MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 29, 2020

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 2020, ended February 29, 2020. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the third quarter of FY 2020 are against the third quarter of FY 2019. 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 30% our operations, assets and liabilities are denominated in British Pound Sterling and 27% in US Dollar. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on May 26, 2020. Disclosure contained in this document is current to May 26, 2020, 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".

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, 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; 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®**) and indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and condensate return system solutions (**GEM™** steam traps). The Company is also developing a number of other technology lines, including low temperature biomass drying systems (**DRY-REX™**).

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. On June 29, 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells HEATSPONGE and SIDEKICK indirect contact heat recovery units.

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

Although the Company markets its products throughout the world, the majority of 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 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 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 International Financial Reporting Standards within the financial statements is income (loss) before income taxes, as disclosed in the statements of comprehensive income.

2.2 Order Backlog

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

3. Performance

3.1 Summary of Third quarter Results

	Q3 2020	Q3 2019
	$	$
Revenue	**5,811,626**	3,114,757
Cost of sales[1]	**(3,394,176)**	(1,971,653)
Gross profit	**2,417,450**	1,143,104
Administration, selling, marketing and business development expenses[1]	**(1,941,574)**	(1,982,448)
Research and development credits (expenses)	**51,242**	(44,790)
Operating income (loss)	**527,118**	(884,134)
Finance costs	**(118,042)**	(82,174)
Finance revenue	**-**	4,780
Income (loss) before income taxes	**409,076**	(961,528)
Income taxes recovery	**20,711**	72,047
Net income (loss) for the period	**429,787**	(889,481)
Exchange differences on translation of overseas operations	**(8,610)**	71,501
Total comprehensive income (loss) for the period	**421,177**	(817,980)
EBITDAS for the quarter	**709,115**	(734,366)
Order backlog as at February 29/28	**3.4 million**	10.6 million
Order backlog as at reporting date	**5.7 million**	16.6 million

1.The Company reclassified commission expense from selling, marketing and business development expense to cost of sales effective June 1, 2019. As a result, commission expense in the amount of $304,501 for the comparative period was reclassified from selling, marketing and business development expense to cost of sales.

Revenues and Gross Profits

Revenues were $5,811,626 in the quarter ended February 29, 2020, representing an increase of $2,696,869, or 86.6%, compared to $3,114,757 in the quarter ended February 28, 2019. The increase of revenue in the third quarter of FY 2020 was mainly due to the increase in sales of heat recovery systems.

The gross profit of $2,417,450 in the quarter ended February 29, 2020 represented an increase of $1,274,346, or 111.5%, from the $1,143,104 in the quarter ended February 28, 2019 due to the increase in heat recovery sales. Gross profit expressed as a percentage of sales was 41.6% in the third quarter of FY 2020 compared with 36.7% in the same quarter of FY 2019. The increase was mainly the result of the improved gross margin on heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended February 29, 2020 totaled $1,941,574 compared to $1,982,448 in the quarter ended February 28, 2019, a slight decrease of $40,874.

Research and development ("R&D") expenses related to expenditures on various research and development programs. The Company receives credits from the R&D claims related to product development and the credits are accounted as a reduction of research and development expenses. The Company claimed R&D credits in the third quarter of F2020. Hence, the Company recognized a R&D recovery of $51,242 in the third quarter of FY 2020.

Finance costs and finance revenue: finance costs include interest expense on the long-term debt, interest accretion on contingent payable and holdback payable related to acquisition, interest accretion on lease obligations, and amortization on financing cost. The third quarter of FY 2020 incurred finance cost of $118,042. The cost was higher than the third quarter of FY 2019 by $35,868 because the interest rate on the long-term debt was higher for the current year than FY 2019. The interest rate is reassessed annually.

Income before income taxes for the quarter ended February 29, 2020 was $409,076, compared to a loss of $961,528 in the same quarter of the previous year. Income before income taxes increased by $1,370,604 mainly due to the increase in gross profit of $1,274,346 as a result of the increased revenue and improved gross margin on heat recovery projects.

Income tax recovery in the third quarter of FY 2020 was $20,711, as compared to $72,047 in the third quarter of FY 2019, a decrease of $51,336. In the third quarter of FY 2019, the Company's subsidiary based in UK had an operational loss and recognized an income tax recovery of $51,024. In the third quarter of the current year, the subsidiary had an operating income, therefore, there was no tax recovery recorded.

Net income for the third quarter of FY 2020 was $429,787, compared to a net loss of $889,481 in the same quarter of the previous year, representing an increase of $1,319,268. The increase in net income was mainly due to the increase of $1,370,604 in income before income taxes offset by the decrease in income tax recovery of $51,336.

Comprehensive income was $421,177 for the third quarter of FY 2020, compared to a comprehensive loss of $817,980 for the third quarter of FY 2019. In the third quarter of FY 2020, exchange loss arising on translation of overseas operations in the amount of $8,610 was recorded.

