MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended November 30, 2014

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the second quarter of Fiscal Year 2015, ended November 30, 2014. 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. During the period ended November 30, 2014, the Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged. 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 55% of our operations, assets and liabilities are denominated in British Pound Sterling. 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 January 26, 2015. Disclosure contained in this document is current to this date, unless otherwise stated.

Forward-Looking Statements

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

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, U.S., China and sales worldwide.

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; lower maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

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

1.2 Core Businesses

The Company operates in the energy efficiency industry in North America, Europe and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions (**FLU-ACE**®) and condensate return system solutions (GEM® steam traps). The Company is also developing a third technology line - low temperature biomass drying systems (**DRY-REX™)**.

Before 2007, the Company concentrated mainly on the selling of heat recovery systems but had begun selling GEM® product through a distribution agreement with Gardner Energy Management Limited, based in the U.K. In 2008, the Company acquired Gardner Energy Management Limited, which sells the GEM® product 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.

The Company has two primary operational bases, 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 Ottawa base is deemed to be the center of excellence for **FLU-ACE**® heat recovery engineering and technical support, and Bristol the center of excellence for GEM® steam traps and condensate return system engineering and technical support, continuous cross-training means that both bases have expertise across both major product lines.

Although the Company markets its products throughout the world, the majority of sales are from within North America and Europe, due to the proximity to the Company's bases. While this continues to be the key focus, the Company also continues to look for new distributors in 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 its clients around the world improve their bottom line, move towards sustainable operations and reduce their environmental and carbon foot print. 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 current focus on the key markets of North America, Europe and the Middle East. Despite significant growth over the last few years, Thermal Energy's penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets while at the same time begin to build its business in other energy-intensive markets around the world.

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors across the globe. So far the Company has only partially penetrated 100 of the more than 2,000 global sites of these companies. Thermal Energy has executed a corporate-wide global roll-out of its product with two of these companies and is currently working with additional companies with the goal of executing similar corporate roll-outs.

With a global sales and distribution network the Company also has the opportunity to introduce new synergistic products and services, and acquire complementary products and businesses that can be distributed through our existing network.

Finally, the Company is also developing a number of recurring revenue streams such as rental and shared savings programs as well as service and maintenance programs.

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 Adjusted Operating Cash Flow

Adjusted operating cash flow (defined as income (loss) for the period, plus items not involving cash but excluding any changes in working capital items, plus finance lease payments received) is a performance measure used to gauge the cash generating capability of the Company. The impact changes in working capital items has on cash balances is excluded from the calculation of operating cash flow because changes in working capital items are usually only temporary and can fluctuate significantly from period to period and therefore are not a good indicator of the Company's longer term cash generating capabilities.

It is important to note that cash flow is not the same as net income, which includes transactions that did not involve actual cash outflows and excludes some transactions that did involve actual cash inflows. The calculation of adjusted operating cash flow starts with net income as identified in the Consolidated Statements of Comprehensive Income and then adds or subtracts a number of items identified in the Statement of Cash Flows. Adjusted operating cash flow does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is net cash provided (used) in operating activities, as disclosed in the statement of cash flows.

2.2 EBITDAS

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

2.3 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short term future revenue of the Company resulting from orders received. However, there is no comparable IFRS financial measure for order backlog. The Company includes in "order backlog" the value of projects in respect of which purchase orders have been received but have not yet been reflected as revenue in the Company's published quarterly financial statements. Order backlog does not have a standardized meaning prescribed by generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies

3. Performance

3.1 Summary of Second Quarter Results

	Q2 2015	Q2 2014
	$	$
Revenue	**1,662,805**	4,014,145
Cost of Sales	**(643,379)**	(2,139,276)
Gross Profit	**1,019,426**	1,874,869
Administration, selling, marketing and business development expenses	**(1,510,401)**	(1,581,233)
Research and development expenses	**(88,433)**	(66,176)
Operating income (loss)	**(579,408)**	227,460
Finance Revenue	**18,090**	38,982
Income (loss) before income taxes	**(561,318)**	266,442
Income taxes (expense) recovery	**70,154**	(28,363)
Net income (loss) for the period	**(491,164)**	238,079
Exchange differences on translation of overseas operations	**(43,502)**	153,877
Total comprehensive income (loss) for the period	**(534,666)**	391,956

Revenues and Gross Profits

Revenues were $1,662,805 in the quarter ended November 30, 2014, representing a decrease of $2,351,340, or 58%, compared to $4,014,145 in the quarter ended November 30, 2013. Sales of heat recovery systems decreased by $1,812,613 (68%) over the same period of the previous year, while sales of GEM® Condensate return systems decreased by $538,727 (40%).

