THERMAL ENERGY INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2021

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the third quarter of Fiscal Year 2021, ended February 28, 2021 (or "Q3 2021"), and compares the Q3 2021 financial results to the previous quarter ended February 29, 2020 (or "Q3 2020"). 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. Unless otherwise indicated, all comparisons to the third quarter of FY 2021 are against the third quarter of FY 2020. 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 39% of our operations, assets and liabilities are denominated in British Pound Sterling and 28% in US Dollar. 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 15, 2021. Disclosure contained in this document is current to April 15, 2021, 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 9 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 10 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, and the U.S.

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 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; lowered 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 two technology lines – heat recovery solutions, including 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 several 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, most 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.

1.3 Strategy

The Company's mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency 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 footprint. The Company's products and services are best-in-class with world-wide application in a broad range of sectors.

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, building 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 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

The Company believes 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 EBITDA

Management believes that EBITDA (earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital, and excludes impairment of intangible assets. EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other companies. There is no direct comparable IFRS measure for EBITDA. A reconciliation of net income (loss) to EBITDA is shown in section 3.5 Quarterly Financial Information.

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 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 2021	Q3 2020
	$	$
Revenue	**3,735,968**	5,811,626
Cost of sales	**2,091,703**	3,394,176
Gross profit	**1,644,265**	2,417,450
Expenses:		
Administration, selling, marketing and business development	**1,620,506**	1,941,574
Research and development	**2,555**	(51,242)
	1,623,061	1,890,332
Operating income	**21,204**	527,118
Finance costs	**(65,233)**	(118,042)
(Loss) income before income taxes	**(44,029)**	409,076
Income taxes recovery	**10,272**	20,711
Net (loss) income for the period	**(33,757)**	429,787
Exchange differences on translation of overseas operations	**123,380**	(8,610)
Total comprehensive income for the period	**89,623**	421,177
EBITDA for the quarter[1]	**171,726**	709,115
Order backlog as at February 28/29	**6.1 million**	3.4 million
Order backlog as at reporting date	**8.9 million**	5.7 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 3.5 Quarterly Financial Information.

Revenues and Gross Profits

Revenues were $3,735,968 in the third quarter ended February 28, 2021, representing a decrease of $2,075,658, or 35.7%, compared to $5,811,626 in the quarter ended February 29, 2020. The decrease of revenue in the third quarter of FY 2021 was mainly due to the decrease of the revenues from heat recovery systems. The COVID-19 pandemic caused significant delays on heat recovery projects because customers' sites were either closed or our technical team and the subcontractors could not travel to site due to the travel restrictions and the additional costs associated with the quarantine requirements. Despite the fact that the Company received a few significant heat recovery orders in Q3 FY 2021, the Company's heat recovery revenue and order backlog had not recovered to the pre-Covid level at the end of the third quarter of FY 2021.

The gross profit of $1,644,265 in the quarter ended February 28, 2021 represented a decrease of $773,185, or 32%, from the $2,417,450 in the quarter ended February 29, 2020. The decrease was mainly due to the decrease in the revenues of heat recovery systems. Gross profit expressed as a percentage of revenue was 44% in the third quarter of FY 2021 compared with 41.6% in the same quarter of FY 2020. The increase was due to the change in the product split.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended February 28, 2021 totaled $1,620,506 compared to $1,941,574 in the quarter ended February 29, 2020, a decrease of $321,068 or 16.5%. During the quarter ended February 28, 2021, the Company continued applying for funding from various government bodies and received wage subsidies totaled $246,951 which were recorded as a reduction to the operating expenses. Furthermore, the Covid-19 related travel restrictions limited our business development activities. As a result, business development and related traveling costs decreased in the third quarter of FY 2021 compared to the same quarter of FY 2020. The Company also implemented cost control measures during the Covid period. The savings from the decreased business development costs and the cost control measures accounted for $187,088, offset by the increase in foreign exchange loss of $112,971.

Research and development ("R&D") expenses in the quarter ended February 28, 2021 totaled $2,555, as compared to a R&D expense recovery of $51,242 in the quarter ended February 29, 2020. The Company claimed R&D credits and received additional government funding related to product development in the third quarter of FY 2020 in the amount of $70,710. These credits and funding were accounted as a reduction of research and development expenses. The Company incurred R&D expenses of $19,468 in the third quarter of FY 2020. Hence, the Company recognized a R&D recovery of $51,242 in the third quarter of the previous year. The Company did not make any R&D claims or receive any funding on product development in the third quarter of FY 2021.

Finance costs and finance revenue: Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The third quarter of FY 2021 incurred finance cost of $65,233. The cost was lower than the third quarter of FY 2020 by $52,809 due to the lower interest rate compared to the third quarter of the prior year. The interest rate is reassessed annually around October.

Net loss before income taxes for the quarter ended February 28, 2021 was $44,029, compared to an income of $409,076 in the same quarter of the previous year, a decrease of $453,105. Income before income taxes decreased mainly due to the decrease in gross profit of $773,185 as a result of the decreased revenues, the decrease in R&D tax and funding claims of $70,710, the increase in foreign exchange loss of $112,971, offset by the savings achieved in operating expenses of $187,088, the government wage subsidies received of $246,951, and the decrease in finance costs of $52,809.

