

EESTOR CORPORATION
INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS – QUARTERLY HIGHLIGHTS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2019
DISCUSSION DATED: AUGUST 29, 2019

Introduction

The following interim Management Discussion & Analysis (“Interim MD&A”) of EESor Corporation (the “Company” or “EESor”) for the three and nine months ended June 30, 2019 has been prepared to provide material updates to the business, operations, liquidity and capital resources of the Company since its last annual management discussion & analysis, being the Management Discussion & Analysis for the fiscal year ended September 30, 2018 (“Annual MD&A”). This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Interim MD&A has been prepared in accordance with section 2.2.1 of Form 51-102F1 of the National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's Annual MD&A, audited annual consolidated financial statements for the years ended September 30, 2018 and 2017, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the three and nine months ended June 30, 2019, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's unaudited condensed interim consolidated financial statements and the financial information contained in this Interim MD&A are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Information contained herein is prepared by management of the Company and approved by the Board of Directors on August 29, 2019, unless otherwise indicated.

Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in these filings. The audit committee and Board of Directors (the “Board”) provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this Interim MD&A and the accompanying unaudited condensed interim consolidated financial statements.

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

For the purposes of preparing this Interim MD&A, management, in conjunction with the Board, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

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Further information about the Company and its operations can be obtained from the offices of the Company or on SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Statements

Certain statements contained in this Interim MD&A and in certain documents incorporated by reference in this Interim MD&A, constitute forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this Interim MD&A speak only as of the date of (i) this Interim MD&A or (ii) as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this Interim MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Forward-looking statements	Assumptions	Risk factors
The Company intends to complete additional equity financing, debt borrowing or a combination of both.	The funds are intended to be used towards continued third party testing and ongoing enhancement to the current technology, third party partnering, licensing diligence and negotiations, as well as working capital.	The Company may not be able to complete the desired financing due to market conditions or other factors needed to increase its cash on hand and continue to operate and support the Company.
Management believes that its energy storage technology, if proven successful, will allow the Company to successfully license and or partner with known commercial capacitor companies that require a capacitor that provides high voltage and high capacitance at a substantially lower cost to currently available technologies.	The energy storage technology will be successfully commercially developed and will possess and demonstrate the performance and economic attributes anticipated.	The energy storage technology may not be successfully commercialized for financial, technical or other reasons, or in a manner providing the features and benefits expected or on a timely basis. The technology, even if successfully developed, may not be readily demonstrated or gain market acceptance. Also see “Risks and Uncertainties” section of the Company’s most recently filed AIF.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also make reference to those risk factors referenced in the “Risks and Uncertainties” section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Interim MD&A.

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Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. As a result, the Company cannot guarantee that any forward-looking statements will materialize. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Description of Business

EEStor is a developer of high energy density solid-state capacitor technology utilizing the Company's patented Composition Modified Barium Titanate (CMBT) material. The Company is focused on joint venture and licensing opportunities for its energy storage technology across a broad spectrum of industries and applications.

The Company's success depends on the commercialization of its technology. There is no assurance that EEStor will be successful in the licensing of the technology. Readers are directed to the "Risk Factors" disclosed in the Company's public filings.

EEStor Corporation owns 50.1% of the common shares of EEStor Inc. EEStor Corporation also owns 100% of the preference shares of EEStor Inc., which can be converted to common shares on a 1 to 1 basis. This would result in an as converted basis control of 71.3% of EEStor Inc.

The Company holds certain technology rights to solid-state capacitor and related energy storage technologies currently under development by EEStor Inc. The acquisition of the controlling interest in EEStor on January 27, 2014 aligned the businesses of both companies and now allows the Company to benefit from other potential product opportunities that may be available to EEStor Inc.

Operational Highlights

Corporate

- On December 17, 2018, the Company received approval from the TSXV to extend the expiry dates of 10,559,938 and 3,075,723 outstanding common share purchase warrants with an exercise price of \$0.30 and original expiries of December 24, 2018 and February 22, 2019, respectively to August 24, 2019.
- On January 21, 2019, the Company entered into a loan agreement for a secured credit facility of \$300,000 from Dr. Robert Tocchio, a shareholder of the Company. The credit facility is secured by a pledge of all of the Company's shares in ZENN Capital Inc, the holding company which owns all of the Company's equity interests in subsidiary, EEStor, Inc., as well as an assignment of loans made by the Company to EEStor, Inc. and related security. Draws under the credit facility bear interest at the rate of 6.0% per annum and must be repaid by January 21, 2020. The lender is entitled to elect to receive repayments of principal under the

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credit facility in common shares of the Company based on the market price at the time of repayment. As partial consideration for the provision of the credit facility, the Company has agreed to grant to the lender warrants to acquire up to 2,307,692 common shares, each warrant exercisable until January 21, 2020 at a price of \$0.13 per share.

