MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 29, 2024

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the third quarter of Fiscal Year 2024, ended February 29, 2024 (or "Q3 2024"), and compares the Q3 2024 financial results to the previous quarter ended February 28, 2023 (or "Q3 2023"). The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the third quarter of FY 2024 are against the third quarter of FY 2023. Additional information relating to the Company is available on SEDAR at www.sedarplus.ca.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 49% of our operations, assets and liabilities are denominated in British Pounds and 23% in US Dollars. 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 24, 2024. Disclosure contained in this document is current to April 24, 2024, 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 8 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 9 entitled "Forward-Looking Information".

Table of Contents

1. Our Business

1.1 Company Overview

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

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

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

1.2 Core Businesses

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

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. On June 29, 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells HEATSPONGE and SIDEKICK indirect contact heat recovery units. On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

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

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

1.3 Strategy

The Company's mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency technology and solutions to the industrial, institutional, and commercial sectors, helping our clients around the world improve their bottom line, move towards sustainable operations and reduce their environmental and carbon footprint. The Company's products and services are "best-in-class" with world-wide application in a broad range of sectors.

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

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

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

2. Performance Measures

The Company believes the following performance measures provide useful information to both management and investors to better understand the financial performance and financial position of the Company.

2.1 EBITDA

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

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

	Three months ended		Nine months ended	
	Feb 29, 2024 $	Feb 28, 2023 $	Feb 29, 2024 $	Feb 28, 2023 $
Total net income (loss) attributable to owners of the parent	**29,011**	530,596	**651,031**	(247,586)
Total net income (loss) attributable to non-controlling interest	**15,440**	(6,797)	**40,789**	(3,367)
Interest charge	**94,213**	152,646	**322,116**	369,042
Income tax (recovery) expense	**17,115**	(4,851)	**112,107**	1,491
Depreciation and amortization	**100,488**	91,448	**267,745**	274,778
Share based compensation	**65,307**	53,319	**171,945**	163,615
EBITDA	**321,574**	816,361	**1,565,733**	557,973

2.2 Order Backlog

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

The Company's order backlog as at February 29, 2024 was approximately $20.4 million. As at April 24, 2024, the Company had an order backlog of approximately $22.9 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at February 29/28/28	20.4	16.2	5.6
Order backlog as at April reporting date	22.9	18.5	6.5

3. Performance

3.1 Quarterly Financial Information (unaudited)

For the most recent eight quarters ended:

Quarter ended	31-May-23 $	31-Aug-23 $	30-Nov-23 $	29-Feb-24 $
Revenue	8,207,116	5,183,123	7,105,272	6,063,200
Gross profit	3,832,141	2,766,908	3,488,671	3,061,019
Gross profit percentage	46.7%	53.4%	49.1%	50.5%
EBITDA(1)	1,170,154	414,329	829,830	321,574
Total net income	971,402	161,830	485,539	44,451
Income per share, basic and diluted	0.006	0.001	0.003	-

Quarter ended	31-May-22 $	31-Aug-22 $	30-Nov-22 $	28-Feb-23 $
Revenue	4,461,701	3,122,249	4,159,453	5,602,752
Gross profit	1,907,535	1,349,287	1,768,559	2,619,232
Gross profit percentage	42.8%	43.2%	42.5%	46.7%
EBITDA(1)	203,480	(229,943)	(28,445)	816,361
Total net (loss) income	(149,462)	(508,501)	(266,251)	523,799
(Loss) income per share, basic and diluted	(0.001)	(0.003)	(0.002)	0.003

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

3.2 Summary of Third Quarter Results

	Q3 2024	Q3 2023
	$	$
Revenue	**6,063,200**	5,602,752
Cost of sales	**3,002,181**	2,983,520
Gross profit	**3,061,019**	2,619,232
Expenses:		
Administration, selling, marketing and business development	**2,896,155**	1,938,254
Research and development	**9,085**	9,384
	2,905,240	1,947,638
Operating income	**155,779**	671,594
Finance costs	**(94,213)**	(152,646)
Income before income taxes	**61,566**	518,948
Income taxes (expense) recovery	**(17,115)**	4,851
Net income for the period	**44,451**	523,799
Exchange differences on translation of overseas operations	**1,465**	10,784
Total comprehensive income for the period	**45,916**	534,583
EBITDA for the quarter[1 2]	**321,574**	816,361
Order backlog as at February 29/28 [3]	**20.4 million**	16.2 million
Order backlog as at reporting date [3]	**22.9 million**	18.5 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements.

Revenue and Gross Profit

Revenues were $6,063,200 in the quarter ended February 29, 2024, representing an increase of $460,448, or 8.2%, compared to $5,602,752 in the quarter ended February 28, 2023. The increase of revenue in the third quarter of FY 2024 was mainly due to the increased revenues from heat recovery projects and engineering service projects.

