Management Discussion and Analysis
For The Year Ended September 30, 2013

The following discussion and analysis as of January 30, 2014 should be read in conjunction with the Consolidated Financial Statements of Eguana Technologies Ltd. ("Eguana", or the "Company") and notes for the year ended September 30, 2013.

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

FORWARD LOOKING INFORMATION

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

In particular we include: statements on the future dynamics and size of the solar PV and energy storage market and segments thereof; statements concerning our expectations of future relationships as well as the size of the market for power electronics; statements concerning our sales; and statements concerning factors which we believe may be relevant in assessing whether our plans are achievable.

Our conclusions concerning the size of the addressable solar PV and energy storage market are based on certain critical assumptions and general conclusions concerning the future of these industries the market segmentation, and emerging market dynamics.

Our assumptions and the conclusions that we draw represent forward-looking information.

While valuable in assessing our future prospects, forward-looking information is not a guarantee of future

performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information.

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

BUSINESS OVERVIEW:

COMPANY PROFILE

Eguana is a public Canadian clean energy technology company. The head office is located at 3-4163 3rd Street SE Calgary Alberta. The common shares of Eguana are listed for trading on the TSX Venture Exchange under the trading symbol "EGT."

Eguana designs and manufactures power conversion solutions for decentralized ("distributed") electrical generation and storage systems. Unlike central or "utility scale" generation and storage, distributed systems are connected at the point of consumption and are less reliant on the power grid.

Our product solutions are based on a bi-directional power conversion platform that connects high current (low voltage) generation and storage technologies to power grids with the highest conversion efficiencies in the power industry. Our technology, including software control concepts, is the subject of multiple international patents.

Our platform was originally developed to connect residential and commercial fuel cell/battery combinations to the power grid, but it has value wherever energy storage is deployed as part of systems providing continuous grid quality power. The same platform also supports a parallel low voltage solar PV system design which optimizes system performance wherever there is the potential for panel to panel power output due to shading or variability in panel orientation to the sun. We have developed, manufactured and distributed a 5kW solar inverter under the Paralex$_{TM}$ brand name.

With the emergence of demand for grid-interactive energy storage over the past 12 months, we shifted our strategy to lever our technology leadership with low voltage systems into a market leadership position in this market segment. With this in mind we introduced Bi-Direx to the European, Japanese and North American markets during fiscal 2013, and we already have a product line of single phase and three phase systems in the field in Europe with power ratings ranging from 2.5kw to 15kW supporting energy storage systems with storage capacity ranging from 1 kilowatt hour ("kWh") to 60kWh.

We are gaining traction in each of these markets and have partnered exclusively with Sonnenbatterie GmbH which is the European market leader for residential and small commercial energy storage systems with more than 30% of the market. We are also working with several battery manufacturers and integrators of energy storage systems in the US with a view to embedding our technology in their productized solutions.

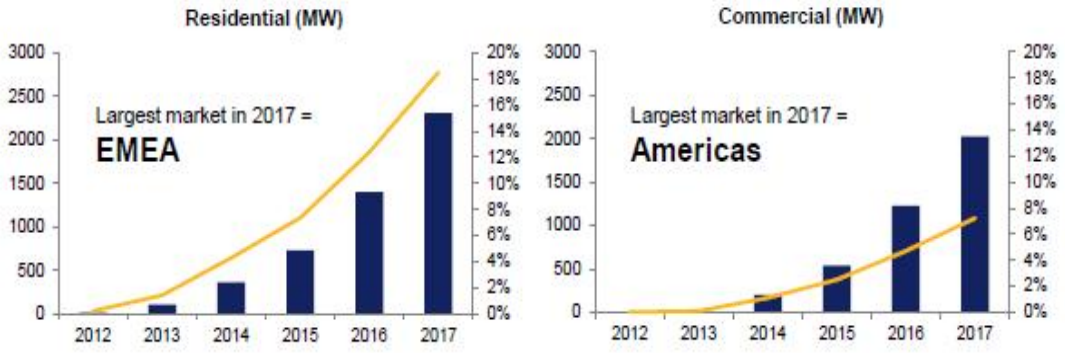
Our Opportunity

Disruptive Change in the Power Industry: Distributed energy storage, especially solar energy storage, has the potential to change the world by converting an inherently intermittent power source into firm reliable power for on-site consumption that can also be dispatched by the utility to balance the power grid. According to retiring US Federal Energy Regulation Commission Chairman Jon Wellinghoff (August 2013):

"Once it is more cost-effective to build solar with storage than to build a combustion turbine ... that is 'game over.' At that point, it will be all about consumer-driven markets." (Source: GreenTech Media (21-08-2013)

Power industry CEO, Mr Jim Rogers of Duke Energy Corp., August, 2013 is reported as saying that "If the cost of solar panels keeps coming down, installation costs come down, and if they combine solar with battery technology and a power management system, then we have someone just using us [utilities] for backup." (Source: Bloomberg News 28/02/2013)

Estimates of growth for the storage sector vary considerably as the industry is still emerging and defining itself. The following charts represent the forecasts for growth for solar storage systems in our market segments for the next 4 years from IHS Research, a London based research firm.