- During February 2019, the Company received \$60,000 and US\$25,025 (\$33,485) of promissory notes from various investors. These promissory notes are unsecured, bear interest at the rate of 8.0% per annum and are repayable within one year.
- During April 2019, the Chief Financial Officer and two directors resigned. The Company appointed two new directors to the Board.
- On April 23, 2019, the Company received approval from the TSX to reprice and extend the expiry date of 7,240,000 outstanding common share purchase warrants originally issued in April 2017. This amendment changes the exercise price of the warrants from \$1.00 to \$0.60 and the expiry from April 24, 2019 to April 24, 2020.
- On May 29, 2019 and June 5, 2019, the Company completed the first and second tranche of a non-brokered private placement raising gross proceeds of \$575,000 from the sale of 11,500,000 units. Each unit was priced at \$0.05 and consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 and expires 60 months from date of issue.
- On June 5, 2019, the Company received approval from the TSX to extend the expiry date of 16,501,667 outstanding common share purchase warrants originally issued in June 2017. This amendment changes the expiry from June 15, 2019 to June 15, 2020.
- On July 12, 2019, the Company announced that it will conduct a final tranche of its previously announced non-brokered private placement to raise gross proceeds of \$175,000 from the sale of 3,500,000 units. Each unit is priced at \$0.05 and consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.10 for a period of 60 months from the closing date of the offering. All securities issued pursuant to the private placement are subject to a 4-month hold period in Canada.
- On July 12, 2019, the Company announced the appointment of Mr. Jing Peng as its new Chief Financial Officer.
- On August 9, 2019, the announced that it will extend the expiry date of 13,635,661 outstanding common share purchase warrants through until December 24, 2020. This warrants are currently exercisable at a price of \$0.30 and were previously scheduled to expire on August 24, 2019.

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Operations

On January 24, 2018, the Company announced several key technological improvements to its Composition Modified Barium Titanate (“CMBT”) based energy storage products that included:

- i. An increase in energy density of its CMBT-polymer dielectric samples to 5.2 watt hours/liter (wh/l);
- ii. A potential decrease in CMBT-based capacitor product costs of 10x;
- iii. Low-cost, long-life, thermally stable capacitors with potential to significantly impact grid storage, wind, automotive, aircraft, laptop, camera, power backup, memory, UPS, solid-state disc drive and railway wayside market sectors.

The Company announced that it continues to make significant improvements to its high energy, low-cost capacitors under development. EESstor has developed several polar polymers for use with its CMBT dielectric powder. Three independent testing firms, Radiant Technologies, Intertek and MRA Labs, have completed testing various aspects of the Company's storage capacitor technology.

In addition to increasing energy density, the anticipated raw material costs to manufacture EESstor's polymer capacitors have dropped by approximately a factor of 10. All materials utilized in the production of EESstor's CMBT and CMBT-based capacitors are globally abundant, available worldwide and environmentally benign.

EESstor continues to work on a number of initiatives to unlock further performance improvements in its unique CMBT dielectrics.

On March 1, 2018, the Company announced completion of independent third-party testing to characterize layers of dielectric materials (electric insulator) made from its CMBT ceramic powder using specialized glass as the binder. Testing by Intertek, MRA Labs and Radiant Technologies have shown EESstor's glass-CMBT to be a relaxor dielectric with a relative permittivity over 30,000. Highlights from the testing are:

- Glass - CMBT layers are non-toxic, lead-free relaxor dielectric
- Relaxor dielectric implies high return on energy stored
- Relative permittivity over 30,000 at low voltage and over 10,000 at above 1 volt per micron
- Glass - CMBT layers feature low loss with both high self-discharge time constants and low dissipation factor
- Glass - CMBT layers result in well-balanced, high performance, low cost, non-toxic, general and high voltage capacitor dielectric material

On March 12, 2018, the Company announced completion of its Phase 8 independent third-party testing to characterize layers of dielectric materials (electric insulator) made from its CMBT ceramic powder using specialized glass as the binder. CMBT-glass sintered part 344 was sliced into several layers and each layer was sent for separate testing by Intertek (344-2B), Radiant Technologies (344-1) and MRA Laboratories (344-3).

