Management Discussion and Analysis

For The Nine Months Ended June 30, 2014

The following discussion and analysis ("MD&A") as of August 29, 2014 should be read in conjunction with the Interim Consolidated Financial Statements of Eguana Technologies Inc. ("Eguana" or the "Company") and notes for the period ended June 30, 2014.

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

FORWARD LOOKING INFORMATION

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

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

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

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

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

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

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

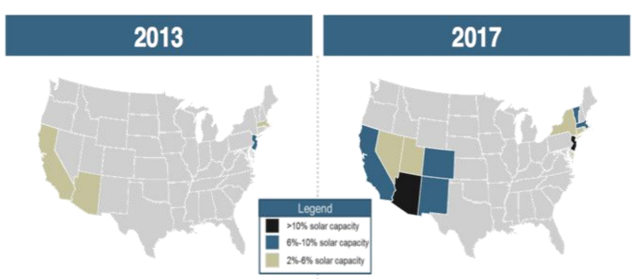
INDUSTRY CHANGE FACTORS

Key Market Changes in the US

The demand profile for the US residential market changed materially in the first half of 2014. Although relatively modest demand for backup power systems had previously been forecast for this market, it is now clear that grid stabilization and control solutions needed to sustain continued growth in renewable generation – including real time load balancing, voltage control on residential feeders, and frequency regulation – is driving demand for storage deployed alongside rooftop solar PV to supply these services. The potential demand is significant, and we believe demand growth from this sector alone could surpass European demand growth by 2016.

Demand for storage is being driven by accelerating growth in residential solar installations especially in California but in at least 6 other States with total population exceeding 65 million. According to GTM Research 82% of all solar PV came on line in the past 4 years and installation rates will triple in the next 3 years.

In Hawaii where electricity prices are almost $0.40/kWh, solar reduces the average cost per kWh and added 17,609 new distributed solar PV systems totaling 129 MW in capacity during 2013. But Hawaii's grid has reached a saturation point, and the State is now actively pursuing storage as a means to continue growth in solar electricity generation.



California, which now requires that 25% of the state's electricity come from renewable resources by 2016 increasing to 33% by 2020, has implemented generous incentives to kick start the use of storage and has mandated the State's three largest investor-owned utilities to add 1.3GW of energy storage to their grids by the end of the decade. Significantly, California limits utility ownership to 50% of total storage assets opening a massive growth market for merchant storage, customer-owned energy assets and other arrangements all which will be behind the meter either at a commercial or residential scale.

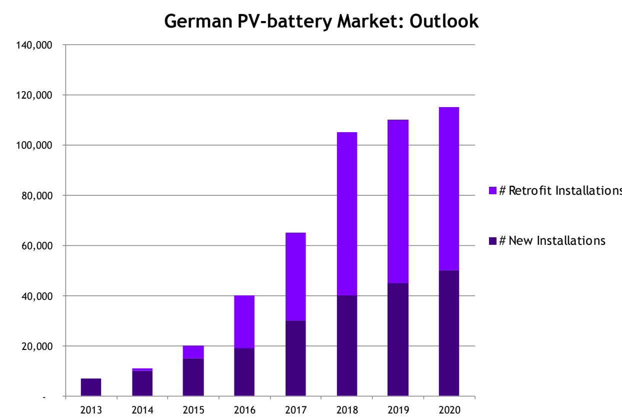
Eguana's Bi-Direx smart grid energy storage inverter is one of only a very small handful of energy storage inverters suited for US grid tied application, and the only energy storage inverter with the advantage of having a deployed base of over a thousand networked systems.

Eguana is seeing demand for Bi-Direx from multiple sources. This month we reached agreement in principle with a Hawaiian company to supply a value added power control systems for residential storage solutions. Customer indicated demand is for several thousand units annually beginning in 2015. We also have business at the table with integrators in California and on the Eastern Seaboard who have ordered Bi-Direx products and/or currently have Bi-Direx inverters for acceptance testing with customer indicated demand for several thousand units in 2015 growing significantly in following years.

Eguana's North American Bi-Direx power control systems for the residential markets will add functionality not included in the Bi-Direx platform initially supplied to Europe and will be supplied in an outdoor rated wall mounted unit with a higher price point and commensurately higher margin than the Bi-Direx subassemblies.

