



MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2019

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the third quarter of Fiscal Year 2019, ended February 28, 2019. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 20% and 15% of our operations, assets and liabilities are denominated in British Pound Sterling and US Dollar respectively. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on April 25, 2019. Disclosure contained in this document is current to this date, unless otherwise stated.

Forward-Looking Statements

This MD&A may include statements that are forward-looking. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We discuss the principal risks of our business in Section 7 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 8 entitled "Forward-Looking Information".

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, U.S., and China. The Company's products and services are "best-in-class" with world-wide application in a broad range of sectors.

Thermal Energy engages clients through a unique mix of process, energy, environmental and financial expertise to save our customers money and improve their bottom lines by reducing their fuel use, water use and carbon emissions. The Company's award-winning products have an excellent track record of longevity, proven reliability and performance and have been shown to provide: significant energy savings; improved water efficiency; reduced greenhouse gas emissions; lower maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

More information on Thermal Energy can be found at www.thermalenergy.com. **GEM™**, **FLU-ACE®**, **THERMALONox™** and **DRY-REX™** are trademarks of Thermal Energy.

1.2 Core Businesses

The Company operates primarily in North America and Europe but also sells its products and services through representative agents throughout the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports three technology lines - direct contact heat recovery solutions (e.g. **FLU-ACE®**), indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**) and condensate return system solutions (**GEM™** steam traps). The Company is also developing a number of other technology lines, including low, temperature biomass drying systems (**DRY-REX™**).

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the **GEM™** steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. On June 29, 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells **HEATSPONGE** and **SIDEKICK** indirect contact heat recovery units.

The Company has two primary operational bases of operation, one in Ottawa, Canada covering North America ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). Although the Thermal Energy Ottawa is considered to be the center of excellence for heat recovery engineering and technical support, and Thermal Energy Bristol the center of excellence for **GEM™** steam traps and condensate return systems engineering and technical support, continuous cross-training means that both Ottawa and Bristol have expertise across both major product lines.

Although the Company markets its products throughout the world, the majority of sales are from within North America and Europe where the Company has direct sales and engineering staff. While North American and European markets continue to be the Company's strategic focus, the Company also continues to look for new agents and distributors in other regions deemed to have potential.

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1.3 Strategy

The Company's mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency and sustainability technology and solutions to the industrial, institutional, and commercial sectors, helping our clients around the world improve their bottom line, move towards sustainable operations and reduce their environmental and carbon foot print.

The Company has representation in 28 countries around the world with a current focus on the key markets of North America and Europe. Thermal Energy's penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets while at the same time begin to build its business in other energy-intensive markets around the world.

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large multinational companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors.

With an established global sales and distribution network the Company is looking to develop and/or acquire additional complementary products and services that can be distributed through its existing network.

2. Performance Measures

In addition to the quarterly financial statements, the following performance measures provide useful information to both management and investors to better understand the financial performance and financial position of the Company.

2.1 EBITDAS

Management believes that EBITDAS (earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write down of lease) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital and excludes non-operating items. EBITDAS also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDAS does not have a standardized meaning prescribed by International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is income (loss) before income taxes, as disclosed in the statements of comprehensive income.

2.2 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short term future revenue of our Company resulting from already recognized orders. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

3. Performance

3.1 Summary of Third Quarter Results

| | Q3 2019 | Q3 2018 |
|--|--------------|--------------|
| | \$ | \$ |
| Revenue | 3,114,757 | 3,228,386 |
| Cost of sales | (1,667,152) | (1,628,615) |
| Gross profit | 1,447,605 | 1,599,771 |
| Administration, selling, marketing and business development expenses | (2,286,949) | (1,757,387) |
| Research and development expenses | (44,790) | (28,567) |
| Operating income (loss) | (884,134) | (186,183) |
| Finance costs | (82,174) | - |
| Finance revenue | 4,780 | 7,784 |
| Income (loss) before income taxes | (961,528) | (178,399) |
| Income taxes recovery (expense) | 72,047 | 19,755 |
| Net income (loss) for the period | (889,481) | (158,644) |
| Exchange differences on translation of overseas operations | 71,501 | 23,161 |
| Total comprehensive income (loss) for the period | (817,980) | (135,483) |
| EBITDAS | (734,366) | (156,016) |
| Order backlog as at February 28 | 10.6 million | 14.9 million |
| Order backlog as at April reporting date | 16.6 million | 16.3 million |

Revenues and Gross Profits

Revenues were \$3,114,757 in the quarter ended February 28, 2019, representing a small decrease of \$113,629, or 3.5%, over the \$3,228,386 recognized in the quarter ended February 28, 2018. The decrease in revenues in the current quarter was mainly due to the decrease in sales from the European market.

The gross profit of \$1,447,605 in the quarter ended February 28, 2019 represented a decrease of \$152,166, or 9.5%, from the \$1,599,771 achieved in the quarter ended February 28, 2018. The decrease was mainly the result of decreased revenues from the European market. Gross profit expressed as a percentage of sales was 46.5% in the third quarter of FY 2019 compared with 49.6% in the third quarter of FY 2018. The decrease in gross profit as a percentage of sales was mainly due to lower gross profit achieved on heat recovery projects in the current quarter. Gross profits are dictated by a number of factors such as the location of the project, type of industry, and the size of the project.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the quarter ended February 28, 2019 totaled \$2,286,949 compared to \$1,757,387 in the quarter ended February 28, 2018, an increase of \$529,562, or 30.1%. Excluding noncash items (i.e. depreciation, amortization and stock-based compensation) cash based Operating Expenses for the quarter were \$2,141,962 compared to \$1,763,514 the same quarter last year. The main increases included the additional operating expenses integrated to the consolidated results from Boilerroom Equipment Inc., additional amortization expense on the intangibles acquired from Boilerroom Equipment Inc., increased commissions due to increased revenues and the strategic addition of new sales and technical staff to support the growth of the company.

