THERMAL ENERGY
INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2022

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 2022, ended February 28, 2022 (or "Q3 2022"), and compares the Q3 2022 financial results to the previous quarter ended February 28, 2021 (or "Q3 2021"). 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 2022 are against the third quarter of FY 2021. 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 44% of our operations, assets and liabilities are denominated in British Pound Sterling and 32% 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 26, 2022. Disclosure contained in this document is current to April 26, 2022, 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".

Table of Contents

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 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 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, 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 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 below:

	Three months ended		Nine months ended	
	Feb 28, 2022 $	Feb 28, 2021 $	**Feb 28, 2022 $**	Feb 28, 2021 $
Total net (loss) income attributable to owners of the parent	**(916,577)**	(45,393)	**(1,755,270)**	298,872
Total net income attributable to non-controlling interest	**22,276**	11,636	**66,761**	29,696
Interest charge	**83,155**	65,233	**246,288**	235,982
Taxation	**(2,698)**	(10,272)	**(8,967)**	(38,810)
Depreciation and amortization	**111,169**	96,680	**326,494**	295,153
Share based compensation	**55,148**	53,842	**162,832**	154,302
EBITDA	**(647,527)**	171,726	**(961,862)**	975,195

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.

The Company's order backlog as at February 28, 2022 was approximately $5.6 million. As at April 26, 2022, the Company had an order backlog of approximately $6.5 million.

	2020 $ million	2021 $ million	2022 $ million
Order backlog as at February 29/28/28	3.4	6.1	5.6
Order backlog as at April reporting date	5.7	8.9	6.5

3. Performance

3.1 Quarterly Financial Information (unaudited)

For the most recent eight quarters ended:

Quarter ended	31-May-21 $	31-Aug-21 $	30-Nov-21 $	28-Feb-22 $
Revenue	3,765,814	3,879,256	4,076,808	3,491,429
Gross Profit	1,352,379	1,643,717	1,712,230	1,469,102
Gross Profit Percentage	35.9%	42.4%	42.0%	42.1%
EBITDA(1)	(38,846)	80,756	(395,091)	(647,527)
Total net loss	(105,603)	(153,880)	(640,328)	(894,301)
Loss per share, basic and diluted	(0.001)	(0.001)	(0.004)	(0.006)

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 (loss) income	(2,953,186)	(218,100)	580,425	(33,757)
(Loss) income per share, basic and diluted	(0.019)	(0.001)	0.004	(0.000)

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

3.2 Summary of Third Quarter Results

	Q3 2022	Q3 2021
	$	$
Revenue	**3,491,429**	3,735,968
Cost of sales	**2,022,327**	2,091,703
Gross profit	**1,469,102**	1,644,265
Expenses:		
Administration, selling, marketing and business development	**2,277,090**	1,620,506
Research and development	**5,856**	2,555
	2,282,946	1,623,061
Operating (loss) income	**(813,844)**	21,204
Finance costs	**(83,155)**	(65,233)
Loss before income taxes	**(896,999)**	(44,029)
Income taxes recovery	**2,698**	10,272
Net loss for the period	**(894,301)**	(33,757)
Exchange differences on translation of overseas operations	**24,846**	123,380
Total comprehensive (loss) income for the period	**(869,455)**	89,623
EBITDA for the quarter[1 2]	**(647,527)**	171,726
Order backlog as at February 28 [3]	**5.6 million**	6.1 million
Order backlog as at reporting date [3]	**6.5 million**	8.9 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents 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.

Revenue and Gross Profit

Revenues were $3,491,429 in the third quarter ended February 28, 2022, representing a decrease of $244,539, or 6.5%, compared to $3,735,968 in the quarter ended February 28, 2021. The decrease of revenue in the third quarter of FY 2022 was mainly due to the decrease of revenues from heat recovery systems. The COVID-19 pandemic continues to cause delays on heat recovery projects in the third quarter. The shortage of labour has resulted in delays on heat recovery project execution because it was difficult for subcontractors to deliver installation work on time. While most of our customers are essential businesses and continue to operate, the pandemic also has impacts on many of them, including delays in making purchasing decisions on long-term heat recovery projects. As a result, orders received from heat recovery projects have been declining.