EBITDAS was $709,115 for the third quarter of FY 2020, compared to a negative $734,366 for the same quarter of the previous year, representing an increase of $1,443,481. The increase was mainly due to the increase in income before income taxes as a result of the increased sales and the improved gross margins on heat recover projects.

3.2 Summary of Year to Date Results	**Nine months Ended Feb 29, 2020**	Nine months Ended Feb 28, 2019
	$	$
Revenue	**18,625,511**	15,108,710
Cost of sales[1]	**(11,099,186)**	(10,184,801)
Gross profit	**7,526,325**	4,923,909
Administration, selling, marketing and business development expenses	**(6,216,885)**	(5,967,229)
Research and development expenses	**(2,720)**	(132,311)
Operating profit (loss)	**1,306,720**	(1,175,631)
Finance costs	**(307,453)**	(199,607)
Finance revenue	**5,144**	16,491
Profit (loss) before income taxes	**1,004,411**	(1,358,747)
Income taxes recovery	**51,818**	307,686
Net income (loss) for the period	**1,056,229**	(1,051,061)
Exchange differences on translation of overseas operations	**(278)**	36,677
Total comprehensive income (loss) for the period	**1,055,951**	(1,014,384)
EBITDAS	**1,890,083**	(853,097)
Order backlog as at February 29/28	**3.4 million**	10.6 million
Order backlog as at reporting date	**5.7 million**	16.6 million

1.The Company reclassified commission expense from selling, marketing and business development expense to cost of sales effective June 1, 2019. As a result, commission expense in the amount of $836,091 for the comparative period was reclassified from selling, marketing and business development expense to cost of sales.

Revenues and Gross Profits

Revenues were $18,625,511 in the nine months ended February 29, 2020, representing an increase of $3,516,801, or 23.3%, over the $15,108,710 recognized in the nine months ended February 28, 2019. The increase in revenues was mainly due to the increased sales in the European and the Rest of the World market for both heat recovery solutions and the condensate return systems.

The gross profit of $7,526,325 in the first nine months of FY 2020 represented an increase of $2,602,416, or 52.9%, from the $4,923,909 achieved in the first nine months of FY 2019. The increase was mainly the result of increased revenues in the European and the Rest of the World market together with the increased margins on the heat recovery projects. Gross profit expressed as a percentage of sales was 40.4% in the first three quarters of FY 2020 compared with 32.6% in the same period of FY 2019. The increase in gross profit percentage was mainly due to the increased margins on heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the nine months ended February 29, 2020 totaled $6,216,885 compared to $5,967,229 in the nine months ended February 28, 2019, representing an increase of $249,656, or 4.2%. The main increases were mainly due to a one-time bad debt expense of $132,142 recorded in the second quarter of F2020, the write-down of finance lease receivable of $45,848, the increase of foreign exchange loss of $83,854, the increase in the stock-based compensation expense of $91,764, and the increase of the insurance expense of $35,200, offset by the decrease in the acquisition related cost of $148,313. Despite the increases, the Operating Expenses as a percent of revenue was 33.4% in the first nine months of FY 2020 compared to 39.5% in the same period of the previous year.

Research and development expenses in the first three quarters of FY 2020 were $2,720, compared to $132,311 in the first three quarters of FY 2019. The Canadian R&D claim needs to be filed and claimed within 18 months from a year-end. In the past, the Canadian company claimed R&D credits around 18 months from a year-end. During the first three quarters of F2020, the Company claimed for R&D credits for both FY2018 and FY2019.

Finance costs and finance revenue: in the nine months ended February 29, 2020, finance costs increased by $107,846 from $199,607 to $307,453. The increase was mainly due to the increased interest rate on the long-term debt.

Income before income taxes for the nine months ended February 29, 2020 was $1,004,411 compared to a loss of $1,358,747 in the same period of the previous year, representing an increase of $2,363,158. The increase was mainly due to the increase of $2,602,416 in gross profit offset by the increase in Operating Expenses and finance costs of $249,656.

Income tax recovery in the first three quarters of FY 2020 was $51,818, compared to $307,686 in the same period of FY 2019. Both the U.K. and the U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. In the first three quarters of the previous year, the Company's UK subsidiary incurred a loss, therefore, income tax recovery of $252,231 was recorded by the UK subsidiary. For the first three quarters of FY 2020, no income tax recovery was recorded for the UK subsidiary.

Net income for the nine months ended February 29, 2020 was $1,056,229 compared to a loss of $1,051,061 in the same period of the previous year, representing an increase of $2,107,290. The increase was mainly due to the increase in the income before taxes of $2,363,158 offset by the decrease in income tax recovery of $255,868.

Comprehensive income was $1,055,951 for the first nine months of FY 2020, compared to a loss of $1,014,384 for the first nine months of FY 2019.

EBITDAS was $1,890,083 for the first nine months of FY 2020 compared to negative $853,097 for the same period of the previous year, representing an increase of $2,743,180. The increase was mainly due to the increase of $,2363,158 in income before income taxes.