The gross profit of $3,061,019 achieved in the quarter ended February 29, 2024, represented an increase of $441,787, or 16.9%, from $2,619,232 achieved in the quarter ended February 28, 2023. The increase in gross profit was mainly due to increased revenues and improved margins from heat recovery and engineering service projects compared to the same quarter of prior year. The gross profit expressed as a percentage of revenue was 50.5% in the third quarter of FY 2024 compared with 46.7% in the same quarter of FY 2023. The increase of gross profit as a percentage of revenue was mainly due to the improved margins on heat recovery and engineering service projects and the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended February 29, 2024, totaled $2,896,155, compared to $1,938,254 in the quarter ended February 28, 2023, an increase of $957,901, or 49.4%. $216 thousand of the increase in Operating Expenses was caused by increase in foreign exchange loss compared to the same quarter of prior year. $742 thousand of the Operating Expenses increase because of increased salary expense as a result of increased headcount and increased salary level; in addition, the Company continued investing in digitalization of production and data collection process in the third quarter of FY 2024; during the third quarter of F2024, the Company's UK office moved to a new rental facility to accommodate the need for the increased production capacity of GEM products, which further increased the Operating Expenses with the additional rent and leasehold renovation costs; the general operating costs also increased due to higher amount of business development and marketing activities and the general cost inflation.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses decreased by $299 in the third quarter of FY 2024 compared to the same quarter of the previous year.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of $94,213 in the third quarter of FY 2024. The costs were lower than the third quarter of FY 2023 by $58,433. The decrease was mainly due to the reduced interest rate on a long-term debt, and the reduced rate was retro applied to October 2023 as a result of annual interest rate reassessment.

Income before income taxes for the quarter ended February 29, 2024 was $61,566, compared to income before income taxes of $518,948 in the same quarter of the previous year. Income before income taxes decreased by $457,382 mainly due to increased Operating Expenses of $957,901, offset by the increase in gross profit of $441,787 and the decrease in finance cost of $58,433 as mentioned above.

Income taxes expense in the third quarter of FY 2024 was $17,115, as compared to recovery of $4,851 in the third quarter of FY 2023, increase in expense of $21,966. The Company recorded an income tax expense of $17,115 due to the taxable profit earned in the third quarter of FY 2024.

Net Income for the third quarter of FY 2024 was $ 44,451, compared to $523,799 in the same quarter of the previous year, representing a decrease of $479,348. The decrease in net income was mainly due to the increased operating expenses of $957,901 offset by the increase in gross profit of $441,787 and the decrease in finance costs of $58,433, as mentioned above.

Comprehensive income was $45,916 for the third quarter of FY 2024, compared to $534,583 for the third quarter of FY 2023. The decrease of $488,667 of comprehensive income was mainly due to the decrease of net income in the amount of $479,348 as mentioned above and the decrease in exchange gains arising on translation of overseas operations of $9,319.

EBITDA was $321,574 for the third quarter of FY 2024, compared to EBITDA of $816,361 for the same quarter of the previous year, representing a decrease of $494,787. The decrease was mainly due to the increase in Operating Expenses of $957,901, which resulted from increase in foreign exchange loss, increased costs due to team growth, increased business and marketing activities, and investment in a new facility and digital tools. The decrease in EBITDA was partially offset by the increase in gross profit of $441,787 as a result of increased revenues and improved margins on engineering service and heat recovery projects. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year-to-Date Results

	Nine months ended Feb 29, 2024	Nine months ended Feb 28, 2023
	$	$
Revenue	**18,351,595**	12,884,454
Cost of sales	**9,034,997**	7,147,376
Gross profit	**9,316,598**	5,737,078
Expenses:		
Administration, selling, marketing and business development	**8,154,995**	5,565,148
Research and development	**35,560**	52,350
	8,190,555	5,617,498
Operating income	**1,126,043**	119,580
Finance costs	**(322,116)**	(369,042)
Income (loss) before income taxes	**803,927**	(249,462)
Income taxes expense	**(112,107)**	(1,491)
Net income (loss) for the period	**691,820**	(250,953)
Exchange differences on translation of overseas operations	**86,479**	(146,441)
Total comprehensive income (loss) for the period	**778,299**	(397,394)
EBITDA for the period[1 2]	**1,565,733**	557,973
Order backlog as at February 29/28 [3]	**20.4 million**	16.2 million
Order backlog as at reporting date [3]	**22.9 million**	18.5 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements.

