Management Discussion and Analysis

For The Three Months Ended December 31, 2013

The following discussion and analysis ("MD&A") as of February 27, 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 December 31, 2013.

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.sustainableenergy.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, 2013, 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 Sustainable Energy'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.

SIGNIFICANT DEVELOPMENTS

Shipping Systems in Europe

Integration of Bi-Direx inverters into Sonnenbatterie energy storage systems for the European market was completed during the Q1, 2014. During this Quarter, Sonnenbatterie began shipping and installing 8 integrated energy storage systems with scalable storage capacity from 2.5 kilowatt hours ("kWh") to 60 kWh. More than 500 Bi-Direx inverters manufactured in Canada have been shipped to Sonnenbatterie in just over 6 months of signing Supply and License Contracts with Sonnenbatterie in May 2013.

Eguana on Track to Secure Technology Leadership with Emerging Low Cost Battery Technologies

Eguana is on track to position its Bi-Direx inverter as the technology leader for the emerging larger cell and lower cost battery technologies under development in the United States and Japan with multiple developers of high efficiency low cost battery technologies taking or committed to take Bi-Direx inverters for product trials.

Larger cell technologies are the key to lower manufactured costs, but typically require very high current/voltage outputs in distributed applications. Although most expected these technologies to target primarily utility scale systems there is growing evidence that the technologies will target residential and commercial applications especially in the US where energy storage is seen as a means of controlling utility demand charges. A key factor for Eguana is that the larger cell technologies must deliver low voltage modules (typically 48V) in order to keep the minimum storage capacity increments at a manageable level need for these markets.

Important Design Wins in Germany and the US

During Q1 and the first two months of Q2, Eguana recorded notable design wins validating the value of Bi-Direx for this market.

- The Company has received repeat orders for Bi-Direx from a leading Fortune 500 technology company to power a high performance flow-battery technology as part of a scalable (10kW – 100kW) turnkey energy storage system for military and industrial micro-grids. The repeat orders are strong validation of Bi-Direx' value for low cost flow-battery technologies.
- The prestigious Fraunhofer Institute selected Bi-Direx as its 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.

During Q1 2014 Eguana completed an issue of EGT Markets Limited Partnership Units and Common Shares of the Company to raise gross proceeds of $1.75 million.

Outlook

We expect revenues to grow in Europe this year mainly in the residential self consumption market where we have an exclusive partnership with the market leading Sonnenbatterie GmbH. We are also seeing new demand for the Bi-Direx inverter from integrators for remote micro-grid applications mainly in developing countries where storage is used for load balancing of combined of solar/diesel generators.

During this year we expect to see sales of the Bi-Direx inverter in the US for residential back up power installations and potentially for commercial systems where storage is used for on-site peak shaving to avoid utility demand charges. We are also encouraged by recent interest from several important companies in Japan which recognize the value of Bi-Direx for residential systems and we expect to exit CY 2014 with commercial revenues from at least one partnership that will position Eguana in that 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.

Net loss and comprehensive Loss

The Net Loss for the quarter ended December 31, 2013 was $749,573, after adjusting for non-cash items a reduction of $59,392 from $808,945 in the same quarter 2012.

Non-cash items increased the net loss for the Quarter by $1,301,649 up from $830,883 for the same period in 2012. A significant portion of the non-cash item that increase the net loss will be reduced to nil following amendment of the First Preferred Shares effective as of February 27, 2014. The items increasing the net loss for the Quarter are:

i. Accretion on preferred shares in the amount of $905,033 (2012 - $631,381) will be reduced to nil for the period following amendment of the First Preferred Shares

ii. Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $73,284 (2012 - $66,000).

iii. Accreted interest on the royalty debenture required by IFRS accounting in excess of cash interest of $33,173 (September 30, 2012 - $34,086) increased the net loss by $67,286. Pursuant to IFRS, a fair value adjustment on the debenture increased the loss by $2,595 for the period (2012 - $Nil).

iv. 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 quarter ended December 31, 2013

v. IFRS also requires accretion of an amount in respect of the total potential royalty payable to the Government of Canada obligation to repay government contributions to research and development that exceeds the actual royalty. The accreted amount of $12,157 ($13,411, 2012) exceeded the actual royalty paid in the quarter ($4,500) by 7,657 increasing the net loss.