Heat recovery revenues in the second quarter of the previous year included $1.4 million in revenue from the partial installation of a $3.6 million heat recovery system announced June 3, 2013, as well as substantial completion of a major hospital project and the commencement of two installations at a major food and beverage company. Although the second quarter of the current year included the commencement of a further installation at the same food and beverage company, it saw little activity other than the concluding stages of the major pulp and paper company project plus the completion of an extension to an installation at a hospital, as announced July 15, 2014.

GEM® Condensate return system sales in the second quarter of FY 2014 included revenues from two major food and beverage manufacturers, as announced July 3, 2013 and September 16, 2013 respectively, as well as major hospital conversion. The second quarter of FY 2015 contained no such sales.

The gross profit of $1,019,426 in the quarter ended November 30, 2014 represented a decrease of $855,443, or 45%, from the $1,874,869 achieved in the quarter ended November 30, 2013. These results expressed as a percentage of sales were 61.3% in the second quarter of FY 2015 compared with 46.7% in the second quarter of FY 2014. The improved margin was a result of a higher percentage of revenues from GEM sales.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended November 30, 2014 totaled $1,510,401 compared to $1,581,233 in the quarter ended November 30, 2013, a decrease of $70,832, or 4%. The decrease in commissions payable resulting from the reduced revenues plus improved foreign exchange gains due to the strengthening of the US dollar against the Canadian dollar were partially offset by the costs associated with the addition of extra sales staff.

Research and development costs in the second quarter of FY 2015 of $88,433 compared to $66,176 in the second quarter of FY 2014. Work continues on the ISTP project in China, which constitutes the majority of the current period costs, as well as work developing GEM related products.

Finance revenue in the quarter ended November 30, 2014 of $18,090 compared to $38,982 recognized in the quarter ended November 30, 2013. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Loss before income taxes for the quarter ended November 30, 2014 was $561,318 compared to income of $266,442 in the same quarter of the previous year. The decrease in profitability was the direct result of lower revenues.

Income tax recovery in the second quarter of FY 2015 was $70,154, compared to an expense of $28,363 in the second quarter of FY 2014. This was the result of a loss within the UK entity in the second quarter of FY 2015 compared to a tax generating profit in the same period of the previous year.

Net loss for the quarter ended November 30, 2014 was $491,164 compared to a net income of $238,079 in the same quarter of the previous year.

Comprehensive loss was $534,666 for the second quarter of FY 2015 compared to income of $391,956 for the second quarter of FY 2014. Exchange differences on translation of overseas operations were negative in the current period due to a slight weakening of Sterling against the Canadian dollar during the quarter, whereas the same quarter of FY 2014 saw a strengthening over the three month period, generating a positive exchange difference.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at November 30, 2014 were 1,250,000 of which 916,667 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at November 30, 2014 were 11,189,110 of which 7,000,750 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended November 30, 2014 compensation arrangements for directors was as follows:

$15,000 per annum per Director plus an additional $9,000 per annum payable to the Chairman of the Board, $6,000 per annum payable to the chairperson of the Audit Committee, $6,000 per annum payable to the chairperson of the Ethics Committee and $1,000 payable for each in-person meeting.

During the quarter ended November 30, 2014, Directors fees paid were $22,500. Fees to the Chairperson of the Audit Committee were $1,500; fees paid to the Chairman were $2,250. Two in-person meetings were held during the period.

Compensation paid to directors and officers during the quarter ended November 30, (inclusive of the amounts described above but excluding stock based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**7,250**	7,250	**-**	-	**-**	-	7,250	7,250
J. Kelly	**8,000**	8,000	**-**	-	**-**	-	8,000	8,000
D. Gibbs (resigned November 6, 2014)	**2,750**	4,750	**-**	-	**-**	-	2,750	4,750
W. Ollerhead	**5,750**	4,750	**-**	-	**-**	-	5,750	4,750
B. Linton	**5,167**	5,750	**-**	-	**-**	-	5,167	5,750
J. Schoenmakers	**5,750**	5,750	**-**	-	**-**	-	5,750	5,750
D. Spagnolo (appointed November 6 ,2014)	**2,041**	-	**-**	-	**-**	-	2,041	-
Total	**36,708**	36,250	**-**	-	**-**	-	36,708	36,250
Senior Management								
W. Crossland	**60,000**	60,000	-	-	**-**	-	**60,000**	60,000
J. Flynn	**38,225**	34,486	-	-	**5,929**	5,351	**44,154**	39,837
R. Triebe	**38,425**	37,305	-	-	**868**	796	**39,293**	38,101
S. Mawby	**37,532**	33,861	-	-	**5,813**	5,246	**43,345**	39,107
M. Francoeur	**29,520**	27,849	-	-	**206**	112	**29,726**	27,961
I. Wales (appointed June 1, 2014)	**28,376**	-	**-**	-	**4,258**	-	**32,634**	-
G. Bailey (left January 31, 2014)	**-**	31,256	**-**	-	**-**	4,809	**-**	36,065
Total	**232,078**	224,757	-	-	**17,074**	16,314	**249,152**	241,071
Total Related Party Transactions	**268,786**	261,007	**-**	-	**17,074**	16,314	**285,860**	277,321