3.3 Liquidity & Capital Resources

Current assets increased by $662,432 to $8,646,798 at February 29, 2020, compared to $7,984,367 at May 31, 2019. This increase was mostly due to in the increase in trade and other receivables of $869,712 and the increase in inventory of $217,730 offset by the decrease in cash of $340,420. Current liabilities decreased by $96,875 to $5,859,669, mainly due to the decrease in deferred revenue of $1,362,224, offset by the increase in trade payable and accrued liabilities of $1,250,989.

Working capital increased by $759,306 to $2,787,129 at February 29, 2020, compared to $2,027,823 at May 31, 2019. The increase was mainly due to the stronger financial position achieved at February 29, 2020, resulting from the nine-month continuous profitability of $1,056,229. There was a significant decrease in deferred revenue of $1,362,224 at February 29, 2020. Deferred revenue is recorded when the Company receives cash deposit before it delivers products or services to a customer. Deferred revenue decreases when the Company delivers the work to the customer and revenue is recognized. In the third quarter of F2020, a few heat recovery projects were completed which resulted in the decrease in deferred revenue.

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

	May 31, 2018 $	Aug 31, 2018 $	Nov 30, 2018 $	Feb 28, 2019 $	May 31, 2019 $	Aug 31, 2019 $	Nov 30, 2019 $	Feb 29, 2020 $
Current Assets	6,613,125	8,310,609	7,244,731	7,337,334	7,984,367	9,544,737	9,574,004	8,646,798
Current Liabilities	4,586,122	5,984,275	5,178,449	8,816,994	5,956,544	7,423,040	7,129,049	5,859,669
Working Capital	2,027,003	2,326,334	2,066,282	(1,479,660)	2,027,823	2,121,697	2,444,955	2,787,129

The Company's net cash position was $3,836,840 as at February 29, 2020, compared to $4,177,260 at May 31, 2019, representing a decrease of $340,420. The decrease was mainly due to net cash used for the investing activities of $271,329 and the financing activities of $437,239 offset by the net cash provided from the operating activities of $450,464.

The net cash provided from the operating activities included the net income of $1,056,229 and the addbacks of non-cash items of $927,818, offset by the negative change in working capital of $1,268,860 and the interest paid on long-term debt of $252,923. The Company's cash position normally fluctuates based on the timing of long-term projects. Cash increases at the beginning of a project because the Company receives upfront deposit before a project is started. The cash position decreases when a project is near the end because the Company has collected from its customer and needs to make full payments to the suppliers and subcontractors. A few heat recovery projects were completed in the third quarter of F2020, therefore there was a negative change in working capital of $1,268,860.

The Company invested $271,329 in property, plant and equipment during the nine-month period, of which $169,116 related to a leasehold improvement for a new rental space.

The Company's used cash for financing activities, which included repayments to the long-term debt of $263,608, repayments related to the lease obligations of $68,412, and the purchase of Class A common shares of $95,187 under the Normal Course Issuer Bid.

The Company's trade and other receivables have been reviewed for indicators of impairment. At February 29, 2020, $281,344 (8.9%) of the Company's trade receivables balance was over 90 days past due. $123,310 of the past due balance was impaired at February 29, 2020. In addition, $32,768 of trade receivables (including sales tax of $4,268) that were not over 90 days past due on February 29, 2020 was also impaired. Total impaired balance was $156,078 as at February 29, 2020. For the nine months ended February 29, 2020, total bad debt provision of $130,133 (net of sales tax of $18,755) was recognized under administration expense on the condensed consolidated interim statements of comprehensive income. $125,241 (net of sales tax of $18,755) of the total provision related to one customer.

At May 31, 2019, $123,223 (6.2%) of the Company's trade receivables balance was over 90 days past due. $22,864 of the past due balance was impaired at May 31, 2019. For the nine months ended February 28, 2019, a provision of $24,152 was made, but $24,202 of the provision was subsequently released due to the collection on the doubtful account.

The Company's finance lease receivable includes the following:

	February 29, 2020	May 31, 2019
Total estimated minimum lease payments receivable	**$ 47,500**	$ 100,053
Less: unearned income	**(1,652)**	(6,796)
Less: write-down	**(45,848)**	-
	-	93,257
Less: current portion	**-**	(93,257)
	-	-

On December 16, 2019, Fortress Specialty Cellulose sought and obtained a First Day Initial Order under the Companies' Creditors Arrangement Act from the Quebec Superior Court. The Company's finance lease receivable was reviewed for indicators of impairment. For the nine months ended February 29, 2020, a write-down of $45,848 was recognized on the remaining finance lease receivable under administrative expenses. A bad debt provision of $125,241 net of $18,755 sales tax was made on the Company's trade receivables from the customer, out of which $28,500 was under 90 days.