The gross profit of $1,469,102 in the quarter ended February 28, 2022 represented a decrease of $175,163, or 10.7%, from the $1,644,265 in the quarter ended February 28, 2021. This decrease in gross profit was mainly due to the decrease in revenues from heat recovery systems. The decrease was also caused by decreased gross margin on heat recovery systems. Gross profit expressed as a percentage of sales was 42.1% in the third quarter of FY 2022 compared with 44% in the same quarter of FY 2021. For heat recovery projects, the cost on subcontractors' installation work continued increasing due to the shortage of labour, which decreased the gross margin on heat recovery projects.

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended February 28, 2022, totaled $2,277,090, compared to $1,620,506 in the quarter ended February 28, 2021, an increase of $656,584, or 40.5%. During the third quarter of the previous year, the Company received government subsidies of $246,951, but no subsidies were received in the third quarter of F2022. The government wage subsidies were recorded as a reduction to the Operating Expenses. Acquisition related cost increased by $80,241 for the purchase of the technology from Sofame Technologies Inc. The Company's other operating expenses increased by $396,114, compared to the same quarter of prior year. The staff's salary expense increased in order to catch up with the increased inflation rate. The increase in operating expenses was partially offset by the decrease in foreign exchange loss of $66,722 compared to the same quarter of the previous year.

Research and development ("R&D") expenses in the quarter ended February 28, 2022 totaled $5,856, as compared to $2,555 in the quarter ended February 28, 2021.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of $83,155 in the third quarter of FY 2022. The costs were higher than the third quarter of FY 2021 by $17,922 mainly due to the increased interest accretion on lease obligations. The Company's US subsidiary, Boilerroom Equipment Inc., signed a ten-year lease in February 2021 for its new production facility, which increased the lease obligation by $990,605 at the start of the lease. During the same quarter of the prior year, there was no lease obligation recorded for the production facility at Boilerroom Equipment Inc.

Loss before income taxes for the quarter ended February 28, 2022 was $896,999, compared to loss of $44,029 in the same quarter of the previous year, a loss increase of $852,970. The increase in loss was mainly due to the decreased gross profit of $175,163 caused by decreased revenue and decreased margin on heat recovery systems, and increased expenses of $656,584 caused by increased operating expenses, increased acquisition related cost, and decreased government wage subsidies received compared to the same quarter of the previous year.

Income tax recovery in the third quarter of FY 2022 was $2,698, as compared to a recovery of $10,272 in the third quarter of FY 2021, a decrease of $7,574.

Net loss for the third quarter of FY 2022 was $894,301, compared to a net loss of $33,757 in the same quarter of the previous year, representing a loss increase of $860,544. The increase in net loss was mainly due to the decrease of gross profit resulting from decreased revenue and decreased margin on heat recovery systems, increase in operating expenses and acquisition cost, and decrease of the wage subsidies received compared to the same quarter of the previous year.

Comprehensive loss was $869,455 for the third quarter of FY 2022, compared to an income of $89,623 for the third quarter of FY 2021, a loss increase of $959,078. The loss increase was due to the increase of net loss of $860,544 and the decrease of exchange gain arising on translation of overseas operations of $98,534 as compared to the same quarter of the previous year.

EBITDA was negative $647,527 for the third quarter of FY 2022, compared to $171,726 for the same quarter of the previous year, representing a decrease of $819,253. The decrease in EBITDA was mainly due to increase in loss before taxes of $852,970 compared to the same quarter of previous year.

3.3 Summary of Year-to-Date Results

	Nine months ended Feb 28, 2022	Nine months ended Feb 28, 2021
	$	$
Revenue	**11,447,493**	11,583,512
Cost of sales	**6,622,444**	6,184,802
Gross profit	**4,825,049**	5,398,710
Expenses:		
Administration, selling, marketing and business development	**6,269,446**	4,849,007
Research and development	**6,791**	23,963
	6,276,237	4,872,970
Operating (loss) income	**(1,451,188)**	525,740
Finance costs	**(246,288)**	(235,982)
(Loss) income before income taxes	**(1,697,476)**	289,758
Income taxes recovery	**8,967**	38,810
Net (loss) income for the period	**(1,688,509)**	328,568
Exchange differences on translation of overseas operations	**(143,390)**	299,273
Total comprehensive (loss) income for the period	**(1,831,899)**	627,841
EBITDA[1 2]	**(961,862)**	975,195
Order backlog as at February 28 [3]	**5.6 million**	6.1 million
Order backlog as at reporting date [3]	**6.5 million**	8.9 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents 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.