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

Normal Course Issuer Bid

On October 29, 2014, the Company announced its intent to continue with the Normal Course Issuer Bid (“NCIB”), as established a year earlier, for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on November 3, 2014. During the 12-month period commencing November 3, 2014 and ending November 3, 2015, the Company is able to purchase on the TSX up to 13,018,133 common shares, representing approximately 10% of the then issued and outstanding common shares. The actual number of common shares purchased, if any, and the timing of such purchases will be determined by the Company by considering market conditions, share prices, its cash position, and other factors.

In the quarter ended November 30, 2014 the Company purchased 1,385,000 common shares for a total purchase price of $141,963 (2013: 1,698,000 purchased for a total purchase price of $89,145).

3.2 Summary of Year to Date Results

	Six months ended Nov 30, 2014	Six months ended Nov 30, 2013
	$	$
Revenue	**2,834,146**	5,536,268
Cost of Sales	**(1,111,768)**	(2,691,387)
Gross Profit	**1,722,378**	2,844,881
Administration, selling, marketing and business development expenses	**(2,977,611)**	(2,866,863)
Research and development expenses	**(81,199)**	(135,450)
Operating income (loss)	**(1,336,432)**	(157,432)
Finance Revenue	**41,355**	83,407
Income (loss) before income taxes	**(1,295,077)**	(74,025)
Income taxes (expense) recovery	**135,494**	(46,654)
Net income (loss) for the period	**(1,159,583)**	(120,679)
Exchange differences on translation of overseas operations	**(63,477)**	234,528
Total comprehensive income (loss) for the period	**(1,223,060)**	113,849

Revenues and Gross Profits

Revenues of $2,834,146 in the first half of FY 2015, represented a decrease of $2,702,122, or 49%, compared to $5,536,268 in the first half of FY 2014. Sales of heat recovery systems decreased by $1,995,758 (64%) from the same period of the previous year, while sales of GEM® Condensate return systems decreased by $706,364 (29%).

The decrease in heat recovery sales was due to the prior period including $1.6 million in revenue from the installation at the major pulp and paper company plus the substantial completion of an installation at a major hospital. Both periods saw progress on projects at another hospital and at a food and beverage manufacturer but in both cases the amounts revenued were higher in the previous period In the case of the food and beverage manufacturer last year's revenues included substantial work on two heat recovery systems while this year only included substantial work one heat recovery system.

The lack of major orders from hospitals partly contributed to the decrease in GEM® Condensate return system sales in the first half of FY 2015 compared to the first half of FY 2014. The first half of last year also included the substantial completion of the $480,000 GEM® order from a major multinational food & beverage company, as announced July 3, 2013. This order was largest individual GEM® order in the Company's history.

The gross profit of $1,722,378 in the six months ended November 30, 2014 represented a decrease of $1,122,503, or 39%, from the $2,844,881 achieved in the six months ended November 30, 2013. This decrease was the direct result of reduced revenues. These results expressed as a percentage of sales were 60.8% in the first half of FY 2015 compared with 51.4% in the first half of FY 2014. The increased margin results from a higher percentage of revenues coming from the sales of GEM® Condensate return systems.

Expenses

Administration, selling, marketing and business development expenses for the six months ended November 30, 2014 totaled $2,977,611 compared to $2,866,863 for the six months ended November 30, 2013, an increase of $110,748, or 4%. This increase was mainly the result of additional sales and marketing staff along with a group sales training conference held in June 2014 plus the strengthening of Sterling against the dollar, which served to produce higher net costs of the UK subsidiaries in the functional currency of the Company. These cost increases were partially offset by reduced commissions resulting from lower revenues in the current six month period.

Research and development costs in the first half of FY 2015 totaled $81,199 compared to $135,450 in the first half of FY 2014. The first half of the current year saw the receipt of a credit of $81,785 relating to government funding through ISTP Canada. No such credit was received in the same period of FY 2014. The Company had previously received an offer of government funding through ISTP Canada, as announced February 8, 2012. The funding agreement was signed by both parties on January 21, 2013. Funding is credited to research and development costs when it is received.