The following table presents the contractual undiscounted cash flows for lease obligations as of February 29, 2020:

Less than one year	$ 159,176
One to five years	304,289
Six to ten years	301,125
Total undiscounted lease obligations	$ 764,590

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. 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, concentrating on building upon revenue levels experienced from FY 2016 to FY 2020, and growing revenues at growth rates experienced in the years ended May 31, 2010 through May 31, 2019.

3.4 Segmentation Information

In the quarters ended February 29, 2020 and February 28, 2019, the Company operated in the energy efficiency industry in North America, Europe, China and Rest of the World. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines - heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, U.S. and Europe.

Management reporting comprises analysis of revenue and gross profit within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company's future. The Company has two operational bases ("reporting units"), one in Ottawa, Canada covering North America and China, and the other in Bristol, United Kingdom, 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 three months ended February 29, 2020 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**3,003,194**	2,092,664	**2,808,432**	1,022,093	**-**	-	**5,811,626**	3,114,757
Cost of sales (1)	**(2,028,371)**	(1,470,379)	**(1,365,805)**	(501,274)	**-**	-	**(3,394,176)**	(1,971,653)
Gross profit	**974,823**	622,285	**1,442,627**	520,819	**-**	-	**2,417,450**	1,143,104
Other expenses (1)	**(753,137)**	(851,120)	**(766,320)**	(843,155)	**(370,875)**	(332,963)	**(1,890,332)**	(2,027,238)
Net finance (costs) income	**-**	4,780	**-**	-	**(118,042)**	(82,174)	**(118,042)**	(77,394)
Income (loss) before taxation	**221,686**	(224,055)	**676,307**	(322,336)	**(488,917)**	(415,137)	**409,076**	(961,528)
Tax (expense) recovery	**-**	21,022	**(98)**	53,837	**20,809**	(2,812)	**20,711**	72,047
Net income (loss)	**221,686**	(203,033)	**676,209**	(268,499)	**(468,108)**	(417,949)	**429,787**	(889,481)
Attributable to:								
Owners of the parent	**228,476**	(194,861)	**676,071**	(280,744)	**(468,108)**	(417,949)	**436,439**	(893,554)
Non-controlling interest	**(6,790)**	(8,172)	**138**	12,245	**-**	-	**(6,652)**	4,073

(1) The Company reclassified commission expenses from other expenses to cost of sales for the three months ended February 29, 2020. As a result, commission expenses in the amount of $304,501 for the three months ended February 28, 2019 were also reclassified to cost of sales to conform to the current period presentation.

Segment information for the nine months ended February 29, 2020 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**12,308,440**	12,047,096	**6,317,071**	3,061,614	**-**	-	**18,625,511**	15,108,710
Cost of sales (1)	**(7,949,449)**	(8,463,613)	**(3,149,737)**	(1,721,188)	**-**	-	**(11,099,186)**	(10,184,801)
Gross profit	**4,358,991**	3,583,483	**3,167,334**	1,340,426	**-**	-	**7,526,325**	4,923,909
Other expenses (1)	**(2,524,945)**	(2,542,772)	**(2,410,896)**	(2,446,997)	**(1,283,764)**	(1,109,771)	**(6,219,605)**	(6,099,540)
Net finance (costs) income	**5,144**	16,491	**-**	-	**(307,453)**	(199,607)	**(302,309)**	(183,116)
Income (loss) before taxation	**1,839,190**	1,057,202	**756,438**	(1,106,571)	**(1,591,217)**	(1,309,378)	**1,004,411**	(1,358,747)
Tax (expense) recovery	**-**	55,454	**(10,661)**	200,015	**62,479**	52,217	**51,818**	307,686
Net income (loss)	**1,839,190**	1,112,656	**745,777**	(906,556)	**(1,528,738)**	(1,257,161)	**1,056,229**	(1,051,061)
Attributable to:								
Owners of the parent	**1,851,545**	1,129,168	**730,126**	(926,723)	**(1,528,738)**	(1,257,161)	**1,052,933**	(1,054,716)
Non-controlling interest	**(12,355)**	(16,512)	**15,651**	20,167	**-**	-	**3,296**	3,655

(1) The Company reclassified commission expenses from other expenses to cost of sales for the nine months ended February 29, 2020. As a result, commission expenses in the amount of $836,091 for the nine months ended February 28, 2019 were also reclassified to cost of sales to conform to the current period presentation.

Reconciling items comprise the following:

	Three months ended February 29 (28)		Nine months ended February 29 (28)	
	2020	2019	**2020**	2019
	$	$	**$**	$
Corporate admin costs	**161,425**	173,102	**500,076**	547,497
Stock-based compensation	**50,230**	53,548	**153,562**	61,798
Professional fees	**31,814**	23,138	**185,307**	125,306
Depreciation of property, plant and equipment	**29,341**	21,735	**78,944**	60,871
Depreciation of right-of-use assets	**33,462**	-	**92,519**	-
Amortization of intangible assets	**68,964**	69,705	**207,346**	183,830
Acquisition costs	**-**	(19,791)	**-**	148,313
Foreign exchange differences	**(4,361)**	11,526	**66,010**	(17,844)
Total	**370,875**	332,963	**1,283,764**	1,109,771

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, interest accretion on lease obligations, and interest accretion on contingent consideration and holdback payable following the acquisition of Boilerroom Equipment Inc.