Research and development expenses in the third quarter of FY 2019 totaled \$44,790 compared to \$28,567 in the third quarter of FY 2018.

Finance costs and finance revenue: for the quarter ended February 28, 2019, finance costs of \$82,174 arose due to the issuance of long-term debt to finance the acquisition of Boilerroom Equipment Inc. Finance

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revenue of \$4,780 was recognized in the quarter ended February 28, 2019 compared to \$7,784 from the quarter ended February 28, 2018.

Loss before income taxes for the quarter ended February 28, 2019 was \$961,528 compared to a loss of \$178,399 in the same quarter of the previous year. The loss was mainly due to decreased revenues and increased operating expenses.

Income tax recovery in the third quarter of FY 2019 was \$72,047, compared to a tax recovery of \$19,755 in the third quarter of FY 2018. Both the U.K. and the U.S entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities.

Net loss for the quarter ended February 28, 2019 was \$ 889,481 compared to a net loss of \$ 158,644 in the same quarter of the previous year.

Comprehensive loss was \$817,980 for the third quarter of FY 2019 compared to a loss of \$135,483 for the third quarter of FY 2018. In the third quarter of FY 2019 and FY 2018, the pound sterling was strengthened against the Canadian dollar which resulted in other comprehensive income of \$71,501 and \$23,161 respectively.

EBITDAS was negative \$734,366 for the third quarter of FY 2019 compared to negative of \$156,016 for the same quarter of the previous year.

| 3.2 Summary of Year to Date Results | Nine months Ended Feb 28, 2019 | Nine months Ended Feb 28, 2018 |
|--|---|---|
| | \$ | \$ |
| Revenue | 15,108,710 | 10,055,417 |
| Cost of sales | (9,348,710) | (5,084,339) |
| Gross profit | 5,760,000 | 4,971,078 |
| Administration, selling, marketing and business development expenses | (6,803,320) | (5,201,620) |
| Research and development expenses | (132,311) | (99,557) |
| Operating loss | (1,175,631) | (330,099) |
| Finance costs | (199,607) | - |
| Finance revenue | 16,491 | 25,191 |
| Loss before income taxes | (1,358,747) | (304,908) |
| Income taxes recovery | 307,686 | 35,998 |
| Net loss for the period | (1,051,061) | (268,910) |
| Exchange differences on translation of overseas operations | 36,677 | (2,998) |
| Total comprehensive loss for the period | (1,014,384) | (271,908) |
| EBITDAS | (853,097) | (233,574) |
| Order backlog as at February 28 | 10.6 million | 14.9 million |
| Order backlog as at April reporting date | 16.6 million | 16.3 million |

Revenues and Gross Profits

Revenues were \$15,108,710 in the nine months ended February 28, 2019, representing an increase of \$5,053,293, or 50.25%, over the \$10,055,417 recognized in the nine months ended February 28, 2018. The increase in revenues was mainly due to the delivery of the \$11 million energy efficiency project with the Pulp & Paper Customer announced December 5, 2017, which was approximately 96% complete as at February 28, 2019, plus the additional revenue from the Boilerroom Equipment Inc. that was acquired on June 29, 2018.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

The gross profit of \$5,760,000 in the first nine months of FY 2019 represented an increase of \$788,922, or 15.87%, from the \$4,971,078 achieved in the first nine months of FY 2018. The increase was mainly the result of increased revenues. Gross profit expressed as a percentage of sales was 38.1% in the first nine months of FY 2019 compared with 49.4% in the first nine months of FY 2018. The decrease in gross profit percentage was mainly due to the lower margins achieved on heat recover projects.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the nine months ended February 28, 2019 totaled \$6,803,320 compared to \$5,201,620 in the nine months ended February 28, 2018, an increase of \$1,601,700, or 30.8%. The main increases included onetime costs related to the acquisition of Boilerroom Equipment Inc., the integration of Boilerroom Equipment Inc’s operating expenses into the consolidated results, additional depreciation and amortization expense on the intangibles and fixed assets acquired from Boilerroom Equipment Inc., the strategic addition of new sales and technical staff plus additional investments in advertisement and marketing activities to support the future growth of the business.

Research and development expenses in the first nine months of FY 2019 were \$132,311 compared to \$99,557 in the first nine months of FY 2018.

Finance costs and finance revenue: in the nine months ended February 28, 2019, finance costs of \$199,607 arose due to the issuance of long-term debt to finance the acquisition of Boilerroom Equipment Inc. Finance revenue of \$16,491 was recognized compared to \$25,191 in the nine months ended February 28, 2018.

Loss before income taxes for the nine months ended February 28, 2019 was \$1,358,747 compared to \$304,908 in the same period of the previous year.

Income tax recovery in the first nine months of FY 2019 was \$307,686, compared to \$35,998 in the first nine months of FY 2018. Both the U.K. and the U.S entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities.

Net loss for the nine months ended February 28, 2019 was \$1,051,061 compared to \$268,910 in the same period of the previous year.