Finance revenue in the six months ended November 30, 2014 of $41,355 compared to $83,407 recognized in the six months ended November 30, 2013. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Loss before income taxes for the six months ended November 30, 2014 was $1,295,077 compared to a loss of $74,025 in the same period of the previous year. The increased loss was predominantly the direct result of lower revenues.

Income tax recovery in the first half of FY 2015 was $135,494, compared to an expense of $46,654 in the first half of FY 2014. This was the result of a loss within the UK entity in the first six months of FY 2015 compared to a tax generating profit in the same period of the previous year.

Net loss for the six months ended November 30, 2014 was $1,159,583 compared to a net loss of $120,679 in the same period of the previous year.

Comprehensive loss was $1,223,060 for the first half of FY 2015 compared to income of $113,849 for the first half of FY 2014. Exchange differences on translation of overseas operations were negative in the current period due to a slight weakening of Sterling against the Canadian dollar during the six months, whereas the first six months of FY 2014 saw a strengthening over the six month period, generating a positive exchange difference.

3.3 Liquidity and Capital Resources

The working capital was $1,529,114 at November 30, 2014 compared to working capital of $2,770,280 at May 31, 2014 – a decrease of $1,241,166, with the Company's net cash position (Cash and cash equivalents less Bank loans) decreasing by $1,007,992 from $2,046,417 at May 31, 2014 to $1,038,425 as at November 30, 2014.

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

	Feb 28, 2013 $	May 31, 2013 $	Aug 31, 2013 $	Nov 30, 2013 $	Feb 28, 2014 $	May 31, 2014 $	Aug 31, 2014 $	Nov 30, 2014 $
Current Assets	4,537,306	3,642,680	3,604,594	6,184,899	5,729,213	5,273,288	4,533,588	3,722,822
Current Liabilities	2,761,564	2,090,659	2,199,528	4,361,002	3,899,718	2,503,008	2,415,447	2,193,708
Working Capital	1,775,742	1,552,021	1,405,066	1,823,897	1,829,495	2,770,280	2,118,141	1,529,114

Q2 FY 2015 Changes

Current assets decreased in the second quarter of FY 2015 by $810,766 to $3,722,822, mainly caused by a decrease in cash balances of $621,827 and the finance lease receivable decreasing by $147,971 as the lease continues its final year.

Current liabilities decreased by $221,739 to $2,193,708, mainly due to a decrease in deferred revenue relating to the contract with a leading Fortune 500 food and beverage conglomerate for the installation of a heat recovery system at one of its facilities, as announced August 27, 2014 and the payment of staff incentives relating to the previous fiscal year.

As at November 30, 2014, $142,961 (10.3%) of the Company's trade receivables balance was over 90 days past due. None of the overdue balance is considered impaired as at November 30, 2014.

At November 30, 2014, the Company has operating lease commitments as shown below. The Company had no purchase obligations:

	Total $	Less than 1 year $	1-5 years $	More than 5 years $
Operating Leases	350,381	141,291	209,084	nil

Net cash used in operating activities in the quarter ended November 30, 2014 was $611,594, compared to net cash provided of $1,244,132 in the quarter ended November 30, 2013. The cash used was due mainly to the decrease in revenue for the period compounded by the reduction in deferred revenue in the quarter.

Net cash provided by investing activities for the quarter ended November 30, 2014 of $146,075 comprised $147,971 finance lease principal payments received less $1,896 paid for additions to property, plant and equipment. This compared to $170,038 finance lease principal payments received less $16,114 paid for additions to property, plant and equipment for the quarter ended November 30, 2013.

A total of $141,962 was used in investing activities in the first quarter of FY 2015, for the repurchase of Class A common shares under the Normal Course Issuer Bid, as announced October 28, 2013. The same period of the previous year saw $10,500 such investment.

After allowing negative $14,347 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was a decrease in cash balance of $621,827 over the second three months of FY 2015, compared to an increase of $1,390,236 over the second three months of FY 2014

Adjusted operating cash outflow (defined as net income or loss attributable to the owners of the parent, plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended November 30, 2014 was $338,107, compared to cash inflow of $434,125 for the quarter ended November 30, 2013. The increase in outflow for the quarter compared to the same quarter of last year was predominantly the result of the lower revenues plus increased staff costs.

In addition to its net cash balance of $1,038,425 as at November 30, 2014 the Company also had an estimated $137,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $1,175,425, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2015. Order backlog as at November 30, 2014 was approximately $2.3 million compared to $6.5 million at the same time last year. As at January 26, 2015, the Company had $3.5 million in projects in respect of which purchase orders have been received that had not yet been reflected as revenue in the Company's published quarterly financial statements.

