MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2017

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the third quarter of Fiscal Year 2017, ended February 28, 2017. 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 February 28, 2017, 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 April 13, 2017. 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".

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 world-wide. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, U.S., and China.

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 world-wide, helping its clients 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 a current focus on the key markets of North America, Europe and the Middle East. 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.

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 adjusted 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 adjusted operating 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 Third Quarter Results

	Q3 2017	Q3 2016
	$	$
Revenue	**3,224,530**	3,220,621
Cost of Sales	**(1,549,297)**	(1,191,381)
Gross Profit	**1,675,233**	2,029,240
Administration, selling, marketing and business development expenses	**(1,692,820)**	(1,538,361)
Research and development expenses	**(26,734)**	(33,083)
Operating income (loss)	**(44,321)**	457,796
Finance Revenue	**690**	5,997
Income (loss) before income taxes	**(43,631)**	463,793
Income taxes (expense) recovery	**(12,841)**	(46,071)
Net income (loss) for the period	**(56,472)**	417,722
Exchange differences on translation of overseas operations	**(57,173)**	(176,603)
Total comprehensive income (loss) for the period	**(113,645)**	241,119

Revenues and Gross Profits

Revenues were $3,224,530 in the quarter ended February 28, 2017, compared to $3,220,621 in the quarter ended February 29, 2016. Sales of heat recovery systems increased by $444,721 (9.7%) from the same period of the previous year, while sales of GEM™ Condensate return systems decreased by $440,812 (25.4%).

The current quarter included heat recovery revenues from three ongoing hospital projects, as announced July 25, 2016, August 4, 2016 and November 2, 2016 respectively, as well as the partial installation of a heat recovery system at a global brewing company, as announced August 8, 2016 and the early stages of an installation at a leading producer of industrial and fuel alcohols, as announced September 28, 2016. In comparison, the prior year included revenues from two hospital projects, as announced November 5 and November 23, 2015 respectively, as well as projects at a gypsum company, as announced October 26, 2015, a dairy supplier, as announced March 4, 2015 and a leading animal feed supplier, as announced November 11, 2015.

GEM™ Condensate return system revenues in the third quarter of last year included fulfilment of the second phase of the order from a healthcare company, as announced August 17, 2015, as well as the partial completion of conversions at two major hospitals and the conversion of four further sites of a world-leading food and beverage company. Whilst the current quarter saw just one site conversion of the same food and beverage company, and one hospital, it also saw increased revenues from further sales of GEM™ steam traps to a major performance materials company, as mentioned in the press release dated September 20, 2016.

The gross profit of $1,675,233 in the quarter ended February 28, 2017 represents a decrease of $354,007, or 17.4%, from the $2,029,240 in the quarter ended February 29, 2016. These results expressed as a percentage of sales were 52.0% in the third quarter of FY 2017 compared with 63.0% in the third quarter of FY 2016. The decrease in gross profit percentage resulted from a higher percentage of revenues being derived from heat recovery sales as well as the current heat recovery projects carrying lower margins than in the previous year. Margins are dictated by a number of factors such as the location of the project and type of industry.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended February 28, 2017 totaled $1,692,820, compared to $1,538,361 in the quarter ended February 29, 2016, an increase of $154,459, or 10.0%. Decreases in commissions payable and patent application costs were more than offset by recruitment costs associated with the addition of sales staff and the replacement of finance staff plus the effect of the foreign currency exchange fluctuations.

Research and development costs in the third quarter of FY 2017 of $26,734 compared to $33,083 in the third quarter of FY 2016.

Finance revenue in the quarter ended February 28, 2017 of $690 compared to $5,997 recognized in the quarter ended February 29, 2016. 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 February 28, 2017 was $43,631, compared to a net income of $463,793 in the same quarter of the previous year. Although revenue was on a par with last year, gross profitability was lower due mainly to product split which, combined with the foreign currency fluctuations, served to produce a loss in the current period.

Income tax charge in the third quarter of FY 2017 was $12,841, compared to $46,071 in the third quarter of FY 2016. This was the result of lower taxable profits within the UK entity in the third quarter of FY 2017 compared to the same period of the previous year.