Income tax recovery in the third quarter of FY 2021 was $10,272, as compared to $20,711 in the third quarter of FY 2020, a decrease of $10,439.

Net loss for the third quarter of FY 2021 was $33,757, compared to a net income of $429,787 in the same quarter of the previous year, representing a decrease of $463,544. The decrease in net income was mainly due to the decrease in net income before income taxes of $453,105.

Comprehensive income was $89,623 for the third quarter of FY 2021, compared to $421,177 for the third quarter of FY 2020, a decrease of $331,554. The decrease was due to the decrease in net income of $463,544, offset by the increase in translation gain of $131,990, compared to the third quarter of FY 2020.

EBITDAS was $171,726 for the third quarter of FY 2021, compared to $709,115 for the same quarter of the previous year, representing a decrease of $537,389. The decrease was mainly due the decrease in gross profit of $773,185 due to the decreased revenues, offset by the amount of government wage subsidies recognized in the amount $246,951, as compared to the third quarter of the previous year.

3.2 Summary of Year to Date Results

	Nine months Ended Feb 28, 2021	Nine months Ended Feb 29, 2020
	$	$
Revenue	**11,583,512**	18,625,511
Cost of sales	**6,184,802**	11,099,186
Gross profit	**5,398,710**	7,526,325
Expenses:		
Administration, selling, marketing and business development	**4,849,007**	6,216,885
Research and development	**23,963**	2,720
	4,872,970	6,219,605
Operating income	**525,740**	1,306,720
Finance costs	**(235,982)**	(307,453)
Finance revenue	**-**	5,144
Income before income taxes	**289,758**	1,004,411
Income taxes recovery	**38,810**	51,818
Net income for the period	**328,568**	1,056,229
Exchange differences on translation of overseas operations	**299,273**	(278)
Total comprehensive income for the period	**627,841**	1,055,951
EBITDA[1]	**975,195**	1,890,083
Order backlog as at February 28/29	**6.1 million**	3.4 million
Order backlog as at reporting date	**8.9 million**	5.7 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 3.5 Quarterly Financial Information.

Revenues and Gross Profits

Revenues were $11,583,512 in the nine months ended February 28, 2021, representing a decrease of $7,041,999, or 37.8%, from the $18,625,511 recognized in the nine months ended February 29, 2020. The decrease in revenues was mainly due to the decreased revenues from heat recovery systems. The COVID-19 pandemic caused significant delays on heat recovery projects. The heat recovery revenues decreased significantly compared to the same period of the previous year. The Company achieved slightly higher revenues from GEM product sales for the nine months ended February 28, 2021 as compared to the same period of the previous year.

The gross profit of $5,398,710 in the nine months ended February 28, 2021 represented a decrease of $2,127,615, or 28.3%, from the $7,526,325 achieved in the nine months ended February 29, 2020. The decrease was mainly due to the decreased revenues from heat recovery projects. Gross profit expressed as a percentage of sales was 46.6% for the first third quarters of FY 2021, as compared to 40.4% in the same period of FY 2020. The increase in gross profit percentage was mainly due to change in the product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the nine months ended February 28, 2021 totaled $4,849,007, compared to $6,216,885 in the nine months ended February 29, 2020, representing a decrease of $1,367,878, or 22%. The decrease was mainly due to the recognition of wage subsidy of $867,623 as a reduction to the operating expenses, the reduction in administration, selling and marketing expenses of $534,197, the decrease in credit loss provision and loss from lease write-down of $177,990 that was related to one customer from the previous year, offset by the increase in foreign exchange loss of $211,932.

Research and development expenses in the nine months ended February 28, 2021 were $23,963, compared to $2,720 in the nine months ended February 29, 2020. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The increase in the research and development expenses was due to the fact that the Company claimed its R&D tax credits and received government funding in the nine months ended February 29, 2020, which did not occur in the same period of FY 2021.

Finance costs and finance revenue: in the nine months ended February 28, 2021, finance costs decreased by $71,471 from $307,453 to $235,982. The decrease was mainly due to the decreased interest rate on the long-term debt.

Net Income before income taxes for the nine months ended February 28, 2021 was $289,758 compared to $1,004,411 in the same period of the previous year, representing a decrease of $714,653. The decrease was mainly due to the decrease in gross profit by $2,127,615 due to the decreased revenues, offset by the decrease in operating expenses of $1,367,878.

Income tax recovery in the first three quarters of FY 2021 was $38,810, compared to $51,818 in the same period of FY 2020.

Net income for the nine months ended February 28, 2021 was $328,568 compared to $1,056,229 in the same period of the previous year, representing a decrease of $727,661. The decrease was mainly due to the reduction in the income before taxes of $714,653.

Comprehensive income was $627,841 for the first three quarters of FY 2021, compared to $1,055,951 for the same period of FY 2020, representing a decrease of $428,110. The decrease was due to the decrease in net income of $727,661 offset by the increase in translation gain of $299,551.