The columns represent the added storage capacity each year; the yellow line represents the increasing percentage of solar installations which will include storage. Based on these forecasts and an average selling price of power conversion for energy storage systems ranging from $0.40 - $0.70 per rated watt, we estimate the value of our addressable market over the next 3 years between $1.65 billion and $2.99 billion.

Critical to the growth will be lower battery costs. Battery costs are coming down everywhere as capital is deployed to develop new technologies or improve old technologies to reduce cost. Invariably cost reductions are coming from new larger cell technologies that have higher minimum current capacity than conventional battery designs for consumer applications.

Power Electronics Challenges: These new battery technologies are being challenged however by the absence of power conversion products which can efficiently convert higher current inputs and deliver high quality power to the power grid. Conventional solar inverters are unable to meet the need, even with complex combinations of components, and many announced energy storage inverters are still not available for purchase indicating an inability to achieve the performance targets. Only a very few battery based energy storage inverters are in the market with comparatively poor conversion efficiencies and fewer still are capable of meeting the smart grid requirements in all the markets.

A serious inhibitor to growth at the consumer level is the inability of conventional power electronics to decouple the power rating (the power measured in maximum watts) that is needed to serve the load at any given time, from the storage capacity the number of hours (measured in watt hours) that the customer wants for the designated applications. For example, a system designed to serve a maximum 5kW residential load can have storage capacity ranging from 1 kilowatt hour (short periods) to 20 kilowatt hours (longer periods) depending on the customer budget or needs.

Consumers are now being offered very limited options in terms of their ability to increase or decrease storage capacity but are required to accept the configurations offered by the supplier that are linked directly to the power rating of the inverter. The results are oversized and too expensive systems, or undersized and unsatisfactory systems.

Another inhibitor to growth is that power inverters in the market typically have closed control systems requiring the generator or storage device to meet the inverter operating parameters. The result is sub-optimal performance for the system design and flexibility.

For the battery manufacturer, the rigidity of inverter controls inhibits design optimization and inhibits the ability of the supplier to realize full value for its investment in technology. This is especially true in the case of larger cell technologies which have widely divergent operating parameters, as the designers test the capacities of the technology.

For the system integrator, the inability to adapt the operating parameters of the power conversion system to meet the operating parameters of the storage system limits the ability of the integrator to select the battery with the best features for a given application. It also inhibits the integrators ability to put battery suppliers in competition or to move to the lowest cost technology to maintain or gain market share.

Our Value – Bridging the Technology Gap

Decoupling power ratings for storage capacity: Bi-Direx allows integrators to design energy storage systems which de-couple the power ratings of the systems and the energy storage capacity without compromising conversion efficiencies. De-coupling the power rating from the storage capacity maximizes the customer's range of choice at the lowest possible cost.

By decoupling systems Bi-Direx enables emerging lower cost large cell technologies to play a more active role in bringing down costs in the consumer market. This capacity in turn will drive greater demand and further cost reductions in the industry leading to widespread consumer adoption of energy storage.

Maximizing Design Flexibility for the Integrator: Bi-Direx combines a very broad DC input voltage range with software configurability to allow the same power electronics platform to be easily adapted to multiple battery options. We believe that Bi-Direx is the only energy storage inverter which can be deployed with all the known battery technologies. This allows integrators of energy management systems to select different batteries for their different features to more closely match market specifications without changing the basic control strategy.

Unlike any other inverter in the market, Bi-Direx allows the customer to easily change the inverter operating parameters to optimize operating parameters of multiple battery technologies without input from Eguana. This is unique to the industry. This feature allows integrators the freedom to put battery suppliers in competition, and to move quickly to the lowest cost battery technology.

Battery Technology Design Flexibility: The same open control features that are valuable to integrators will be valuable to developers of emerging battery technologies in optimizing their design. The design flexibility allows developers to follow the optimal path to lower costs with the confidence that a high efficiency power conversion solution is available to them or to their customers designing energy management systems at very competitive costs. Eguana's strategy is to lever this value to embed its platform in the product offerings of the battery manufacturers or system integrator.

Smart Grid Connectivity: Eguana's unique bi-directional conversion process allow a direct connection of the battery to the power grid allowing the system to draw from the power grid to optimize system performance and allow the utility to remotely dispatch power from the battery for grid load balancing. Germany's prestigious Fraunhofer ISE research institute recently selected the Bi-Direx inverter as the control platform that it will use to demonstrate the capability of distributed energy storage to supply spinning reserve to the power grid.

High Efficiency: We are able to deliver these values with what we believe is the highest round trip (charging and discharging) conversion efficiencies in the power industry based on publicly available data from the California Energy Commission.

Growth Strategy

Business Model: Eguana's preferred model is to distribute Bi-Direx through strategic partnerships with customers which are delivering productized energy storage systems to the market. The model levers earlier work done with fuel cells to design a product platform which could be easily integrated into the customers finished product. Under this model Eguana delivers the power electronics sub-assemblies and in some cases ancillary components for integration into a productized solution or system.