Revenue and Gross Profit

Revenues were $11,447,493 in the nine months ended February 28, 2022, representing a decrease of $136,019, or 1.2%, from the $11,583,512 recognized in the nine months ended February 28, 2021. The decrease in revenues was mainly due to decrease of revenues from direct contact heat recovery systems offset by the increased revenue from indirect contact heat recovery systems delivered by Boilerroom Equipment Inc., a US subsidiary of the Company. The decrease in revenues from direct contact heat recovery systems was mainly due to less orders received. Customers have been delaying the purchase of heat recovery systems given the uncertainties arising from the global pandemic.

The gross profit of $4,825,049 in the first three quarters of FY 2022 represented a decrease of $573,661, or 10.6%, from the $5,398,710 achieved in the same period of FY 2021. Although the revenue only decreased by 1.2% compared to the same period of prior year, the gross profit decreased by 10.6%. This is because the cost of materials increased due to the recent global supply chain issue and the cost of labour also increased due to the shortage of labour caused by the pandemic. The continued shortage of materials and labour resulted in the decrease in gross margin on direct and indirect contact heat recovery systems. Overall, gross profit expressed as a percentage of sales was 42.1% in the first nine months of FY 2022 compared with 46.6% in the same period of FY 2021.

Administration, selling, marketing and business development expenses ("Operating Expenses") in the nine months ended February 28, 2022 totaled $6,269,446 compared to $4,849,007 in the nine months ended February 28, 2021, representing an increase of $1,420,439, or 29.3%. During the first nine months of FY 2022, the Company recognized government wage subsidies in the amount of $187,846, compared to $867,623 recognized in the same period of the previous year, representing a decrease of $679,777. The Company's acquisition related cost increased by $173,562 due to the purchase of the technology from Sofame Technologies Inc. The Company's other operating expenses increased by $1,064,960, compared to the same period of prior year. During the first nine months of prior year, the Company implemented some temporary cost control measures in order to prepare for the potential adverse financial impact from COVID-19, including reducing non-essential and discretionary expenditures. Some of these measures were no longer in place in the current year. The staff's salary expense also increased in the current year in order to catch up with the significantly increased annual inflation rate. The increase in operating expenses was partially offset by increase in foreign exchange gain of $497,860 compared to the same period of the previous year. As mentioned earlier, approximately 44% of our operations, assets and liabilities are denominated in British Pound Sterling and 32% in US Dollar. Foreign currency fluctuations affect the values reported in the statement of profit and loss.

Research and development expenses in the first nine months of FY 2022 were $6,791, compared to $23,963 in the same period of FY 2021.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs increased by $10,306 to $246,288 from $235,982 in the nine months ended February 28, 2022. The increase was mainly due to increased interest accretion on lease obligations.

Loss before income taxes for the nine months ended February 28, 2022 was $1,697,476 compared to income of $289,758 in the same period of the previous year, representing a decrease of $1,987,234. The decrease was mainly due to the reduction in gross profit, resulting from decreased margin on direct and indirect contact heat recovery systems, and the increased operating expenses caused by increased labour cost, increase in acquisition related cost, and decrease in government wage subsidies received compared to the same period of the previous year.

Income tax recovery in the first nine months of FY 2022 was $8,967, compared to $38,810 in the same period of FY 2021. 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, 2022 was $1,688,509 compared to a net income $328,568 in the same period of the previous year, representing an increase of loss of $2,017,077. The loss increase was mainly due to the increase in loss before income taxes of $1,987,234 as described earlier.

Comprehensive loss was $1,831,899 for the first nine months of FY 2022, compared to income of $627,841 for the first nine months of FY 2021, an increase in loss of $2,459,740. The comprehensive loss increased due to the increase in net loss of $2,017,077 plus the increase in translation loss of overseas operations of $442,663.

EBITDA was negative $961,862 for the first nine months of FY 2022 compared to $975,195 for the same period of the previous year, representing a decrease of $1,937,057. The decrease was mainly due to loss before taxes of $1,697,476 incurred for the nine months ended February 28, 2022, compared to income before taxes of $289,758 achieved in the same period of prior year, resulting in a decrease of $1,987,234.

3.4 Liquidity & Capital Resources

Current assets decreased by $1,589,153 to $6,991,631 at February 28, 2022, compared to $8,580,784 at May 31, 2021. The decrease was mainly due to the decrease in cash and cash equivalents of $1,946,370, offset by increase in inventory of $418,186. Current liabilities increased by $727,514 to $5,499,794, mainly due to the increase in trade payables and other liabilities of $571,167 and deferred revenue of $124,865.