Comprehensive loss was \$1,014,384 for the first nine months of FY 2019 compared to \$271,908 for the first nine months of FY 2018.

EBITDAS was negative \$853,097 for the first nine months of FY 2019 compared to negative \$233,574 for the same quarter of the previous year.

3.3 Liquidity & Capital Resources

Working capital decreased by \$3,506,663 to negative \$1,479,660 as at February 28, 2019 compared to \$2,027,003 as at May 31, 2018. The Company’s net cash position (Cash and cash equivalents less operating bank loans) was \$3,802,995 as at February 28, 2019 compared to \$3,282,208 at May 31, 2018 mainly due to the increase in deferred revenue.

The Company’s working capital position over the last eight quarters can be summarized as follows:

| | May 31, 2017 \$ | Aug 31, 2017 \$ | Nov 30, 2017 \$ | Feb 28, 2018 \$ | May 31, 2018 \$ | Aug 31, 2018 \$ | Nov 30, 2018 \$ | Feb 28, 2019 \$ |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Current Assets | 6,221,714 | 4,245,864 | 4,450,013 | 4,933,877 | 6,613,125 | 8,310,609 | 7,244,731 | 7,337,334 |
| Current Liabilities | 4,790,917 | 3,079,805 | 3,099,395 | 3,706,345 | 4,586,122 | 5,984,275 | 5,178,449 | 8,816,994 |
| Working Capital | 1,430,797 | 1,166,059 | 1,350,618 | 1,227,532 | 2,027,003 | 2,326,334 | 2,066,282 | (1,479,660) |

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Q3 FY 2019 Changes

Current assets increased in the nine months ended February 28, 2019 by \$724,209 to \$7,337,334 from \$6,613,125 at May 31, 2018. The increase was mainly due to the increase in inventory of \$272,612 and the increase in cash balance of \$520,787. Current liabilities increased by \$4,230,872 to \$8,816,994 from \$4,586,122 at May 31, 2018. The increase was mainly due to the reclassification of long-term debt of \$2,660,375 to current liability due to the breach of a debt covenant and the increase in deferred revenue of \$2,269,010, netting off by the decrease in trade payables and other liabilities of \$961,268. The deferred revenue is related to the upfront cash received from large heat recovery projects.

As at February 28, 2019, one of the debt covenants, namely total funded debt to EBITDA ratio, was in breach. The lender waived the covenant breach subsequent to the quarter-end.

At February 28, 2019, \$143,748 (7.2%) of the Company's trade receivables balance was over 90 days past due, but not impaired (\$165,420 (9.3%) at May 31, 2018).

At February 28, 2019, the Company has operating lease commitments as shown below. The Company had no purchase obligations:

| | Total \$ | Less than 1 year \$ | 1-5 years \$ | More than 5 years \$ |
|------------------|-------------|------------------------|-----------------|-------------------------|
| Operating Leases | 262,123 | 171,264 | 90,859 | nil |

Net cash provided by operating activities in the quarter ended February 28, 2019 was \$1,602,366 compared to net cash of \$227,081 provided in the quarter ended February 28, 2018. The inflow was mainly due to the result of movement in trade receivables and deferred revenue.

Net cash provided by investing activities for the quarter ended February 28, 2019 was \$5,190. The inflow was mainly a result of received finance lease principal payments.

Net cash provided or used by financing activities for the quarter ended February 28, 2019 was nil.

After allowing a negative amount of \$40,042 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was an increase in cash balance of \$1,567,514 over the third quarter of FY 2019, compared to an increase of \$242,574 over the third quarter of FY 2018.

The Company's ability to realize its assets and discharge its liabilities depends on its ability to arrange debt or equity financing and its ability to generate sufficient cash from operations. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

Management is of the opinion that sufficient working capital will be obtained from future cash flows by achieving profitable operations through continuing to manage expenditures, concentrating on building upon revenue levels experienced in 2016, 2017 and 2018, and growing revenues at growth rates experienced in the years ended May 31, 2010 through May 31, 2018.

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Net Investment in Lease

The Company's net investment in lease includes the following:

| | February 28, 2019 | May 31, 2018 |
|---|----------------------|-----------------|
| | \$ | \$ |
| Total estimated minimum lease payments receivable | 128,553 | 209,607 |
| Less: unearned income | (10,718) | (27,209) |
| | 117,835 | 182,398 |
| Less: current portion | (99,170) | (89,141) |
| | 18,665 | 93,257 |

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs.

On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer had the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company.

On December 22, 2013, the site commenced a market downtime for a period of ten weeks, following the imposition of an interim duty in China on the import of Canadian dissolving pulp, further to which on April 11, 2014, an agreement was made to further extend the existing lease by five months to mid-May 2015.

On May 1, 2015, the customer signed a further extension for 24 months to May 1, 2017. Pursuant to this new extension, the customer has agreed to pay up to \$12,000 per month over two years, at the end of which the customer has the option to purchase the asset from the Company.

On May 1, 2017, a final extension agreement was signed for 36 months to May 1, 2020. Pursuant to this new extension, the customer has agreed to pay up to \$9,500 per month over three years, at the end of which the customer assumes full ownership of the equipment.

Until the expiry of the new lease on May 1, 2020, finance revenue will be recognized within the consolidated statements of comprehensive income at the interest rate implicit in the lease.

The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset and the operations of the plant in which it is located.