The OEM concept enables greater flexibility in accommodating different form factors, tighter integration of the power controls, and a materially lower cost through elimination of the redundant enclosure and other component.

Eguana outsources manufacturing of the sub-assemblies which are delivered directly to the integrator. We have invested considerable resources to enable this model which significantly reduces variable selling costs and logistics and allows Eguana to ramp revenues with very little increase in fixed operating costs. By closely managing the supply chain we are able to virtually eliminate working capital needed to ramp production.

Strategy: Our strategy has two main thrusts. The first is to secure a 30% share of each of the leading energy storage markets by partnering with integrators of energy storage systems which have the channels to deliver volumes to achieve that target. We are on track to achieve this goal in Europe through our partnership with Sonnenbatterie, and we expect to be able to secure a similar partnership or partnerships in the US and Japan which in total will achieve our targets in each market.

At this juncture it is not our plan to put the Bi-Direx into conventional distribution channels due to the large investment needed to create the distribution infrastructure. Our plan is to leave distribution to larger integrators of productized solutions.

We are focusing on 4 market applications. In Europe and Japan, we are targeting (i) residential and small commercial systems – (less than 30kW power ratings) where the energy storage system is being used to optimize solar energy and in Japan for backup power and also to capture the value of the spread in time of day pricing. In the US we believe that first markets will be (ii) for remote industrial micro-grid systems delivering grid quality power where the battery is used to optimize diesel operation and/or balance solar and diesel power to displace diesel fuel consumption with solar energy; (iii) for commercial storage to avoid utility demand charges by drawing power during low demand periods and using the stored power to replace grid supplied power during periods of high demand; and (iv) for residential back up power which may include residential energy management functionality on the European and Japanese model. Our second thrust is to embed Bi-Direx in the product development processes of the leading developers of new larger cell battery technologies. Our objective is to position Bi-Direx as the technology leader in this category. At this juncture, it is not clear whether our customers will ultimately be the battery manufacturers delivering its battery in combination with the inverter or customers of the battery manufacturer which has recommended Bi-Direx for the battery.

Management Discussion of Operations

We are on track to meet our strategic objectives. During the past year we successfully restructured Eguana to focus on the high growth energy storage market and to limit our presence in the solar PV market to the applications where we can lever our low voltage technology advantage into a longer term strategic partnership. During the first two Quarters of 2013, we invested most of our resources to marketing our Bi-Direx inverter to German developers of solar based energy management systems. During this period we learned from major players in the market that we had one of the leading solutions in the market.

During Q2, 2013, we signed a letter of intent for a 10,000 unit, 2-year exclusive supply contract with Sonnenbatterie GmbH (formerly Prosol Invest Deutschland GmbH) to supply energy storage inverters for Sonnenbatterie's residential energy management system. Sonnenbatterie is one of a small number of fully integrated energy management systems marketed as consumer products for residential and small

commercial solar based energy storage applications. Sonnenbatterie dominates this market with a strong network of regional distributors as well as several pan European private label partners.

The letter of intent was converted to a limited License Agreement and a Supply Contract in mid May 2013. The partnership with Sonnenbatterie demonstrated the ease of integration of Bi-Direx. In less than 6 months from execution of our agreement, Sonnenbatteries was able to roll out 8 different Bi-Direx lithium ion systems with power ratings from 2.5kW to 15kW and storage capacity from 2.5 to 60 kilowatt hours. To our knowledge no other company in the world has this range of flexibility.

During Q1 2013, we recorded a notable design win when Bi-Direx was selected to provide the power conversion for an advanced turnkey energy storage system developed by a leading Fortune 500 defense contractor. The RK 10 Energy Storage System utilizes high performance zinc bromide flow battery modules and is scalable from 10kW - 100kW. The high power density of flow batteries drives a low voltage, high current profile that demands unique power electronics requirements. Flow batteries are being commercialized by a number of US and international developers to meet the need for low cost, high capacity, long life storage in grid connected and micro-grid power applications.

Q1 2014 saw another significant design win when Germany's prestigious Fraunhofer ISE selected Bi-Direx as the control platform to demonstrate the capability of distributed energy storage to participate in supplying primary (spinning) reserve markets for the power grid. This is an important validation of Bi-Direx' smart grid functionality by the world's leading smart grid research group. Fraunhofer chose Bi-Direx for its flexibility and advanced control features that will allow its Smart Grid Research Group to develop and actually implement creative control strategies that will enable higher penetration of distributed generation onto the grid.

In July 2013 (Q4) we took Bi-Direx to the US at the Intersolar Show in San Francisco with excellent market interest from battery manufacturers as well as leading power supply companies. Since then we have quickly gained traction on our strategy to embed the Bi-Direx design in the product development processes of emerging battery technologies. At this juncture 6 companies are taking Bi-Direx units for trials including the leading US developers of large cell battery technologies.

During the same month, we also took our story to Japan to introduce Bi-Direx to the market and to gain a better understanding of its direction and potential. We were very encouraged with the response from multiple companies, many of them potential competitors. All confirmed the superiority of Bi-Direx in terms of allowing highly scalable storage capacity and higher conversion efficiencies.