Material Segmentation Variances

Thermal Energy Ottawa:

For the quarter ended February 29, 2020, revenue was $3,003,194, as compared to $2,092,664 for the same quarter of prior year, representing an increase of $910,530 or 43.5%. The increase was mainly due to the increase in heat recovery revenue.

Revenue for the nine months ended February 29, 2020 of $12,308,440 represented an increase of $261,344, or 2.2%, over the $12,047,096 achieved in the nine months of the previous year. The increase was mainly due to the higher heat recovery sales achieved.

Gross profit increased by $352,538 in the third quarter of FY 2020 over the same quarter of FY 2019. The increase in gross profit was mainly due to the increased revenue in heat recovery systems and the improved gross margins on heat recovery projects compared to prior year. As a percentage of revenue, gross profit was 32.5% in the third quarter of FY 2020, compared to 29.7% achieved in the third quarter of FY 2019.

Gross profit for the nine months ended February 29, 2020 increased by $775,508 over the same period of last year. The increase in gross profit was mainly due to the increased profit margins in heat recovery systems. As a percentage of revenue, gross profit was 35.4% for the nine months ended February 29, 2020, compared to 29.7% achieved in the same period last year.

Other expenses in the region decreased by $97,983 (11.5%) for the quarter ended February 29, 2020 over the same period of last year. The decrease was mainly due to the decrease in discretionary business development and marketing cost, e.g. trade shows, and the decrease in travel expense. Other expenses for the nine months ended February 29, 2020 decreased by $17,827 over the same period of last year. The slight decrease was mainly due to decrease in acquisition cost and business development and marketing costs offset by the increase in the bad-debt expense of $102,142 and the loss of $45,848 recognized on the finance lease receivable.

For the first three quarter ended February 29, 2020, income before tax of $1,839,190 was achieved, represented an increase of $781,988, or 74.0%, from the same period of previous year. The increase was mainly due to the improved gross margins on the heat recovery projects.

Thermal Energy Bristol:

Revenue for the quarter ended February 29, 2020 was $2,808,432 compared to $1,022,093 for the same quarter of previous year, representing an increase of $1,786,339 or 174.8%. Revenue for the nine months ended February 29, 2020 of $6,317,071, represented an increase of $3,255,457, or 106.3%, over the $3,061,614 achieved in the first nine months of the previous year. The increase for the quarter and for the nine-month period was due to increased revenue in the Europe and rest of world market from both condensates return systems and heat recovery systems.

Gross profit increased in the third quarter of FY 2020 by $921,808, compared to the same quarter last year. The increase in gross profit was mainly due to the increased sales in both heat recovery systems and condensate return systems with improved gross margins on heat recovery projects. As a percentage of revenue, gross profit was 51.4% in the third quarter of FY 2020, compared to 51.0% achieved in the third quarter of FY 2019. Gross profit as a percentage of revenue also depends on the product split. Gross profit for the nine months ended February 29, 2020 increased by $1,826,908 or 43.8% over the same period of last year due to the increased sales in both product lines.

Other expenses decreased by $76,835 or 9.1% for the third quarter of FY 2020, compared to the same quarter last year. The decrease was mainly related to the decreased staff cost and other discretionary costs such as training cost over the same period of FY 2019. Other expenses for the nine months ended February 29, 2020 decreased by $36,101, or 1.5% over the same period of last year.

The resulting pre-tax income was $676,307 for the current quarter, as compared to a loss of $322,336 for the same quarter of prior year, an increase of $998,643. The improved pre-tax income was mainly due to the increased revenue and improved gross margins on the heat recovery projects.

Other expenses within Reconciling items, which incorporates all costs not specifically attributable to either regional operational center. Other expenses increased by $37,912 for the quarter ended February 29, 2020, compared to the same quarter of the previous year. The increase was mainly due to the new depreciation expense on the right-of-use assets following the adoption of the new accounting guideline under IFRS 16 Leases. For the first nine months of F2020, the other expenses increased by $173,993 mainly due to the increase in the professional fees of $60,001, the increase in the stock-based compensation expense of $91,764, the increase in depreciation of right-of-use assets of $92,921 offset by the decrease in the acquisition costs of $148,313.

3.5 Quarterly financial information (unaudited)

For the eight quarters ended February 29, 2020:

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

Quarter ended	31-May-18 $	31-Aug-18 $	30-Nov-18 $	28-Feb-19 $
Revenue	7,352,794	6,800,861	5,193,092	3,114,757
Gross Profit(1)	2,786,145	1,946,035	1,834,770	1,143,104
Gross Profit Percentage	37.9%	28.6%	35.3%	36.7%
EBITDAS(2)	850,479	(50,736)	(67,995)	(734,366)
Total net income (loss)	888,389	(49,458)	(112,122)	(889,481)
Income (loss) per share, basic and diluted	0.006	0.00	(0.001)	(0.006)

(1) The Company reclassified commission expense from selling, marketing and business development expense to cost of sales effective June 1, 2019. As a result, commission expense for the quarters ended before May 31, 2019 was reclassified from selling, marketing and business development expense to cost of sales to conform to the current period presentation.

