supply chain flexibility will be a key factor going forward, as supply chains are expected to remain unpredictable in the coming months.

Looking forward, the Company has completed a manufacturing agreement with a contract manufacturing partner based in San Jose, California to manufacture systems in the United States, including the provision of all materials apart from battery modules. In addition to increasing manufacturing capacity required to meet market demand, the partner brings significant supply chain expertise which will provide additional capability with respect to inventory positioning further hedging supply and logistic constraints.

Operations

A key milestone resulting from Eguana's investment in raw materials was the conversion from batch manufacturing to flow manufacturing in order to deliver consistent supply of finished goods over the second half of the calendar year. As part of management's efforts to achieve this milestone, the Company repositioned its inverter functional testing processes (IFT), a key constraint to production capacity, to an earlier position in the assembly process, effectively doubling available capacity from each IFT test stand. As capacity will be critical during the growth phase of the Company, this process change, along with the addition of new IFT testing stations, will be rolled out to new contract manufacturing partners and become the standard for Eguana product assembly going forward.

As a result of anticipated residential market growth through the increase in VPP activity and growing demand for Eguana products, the Company has also begun adding to its operations team building out capability along with initiating discussions with potential manufacturing partners in North America and Europe to increase future capacity for Eguana products. Management believes multiple manufacturing partners will be required as global energy storage markets continue to rapidly expand.

While the Company's product gross margins remained positive into the fourth quarter, overall they were still negatively impacted by significant increases in freight costs associated with raw material shipments. Normalized product gross margins, calculated by assuming a standard freight expense of 2% of revenue, are estimated to be approximately 13% for fiscal Q4 compared to 6% on a GAAP basis. Management believes adjusted product gross margins will continue to trend upward as volumes increase, distance to market decrease due to manufacturing location in San Jose, California, and cost reduction activities from Eguana's internal development team continue.

Sales

Eguana continues to focus on its United States sales channel development, with the majority of the focus being in California and Hawaii, as quarter over quarter growth in the US continues to break prior quarter installation records. To increase product availability to local and regional installation partners, the Company completed a national supply agreement with CED Greentech, the nation's leading renewable energy distributor, opening up its more than 700 branches to Eguana products.

The Company completed, and recently announced, a new partnership with PowerCenter+ to launch a premium product line based on the Eguana proprietary platform. To reduce time to market for the PowerCenter+ products, the Company opened up existing Eguana sales and distribution channels for immediate product availability in market. The premium brand will be inclusive of the 5kW/14kWh LFP Evolve as well as the 10kW/28kWh Max whole home back up product, which is expected to come out of certification in late January 2022.

As part of the sales process the Company has also expanded its sales, technical sales, and after sales support personnel for greater geographical coverage to enhance the consumer experience with Eguana and PowerCenter+ product solutions. The Company will continue building out its Eguana Certified installation and product training programs, which will also include training for premium brand product training.

Hawaii continues to be a key market and Eguana has supplied its first megawatt of product into the Hawaii Emergency Demand Response Program. The program, also noted as Hawaii's Battery Bonus Program, is the first VPP designed to retire a coal generating station. Phase one of the roll out calls for approximately 10,000 5kW residential energy storage systems and currently the Company believe it has the only technology that meets all utility requirements for participation.

Eguana has ended integration work with Moixa related to Sunnova's residential field trials and will move forward in the US market with the Eguana EMS for all US based products. As a result, timing of the Sunnova/Itochu Third Party Ownership model remains unclear. Sunnova has since raised interest in the Eguana Elevate to service a gap in the market for small commercial and multi unit residential applications. The Elevate product is under review from multiple US solar companies at present and Eguana expects to see growth from the product line in the second half of 2022. The Company will put the Elevate through bankability studies, which has been formally requested as part of development discussions with a tier one solar financing company.

Enduro sales have remained hampered from raw material delays for certain materials required in product manufacturing. New market data recently released in Europe has indicated retrofit market growth will begin in 2022. The AC coupled Enduro was designed as a perfect fit for this market with fast installation to allow multiple installs per day. The COVD-19 pandemic has also had negative effects throughout Europe with respect to solar and renewable companies with increasing cost for materials, which has slowed Enduro uptake. The Company remains shortlisted for a white label utility opportunity in France, which is being put forward by Eguana partner Q Cells.