Japan is further advanced than either the German or U.S. market with several products in the market albeit with limited consumer choice. Based on market feedback we believe we have the opportunity to integrate Bi-Direx into the next product development cycle of several companies based on expanding consumer choice and expanding the range of battery technologies available to system integrators.

The reader is cautioned that unit demand from this effort will not be significant this year although we expect to recover some level of non-recurring engineering costs which are also typically not substantial.

During Q4 we consolidated operations at a new location in Calgary establishing the capability to manufacture up to 1,000 units per month. We have also entered into a long term agreement with Germany's SRI to manufactured Bi-Direx subassemblies in high volumes at a location that is less than 15 kilometers from the Sonnenbatterie factory. This move materially simplifies our supply chain management, reduces logistics costs and eliminates significant transportation and warehousing costs.

With funding from a financing completed in Q1 2014 we moved to de-bottleneck and add capacity to our engineering facilities in Calgary. This will allow us to engage with multiple customers simultaneously and to integrate Bi-Direx to meet the different customer specifications. We are also increasing our head count on the engineering side. Revenues for 2013 were significantly lower than anticipated at this time last year. Although we had planned for only minimal product sales revenues in the conventional solar sector as we shifted to energy storage we had expected to sell a minimum 100 units per month to tenKsolar beginning in

December 2013, to earn revenue in fiscal 2013 of $1.6 million in 2013 with potentially higher numbers from Hanwha Solar. We also expected to close on a sale of a license to tenKsolar for $2.5 million which had been negotiated during Q1 for total revenue of at least $3.8 million.

For financial reasons tenKsolar did not close on the purchase of the license forfeiting a $250,000 deposit on the license. tenKsolar also refused to honor its commitment to take 100 units per month. We have retained a $335,000 deposit on the Supply Contract and we are examining our options to recover our loss on the Supply Contract. Hanwha Solar does not appear to be actively marketing the tenKsolar system and we do not expect to see any demand from either company.

First revenues from the energy storage sector were realized in Q4 totaling $214,783. We are continuing to ship Bi-Direx inverters and we estimate revenues in Q1 2014 at approximately $525,000 primarily to Sonnenbatterie but also on sales to other integrators of micro-grids for demonstration. We expect revenues from these sources to grow during fiscal 2014 and a planned shift of manufacturing to the higher volume environment at SRI in anticipation of that change during the current Quarter will improve delivery times and margins.

The failure of tenKsolar to close on the purchase of the License and its breach of the Supply Contract left Eguana with a significant working capital gap. To fill the working capital gap, to provide additional capital to debottleneck our engineering capacity and to increase business development we raised a total of $3,142,500 in four financings during the last year.

During Q1 and Q2 we issued First Preferred Shares to realize gross proceeds of $1,650,000. In Q4 we issued units consisting of 5 year callable term debenture unit and/or common shares or warrants to raise gross proceeds of $1,492,500. During Q4, we issued 4,750,000 common shares to Doughty Hanson on the exercise of warrants granted in connection with the issuance of First Preferred Shares for gross proceeds of $498,750.

During Q1 2014 we completed an issue of EGT Markets Limited Partnership Units and Common Shares of the Company to raise gross proceeds of $1.75 million. For the details on the financings please refer to notes 12, 15, 16, 17 and 33 of the consolidated financial statements.

Outlook and 2014 Priorities

We met our key energy storage milestones in 2013 and we are well positioned for growth in Europe the US and by the end of the year we expect to be positioned for growth in Japan. Industry expectations are that demand will cost reductions will this will continue in 2014 and beyond with 2014 being an inflection point in demand. A key to growth in the energy storage sector will be lower cost batteries. We believe that consumer demand mainly out of the residential and commercial non-utility sector in Germany, Japan and China will drive the same tectonic changes in the battery sector that the world saw over the past 5 years in the solar module business, driving down battery costs and turning energy storage systems into the same kind of product as a home security system. As this happens, the face of the power industry will change dramatically.

Eguana will continue to focus on the market for systems below 100 kW in power rating. In Europe and Japan, we expect that demand will come mainly from residential small commercial and institutional settings where easy scalability of energy storage capacity allows the consumer to right size the system to his or her needs and budget. In the US, we believe demand will come from demand for higher end back-up power systems in residential markets, and to support storage for micro-grids using solar to charge batteries or to reduce diesel consumption.

We believe that we have the potential to be the global market leader for emerging larger cell technologies enabling these technologies to move to much lower voltages in order to deliver the scalability that a consumer market will demand. We are in the process of proving this with several companies.

We will continue to execute on our announced strategies during 2014, namely: (i) to build channel partnerships in the major residential energy storage markets that will achieve a minimum 30% market share

(ii) to embed our power conversion technology in the product development processes of the leading developers of new lower cost low voltage battery technologies and (iii) to demonstrate the value of our micro-grid platform for remote power systems used in the telecommunications and the resource sectors.