Breakdown Voltage

The results of Intertek's testing found that EESstor's CMBT-glass dielectric sample 344-2B, which was thinned down to 32 microns, had an energy density of 1.4 watt-hours per liter and a leakage current of 1.8 nano-amperes at 85.94 volts per micron, which is 92% of the breakdown strength. From these measured results, Intertek calculated an insulation resistance of 1.5 tera-ohms and a relative permittivity (k) of 154 at 2750 volts (a field of 85.94 volts per micron). X7R dielectrics are the most commonly used type of commercial Multi Layer Ceramic Capacitors (MLCC). Layer 344-

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2B demonstrated energy density slightly higher both at the 35 volts per micron operating voltage, and at 80 volts per micron, near breakdown voltages of 90 volts per micron for the X7R and 93.75 for 344-2B.

Time Constant

At this high field, a self-discharging time constant of 453 seconds was calculated, which is 492 times the time constant of EESor's published Phase 6 results at a comparable energy density. Sample 344-2B ultimately broke down at 3000 volts, exhibiting a breakdown strength of 93.75 volts per micron.

Efficiency and Breakdown Strength

Layer 344-1 tested by Radiant Technologies was 460 microns thick. The thin Polarization to Electric Field (P-E) hysteresis loop plots were fundamentally characteristic of relaxor dielectrics. Radiant Technologies also calculated the efficiency of the dielectric on charge/discharge to be 83% at both 4800 volts (10.4 volts per micron) and at 5300 volts (11.5 volts per micron), while the breakdown voltage was 5800 volts (12.6 volts per micron). At these values, the sample tested by Radiant Technologies exhibited 83% efficiency at an electrical field equal to 91% of the breakdown strength and 2 nano-amperes of leakage. With the findings of the breakdown strength of layer 344-2B tested by Intertek, efficiency is expected to be in the same 80% range at 1.4 watt-hours/per/liter.

Thermal Stability and Life Expectancy

The testing of layer 344-3 by MRA Laboratories further confirmed relaxor dielectric behavior. Specifically, when the frequency of AC voltage was increased from test to test, the maximum permittivity was recorded at higher temperatures. Temperature Coefficient of Capacitance (TCC) testing demonstrated CMBT-glass layers have good thermal stability and Highly Accelerated Life Testing (HALT) revealed a long-expected lifetime of the dielectric.

On April 26, 2018, the Company published a report detailing the comparative advantages of its ceramic-based dielectric capacitor for the aluminum electrolytic capacitor (AEC) market. The report, prepared by EESor and its consultants, directly compared and contrasted its certified solid-state technology against incumbent AEC offerings.

Additionally, the report indicated that the ceramic-based dielectric material offered by EESor is expected to allow the production of capacitors that dramatically extend the 1,000 to 10,000-hour life expectancy typically offered by AECs.

On May 11, 2018, the Company announced it has achieved further improvements with its hybrid glass-CMBT capacitor dielectric material that is shown in independent third-party testing to provide higher permittivity at a significantly reduced cost to existing capacitor technologies.

Ceramic capacitors produced using EESor materials have the same capacitance as commercially available plastic film capacitors, yet are up to 92 percent smaller. A reduction in size translates to a reduction in cost as less raw material is required for manufacturing and ceramic dielectric materials are less expensive than metallized plastic film to produce. Independent testing found that material costs were up to 1,195% more for commercial film capacitors than for the EESor CMBT-glass capacitors.

On May 24, 2018, the Company announced the launch of "The New Alternative - Electrolytic Replacement", the first in a planned series of informational videos that detail market-specific test results based on EESor's technology. The video series will provide viewers with information on the benefits of EESor's capacitor materials and offers expert commentary for engineers,

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scientists, shareholders and financial analysts. Each instalment will outline the market opportunity, provide market specific use-cases, and highlight key anticipated advantages of EESstor's new technology over incumbent solutions.