Revenue and Gross Profit

Revenues were $18,351,595 in the nine months ended February 29, 2024, representing an increase of $5,467,141, or 42.4%, from the $12,884,454 recognized in the nine months ended February 28, 2023. The increase in revenues was mainly due to increased revenues from both GEM and heat recovery projects.

The gross profit of $9,316,598 in the nine months ended February 29, 2024, represented an increase of $3,579,520, or 62.4%, from $5,737,078, achieved in the nine months ended February 28, 2023. The increase in gross profit was mainly due to increased revenues and improved margins on both GEM and heat recovery projects compared to the same period of prior year. Overall, gross profit expressed as a percentage of revenue was 50.8% compared with 44.5% achieved in the same period of the previous year. The increase in gross profit as a percentage of revenue was mainly due to higher margins achieved on both GEM and heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the nine months ended February 29, 2024 totaled $8,154,995, compared to $5,565,148 in the nine months ended February 28, 2023, representing an increase of $2,589,847, or 46.5%. $596 thousand of the increase was due to increase in foreign exchange compared to the same period of last year. The rest of the increases were related to the growth of the teams, the increased business development and marketing activities, increased travelling costs, the continued investment in digital infrastructure and investment in a new production facility, and inflationary increases on regular operating costs and salaries.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company's R&D expense was $35,560 in the nine months ended February 29, 2024, compared to $52,350 in the nine months ended February 28, 2023, a decrease of $16,790.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by $46,926 from $369,042 to $322,116 for the nine months ended February 29, 2024. The decrease was mainly due to the reduced interest rate on a long-term debt as a result of annual interest rate reassessment, offset by the increase in interest accretion on lease obligations due to the increase in lease obligation balance.

Income before income taxes for the nine months ended February 29, 2024 was $803,927 compared to loss of $249,462 in the same period of the previous year, representing an increase of $1,053,389. The increase in income before income taxes was mainly due to the increase in gross profit of $3,579,520 as a result of increased revenue and improved margin, offset by the increase in Operating Expenses of $2,589,847 as explained earlier.

Income taxes expense in the nine months ended February 29, 2024 was $112,107, compared to $1,491 in the same period of previous year, an increase of $110,616. The Company's U.K. and U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. For the three quarters of FY 2024, the Company recorded income tax expense of $112,107 due to the taxable income earned by its U.K. entities.

Net income for the nine months ended February 29, 2024 was $691,820, compared to net loss of $250,953 in the nine months ended February 28, 2023, representing an increase of $942,773. The increase in net income was mainly due to the increase of income before income taxes in the amount of $1,053,389 as mentioned earlier, offset by the increase in income taxes expense of $110,616.

Comprehensive income was $778,299 for the nine months ended February 29, 2024, compared to a loss of $397,394 for the nine months ended February 28, 2023, representing an increase of comprehensive income in the amount of $1,175,693. The increase in comprehensive income was mainly due to the increase in net income of $942,773 as mentioned earlier, and the increase in exchange gains of $232,920 arising on translation of overseas operations. The Company recognized exchange gains arising on translation of overseas operations of $86,479 in the nine months ended February 29, 2024 as compared to exchange losses of $146,441 recognized in the same period of the previous year.

EBITDA was $1,565,733 for the nine months ended February 29, 2024 compared to $557,973 for the same period of the previous year, representing an increase of $1,007,760. The increase was mainly due to the increase in income before income taxes of $1,053,389. As mentioned earlier, during this period, gross profit increased by $3,579,520 as a result of increased revenues and improved margins, and the Operating Expenses increased by $2,589,847. As a result, the Company achieved an increase in income before income taxes of $1,053,389. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets increased by $3,363,623 to $14,392,481 at February 29, 2024, compared to $11,028,858 at May 31, 2023. This increase was mainly due to an increase in cash and cash equivalents of $4,535,325, offset by a decrease in trade and other receivables of $1,300,096. Current liabilities increased by $3,020,355 to $11,014,267, mainly due to increase in deferred revenue of $3,902,968, offset by decrease in trade payables and other liabilities of $1,074,258.

Working capital increased by $343,268 to $3,378,214 at February 29, 2024, compared to $3,034,946 at May 31, 2023. The increase in working capital was mainly due to an increase in cash and cash equivalents of

$4,535,325 and decrease of trade payables and other liabilities of $1,074,258, offset by increase in deferred revenue of $3,902,968 and decrease in trade and other receivables of $1,300,096.