We are confident that our partnership with Sonnenbatterie will allow us to achieve the targeted 30% share of the German market although the size and shape of the growth curve of the German energy storage market remains unclear.

We expect Sonnenbatterie to maintain a better than 30% market share in Germany, even as new companies enter the market and to continue upgrading its pan-European private label partnership portfolio. We expect that a significant share of these units will be three phase systems resulting in triple the unit value to Eguana. Thus, if Sonnenbatterie were to sell 3,000 units of which 40% were 3 phase units the unit sales by Eguana would be 5,400 for calendar 2014.

We believe that recent announcements in Germany that aim to reduce incentives for solar energy, while maintaining a national target to increase the share of renewables from 25% to 45% by 2025 and 80% by 2050 actually signal strong support for energy storage in that market since these targets are simply not achievable without significant energy storage. The cost of solar energy is now at or below grid parity at an estimated €0.12/kWh for systems below 10KwH and an estimated €0.085/kWh for megawatt scale systems. By comparison, electricity prices in the residential market are approximately €0.28/kW driving demand for lower cost storage to enable self consumption of lower cost solar electricity.

We are increasingly more confident that we will continue to secure business with developers of emerging battery technologies on the model used with the Fortune 500 Company, mainly in the US. Unit sales for this segment will, however, be relatively sparse for 2014 although the potential for growth is very large especially for remote industrial telecommunications and military micro grids unpredictable. While we plan our business on the basis of very modest sales to this application during 2014, the potential for radical change in the micro-grid sector especially in telecommunications is very material.

We have designed Bi-Direx and the supply chain to respond very quickly to significant changes in demand. We currently have the capacity to build up to 1,000 units per month at our Calgary facility on relatively short notice and we have additional capacity in Germany with SRI. The manufacturing model also enables us to locate production close to customers within a 3 month time frame provided there is assurance of continuous demand.

During 2014 our target is to secure at least one major partnership which will allow us to bring Bi-Direx to the Japanese energy storage market during the second half of the year. We have engagement with three major players in this industry and our strategy is to position Bi-Direx for the next product cycle in 2014 that to deliver more customer friendly products to the market.

As noted we did not meet our milestones for solar. We continue negotiations with Solar Frontier and we continue to believe that the AC thin film module has considerable value in selected markets. We do not see any potential for sales to tenKsolar.

On the product development side our goal we continue to develop and protect new intellectual property. During 2014 we will refine the Bi-Direx sub-assembly to reduce cost and to add key functionality for energy storage systems and micro-grids.

The reader is cautioned that the preceding paragraphs include forward looking statements concerning the size of the potential market for distributed solar and energy storage markets the prospects for government incentives to encourage the energy storage markets and the potential to create partnerships which will result in product sales revenues and or strategic transactions. While management believes these statements to be reasonable there is no assurance that they will occur in which event the prospects for the Company will be negatively impacted.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES

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

Net loss and comprehensive Loss

The Net Loss for the year ended September 30, 2013 before adjusting for non cash items decreased by $457,689 to $3,015,798 (6%) compared to $3,473,487 in 2012.

Non-cash items increased the net loss by $2,496,623 from $5,760,365 at September 30, 2012 to $8,256,988. The largest non-cash items are accretions on the First Preferred Shares (see Financing Costs) totaling 2,943,816 and an inventory write down of $1,175,655. The largest portion of this was in respect of Gen 2 inverters and inverter components for the Gen 2 products that the Company had expected to sell to tenKsolar under the referenced Supply Contract. Although the Company believes that it has several opportunities to recover this value it has assumed for financial statement purposes that none of the inventory value is recoverable. Other non-cash items increasing the loss were

i. An increase in the warranty provision by $89,399 to $112,000 primarily as a result of changing the estimate of warranty costs of the Sunergy 5 inverters which have a higher failure rate than was originally anticipated.

ii. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $281,941 compared to $260,303 for the year ended September 30, 2012.

iii. Under IFRS accounting standards interest is accrued or "accreted" on the participating royalty debentures issued in 2012 and 2013. Under IFRS rules the amount is determined by a complex formula aimed at identifying the value of embedded derivatives based on the Company's forecast revenues. The amount accreted for the year ended September 30, 2013 was $148,896 ($30,739 at September 30, 2012) although the actual interest paid, including the percentage paid based upon revenue, was in fact $41,142 (September 30, 2012 - $6,000).

iv. The debentures and the government grant obligation are adjusted on a quarterly basis to reflect the Company's current revenue forecast on which the royalty obligation is calculated and the change in value of the embedded derivative. Although IFRS requires recognition of the value of the royalty obligation it does not allow recognition of the present value of the revenue upon which the obligation is based. As a result of a more positive future forecast post 2013, the fair value of the embedded derivatives associated with the debentures has decreased resulting in a gain of $160,919 (September 30, 2012 – nil). IFRS also requires that a loss of $68,860 be recognized in fair valuing the debentures as, based on the current forecast and under such forecasts is it is anticipated the Company will call the debentures prior to their maturity.