Net loss for the quarter ended February 28, 2017 was $56,472, compared to a net income of $417,722 in the same quarter of the previous year.

Comprehensive loss was $113,645 for the third quarter of FY 2017 compared to income of $241,119 for the third quarter of FY 2016. The current period experienced a further weakening of Sterling against the Canadian Dollar, following the continuing trend since the result of the UK Brexit referendum last June.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 28, 2017 were 1,250,000, of which 583,334 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2017 were 8,085,787 of which 5,406,763 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 28, 2017 compensation arrangements for directors was as follows:

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

During the quarter ended February 28, 2017, Directors fees paid were $23,625. Fees to the Chairperson of the Audit Committee were $1,350; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,350 and fees paid to the Chairman were $2,025. One in-person meeting was held during the period.

Compensation paid to directors and officers during the quarter ended February 29, (inclusive of the amounts described above but excluding stock based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**4,375**	6,250	**-**	-	**-**	-	**4,375**	6,250
J. Kelly	**6,400**	7,000	**-**	-	**-**	-	**6,400**	7,000
W. Ollerhead	**5,725**	4,750	**-**	-	**-**	-	**5,725**	4,750
B. Linton (2)	**-**	6,250	**-**	-	**-**	-	**-**	6,250
J. Schoenmakers	**5,725**	4,750	**-**	-	**-**	-	**5,725**	4,750
D. Spagnolo	**4,375**	4,750	**-**	-	**-**	-	**4,375**	4,750
K. Milsom (2)	**4,375**	-	**-**	-	**-**	-	**4,375**	-
W. White (2)	**4,375**	-	**-**	-	**-**	-	**4,375**	-
Total	**35,350**	33,750	**-**	-	**-**	-	**35,350**	33,750
Senior Management								
W. Crossland	**60,000**	60,000	**-**	-	**2,934**	3,881	**62,934**	63,881
J. Flynn(1)	**36,079**	43,130	**-**	-	**5,601**	6,679	**41,680**	49,809
R. Triebe	**38,425**	38,425	**-**	-	**2,874**	2,874	**41,299**	41,299
S. Mawby(1)	**35,425**	42,348	**-**	-	**5,549**	6,444	**40,974**	48,792
Total	**169,929**	183,903	**-**	-	**16,958**	19,878	**186,887**	203,781
Total Related Party Transactions	**205,279**	217,653	**-**	-	**16,958**	19,878	**222,237**	237,531

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

(1) Ms. Flynn and Mr. Mawby are compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.6439 and 2.0241 in the third quarters of FY 2017 and FY 2016 respectively.
(2) Mr. Linton resigned and Ms. Milsom and Mr. White were appointed on November 28, 2016.

Normal Course Issuer Bid

On February 17, 2016, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on February 12, 2016. During the 12-month period commencing February 15, 2016 and ending February 15, 2017, the Company was able to purchase on the TSX up to 12,758,701 common shares, representing approximately 8% 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.

The previously announced NCIB was approved by TSX Venture Exchange on November 3, 2014 and expired on November 3, 2015.

In the quarter ended February 28, 2017 the Company did not purchase any common shares (2016: nil).

3.2 Summary of Year to Date Results

	Nine months ended Feb 28, 2017	Nine months ended Feb 29, 2016
	$	$
Revenue	**8,438,027**	8,278,830
Cost of Sales	**(3,377,995)**	(3,532,538)
Gross Profit	**5,060,032**	4,746,292
Administration, selling, marketing and business development expenses	**(4,800,725)**	(4,580,717)
Research and development expenses	**(96,696)**	(154,116)
Operating income (loss)	**162,611**	11,459
Finance Revenue	**7,097**	20,619
Income (loss) before income taxes	**169,708**	32,078
Income taxes (expense) recovery	**(130,752)**	(41,323)
Net income (loss) for the period	**38,956**	(9,245)
Exchange differences on translation of overseas operations	**(380,414)**	(44,794)
Total comprehensive income (loss) for the period	**(341,458)**	(54,039)

Revenues and Gross Profits

Revenues of $8,438,027 in the first three quarters of FY 2017 represented an increase of $159,197, or 1.9%, compared to $8,278,830 in the same period of FY 2016. Sales of heat recovery systems decreased by $406,414 (10%) from the same period of the previous year, while sales of GEM™ Condensate return systems increased by $565,611 (14%).