The Company's ability to realize its assets and discharge its liabilities depends on any combination of the following: the continued financial support of its shareholders, its ability to arrange long-term financing and its ability to generate sufficient cash from operations. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

Management is concentrating on building upon the revenue growth experienced in years FY 2010 through to FY 2014 and continuing to manage expenditures in order to produce positive cash flows from operations in order to meet the Company's obligations. The Company earned an income from operations in the year ended May 31, 2014.

A reconciliation of Net cash provided (used) in operating activities to adjusted operating cash flow is shown below:

	Quarter ended	
	Nov 2014 $	Nov 2013 $
Net cash provided (used) in operating activities	(611,594)	1,244,132
Changes in working capital	125,516	(980,045)
Finance lease principal payments received	147,971	170,038
Adjusted operating cash flow	(338,107)	434,125

Net Investment in Lease

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

	Nov 30, 2014 $	May 31, 2014 $
Total estimated minimum lease payments receivable	600,384	962,274
Less: unearned income	(15,880)	(57,235)
	584,504	905,039
Less: current portion	(444,974)	(765,509)
	139,530	139,530

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs. On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer has the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company. This new agreement was recorded in accordance with the previous lease, resulting in an increase to net investment in lease of $1,546,318. In subsequent periods, until the expiry of the new lease on December 31, 2014, finance revenue will be recognized within the income statement at the interest rate implicit in the lease.

On December 22, 2013, the site commenced a market downtime for a period of ten weeks, following the imposition of an interim duty in China on the import of Canadian dissolving pulp, further to which on April 11, 2014, an agreement was made to further extend the existing lease by five months to May 2015, in order to ensure both continued savings for the customer and total payments to the Company as defined within the previous extension.

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

	$
Less than one year	460,854
Residual value of equipment	139,530
	600,384

The estimated residual value of the equipment at the end of the new lease has been determined by assigning depreciation rates to various pieces of the equipment in order to derive a reasonable expected selling price or re-use value for the equipment upon the termination of the agreement. The residual value of the equipment is not guaranteed.

3.4 Segmented Information

In the quarters and six month periods ended November 30, 2014 and November 30, 2013, the Company operated in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

Management reporting comprises analysis of revenue and gross profit by product segment 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 Canada covering North America and China ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). 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 November 30, 2014 and the comparative period are detailed in the table below.

	North America and China		Europe and Rest of World		Reconciling items		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**828,124**	2,560,758	**834,681**	1,453,387	**-**	-	**1,662,805**	4,014,145
Cost of sales	**(390,929)**	(1,555,971)	**(252,450)**	(583,305)	**-**	-	**(643,379)**	(2,139,276)
Gross profit	**437,195**	1,004,787	**582,231**	870,082	**-**	-	**1,019,426**	1,874,869
Amortization of intangible assets	**-**	-	**-**	-	**-**	-	**-**	-
Other expenses	**(576,252)**	(616,499)	**(758,981)**	(706,822)	**(263,601)**	(324,088)	**(1,598,834)**	(1,647,409)
Finance revenue	**18,090**	38,982	**-**	-	**-**	-	**18,090**	38,982
Income (loss) before income taxes	**(120,967)**	427,270	**(176,750)**	163,260	**(263,601)**	(324,088)	**(561,318)**	266,442
Income taxes (expense) recovery	**(134)**	(10,300)	**58,409**	(19,555)	**11,879**	1,492	**70,154**	(28,363)
Net income (loss)	**(121,101)**	416,970	**(118,341)**	143,705	**(251,722)**	(322,596)	**(491,164)**	238,079
Attributable to:								
Owners of the parent	**(122,214)**	422,303	**(120,429)**	140,522	**(251,722)**	(322,596)	**(494,365)**	240,229
Non-controlling interest	**1,113**	(5,333)	**2,088**	3,183	**-**	-	**3,201**	(2,150)

Segment information for the six months ended November 30, 2014 and the comparative period are detailed in the table below.