EBITDAS was $975,195 for the first nine months of FY 2021 compared to $1,890,083 for the same period of the previous year, representing a decrease of $914,888. The decrease was mainly due to the reduction in heat recovery revenues, which resulted in a decrease in gross profit of $2,127,615, offset by the reduction in operating expenses in the amount of $1,367,878. During the nine months ended February 28, 2021, the Company implemented cost control measures in an effort to reduce operating expenses. Compared to the same period of the previous year, the Company achieved a cost reduction in operating expenses in the amount of $1,367,878, which included $867,623 government subsidies received and recognized as a reduction to operating expenses.

3.3 Liquidity & Capital Resources

Current assets increased by $543,279 to $8,606,829 at February 28, 2021, compared to $8,063,550 at May 31, 2020. This increase was mostly due to the increase in trade and other receivables of $888,438, offset by the decrease in cash and cash equivalents of $319,338. Current liabilities decreased by $787,749 to $4,404,265, mainly due to the decrease in trade payables and other liabilities of $1,597,654, offset by the increase in current portion of long-term debt of $477,051, the increase in deferred revenue of $215,502 and the increase in lease obligation of $102,171.

Working capital increased by $1,331,028 to $4,202,564 at February 28, 2021, compared to $2,871,536 at May 31, 2020. On July 23, 2020, the Company received $1,000,000 from the Working Capital - COVID-19 loan. The Company was able to pay off a significant amount of trade payables and other liabilities with the loan proceeds received. The current portion of this long-term debt was $358,971 with the remaining balance sitting within non-current liabilities as at February 28, 2021. Hence, $641,029 of the working capital improvement was directly related to the proceeds received. In addition, the Company received a few significant heat recovery orders, see Section 6 Business Outlook for more details. As a result, the Company's trade and other receivables increased significantly by $888,438 while the deferred revenue increased by $215,502, which contributed to a net increase of $672,936 to the working capital. In a nutshell, the increase was mainly due to the loan proceeds received and the net increase in trade receivables and deferred revenue as a result of the new orders received.

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

	May 31, 2019 $	Aug 31, 2019 $	Nov 30, 2019 $	Feb 29, 2020 $	May 31, 2020 $	Aug 31, 2020 $	Nov 30, 2020 $	Feb 28, 2021 $
Current Assets	7,984,367	9,544,737	9,574,004	8,646,798	8,063,550	7,938,009	8,984,102	8,606,829
Current Liabilities	5,956,544	7,423,040	7,129,049	5,859,669	5,192,014	4,198,761	4,756,957	4,404,265
Working Capital	2,027,823	2,121,697	2,444,955	2,787,129	2,871,536	3,739,248	4,227,145	4,202,564

The Company's cash position was $4,455,242 as at February 28, 2021, compared to $4,774,580 at May 31, 2020, representing a decrease of $319,338. The decrease was mainly due to cash used in operating activities of $1,171,103 and cash used in investing activities of $33,230 relating to the acquisition of property, plant and equipment, and exchange loss on cash and cash equivalents of $93,488, offset by cash generated from financing activities of $978,483.

The net cash used in the operating activities for the nine months ended February 28, 2021 was $1,171,103, which included net income of $328,568, a negative change in working capital of $2,224,879, the interest paid on long-term debt of $279,709, income taxes paid of $19,808, offset by the addbacks of non-cash items of $1,024,725. The Company's cash provided by operating activities fluctuates based on the timing of long-term projects. A few heat recovery projects were completed or close to completion as at May 31, 2020, which resulted in a higher balance of trade payables and accrued liabilities at May 31, 2020. With the receipt of the loan proceeds for more than $1,000,000, the Company paid off a significant amount of trade payables and accrued liabilities during the first three quarters of FY 2021, which resulted in the negative change in working capital.

The Company invested $33,230 in property, plant and equipment during the nine months ended February 28, 2021.

During the nine months ended February 28, 2021, the Company received net cash from financing activities of $978,483. The Company entered into two COVID-19 related term loans sponsored by the Canadian and the UK government in the total amount of $1,082,760. The company made repayment of long-term debt in the amount of $162,835, and repayment of lease obligations in the amount of $95,722. The Company received cash of $162,783 through the exercise of share options.

At February 28, 2021, $274,151 (10.7%) of the Company's trade receivables balance was over 90 days past due. $36,217 of the past due balance was impaired at February 28, 2021.

At May 31, 2020, $189,442 (10%) of the Company's trade receivables balance was over 90 days past due. $61,120 of the past due balance was impaired at May 31, 2020. $6,318 of trade receivables that was not over 90 days past due was also impaired.

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 28, 2021, provisions of $21,457 (net of $nil sales taxes) were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($130,133 net of sales tax of $18,755 – February 29, 2020). For the nine months ended February 28, 2021, $36,003 net of $1,858 sales taxes of the provisions was released due to the collection ($nil – February 29, 2020). The Company wrote off allowance for doubtful accounts in the amount of $16,136 for the nine months ended February 28, 2021 by removing the amount from trade receivables ($nil – February 29, 2020).