Future estimated minimum lease payments receivable, and expected residual value of equipment at the end of the lease, under the sales-type lease are as follows:

| | \$ |
|-----------------------------|---------|
| Less than one year | 109,553 |
| Between two and five years | 19,000 |
| Residual value of equipment | - |
| | 128,553 |

As at February 28, 2019, \$28,500 of the finance lease receivable included in the trade and other receivables is past due, but not impaired. As at May 31, 2018, the finance lease receivable is neither past due nor impaired.

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Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 28, 2019 were 1,250,000 of which 416,667 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2019 were 5,391,720 of which 2,683,387 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 28, 2019 compensation arrangements for directors was as follows:

\$13,500 per annum per Director plus an additional \$8,100 per annum payable to the Chairman of the Board, \$5,400 per annum payable to the chairperson of the Audit Committee, \$5,400 per annum payable to the chairperson of the Ethics Committee and \$1,000 payable for each in-person meeting.

During the quarter ended February 28, 2019, Directors fees paid were \$16,875. Fees to the Chairperson of the Audit Committee and to the Chairperson of the Ethics, Governance and Compliance Committee were \$1,350 each; fees paid to the Chairman were \$2,025. One in-person meeting was held during the period.

Compensation payable to directors and officers during the quarter ended February 28, 2019, (inclusive of the amounts described above but excluding stock-based compensation) was as per the table below:

| | Salaries and fees | | Incentives | | Other short-term benefits | | Total | |
|---|-------------------|----------------|------------|----------|---------------------------|---------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | | | | |
| M. Williams | 4,375 | 4,375 | - | - | - | - | 4,375 | 4,375 |
| J. Kelly | 6,400 | 5,400 | - | - | - | - | 6,400 | 5,400 |
| W. Ollerhead | 5,725 | 5,725 | - | - | - | - | 5,725 | 5,725 |
| J. Schoenmakers ⁽¹⁾ | - | 4,725 | - | - | - | - | - | 4,725 |
| D. Spagnolo | 5,725 | 4,375 | - | - | - | - | 5,725 | 4,375 |
| W. White | 4,375 | 3,375 | - | - | - | - | 4,375 | 3,375 |
| Total | 26,600 | 27,975 | - | - | - | - | 26,600 | 27,975 |
| Senior Management | | | | | | | | |
| W. Crossland | 60,000 | 60,000 | - | - | 2,917 | 2,881 | 62,917 | 62,881 |
| J. Flynn ^{(2) (3)} | - | 41,361 | - | - | - | 6,462 | - | 47,823 |
| J. Zhang ⁽³⁾ | 31,250 | - | - | - | 2,356 | - | 33,606 | - |
| R. Triebe | 45,250 | 45,250 | - | - | 3,044 | 3,082 | 48,294 | 48,332 |
| S. Mawby ⁽²⁾ | 38,004 | 44,621 | - | - | 5,747 | 6,801 | 43,751 | 51,422 |
| Total | 174,504 | 191,232 | - | - | 14,064 | 19,226 | 188,568 | 210,458 |
| Total Related Party Transactions | 201,104 | 219,207 | - | - | 14,064 | 19,226 | 215,168 | 238,433 |

Other short-term benefits include cash payments for social security costs, employee benefits, and payments made into defined contribution pension plans of the Company's UK based subsidiaries.

(1) Mr. Schoenmakers resigned on November 27, 2018.

(2) Ms. Flynn and Mr. Mawby are compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.7122 and 1.7289 in the third quarter of FY 2019, and the third quarter of FY 2018 respectively.

(3) Ms. Flynn stepped down as Chief Financial Officer effective July 31, 2018 and Ms. Zhang was appointed Chief Financial Officer of the Corporation effective the same date.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

3.4 Segmented Information

In quarters and nine-month periods ended February 28, 2019 and 2018, the Company operated in the energy efficiency industry in North America, Europe, China and Rest of the World. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines - heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

Management reporting comprises analysis of revenue and gross profit within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company's future. The Company has two operational bases ("reporting units"), one in Ottawa, Canada covering North America and China, and the other in Bristol, United Kingdom, covering Europe and the rest of the world. These areas are determined by proximity of the region to the reporting unit, plus the location of the contracts in existence with agents and distributors in the respective areas and the historical relationships with those agents and distributors. Corporate costs that cannot easily be attributed to either of the two reporting units are included in reconciling items. The chief operating decision maker focuses on revenues and costs by geographical segments, but manages assets and liabilities on a global basis.

Segment information for the quarter ended February 28, 2019 and the comparative period are detailed in the table below.

| | Thermal Energy Ottawa | | Thermal Energy Bristol | | Reconciling Items | | Total | |
|-------------------------------|-----------------------|-----------|------------------------|-----------|-------------------|-----------|--------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 2,092,664 | 1,314,194 | 1,022,093 | 1,914,192 | - | - | 3,114,757 | 3,228,386 |
| Cost of sales | (1,286,881) | (840,105) | (380,271) | (788,510) | - | - | (1,667,152) | (1,628,615) |
| Gross profit | 805,783 | 474,089 | 641,822 | 1,125,682 | - | - | 1,447,605 | 1,599,771 |
| Other expenses | (1,034,618) | (602,082) | (964,158) | (892,731) | (332,963) | (291,141) | (2,331,739) | (1,785,954) |
| Net finance (costs) income | 4,780 | 7,784 | - | - | (82,174) | - | (77,394) | 7,784 |
| Income (loss) before taxation | (224,055) | (120,209) | (322,336) | 232,951 | (415,137) | (291,141) | (961,528) | (178,399) |
| Tax (expense) recovery | 21,022 | 33,108 | 53,837 | (20,118) | (2,812) | 6,765 | 72,047 | 19,755 |
| Net income (loss) | (203,033) | (87,101) | (268,499) | 212,833 | (417,949) | (284,376) | (889,481) | (158,644) |
| Attributable to: | | | | | | | | |
| Owners of the parent | (194,861) | (87,867) | (280,744) | 212,479 | (417,949) | (284,376) | (893,554) | (159,764) |
| Non-controlling interest | (8,172) | 766 | 12,245 | 354 | - | - | 4,073 | 1,120 |