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

	May 31, 2022 $	Aug 31, 2022 $	Nov 30, 2022 $	Feb 28, 2023 $	May 31, 2023 $	Aug 31, 2023 $	Nov 30, 2023 $	Feb 29, 2024 $
Current Assets	7,013,959	6,284,671	7,775,570	9,501,012	11,028,858	9,741,660	11,414,589	14,392,481
Current Liabilities	4,237,140	4,211,907	6,009,454	7,321,170	7,993,912	6,678,212	7,923,055	11,014,267
Working Capital	2,776,819	2,072,764	1,766,116	2,179,842	3,034,946	3,063,448	3,491,534	3,378,214

The Company's cash position was $7,535,932 as at February 29, 2024, compared to $3,000,607 at May 31, 2023, representing an increase of $4,535,325. The increase was mainly due to net cash generated from operating activities of $5,657,038, offset by the net cash used in financing activities of $762,111 and investing activities of $344,440.

The net cash provided in the operating activities for the nine months ended February 29, 2024 was $5,657,038, which included the net income of $691,820, the addbacks of non-cash items of $1,236,353, the positive change in working capital of $4,101,991, the income tax payment of $47,447 and the interest paid on long-term debt and lease obligations of $325,679. The positive change in working capital was mainly due to the increase in deferred revenue as a result of the upfront deposits received for a few heat recovery projects that started in the third quarter of FY2024.

The net cash used in investing activities was $344,440 for the nine months ended February 29, 2024, which related to purchase of property, plant and equipment. The Company invested in leasehold improvements for a rental facility in the UK during the nine months ended February 29, 2024, which resulted in a higher amount of cash used in investing activities.

The Company used cash from financing activities in the amount of $762,111, which included repayments of long-term debt of $689,786 and repayments on lease obligations of $212,411, proceeds received from stock option exercise of $190,668 and the dividends paid to a minority interest of $50,582.

At February 29, 2024, $246,453 (7%) of the Company's trade receivables balance was over 90 days past due. $17,246 of the past due balance was impaired at February 29, 2024.

At May 31, 2023, $723,843 (13.5%) of the Company's trade receivables balance was over 90 days past due. $19,689 of the past due balance was impaired at May 31, 2023.

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 29, 2024, provisions of $9,429 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($3,725 – February 28, 2023). For the nine months ended February 29, 2024, $1,846 ($77,706 – February 28, 2023) of previously provided credit losses was released due to the collection on the doubtful accounts. The company wrote off allowance for doubtful accounts in the amount of $10,083 for the nine months ended February 29, 2024 by removing the amount from trade receivables ($44,685 – February 28, 2023).

The following table presents the contractual undiscounted cash flows for lease obligations:

	February 29, 2024	May 31, 2023
Less than one year	**$ 424,476**	$ 318,925
One to five years	**1,204,045**	1,025,020
Six to ten years	**376,392**	547,953
Total undiscounted lease obligations	**2,004,913**	1,891,898
Less: impact of present value	**(392,695)**	(428,919)
Less: current portion	**(305,402)**	(214,684)
Long term portion	**$ 1,306,816**	$ 1,248,295

During the nine months ended February 29, 2024, the interest expense on lease obligations was $94,031 and total cash outflow for leases was $327,981, including $21,539 for short-term leases.

During the nine months ended February 28, 2023, the interest expense on lease obligations was $78,980 and total cash outflow for leases was $264,946, including $24,799 for short-term leases.

For the nine months ended February 29, 2024 and February 28, 2023, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

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

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 12 months.

3.5 Segmentation Information

In the nine months ended February 29, 2024 and February 28, 2023, the Company operated in the energy efficiency industry in North America, Europe and Rest of the World. The Company markets, sells, engineers, fabricates, constructs, installs and supports two main 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 mainly located in Canada, the US and the UK.

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

Segment information for the quarter ended February 29, 2024 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**2,670,616**	2,138,905	**3,392,584**	3,463,847	**-**	-	**6,063,200**	5,602,752
Cost of sales	**(1,356,590)**	(1,203,950)	**(1,645,591)**	(1,779,570)	**-**	-	**(3,002,181)**	(2,983,520)
Gross profit	**1,314,026**	934,955	**1,746,993**	1,684,277	**-**	-	**3,061,019**	2,619,232
Other expenses	**(1,049,205)**	(791,054)	**(1,344,307)**	(926,601)	**(511,728)**	(229,983)	**(2,905,240)**	(1,947,638)
Net finance costs	**(22,885)**	(25,184)	**(10,069)**	(538)	**(61,259)**	(126,924)	**(94,213)**	(152,646)
Income (loss) before taxation	**241,936**	118,717	**392,617**	757,138	**(572,987)**	(356,907)	**61,566**	518,948
Tax (expense) recovery	**-**	-	**(17,115)**	4,851	**-**	-	**(17,115)**	4,851
Net income (loss)	**241,936**	118,717	**375,502**	761,989	**(572,987)**	(356,907)	**44,451**	523,799
Attributable to:								
Owners of the parent	**241,931**	118,763	**360,067**	768,740	**(572,987)**	(356,907)	**29,011**	530,596
Non-controlling interest	**5**	(46)	**15,435**	(6,751)	**-**	-	**15,440**	(6,797)