	North America and China		Europe and Rest of World		Reconciling items		Total	
	2014 **$**	2013 $	**2014** **$**	2013 $	**2014** **$**	2013 $	**2014** **$**	2013 $
Total revenue	**1,302,064**	2,945,937	**1,532,082**	2,590,331	**-**	-	**2,834,146**	5,536,268
Cost of sales	**(628,978)**	(1,737,300)	**(482,790)**	(954,087)	**-**	-	**(1,111,768)**	(2,691,387)
Gross profit	**673,086**	1,208,637	**1,049,292**	1,636,244	**-**	-	**1,722,378**	2,844,881
Amortization of intangible assets	**-**	-	**-**	(8,303)	**-**	-	**-**	(8,303)
Other expenses	**(1,093,193)**	(1,078,435)	**(1,379,993)**	(1,302,459)	**(585,624)**	(613,116)	**(3,058,810)**	(2,994,010)
Finance revenue	**41,355**	83,407	**-**	-	**-**	-	**41,355**	83,407
Income (loss) before income taxes	**(378,752)**	213,609	**(330,701)**	325,482	**(585,624)**	(613,116)	**(1,295,077)**	(74,025)
Income taxes (expense) recovery	**(134)**	(12,561)	**108,387**	(41,607)	**27,241**	7,514	**135,494**	(46,654)
Net income (loss)	**(378,886)**	201,048	**(222,314)**	283,875	**(558,383)**	(605,602)	**(1,159,583)**	(120,679)
Attributable to:								
Owners of the parent	**(377,547)**	196,602	**(223,649)**	277,908	**(558,383)**	(605,602)	**(1,159,579)**	(131,092)
Non-controlling interest	**(1,339)**	4,446	**1,335**	5,967	**-**	-	**(4)**	10,413

Other expenses within reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2014 **$**	2013 $	**2014** **$**	2013 $
Corporate admin costs	**200,957**	217,439	**367,927**	390,383
Stock-based compensation	**64,685**	34,036	**130,508**	69,483
Professional fees	**57,856**	59,843	**120,491**	129,704
Depreciation of property, plant and equipment	**8,973**	9,729	**17,695**	19,149
Bank charges and interest	**9,723**	10,892	**18,608**	22,802
Foreign exchange differences	**(78,593)**	(7,851)	**(69,605)**	(18,405)
Total	**263,601**	324,088	**585,264**	613,116

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.

During the three months ended November 30, 2014, the company had one customer in North America and China that accounted for 23% of total revenue; in Europe and Rest of World, one customer accounted for 15% and another customer accounted for 11% of total revenue.

During the three months ended November 30, 2013, the company had one customer in North America and China that accounted for 35% of total revenue and another customer in Europe and Rest of World that accounted for 16% of total revenue.

During the six months ended November 30, 2014, the company had one customer in North America and China that accounted for 14% of total revenue.

During the six months ended November 30, 2013, the company had one customer in North America and China that accounted for 29% of total revenue and another customer in Europe and Rest of World that accounted for 12% of total revenue.

Further geographical analysis:

	Revenues for the six months ended		Property, plant and equipment as at		Goodwill and intangibles assets as at		Finance lease receivable (non-current) as at	
	November 30							
	2014	2013	**Nov 30, 2014**	May 31, 2014	**Nov 30, 2014**	May 31, 2014	**Nov 30, 2014**	May 31, 2014
	$	$	**$**	$	**$**	$	**$**	$
Canada	**357,519**	**1,681,568**	**54,966**	48,964	**-**	-	**139,530**	139,530
U.S.A.	**937,995**	**1,243,393**	**-**	-	**-**	-	**-**	-
U.K.	**1,003,845**	**2,143,781**	**18,469**	13,626	**1,928,760**	1,959,270	**-**	-
Germany	**187,631**	**41,881**	**-**	-	**-**	-	**-**	-
Italy	**107,666**	**207,268**	**-**	-	**-**	-	**-**	-
Netherlands	**54,924**	**66,931**	**-**	-	**-**	-	**-**	-
Ireland	**28,925**	**13,589**	**-**	-	**-**	-	**-**	-
Rest of Europe	**33,025**	**14,128**	**-**	-	**-**	-	**-**	-
Kenya	**46,539**	**12,606**	**-**	-	**-**	-	**-**	-
India	**45,840**	**79,467**	**-**	-	**-**	-	**-**	-
China	**6,549**	**20,976**	**-**	-	**-**	-	**-**	-
Rest of world	**23,688**	**10,680**	**-**	-	**-**	-	**-**	-
Total	**2,834,146**	**5,536,268**	**73,435**	62,590	**1,928,760**	1,959,270	**139,530**	139,530

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended November 30, 2014 was $828,124 compared to $2,560,758 for the quarter ended November 30, 2013. Heat recovery revenue decreased by $1,390,829, predominantly due to the previous year including the installation at a major pulp and paper company, as announced June 3, 2013. Revenue from sales of GEM® products meanwhile decreased by $341,805 with four orders from a major Fortune 500 food and beverage company being substantially fulfilled during the prior year period.

Revenue for the six months ended November 30, 2014 was $1,302,064 compared to $2,945,937 for the six months ended November 30, 2013. Heat recovery revenue decreased by $1,447,198, again mainly due to the previous year including the installation at a major pulp and paper company, as announced June 3, 2013. Revenue from sales of GEM® products meanwhile decreased by $196,675. The four orders from a major Fortune 500 food and beverage company during the prior year period were replaced with two orders from the same customer in the current period, however GEM® sales overall in the region were down from the same period of the previous year.