Heat recovery revenue in the first nine months of FY 2017 included revenue from six major ongoing projects, including three hospital projects, as announced July 25, 2016, August 4, 2016 and November 2, 2016 respectively, an installation at a global brewing company, as announced August 8, 2016, an installation at a leading food products business, as announced May 3, 2016, and the early stages of an installation at a leading producer of industrial and fuel alcohols, as announced September 28, 2016. In addition, there were a number of smaller projects ongoing. This compared to nine major ongoing projects in the first nine months of the previous year, including installations at a world-leading food and beverage company, as announced April 29, 2015, a packaged foods business, as announced December 1, 2014, a leading dairy supplier, as announced March 4, 2015 and three major hospitals, as announced January 29, 2015, November 5, 2015 and November 23, 2015 respectively, a leading animal feed supplier, as announced November 11, 2015, and a gypsum company, as announced October 26, 2015, plus an equipment supply to a district heating co-operative.

GEM™ revenue in the first nine months of the current year included partial fulfilment of orders received from two major hospitals as announced August 8, 2016 and September 14, 2016, as well as orders from an international textiles manufacturer and a multinational biotech company, as reported in the press release dated September 20, 2016 plus further orders received from a leading performance materials company, also previously mentioned in the September 20, 2016 announcement. The same period of the previous year saw approximately three quarters of the order from a healthcare company, as announced August 17, 2015, as well as the conversion of five sites of a world-leading food and beverage company and the partial completion of conversions at two major hospitals.

The gross profit of $5,060,032 in the nine months ended February 28, 2017 represented an increase of $313,740, or 6.6%, over the $4,746,292 achieved in the nine months ended February 29, 2016. These results expressed as a percentage of sales were 60.0% in the first three quarters of FY 2017 compared with 57.3% in the first three quarters of FY 2016.

Expenses

Administration, selling, marketing and business development expenses for the nine months ended February 28, 2017 totaled $4,800,725 compared to $4,580,717 for the nine months ended February 29, 2016, an increase of $220,008, or 4.8%. Although revenues were similar to the previous year, commissions payable in the previous year were lower due to more non-commissionable sales. Other increases in expenses in the first three quarters of FY 2017 included recruitment costs associated with the addition of sales staff and the replacement of finance staff, increased advertising and promotional spend, the bi-annual sales meeting which was held in June 2016 plus accrued staff incentive payable. Offsetting some of these increases were decreases in patent costs and stock based compensation as well as improved foreign currency movements relating to the British pound.

Research and development costs in the first three quarters of FY 2017 totaled $96,696, compared to $154,116 in the same period of FY 2016, which included the final stages of work on the ISTP project in China.

Finance revenue in the nine months ended February 28, 2017 of $7,097 compared to $20,619 recognized in the nine months ended February 29, 2016. 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.

Income before income taxes for the nine months ended February 28, 2017 was $169,708 compared to $32,078 in the same period of the previous year. This increase in profitability was predominantly due to the product split within revenues.

Income tax charge in the first three quarters of FY 2017 was $130,752, compared to $41,323 in the same period of FY 2016. This was the result of higher profits within the UK entity in the first nine months of the current year.

Net income for the nine months ended February 28, 2017 was $38,956 compared to a net loss of $9,245 in the same period of the previous year.

Comprehensive loss was $341,458 for the nine months ended February 28, 2017 compared to $54,039 for the nine months ended February 29, 2016. The recent weakening of sterling against the Canadian dollar following the Brexit referendum in June 2016 has resulted in a larger exchange loss from the revaluation of goodwill and intangible assets in the U.K.