Segment information for the nine months ended February 29, 2024 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**8,565,533**	5,825,161	**9,786,062**	7,059,293	**-**	-	**18,351,595**	12,884,454
Cost of sales	**(4,528,268)**	(3,551,791)	**(4,506,729)**	(3,595,585)	**-**	-	**(9,034,997)**	(7,147,376)
Gross profit	**4,037,265**	2,273,370	**5,279,333**	3,463,708	**-**	-	**9,316,598**	5,737,078
Other expenses	**(3,069,034)**	(2,252,493)	**(3,754,029)**	(2,718,644)	**(1,367,492)**	(646,361)	**(8,190,555)**	(5,617,498)
Net finance costs	**(70,433)**	(76,375)	**(23,599)**	(2,602)	**(228,084)**	(290,065)	**(322,116)**	(369,042)
Income (loss) before taxation	**897,798**	(55,498)	**1,501,705**	742,462	**(1,595,576)**	(936,426)	**803,927**	(249,462)
Tax (expense) recovery	**-**	(6,342)	**(112,107)**	4,851	**-**	-	**(112,107)**	(1,491)
Net income (loss)	**897,798**	(61,840)	**1,389,598**	747,313	**(1,595,576)**	(936,426)	**691,820**	(250,953)
Attributable to:								
Owners of the parent	**897,738**	(61,401)	**1,348,869**	750,241	**(1,595,576)**	(936,426)	**651,031**	(247,586)
Non-controlling interest	**60**	(439)	**40,729**	(2,928)	**-**	-	**40,789**	(3,367)

Reconciling items comprise the following:

	Three months ended February 29/28		Nine months ended February 29/28	
	2024	2023	**2024**	2023
	$	$	**$**	$
Corporate admin costs	**188,309**	148,749	**564,310**	463,199
Stock-based compensation	**65,307**	53,319	**171,945**	163,615
Professional fees	**18,712**	13,952	**156,652**	133,957
Depreciation of property, plant and equipment	**44,370**	35,220	**99,095**	100,766
Amortization of intangible assets	**56,118**	56,228	**168,650**	174,012
Foreign exchange loss (gain)	**138,912**	(77,485)	**206,840**	(389,188)
Total	**511,728**	229,983	**1,367,492**	646,361

Corporate administration costs include Directors' fees, all costs relating to both the CEO and CFO, Directors' and Officers' insurance, corporate legal costs, public relations costs, professional fees relating to group tax planning and corporate filing costs as well as the Annual General Meeting.

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

Material Segmentation Variances

Thermal Energy Ottawa:

For the quarter ended February 29, 2024, revenue was $2,670,616, representing an increase of $531,711, or 24.9%, over $2,138,905 achieved in the previous year. The increase was mainly due to increased revenue from engineering service and heat recovery projects.

For the nine months ended February 29, 2024, revenue was $8,565,533, representing an increase of $2,740,372, or 47%, from the revenue of $5,825,161 achieved in the same quarter of the previous year. The increase was mainly due to the increased revenues from both GEM traps and heat recovery projects.

Gross profit for the quarter ended February 29, 2024 increased by $379,071 or 40.5%. The increase in gross profit was mainly due to increased revenues and improved margins from engineering service and heat recovery projects. As a percentage of revenue, gross profit was 49.2% for the quarter ended February 29, 2024, compared to 43.7% achieved in the same quarter of prior year. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix and the improved margins on heat recovery and engineering service projects.

Gross profit for the nine months ended February 29, 2024 increased by $1,763,895, or 77.6%, over the same period of last year. The increase in gross profit was mainly due to the increased revenues from both GEM traps and heat recovery projects in addition to the improved margins on heat recovery projects. The gross profit as a percentage of revenue for the nine months ended February 29, 2024 was 47.1% as compared to 39% achieved the same period of prior year. The increase was mainly due to improved margins on heat recovery projects and the change in product mix.

Other expenses in this segment increased by $258,151, or 32.6%, for the quarter ended February 29, 2024 compared to the same quarter of prior year. The increase was mainly due to higher salary costs as a result of the growth in teams and inflationary salary increase, as well as higher costs on business development and marketing activities.

During the first nine months ended February 29, 2024, other operating expenses increased by $816,541 mainly due to the increase in salary expense resulting from the growth of teams and salary increase to catch up with inflation. In addition, the Company also incurred higher operating costs due to higher amount of business activities incurred in the current year. As the Company has achieved net income, a group incentive expense has been recorded based on the profit earned which also increased the expenses.