Working capital decreased by $2,316,667 to $1,491,837 at February 28, 2022, compared to $3,808,504 at May 31, 2021. The decrease in working capital was mainly due to the decrease in cash and cash equivalents of $1,946,370, the increase in deferred revenue of $124,865, and the increase in trade payables and other liabilities of $571,167, offset by the increase in inventory of $418,186.

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

	May 31, 2020 $	Aug 31, 2020 $	Nov 30, 2020 $	Feb 28, 2021 $	May 31, 2021 $	Aug 31, 2021 $	Nov 30, 2021 $	Feb 28, 2022 $
Current Assets	8,063,550	7,938,009	8,984,102	8,606,829	8,580,784	8,441,508	7,080,511	6,991,631
Current Liabilities	5,192,014	4,198,761	4,756,957	4,404,265	4,772,280	5,186,143	4,634,580	5,499,794
Working Capital	2,871,536	3,739,248	4,227,145	4,202,564	3,808,504	3,255,365	2,445,931	1,491,837

The Company's cash position was $2,294,485 as at February 28, 2022, compared to $4,240,855 at May 31, 2021, representing a decrease of $1,946,370. The decrease was due to cash used in operating activities of $802,002, investing activities of $349,854 and financing activities of $811,393 offset by the exchange gains on cash and cash equivalents of $16,879.

The net cash used in the operating activities included net loss of $1,688,509, the interest paid on long-term debt and lease obligations of $240,525, income taxes paid of $22,678, offset by the addbacks of non-cash items of $855,219 and change in working capital of $294,491.

The net cash used in investing activities was $349,854 during the nine months ended February 28, 2022, including the purchase of intangible assets of $283,421, relating to the technology acquired from Sofame Technologies Inc. on June 11, 2021, and the purchase of property, plant and equipment of $67,678, offset by the proceeds from disposal of property, plant and equipment of $1,245.

During the nine months ended February 28, 2022, the Company used net cash in financing activities of $811,393 which included repayment of long-term debt of $652,974, repayment of lease obligations of $161,750, and dividends paid in the amount of $25,419, offset by $28,750 proceeds received from stock options exercised.

At February 28, 2022, $235,950 (11.5%) of the Company's trade receivables balance was over 90 days past due. $55,928 of the past due balance was impaired at February 28, 2022. $5,321 of trade receivables that was not over 90 days past due was also impaired.

At May 31, 2021, $402,848 (18.8%) of the Company's trade receivables balance was over 90 days past due. $28,837 of the past due balance was impaired at May 31, 2021. $11,471 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, 2022, additional provisions of $61,534 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($21,457 – February 28, 2021). $40,288 ($36,003 – February 28, 2021) of the previously provided credit losses was released due to the collection on doubtful accounts.

The following table presents the contractual undiscounted cash flows for lease obligations as of February 28, 2022 and May 31, 2021:

	February 28, 2022	May 31, 2021
Less than one year	**$ 325,432**	$ 326,987
One to five years	**846,484**	904,426
Six to ten years	**784,055**	905,054
Total undiscounted lease obligations	**1,955,971**	2,136,467
Less: impact of present value	**(517,912)**	(583,403)
Less: current portion	**(221,346)**	(215,923)
Long term portion	**$ 1,216,713**	$ 1,337,141

During the nine months ended February 28, 2022, the interest expense on lease obligations was $86,861 and total cash outflow for leases was $258,962, including $10,351 for short-term leases.

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.

For the nine months ended February 28, 2022 and 2021, 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.

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 recognized salary subsidies of $187,846 during the nine months ended February 28, 2022, which was recorded as a reduction to the operating expenses.

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 4.8% on February 28, 2022. The first tranche of the proceeds in the amount of $1,000,000 was received by the Company on July 23, 2020. The second tranche of $1,300,000 was received on March 30, 2022 subsequent to the quarter-end.

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 6 months.

