MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended November 30, 2015

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the second quarter of Fiscal Year 2016, ended November 30, 2015. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. During the period ended November 30, 2015, the Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 55% of our operations, assets and liabilities are denominated in British Pound Sterling. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on January 19, 2016. Disclosure contained in this document is current to this date, unless otherwise stated.

Forward-Looking Statements

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

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1. Our Business

1.1 Company Overview

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

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

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

1.2 Core Businesses

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

Before 2007, the Company concentrated mainly on the selling of heat recovery systems but had begun selling GEM™ product through a distribution agreement with Gardner Energy Management Limited, based in the U.K. In 2008, the Company acquired Gardner Energy Management Limited, which sells the GEM™ product throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only.

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

Although the Company markets its products throughout the world, the majority of sales are from within North America and Europe, due to the proximity to the Company's bases. While this continues to be the key focus, the Company also continues to look for new distributors in regions deemed to have potential.

1.3 Strategy

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

The Company has representation in 28 countries around the world with current focus on the key markets of North America, Europe and the Middle East. Despite significant growth over the last few years, Thermal

Energy's penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets while at the same time begin to build its business in other energy-intensive markets around the world.
We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors across the globe. So far the Company has only partially penetrated 100 of the more than 2,000 global sites of these companies. Thermal Energy has executed a corporate-wide global roll-out of its product with two of these companies and is currently working with additional companies with the goal of executing similar corporate roll-outs.

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

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

2. Performance Measures

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

2.1 Adjusted Operating Cash Flow

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

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

2.2 EBITDAS

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

2.3 Order Backlog

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

3. Performance

3.1 Summary of Second Quarter Results

	Q2 2016	Q2 2015
	$	$
Revenue	2,501,595	1,662,805
Cost of Sales	(884,313)	(643,379)
Gross Profit	1,617,282	1,019,426
Administration, selling, marketing and business development expenses	(1,554,457)	(1,510,401)
Research and development expenses	(41,512)	(88,433)
Operating income (loss)	21,313	(579,408)
Finance Revenue	6,801	18,090
Income (loss) before income taxes	28,114	(561,318)
Income taxes (expense) recovery	(2,484)	70,154
Net income (loss) for the period	25,630	(491,164)
Exchange differences on translation of overseas operations	(13,132)	(43,502)
Total comprehensive income (loss) for the period	12,498	(534,666)

Revenues and Gross Profits

Revenues were $2,501,595 in the quarter ended November 30, 2015, representing an increase of $838,790, or 50%, compared to $1,662,805 in the quarter ended November 30, 2014. Sales of heat recovery systems increased by $144,760 (17%) over the same period of the previous year, while sales of GEM™ Condensate return systems increased by $694,030 (86%). The weakening of the Canadian dollar helped to increase the total revenue from the US and UK entities in the current period.

Heat recovery revenues in the second quarter of the current year included revenue from an equipment sale to a district heating co-operative, as announced July 15, 2015, the partial installation of a heat recovery system at a leading dairy supplier, as announced March 4, 2015, and an ongoing project at a world-leading food and beverage company, as announced April 29, 2015. This compared to the partial installation of a heat recovery system at another site of the world-leading food and beverage company plus the completion of an extension to a previously installed system at a major hospital, as announced July 15, 2014.

GEM™ Condensate return system sales in the second quarter of FY 2016 included fulfilment of the first phase of the order from a healthcare company, as announced August 17, 2015, as well as an order from a multinational wines and spirits company, as announced August 25, 2015 and the conversion of one site of a world-leading food and beverage company. The second quarter of FY 2015 contained a smaller conversion from the same world-leading food and beverage company plus fulfilment of an order from a leading chemicals company, as announced October 15, 2014. General sales across North America and the rest of the world in the current quarter were also much improved over the second quarter of FY 2015.

The gross profit of $1,617,282 in the quarter ended November 30, 2015 represented an increase of $597,856, or 59%, from the $1,019,426 achieved in the quarter ended November 30, 2014. These results expressed as a percentage of sales were 64.6% in the second quarter of FY 2016 compared with 61.3% in the second quarter of FY 2015.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended November 30, 2015 totaled $1,554,457 compared to $1,510,401 in the quarter ended November 30, 2014, an increase of $44,056, or 3%. The increase in commissions payable resulting from the increased revenues plus weaker foreign exchange gains due to the strengthening of the US dollar against the Canadian dollar compared to the same quarter of the previous year, were partially offset by decreased professional fees resulting from the timing of audit fee invoices.

Research and development costs in the second quarter of FY 2016 were $41,512 compared to $88,433 in the second quarter of FY 2015. The bulk of the work relating to the ISTP project in China was completed in the previous year, hence the lower expense in the current period.