Income before tax of $241,936 was achieved in Q3 2024, represented an increase of $123,219, from $118,717 achieved in Q3 2023. The increase in income before tax was mainly due to the increase in gross profit of $379,071 as a result of increased revenue and improved margin from engineering service and heat recovery projects, offset by the increase of $258,151 in other expenses.

Income before taxation for the nine months ended February 29, 2024 was $897,798, compared to a loss of $55,498 incurred in the same period of prior year. The increase of income before taxation of $953,296 was mainly due to the increase in gross profit of $1,763,895, which resulted from the increased revenue on both GEM and heat recovery projects in addition to the improved margin on heat recovery projects, offset by the increase of $816,541 in other expenses as a result of increased salary expense and increased operational costs in the current year.

Thermal Energy Bristol:

Revenue for the quarter ended February 29, 2024 was $3,392,584, representing a decrease of $71,263, or 2.1%, over $3,463,847 achieved in the same quarter of the previous year. The decrease in revenue was mainly due to decreased revenues from GEM traps in this segment, although the revenues from engineering service and heat recovery projects actually increased compared to the same quarter of prior year.

Revenue for the nine months ended February 29, 2024 was $9,786,062, an increase of $2,726,769, or 38.6%, from $7,059,293 achieved in the same period of the previous year. The increase was mainly due to increased revenues from both GEM traps and heat recovery projects for this segment.

Gross profit increased in the quarter ended February 29, 2024 by $62,716, or 3.7%, compared to the same quarter of the previous year. The increase in gross profit was mainly due to the increased revenues and improved margins on heat recovery and engineering service projects despite the decreased revenues from GEM traps. As a percentage of revenue, gross profit was 51.5% in Q3 2024, compared to 48.6% achieved in Q3 2023. The increase was mainly due to the change in product mix and the improved margins on heat recovery and engineering service projects.

For the nine months ended February 29, 2024, the gross profit increased by $1,815,625, or 52.4%, from $3,463,708 to $5,279,333. The increase was mainly due to the increased revenues from both GEM traps and heat recovery projects in addition to the increased margins on heat recovery projects. The gross profit as a percentage of revenue was 53.9% for the nine months ended February 29, 2024, as compared to 49.1% achieved in the same period of the prior year. The increase in gross profit as a percentage of revenue was mainly due to improved margin on engineering service and heat recover projects.

Other expenses increased by $417,706 or 45.1% for the quarter ended February 29, 2024, compared to the same quarter of prior year. The increase was mainly due to increased salary expense due to the growth of teams, the increased operating costs due to the relocation of the UK production facility, and the continued investment in digitalization of production and data collection process.

Other expenses for the nine months ended February 29, 2024 was $3,754,029, an increase of $1,035,385 or 38.1%, compared to $2,718,644 for the same period of prior year. The staff's salary expense was higher than prior year due to inflationary salary increase. The Company also hired more technical and sales staff in this segment in order to support and to develop more businesses in the European market. As a result of the increased headcount, the general operating expenses including travel and business development costs, professional fees, etc. also increased. In addition, this segment continued investing in digitalization of production and data collection process. In the third quarter of FY 2024, the UK production team from this segment relocated to a new production facility which further increased operating costs including rent, leasehold improvement costs, purchase of new office furniture, repair and maintenance costs to fix up the old facility.

Income before taxes was $392,617 for the quarter ended February 29, 2024, as compared to $757,138 for the same quarter of the previous year, a decrease of $364,521. The decrease in pre-tax income was mainly due to the increase in other operating expenses of $417,706 as a result of continued investment in this segment, offset by the increase in gross profit of $62,716.

Income before taxes was $1,501,705 for the nine months ended February 29, 2024, as compared to $742,462 for the same period of the previous year, an increase of $759,243. The increase was mainly due to the increase in gross profit of $1,815,625 as a result of increased revenues from both GEM traps and heat recovery projects, offset by the increase in other operating expenses of $1,035,385.

Reconciling Items:

Other expenses within Reconciling items, which incorporates all costs not specifically attributable to either regional operational center. For the three months ended February 29, 2024, the other expenses within reconciling items increased from $229,983 to $511,728, an increase of $281,745, compared to the same period of the previous year. For the nine months ended February 29, 2024, the other expenses within reconciling items increased from $646,361 to $1,367,492, an increase of $721,131, compared to the same period of prior year. The increase was mainly due to the increase in foreign exchange loss of $596,028 and the increase in corporate admin cost of $101,111 mainly due to increased engagements in investor relationship work.