v. Interest on bank debt was $68,596 for the year ending September 30 2013 as compared to $76,102 or the same period in 2012. This decrease of $7,506 is as a result of reducing the amount outstanding on the bank debt towards the end of the fiscal year, offset by an increase in the rate of 0.25% as a result of removing the covenants.

vi. Accretion of an obligation to repay government contributions to research and development equal to 1% of consolidated revenues was $48,155 compared to $65,001 for the year. The actual royalty paid in the year was $15,500. The government grant obligation has incurred a gain of $35,990 on the change in cash flows as a result of the forecast.

vii. Interest accrued on a convertible debenture issued during the year to Doughty Hanson and subsequently converted to Preferred Shares during the year ending September 30, 2013 was $10,891 with a loss on conversion of the convertible debenture to preferred shares of $15,060.

viii. Accrued non cash interest on the Energy Northwest obligation was $14,635 for the year ending September 30, 2013.

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

Cash Flow Used in Operations

Cash flow used in operations for the quarter ended September 30, 2013 was $2,505,782 compared to $1,690,957 in 2012. This represents an increase of $814,825 or 48%.

Sales and Gross Margin

Sales for the year ended September 30, 2013 were $376,526 compared to $3,313,134 for 2012. The decline in sales revenues was due primarily to our decision to focus our resources on securing a position in the energy storage market but also in part due to a failure of tenKsolar to take 100 Gen 2 inverters per month during the year at an average sales price of US$1,750. The Company's position is that tenKsolar is in breach of its contract and is evaluating whether to take action against tenKsolar for an estimated loss of $1.1 million.

Cost of sales for the year ended September 30, 2013 were $1,810,647. The amount is comprised of an inventory write-down of $1,175,655 referred to above, an increase in the warranty provision of $89,399 and an inventory adjustment due to the year-end physical count and differences on standard cost vs actual costs of $234,787. The cost of sales, excluding inventory and warranty adjustments is $310,806, for a realized gross margin of $65,720 (17%) on product sales.

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

Operating Costs

During the year ended September 30, 2013 we continued to cut fixed operating costs.

- We reduced operating costs (manufacturing and logistics overhead) costs by $153,194 (16%) from $963,409 for the year ended September 30, 2012 to $810,215 for the year ended September 30, 2013.
- General and administrative costs ("G&A") (which include stock based compensation) decreased by $196,590 from $1,646,414 for the year ended September 30, 2012 to $1,449,824 for the year ended September 30, 2013. G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees, investor relations fees and travel for all personnel.
- We reduced our investment in selling and marketing by $115,277 to $471,734 for the year ended September 30, 2013 compared to $587,011 for the same period in 2012. This reflects a shift towards a business development model to support our OEM strategy which requires fewer resources.
- Product research and development costs for the year ended September 30, 2013 were up by $92,894 to $1,009,041 from $916,147 for the year ended September 30, 2012. The increase reflects our continued investment in customization of the product platform for Prosol and for product certification in North America and Japan and an increase in amortization of development costs.

Amortization of development costs was $479,399 for the year ended September 30, 2013 compared to $395,546 for the same period in 2012. In 2012, the Company determined to accelerate the amortization of development costs over three years as a result of the development of the STX inverter platform which replaces the previous platform. The amortization of capital assets for the year ended September 30, 2013 was $50,595 compared with $62,734 for 2012.

Financing Costs

A substantial portion of the financing costs recognized in the year are non-cash, in that the cost is accrued, but is not paid. The largest component represents 8% dividends on First Preferred Shares which are "accreted" and added to the redemption value of the Preferred Shares. In prior years, the largest portion of non cash financing costs was the provision for the potential liability to compensate Energy Northwest for contributions made to the Company in developing its step wave power converter. Based on the development of the STX platform management determined that there was no possibility that the Company would be required to make any payments to Energy Northwest in excess of the minimum annual payment of $7,000US.

Accretion accrued for the First Preferred Shares was $2,943,816 for the year ended September 30, 2013 compared to $2,304,469 for the same period in 2012. Interest accreted for the participating debentures issued in 2012 and 2013 was $148,896 for the year ended September 30, 2013 ($30,739 at September 30, 2012). The interest paid, including the percentage paid based upon revenue, was $41,142 (September 30, 2012 - $6,000). Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $281,941 compared to $260,303 for the year ended September 30, 2012. Accretion of the obligation to repay government contributions to research and development was $48,155 compared to $65,001 for the year. Interest on the convertible debenture for the year ending September 30, 2013 was $10,891 with a loss on conversion of the convertible debenture to preferred shares of $15,060. Interest on the Energy Northwest obligation was $14,635 for the year ending September 30, 2013.

The debentures and the government grant obligation are adjusted on a quarterly basis to reflect the Company's current forecast and the result that has on the amounts payable under these agreements. As a result of a more positive future forecast post 2013, the fair value of the embedded derivative associated with the debentures has decreased resulting in a gain of $160,919 to the Company. A loss of $68,860 has also been incurred in fair valuing the debentures as, based on the current forecast, it is anticipated the Company will call the debentures prior to their maturity. The government grant obligation has incurred a gain of $35,990 on the change in cash flows as a result of the forecast.