The following table presents the contractual undiscounted cash flows for lease obligations as of February 28, 2021 and May 31, 2020:

	February 28, 2021	May 31, 2020
Less than one year	**$ 324,431**	$ 141,157
One to five years	**954,575**	293,827
Six to ten years	**991,746**	286,500
Total undiscounted lease obligations	**2,270,752**	721,484
Less: impact of present value	**(634,046)**	(184,239)
Total lease obligations	**1,636,706**	537,245
Less: current portion	**(207,440)**	(105,269)
Long term portion	**$ 1,429,266**	$ 431,976

During the nine months ended February 28, 2021, the interest expense on lease obligations was $34,406 and total cash outflow for leases was $206,333, including $76,205 for short-term leases.

During the nine months ended February 29, 2020, the interest expense on lease obligations was $23,980 and total cash outflow for leases was $183,482, including $91,090 for short-term leases.

During the nine months ended February 28, 2021, the Company entered a 10-year lease for a commercial space in the U.S. and a 2-year lease for an office space in the U.K. As a result, the Company recognized the lease obligation and the right-of-use asset of $990,605 for the 10-year lease and $141,506 for the 2-year lease under IFRS 16. Variable lease payments were not included in the measurement of lease obligation.

For the nine months ended February 28, 2021 and February 29, 2020, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

The Company's ability to realize its assets and discharge its liabilities depends on its ability to generate sufficient cash from operations or its ability to arrange debt or equity financing.

On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of $2,300,000. The amounts advanced under the financing is expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over the next 3 years. The institution's floating base rate was at 4.55% on February 28, 2021. The first tranche of the proceeds in the amount of $1,000,000 was received

by the Company on July 23, 2020. According to the agreement, the remaining amount of $1,300,000 can be drawn later, subject to meeting certain conditions in accordance with this term loan. A standby fee of 1.50% per annum is charged on the portion of the amount which had not been advanced by February 2021.
The Company has been actively applying for COVID-related government salary subsidy programs provide by the Canadian, the U.S. and the UK government since March 2020. The Company had received $1,126,166 in total, of which $867,623 was received and recognized as a reduction to the operating expenses in the nine months ended February 28, 2021.

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 12 months. Once the COVID-19 pandemic ends, the Company will be generating sufficient cash by achieving profitable operations through continuing to manage expenditures, and concentrating on building upon revenue levels experienced from FY 2016 to FY 2020.

3.4 Segmentation Information

In the nine months ended February 28, 2021 and February 29, 2020, the Company operated in the energy efficiency industry in North America, Europe, 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 and Europe.

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 the other in Bristol, UK, 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, 2021 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,510,845**	3,003,194	**2,225,123**	2,808,432	**-**	-	**3,735,968**	5,811,626
Cost of sales	**(995,207)**	(2,028,371)	**(1,096,496)**	(1,365,805)	**-**	-	**(2,091,703)**	(3,394,176)
Gross profit	**515,638**	974,823	**1,128,627**	1,442,627	**-**	-	**1,644,265**	2,417,450
Other expenses (1)	**(508,996)**	(761,137)	**(656,541)**	(791,782)	**(457,524)**	(337,413)	**(1,623,061)**	(1,890,332)
Net finance costs (2)	**(14,485)**	(8,016)	**(2,569)**	(2,512)	**(48,179)**	(107,514)	**(65,233)**	(118,042)
Income (loss) before taxation	**(7,843)**	205,670	**469,517**	648,333	**(505,703)**	(444,927)	**(44,029)**	409,076
Tax recovery (expense)	**443**	-	**(8,180)**	(98)	**18,009**	20,809	**10,272**	20,711
Net income (loss)	**(7,400)**	205,670	**461,337**	648,235	**(487,694)**	(424,118)	**(33,757)**	429,787
Attributable to:								
Owners of the parent	**(7,528)**	212,460	**449,829**	648,097	**(487,694)**	(424,118)	**(45,393)**	436,439
Non-controlling interest	**128**	(6,790)	**11,508**	138	**-**	-	**11,636**	(6,652)

(1) Other expenses related to depreciation of right-of-use assets of $33,462 for the quarter ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of $8,000 and $25,462, respectively, to conform to the current period presentation.

(2) Finance costs related to interest accretion on lease obligations of $10,528 for the quarter ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of $8,016 and $2,512, respectively, to conform to the current period presentation.