Thermal Energy Bristol: revenue for the quarter ended November 30, 2014 was $834,681 compared to $1,453,387 for the same period of the previous year, a decrease of $618,706. Heat recovery revenue decreased by $421,786, with a full hospital installation in the previous period being only partially replaced with an extension to an existing system in the current quarter. Revenue from sales of GEM® products decreased by $196,920, due to the second quarter of FY 2015 seeing no sales to hospitals, compared to two conversions in the same quarter of FY 2014.

For the six months ended November 30, 2014 revenue for Thermal Energy Bristol was $1,532,082 compared to $2,590,331. Heat recovery revenue fell by $548,557 due to the lack of a full system installation in the current period, compared to one in the same period of the prior year. Revenue from sales of GEM® products decreased by $509,692. The lack of orders from hospitals in the current period contributed to the decrease, as well the lack of a replacement for the previous year's order from a major food and beverage manufacturer.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit decreased by $567,592 in the quarter ended November 30, 2014 from the same quarter of the preceding year as a result of the decreased revenue for the region. Other expenses decreased by $40,247 from the same quarter of the previous year, with a decrease in commissions due to lower revenues being partially offset by the addition of three sales and marketing staff in the current quarter. A decrease in finance revenue as the lease progresses of $20,892 further served to increase the loss before tax by $548,237 over the same period of the previous year.

For the six months ended November 30, 2014, gross profit generated by Thermal Energy Ottawa decreased by $535,551 due to the decreased revenues, while other expenses grew by $14,758. Decreased commissions and the receipt of a credit regarding the ISTP project were more than offset by the additional sales and marketing staff and staff training costs. With finance revenue decreasing in the second half of FY 2015 by $42,052 from the same period of FY 2014, this resulted in a reduction in profitability for Thermal Energy Ottawa of $592,361.

Thermal Energy Bristol gross profit decreased by $287,851 in the quarter ended November 30, 2014 from the same quarter of the preceding year as a result of the decreased revenue. Other net costs increased by $52,159, due to the strengthening of the pound against the dollar, with reduced commissions being offset by additional sales staff costs. The resulting net loss before tax of $176,750 for the second quarter of FY 2015 compared to a net income of $163,260 for the second quarter of FY 2014.

For the six months ended November 30, 2014, gross profit generated by Thermal Energy Bristol decreased by $586,952 due to the decreased revenues, while other expenses grew by $69,231. Although additional sales and marketing staff and staff training costs did not consume all of the decrease in commission payable, the strengthening of Sterling against the dollar served to produce higher net costs in the functional currency of the Company. This resulted in a reduction in profitability for Thermal Energy Bristol of $656,183.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to $263,601 in the second quarter of FY 2015 compared to $324,088 in the second quarter of FY 2014, with an increase in stock based compensation being more than offset by favorable exchange rate fluctuations in the current quarter over the same period of last year

For the six months ended November 30, 2014, other expenses within reconciling items totaled $585,624, a decrease of $27,492 from the first half of FY 2014. As with the second quarter, this was mainly due to an increase in stock based compensation being more than offset by favorable exchange rate fluctuations in the current six month period over the same period of last year

Quarterly financial information (unaudited)
For the eight quarters ended November 30, 2014

Quarter ended	30-Nov-14 $	31-Aug-14 $	31-May-14 $	28-Feb-14 $
Revenue	1,662,805	1,171,341	4,717,007	2,897,535
Gross Profit	1,019,426	702,952	2,737,568	1,391,171
Gross Profit Percentage	61.3%	60.0%	58.0%	48.3%
EBITDAS(1)	(486,557)	(658,108)	709,637	144,664
Total net income (loss)	(491,164)	(668,419)	654,740	57,304
Income (loss) per share, basic and diluted	(0.003)	(0.004)	0.004	0.000

Quarter ended	30-Nov-13 $	31-Aug-13 $	31-May-13 $	28-Feb-13 $
Revenue	4,014,145	1,522,123	1,879,450	4,208,723
Gross Profit	1,874,869	970,012	746,358	2,906,414
Gross Profit Percentage	46.7%	63.7%	39.7%	69.1%
EBITDAS(1)	311,366	(286,423)	(424,414)	1,573,398
Total net income (loss)	238,079	(358,758)	(2,685,427)	1,476,814
Income (loss) per share, basic and diluted	0.001	(0.002)	(0.016)	0.009

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

4. Business Outlook

- In June 2012, the Company received an order for approximately $562,000 from a publicly owned hospital for a heat recovery solution. This order was partially completed in FY 2013 and the customer is currently deciding on changes it may wish to be made before the project is continued. It is not yet known when this project may be completed.