On June 13, 2018, the Company announced the publication of a new report detailing the comparative advantages of its ceramic-based dielectric capacitor for the decoupling capacitor market. The report, prepared by EESstor and its consultants, directly compared its third party certified solid-state technology against incumbent decoupling capacitors.

Solid state capacitors manufactured using EESstor's higher relative permittivity material are expected, based on independent test results, to require up to 78% less material than incumbent decoupling capacitors, thereby enabling EESstor's technology to potentially disrupt the multi-billion-dollar market by delivering longer life and lower cost capacitors.

EESstor's proprietary ceramic dielectric material demonstrates a significantly higher relative permittivity than dielectrics used in commercially available decoupling capacitors. Y5V dielectrics in general have high capacitance per unit volume and have a wide operating temperature range of +22% –82% capacitance change over the typical capacitor operating temperature range of –30°C to +85°C (-22°F to +185°F). These characteristics make Y5V ideal for decoupling applications within limited temperature ranges.

On October 23, 2018, the Company announced the results of independent third party production and performance testing of Multilayer Ceramic Capacitors (MLCCs), made with EESstor's proprietary Composition Modified Barium Titanate (CMBT) powder.

In a first for the MLCC industry, EESstor's CMBT powder has been used to create densified ceramic layers and Multilayer Ceramic Capacitors using standard Multilayer Ceramic Capacitor processes.

During production tests, EESstor's CMBT was used to create MLCC devices and densified layers with high relative permittivity, high insulation resistance and low dissipation and predicted long lifespan. The test results demonstrate that EESstor's high permittivity CMBT powder is not only compatible with standard MLCC manufacturing techniques, it can also be used to create superior performing and long lasting MLCC devices.

The latest tests carried out between August and September of 2018 by Radiant, MRA and Intertek, demonstrated that MLCC techniques can produce a lead-free relaxor dielectric material, with a very high relative permittivity of over 30,000, alongside low residual polarization, high insulation resistance and low dissipation.

In addition, Highly Accelerated Life Testing (HALT) predicts a long expected lifespan for the produced MLCCs, with 20 out of 20 units passing HALT tests with an average of 1 tera-ohm resistance after 100 hours at 180°C.

The EESstor MLCCs meet Electronic Industries Alliance (EIA) RS-198 Standards for X7V and Y5V thermal performance criteria. This demonstrates EESstor's high permittivity CMBT powder is compatible with standard MLCC manufacturing techniques.

On November 28, 2018, the Company announced significant performance improvements across many different metrics for its Composition Modified Barium Titanate (CMBT)-Glass and CMBT-Polymer hybrid dielectric development programs.

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EEStor's Phase 9 CMBT-Glass samples demonstrate a near doubling of relative permittivity (κ) with field over Phase 8 samples, with similar or improved resistivity. This means that capacitors using Phase 9 dielectrics would be half the physical size of those disclosed in Phase 8 for the same performance.

Considering EEStor's already disclosed anticipated market advantage of the Phase 8 dielectric over existing technology, featuring size advantages in a range varying from 14% to 1,195% depending on application for the same performance, these volume advantages will now be enhanced by a further reduction in volume of 50% utilizing Phase 9 dielectrics.

A size advantage of 28%, means the manufacturing of a specific capacitor would utilize 28% less material by utilizing EEStor CMBT for the same performance. When determining comparable cost, the volume of raw material used is the most significant driver in the cost-driven capacitor commodity market. Smaller component size also enables improved miniaturized designs and enables new market opportunities for EEStor.

It is important to note that this near doubling of κ with field did not come at the expense of resistivity (which translates into higher energy leakage), a common trade off in the industry. Rather, this near doubling of κ with field was delivered with improved resistivity, with a notable increased self-discharge time constant for a single layer of Phase 9 dielectric of 1,265 seconds, compared to 484 seconds in Phase 8. EEStor has published a guide to help understand the different metrics commonly used in the capacitor industry.

This Phase 9 release of CMBT-Glass dielectrics also highlights how this hybrid composition offers a significant differentiator over other Type II ceramic dielectrics, which in turn highlights the inherent properties of EEStor CMBT ceramic powder. Slight differences in the types of glass, glass content, coatings and/or other additions to the powder can result in drastic changes to the Thermal Coefficient of Capacitance and to the DC bias voltage saturation characteristics of EEStor CMBT-Glass hybrid dielectrics.