VPP discussions in Australia have begun with Eguana, ITOCHU, and multiple home building companies with focus on new residential homes with solar + storage. Business development activities are in early stages, however, given the market potential and partners engaged, management believes these discussions will open up VPP market opportunities in Australia.

Development

Research and Development played a critical role in providing component flexibility and substitution through this past year. Maintaining this flexibility will be a key objective for the team while global supply chains remain unpredictable.

Beyond support for supply chain activities, our development team is advancing three high level initiatives:

<u>ESS Product Line Expansion</u>

The Company's core business focus is on expanding and improving its Energy Storage System (ESS) product line.

10kW Evolve Max certification experienced a short delay in response to the release of the latest supplement of California Fire Code 2019 in July, and review of the interpretation of UL9540A certification reports by local permitting authorities in California. The publication of the Fire Code has clarified details of safety constraints on installation, and experience to date demonstrates that local authorities are not willing to relax these constraints based on UL9540A reports submitted by other manufacturers. Accordingly, the 10kW installation concept has been reviewed to provide more flexibility to installers to meet the new local permitting requirements. Due to the flexibility and modular design of Eguana's 10kW product, this effort is limited to offering multiple mounting and cabling options and does not require any redesign of major components.

As the company engages with white label partners, new variations on the product line will be necessary to allow these partners to differentiate their offering or serve particular market segments of interest. These products will all embody the Company's core technology platform, but will meet different installation, power, and capacity requirements. The Company continues to grow its development team to expand its capacity for product development.

Eguana Cloud Services

As the market matures, Eguana's customers are demanding improved user experience and the Company sees opportunities to directly engage in VPP aggregation opportunities by offering access to its fleet of customers. To support this, Eguana has licensed an EMS platform from its partner E-Gear and is in the process of standing up its own version of this platform over the coming months. Once complete, Eguana will have direct control over the design and details of the user and commissioning interfaces, including in support of white label customers, and will be able to offer and manage VPP opportunities directly for its customers. Additionally, the EMS platform development will open recurring and SaaS revenue models for the Company.

Advanced Battery Integration

Management contends that battery module availability will be one of the defining success factors for residential and commercial energy storage manufacturers. Accordingly, the Company is continuing next generation battery module development with Freyr and 24M as part of its vertical integration strategy based on 24M's semi solid lithium technology. 24M, an MIT technology spin-out of which Eguana partner ITOCHU is an investor, has developed a semi solid electrode with better performance and cost profiles for lithium-based batteries. Eguana has also begun working with multiple 24M licensees for future module development and manufacturing.

In order to achieve the maximum performance from these new technologies in an Eguana integrated solution, the Company has begun development on a Battery Management System (BMS) to be integrated into its Power Controls technology platform. The Eguana standard BMS will be utilized with new module designs for use in Eguana based products, as well as opening additional channels with module manufacturers. Laboratory trials will commence following cell availability from the 24M licensees that are partnered with Eguana.

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 was constrained by battery and component shortages, and increased transit times for both incoming raw materials and outgoing finished goods. There remains an inherent risk with respect to the global pandemic with changing conditions within global supply chains, however, management believes these risks will be primarily related to ongoing transits delays in both ports of exit and entry in Eguana’s key markets.

SELECT ANNUAL INFORMATION

	2021	2020	2019
Sales and engineering services	**7,174,589**	7,951,678	3,427,949
Net loss	**(10,400,044)**	(8,238,652)	(9,140,640)
Basic and diluted loss per share	**(0.03)**	(0.04)	(0.04)
Total assets	**14,914,190**	3,792,004	4,552,228
Total non-current financial liabilities	**188,825**	13,006,931	8,377,529
Distributions or cash dividends	**Nil**	Nil	Nil

Revenue

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 (nickel manganese cobalt), the Evolve LFP (lithium iron phosphate), the Enduro, and the Elevate, maintain approximately 90% bill of material consistency throughout the electronics topology providing a standardized product platform where many of the Company's proprietary core patents reside. Each feature rich storage 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.

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 systems 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 Eguana Certified, 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.

Revenue directly related to ESS product sales increased in F2021 to $7,129,037 up 3.3% from $6,903,263 in 2020. Although achieving record setting product revenues for the fiscal year, revenues were significantly constrained through the first half as a result of global supply chain issues and shipping port congestion driving raw material delays. Supply chain constraints eased slightly in the fourth fiscal quarter, which accounted for 44% of the annualized revenue. Total Company revenue in fiscal 2021 decreased to $7,174,589 from $7,951,678 in fiscal 2020, which was inclusive of $1,048,415 from engineering services, an overall decrease of 9.8%.