Segment information for the nine months ended February 28, 2021 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021 **$**	2020 $	**2021** **$**	2020 $	**2021** **$**	2020 $	**2021** **$**	2020 $
Total revenue	**6,395,869**	12,308,440	**5,187,643**	6,317,071	**-**	-	**11,583,512**	18,625,511
Cost of sales	**(3,607,511)**	(7,949,449)	**(2,577,291)**	(3,149,737)	**-**	-	**(6,184,802)**	(11,099,186)
Gross profit	**2,788,358**	4,358,991	**2,610,352**	3,167,334	**-**	-	**5,398,710**	7,526,325
Other expenses (1)	**(1,484,797)**	(2,547,492)	**(2,009,561)**	(2,480,868)	**(1,378,612)**	(1,191,245)	**(4,872,970)**	(6,219,605)
Net finance costs (2)	**(29,723)**	(11,411)	**(6,012)**	(7,818)	**(200,247)**	(283,080)	**(235,982)**	(302,309)
Income (loss) before taxation	**1,273,838**	1,800,088	**594,779**	678,648	**(1,578,859)**	(1,474,325)	**289,758**	1,004,411
Tax recovery (expense)	**3,886**	-	**(20,676)**	(10,661)	**55,600**	62,479	**38,810**	51,818
Net income (loss)	**1,277,724**	1,800,088	**574,103**	667,987	**(1,523,259)**	(1,411,846)	**328,568**	1,056,229
Attributable to:								
Owners of the parent	**1,277,561**	1,812,443	**544,570**	652,336	**(1,523,259)**	(1,411,846)	**298,872**	1,052,933
Non-controlling interest	**163**	(12,355)	**29,533**	15,651	**-**	-	**29,696**	3,296

(1) Other expenses related to depreciation of right-of-use assets of $92,519 for the nine months ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of $22,547 and $69,972, respectively, to conform to the current period presentation.

(2) Finance costs related to interest accretion on lease obligations of $24,373 for the nine months ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of $16,555 and $7,818, respectively, to conform to the current period presentation.

Reconciling items comprise the following:

	Three months ended February 28/29		Nine months ended February 28/29	
	2021 **$**	2020 $	**2021** **$**	2020 $
Corporate admin costs	**172,410**	161,425	**442,126**	500,076
Stock-based compensation	**53,842**	50,230	**154,302**	153,562
Professional fees	**24,648**	31,814	**194,294**	185,307
Depreciation of property, plant and equipment	**29,977**	29,341	**89,225**	78,944
Amortization of intangible assets	**66,703**	68,964	**205,928**	207,346
Acquisition costs	**1,334**	-	**14,795**	-
Foreign exchange loss (gains)	**108,610**	(4,361)	**277,942**	66,010
Total	**457,524**	337,413	**1,378,612**	1,191,245

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 as well as the Annual General Meeting.

Finance costs within the reconciling items include interest and deferred financing charge on the long-term debt, and interest accretion on lease obligations.

Material Segmentation Variances

Thermal Energy Ottawa:

Revenue for the quarter ended February 28, 2021 was $1,510,845, represented a decrease of $1,492,349, or 49.7%, from $3,003,194 in the same quarter of previous year. The decrease was mainly due to the reduced revenues in heat recovery systems, offset by the slightly increased revenues from GEM products.

Revenue for the nine months ended February 28, 2021 was $6,395,869, represented a decrease of $5,912,571, or 48%, from the $12,308,440 achieved in the first three quarters of the previous year. The decrease was mainly due to the decrease in heat recovery revenues offset by the slightly increased revenues from GEM products.

Gross profit for the quarter ended February 28, 2021 decreased by $459,185 compared to the same period from the previous year. The decrease in gross profit was mainly due to the decreased revenues and the decreased gross profit as a percentage of revenue on heat recovery projects. Despite the decrease in revenue and gross profit on heat recovery projects, the overall gross profit as a percentage of revenue including both heat recovery and GEM products improved due to the change in product mix. As a percentage of revenue, total gross profit was 34.1% for the quarter ended February 28, 2021, compared to 32.5% achieved in the same period of last year. As GEM products carry a higher margin than heat recovery systems, the higher revenue achieved from GEM products in Q3 FY 2021 in proportion to the total revenue compared to the same period of the previous year resulted in an overall higher gross margin.

Gross profit for the nine months ended February 28, 2021 decreased by $1,570,633 over the same period of last year mainly due to the significant decrease in revenue from heat recovery systems. During the first three quarters of FY 2021, the revenues from GEM products increased compared to the same period of FY 2020. As a result, the gross profit as a percentage of revenue for the first three quarters of FY 2021 increased to 43.6% from 35.4% achieved in the same period of FY 2020. The increase was mainly due to the change in the product mix.

Other expenses in this segment decreased by $252,141 or 33.1% for the quarter ended February 28, 2021 compared to same quarter last year. Whereas other expenses for the nine months ended February 28, 2021 reduced by $1,062,695 from 2,547,492 to $1,484,797. The decrease was mainly due to cost savings achieved through cost control measures implemented, the government wage subsidies received and recognized as a reduction to operating expenses, and the decreased business development and travelling expenses as a result of reduced business development activities caused by travel restrictions, lockdown orders and quarantine requirements.

For the quarter ended February 28, 2021, the North America sector incurred a loss before taxation of $7,843, represented a decrease of $213,513, or 103.8%, from the income before taxation of $205,670 achieved in the same quarter of last year. The decrease was mainly due to the reduced gross profit by $459,185 as a result of decreased revenues, offset by the decrease in operating expenses of $252,141.

Income before tax for the nine months period was $1,273,838, represented a decrease of $526,250 or 29.2%, compared to $1,800,088 achieved in the same period of prior year. Despite the significant cost reduction of $1,062,695 achieved in the first nine months of the FY 2021, the decrease in gross profit of $1,570,633 as a result of the significantly decreased revenues still contributed to a lower amount of income before tax for the nine months ended February 28, 2021.