(2) EBITDAS represents earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write down of lease.

A reconciliation of Net income (loss) to EBITDAS is shown below for the quarters ended February 29/28:

	Three months ended		Nine months ended	
	Feb 29, 2020 $	Feb 28, 2019 $	Feb 29, 2020 $	Feb 28, 2019 $
Total net income (loss) attributable to owners of the parent	436,439	(893,554)	1,052,933	(1,054,716)
Total net income (loss) attributable to non-controlling interest	(6,652)	4,073	3,296	3,655
Interest charge	118,042	82,174	307,453	199,607
Interest received	-	-	-	(456)
Tax expense (recovery)	(20,711)	(72,047)	(51,818)	(307,686)
Depreciation and amortization	131,767	91,440	378,809	244,701
Share based compensation	50,230	53,548	153,562	61,798
Net write down of lease	-	-	45,848	-
EBITDAS	709,115	(734,366)	1,890,083	(853,097)

4. Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 29, 2020 were 1,000,000, of which 500,000 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 29, 2020 were 5,758,360, of which 2,800,027 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 29, 2020 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 29, 2020, Directors fees paid were $16,875. Fees to the Chairperson of the Audit Committee were $1,350; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,350; fees paid to the Chairman were $2,025. One in-person meetings were held during the period, a total cost of $5,000.

Compensation paid to directors and officers during the quarter ended February 29, 2020 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2020 **$**	2019 $	**2020** **$**	2019 $	**2020** **$**	2019 $	**2020** **$**	2019 $
Directors								
M. Williams	**4,375**	4,375	**-**	-	**-**	-	**4,375**	4,375
J. Kelly	**6,400**	6,400	**-**	-	**-**	-	**6,400**	6,400
W. Ollerhead	**5,725**	5,725	**-**	-	**-**	-	**5,725**	5,725
D. Spagnolo	**5,725**	5,725	**-**	-	**-**	-	**5,725**	5,725
W. White	**4,375**	4,375	**-**	-	**-**	-	**4,375**	4,375
Total	**26,600**	26,600	**-**	-	**-**	-	**26,600**	26,600
Senior Management								
W. Crossland	**60,000**	60,000	**-**	-	**2,954**	2,917	**62,954**	62,917
J. Zhang	**31,250**	31,250	**-**	-	**2,411**	2,356	**33,661**	33,606
R. Triebe	**45,250**	45,250	**-**	-	**3,107**	3,044	**48,357**	48,294
S. Mawby(1)	**38,665**	38,004	**-**	-	**6,401**	5,747	**45,066**	43,751
Total	**175,165**	174,504	**-**	-	**14,873**	14,064	**190,038**	188,568
Total Related Party Transactions	**201,765**	201,104	**-**	-	**14,873**	14,064	**216,638**	215,168

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

(1) Mr. Mawby is compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.7192 and 1.7122 in the third quarter of FY 2020 and FY 2019, respectively.

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.

The Company's order backlog as at February 29, 2020 was approximately $3.4 million. As at May 26, 2020, the Company had an order backlog of approximately $5.7 million.

	2018 $ million	2019 $ million	2020 $ million
Order backlog as at February 29/28	14.9	10.6	3.4
Order backlog as at reporting date	16.3	16.6	5.7

- On August 7, 2019, the company announced that it had been commissioned by a leading European brewer to install a high-efficiency heat recovery system. The FLU-ACE® heat recovery project, valued at over $650,000, is designed to optimize efficiency at the UK production facility, helping the site to reach its sustainability goals. Preliminary analysis shows the initiative will provide an expected utility saving of $400,000 per year. The project was about 30% complete at the quarter-end.

- On March 27, 2019, the Company announced that it had been commissioned by a leading multinational animal nutrition and agricultural products company to improve energy efficiency at one of its European facilities. The project, valued at approximately $2.3 million, will see the Company install two of its proprietary FLU-ACE® heat recovery systems to delivery greater fuel efficiency. The project was about 50% complete at the quarter-end

- On March 11, 2019, the Company announced that it had been commissioned by a major US dairy group to design and implement an extensive heat recovery project. This project, valued at $1.8 million, will utilize the Company's recently acquired HEATSPONGE technology to heat boiler feed and process water. It is the first project between the Company and the diary group. The project was 70% complete at the quarter-end.

- On October 16, 2019, the Company announced a $738,000 order from a meat processing company. After work started on the project the customer decided to make some major modifications to its boiler plant which made the planned project with Thermal Energy not practical at this time. As a result, the customer elected to cancel the order, paying Thermal Energy for the work done to date. This order has therefore been removed from the order backlog, but the Company continues to work with the customer to develop alternate projects.