The financing costs paid during the year ended September 30, 2013 was $113,252 compared to $82,102 at September 30, 2012.

Interest on bank debt was $68,596 for the year ending September 30, 2013 as compared to $76,102 for the same period in 2012. This decrease of $7,506 is as a result of reducing the amount outstanding on the bank debt towards the end of the fiscal year, offset by an increase in rate of 0.25% as a result of removing the covenants.

Other interest charges for the year ended September 30, 2013 were $117 compared to $28,220 for the 2012 fiscal year.

Foreign Exchange

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

Summary of Quarterly Results

For the periods ended:

	2013				2012			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Sales	243,778	15,819	46,768	70,161	880,652	516,426	904,841	1,011,215
Net loss	(3,497,288)	(1,843,602)	(1,276,247)	(1,639,851)	(1,2020,287)	(1,632,812)	(1,398,873)	(1,526,393)
Per share – basic and diluted	(.16)	(0.09)	(.06)	(0.08)	(0.05)	(0.08)	(0.07)	(0.08)

Summary of Annual Information

	2013	2012
Revenues	376,526	3,313,134
Net loss	(8,256,988)	(5,760,365)
Per share – basic and diluted	(.39)	(0.28)
Total assets	2,930,111	4,774,388
Non-current liabilities	4,823,560	8,695,383
Declared dividends	-	-

2012 Net loss has been restated for prior period adjustments as per note 6 to the consolidated financial statements. 2012 per share amounts have been restated to reflect the 10:1 stock consolidation on December 27, 2012.

Summary of expenses

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

Product research and development

	2013	2012
Employee Compensation	326,930	368,122
Consumables	126,002	44,091
Travel	31,563	14,508
Other	45,147	93,880
Amortization	479,399	395,546
Total	1,009,041	916,147

Operations

	2013	2012
Employee Compensation	615,684	727,443
Consumables	15,167	24,618
Travel	20,700	8,472
Freight and storage	82,865	148,918
Other	75,799	53,958
Total	810,215	963,409

Sales and marketing

	2013	2012
Employee Compensation	217,051	386,776
Travel	55,950	35,400
Marketing	81,294	74,068
Other	117,439	90,767
Total	471,734	587,011

General and administration

	2013	2012
Employee Compensation	384,590	529,639
Stock based compensation	22,693	131,133
Travel	33,578	29,749
Rent	182,906	281,468
Audit & accounting fees	152,592	190,110
Legal fees	182,196	76,087
Other professional fees	-	40,874
Bad debts	115,066	-
Other	325,608	304,620
Amortization	50,595	62,734
Total	1,449,824	1,646,414

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $(9,521,881) at September 30, 2013 by comparison to $118,924 at September 30, 2012. Of this amount $8,688,848 is attributable to First Preferred Shares Series 7 being classified as a current liability due to the mandatory redemption date in May 2014. The Company has determined to amend the terms of all First Preferred during the current Quarter to remove the required redemptions on the Preferred Shares and has the support of sufficient shareholders to obtain the necessary shareholder approvals. The change will result in the First Preferred Shares being classified as equity for financial reporting purposes.

The components of working capital are cash of $399,874, component inventory totaling $1,137,192, prepaid expenses and deposits in the amount of $242,805, which are mainly accrued finance costs and accounts receivables and advances in the amount of $499,197.

Accounts payable and accrued liabilities at September 30, 2013 were $2,102,512 compared to $2,068,684 at September 30, 2012. The increase in accounts payable and accrued liabilities from September 30, 2012 was caused mainly by a deposit amounting to $335,000 ($314,551US) received under the reference Supply Contract with tenKsolar. Although the Company is of the view that the deposit has been forfeited by reason of a breach of contract on the part of tenKsolar it continues to record this amount as deferred revenue pending resolution of the matter with tenKsolar in which event it is expected that the amount will be brought into revenue. The deposit of $250,000 for the license agreement has been forfeited by tenKsolar and is recognized as other income in the second fiscal quarter of 2013.

Extension of the term of the Preferred Shares and adding back the deposit would reduce the current deficit from $9,521,881 to $498,033.

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of $1.5 million. As of September 30, 2013 the outstanding Company's operating line was $617,157. Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

Subsequent to year end, the Company issued of EGT Markets Limited Partnership units and common shares to raise gross proceeds of $1.75 million. See Note 33 of the consolidated financial statements for additional information.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises and equipment, which have been disclosed in the note 30 to the Financial Statements.

Related Party Transactions

As disclosed in the consolidated financial statements (Note 22), the Company had the following related party transactions:

Included in general and administrative expense is salaries and benefits for key management personnel and directors of $337,979 for the year ended September 30, 2013 (2012 - $365,297) and share based compensation of $30,883 for the year ended September 30, 2013 (2012 - $50,539). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $194,000 for the year ended September 30, 2013 (2012 – $201,500).

Key management personnel and directors subscribed for $69,000 of the debentures (Note 15) issued in June 2012 and paid $60,375 as a result of the initial discount. They also received 24,150 bonus shares valued at $12,075, of which 16,560 shares have been released to date.