Trends in German Solar Self Consumption Market

EUPD the leading German research institute has forecast continued growth in energy storage for solar self consumption. EUPD is forecasting 20,000 units in 2015; doubling to 40,000 units in 2016; with rapid escalation thereafter due to a combination of increasing electricity prices and declining battery costs.



Significantly for Eguana, EUPD see the retrofit market opening as early as 2015, as the frist solar feed in tariff contracts expire and pricing drops to current levels. By 2016, the retrofit application will represent 50% of the market with 20,000 units and will grow to approximately 55,000 units in 2010.

Unlike most European products Eguana's Bi-Direx design enables a highly efficient and flexible "AC coupled system" which enables storage to be easily added as retrofits. Most European products use a DC coupled design which cannot be used for retrofits but are typically installed with new systems.

Operations

We continue to grow product sales revenues for solar self consumption in Europe. Product sales revenue for the nine months ended June 30, 2014 were $1,363,125 compared to $132,748 for same period in 2013. Product sales for the trailing 12 months which represents the period of first deliveries of Eguana's Bi-Direx inverter were $1,606,903. We believe we are shipping more energy storage inverters in our class than any other company in the world.

Q3 revenues were $477,410. Although up 20% from $396,357 in Q2, the results were below expectations and below contractually committed volumes due to reduced throughput at Sonnenbatterie's facility in June, which forced us to significantly reduce deliveries from our Durach facility. An unintended consequence of the failure of Sonnenbatterie to meet forecast volumes is that Sonnenbatterie's exclusive right to the Bi-Direx platform in Europe expired on June 30 2014, one year in advance of the scheduled June 30, 2015 termination date.

During June Sonnenbatterie introduced the market leading ECO residential product at the Intersolar Europe show in the first week of June 2014. Demand for the ECO, which reduces the selling price point per kilowatt hour by almost 40% and targets middle income homeowners, has been very positive. Our production levels are back up to two shifts at our facility in Durach and estimated revenues for July and August currently total more than $680,000, as of the date hereof. Customer demand forecasts for Bi-Direx for the next 3 months beginning September 1, 2014 are for volumes valued at approximately $1.8 million with contractually committed take or pay orders Bi-Direx units valued today at approximately $1.4 million.

During Q3, we negotiated a letter of intent to manufacture an integrated higher value power control system instead of simply delivering the Bi-Direx power electronics sub-assembly and to extend European exclusivity to the US residential market. We did not convert the letter of intent to formal supply contracts and the letter of intent has been terminated.

Sonnenbatterie has indicated its intention to take a US version of ECO to the US market, and we are currently in discussions to supply the enhanced power control system to Sonnenbatterie for the product.

The reader is cautioned that this information is forward looking information. Although management believes it to be accurate there is no assurance that the actual results will be as anticipated. In particular we use average selling prices which will vary according to product mix and we price our products in Euros so the Canadian dollar equivalent value will also vary depending on when the product is available for pick up by Sonnenbatterie.

Outlook and Priorities

We see continued growth in demand in Europe for the balance of the calendar year and into 2015. We see demand in the US picking up significantly in the first half of 2015 and growing from that point.

Our priorities remain unchanged: to build volumes and revenues in Europe and the US and to position Bi-Direx as the technology leader for grid edge energy storage globally. Investors should look for Eguana to:

- Bring a value added Bi-Direx platform to the US this year which will include all the critical power control functions for residential energy storage systems and an open communications package that ensures easy compatibility with the energy management and data collection software systems in the market. Key success metrics will be North American certification of a wall mounted outdoor rated plug and play product which can be supplied with our without batteries according to the requirements of our customers with higher price points and correspondingly higher margins.
- Continue and expand its relationship with Sonnenbatterie in Europe and in the US. Key success metrics will be steady growth in monthly volumes in Europe and the extension of our supply contracts to the US market.
- Convert business at the table in the US residential market to longer term multi-year deals to supply smart power control systems for edge of grid utility support. Pipeline visibility from current and prospective customers is for several thousand units in 2015. Key success metrics will be supply agreements with solar integrators and companies supplying utility services and certification of a higher value Bi-Direx power control system followed by product sales in 2015.
- Create a fully integrated three phase "AC Battery" to become the "actuator" for demand charge and energy management services in the US commercial and institutional markets and remote micro-grids. Key success metrics will be a North American certified fully integrated AC Battery within the next 6 – 9 months and long term strategic partnerships to penetrate this market.