3.3 Liquidity and Capital Resources

The working capital was $1,214,402 at February 28, 2017, compared to working capital of $976,374 at May 31, 2016 – an increase of $238,028, with the Company's net cash position (Cash and cash equivalents less Bank loans) increasing by $1,440,356 from $1,143,148 at May 31, 2016 to $2,583,504 as at February 28, 2017

.

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

	May 31, 2015 $	Aug 31, 2015 $	Nov 30, 2015 $	Feb 29, 2016 $	May 31, 2016 $	Aug 31, 2016 $	Nov 30, 2016 $	Feb 28, 2017 $
Current Assets	3,650,605	2,641,290	3,747,206	4,018,307	3,834,124	3,400,711	5,066,120	5,363,954
Current Liabilities	3,162,216	2,512,531	3,528,790	3,317,835	2,857,750	2,502,425	3,806,596	4,149,552
Working Capital	488,389	128,759	218,416	700,472	976,374	898,286	1,259,524	1,214,402

Q3 FY 2017 Changes

Current assets increased in the third quarter of FY 2017 by $297,834 to $5,363,954. Cash increased by $1,061,797, due mainly to progress payments received on heat recovery projects, which also served to reduce the receivables balance by $749,887 in the current quarter, while other assets had a combined decrease of $14,076.

Current liabilities increased by $342,956 to $4,149,552, due to progress of heat recovery projects, which resulted in an increase in deferred revenue of $314,312 alongside an increase in accounts payable of $226,696. Other net reductions totaled $198,052, as U.K. and U.S. income taxes were settled as well as commissions due.

As at February 28, 2017, none of the Company's trade receivables balance was over 90 days past due.

At February 28, 2017, the Company had 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	277,529	132,674	144,855	nil

Net cash provided by operating activities in the quarter ended February 28, 2017 was $1,088,114, compared to $44,687 in the quarter ended February 29, 2016. The current quarter inflow was due to working capital changes resulting from various ongoing heat recovery projects.

Net cash provided by investing activities for the quarter ended February 28, 2017 of $1,100 comprised $11,310 finance lease principal payments received less $10,210 paid for additions to property, plant and equipment. This compared to $30,003 finance lease principal payments received, less $14,336 paid for additions to property, plant and equipment in the quarter ended February 29, 2016.

Net cash provided by financing activities for the quarter ended February 28, 2017 was $1,417. No repurchases of Class A common shares were made under the Normal Course Issuer Bid, as announced February 17, 2016. The $1,417 represented proceeds received from the issue of shares following the exercise of options. Net cash provided by financing activities for the quarter ended February 29, 2016 was $nil.

After allowing negative $28,834 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was an increase in cash balance of $1,061,796 over the third quarter of FY 2017, compared to an increase of $55,968 over the same quarter of FY 2016.

Adjusted operating cash outflow (defined as net income or loss plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended February 28, 2017 was $19,837, compared to an inflow of $496,397 for the quarter ended February 29, 2016, which had a net income of $474,194 compared to a net loss in the current period.

In addition to its net cash balance of $2,583,504 as at February 28, 2017 the Company also had an estimated $259,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $2,842,504, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2017 and into FY 2018.

Order backlog as at February 28, 2017 was approximately $4.6 million compared to $4.4 million at the same time last year. As at April 13, 2017, the Company had $8.0 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 of the opinion that sufficient working capital will be obtained from future cash flows by achieving profitable operations through continuing to manage expenditures and concentrating on building upon the revenue level experienced in 2016. The Company cannot be certain that cash generated from its operations will be sufficient to satisfy its liquidity requirements and it may need to raise capital by obtaining financing.

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

	Quarter ended February 28(29)	
	2017 $	2016 $
Net cash provided (used) in operating activities	1,088,114	44,687
Changes in working capital	(1,119,261)	421,707
Finance lease principal payments received	11,310	30,003
Adjusted operating cash flow	(19,837)	496,397

Net Investment in Lease

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

	Feb 28, 2017 $	May 31, 2016 $
Total estimated minimum lease payments receivable	48,000	125,054
Less: unearned income	(1,397)	(8,494)
	46,603	116,560
Less: current portion	(46,603)	(116,560)
	-	-

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs. On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer had the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company.