4. Related Party Transactions

Directors and Senior Management Compensation

During the quarter ended February 29, 2024 compensation arrangements for Directors were as follows:

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

During the quarter ended February 29, 2024, Directors fees paid were $13,500. Fees to the Chair of the Audit Committee were $1,350; fees to the Chair of the Ethics, Governance and Compliance Committee were $1,350; fees paid to the Chair of the Board were $2,025. One in-person meeting was held during the quarter, a total cost of $4,000.

Compensation paid to Directors and Officers during the quarter ended February 29, 2024 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Directors								
W. White	**6,400**	5,400	**-**	-	**-**	-	**6,400**	5,400
W. Ollerhead	**5,725**	4,725	**-**	-	**-**	-	**5,725**	4,725
D. Spagnolo	**5,725**	4,725	**-**	-	**-**	-	**5,725**	4,725
M. Williams	**4,375**	3,375	**-**	-	**-**	-	**4,375**	3,375
Total	**22,225**	18,225	**-**	-	**-**	-	**22,225**	18,225
Senior Management								
W. Crossland	**66,144**	66,144	**-**	-	**-**	-	**66,144**	66,144
R. Triebe	**57,366**	49,884	**-**	-	**1,116**	969	**58,482**	50,853
S. Mawby(1)	**68,677**	38,891	**-**	-	**7,640**	8,902	**76,317**	47,793
J. Zhang	**44,785**	34,450	**-**	-	**1,116**	969	**45,901**	35,419
Total	**236,972**	189,369	**-**	-	**9,872**	10,840	**246,844**	200,209
Total Related Party Transactions	**259,197**	207,594	**-**	-	**9,872**	10,840	**269,069**	218,434

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.7031 and 1.6416 in Q3 2024 and Q3 2023, respectively.

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

Options outstanding for Directors (excluding the CEO) as at February 29, 2024 were 1,000,000, of which 416,666 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 29, 2024 were 4,424,000, of which 2,124,994 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

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

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

The Company's order backlog as at February 29, 2024 was approximately $20.4 million. As at April 24, 2024, the Company had an order backlog of approximately $22.9 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at February 29	20.4	16.2	5.6
Order backlog as at April reporting date	22.9	18.5	6.5

- On January 17, 2024, the Company announced that it had received an order valued at approximately $1 million for a hybrid Flu-Ace from a privately owned meat processing plant in Europe. The Hybrid Flu-Ace is an ultra-high efficiency unit that is expected to reduce onsite fuel use for hot water by approximately 80%, and fuel use for steam production by a further 20%. The project is expected to provide fuel savings of approximately $240,000 per year, while reducing CO2 emissions by 292 tonnes per year resulting in additional financial savings of about $36,000 per year. The heat recovery component of the project could result in a 50% to 90% reduction in particulate matter emissions (contributors to asthma and other respiratory diseases) and acid gasses (SO2). The turn-key project is expected to be completed and revenue earned within the next 12 months.

- On January 10, 2024, the Company announced that it had received an order for eight HeatSponge boiler economizer valued at approximately $540,000 from a Fortune 500 food processing and commodities trading company. The HeatSponge COLOSSUS-model economizer, fabricated by the Company's US subsidiary, Boilerroom Equipment Inc., will provide the customer with longer service life, shorter downtime, and lower maintenance costs compared to the replaced economizer. The order is expected to be delivered and revenue earned within the next 2 months.

- On December 7, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $3.7 million from one of Europe's largest food and drink producers. The project is expected to provide annual natural gas savings of approximately $1.3 million while reducing CO_2 emissions by 3,078 tonnes, resulting in additional financial savings of about $313 thousand per year based on approximately $102 tonnes per year. The project is expected to provide a payback of approximately 2.3 years, or 1.6 years after receipt of IETF grant funding. The project is expected to be completed and revenue earned within 12 months. The project was about 2% complete at the quarter end.

- On October 17, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $2.6 million from a multinational dairy and nutrition company. The project is expected to result in estimated annual savings of $1.2 million on fuel while reducing CO_2 emissions by 4,231 tonnes, as well as a 50% - 90% reduction in annual emissions of particulate matter (which are contributors to asthma and other respiratory diseases) and acid gases such as SO_2. The project is expected to provide a payback of approximately 2.1 years. The project was about 26% complete at the quarter end.

- On October 10, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $1.9 million from a global nutrition company. The project is expected to reduce natural gas use by the site's steam boilers by 75%, CO_2 emissions by 1,587 tonnes annually, and the emission of particulate matter and acid gases such as SO_2 by 50% - 90%. The project is expected to result in a payback of approximately 1.2 years. The project was about 18% complete at the quarter end.