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Segment information for the nine months ended February 28, 2019 and the comparative period are detailed in the table below.

| | Thermal Energy Ottawa | | Thermal Energy Bristol | | Reconciling Items | | Total | |
|-------------------------------|-----------------------|-------------|------------------------|-------------|--------------------|-----------|--------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 12,047,096 | 6,405,749 | 3,061,614 | 3,649,668 | - | - | 15,108,710 | 10,055,417 |
| Cost of sales | (7,959,017) | (3,778,548) | (1,389,693) | (1,305,791) | - | - | (9,348,710) | (5,084,339) |
| Gross profit | 4,088,079 | 2,627,201 | 1,671,921 | 2,343,877 | - | - | 5,760,000 | 4,971,078 |
| Other expenses | (3,047,368) | (2,061,342) | (2,778,492) | (2,335,294) | (1,109,771) | (904,541) | (6,935,631) | (5,301,177) |
| Net finance (costs) income | 16,491 | 25,191 | - | - | (199,607) | - | (183,116) | 25,191 |
| Income (loss) before taxation | 1,057,202 | 591,050 | (1,106,571) | 8,583 | (1,309,378) | (904,541) | (1,358,747) | (304,908) |
| Tax (expense) recovery | 55,454 | (15,372) | 200,015 | 24,306 | 52,217 | 27,064 | 307,686 | 35,998 |
| Net income (loss) | 1,112,656 | 575,678 | (906,556) | 32,889 | (1,257,161) | (877,477) | (1,051,061) | (268,910) |
| Attributable to: | | | | | | | | |
| Owners of the parent | 1,129,168 | 585,155 | (926,723) | 32,410 | (1,257,161) | (877,477) | (1,054,716) | (259,912) |
| Non-controlling interest | (16,512) | (9,477) | 20,167 | 479 | - | - | 3,655 | (8,998) |

Other expenses within reconciling items comprise the following:

| | Three months ended February 28 | | Nine months ended February 28 | |
|---|-----------------------------------|---------|----------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Corporate admin costs | 167,815 | 193,865 | 531,857 | 649,070 |
| Stock-based compensation | 53,548 | 10,880 | 61,798 | 38,725 |
| Professional fees | 23,138 | 48,873 | 125,306 | 132,134 |
| Depreciation of property, plant and equipment | 21,735 | 11,061 | 60,871 | 31,238 |
| Amortization of intangible assets | 69,705 | - | 183,830 | - |
| Acquisition costs | (19,791) | - | 148,313 | - |
| Bank charges and interest | 5,287 | 7,652 | 15,640 | 24,954 |
| Foreign exchange differences | 11,526 | 18,810 | (17,844) | 28,420 |
| Total | 332,963 | 291,141 | 1,109,771 | 904,541 |

Corporate administration costs include directors' fees, all costs relating to both the CEO and CFO, directors and officers insurance, corporate legal costs, public relations costs, professional fees relating to group tax planning and corporate filing costs and strategic planning.

Finance costs within the reconciling items include interest and deferred financing charge on the long-term debt and interest accretion on contingent consideration and holdback payable following the acquisition of Boilerroom Equipment Inc. Finance costs of \$36,440 incurred during the three months ended August 31, 2018 was previously reported as an expense within Thermal Energy Ottawa account for the quarter ended August 31, 2018. For the nine months ended February 28, 2019, all finance costs incurred (including the costs incurred in the three months ended August 31, 2018) have been reclassified as an expense within the reconciling items.

During the quarter ended February 28, 2019, Thermal Energy Ottawa had one customer in North America that accounted for 19% of total group revenue for the period.

During the quarter ended February 28, 2018, Thermal Energy Bristol had one customer that accounted for 31% of total group revenue for the period.

During the nine months ended February 28, 2019, Thermal Energy Ottawa had two customers that accounted for 12% and 43% of total group revenue for the period.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

During the nine months ended February 28, 2018, Thermal Energy Bristol had one customer that accounted for 10% and Thermal Energy Ottawa had two customers that accounted for 16% and 17% respectively of total group revenue for the period.