- On June 3, 2013, the Company announced it had received a purchase order valued at approximately $3.6 million for the installation of a heat recovery system at a major North American pulp and paper company. The heat recovery system was expected to be installed and revenue earned by the end of FY 2014. As at November 30, 2014, the project was over 95% complete.

- On July 10, 2014, the Company announced that it had received a purchase order valued at approximately $225,000 from a leading Fortune 500 food and beverage conglomerate for the purchase of GEM® steam traps. As at November 30, 2014, just under 75% of the order had been fulfilled, with the remainder expected to be fulfilled and revenue earned over the next three months. Over the last 24 months Thermal Energy has now received 13 purchase orders totaling approximately $2.6 million from this customer for GEM® steam trap and FLU-ACE® heat recovery systems at nine different sites.

- On August 27, 2014, the Company announced that it had received a purchase order valued at approximately $810,000 from a leading Fortune 500 food and beverage conglomerate for the installation of a heat recovery system at one of its facilities. The order was expected to be fulfilled and revenue earned over the next six months. As at November 30, 2014, the project was almost 50% complete.

- On December 1, 2014 the Company announced that it had received a purchase order valued at approximately $415,000 from a packaged foods company for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months.

- On January 5, 2015 the Company announced that it had received a purchase order valued at approximately $260,000 from a leading regional manufacturer of interior lining products for the construction industry for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months.

- On January 26, 2015 the Company announced that it had received a purchase order valued at approximately $626,000 from a producer of several leading food brands for the installation of a heat recovery system at one of its facilities. The order is expected to be fulfilled and revenue earned over the next six months.

- The Company's order backlog as at November 30, 2014 was approximately $2.3 million. As at January 26, 2015, the Company had an order backlog of approximately $3.5 million, of which approximately $0.5 million is related to long term contracts and is not expected to be reflected in revenue within the next 12 months.

5. Summary of Outstanding Shares and Dilutive Instruments

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

Shares

159,659,616 class A common shares.

Options

Number of Options outstanding	Number of Options Exercisable	Exercise Price Per Share $	Expiry Date
2,450,000	**2,450,000**	**0.10**	**04-May-2015**
2,250,000	**2,250,000**	**0.10**	**10-May-2016**
250,000	**250,000**	**0.10**	**12-Jul-2016**
4,340,000	**2,893,333**	**0.10**	**01-Dec-2016**
4,820,000	**3,213,333**	**0.10**	**22-Nov-2017**
3,411,000	**1,137,000**	**0.05**	**18-Nov-2018**
3,721,360	**-**	**0.10**	**28-May-2019**
21,242,360	**12,193,667**		

6. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

Valuation of goodwill and intangible assets and asset impairment

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

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

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

Future production outputs relating to the finance lease

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

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.

Allowance for Doubtful Accounts

The valuation of allowances for uncollectible trade receivables requires assumptions including estimated credit losses based on customer and industry concentrations and the Company's knowledge of the financial conditions of its customers.

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

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

Amendments to IAS 36 “Recoverable Amount Disclosures for Non-Financial Assets”
In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The IASB has issued amendments to reverse the unintended requirement in IFRS 13, Fair Value Measurement, to disclose the recoverable amount of every CGU to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The amendments impact certain disclosure requirements only, and the amendments did not have a material impact on the Consolidated Financial Statements.

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

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

Amendments to IAS 32, “Financial Instruments: Presentation”

In December 2011, the IASB issued amendments to IAS 32, which clarifies the existing requirements for offsetting financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, which will be June 1, 2014 for the Company. The adoption of the amendments to IAS 32 will not have a material impact on the consolidated financial statements.

IFRS 9, "Financial Instruments"
In November 2009 the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)).
In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). The new standard removes the January 1, 2015 effective date of IFRS 9.
In July 2014, the IASB determined that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The extent of the impact of this standard has not yet been determined.

IFRS 15, "Revenue from Contracts with Customers"
In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRIC 21, "Levies"

In May 2013, the IASB issued IFRIC 21, Levies which provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts of other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual periods beginning on or after January 1, 2014 and is required to be applied retrospectively. Adoption of IFRIC 21 did not have a material impact on the Company's consolidated financial statements.

7. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

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

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022. The first six months of FY 2015 have again produced a net loss of $1,159,583. Management has increased sales and marketing staff numbers over the past two years in the expectation that revenues will rise as a consequence. Management is constantly monitoring cash flows as well as costs overall in addition to the effect of increased staffing so that rapid strategic decisions can be made when required.

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

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

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

8. Forward-Looking Information

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

9. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended November 30, 2014 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.