3.5 Segmentation Information

In the nine months ended February 28, 2022, 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, 2022 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,529,909**	1,510,845	**1,961,520**	2,225,123	**-**	-	**3,491,429**	3,735,968
Cost of sales	**(974,758)**	(995,207)	**(1,047,569)**	(1,096,496)	**-**	-	**(2,022,327)**	(2,091,703)
Gross profit	**555,151**	515,638	**913,951**	1,128,627	**-**	-	**1,469,102**	1,644,265
Other expenses	**(847,379)**	(508,996)	**(938,239)**	(656,541)	**(497,328)**	(457,524)	**(2,282,946)**	(1,623,061)
Net finance costs	**(26,210)**	(14,485)	**(2,083)**	(2,569)	**(54,862)**	(48,179)	**(83,155)**	(65,233)
(Loss) income before taxation	**(318,438)**	(7,843)	**(26,371)**	469,517	**(552,190)**	(505,703)	**(896,999)**	(44,029)
Tax recovery (expense)	**704**	443	**(15,966)**	(8,180)	**17,960**	18,009	**2,698**	10,272
Net (loss) income	**(317,734)**	(7,400)	**(42,337)**	461,337	**(534,230)**	(487,694)	**(894,301)**	(33,757)
Attributable to:								
Owners of the parent	**(317,777)**	(7,528)	**(64,570)**	449,829	**(534,230)**	(487,694)	**(916,577)**	(45,393)
Non-controlling interest	**43**	128	**22,233**	11,508	**-**	-	**22,276**	11,636

Segment information for the nine months ended February 28, 2022 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**6,255,186**	6,395,869	**5,192,307**	5,187,643	**-**	-	**11,447,493**	11,583,512
Cost of sales	**(3,930,913)**	(3,607,511)	**(2,691,531)**	(2,577,291)	**-**	-	**(6,622,444)**	(6,184,802)
Gross profit	**2,324,273**	2,788,358	**2,500,776**	2,610,352	**-**	-	**4,825,049**	5,398,710
Other expenses	**(2,367,794)**	(1,484,797)	**(2,768,249)**	(2,009,561)	**(1,140,194)**	(1,378,612)	**(6,276,237)**	(4,872,970)
Net finance costs	**(79,425)**	(29,723)	**(7,393)**	(6,012)	**(159,470)**	(200,247)	**(246,288)**	(235,982)
(Loss) income before taxation	**(122,946)**	1,273,838	**(274,866)**	594,779	**(1,299,664)**	(1,578,859)	**(1,697,476)**	289,758
Tax recovery (expense)	**3,456**	3,886	**(47,785)**	(20,676)	**53,296**	55,600	**8,967**	38,810
Net (loss) income	**(119,490)**	1,277,724	**(322,651)**	574,103	**(1,246,368)**	(1,523,259)	**(1,688,509)**	328,568
Attributable to:								
Owners of the parent	**(119,204)**	1,277,561	**(389,698)**	544,570	**(1,246,368)**	(1,523,259)	**(1,755,270)**	298,872
Non-controlling interest	**(286)**	163	**67,047**	29,533	**-**	-	**66,761**	29,696

Reconciling items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2022	2021	**2022**	2021
	$	$	**$**	$
Corporate administration costs	**179,704**	172,410	**515,578**	442,126
Stock-based compensation	**55,147**	53,842	**162,832**	154,302
Professional fees	**27,845**	24,648	**166,851**	194,294
Depreciation of property, plant and equipment	**33,687**	29,977	**98,101**	89,225
Amortization of intangible assets	**77,482**	66,703	**228,393**	205,928
Acquisition costs	**81,575**	1,334	**188,357**	14,795
Foreign exchange differences loss (gain)	**41,888**	108,610	**(219,918)**	277,942
Total	**497,328**	457,524	**1,140,194**	1,378,612

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.

Material Segmentation Variances

Thermal Energy Ottawa:

Revenue for the quarter ended February 28, 2022 of $1,529,909, represented an increase of $19,064, or 1.3%, from $1,510,845 in the same quarter of previous year. The increase was mainly due to the increase in revenue from indirect contact heat recovery units delivered by Boilerroom Equipment Inc., the Company's US subsidiary, offset by the reduced revenues in heat recovery systems and condensate return systems.

Revenue for the nine months ended February 28, 2022 of $6,255,186, represented a decrease of $140,683, or 2.2%, from the $6,395,869 achieved in the same period of the previous year. The decrease was mainly due to the reduced revenues in heat recovery systems and condensate return systems, offset by the increase in revenue from indirect contact heat recovery units delivered by Boilerroom Equipment Inc. The decrease in revenues from direct contact heat recovery projects and condensate return systems was mainly due to less orders received in the North America markets for these two product lines.