The increase in total revenue (Sales + Engineering Services) from fiscal 2019 to 2020 was a result of consistent order growth and increasing global channels in 2020, as well as engineering revenue to develop and certify proprietary residential storage systems for the ITOCHU Company ("ITOCHU").

Net Loss

The increase in 2021 net loss is primarily due to lower gross margins, a result of higher material and logistics costs related to the COVID-19 pandemic and the contribution in 2020 from engineering services to develop and certify proprietary residential storage systems for the ITOCHU Company which yield higher percentage margins. There were no comparable engineering services in 2021. Additionally, the Company saw operating cost increases, due to growth in non-cash share-based expense, as well as overall operations expense increases due to increased personnel and facilities to support the inventory positioning efforts and demand growth in the second half of the fiscal year.

The decrease in net loss in from 2019 to 2020 was primarily attributable to higher revenue and gross margin impacts compared to those in 2019, influenced by the revenue contributed from engineering services for ITOCHU. There were no engineering services in 2019. Additionally, the Company saw significant reductions in operating costs, including general and administrative, sales and marketing, and research and development costs. This was partially offset with an increase in financing costs, including a non-cash loss on debt extinguishment for an amendment to its Senior debt facility of $491,692.

Total Assets

The increase in assets in 2021 can primarily be attributed to an increase in inventory from inventory positioning efforts to meet demand and hedge global supply chain risks. Additionally, as a result of fourth quarter record revenues, accounts receivable saw an increase from typical levels, as well as associated cash increases associated with the special warrant transaction in February 2021.

The decrease in assets in 2020 can primarily be attributed to faster inventory turn times that has accompanied the growth of revenue and sales throughout the year.

Total Non-Current Liabilities

The decrease in total non-current liabilities in 2021 is primarily due to full conversion of all outstanding convertible debentures totaling $7.3M, the Senior loan and preferred shares nearing the end of their terms and moving fully into current liabilities, as well the full prepayment of the Company's contingent liability settlement.

The increase in total non-current liabilities in 2020 is primarily due to the issuance of $5.0 million in unsecured convertible debentures.

2021 OPERATING RESULTS

The following table sets forth a summary of the results of operations for the three-month periods and the years ended September 30, 2021 and 2020.

	Q4 2021	Q4 2020	**YTD 2021**	YTD 2020
Sales and engineering services	**3,121,716**	1,330,848	**7,174,589**	7,951,678
Cost of goods sold	**2,933,300**	1,323,237	**6,705,131**	7,051,335
Gross margin	**188,416**	7,611	**469,458**	900,343
Expenses				
General and administrative	**489,939**	752,310	**3,477,835**	2,195,702
Selling and marketing	**650,880**	407,253	**2,054,753**	1,975,680
Product research and development	**652,776**	256,074	**1,954,402**	887,817
Operations	**407,878**	344,536	**1,224,912**	986,210
	2,201,473	1,760,173	**8,711,902**	6,045,409
Loss before undernoted items	**(2,013,057)**	(1,752,562)	**(8,242,444)**	(5,145,066)
Financing costs	**(449,643)**	(667,049)	**(2,235,611)**	(2,787,260)
Loss on debt extinguishment	**-**	-	**-**	(491,692)
Unrealized foreign exchange gain (loss)	**(22,582)**	200,171	**65,960**	(87,644)
Gain on legal settlement	**-**	270,686	**-**	270,686
Other income	**4,921**	11	**12,051**	2,324
Net loss	**(2,480,361)**	(1,948,743)	**(10,400,044)**	(8,238,652)

Twelve Months ended September 30, 2021 and 2020

Sales and engineering services

Sales derived from energy storage systems increased 3.3% to $7,129,037 (850 units comprised of Evolve, Enduro, and Elevate) in fiscal 2021 in comparison to $6,903,263 in 2020 (906 units comprised of Evolve, Enduro, and Elevate), representing the highest product-based revenue in the Company's history. Combined sales and engineering services revenue decreased 9.8% for the year ending September 30, 2021 as compared to 2020, due to the prior year ITOCHU engineering contract accounting for $1,048,415, or 12.6% of the increase. Engineering services consisted of $45,552 in 2021, compared to a total of $1,048,415 in 2020.