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

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

As part of calculating the impact of the new lease extension, the existing net residual value of the equipment was re-assessed. The estimated value of any re-sale value or scrap value of the equipment less removal and re-sale costs was assessed as $nil and so a write-down of the $139,530 net residual value was taken.

This write-down, combined with the write-down of the May 2015 expected payment under the terms of the previous lease, which was expected to expire in mid-May 2015, reduced the net revenue recognized on renewal of the lease by $69,791.

Until the expiry of the new lease on May 1, 2017, finance revenue will be recognized within the income statement at the interest rate implicit in the lease. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset and the operations of the plant in which it is located.

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

	$
Less than one year	48,000
Residual value	-
	48,000

3.4 Segmented Information

In the quarters and nine month periods ended February 28, 2017 and February 29, 2016, 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 February 28, 2017 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,042,297**	1,333,652	**2,182,233**	1,886,969	**-**	-	**3,224,530**	3,220,621
Cost of sales	**(398,413)**	(373,305)	**(1,150,884)**	(818,076)	**-**	-	**(1,549,297)**	(1,191,381)
Gross profit	**643,884**	960,347	**1,031,349**	1,068,893	**-**	-	**1,675,233**	2,029,240
Other expenses	**(633,607)**	(644,360)	**(766,867)**	(735,444)	**(319,080)**	(191,640)	**(1,719,554)**	(1,571,444)
Finance revenue	**690**	5,997	**-**	-	**-**	-	**690**	5,997
Income (loss) before income taxes	**10,967**	321,984	**264,482**	333,449	**(319,080)**	(191,640)	**(43,631)**	463,793
Income taxes (expense) recovery	**(24)**	-	**(44,812)**	(101,416)	**31,995**	55,345	**(12,841)**	(46,071)
Net income (loss)	**10,943**	321,984	**219,670**	232,033	**(287,085)**	(136,295)	**(56,472)**	417,722
Attributable to:								
Owners of the parent	**14,239**	327,512	**215,924**	229,823	**(287,085)**	(136,295)	**(56,922)**	421,040
Non-controlling interest	**(3,296)**	(5,528)	**3,746**	2,210	**-**	-	**450**	(3,318)

Segment information for the nine months ended February 28, 2017 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**2,897,650**	4,056,385	**5,540,377**	4,222,445	**-**	-	**8,438,027**	8,278,830
Cost of sales	**(968,162)**	(1,808,252)	**(2,409,833)**	(1,724,286)	**-**	-	**(3,377,995)**	(3,532,538)
Gross profit	**1,929,488**	2,248,133	**3,130,544**	2,498,159	**-**	-	**5,060,032**	4,746,292
Other expenses	**(1,963,867)**	(1,875,003)	**(2,133,283)**	(2,043,335)	**(800,271)**	(816,495)	**(4,897,421)**	(4,734,833)
Finance revenue	**7,097**	20,619	**-**	-	**-**	-	**7,097**	20,619
Income (loss) before income taxes	**(27,282)**	393,749	**997,261**	454,824	**(800,271)**	(816,495)	**169,708**	32,078
Income taxes (expense) recovery	**-**	493	**(203,853)**	(120,825)	**73,101**	79,009	**(130,752)**	(41,323)
Net income (loss)	**(27,282)**	394,242	**793,408**	333,999	**(727,170)**	(737,486)	**38,956**	(9,245)
Attributable to:								
Owners of the parent	**(11,095)**	403,718	**777,370**	317,785	**(727,170)**	(737,486)	**39,105**	(15,983)
Non-controlling interest	**(16,187)**	(9,476)	**16,038**	16,214	**-**	-	**(149)**	6,738

Other expenses within reconciling items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2017	2016	**2017**	2016
	$	$	**$**	$
Corporate admin costs	**230,112**	193,418	**632,845**	594,556
Stock-based compensation	**31,056**	31,314	**86,208**	128,154
Professional fees	**17,643**	14,146	**136,737**	121,012
Depreciation of property, plant and equipment	**10,300**	8,306	**28,397**	24,077
Bank charges and interest	**8,104**	12,483	**27,433**	31,436
Foreign exchange differences	**21,865**	(68,027)	**(111,349)**	(82,740)
Total	**319,080**	191,640	**800,271**	816,495

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 February 28, 2017, Thermal Energy Ottawa had one customer that accounted for 11% and Thermal Energy Bristol had two customers that accounted for 14% and 18% respectively of the company's total revenue for the period.