Thermal Energy Bristol:

Revenue for the quarter ended February 28, 2021 was $2,225,123, represented a decrease of $583,309, or 20.8%, from the $2,808,432 achieved in the same period of the previous year. The decrease in revenue was mainly due to decreased revenues in both heat recovery systems and condensate return systems (i.e. GEM products). The heat recovery projects were delayed due to travel restrictions and limited access to sites since March 2020.

Revenue for the nine months ended February 28, 2021 was $5,187,643, a decrease of $1,129,428, or 17.9%, compared to $6,317,071 achieved in the first nine months of the previous year. The decrease for the nine months ended February 28, 2021 was mainly due to decreased revenues in both heat recovery systems and condensate return systems.

Gross profit decreased in the third quarter of FY 2021 by $314,000, compared to the same quarter last year. The decrease in gross profit was mainly due to the decreased revenues and decreased profit margin on condensate return systems. During the third quarter of FY 2021, the Company delivered a large order of condensate return systems to a repeat customer and provided a significant price discount to this customer. As a result, the gross profit as a percentage of revenue for condensate return systems decreased. Meanwhile, the Company delivered significant amount of work related to heat recovery projects. The gross profit as a percentage of revenue on heat recovery revenues actually improved compared to the same period of the previous year. As a result, the gross profit as a percentage of total revenue of 50.7% including both heat recovery and condensate return systems in the third quarter of FY 2021 was similar to the percentage from the same quarter of prior year of 51.4%.

Gross profit for the nine months ended February 28, 2021 decreased by $556,982 over the same period of last year mainly due to the decreased revenues in both heat recovery systems and condensate return systems in Europe.

Other expenses decreased by $135,241 or 17.1% for the quarter ended February 28, 2021, compared to the same quarter of the previous year. Other expenses for the nine months ended February 28, 2021 was $2,009,561, a decrease of $471,307 or 19.0%, from $2,480,868 for the same period of FY 2020. The decrease for the quarter and the nine months ended February 28, 2021 was mainly due to cost savings achieved through cost control measures, the government wage subsidies received and decreased costs in business development activities.

The resulting pre-tax income was $469,517 for the quarter ended February 28, 2021, compared to $648,333 for the quarter ended February 29, 2020. The pre-tax income decreased by $178,816 due to decrease in gross profit of $314,000 as a result of decreased revenues, offset by decrease in other expenses of $135,241. The pre-tax income for the nine months ended February 28, 2021 decreased to $594,779 from $678,648 achieved in same period of the previous year, a decrease of $83,869. The decrease was mainly due to the decrease in gross profit of $556,982, offset by the decrease in operating expenses of $471,307.

Reconciling Items:

Other expenses within Reconciling items, which incorporates all costs not specifically attributable to either regional operational center. For the nine months ended February 28, 2021, the other expenses within reconciling items increase from $1,191,245 to $1,378,612, an increase of $187,367, compared to the same period of the previous year. The increase was mainly due to the increase in foreign exchange loss of $211,932 offset by the decrease in corporate admin costs of $57,950 as a result of the deferral of non-essential expenditures and travel arrangements during the period.

3.5 Quarterly Financial Information (unaudited)

For the eight quarters ended February 28, 2021:

Quarter ended	31-May-20 $	31-Aug-20 $	30-Nov-20 $	28-Feb-21 $
Revenue	2,790,664	2,827,862	5,019,682	3,735,968
Gross Profit	1,427,728	1,324,203	2,430,242	1,644,265
Gross Profit Percentage	51.2%	46.8%	48.4%	44%
EBITDA(1)	31,412	14,998	788,471	171,726
Total net income (loss)	(2,953,186)	(218,100)	580,425	(33,757)
Income (loss) per share, basic and diluted	(0.019)	(0.001)	0.004	(0.000)

Quarter ended	31-May-19 $	31-Aug-19 $	30-Nov-19 $	29-Feb-20 $
Revenue	5,974,546	4,965,789	7,848,096	5,811,626
Gross Profit	3,117,297	2,190,518	2,918,357	2,417,450
Gross Profit Percentage	52.2%	44.1%	37.2%	41.6%
EBITDA(1)	1,029,103	471,786	709,182	709,115
Total net income (loss)	599,958	241,261	385,181	429,787
Income (loss) per share, basic and diluted	0.004	0.002	0.002	0.003

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

A reconciliation of net income (loss) to EBITDA is shown below:

	Three months ended		Nine months ended	
	Feb 28, 2021 **$**	Feb 29, 2020 $	**Feb 28, 2021** **$**	Feb 29, 2020 $
Total net income (loss) attributable to owners of the parent	**(45,393)**	436,439	**298,872**	1,052,933
Total net income (loss) attributable to non-controlling interest	**11,636**	(6,652)	**29,696**	3,296
Interest charge	**65,233**	118,042	**235,982**	307,453
Taxation	**(10,272)**	(20,711)	**(38,810)**	(51,818)
Depreciation and amortization	**96,680**	131,767	**295,153**	378,809
Share based compensation	**53,842**	50,230	**154,302**	153,562
Net write-down of lease	**-**	-	**-**	45,848
EBITDA	**171,726**	709,115	**975,195**	1,890,083

4. Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 28, 2021 were 1,250,000, of which 750,000 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2021 were 5,125,000, of which 2,041,667 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 28, 2021 compensation arrangements for directors were 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.