Gross profit for the quarter ended February 28, 2022 increased by $39,513, or 7.7%, compared to the same period from the previous year. The increase in gross profit was mainly due to the increased margin on heat recovery projects, which was offset by the decreased gross profit on condensate return systems due to decreased revenue. As a percentage of revenue, gross profit was 36.3% for the quarter ended February 28, 2022, compared to 34.1% achieved in the same period of last year. The shortage of labour caused by the pandemic has resulted in higher cost in both internal labour and the subcontractors' fees to provide installation service on site. Hence, the gross margin on heat recovery projects had been declining. To mitigate the pressure from increased costs, the Company started to negotiate with customers on change orders so that these extra costs could be recovered through increased contract value. In the third quarter of 2022, the Company received a change order from a customer which increased the original contract value. As a result, the margin on heat recovery systems was higher than the same period of prior year.

Gross profit for the nine months ended February 28, 2022 decreased by $464,085, or 16.6%, over the same period of last year, while the revenue decreased by only 2.2%. The decrease in gross profit was mainly due to the declined revenue and gross margin on condensate return systems. The gross profit as a percentage of revenue for the first three quarters of FY 2022 was 37.2% as compared to 43.6% achieved in the first three quarters of FY 2021. The gross margin on indirect contact heat recovery units also decreased due to increased material prices and labour costs.

Other expenses in this segment increased by $338,383 or 66.5% for the quarter ended February 28, 2022 compared to same quarter last year. Whereas other expenses for the nine months ended February 28, 2022 increased by $882,997, or 59.5%, compared to the same period last year. During the first nine months of FY 2022, Thermal Energy Ottawa recognized government wage subsidies in the amount of $187,846, compared to $755,758 recognized in the same period of the previous year, representing a decrease of $567,912. This segment's other operating expenses increased by $315,085, compared to the same period of prior year. During the first nine months of prior year, the Company implemented some temporary cost control measures in order to prepare for the potential adverse financial impact from COVID-19, including reducing non-essential and discretionary expenditures. Some of these measures were no longer in place in the current year. The staff's salary expense also increased in the current year in order to catch up with the significantly increased annual inflation rate.

For the quarter ended February 28, 2022, Thermal Energy Ottawa incurred loss before tax of $318,438, represented an increase of loss of $310,595, from the same quarter of last year. The increase of loss was mainly due to increase in other expenses of $338,383.

Loss before tax for the nine months period was $122,946, a decrease of $1,396,784, compared to income of $1,273,838 achieved in the same period of prior year. The decrease was mainly due to the decrease in gross profit of $464,085, which was caused by the declined revenue and gross margin on condensate return systems, the decrease of $567,912 on government wage subsidies received, and the increase of $315,085 in other operating expenses.

Thermal Energy Bristol:

Revenue for the quarter ended February 28, 2022 of $1,961,520, represented a decrease of $263,603, or 11.8%, from $2,225,123 achieved in the same period of the previous year. The decrease in revenue was mainly due to decreased revenue in heat recovery systems. The heat recovery projects were delayed due to restricted access to customers' site and the delays caused by subcontractors' installation work because of the shortage of labour during the third quarter of the current year. The Company also received less orders in the third quarter of current year compared to prior year.

Revenue for the nine months ended February 28, 2022 was $5,192,307, an increase of $4,664, or 0.1%, from the $5,187,643 achieved in the same period of the previous year. The increase was mainly due to increased revenue in condensate return systems for this segment, offset by decreased revenue in heat recovery systems.

Gross profit decreased in the third quarter of FY 2022 by $214,676, or 19%, compared to the same quarter last year. The decrease in gross profit was due to decreased revenue and decreased gross margin on heat recovery projects. Gross profit as a percentage of revenue in the third quarter of FY 2022 was 46.6%, compared to 50.7% in same quarter of prior year. The margin on heat recovery projects decreased due to increased subcontractor costs and internal labour costs.

Gross profit for the nine months ended February 28, 2022 decreased by $109,576 over the same period of last year mainly due to the decreased revenue and gross margin on heat recovery projects, offset by increased gross profit on condensate return systems delivered in Europe due to increased revenue. For the nine months ended February 28, 2022, the gross profit as a percentage of revenue was 48.2%, compared to 50.3% in the same period of prior year.