During the three months ended February 29, 2016, Thermal Energy Bristol had one customer that accounted for 19% of the company's total revenue for the period.

During the nine months ended February 28, 2017, Thermal Energy Ottawa had one customer that accounted for 11% and Thermal Energy Bristol had one customer that accounted for 12% of total revenue.

During the nine months ended February 29, 2016, Thermal Energy Ottawa had one customer that accounted for 10% of total revenue.

Further geographical analysis:

	Revenues for the nine months ended		Property, plant and equipment as at		Goodwill and intangibles assets as at	
	February 28		**February 28**	May 31	**February 28**	May 31
	2017	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$
Canada	**490,508**	185,483	**37,621**	50,380	-	-
U.S.A.	**2,407,142**	3,864,473	-	-	-	-
U.K.	**3,730,513**	3,779,999	**37,298**	28,057	**1,776,745**	2,047,246
Germany	**82,431**	120,752	-	-	-	-
Italy	**1,287,795**	105,061	-	-	-	-
Netherlands	**46,627**	35,556	-	-	-	-
Ireland	**73,209**	16,059	-	-	-	-
Greece	**165,380**	-	-	-	-	-
Slovenia	**51,657**	-	-	-	-	-
Rest of Europe	**31,145**	8,571	-	-	-	-
Kenya	**23,231**	96,942	-	-	-	-
India	**40,935**	23,277	-	-	-	-
China	-	6,429	-	-	-	-
Rest of world	**7,454**	36,228	-	-	-	-
Total	**8,438,027**	8,278,830	**74,919**	78,437	**1,776,745**	2,047,246

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended February 28, 2017 was $1,042,297 compared to $1,333,652 for the quarter ended February 29, 2016. Heat recovery revenue increased by $56,358, with neither quarter showing much activity on existing projects, which were either starting up or coming to an end in each period. Revenue from sales of GEM™ products decreased by $347,713 due to four site conversions of a Fortune 500 food and beverage company in the third quarter of FY 2016, plus the second phase of the order from a healthcare company, as announced August 17, 2015, being only partially matched by increased sales to a leading performance materials company.

Revenue for the nine months ended February 28, 2017 was $2,897,650 compared to $4,056,385 for the nine months ended February 29, 2016. Heat recovery revenue decreased by $1,171,128, with the previous period's revenue including a project at a packaged foods business plus the equipment sale to a district heating co-operative and the substantial completion of an installation at a site of a Fortune 500 global food and beverage company, along with progress on an installation at a site of a major hospital group. The current nine month period saw the initial phases of an installation at a leading producer of industrial and fuel alcohols as well as revenue from a second site of the major hospital group. Revenue from sales of GEM™ products meanwhile increased by $12,393. The four additional orders from a major Fortune 500 food and beverage company plus the first two phases of the order from a healthcare company, as announced August 17, 2015, in the first nine months of last year were replaced in the same period of the current year by a number of orders from various customers, as well as increased sales to a leading performance materials company.

Thermal Energy Bristol: revenue for the quarter ended February 28, 2017 was $2,182,233 compared to $1,886,969 for the same period of the previous year, an increase of $295,264. Heat recovery revenue increased by $388,363, with the current quarter including revenue from installations at two hospitals and a global brewing company. This compared to one hospital in the quarter ended February 29, 2016, as well as projects at a gypsum company, a dairy supplier, and a leading animal feed supplier. Revenue from sales of GEM™ products decreased by $93,099, with one less hospital project in the current quarter.