Management Discussion of Financial Results

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

Product Sales Revenues

Product sales revenue for the nine months ended June 30, 2014 were $1,363,125 compared to $132,748 for 2013. Third Quarter sales were a $477,419 which was approximately 87% of contractually committed take or pay volumes for the Quarter.

Cost of sales for the nine months ended June 30, 2014 were $1,069,732 for a gross margin of approximately 22%. The amount is comprised of the cost to manufacture units, transportation of components to the point of manufacturing, inventory adjustments and the cost of product warranty. Cost of sales for Q3 was $475,497, and was impacted by approximately $32,000 of inventory adjustments. The realized average margins are below our 35% target due partly to changes in the product mix biased to lower power rated, lower margin products than was provided at the time of contract negotiation and to disruptions in the supply chain which are not abnormal at this stage. We did not include in the costs of sales incremental transportation costs incurred for expedited shipping of components and finished products during the integration and initial product launches due to mixed responsibility between the parties and we have chosen to treat these as extraordinary customer acquisition costs.

Net loss and comprehensive Loss

Net Loss Excluding Non-Cash Items: Excluding non-cash items, the Net Loss for the nine months ended June 30, 2014 was $2,327,373, an increase of $319,994 from $2,007,379 for the same nine months in 2013. The net loss before non cash items for Q3 was $997,903.

The increases in the net loss were attributable to (i) a much higher than expected commitment of engineering to support integration of the Bi-Direx sub-assembly and (ii) much higher than expected transportation costs. This was due mainly to the lack of depth of experience on the part of our customer with complex electronics and the supply chain model which was agreed upon to reduce costs.

A key outcome for us is that we learned that our model to supply only the power electronics sub-assembly has a higher risk than we anticipated especially where it is supporting multiple products or product applications as was the case with Sonnenbatterie GmbH. We will not continue with this model, except in very exceptional circumstances, but will only commit to deliver product where Eguana has final accountability over the power control component or where there is very active involvement in the product development process and design of the operating environment for the power control component.

Non-Cash Items Affecting Net Loss

Non-cash items affecting the net loss are affected primarily by IFRS accounting for First Preferred Shares and the Royalty Debentures. Application of the IFRS accounting standards for securities which are seen to have embedded derivatives is exceedingly complex and there is limited experience with the application of the standards.

i. Prior to February 27, 2014 First Preferred Shares were required to be redeemed by the Company on the fifth anniversary of their issue subject to the normal limitations found in the Alberta Business Corporations Act. Under IFRS accounting standards the mandatory redemption required that the net present value of the amount for which they were to be redeemed including accrued and unpaid dividends to the date of the mandatory redemption was reflected as debt of the Company and the difference between the net present value and the undiscounted value was amortized over the remaining term of the First Preferred Shares as a financial expense referred to accretion. Under this treatment the financial expense for the 5 month period to February 27, 2014 was $1,525,161.
ii. As of February 27, 2014, the mandatory redemption provision of each Series of First Preferred Shares was repealed. As a result the stated capital or original issue price of the First Preferred Shares is

regarded as equity. However, because the accrued and unpaid dividends will be paid in common shares having a market value equal to amount of the accrued and unpaid dividends to the date of conversion we believe that IFRS requires that the dividends be treated as interest and that the accrued amount be treated as a liability. This is notwithstanding that there is no financial risk exposure to assets of the Company except at the option of the Company to redeem the First Preferred Shares. The change in the cumulative dividend liability from February 28 to June 30, 2014 is $381,365.

iii. The modification of the preferred shares also resulted in a gain in the statement of loss of $1,127,867. Altogether the non-cash increase on net loss was $778,659 as compared to $2,104,622 for the same nine month period in 2013.

iv. Under IFRS accounting standards the royalty debentures is regarded as consisting of a 3% debt and an embedded derivative based on the value of the royalty interest expected to be paid over the term of the debenture. This treatment results in a deemed interest expense of $355,000 being recognized for the nine month period instead of the actual cash and royalty interest expense of $84,500 during the period. The royalty debenture is callable by the Company without penalty beginning on the second anniversary of the issue.