In April 2013, key management personnel and directors subscribed for $80,000 of First Preferred Shares Series 15 (Note 16) and received 96,000 detachable warrants valued at $6,432.

Key management personnel and directors subscribed for $240,000 of the debentures (Note 15) issued in August 2013 and paid $210,000 as a result of the initial discount. They also received 72,000 shares valued at $26,640 and 48,000 warrants valued at $3,880.

Financing costs of $15,361 for the year ended September 30, 2013 (2012 - $2,651) related to the debentures and First Preferred Shares Series 15 are included in the statement of loss.

Consolidation Common Share Capital

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

Disclosure of Outstanding Share Data

As at January 27, 2014, 28,368,535 common shares and 1,096,087 First Preferred Shares convertible at the option of the holder into 25,414,827 common shares, were outstanding. In addition, common share purchase warrants, representing the right to acquire 1,250,000 common shares at an exercise price of $0.50 per share, common share purchase warrants representing the right to acquire 780,000 common shares at a price of $0.12, common share purchase warrants representing the right to acquire 608,000 common shares at a price of $0.50, common share purchase warrants representing the right to acquire 8,750 common shares at a price of $0.50 and 3,529,411 common share purchase warrants representing the right to acquire at $0.17. The Company had employee stock options outstanding entitling the holders thereof to acquire up to 2,676,019 common shares of which options to acquire common shares up to 1,299,372 had vested. The weighted average exercise price of the vested options is $1.32 per share.

The conversion ratio for First Preferred Shares includes a fixed conversion on the initial redemption price and a variable conversion of unpaid dividends accrued to the date of conversion. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion.. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to January 27, 2014 which was $0.51. The actual number of common shares that would be issued will vary from this estimate based on the share price and the amount of unpaid dividends at the time of conversion. As at January 27, 2014, the common shares related to the conversion of the unpaid dividends was estimated to be 7,513,664 (by comparison to 8,340,756 on September 30, 2013) and is included in the 25,414,827 disclosed above.

Risks and Uncertainties

Going Concern

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

At September 30, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $31,594,506, after a reclassification of $30,000,000 from share capital ($23,337,518 at September 30, 2012) and recognized a cash flow deficiency from operations at September 30, 2013 of $2,505,782 (2012 - $(1,690,957). The Company also had a working capital deficit of $9,521,881 (adjusted to $498,033 on the extension of the Series 7 Preferred Shares and the tenksolar deposit as noted above). Whether and when the Company can attain profitability and positive cash flows is uncertain.

The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. Subsequent to year end, the Company has raised an additional $1.75

million through the issuance of EGT Markets Limited Partnership units and common shares to raise gross proceeds of $1.75 million. See Note 33 of the consolidated financial statements for additional information.

Operating Losses

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

Market Acceptance

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

Dependency on Government Policies

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

Even with continued high growth in the solar industry markets, and growth in the energy storage sector, demand for our products can be volatile and it is more difficult to predict the nature and scope of demand for our class of products than would be the case in a more mature environment. This makes it difficult to plan production to meet demand on a timely basis adding to the financial risk of the business. While our business model attempts to address these risks, there is no assurance that changes in market conditions will not adversely affect liquidity.

Competition and Technological Change

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

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

Our business model is also highly dependent on market acceptance of the value propositions for our technology. Even if we are successful in gaining market acceptance for our value propositions, there is always the possibility that one of more of our competitors will develop new technology which enables the same value propositions at the same or better cost than we are able to achieve and our business would be

adversely affected. It is also possible that one or more of our competitors will attempt to copy our approach and challenge the validity of our patents. While we believe that our patents and other intellectual property are defensible, there is no assurance that a court will not find to the contrary, negatively impacting the value of Eguana.

Manufacturing Cost Targets

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

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

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

Operation and Supplier Risk

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

Dependence on Customers

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

Foreign Exchange

Most of our product sales are and will for the foreseeable future be made in Euros or in US dollars; whereas most of our production costs are incurred in US dollars. To date we have not hedged these transactions except in the form of cash deposits on sales and for the cost of production, and we have no immediate plans to do so. As a result there is a risk that margins will be reduced due to adverse changes in these currencies relative to the Canadian dollar.

While the risks of these actions are mitigated by our contract manufacturing strategy which enables us to easily change where we manufacture products there can be no assurance that the various government licenses and approvals or amendments thereto that from time to time may be sought will be granted at all or with conditions satisfactory to the Company or, if granted, will not be cancelled or will be renewed upon expiry or that income tax laws and government incentive programs relating to the Company's business, and

the solar energy industry generally, will not be changed in a manner which may adversely affect the Company.

Attracting and Retaining Key Personnel

Our future prospects depend to a significant extent on the continued service of our key executives. Furthermore, the Company's continued growth and future success depends on its ability to identify, recruit and retain key management and engineering personnel. The competition for such employees is substantial and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel. If any of these events occur, it may have a material adverse effect on the business, financial condition and results of operations of the Company or the value of the Common Shares.