For the nine months ended February 28, 2017 revenue for Thermal Energy Bristol was \$5,540,377 compared to \$4,222,445 the same period of the prior year. Heat recovery revenue rose by \$764,713 due to the projects mentioned above, plus the completion of an installation at a leading food products business in the first half of the year. Revenue from sales of GEM™ products also increased by \$553,219, due mainly to the two hospital orders fulfilled in the current period.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit decreased by \$316,463 in the quarter ended February 28, 2017 from the same quarter of the preceding year as a result of the decreased GEM™ revenue for the region, while expenses fell by \$10,753, with lower commissions being partially offset by costs associated with two additional sales staff. The net effect of these differences, combined with a decrease in finance revenue of \$5,307 resulted in a reduction in income before taxes of \$311,017, from \$321,984 for the quarter ended February 29, 2016 to \$10,967 for the current quarter.

For the nine months ended February 28, 2017, gross profit generated by Thermal Energy Ottawa decreased by \$318,645 due to the reduced heat recovery revenues, while other expenses grew by \$88,864, due to additional sales staff plus the global sales meeting held in the first quarter of the current year. With finance revenue decreasing in the first three quarters of FY 2017 by \$13,522 from the same period of FY 2016, the net effect was a reduction in profitability for Thermal Energy Ottawa of \$421,031.

Thermal Energy Bristol gross profit decreased by \$37,544 in the quarter ended February 28, 2017 from the same quarter of the preceding year despite the increased revenue, due to the product split. With other net costs increasing by \$31,423, mostly due to costs associated with a new regional sales manager, the resulting income before tax of \$264,482 for the third quarter of FY 2017 represented a decrease of \$68,967 from the \$333,449 for the third quarter of FY 2016.

For the nine months ended February 28, 2017, gross profit generated by Thermal Energy Bristol increased by \$632,385 as a result of the increased revenue, while other expenses rose by \$89,948. Increases included commission payable and costs relating to additional sales and technical staff. The net effect of these changes was a rise in income before tax for Thermal Energy Bristol of \$542,437.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to \$319,080 in the third quarter of FY 2017 compared to \$191,640 in the third quarter of FY 2016, with a negative swing in foreign exchange differences resulting from the continued weakening of sterling following the Brexit referendum last June, plus increased corporate admin costs resulting from the addition of an extra board member and the appointment in the current year of a company to assist with the corporate expansion strategy.

For the nine months ended February 28, 2017, other expenses within reconciling items totaled \$800,271, a decrease of \$16,224 from the same period of FY 2016. This was mainly due to a decrease in stock based compensation, which was partially offset by increased professional fees and corporate admin costs, as mentioned above.

Quarterly financial information (unaudited)
For the eight quarters ended February 28, 2017

Quarter ended	28-Feb-17 $	30-Nov-16 $	31-Aug-16 $	31-May-16 $
Revenue	3,224,530	3,078,744	2,134,753	4,123,246
Gross Profit	1,675,233	1,929,114	1,455,685	2,047,713
Gross Profit Percentage	52.0%	62.7%	68.2%	49.7%
EBITDAS(1)	(1,811)	285,307	3,302	376,858
Total net income (loss)	(56,472)	175,158	(79,730)	268,113
Income (loss) per share, basic and diluted	0.000	0.001	(0.001)	0.001

Quarter ended	29-Feb-16 $	30-Nov-15 $	31-Aug-15 $	31-May-15 $
Revenue	3,220,621	2,501,595	2,556,614	2,525,061
Gross Profit	2,029,240	1,617,282	1,099,770	1,193,821
Gross Profit Percentage	63.0%	64.6%	43.0%	47.3%
EBITDAS(1)	504,606	83,538	(400,871)	(256,642)
Total net income (loss)	417,722	25,630	(452,597)	(337,642)
Income (loss) per share, basic and diluted	0.003	0.000	(0.003)	(0.002)

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

4. Business Outlook

- In March 2017, the Company announced that it had received a third heat recovery solution order from the same major hospital group for approximately $1,700,000. This order is expected to be fulfilled and the revenue earned over the next six months.