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 continued global impacts of the COVID-19 pandemic on global supply chains, variability associated with the timing of customer purchase decisions and market growth rates.

Gross margin

Gross margins for energy storage systems increased to 6.2% or $440,311 for the year ended September 30, 2021. Energy storage system gross margins for the same period in 2020 were $66,923 or 1.0%.

Although gross margins continued to increase versus prior year, 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. Therefore, increased margins were negatively offset by increases in freight costs associated with shipping container shortages and reduced international freight lane capacity.

Engineering services contributed $29,147 to the margin for the year ended September 30, 2021 relating to pre-work with FREYR AS related to defining battery module and battery management system design for next generation semi solid state lithium technology. Engineering services contributed $833,420 to the margin for the year ended September 30, 2020 for services provided to Itochu Company to develop and certify a proprietary residential storage system.

Gross margins are expected to continue increasing as supply chains and logistics costs balance out accompanied by a modest increase in product pricing relative to prior increased material costs. Additional planned cost reduction activities, with focus on the North American Evolve and Elevate products, are expected to further improve gross margins. The Company expects to see these continued improvements into fiscal 2022.

Expenses

Operating costs in 2021 were $8,711,902, up from $6,045,409 representing a 44.1% increase year over year.

- G&A expenses increased by $1,282,133 for the year ended September 30, 2021. $1,309,430 of the increase in G&A cost is attributed to an increase in non-cash share-based payments associated with option grants in the second half of 2020, as well as year to date 2021. Specifically, in December 2020, the Company entered into an agreement with a capital markets advisory firm ("capital markets firm") wherein services were compensated with incentive stock options. The Company granted 4.5M options in Q1 2021, with accelerated six-month vesting, as well as an additional fully vested 1.5M options in Q3 2021 upon the conversion of all debentures. Additionally, 1.5M options were granted in January 2021 to a consulting firm.

  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 for the year ended September 30, 2021 increased by $79,073 as compared to September 30, 2020. This increase is due the addition of sales personnel in the United States and associated recruiting costs to match the company's growth objectives. In addition, sales and marketing efforts have been increased with the expectation of stable product supply balance of the calendar year as a result the raw material inventory positioning and increase production capacity.

  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") and the Executive Vice President's ("EVP") (prior to fiscal 2021) compensation that relate to business development.

- Product research and development costs increased by $1,066,585 for the year ended September 30, 2021. This is due to staff salary allocation to costs of goods sold in fiscal 2020 for time spent on a new engineering development contract. There was no similar allocation in the current YTD 2021 as the Company's R&D focus has been on growth for battery integration projects, additional product cost reduction activities, and new product introductions and certification. In addition, salaries and wages have increased 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, battery, and battery management system development. Additional costs are inclusive of associated recruiting costs.

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 EVP compensation.

- Operations costs increased by $238,702 for the year ended September 30, 2021. This increase is due to a number of factors, including third party after sales partner costs, the addition of additional warehousing locations for inventory positioning and personnel growth and recruitment costs associated with team expansion required to meet expected growth targets.

  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 EVP's compensation (from fiscal 2021 onward).

Financing Costs

Financing costs for the year ended September 30, 2021 were $551,649 lower than the same period in 2020. As all convertible debentures were converted throughout the year, the main driver of the decrease was $435,908 associated with debenture accretion. Additionally, $212,907 of this decrease is due to the reduction in long term debt accretion as the senior loan nears the end of its total term, as well as a $158,423 reduction in the derivative liability. This is offset with an increase in accretion of the preferred shares by $173,475 as well as $75,706 for a non-cash loss on debt prepayment of a settlement with a third party in the second quarter of 2021, which was done to align with the Company's efforts to strengthen its balance sheet and work towards debt elimination.

In addition to ordinary financing costs, for fiscal 2020, the Company saw a $491,692 non-cash loss on debt extinguishment associated with the debt amendment in Q2 2020. This was associated with the change in new fair value of the debt compared to the book value, as well as the fair value of the warrants granted in consideration for the interest free periods. No similar expense existed in fiscal 2021.