For the period April 15, 2020 to September 15, 2020, the Directors elected to reduce their compensation by 15% in support of the Company's cost control initiatives.

During the quarter ended February 28, 2021, total directors' fees were $16,875. In addition, fees to the Chairperson of the Audit Committee were $1,350; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,350; fees paid to the Chairman were $2,025.

Compensation paid to directors and officers during the quarter ended February 28, 2021 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**3,375**	4,375	**-**	-	**-**	-	**3,375**	4,375
J. Kelly	**5,400**	6,400	**-**	-	**-**	-	**5,400**	6,400
W. Ollerhead	**4,725**	5,725	**-**	-	**-**	-	**4,725**	5,725
D. Spagnolo	**4,725**	5,725	**-**	-	**-**	-	**4,725**	5,725
W. White	**3,375**	4,375	**-**	-	**-**	-	**3,375**	4,375
Total	**21,600**	26,600	**-**	-	**-**	-	**21,600**	26,600
Senior Management								
W. Crossland	**60,000**	60,000	**-**	-	**-**	2,954	**60,000**	62,954
R. Triebe	**45,251**	45,250	**-**	-	**826**	3,107	**46,077**	48,357
S. Mawby(1) (2)	**22,845**	38,665	**-**	-	**4,136**	6,401	**26,981**	45,066
J. Zhang	**31,250**	31,250	**-**	-	**826**	2,411	**32,076**	33,661
Total	**159,346**	175,165	**-**	-	**5,788**	14,873	**165,134**	190,038
Total Related Party Transactions	**180,946**	201,765	**-**	-	**5,788**	14,873	**186,734**	216,638

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 U.K. based subsidiaries.

(1) Mr. Mawby is compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.7382 and 1.7192 in Q3 2021 and Q3 2020, respectively.
(2) Mr. Mawby was on paternity leave for the period October 19, 2020 to December 31, 2020.

5. COVID-19 Update

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. The Company has been closely monitoring the impact of COVID-19 on all aspects of its business. COVID-19 has had disruptive effects in countries in which the Company operates including Canada, the US and the UK.

We are conducting business with substantial modifications to employee travel and employee work locations. The travel restrictions have decreased business development and sales activities. While most of our customers are essential businesses and continue to operate, the pandemic also has impacts on many of them, including adapting their operation to include physical distancing, limiting site visits, delays in making purchasing decisions and the temporary suspension of on-going projects.

The Company has taken proactive measures to cope with the impact from COVID-19 including the deployment of video conferencing tools, the development of remote working and file-sharing capabilities, a temporary reduction in non-essential expenditures, and the application of government sponsored emergency loans and salary subsidy programs. Despite the COVID-19 slowdown, the Company has maintained its full production and project development capabilities.

Currently, we are unable to estimate the long-term impact of COVID-19 on our businesses, financial position, results of operations, and cash flows. We expect COVID-19 to continue to affect our results of operations in the next 6 to 12 months.

6. Business Outlook

Governments around the world are taking unprecedented action, including increasing regulations, to reduce carbon emissions. 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, 2021 was approximately $6.1 million. As at April 15, 2021, the Company had an order backlog of approximately $8.9 million.

	2019 $ million	2020 $ million	2021 $ million
Order backlog as at February 28/29/28	10.6	3.4	6.1
Order backlog as at April reporting date	16.6	5.7	8.9

- On April 15, 2021, the Company announced that it has received its second heat recovery order from one of the world's largest brewers. The order includes major equipment, engineering, and commissioning and is valued at over $500,000. Thermal Energy will design and deliver a customized FLU-ACE® system for the customer's Russian production facility. The FLU-ACE® will be integrated with, and improve the efficiency of, the biogas generation system already present at the site.

- On March 17, 2021, the Company announced that it had been commissioned to design and implement an extensive $1,180,000 heat recovery project with a major US dairy group. By implementing the Company's ultra-efficient solution, this repeat customer expects to reduce this site's natural gas usage by 13% as well cut its annual CO_2 emissions by over 730 tonnes.

- On February 24, 2021, the Company announced that it had been commissioned by a prominent multinational brewer to supply a turn-key heat recovery system to one of its North American sites. The system, valued at over $1,000,000, is expected to increase energy efficiency, reduce fuel use, and save an estimated 8 million litres of water annually, as well as reduce CO_2 emissions by over 1,800 metric tonnes per year.

- On January 19, 2021, the Company announced that it had been commissioned by a Canadian hospital to supply heat recovery equipment to reduce fuel use and carbon emissions. The systems, valued at $770,000, are expected to deliver an annual fuel saving of $198,000 and reduce carbon emissions by 1,115 metric tonnes per year. The project was about 3% complete at the quarter-end.