Further geographical analysis:

| | Sales for the nine months ended | | Property, Plant and Equipment as at | | Goodwill and other Intangible assets as at | | Finance lease receivable (non-current) as at | |
|----------------|---------------------------------|-------------------|-------------------------------------|---------------|--|------------------|--|---------------|
| | Feb 28, 2019 | Feb 28, 2018 | Feb 28, 2019 | May 31, 2018 | Feb 28, 2019 | May 31, 2018 | Feb 28, 2019 | May 31, 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Canada | 7,501,093 | 1,389,079 | 44,922 | 41,789 | - | - | 18,665 | 93,257 |
| U.S.A. | 4,546,003 | 5,014,422 | 173,515 | - | 2,849,340 | - | - | - |
| U.K. | 2,361,961 | 2,860,228 | 34,716 | 35,606 | 1,884,987 | 1,856,739 | - | - |
| Italy | 343,908 | 199,447 | - | - | - | - | - | - |
| Netherlands | 82,600 | 60,635 | - | - | - | - | - | - |
| Poland | 129,041 | - | - | - | - | - | - | - |
| Germany | 39,728 | 159,544 | - | - | - | - | - | - |
| Belgium | 22,771 | - | - | - | - | - | - | - |
| Ireland | - | 33,272 | - | - | - | - | - | - |
| Norway | - | 44,196 | - | - | - | - | - | - |
| Slovenia | - | 32,879 | - | - | - | - | - | - |
| Rest of Europe | 17,447 | 41,432 | - | - | - | - | - | - |
| U.A.E | - | 46,197 | - | - | - | - | - | - |
| Kenya | 46,115 | 43,998 | - | - | - | - | - | - |
| India | 16,448 | 72,080 | - | - | - | - | - | - |
| Rest of world | 1,595 | 58,008 | - | - | - | - | - | - |
| Total | 15,108,710 | 10,055,417 | 253,153 | 77,395 | 4,734,327 | 1,856,739 | 18,665 | 93,257 |

Material Segmentation Variances

Revenue

North America: revenue for the quarter ended February 28, 2019 was \$2,092,664 compared to \$1,314,194 for the quarter ended February 28, 2018 which represented an increase of \$778,470. Revenue for the nine months ended February 28, 2019 of \$12,047,096 represented an increase of \$ 5,641,347, or 88.1%, over the \$6,405,749 achieved in the first nine months of the previous year. The increase in revenue for the quarter and nine months ended February 28, 2019 is due to the delivery of the \$11 million energy efficiency project with the Pulp & Paper Customer announced December 5, 2017 and the integration of the financial result of Boilerroom Equipment Inc. into the consolidated results.

Europe and rest of the world: revenue for the quarter ended February 28, 2019 was \$ 1,022,093 compared to \$1,914,192 for the same period of the previous year, a decrease of \$892,099. For the nine months ended February 28, 2019, revenue was \$3,061,614 representing a decrease of \$588,054, or 16.1%, over the revenue of \$3,649,668 for the nine months ended February 28, 2018. The decrease in Europe and rest of world market is due to decreased revenue in both heat recovery systems and condensate return systems.

Segment Income (loss) Before Tax

North America: gross profit increased by \$331,694 and \$1,460,878 for the quarter and nine months ended February 28, 2019 over the same period of the preceding year respectively. The increase in gross profit was mainly due to the delivery of the \$11 million energy efficiency project with the Pulp & Paper Customer. Other expenses increased due to the integration of operating expenses of Boilerroom Equipment Inc. to the

Management Discussion and Analysis for the Quarter Ended February 28, 2019

consolidated results, the strategic investment in recruiting additional technical and sales staff to accommodate future growth, and the increased commissions due to the increased revenues. The net loss before tax was \$224,055 for the third quarter of FY 2019 compared to \$120,209 for the third quarter of FY 2018. For the nine months ended February 28, 2019, the net income before tax increased to \$1,057,202 from \$591,050 for the nine months ended February 28, 2018. The increase was mainly due to the delivery of the large heat recovery project with the Pulp & Paper Customer announced December 5, 2017.

Europe and rest of the world: gross profit decreased by \$483,860 and respectively by \$671,956 in the quarter and nine months ended February 28, 2019 over the same period of the preceding year. The decrease in gross profit was mainly due to lower margins achieved. Other expenses increased by \$71,427 in the third quarter and by \$443,198 in the first nine months of FY 2019 due to additional costs related to new sales and marketing staff hired as well as new costs related to advertising and marketing activities. This resulted in a net loss before tax of \$322,336 for the third quarter of FY 2019 compared to a net income before tax of \$232,951 for the third quarter of FY 2018 and a net loss before tax of \$1,106,571 for the first nine months of FY 2019 compared to a net income before tax of \$8,583 for the same period of FY 2018.

Other expenses within reconciling items, which incorporate all costs not specifically attributable to the either regional operational center, amounted to \$332,963 in the third quarter of FY 2019 compared to \$291,141 in the third quarter of FY 2018. For the nine months ended February 28, 2019, other expenses within reconciling items were \$1,109,771, an increase of \$205,230 compared to \$904,541 for the nine months ended February 28, 2018. The main variances related to the costs incurred for acquisition of Boilerroom Equipment Inc. and the additional amortization expense on the intangible assets acquired upon the acquisition.

Quarterly financial information (unaudited)