- In November 2016, the Company received an order for approximately $1,250,000 from a major hospital group for a heat recovery solution. This is the group's second order and is expected to be fulfilled and revenue earned over the next six months, being only in its early stages as at the end of the current quarter.

- In September 2016, the Company announced that it had received an order for approximately $1,700,000 from a leading producer of industrial and fuel alcohols for the supply and installation of a FLU-ACE® heat recovery solution at one of its ethanol plants. The Company subsequently received a change order for additional scope, increasing the project value to approximately $1,875,000. As at February 28, 2017, this project was only 14% complete, with the order is expected to be fulfilled and revenue earned over the next nine months.

- In August 2016, the Company announced that it had received two orders from a hospital trust: the first valued at approximately $868,000 for the supply and installation of a heat recovery system at one of its sites; and the second for the supply and installation of GEM™ steam traps at another site, worth approximately $280,000. The heat recovery order was approximately 70% complete as at the end of the third quarter and the order is expected to be fulfilled and revenue earned over the next three months, whilst the GEM™ order was completed in the current quarter.

- In July 2016, the Company announced that it had received an order for approximately $840,000 from a multi-site hospital group for the extension of a heat recovery system previously installed by Thermal Energy. This project was approximately 50% complete as at the end of the third quarter and the order is expected to be fulfilled and revenue earned over the next three months.

- 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.

- The Company's order backlog as at February 28, 2017 was approximately $4.6 million. As at April 13, 2017, the Company had an order backlog of approximately $8.0 million, of which approximately $0.3 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

159,088,950 class A common shares.

Options

Number of Options outstanding	Number of Options Exercisable	Exercise Price Per Share $	Expiry Date
2,983,311	2,983,311	0.10	01-Dec-2016
4,075,689	4,075,689	0.10	22-Nov-2017
2,754,000	2,754,000	0.05	18-Nov-2018
3,064,360	2,014,574	0.10	28-May-2019
250,000	83,333	0.09	01-Dec-2019
3,963,026	1,302,120	0.08	29-May-2020
3,362,500	-	0.05	30-May-2021
500,000	-	0.12	27-Nov-2021
20,952,886	13,213,027		

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 IFRS 2, "Share-based Payments"

In December 2013, the IASB issued amendments to IFRS 2 Share-based payments, which clarify vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. These amendments became effective for annual periods beginning on or after July 1, 2014 and interim periods within those annual periods. The Company adopted the amendments on June 1, 2015. The adoption of the amendments to IFRS 2 did not have a material impact on the consolidated financial statements.

Amendments to IFRS 13, "Fair Value Measurements"

In December 2013, the IASB issued amendments to IFRS 13 Fair Value Measurements, which relate to the measurement of short-term receivables and payables, and the scope of the portfolio exemption. Short-term receivables and payables with no stated interest rate can still be measured at the invoice amount without discounting if the effect of discounting is immaterial. The portfolio exemption permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis. The amendment clarifies that the portfolio exemption applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments if this has been adopted early), regardless of whether the meet the definition of financial assets or financial liabilities within IAS 32 Financial Instruments: Presentation. These amendments became effective for annual periods beginning on or after July 1, 2014. The Company adopted the amendments on June 1, 2015. The adoption of the amendments to IFRS 13 did not have a material impact on the consolidated financial statements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The Company adopted the amendments on June 1, 2016. The adoption of the amendments to IAS 16 and IAS 38 did not have a material impact on the consolidated financial statements.

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

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

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. 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.

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. The IASB recently confirmed a one year deferral of the effective date of IFRS 15 to January 1, 2018. Earlier application of IFRS 15 continues to be permitted. 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.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, Leases, which specifies how to recognize, measure present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize all assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

7. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

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

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022, but this was again followed by a net loss of $2,154,817, accompanied by a cash decrease of $1,331,074 in FY 2015. FY 2016 year saw a return to profitability and an increase in cash balances of $427,805 and the first nine months of FY 2017 has produced a small profit, accompanied by an order backlog of $4.6 million.

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 February 28, 2017 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 for financial reporting principally through its Audit Committee.