Other expenses increased by $281,698 or 42.9% for the quarter ended February 28, 2022, compared to the quarter ended February 28, 2021. Other expenses for the nine months ended February 28, 2022 was $2,768,249, an increase of $758,688 or 37.8%, compared to the same period of prior year. During the first nine months of FY 2022, Thermal Energy Bristol did not receive any government wage subsidies, but it received $111,865 in the same period of the previous year. The wage subsidies were recorded as a reduction to other operating expenses. Other operating expenses also increased by $646,823, compared to the same period of prior year. During the first nine months of prior year, the Company implemented some temporary cost control measures in order to prepare for the potential adverse financial impact from COVID-19, including reducing non-essential and discretionary expenditures. Some of these measures were no longer in place in the current year. The staff's salary expense also increased in the current year in order to catch up with the significantly increased annual inflation rate. In addition, the Company invested in the growth of staff members at Thermal Energy Bristol.

The resulting pre-tax loss was $26,371 for the quarter ended February 28, 2022, compared to an income of $469,517 for the quarter ended February 28, 2021. The pre-tax income decreased by $495,888 mainly due to the decrease in gross profit of $214,676 as a result of decreased revenue and margin on heat recovery projects, and the increase in other expenses of $281,698 due to increased staff salary expense. The pre-tax loss for the nine months ended February 28, 2022 was $274,866, compared to an income of $594,779 achieved in the same period of the previous year, a decrease of $869,645. The decrease in pre-tax income was mainly due to increase in other operating expenses of $646,823, decrease in wage subsidies received of $111,865, and decrease in gross profit of $109,576 as a result of decreased revenue and margin on heat recovery projects.

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, 2022, the other expenses within reconciling items decreased from $1,378,612 to $1,140,194, a decrease of $238,418, compared to the same period ended February 28, 2021. The decrease was mainly due to the increase in foreign exchange gain of $497,860, offset by the increase in acquisition costs of $173,562 relating to the acquisition of the technology from Sofame Technologies Inc., and the increase in corporate admin costs of $73,452.

4. Related Party Transactions

Directors and Senior Management Compensation

During the quarter ended February 28, 2022 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.

During the quarter ended February 28, 2022, total Directors' fees were $16,875. In addition, fees paid to the Chairman of the Board were $2,025; fees to the Chairperson of the Audit Committee were $1,350; and fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,350.

Compensation paid to Directors and Officers during the quarter ended February 28, 2022 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2022 **$**	2021 $	**2022** **$**	2021 $	**2022** **$**	2021 $	**2022** **$**	2021 $
Directors								
M. Williams	**3,375**	3,375	**-**	-	**-**	-	**3,375**	3,375
J. Kelly(1)	**3,375**	5,400	**-**	-	**-**	-	**3,375**	5,400
W. Ollerhead	**4,725**	4,725	**-**	-	**-**	-	**4,725**	4,725
D. Spagnolo	**4,725**	4,725	**-**	-	**-**	-	**4,725**	4,725
W. White(1)	**5,400**	3,375	**-**	-	**-**	-	**5,400**	3,375
Total	**21,600**	21,600	**-**	-	**-**	-	**21,600**	21,600
Senior Management								
W. Crossland	**70,800**	60,000	**-**	-	**-**	-	**70,800**	60,000
R. Triebe	**53,396**	45,251	**-**	-	**969**	826	**54,365**	46,077
S. Mawby(2) (3)	**45,521**	22,845	**-**	-	**7,607**	4,136	**53,128**	26,981
J. Zhang	**36,875**	31,250	**-**	-	**969**	826	**37,844**	32,076
Total	**206,592**	159,346	**-**	-	**9,545**	5,788	**216,137**	165,134
Total Related Party Transactions	**228,192**	180,946	**-**	-	**9,545**	5,788	**237,737**	186,734

(1) Mr. Kelly stepped down as Chairman of the Board effective November 23, 2021 and Mr. White was appointed Chairman of the Board effective the same date. Mr. Kelly remains as a member of the Board.
(2) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.711 and 1.7382 in Q3 2022 and Q3 2021, respectively.
(3) Mr. Mawby was on paternity leave for the period October 19, 2020 to December 31, 2020.

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.

Options outstanding for Directors (excluding the CEO) as at February 28, 2022 were 1,250,000, of which 833,332 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2022 were 6,500,000, of which 3,749,994 were exercisable. There were no warrants outstanding for Senior Management.