vi. Accrued non cash interest on the Energy Northwest obligation was $3,374 for the quarter ended December 31, 2013 as compared to $4,314 for the quarter ended December 31, 2012.

vii. A decrease in the warranty provision by $13,000 as a result of the passing of time on the warranties, with newer products having a much lower failure rate than older products.

viii. Amortization of capital assets and capitalized development costs of $136,103 for the quarter ended December 31, 2012 ($109,899, 2012).

ix. Share based payments expense increased the net loss by $67,350 at December 31, 2013; whereas there was a reduction of $43,737 for the same period in 2012.

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 (4th qtr). Both items resulted in an increase in Cost of Sales for the respective period. See note 6 to the annual audited consolidated financial statements.

Cash Flow Used in Operations

Cash flow used in operations for the quarter ended December 31, 2013 was $(1,107,576) compared to $101,756 for the quarter ended December 31, 2012. This is primarily a result of a $1,300,000 swing in the non-cash working capital as a result of establishing payment terms to gradually pay off outstanding vendors, as well as an increase in accounts receivable as a result of increased sales activity.

Sales and Gross Margin

Sales for the quarter ended December 31, 2013 were $489,349 compared to $70,161 for 2012. The increase in sales revenues was due primarily to our contract with Sonnenbatterie and the delivery of Bi-Direx units in accordance with that contract.

Cost of sales for the quarter ended December 31, 2013 were $382,322. The amount is comprised of cost of sales on product of $392,352 for a realized gross margin on products sales of (20%), and a reduction on warranty provision of $10,000.

We expect margins on products to be delivered under the Sonnenbatterie 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 quarter ended December 31, 2013, operating costs fluctuated as some were reduced but others were increased to meet the ongoing business requirements.

- We increased operating costs (manufacturing and logistics overhead) costs by $19,892 (10%) from $205,815 for the quarter ended December 31, 2012 to $225,707 for the quarter ended December 31, 2013.
- General and administrative costs ("G&A") (which include stock based compensation) increased by $187,712 (67%) from $278,378 for the quarter ended December 31, 2012 to $466,090 for the quarter ended December 31, 2013. The increase was primarily the result of an increase in stock based compensation due to re-pricing of options, and the result increased audit fees occasioned on the transition to BDO Canada. 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 $9,178 (6%) to $145,149 for the quarter ended December 31, 2013 compared to $154,336 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 quarter ended December 31, 2013 were down by $31,197 to $209,605 from $240,802 for the quarter ended December 31, 2012. The increase reflects a re-focusing of costs towards integration with the Sonnenbatterie platform during the current quarter and is a decrease in costs of $56,922 offset by an increase in amortization of development costs of $25,725.

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.

Financing Costs

A substantial portion of the financing costs recognized in the period are non-cash, in that the cost is accrued, but is not paid. The largest component represents accretion on First Preferred Shares which is 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 for the First Preferred Shares was $905,033 for the quarter ended December 31, 2013 compared to $631,381 for the same period in 2012. Interest accreted for the royalty debentures issued in 2012 and 2013 was $104,459 for the quarter ended December 31, 2013 ($28,090 at December 31, 2012). The interest paid, including the percentage paid based upon revenue, was $22,357 (December 31, 2012 - $14,121). Amortization of the financing costs associated with the Standby Equity agreement with Doughty Hanson was $73,284 compared to $66,000 for the quarter ended December 31, 2012. Accretion of the obligation to repay government contributions to research and development was $12,157 compared to $13,411 for the quarter. Interest on the Energy Northwest obligation was $3,374 for the quarter ending December 31, 2013 as compared to $4,314 for the quarter ending December 31, 2012.