Thermal Coefficient of Capacitance and DC bias voltage saturation are measurements of how the performance of the dielectric varies with temperature and high voltage. The lowest possible variation of the performance with temperature enables more demanding applications (outdoor, notably, but in more strenuous industrial and automotive conditions as well) and thus, broader market opportunities for EEStor's technology.

Low variation of the performance at higher and higher voltages is the key to realizing EEStor's ultimate objectives in the energy storage market. The Phase 9 white paper further explains how different hybrid formulations have helped EEStor to start minimizing both the performance variation with temperature and higher voltage, without compromising any other performance characteristics.

EEStor also reported considerable progress in its CMBT-Polymer hybrid programs. Significant leakage reduction in comparison to Phase 6 polymers is disclosed in both UL and UH type Phase 9 samples. This means the energy returned by these samples reached 79% of the energy stored, a 26 times improvement over the samples of Phase 6.

The focus of the CMBT-Polymer hybrid development path is to develop samples that can reach very high voltage in flexible layers that are a few microns-thick. The classical challenges EEStor faces is to balance the tradeoff between low leakage (high resistivity) and high charge capacity (relative permittivity).

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A last key development of the CMBT-Polymer program is that the thermal performance of EESor CMBT-Polymer hybrid samples has been improved to the Y8R level. This means that the samples experience less than 15% variation in performance over a temperature range of -30°C to 150°C (-22°F to 302°F). That is a significant improvement over the previously disclosed Y5T level which represents a +22% -33% variation in performance over a temperature range of -30°C to 85°C (-22°F to 185°F). The Company plans on testing and independently certifying its latest internal results during the fourth quarter of 2019.

On January 23, 2019, the Company announced an update to shareholders from Ian Clifford, CEO.

In summary, the main advantages that EESor materials bring to potential partners (as highlighted in detail in our published white papers and market reports) are:

- High energy density: EESor's CMBT has achieved energy densities that are 5 to 100's of times higher than various materials currently used in existing high voltage capacitor industries.
- Lower cost: EESor's higher energy density means less material, which is both cheaper and more abundant and can be used in manufacturing equivalent capacitors significantly lowering the final production costs for similar performance.
- Long product life: EESor's pure solid-state ceramic solutions have significant lifespan advantages over existing technologies in many of its target capacitor submarkets (e.g., Aluminum Electrolytic Capacitors typically fail over time due to leaking electrolytes).
- Green footprint: EESor's CMBT can help the capacitor industry reduce its environmental footprint by reducing raw material requirements, using abundantly available feed stocks, and by eliminating the use of toxic materials. CMBT is environmentally friendly, as no toxic liquids or raw materials are used in its production.

Financial Highlights

Financial Performance

The Company's net loss totaled \$84,357 for the three months ended June 30, 2019, with basic and diluted loss per share of \$0.00, of which the share of the loss by the non-controlling interest in EESor was (\$113,959). This compares with a net loss of \$1,524,326 with basic and diluted loss per share of \$0.01 for the three months ended June 30, 2018, of which the share of the loss by the non-controlling interest in EESor was \$411,908. The decrease in net loss of \$1,439,969 was principally due to the temporary suspension of operations at EESor in Cedar Park and cost saving initiatives for corporate overheads necessitated by the Company's liquidity challenges.

As at June 30, 2019, the Company has a cash balance of \$136,221 and current liabilities of \$776,022 due within 12 months. As at June 30, 2019, the Company has working capital deficiency of \$140,264. If adequate funds are not available on acceptable terms, the Company may not be able to fund its planned operations for at least the next 12 months and as a result may be required to continue highly scaled back operations.

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General and administrative expenses are summarized for the three months ended June 30, 2019 and 2018 as follows:

	Three months ended June 30, 2019 (\$)	Three months ended June 30, 2018 (\$)
Salaries and benefits	nil	187,074
Stock based compensation	30,307	300,627
Consulting fees	20,750	81,370
Insurance	(16,274)	77,693
Legal, audit, regulatory costs	(42,136)	203,786
Occupancy costs	75,875	77,647
Other costs	(4,150)	85,931
Financing cost	10,363	nil
Total General and Administrative	74,735	1,014,128

For the three months ended June 30, 2019, salaries and benefits decreased by \$187,074 over the prior period. During the three months ended June 30, 2019, due to the Company's liquidity challenges, officer and directors of the Company forfeited salaries for the current period.