For the eight quarters ended February 28, 2019:

| Quarter ended | 28-Feb-19 \$ | 30-Nov-18 \$ | 31-Aug-18 \$ | 31-May-18 \$ |
|--|-----------------|-----------------|-----------------|-----------------|
| Revenue | 3,114,757 | 5,193,092 | 6,800,861 | 7,352,794 |
| Gross Profit | 1,447,605 | 2,102,510 | 2,209,885 | 3,362,945 |
| Gross Profit Percentage | 46.5% | 40.5% | 32.5% | 45.7% |
| EBITDAS ⁽¹⁾ | (734,366) | (67,995) | (50,736) | 850,479 |
| Total net income (loss) | (889,481) | (112,122) | (49,458) | 888,389 |
| Income (loss) per share, basic and diluted | (0.006) | (0.001) | 0.000 | 0.006 |

| Quarter ended | 28-Feb-18 \$ | 30-Nov-17 \$ | 31-Aug-17 \$ | 31-May-17 \$ |
|--|-----------------|-----------------|-----------------|-----------------|
| Revenue | 3,228,386 | 3,729,447 | 3,097,584 | 4,754,080 |
| Gross Profit | 1,599,771 | 1,853,510 | 1,517,797 | 2,378,543 |
| Gross Profit Percentage | 49.6% | 49.7% | 49.0% | 50.0% |
| EBITDAS ⁽¹⁾ | (156,016) | 108,711 | (186,269) | 462,964 |
| Total net income (loss) | (158,644) | 70,514 | (180,780) | 353,776 |
| Income (loss) per share, basic and diluted | (0.001) | 0.000 | (0.001) | 0.002 |

(1) EBITDAS represents earnings before interest, taxation, depreciation, amortization, share-based compensation expense and net write down of lease.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

A reconciliation of Net income (loss) to EBITDAS is shown below for the quarters ended February 28:

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| Total net income (loss) attributable to owners of the parent | (893,554) | (159,764) | (1,054,716) | (259,912) |
| Total net income (loss) attributable to non-controlling interest | 4,073 | 1,120 | 3,655 | (8,998) |
| Interest charge | 82,174 | 500 | 199,607 | 1,499 |
| Interest received | - | (57) | (456) | (128) |
| Taxation | (72,047) | (19,755) | (307,686) | (35,998) |
| Depreciation and amortization | 91,440 | 11,060 | 244,701 | 31,238 |
| Share based compensation | 53,548 | 10,880 | 61,798 | 38,725 |
| EBITDAS | (734,366) | (156,016) | (853,097) | (233,574) |

4. Business Outlook

Governments around the world are taking unprecedented action, including increasing regulations, to reduce carbon emissions and become more environmentally sustainable. Energy efficiency can make the transition toward a clean energy economy faster and cheaper than other initiatives, and therefore is an important element in energy policies around the world. As such, the industrial sector has begun to feel the pressing need to adopt measures that can improve the energy efficiency of internal processes and operations, thus contributing to an increased demand for energy efficiency products, solutions and services globally.

Other than our order backlog, we do not provide specific financial performance guidance. However, we believe that we are well positioned to benefit from this increased demand, particularly in our key markets of North America, the United Kingdom, and the European Union. As mentioned in Section 2.2 earlier, Management uses order backlog as an indicator of the short-term future revenue of our Company resulting from already recognized orders.

The Company's order backlog as at February 28, 2019 was approximately \$10.6 million. As at April 29, 2019, the Company had an order backlog of approximately \$16.6 million.

| | 2017 \$ million | 2018 \$ million | 2019 \$ million |
|--|--------------------|--------------------|--------------------|
| Order backlog as at February 28 | 4.6 | 14.9 | 10.6 |
| Order backlog as at April reporting date | 8.0 | 16.3 | 16.6 |

- On April 1, 2019, the Company announced that it had been commissioned by a leading tissue manufacturer for a heat recovery system at one of its flagship production plants. The project, valued at \$850,000, will include the deployment of the Company's proprietary FLU-ACE® heat recovery technology, in a solution set to provide the site with natural gas savings of over \$350,000 a year.
- On March 27, 2019, the Company announced that it had been commissioned by a leading multinational animal nutrition and agricultural products company to improve energy efficiency at one of its European facilities. The project, valued at approximately \$2.3 million, will see the Company install two of its proprietary FLU-ACE® heat recovery systems to delivery greater fuel efficiency.
- On March 11, 2019, the Company announced that it had been commissioned by a major US dairy group to design and implement an extensive heat recovery project. This project, valued at \$1.8 million, will utilize the Company's recently acquired HEATSPONGE technology to heat boiler feed and process water. It is the first project between the Company and the dairy group.
- On January 29, 2019, the Company announced that it had been commissioned by a leading food ingredient company to install an innovative heat recovery system at one of its processing plants. This

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FLU-ACE® heat recovery project, valued at over \$2.4 million, is the first time Thermal Energy will apply its proprietary heat recovery technology in this Food & Beverage sub-sector.

- On December 13, 2018, the Company announced that it had been commissioned by a multinational food and beverage conglomerate to add a second FLU-ACE® to its existing heat recovery system. This heat recovery project, valued at approximately \$2.4 million, is an extension to the Company's proprietary FLU-ACE® technology already deployed at the beverage processing plant.
- On November 26, 2018, the Company announced that it had been commissioned by a leading Fortune 500 food and beverage conglomerate to integrate a heat recovery process with a solar thermal water heating system. The landmark project, with an order value of approximately \$300,000, leverages Thermal Energy's expertise in low temperature heating systems.
- On November 19, 2018, the Company announced that it had been commissioned by a leading speciality chemicals producer to design, manufacture and install a turnkey heat recovery project. This \$960,000 contract is set to be implemented as part of a company-wide resource productivity and sustainability initiative and follows the successful deployment of a GEM™ Trap installation at the same location, which was designed to maximize steam system and energy efficiency via optimal steam trapping.
- On October 25, 2018, the Company announced that it had been commissioned by a leading Fortune 500 food and beverage company to implement a water recovery system as part of an ongoing sustainability drive. This landmark project has an order value of approximately \$1.3 million and highlights the Company's strategic goal of expanding its products and capabilities beyond energy efficiency to include water recovery and the broader sustainability market.
- In December 2017, the Company announced that it has been engaged by an existing Pulp and Paper Customer to design, develop and implement a major energy efficiency improvement and greenhouse gas reduction project with a total order amount of \$11 million. The project includes the installation of two of Thermal Energy's proprietary FLU-ACE® Heat Recovery Systems and the conversion of the mill's steam traps to Thermal Energy's proprietary GEM™ Steam Trap system.