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 $10,816 for the quarter ending December 31, 2013 as compared to $19,966 for the same period in 2012. This decrease of $9,150 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				2012		
	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
Sales	489,349	243,778	15,819	46,728	70,161	880,652	516,426	904,841
Net loss	(2,051,522)	(3,497,288)	(1,843,602)	(1,276,247)	(1,639,851)	(1202,287)	(1,638,812)	(1,398,873)
Per share – basic and diluted	(.08)	(0.16)	(.09)	(0.06)	(0.08)	(0.05)	(0.08)	(0.07)

Summary of Annual Information

	2014 (1 quarter)	2013 (4 quarters)
Revenues	489,349	376,526
Net loss	(2,051,522)	(8,256,988)
Per share – basic and diluted	(.08)	(0.39)
Total assets	3,560,463	2,930,111
Non-current liabilities	5,005,406	4,823,560
Declared dividends	-	-

2012 Net loss has been restated for prior period adjustments as per note 2 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

	Q1 2014	Q1 2013
Employee Compensation	80,132	85,679
Consumables	(21,125)	37,431
Travel	8,178	4,167
Other	19,209	16,039
Amortization	123,211	97,486
Total	209,605	240,802

Operations

	Q1 2014	Q1 2013
Employee Compensation	153,485	168,683
Consumables	7,423	2,477
Travel	21,952	3,630
Freight and storage	32,564	20,057
Other	10,283	10,968
Total	225,707	205,815

Sales and marketing

	Q1 2014	Q1 2013
Employee Compensation	45,391	70,187
Travel	2,770	25,847
Marketing	22,885	32,667
Other	74,103	25,635
Total	145,149	154,336

General and administration

	Q1 2014	Q1 2013
Employee Compensation	128,009	98,816
Stock based compensation	67,350	(43,737)
Travel	4,313	-
Rent	35,479	62,306
Audit & accounting fees	81,072	43,361
Legal fees	7,341	57,675
Other professional fees	-	-
Bad debts	-	-
Other	129,633	47,544
Amortization	12,893	12,413
Total	466,090	278,378

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $(9,680,015) at December 31, 2013 by comparison to $(9,521,881 at September 30, 2013. Of this amount $9,421,151 is attributable to First Preferred Shares Series 7 being classified as a current liability due to the mandatory redemption date in May 2014. On February 27, 2014, the preferred shareholders approved removing the mandatory redemptions on all series of preferred shares. The change will result in the First Preferred Shares being classified as equity for financial reporting purposes.

Extension of the term of the Preferred Shares would reduce the current deficit from $9,680,015 to $258,864.

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 December 31, 2013 the outstanding Company's operating line was $456,690. 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 30 to the Financial Statements.

Related Party Transactions

As disclosed in the condensed interim consolidated financial statements (Note 17), 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 $75,739 for the quarter ended December 31, 2013 (2012 - $77,468) and share based compensation of $54,441 for the quarter ended December 31, 2013 (2012 - $Nil). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $49,500 for the quarter ended December 31, 2013 (2012 – $50,500) and share based compensation of nil (2012 - $9,945).

Financing costs of $13,523 for the quarter ended December 31, 2013 (2012 - $2,423) related to the debentures and First Preferred Shares Series 15 are included in the statement of loss. Interest payments amounted to $2,494 (2012 - $870) for the period ended December 31, 2013.

Included in accounts payable and accrued liabilities is $97,740 (September 30, 2013 - $139,421) due to directors and members of key management personnel.

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 February 27, 2014, 31,569,661 common shares and 1,131,587 First Preferred Shares convertible at the option of the holder into 27,416,655 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, common share purchase warrants representing the right to acquire 3,529,411 common shares at a price of $0.17 and common share purchase warrants representing the right to acquire

241,967 common shares at a price of $0.45. 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 $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 February 27, 2014 which was $0.42. 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 February 27, 2014, the common shares related to the conversion of the unpaid dividends was estimated to be 9,279,256 (by comparison to 8,340,756 on September 30, 2013) and is included in the 27,416,655 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 December 31, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $33,645,728, after a reclassification of $30,000,000 from share capital ($24,977,369 at December 31, 2012) and recognized a cash flow deficiency from operations at December 31, 2013 of $(1,107,576) (2012 - $101,756). The Company also had a working capital deficit of $9,680,015 (adjusted to $258,864 on the extension of the Series 7 Preferred Shares 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.

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.