Other non-cash items affecting Net Loss are:

i. Under IFRS reporting the market value of the common share purchase warrants issued to Doughty Hanson as compensation for its Standby Equity Commitment is amortized over the term of the warrant. Effective December 23, 2013 the Standby Equity Commitment was extended from one year to five years (expires May 1, 2018) as was the term of the warrant. The value of the extension was estimated to be $511,765 and the remaining full value of this Standby Equity Commitment is amortized for the remaining term being 52 months. At June 30, 2014 the expense was $144,080 (2013 - $205,176) but from a forward perspective the ongoing amortization will be $11,887 per month.

ii. IFRS accounting standards also require accretion of a calculated amount that represents the value of potential royalty payable to the Government of Canada obligation to repay government contributions to research and development that is in excess of the royalty actually paid in the year. The accreted amount of $37,683 (2013 – $37,985) exceeded the actual royalty paid in the period ($19,500) by $18,183 increasing the net loss.

iii. Accrued non cash interest on the Energy Northwest obligation was $10,153 for the nine months ended June 30, 2014 (2013) $11,418. The Company does not believe that any amount is owing to Energy Northwest but Energy Northwest will not confirm this.

iv. The warranty reserve was reduced by $42,000 to reflect the reduced risk as a result of the passing of time on the older warranties, and the lower failure rate of new reduced the Net Loss by $42,000.

v. Amortization of capital assets and capitalized development costs increase the Net Loss. Amortization for the nine months ended June 30, 2014 was $420,969 (2013 - $331,923).

vi. Share based payments expense increased the net loss by $98,656 at June 30, 2014; whereas there was a reduction of $9,095 for the same period in 2013.

<u>Cash Flow Used in Operations</u>

Cash flow used in operations for the nine months ended June 30, 2014 was $(3,215,158) compared to $(1,342,519) for the nine months ended June 30, 2013. This is primarily a result of a $1,900,000 swing in the non-cash working capital as a result of establishing payment terms to gradually pay off outstanding vendors ($500,000), an increase in accounts receivable ($800,000) as a result of increased sales activity and an increase of deposits of $200,000 due to the requirement to pay a deposit with our contract manufacturer. Cash expenses have also increased by $300,000 from the nine month period ending June 30, 2013 to June 30, 2014.

Operating Costs

During the nine months ended June 30, 2014, operating costs fluctuated as some were reduced but others were increased to meet the ongoing business requirements.

- An increase in operating costs (manufacturing and logistics overhead) by $177,579 (30%) from $575,189 for the nine months ended June 30, 2013 to $752,768 for the nine months ended June 30, 2014 is primarily due to increased travel and increased freighting costs caused by an accommodation of rapid changes in demand due to failures in forecasting product mix by Sonnenbatterie. We view these as extraordinary costs incurred to accommodate an important customer during the start up phase of the relationship. We expect these to decline sharply with the transition to manufacturing at the plant in Durach and to better coordination of demand by Sonnenbatterie
- General and administrative costs ("G&A") (which include stock based compensation) increased by $98,735 (10%) from $1,034,097 for the nine months ended June 30, 2013 to $1,132,832 for the nine months ended June 30, 2014. This increase is a result of:
    - increased employee compensation due to increased time required of hourly consultants ($88,000) during the change of auditors who are considered employee equivalents;
    - increased stock based compensation as a result of re-pricing of options ($60,000) and options that have vested ($108,000);
    - increased travel ($60,000) incurred to raise new equity for the company;
    - increased software support ($17,000);
    - foreign exchange changes ($45,000);
    - decreased legal and audit fees ($174,000) since 2013 was unusually high; and
    - decreased rent due to moving offices ($50,000).