6. Summary of Outstanding Shares and Dilutive Instruments

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

Shares:

160,602,616 class A common shares.

Normal Course Issuer Bid:

On November 19, 2019, 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 November 18, 2019. During the 12-month period commencing November 22, 2019 and ending November 21, 2020, the Company may purchase on the TSX up to 8,094,280 common shares, representing approximately 5% 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.

Options:

	Options outstanding		Options exercisable		
Range of exercise prices	Number outstanding February 29, 2020	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 29, 2020	Weighted average exercise price
0.05-0.07	2,770,833	1.25	0.05	2,770,833	0.05
0.08-0.10	14,961,693	3.25	0.08	5,871,693	0.08
0.11-0.12	250,000	1.75	0.12	250,000	0.12
	17,982,526	2.92	0.07	8,892,526	0.07

7. 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, 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, and any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

Business combinations

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

Valuation 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 and, in the case of other intangible assets, 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 period.

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

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. Actual results may vary from estimate.

Assumptions used in the Black-Scholes fair value calculations

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

Expected credit loss

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

Revenue recognition relating to contracts for heat recovery solutions

The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management exercises significant estimate about milestones, actual work performed, and the estimated costs to complete work.

Deferred tax assets

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

Changes in Accounting Policies

Reclassification of Commission Expense

Effective June 1, 2019, the Company changed its accounting policy with respect to commissions and reclassified commission expense from selling, marketing and business development expense to cost of sales. The Company believes that the revised policy and presentation provides more reliable and relevant information to users of the consolidated financial statements. The change in accounting policy has been applied retrospectively. The Company has restated the comparative figures in the consolidated statements of operation resulting in reclassification of commission expense in the amount of $304,501 and $836,091 for the three and nine months ended February 28, 2019 from selling, marketing and business development expense to cost of sales.

Changes in Accounting Standards

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

IFRS 16, "Leases"

Effective June 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The impact of the transition is shown in (b).

(a) Accounting policy under IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-to-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 10 years for vehicles, equipment and offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(b) Impact of transition to IFRS 16:

Effective June 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 comparative period has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of $231,780 were recorded as of June 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as at June 1, 2019. The weighted-average rate applied is 6.6%.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for leases of low-value assets or for which the lease term ends within 12 months of the date of initial application.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after June 1, 2019.

The following table reconciles the Company's operating lease obligations as at May 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at June 1, 2019.

Aggregate lease commitments as disclosed at May 31, 2019	$1,351,406
*Less: lease committed but not commenced as at June 1, 2019	(1,074,642)
Less: recognition exemption for short-term leases (leases that expire on or prior to May 31, 2020)	(85,955)
Less: recognition exemption for low-value assets	(14,493)
Add: extension options reasonably certain to be exercised	75,994
Less: foreign exchange and other adjustments	16
Adjusted lease commitments	252,326
Less: impact of present value	(20,546)
Opening IFRS 16 lease liability as at June 1, 2019	$ 231,780

*The company entered a 10-year lease for an office space before May 31, 2019. The lease was included in the lease commitment note in the consolidated financial statements at May 31, 2019. The lease commencement date was September 1, 2019. On June 1, 2019, the Company did not recognize the lease obligation and the right-of-use asset for this lease because the lease term had not started.

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of financial position as at February 29, 2020:

	February 29, 2020 as reported	Adjustments	February 29, 2020 without adoption of IFRS 16
	$		$
Assets			
Current assets:			
Cash and cash equivalents	3,836,840	-	3,836,840
Trade and other receivables	3,886,920	-	3,886,920
Current tax receivable	51,364	-	51,364
Inventory	871,674	-	871,674
Finance lease receivable	-	-	-
	8,646,798	-	8,646,798
Non-current assets:			
Property, plant and equipment	451,606	-	451,606
Right-of-use assets	456,153	(456,153)	-
Intangible assets	1,957,899	-	1,957,899
Goodwill	2,519,857	-	2,519,857
Deferred tax assets	105,252	-	105,252
	5,490,767	(456,153)	5,034,614
Total assets	14,137,565	(456,153)	13,681,412
Liabilities			
Current liabilities:			
Trade payables and accrued liabilities	3,800,559	-	3,800,559
Current tax liabilities	11,271	-	11,271
Pensions and other employer obligations	93,792	-	93,792
Current portion of long-term debt	396,650	-	396,650
Deferred revenue	1,242,366	-	1,242,366
Provisions	283,520	-	283,520
Lease obligations	31,511	(31,511)	-
	5,859,669	(31,511)	5,828,158
Non-current liabilities:			-
Contingent payable	123,370	-	123,370
Long-term debt	2,323,245	-	2,323,245
Lease obligations	448,630	(448,630)	-
Deferred tax liabilities	383,804	-	383,804
	3,279,049	(448,630)	2,830,419
Total liabilities	9,138,718	(480,141)	8,658,577
Equity			
Capital stock	32,207,486	-	32,207,486
Contributed surplus	4,318,353	-	4,318,353
Accumulated other comprehensive income	272,616	80	272,696
Deficit	(31,707,289)	23,908	(31,683,381)
Equity attributable to owners of the parent	5,091,166	23,988	5,115,154
Non-controlling interest	(92,319)	-	(92,319)
Total equity	4,998,847	23,988	5,022,835
Total liabilities and equity	14,137,565	(456,153)	13,681,412