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 had decreased business development and sales activities. As travel restrictions and quarantine requirements are slowly easing, the Company starts resuming some of its regular sales and business development 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 continued global supply chain issues caused by shortages of labour and materials have also affected the Company's operations.

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, the implementation of temporary control measures, and the application of government sponsored emergency loans and salary subsidy programs. Despite the COVID-19 slowdown, the Company has maintained its pre-pandemic staff levels and has maintained its full production and project development capabilities.

Currently, we are still unable to estimate the long-term impact of COVID-19 on our businesses, financial position, results of operations, and cash flows. Despite the ease of travel restrictions and lock-down orders, we still expect COVID-19 to have some impact on our sales and the 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. Order backlog represents 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.

The Company's order backlog as at February 28, 2022 was approximately $5.6 million. As at April 26, 2022, the Company had an order backlog of approximately $6.5 million.

	2020 $ million	2021 $ million	2022 $ million
Order backlog as at February 29/28/28	3.4	6.1	5.6
Order backlog as at April reporting date	5.7	8.9	6.5

- On September 14, 2021, the Company announced that it had received its third heat recovery order from a multinational food products corporation. The order includes major equipment, engineering, and commissioning and is valued at over $900,000. The heat recovery system is expected to deliver an annual carbon reduction of 1,426 tonnes and energy savings of $300,000 per year. The project was about 69% complete at the quarter-end.

- 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 CO2 emissions by over 730 tonnes. The project was about 51% complete at the quarter-end.

- 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 88% 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 86% complete at the quarter-end.

7. Summary of Outstanding Shares and Dilutive Instruments

The Company has the following shares and dilutive instruments outstanding as at February 28, 2022:

Shares:
164,137,606 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding February 28, 2022	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2022	Weighted average exercise price
0.08-0.10	14,096,339	2.62	0.08	10,002,651	0.08
0.11-0.14	4,298,000	4.75	0.14	-	-
	18,394,339	3.11	0.10	10,002,651	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.

Business combinations

The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. In estimating fair value, the Company uses market observable data to the extent it is available. In cases when Level 1 inputs are not available, the measurement of fair value involves the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen.

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 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 and determines a suitable discount 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 expected cash flows, and determines 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 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.

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.

Changes in Accounting Standards

There has been no change in accounting standards since we issued our last consolidated annual financial statements for the year ended May 31, 2021.

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™ and FLU-ACE® technology solutions.

Financial risks and uncertainties of the Company include:

- The impact of major global pandemics;
- 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;
- The impact of the departure from the European Union by the U.K.;
- The impact of wars and conflicts; and
- The impact of inflation.

Management's addressing of the risks:

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 of the COVID-19 pandemic, the Company maintained the same sales level as FY 2019 with higher gross margins and recorded operating income before impairment of $1,275,708. In FY 2021, the Company's revenue decreased due to the delays in heat recovery project delivery caused by COVID-19. However, the Company implemented cost control measures to decrease the operating expenses and the Company applied for wage subsidies from the U.K., the U.S. and Canadian government. The Company also applied and received $1,000,000 COVID-19 loan from a Canadian financial institution to support the Company's global operations during the unprecedented time. With all these efforts, the Company was able to finish FY 2021 under COVID-19 with a net income of $222,965.

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 post-Brexit trade deal was reached between the EU and the UK. 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 Russia-Ukraine conflict has brought tragic losses of life and destruction across Ukraine. The crisis is also causing political and economic disruptions across the world, with businesses navigating conflict-related risks to their people, assets, operations, and supply chains in the region and globally. Thermal Energy has been monitoring the situation closely and assessing the potential effect of sanctions on our business. We will continue our dialogue with our trading partner and seek legal advice to ensure we are in compliance with the sanction requirements while deliver work in this region.

Inflation rates have been rising during the global pandemic, and the current wave of inflation is driven by a range of factors including rising raw material prices, logistics and transportation bottlenecks and shortages of intermediate goods and labour. The surge in inflation has resulted in higher costs of sales for the Company's product lines. The Company is coping with the inflation impact by implementing new measures, including implementing price increases where warranted, making bulk purchases to increase its purchasing power and to lock in on purchase prices for raw materials, securing supplies by increasing inventory level to avoid ordering sporadically, and negotiating with customers to cover additional costs caused by inflation on long-term projects.

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, 2022 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.