Three Months ended September 30, 2021 and 2020

Sales and engineering services

For the three-month period ended September 30, 2021, energy storage system sales were $3,121,716 (392 units comprised of Evolve, Enduro, and Elevate), represented a 134.6% increase over sales of $1,330,848 (177 units comprised of Evolve, Enduro, and Elevate) for the same period in 2020. The sales increase was as result of continued order growth and both backlog and new demand being met through the inventory positioning and the transition to a flow manufacturing model in the fourth quarter. This allowed the Company to hedge the risks associated with the continued supply disruptions and logistical delays due to the COVID-19 pandemic. Fourth quarter revenues were primarily in Hawaii, followed by Europe.

There was no engineering revenue in the three-month periods ending September 30, 2021 and 2020.

Gross margin

Gross margins for energy storage systems were 6.0% or $188,416 for the three months ended September 30, 2021 compared to gross margins for the same period in 2020 of $7,611 or 0.6%. Although gross margins continued to increase versus prior year, they were negatively offset by increases in freight costs associated with shipping container shortages and reduced international freight lane capacity.

Expenses

Operating costs in Q4 2021 were $2,201,473, up from $1,760,173 in Q4 2020.

- G&A decreased by $262,371 in Q4 2021 as compared to Q4 2020. The decrease in G&A cost can primarily be attributed to an $43,000 realized foreign exchange gain, compared to a realized loss of $183,000 for year to date fiscal 2020. This is due to favorable foreign exchange rates from purchase to payment and billing to receipt. Remaining decrease can be associated with share-based payments, as while overall these increased over the year, the third quarter options granted vested immediately, resulting in no further expense in Q4.
- Selling and marketing costs in Q4 2021 increased by $243,627 as compared to Q4 2020. This increase is a result of the addition of North American sales and technical sales personnel and associated recruiting costs with the anticipation of global travel restrictions easing.
- Product research and development costs increased by $396,702 in Q4 2021 compared to the same period in 2020. This increase is due to an increase in costs related to R&D associated with battery integration projects and additional product cost reduction activities as compared to Q4 2020. Additionally, there has been an increase of staff and associated recruitment cost as the team continues to grow in size to execute new development initiatives.
- Operations costs in Q4 2021 increased by $63,342 as compared to Q4 2020. This increase is due to almost entirely due to an increase in consultant costs, third party partner after sales service costs and the addition of new operational staff and their associated recruitment costs.

Financing Costs

Financing costs in Q4 2021 were down $217,406 as compared to Q4 2020. As all convertible debentures were converted throughout the year, the main driver of the decrease was $398,011 associated with debenture accretion. This is offset with an increase in preferred share accretion of $120,140.

Operating activities	**2021**	2020
Net loss	**(10,400,044)**	(8,238,652)
Share-based payments	**1,531,263**	221,833
Financing costs	**2,235,611**	2,787,260
Loss on debt extinguishment	**-**	491,692
Amortization of capital assets and leased assets	**322,962**	350,783
Write down (up) of inventory	**-**	(150,000)
Warranty provision	**(47,776)**	159,015
Unrealized foreign exchange loss (gain)	**(65,960)**	87,644
Gain on legal settlement	**-**	(270,686)
Bad debt expense	**19,896**	-
	(6,404,048)	(4,561,111)
Net change in non-cash working capital	**(8,434,105)**	1,774,493
Cash flow used in operations	**(14,838,153)**	(2,786,618)

Net Loss

Net loss in 2021 increased by $2,161,392 over the net loss in 2020. The increase in net loss can primarily be primarily attributed to the growth in non-cash share-based compensation increase associated with accelerated vesting options in 2021 by $1,309,430, as well as decreased gross margins by $404,787, which is entirely due to the prior year high margined engineering revenue. Additionally, operating expenses saw an increase due to an increase in staff and focus on R&D based activities.

Share-based Payments

Share-based payments were $1,531,263 for the year ended September 30, 2021, up from $221,833 from the same period in 2020. This is due to an increase in options from 8,952,316 for 2020 to 16,412,316 for 2021. Of this increase in options, 1.5 million vested immediately (full expense recognition) and 4.5 million have accelerated vesting terms of 6 months and a life of 3 years, this is in comparison to the standard employee 2 to 3-year vesting term and a life of 10 years. s

Financing Costs

The decrease in financing cost in 2021 is primarily due the conversion of all debentures in fiscal 2021, therefore reducing associated accretion. Additionally, there is a reduction in the Company's senior loan accretion as the first draw has been paid in full and less than half a year remains for full repayment, as well as a reduction in its associated derivative liability. This was partially offset with increased accretion on the Company's outstanding preferred shares.