The project was about 96% completed as at February 28, 2019 and is expected to be completely fulfilled and the remaining revenue earned by the end of the fiscal year.

5. Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares

161,885,616 class A common shares.

Options

At February 28, 2019:

| Range of exercise prices | Options outstanding | | Options exercisable | | |
|--------------------------|--------------------------------------|---|---------------------------------|---|---------------------------------|
| | Number outstanding February 28, 2019 | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at February 28, 2019 | Weighted average exercise price |
| 0.05-0.07 | 2,770,833 | 2.25 | 0.05 | 1,833,333 | 0.05 |
| 0.07-0.10 | 11,138,360 | 3.62 | 0.08 | 3,563,360 | 0.08 |
| 0.10-0.12 | 2,933,360 | 0.46 | 0.11 | 2,850,027 | 0.11 |
| | 16,842,553 | 2.85 | 0.08 | 8,246,720 | 0.08 |

6. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

Valuation of goodwill and intangible assets and asset impairment

Goodwill and intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Future production outputs relating to the finance lease

When a new finance lease or amendment is signed, in determining minimum lease payments receivable, management makes estimates regarding monthly energy outputs of the leased asset based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located, penalty payments resulting from temporary plant shut-downs and residual value of the equipment. These assumptions relate to future events and circumstances. Actual results may vary from estimate.

Assumptions used in the Black-Scholes fair value calculations

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Revenue Recognition relating to contracts for heat recovery solutions

The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management exercises significant estimate about milestones, actual work performed and the estimated costs to complete work.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

These estimates are reviewed at every reporting date. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of existing differences, future taxable income and future tax planning strategies.

Changes in Accounting Standards

The Company has adopted the following new or amended accounting standards.

Amendments to IFRS 2: Share Based Payments (“IFRS 2”)

In June 2016, the IASB issued amendments to IFRS 2. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements for accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The company adopted the amendments on June 1, 2018. The adoption of these amendments did not have a material impact on the consolidated financial statements.

IFRS 9, “Financial Instruments”

Effective June 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets. Impairment of financial assets is based on an expected credit loss (“ECL”) model under IFRS 9, rather than the incurred loss model under IAS 39. ECLs are a probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past five years. As a percentage of revenue, the Company's actual credit loss experience has not been material.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to the financial liabilities.

There was no material impact of transition to IFRS 9 on the Company's statement of financial position at June 1, 2018.

IFRS 15, “Revenue from Contracts with Customers”

Effective June 1, 2018, the Company adopted IFRS 15.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

The Company adopted IFRS 15 using the cumulative effect method, with the effect of adopting this standard recognized on June 1, 2018, the date of initial application. Accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations. Adoption of IFRS 15 has not impacted the accounting for the sale of goods, rendering of services and contracts for heat recovery solutions.

Management Discussion and Analysis for the Quarter Ended February 28, 2019

New standards and amendments yet to be adopted:

At the date of approval of the accompanying consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, Leases, which specifies how to recognize, measure present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize all assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements. The company will adopt the new standard on June 1, 2019.

7. Risk Factors and Risk Management

Management is confident about our long-term prospects, but does recognize that the company is exposed to a number of risks in the normal course of business that could negatively impact the financial condition of the Company.

Operational risks of the company include the ability to continue to secure and implement sales contracts for its GEM™ and FLU-ACE® technology solutions.

Financial risks and uncertainties of the Company include:

- The Company's history of operating losses and uncertainty of future profitability;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- The ability to secure and maintain the required outside working capital financing;
- The ability to achieve profitable operations through increased sales,
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects; and,
- The effect of a continuing prolonged recession in Canada, USA and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects.
- The impact of the pending departure from the European Union by the U.K.

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of \$844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of \$634,023 as well as an increase in cash balance of \$742,022, but this was again followed by a net loss of \$2,154,817, accompanied by a cash decrease of \$1,331,074 in FY 2015. FY 2016, FY 2017, and FY 2018 saw a return to profitability and an increase in cash balances of \$427,805, \$1,806,992, and \$336,334, respectively. Management is confident that this recent trend is set to continue.

The Company actively protects its proprietary technology through registered trademarks and confidentiality agreements.

The Company maintains adequate forms of general liability insurance including product liability and errors and omission coverage.

Management still believes that competition against its core technology of GEM™, FLU-ACE® and DRY-REX™ is limited at this time and believes that the market place is sufficiently large to mitigate the risk of stronger competition in the future.

On June 23, 2016 a referendum was held in the U.K., resulting in the decision to leave the European Union. One immediate effect was a significant fall in the value of U.K. Pound Sterling against most other major currencies. Negotiations regarding how trade will continue after the U.K. leaves are ongoing, the outcome of which is difficult to predict. Management continues to monitor the situation, but at this point cannot comment on how the eventual break will impact the Company. In the meantime, business continues as normal. Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

8. Forward-Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of Management, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although Management believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

9. Management's Responsibility for Financial Reporting

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended February 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility principally through its Audit Committee.