- On September 13, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $4 million from a leading multinational pharmaceutical company. The expected reduction in natural gas consumption would reduce CO2 emissions by 1,280 tons per year, representing a 13.5% reduction in site thermal CO2 emissions. Based on the client's expected natural gas prices, the project is expected to deliver approximately $1 million in annual fuel savings, resulting in a payback for a turn-key implementation in 4.1 years before application of any available utility. The project was about 9% complete at the quarter end.

- On May 16, 2023, the Company announced that it had received a $1.8 million multisite GEM™ project order from a multinational consumer goods company. This order covers a combination of partial and full site GEM conversions for five of its sites across Europe, North America, and South America. The project was about 92% complete at the quarter end.

- On May 9, 2023, the Company announced that it had been commissioned by a leading global nutrition manufacturer to deliver the fifth turn-key energy efficiency and carbon emission reduction solution. This project is expected to deliver a 17% reduction in fuel use and greenhouse gas emissions. Valued at approximately $1,100,000, this project can save the customer $490,000 annually. The project was about 87% complete at the quarter end.

- On November 22, 2022, the Company announced that it had received order for multi-site from a leading snack manufacturer. Valued at $2.5 million, this order covers the engineering, supply and installation of GEM™ steam traps at 16 sites. On November 29, 2022, the Company announced, in addition to the $2.5 million announced on November 22, 2022, it has received additional GEM™ orders of approximately $1.5 million from the same customer. The customer has now extended its multi-site GEM™ project to an additional 9 sites bringing the total project up to a combined 25 sites and $4 million. This project will deliver combined annual utility and water savings of over $1.4 million, annual CO2e reduction of 8,066 tonnes and save more than 17 million gallons of water per year. The project was about 83% complete at the quarter end.

- On September 30, 2022, the Company announced that it had been commissioned by a Premium Beer Company to reduce the site's annual gas load by at least 27% offsetting more than 1,300 tonnes of CO2 per year, the equivalent of permanently removing more than 400 cars from the road. Valued at $2.8 million, this order covers all engineering, manufacturing, installation and training. The project was about 86% complete at the quarter end.

6. Summary of Outstanding Shares and Dilutive Instruments

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

Shares:

172,579,305 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding February 29, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 29, 2024	Weighted average exercise price
0.08-0.10	2,525,000	1.65	0.09	2,525,000	0.09
0.11-0.15	7,154,502	3.26	0.13	3,166,648	0.13
0.16-0.20	3,560,400	4.76	0.20	-	-
	13,239,902	3.36	0.14	5,691,648	0.11

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, and any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" Section 9 of this MD&A.

Business combinations

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

Valuation of intangible assets and asset impairment

Intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

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

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

Assumptions used in the Black-Scholes fair value calculations

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

Expected credit loss

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

Revenue recognition

Contracts with customers often include promises to deliver multiple goods and services. Judgement is applied in determining whether the goods and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates in determining the standalone selling prices ("SSP") for distinct performance obligations. The Company uses specific parameters to estimate SSP for distinct sales of goods and rendering of services.

Revenue from contracts for heat recovery projects

Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete ("input" method). Changes to these estimated costs may result in different estimates of completion of performance obligations and timing of revenue recognition. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes of the facts relating to each contract.

The stage of completion of contracts for heat recovery projects is assessed by management by taking into consideration all information available at the reporting date. To determine the stage of completion, significant estimates are made about estimated costs to complete which includes materials, subcontractors and labour costs.

Deferred tax assets

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. These estimates are reviewed at every reporting date. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of existing differences, future taxable income, and future tax planning strategies.

Changes in Accounting Standards

There was no change in accounting standards for the quarter ended February 29, 2024.

8. 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™**, indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and **FLU-ACE®** technology solutions.

Financial risks and uncertainties of the Company include:

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

Management's addressing of the risks:

In FY 2022, the Company incurred a loss of $1,837,971. Cash balance decreased by $1,609,312. The loss was mainly caused by the decreased revenues from heat recovery projects as customers were delaying their purchase decisions on these projects in the light of uncertainties resulting from COVID. The loss was also caused by the increased Operating Expenses. Despite the loss, the Company maintained its staff levels and its full production and project development capabilities anticipating order intake to return to pre-pandemic levels in the following fiscal year. The Company applied for subsidies from government agencies and received $340,566 in FY 2022. The Company also applied for and received the second tranche of COVID loan in the amount of $1,300,000 in FY 2022 to support the Company's operations. In FY 2023, the order intake levels returned and exceeded pre-pandemic levels. The Company received $27.3 million of orders in total in FY 2023. As a result, the Company's revenue returned to the pre-pandemic level and achieved a net income of $720,449.

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

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

Management still believes that competition against its core technologies is limited at this time and believes that the marketplace is sufficiently large enough to mitigate the risk of stronger competition in the future.

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

Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

9. 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.

10. 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 29, 2024 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.