Unrealized Foreign Exchange Loss (Gain)

Unrealized foreign exchange gain for the year ended September 30, 2021 primarily resulted from a favourable shift in foreign exchange on the Company's Senior debt, which is denominated in USD, and the legal settlement liability, denominated in Euro's.

Summary of Quarterly Results

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales(1)	3,121,716	1,381,504	347,582	2,323,787	1,330,848	2,179,891	1,805,778	2,635,161
Net (loss) (1)	(2,480,361)	(2,729,446)	(2,834,935)	(2,355,302)	(1,978,057)	(1,761,235)	(2,746,259)	(1,753,101)
Per share (2)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

(1) As previously disclosed, management identified an overstatement of $167,000 in the revenue recorded in the comparative period ended December 31, 2019. This revenue should instead have been allocated to the second quarter ended March 31, 2020. Refer to note 2(b) of the Q1 2021 condensed interim financial statements for further details. Items have been adjusted in the chart above

(2) 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 $19,357,043 in financing activities in 2021 (2020 – received $3,039,834) and used $14,838,153 in operations during the year (2020 –$2,786,618).

Working capital represents the Company's current assets less its current liabilities. The Company's liquidity, as measured by the Company's working capital at the end of fiscal 2021 was $2,706,390 (September 30, 2020 – deficit of $5,232,430).

As at September 30, 2021 the Company had net assets of $3,491,303, which increased from net liabilities of $17,456,834 at September 30, 2020. This can be primarily be attributed to the private placement in February 2021 and the total conversion of convertible debenture debt into common shares.

The Company has recorded $3,094,030 in accounts payables and accrued liabilities. In addition, the Company has $294,016 in long-term debt, $5,508,298 in preferred shares, $310,246 in lease obligations, and $722,880 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

In November 2019, the Company entered into a short-term bridge financing transaction ("Bridge Loan") in the amount of $280,000 with certain accredited investors, including the Company's Chief Executive Officer, 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 retained 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 the 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 ITOCHU Debenture is convertible into Units of the Company, at a price of $0.15 per unit. Each Unit consists of one Common Share and one-half of one Warrant. Each whole Warrant shall enable the holder thereof to acquire an additional Common Share at a price of $0.20 per share for a period of three years following the closing date of the issuance of the ITOCHU Debentures. The ITOCHU Debentures bear interest at 10% per annum, paid semi-annually in cash or additional common shares, and mature on March 13, 2023.

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.

Subsequent to year end 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.

Shareholders' Equity and Shares Outstanding

As at January 6, 2022 393,557,399 common shares are issued and outstanding, an increase of 25,137,487 from September 30, 2021 due to the conversion of preferred shares for 18,119,167 common shares, dividend to shares resulting in 1,326,986 of common shares and the conversion of 5,691,334 warrants.

As at January 6, 2022, there are common share purchase warrants representing the right to acquire 30,996,374 common shares, and decrease of 5,670,334 from September 30, 2021 due to the exercise of 5,691,334 warrants, offset by the issuance of broker half warrants of 21,000.

As at January 6, 2022 the Company has 20,046,537 stock options outstanding, an increase of 3,634,221 from September 30, 2021, due to 4,540,000 incentive options issued for the 2021 annual employee option grant, offset by the forfeiture of 880,779 options. These options entitle the holders thereof to acquire up to 20,252,360 common shares. 14,524,034 stock options have vested as of today's date. The weighted average exercise price of the vested options is $0.27 per share.

Off-Balance Sheet Items

As at September 30, 2021, 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 2021, capital and intangible expenditures totaled $351,078 (2020 - $195,473) and were primarily incurred with respect to the to the purchase of new lab test equipment as well as the payment of the licensing fee to acquire ownership rights to an energy management system platform.

RELATED PARTY TRANSACTIONS

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

	2021	2020
General and administrative	**424,704**	478,014
Selling and marketing	**178,925**	289,779
Product research and development	**68,276**	66,946
Operations	**58,834**	-
	730,739	834,739

Share based expenses to officers and a director was $71,831 during 2021 (2020 - $106,933).

Included in accounts payable and accrued liabilities is $676,768 (2020 - $777,194) due to directors and key management personnel.