  G&A expense consists primarily of salaries, benefits and overhead expenses including those related to corporate maintenance charges, occupancy, professional fees, investor relations fees and travel. The third quarter is less than Q3 2013 following the same general trend of the nine month period.
- We increased our investment in sales and marketing by $106,916 (28%) to $491,016 for the nine months ended June 30, 2014 compared to $384,100 for the same period in 2013. This is primarily as a result of changing the classification of a staff member from product research and development to marketing ($30,110) and a greater focus on developing new strategic marketing relationships ($42,947 increase).
- Product research and development costs for the nine months ended June 30, 2014 were down by $20,053 to $710,759 from $730,812 for the nine months ended June 30, 2014. The increase reflects a re-focusing of costs towards integration with the Sonnenbatterie platform during the current fiscal period and is a decrease in costs of $100,897 offset by an increase in amortization of development costs of $80,844.
- In 2012, the Company determined to accelerate the amortization of development costs over three years as a result of the development of the single transformer design which replaces the previous platform.

Financing Costs

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

Accretion for the First Preferred Shares was $1,525,161 for the nine months ended June 30, 2014 compared to $2,104,622 for the same period in 2013. Since the removal of the mandatory redemption terms on February 27, 2014 there has been no further accretion on the preferred shares. However the change in fair value from the cumulative dividend which is accreted to the preferred shares is $282,689 for the quarter and $381,365 year to date (which is since February 27, 2014).

Interest accreted for the royalty debentures issued in 2012 and 2013 was $328,971 for the nine months ended June 30, 2014 ($70,343 at June 30, 2013). The interest paid, including the percentage paid based upon revenue, was $84,540 (June 30, 2013 - $27,073) year to date and $29,981 for the quarter (2013 Q3 - $6,391). This increase is as a result of a second debenture which was issued in August and September 2013.

Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $144,080 compared to $205,176 for the nine month ending June 30 and $35,661 ($73,176) for the respective third quarters. The 2014 amounts are decreased due to the extension of the agreement from one to five years.

Accretion of the obligation to repay government contributions to research and development was $37,683 compared to $37,985 for the period. Interest on the Energy Northwest obligation was $10,153 for the nine months ended June 30, 2014 as compared to $11,418 for the nine months ended June 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.

Interest on bank debt was $31,234 for the nine months ended June 30, 2014 as compared to $52,885 for the same period in 2013. This decrease of $21,651 is as a result of reducing the amount outstanding on the bank debt towards the end of the year, offset by an increase in the rate of 0.25% as a result of removing the covenants.

Foreign Exchange

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

Summary of Quarterly Results

For the periods ended:

	2014			2013			
	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Sales	477,419	396,357	489,349	243,778	15,819	46,728	70,161
Net loss	(1,536,377)	(489,286)	(2,051,222)	(3,497,288)	(1,843,602)	(1,276,247)	(1,639,851)
Per share – basic and diluted	(.05)	(.02)	(.07)	(0.16)	(.09)	(0.06)	(0.08)

Summary of Annual Information

	2014 (23 quarters)	2013 (4 quarters)
Revenues	1,363,125	376,526
Net loss	(4,076,885)	(8,256,988)
Per share – basic and diluted	(0.14)	(0.39)
Total assets	3,707,492	2,930,111
Non-current liabilities	6,252,605	4,823,560
Declared dividends	-	-

Summary of expenses

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

Product research and development

	Q3 2014	Q3 2013
Employee Compensation	258,436	243,690
Consumables	(4,043)	114,235
Travel	28,667	19,858
Other	50,829	57,003
Amortization	376,870	296,026
Total	710,759	730,812

Operations

	Q3 2014	Q3 2013
Employee Compensation	446,107	473,393
Consumables	18,851	7,074
Travel	49,627	12,098
Freight and storage	215,342	37,879
Other	22,841	44,745
Total	752,768	575,189

Sales and marketing

	Q3 2014	Q3 2013
Employee Compensation	189,830	159,720
Travel	46,793	42,141
Investor relations	123,419	70,494
Conferences, trade shows and other customer development	11,032	21,010
Other	119,942	90,735
Total	491,016	384,100

General and administration

	Q2 2014	Q2 2013
Employee Compensation	376,993	288,984
Stock based compensation	98,656	(9,096)
Audit & accounting fees	137,128	190,346
Travel	68,525	8,384
Rent	101,397	152,108
Filing and reporting charges	51,760	45,856
Legal fees	48,654	169,315
Computer and software support	41,011	23,964
Insurance	35,592	30,472
Bad debts	-	-
Other	84,806	99,208
Foreign exchange loss (gain)	44,211	(1,341)
Amortization	44,099	35,897
Total	1,132,832	1,034,097

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $117,114 at June 30, 2014 by comparison to $(9,521,881) at September 30, 2013. Of this change of $9,638,995, $8,688,848 related to the preferred shares. On February 27, 2014, the preferred shareholders approved removing the mandatory redemptions on all series of preferred shares. This change resulted in equity on preferred shares increasing from $4,079,759 to $10,637,861, reflecting the number of preferred shares outstanding at their original redemption price of $10 per share.