For the three months ended June 30, 2019, stock-based compensation decreased by \$270,320 over the prior period. Stock-based compensation expense will vary from period to period depending upon the number of options granted and vested during a period and the fair value of the options calculated as at the grant date.

For the three months ended June 30, 2019, legal, audit, regulatory costs decreased by \$245,922 over the comparative period as a result of a decrease in the need for legal services during the current period as well as the reversal of over accrued costs.

For the three months ended June 30, 2019, other costs decreased by \$90,081 over the comparative period as a result of cost saving initiatives implemented for corporate overheads during the current period.

For the three months ended June 30, 2019, consulting fees decreased by \$60,620 over the comparative period as a result of a decrease in the need for consulting services during the current period.

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Engineering and development expenses are summarized for the three months ended June 30, 2019 and 2018 as follows:

	Three months ended June 30, 2019 (\$)	Three months ended June 30, 2018 (\$)
Salaries and benefits	27,035	349,330
Service and materials	(39,791)	133,688
Amortization and depreciation	22,378	27,180
Total Engineering and Development	9,622	510,198

Engineering and development includes all costs related to product research, engineering and development. For the three months ended June 30, 2019, salaries and benefits and service and materials decreased by \$322,295 and \$173,549, respectively. During the current period, due to the Company's liquidity challenges, operational activities at the plant in Cedar Park have been scaled back dramatically, with key employees focused exclusively on Joint Venture and certification mandates. In addition, the Company reversed the over accrual of costs for services and materials.

Cash Flow

At June 30, 2019, the Company had cash of \$136,221 compared to \$648,034 of cash at September 30, 2018. The decrease in cash of \$511,813 resulted from outflows in operating and investing activities of \$1,450,086 and \$30,212, respectively, offset by inflows from financing activities of \$968,485.

Operating activities were affected by adjustments of depreciation and amortization of \$73,145, stock-based compensation of \$231,307, interest accrual of \$10,363 and financing cost of \$136,154. Net change in non-cash working capital balances of \$330,075 resulted from an increase in prepaid expenses and sundry assets of \$187,207 and a decrease in accounts payable and accrued liabilities of \$142,868.

The Company used \$30,212 for investing activities to purchase \$5,972 of equipment and \$24,240 for the prosecution and maintenance of patents and trademarks.

The Company received \$968,485 from financing activities \$393,485 from receipt of promissory notes and \$575,000 from proceeds from issuance of shares.

Liquidity and Financial Position

The Company is an early-stage development corporation and accordingly has not generated revenues from its technology. The Company has incurred a significant accumulated deficit to date of \$70,228,462 (September 30, 2018 – deficit of \$68,970,412). The ability of the Company to continue operations is dependent upon obtaining sufficient funding to sustain operations through the development stage, successfully bring its technologies to market and achieving profitable operations. The Company manages its capital, which consists of cash provided from financing, with the primary objective being safeguarding sufficient working capital to sustain operations. The Board has not established capital benchmarks or other targets.

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The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of June 30, 2019, the Company is not compliant with TSXV Policy 2.5 but is currently in the process of exploring additional fundraising through equity and debt financing.

During fiscal 2019, the Company's corporate head office costs are estimated to average \$125,000 per quarter. Head office costs include professional fees, reporting issuer costs, business development costs and general and administrative costs. The engineering and development costs of the Company are estimated to average \$50,000 per quarter.

As at June 30, 2019, the Company had cash of \$136,221 (\$648,034 at September 30, 2018). The Company will need to obtain additional financial resources through operations, additional equity and/or debt financing or by licensing technology for cash proceeds to fund its activities for fiscal 2019 and beyond.

The Company is pursuing additional funding through the issuance of additional equity or debt financing (See "Subsequent events"). The Company's short-term plans are dependent on its ability to access funding to continue operations and develop its technology. If the Company is unable to obtain funding through the issuance of common shares, warrants or stock options exercised, issuance of debt, or proceeds from a licensing arrangement in a timely manner, then these programs and operations in general could be delayed or cease altogether.