During 2021 the Company paid $157,380 (2020 - $157,380) to its former CEO as part of a settlement agreement and incurred $36,229 (2020 - $60,460) of accretion as the obligation matures.

RISK FACTORS AND RISK MANAGEMENT

Going Concern

The condensed 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 September 30, 2021, the Company had not achieved profitable operations since its inception and had accumulated a deficit of $87,307,224 (September 30, 2020 - $76,907,180), incurred a net loss for the year ended September 30, 2021 of $10,400,044 (September 30, 2020 - $8,238,652) and cash flow used in operating activities was $14,838,153 (September 30, 2020 - $2,786,618). Whether and when the Company can attain profitability from operations is uncertain. At September 30, 2021 the Company has a positive working capital balance of $2,706,390 (September 30, 2020 – deficiency $5,232,430). Included within working capital balance is the preferred shares of $5,196,678 which were exercised in full subsequent to year end. 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 completed a $20 million private placement in February 2021 and may need to also seek additional financing through the issuance of common shares, first preferred shares, units of EGT Markets Limited Partnership, and debentures to meet its continuing operating requirements. Subsequent to September 30, 2021, the preferred shares holders elected to exercise their right to convert the amount in whole to common shares, dividends were partially paid in cash and were partially converted to common shares.

COVID-19 Based Risk

The COVID-19 global pandemic has created 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 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.

Economic Conditions

Current and future unfavourable economic conditions could negatively impact Eguana's financial viability, increase financing costs, decrease net income or increase net loss and limit access to capital markets.

Forward-Looking Statements May Prove Inaccurate

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

Operating Losses

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

Market Acceptance

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

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

Demand for Distributed Solar Generation in Residential Markets

A significant portion of the demand for Eguana’s products assumes that demand for distributed solar in residential markets will continue. Historically, demand for solar power has been incentivized by government pricing policies for solar electricity capital grants and tax credits. The Company believes that this period is coming to an end and solar power must compete on basic economics, where, in many regions, has become the lowest cost of energy.

The Company believes, as do many analysts, that solar is competitive in many high-density markets and that solar power, especially in residential markets, will continue to grow at rates that are similar to the past 3 years. This may not occur and if not, demand growth will likely be slower than anticipated for energy storage connected to new systems.

Need for Additional Capital and Access to Debt and Equity Financing

In order to accelerate its growth objectives, and realize the full potential of its market opportunities, Eguana will likely need to raise additional funds from lenders and/or equity markets in the future. The capital needed to execute on this strategy would be tied to working capital, increased investment in new product development, increased investment in human resources including marketing, sales, and after sales service, and investment in realizing additional cost reduction activities. If Eguana is unable to raise the capital on reasonable terms, its growth could be limited. If Eguana issues Common Shares, or securities convertible into Common Shares, in order to obtain additional financing, shareholders may suffer additional dilution.

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

Management of Growth

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

Competition and Technological Change

The Company is in a highly competitive market. It may not be able to compete effectively in these markets, and the Company may lose or fail to gain market share. Eguana faces a number of competitors, many of whom are larger and have greater resources than the Company. The Company expects to face increasing competition in the future. Eguana's competitors may develop products based on new or proprietary technology that have competitive advantages over its products.

Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, sales, marketing, technical and other resources. Eguana's competitors may enter into strategic or commercial relationships on terms that increase their competitiveness. These competitors may be able to respond more quickly to changing customer demand, and devote greater resource to developing, marketing, and selling their products.

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

Manufacturing Cost

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

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

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

Operation and Supplier Risk

At the Company's stage of development, there is a risk that critical components will not be available on a timely basis, negatively affecting its ability to meet delivery commitment on sales contracts and customer purchase orders. In addition, with new products, there may be a risk of failures in quality control, a risk that is increased by the limited resources of the Company. There is also a risk that long lead times for critical components may affect production lead times. Where possible, the Company addresses these risks by ensuring multiple sources of critical components, working closely with its supply partners through the demand planning cycle of the MBR, actively monitoring critical component suppliers and in some cases, investing in additional inventory purchases to secure longer lead-time items.

Dependence on Customer and Managing Customer Expectations

Eguana's strategy depends heavily on the ability of its customers to develop markets for the products into which the Company's components are integrated. The Company mitigates this risk by partnering closely on the demand planning, customer support and marketing Eguana's technology advantage.