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

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

With support from Doughty Hanson in the form of a Standby Equity Commitment, the Company has an operating line with HSBC Canada in the amount of $1.5 million. As of June 30, 2014 the outstanding Company's operating line was $262,402 (Sept 30, 2013 - $617,157)**.** Interest on the operating line is HSBC prime rate plus 3% effective December 1, 2012.

Off Balance Sheet Items

The Company has no off-balance sheet financial commitments other than the commitments for operating leases for premises and equipment, which have been disclosed in the note 22 to the Financial Statements.

Related Party Transactions

As disclosed in the condensed interim consolidated financial statements (Note 18), 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 $90,893 and $277,194 respectively for the three month and nine month period ended June 30, 2014 (2013 - $109,800 and $257,349) and share based compensation of $nil and $30,319 for the three month and nine month period ended June 30, 2014 respectively (2013 - $nil and $nil). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $49,500 and $148,500 for the three and nine month period ended June 30, 2014 respectively (2013 – $37,500 and $124,500) and share based compensation of $1,384 and $28,973 for the three month and nine month period ended June 30, 2014 respectively (2013 - $5,792 and $25,682).

Financing costs of $16,280 and $47,719for the three month and nine month period ended June 30, 2014 (2013 - $2,903 and $8,490) respectively, related to the debentures and preferred shares series 15 are included in the statement of loss. Interest payments amounted to $3,536 and $9,921 (2013 - $552 and $2,355) for the three month and nine month period ended June 30, 2014 respectively.

Included in accounts payable and accrued liabilities is $103,206 (September 30, 2013 - $139,421) due to directors and members of key management personnel.

Consolidation of 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 August 29, 2014, 38,231,519 common shares and 1,019,087 First Preferred Shares convertible at the option of the holder into 25,286,310 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 608,000 common shares at a price of $0.50, common share purchase warrants representing the right to acquire 3,529,411 common shares at a price of $0.17, common share purchase warrants representing the right to acquire 241,967 common shares at a price of $0.45, common share purchase warrants representing the right to acquire 1,215,938 common shares at a price of $0.60, common share purchase warrants representing the right to acquire 135,660 common shares at a price of $0.40, common share purchase warrants representing the right to acquire 1,093,750 common shares at a price of $0.60 and common share purchase warrants representing the right to acquire 3,500 common shares at $0.40, were also outstanding. The Company had employee stock options outstanding entitling the holders thereof to acquire up to 3,086,119 common shares of which options to acquire common shares up to 1,319,372 had vested. The weighted average exercise price of the vested options is $0.30 per share.

The conversion ratio for First Preferred Shares includes a fixed conversion on the initial redemption price and a variable conversion of unpaid dividends accrued to the date of conversion. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to August 29, 2014 which was $0.52. 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 August 29, 2014, the common shares related to the conversion of the unpaid dividends was estimated to be 7,974,072 (by comparison to 8,340,756 on September 30, 2013) and is included in the 25,286,310 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 June 30, 2014, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $35,133,394, after a reclassification of $30,000,000 from share capital ($28,097,218 at June 30, 2013) and recognized a cash flow deficiency from operations at June 30, 2014 of $(3,215,158) (2013 - $(1,342,519)). 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 quarter end the Company has settled $95,080 of debt by issuing 237,700 common share units. In addition, the Company and tenKsolar, Inc. ("tenK") reached a settlement and release of claims agreement in connection with the sales and purchases of STX inverter platforms. As a result of this agreement the Company is not required to repay a $335,000. The Company will reflect this amount through cost of sales in the fourth quarter since it reflects a recovery on the inventory that was written off last year due to the failure of the tenK agreement.

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.