Continued uncertainty in the financial and business markets may impact the Company's ability to raise additional financing proceeds and it may impact the terms and conditions related to any financing.

The Company has not obtained profitable operations to date. For the nine month period ended June 30, 2019, the Company had a net loss and comprehensive loss of \$1,570,980 (June 30, 2018: \$4,092,977). Whether and when the Company can attain profitability and positive cash flow is uncertain. These circumstances cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. Management is actively pursuing the development and commercialization of its technologies and is continuously evaluating the availability of additional debt or equity financing to provide adequate cash resources to carry out its business objectives. Nevertheless, there is no assurance that these ongoing initiatives will continue to be successful.

The Company's ability to continue as a going concern is dependent upon the Company's ability to obtain the ongoing support of its investors, obtain profitable operations, generate significant licensing fees and/or raise additional capital. The audited consolidated financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. See "Risks and Uncertainties" below and "Caution Regarding Forward-Looking Statements" above.

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Trends

Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in both short-term operating and longer-term strategic decisions. During fiscal 2019, equity markets in Canada remained challenging with equities increasing moderately during this period. Apart from these and the risk factors noted throughout this Interim MD&A and specifically under the heading "Risks and Uncertainties", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations. See "Risks and Uncertainties" below.

Transactions with Related Parties

Key Management Personnel Compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company, including members of the Company's Board. The Company considers key management to be the members of the Board, the Chief Executive Officer and the Chief Financial Officer.

Key management personnel may also participate in the Company's stock-based compensation plans. The remuneration of key management personnel were as follows:

	Three months ended June 30, 2019 (\$)	Three months ended June 30, 2018 (\$)	Nine months ended June 30, 2019 (\$)	Nine months ended June 30, 2018 (\$)
Wages and salaries ⁽¹⁾	nil	189,554	246,557	630,885
Stock based compensation	7,192	168,180	116,484	413,406
	7,192	357,734	363,041	1,044,291

⁽¹⁾Due to the Company's liquidity challenges, officer and directors of the Company forfeited salaries for the current period.

Change in Accounting Policies

The Company adopted the following new standards issued by the IASB or the IFRIC:

IFRS 9, Financial Instruments

Effective October 1, 2018, the Company adopted IFRS 9. In July 2014, the IASB issued the final publication of the IFRS 9 standard, which supersedes IAS 39, Financial Instruments: recognition and measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company has adopted IFRS 9 on a retrospective basis, however, this guidance had no impact to the Company's financial statements.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

The new hedge accounting guidance had no impact on the Company's unaudited condensed interim consolidated financial statements.

Below is a summary showing the classification and measurement bases of our financial instruments as at October 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39).

Classification	IAS 39	IFRS 9
Cash	Loans and receivables (FVTPL)	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost
Debt advance	Other financial liabilities (amortized cost)	Amortized cost

As a result of the adoption of IFRS 9, the accounting policy for financial instruments as disclosed in the Company's September 30, 2018 consolidated financial statements has been updated as follows:

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or FVTOCI. The Company determines the classification of its financial assets at initial recognition.

- Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or FVTOCI. Gains or losses on these items are recognized in profit or loss.

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- Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

The Company's cash is classified as financial assets and measured at FVTPL.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

- Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following five categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable, accrued liabilities and debt advance do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

- Financial liabilities recorded at FVTPL

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of

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the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's financial statements.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Future Accounting Pronouncements

The accounting pronouncements detailed in this note and those that have been issued but are not yet effective and may have an impact on the financial statements. The Company has not early adopted these standards and is currently evaluating the impact, if any, that these standards might have on its unaudited consolidated interim condensed financial statements.

(i) IFRS 16 – Leases (“IFRS 16”) sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (“lessee”) and the supplier (“lessor”). This will replace IAS 17, Leases and related Interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective to annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers.

Risks and Uncertainties

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Investors in the Company's securities should consider each of the risks identified under the heading "Risks and Uncertainties" in the Company's Annual MD&A for the fiscal year ended September 30, 2018 available on SEDAR at www.sedar.com. In addition to the risks identified therein, additional risks not presently known to the Company may arise from time and may cause a material adverse effect on the Company and any investment in the Company. Investors are cautioned not to rely upon any forward-looking statements in this Interim MD&A as such statements are subject to known and unknown risks.

Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed interim consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.