Eguana's failure to meet a customer's expectations in the performance of its services, and the risks and liabilities associated with serving customers could give rise to claims against Eguana.

Foreign Exchange Risk

Most of the Company's sales are now, and will for the foreseeable future be made in Euros, Australian dollars, or US dollars, whereas most of its production costs are incurred in Canadian and US dollars. Changes in foreign exchange rates can cause fluctuations in the Company's operating expenditures from period to period.

To date the Company has not hedged these transactions except in the form of cash deposits on sales and for the cost of materials, and there are no immediate plans to do so. As a result, there is a risk that margins will be reduced due to adverse changes in these currencies relative to the Canadian dollar.

Attracting and Retaining Key Personnel

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

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, IEEECSA, IEC, EN and FCC. The specific standards that are actively maintained for compliance by Eguana are VDE 4105, G98, AS 4777, UL 1741, IEEE 1547 UL 9540, IEC 62109 and IEC 61000.

Emerging Market

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

Access to Equipment, Parts and Components

The ability of Eguana to compete and expand will be dependent on Eguana having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new competitive technologies. Failure by Eguana to do so could have a material adverse effect on Eguana's business, financial condition, results of operations and cash flow.

International Operations

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

Share Price Fluctuations

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

Eguana may not be able to achieve commercialization of its products on the timetable it anticipates, or at all

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

Warranty claims could negatively impact gross margins and financial performance

There is a risk that warranty accrual estimates are not sufficient and Eguana may recognize additional expenses, including those related to litigation, as a result of warranty claims in excess of current expectations. Such warranty claims may necessitate changes to Eguana's products or manufacturing processes and/or a product recall, all of which could hurt its reputation and the reputation of the Company's products and may have an adverse impact on its financial performance and/or on future sales. While Eguana attempts to mitigate against these risks through product development, quality assurance and customer support and service processes, there can be no assurance that these processes are adequate. Even in the absence of any warranty claims, a product deficiency such as a design or manufacturing defect could be identified, necessitating a product recall or other corrective measures, which could hurt the Company's reputation and the reputation of its products and may have an adverse impact on its financial performance and/or on future sales. New products may have different performance characteristics from previous products.

Eguana depends on its intellectual property, and the failure to protect that intellectual property could adversely affect its expected furore growth and success

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

Eguana also seek to protect its proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable. Eguana can provide no assurance that these agreements will not be breached, that it will have adequate remedies for any breach, or that such persons or institutions will not assert rights to intellectual property arising out of these relationships.

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

Eguana may become subject to lawsuits in which it is alleged that it has infringed the intellectual property rights of others or commence lawsuits against others who Eguana believes are infringing upon its rights. Eguana's involvement in intellectual property litigation could result in significant expense to the

Company, adversely affecting the development of sales of the challenged product or intellectual property and diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in its favour.

Potential breaches of its information technology systems

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

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

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

Compliance with environmental, health and safety laws and regulations

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

Compliance with anti-bribery and corruption laws

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

Legal Proceedings

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

Contract Manufacturing and Outsourcing

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

Future Designs and Tests

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

Dividends

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

Termination of Material Contracts

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

Force Majeure

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

ACCOUNTING POLICIES

New accounting standards issued but not yet effective

New accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted. The Company is currently evaluating the impact of adopting these standards.

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

An amendment to IAS 1 was issued in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period. The Company is assessing the impact of this standard.

ADVISORY SECTION

Statement of Management Responsibility for Annual Filings

This MD&A was prepared by management of Eguana and approved by the Board of Directors of Eguana on January 6, 2022.

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

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

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

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

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

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

Forward-Looking Statements

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

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

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

Forward-looking statements contained in this MD&A are based on various assumptions, including, but not limited to the following: (i) the Company's ability to achieve its growth strategy; (ii) the demand for the Company's products and fluctuations in future revenues; (iii) the Company's business model and assumptions; (iv) expectations of growth in the industry in which the Company operates and the markets in which the Company's products are sold; (v) sufficiency of current working capital to support future operating and working capital requirements; (vi) the stability of general economic and market conditions;

(vii) currency exchange rates and interest rates; (viii) equity and debt markets continuing to provide the Company with access to capital; (ix) the Company's continued compliance with third party intellectual property rights; and (x) that the risk factors noted above, collectively, do not have a material impact on the Company's business, operations, revenues and/or results. By their nature, forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond the Company's control, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

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