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of comprehensive income for the nine months ended February 29, 2020:

	Nine months ended February 29, 2020 as reported	Adjustments	Nine months ended February 29, 2020 without adoption of IFRS 16
	$	$	$
Revenue	18,625,511	-	18,625,511
Cost of sales	11,099,186	-	11,099,186
Gross profit	7,526,325	-	7,526,325
Expenses:			
Administration	3,689,599	(23,947)	3,665,652
Selling, marketing and business development	2,527,286	24,019	2,551,305
Research and development	2,720	-	2,720
	6,219,605	72	6,219,677
Operating income	1,306,720	(72)	1,306,648
Finance costs	(307,453)	23,980	(283,473)
Finance revenue	5,144	-	5,144
Income before income taxes	1,004,411	23,908	1,028,319
Income taxes recovery	51,818	-	51,818
Net income for the period	1,056,229	23,908	1,080,137
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of overseas operations	(278)	80	(198)
Total comprehensive income for the period	1,055,951	23,988	1,079,939
Net income (loss) for the period attributable to:			
Owners of the parent	1,052,933	23,908	1,076,841
Non-controlling interest	3,296	-	3,296
Net income for the period	1,056,229	23,908	1,080,137
Total comprehensive income (loss) for the period attributable to:			
Owners of the parent	1,057,660	23,988	1,081,648
Non-controlling interest	(1,709)	-	(1,709)
Total comprehensive income for the period	1,055,951	23,988	1,079,939
Net income per share - basic and diluted	0.007	0.00	0.007

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of cash flows for the nine months ended February 29, 2020:

	Nine months ended February 29, 2020 as reported	Adjustments	Nine months ended February 29, 2020 without adoption of IFRS 16
	$	$	$
Net cash flows provided by operating activities	451,468	(68,412)	383,056
Net cash flows used in financing activities	(437,239)	68,412	(368,827)

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™ and FLU-ACE® technology solutions.

Financial risks and uncertainties of the Company include:

- The impact of major global pandemics:
  On March 11, 2020, Covid-19 was declared a global pandemic by the World Health Organization. The Company has been closely monitoring the impact of Covid-19 on all aspects of its business. Covid-19 has had disruptive effects in countries in which the Company operates including Canada, US and the UK. We are conducting business with substantial modifications to employee travel and employee work locations. The travel restrictions have decreased business development and sales activities. While most of our customers are essential businesses and continue to operate, the pandemic also has impacts on many of them, including adapting their operation to include physical distancing, limiting site visits, delays in making purchasing decisions and the temporary suspension of on-going projects. The future impacts of the pandemic and any resulting economic impact are largely unknown and are rapidly evolving. It is possible that the Covid-19 pandemic and the resulting economic impact may continue to adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods, and this impact could be material.
- 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;
- The impact of the departure from the European Union by the U.K.

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and 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. However, this was again followed by a net loss of $2,154,817, accompanied by a cash decrease of $1,331,074 in FY 2015. FY 2016 and FY 2017 saw a return to profitability and an increase in cash balances of $427,805 and $1,806,992 respectively. This was followed in FY 2018 by another profitable year which saw cash balances increase by $336,334. In FY 2019, sales increased by 21.1% due to the increased revenue in heat recovery systems and the acquisition of Boilerroom Equipment Inc.

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 market place is sufficiently large enough to mitigate the risk of stronger competition in the future.

On June 23, 2016 a referendum was held in the U.K., resulting in the decision to leave the European Union. One immediate effect was a significant fall in the value of U.K. Pound Sterling against most other major currencies, although it has now stabilized. Negotiations regarding how trade will continue after U.K. leaves are ongoing, the outcome of which is difficult to predict. Management continues to monitor the situation, but at this point, cannot comment on how the eventual break will impact the Company. In the meantime, business continues as normal.

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.

Since March 11, 2020, the Company has taken proactive measures to cope with the impact from Covid-19 including the deployment of video conferencing tools, the development of remote working and file-sharing capabilities, a temporary reduction in non-essential expenditures, and the application of government sponsored emergency loans and salary subsidy programs. Despite the Covid-19 slowdown, the Company has maintained its pre-pandemic staff levels and has maintained its full production and project development capabilities. After three years of strong revenue growth and staff additions, we are using this time to conduct extensive staff training and product and project development. In short, we are taking advantage of the current slowdown to adapt and strengthen our business and to ensure the Company emerges from the current period in as strong a position as possible.

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, 2020 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.