- On October 27, 2020, the Company announced that it had been commissioned by a leading hospital group to supply two heat recovery systems to reduce fuel use and carbon emissions. The systems, valued at $1,530,000, will be installed at two facilities. The systems are expected to deliver an annual fuel saving of $410,600 and reduce carbon emissions by over 2,300 tonnes per year. The project was about 17% complete at the quarter-end.

- On October 6, 2020, the Company announced that it had been commissioned by a multinational food products corporation to install a second turn-key, energy-saving heat recovery system to increase the efficiency of the site's dryer. The project is valued at $840,000, delivering its estimated annual energy savings of over $310 thousand, the new dryer efficiency solution will provide the customer with a simple payback on investment of just under 3 years. Carbon emissions are also expected to be reduced by up to 1,304 tonnes by the site's second FLU-ACE®, resulting in a reduction of end-of-pipe particulate matter emissions by between 50% and 90%. The project was about 83% complete at the quarter-end.

- On August 18, 2020, the Company announced that it had been commissioned by one of Europe's largest food and drink groups to supply a turnkey heat recovery system designed to reduce fuel use and carbon emissions, while also minimizing particulate matter, and NOx emissions. The project, valued at approximately $920,000, will be installed at a canning and pouch packaging facility in the UK. At the heart of the system will be Thermal Energy's proprietary direct contact heat recovery technology, FLU-ACE®. Once commissioned, the system is expected to deliver an annual fuel saving of $383,300 and reduce the site's carbon emissions by 2,868 tonnes a year. The project was about 79% complete at the quarter-end.

- On June 10, 2020, the company announced that it had been commissioned by a leading consumer protein company to supply energy efficient equipment and engineering for a plant upgrade project. This equipment, valued at approximately $950,000, will be used to heat process water for the plant operation producing up to 2,700 US gallons per minute of water heated from 85°F to 140°F. The project was about 89% complete at the quarter-end.

7. Summary of Outstanding Shares and Dilutive Instruments

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

Shares:
162,984,277 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding February 28, 2021	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2021	Weighted average exercise price
0.05-0.07	500,000	0.25	0.05	500,000	0.05
0.08-0.10	15,141,339	3.62	0.08	5,450,006	0.08
0.11-0.12	250,000	0.75	0.12	250,000	0.12
	15,891,339	3.47	0.08	6,200,006	0.08

8. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and assumptions are recognized in the year in which they are revised and in any future periods affected. Actual results may differ from these estimates, judgements and assumptions.

The COVID-19 outbreak began to impact the Company's operations in the latter half of March 2020. Management believes the extent of the COVID-19 pandemic's adverse impact on the Company's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, travel restrictions, and the willingness of customers to allow outside contractors onsite. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants and potential impairments of intangible and long-lived assets.

The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, and 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 intangible assets and asset impairment

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 carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset 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 an applicable royalty rate. 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 period.

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.

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.

Expected credit loss

The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on the Company's knowledge of the financial conditions of its customers, historical experience, and general economic conditions.

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. 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.

There has been no change in accounting standards since we issued our last consolidated annual financial statements for the year ended May 31, 2020.

9. 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^{TM} and FLU-ACE$^{®}$ technology solutions.

Financial risks and uncertainties of the Company include:

- The impact of major global pandemics (see section 5 Covid-19 Update for more details);
- 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 past litigation with a former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects; and
- The impact of the 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 increased costs. Despite further cost increases as management continued 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. However, 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 and FY 2017 saw a return to profitability and an increase in cash balances of $427,805 and $1,806,992, respectively. This was followed in FY 2018 by another profitable year which saw cash balances increase by $336,334. In FY 2019, sales increased by 21.1% due to the increased revenue in heat recovery systems and the acquisition of Boilerroom Equipment Inc. In FY 2020, despite the COVID-19 pandemic, the Company maintained the same sales level as FY 2019, completed the year with higher gross margins and record operating income before impairment of $1,275,708. The Company reported a loss for FY 2020 because of the impairment write-down of $3,061,200 recognized on intangible assets and goodwill.

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 technologies is limited at this time and believes that the marketplace is sufficiently large enough 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 ("EU"). The withdrawal of the UK from the EU is also called "Brexit". On December 24, 2020, a week away from the end of the exit transition period, a post-Brexit trade deal was reached between the EU and the UK. This deal ensures that Britain can continue to trade in goods with EU countries without tariffs or quotas in the post-Brexit era, although the deal does not completely eliminate the possibility of tariffs in the future. Also, the UK is no longer following the EU's rules on product standards. This means there could be more paperwork required, which could cause problems and delays if businesses turned up at ports unprepared. It appears that the deal may allow service suppliers to travel on short term visits without the need for work permits and it may allow the recognition of UK qualifications. At this moment, the most prominent post-Brexit concern for our business is related to potential shipping delays on product sales to EU countries. The Company has implemented new processes to adapt to the changes, including changing shipping terms to cover additional costs arising post-Brexit (i.e. taxes, custom clearing fees, etc.) to avoid shipping delays, and registering sales taxes in EU countries to be in compliance with local sales tax rules. The Company will continue monitoring new requirements arising as a result of Brexit.

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.

10. 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.

11. 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, 2021 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.