Finance revenue in the quarter ended November 30, 2015 of $6,801 compared to $18,090 recognized in the quarter ended November 30, 2014. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Income before income taxes for the quarter ended November 30, 2015 was $28,114 compared to a loss of $561,318 in the same quarter of the previous year. With administration, selling, marketing and business development expenses remaining fairly constant, this improvement was directly a result of the increased revenue.

Income tax expense in the second quarter of FY 2016 was $2,484, compared to a recovery of $70,154 in the second quarter of FY 2015. This was the result of improved operating profit in the UK entity in the second quarter of FY 2016 compared to the same period of the previous year.

Net income for the quarter ended November 30, 2015 was $25,630 compared to a net loss of $491,164 in the same quarter of the previous year.

Comprehensive income was $12,498 for the second quarter of FY 2016 compared to a loss of $534,666 for the second quarter of FY 2015. Exchange differences on translation of overseas operations were negative each period due to a slight weakening of Sterling against the Canadian dollar at the quarter end,.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at November 30, 2015 were 1,500,000 of which 1,250,000 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at November 30, 2015 were 8,238,720 of which 5,746,787 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended November 30, 2015 compensation arrangements for directors was as follows:

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

During the quarter ended November 30, 2015, Directors fees paid were $22,500. Fees to the Chairperson of the Audit Committee were $1,500; fees paid to the Chairman were $2,250. Two in-person meetings were held during the period.

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

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**7,250**	7,250	**-**	-	**-**	-	**7,250**	7,250
J. Kelly	**8,000**	8,000	**-**	-	**-**	-	**8,000**	8,000
D. Gibbs(3)	**-**	2,750	**-**	-	**-**	-	**-**	2,750
W. Ollerhead	**5,750**	5,750	**-**	-	**-**	-	**5,750**	5,750
B. Linton	**5,250**	5,167	**-**	-	**-**	-	**5,250**	5,167
J. Schoenmakers	**5,750**	5,750	**-**	-	**-**	-	**5,750**	5,750
D. Spagnolo (3)	**5,750**	2,041	**-**	-	**-**	-	**5,750**	2,041
Total	**37,750**	36,708	**-**	-	**-**	-	**37,750**	36,708
Senior Management								
W. Crossland	**60,000**	60,000	-	-	**-**	-	**60,000**	60,000
J. Flynn(1)	**43,023**	38,225	-	-	**6,851**	5,929	**49,874**	44,154
R. Triebe	**38,425**	38,425	-	-	**954**	868	**39,379**	39,293
S. Mawby(1) (2)	**14,298**	37,532	-	-	**2,641**	5,813	**16,939**	43,345
Total	**155,746**	174,182	**-**	-	**10,446**	12,610	**166,192**	186,792
Total Related Party Transactions	**193,496**	210,890	**-**	-	**10,446**	12,610	**203,942**	223,500

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

(1) Ms. Flynn and Mr. Mawby are compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 2.0191 and 1.7939 in the second quarters of FY 2016 and FY 2015 respectively.

(2) Mr. Mawby was on parental leave between September 1, 2015 and November 8, 2015.

(3) Mr. Gibbs resigned and Mr. Spagnolo was appointed on November 6, 2014.

Normal Course Issuer Bid

On October 30, 2014, the Company announced its intent to continue its Normal Course Issuer Bid ("NCIB") for a further year. The NCIB was approved by the TSX Venture Exchange on November 3, 2014. During the 12-month period commencing November 3, 2014 and ending November 3, 2015, the Company could purchase on the TSX up to 13,018,133 common shares, representing approximately 8% of the then issued and outstanding common shares. The actual number of common shares purchased, if any, and the timing of such purchases will be determined by the Company by considering market conditions, share prices, its cash position, and other factors.

In the quarter ended November 30, 2015 the Company did not purchase any common shares (2014: 1,385,000 common shares were purchased for a total price of $141,963)

3.2 Summary of Year to Date Results

	Six months ended Nov 30, 2015	Six months ended Nov 30, 2014
	$	$
Revenue	**5,058,209**	2,834,146
Cost of Sales	**(2,341,157)**	(1,111,768)
Gross Profit	**2,717,052**	1,722,378
Administration, selling, marketing and business development expenses	**(3,042,356)**	(2,977,611)
Research and development expenses	**(121,033)**	(81,199)
Operating income (loss)	**(446,337)**	(1,336,432)
Finance Revenue	**14,622**	41,355
Income (loss) before income taxes	**(431,715)**	(1,295,077)
Income taxes (expense) recovery	**4,748**	135,494
Net income (loss) for the period	**(426,967)**	(1,159,583)
Exchange differences on translation of overseas operations	**131,809**	(63,477)
Total comprehensive income (loss) for the period	**(295,158)**	(1,223,060)

Revenues and Gross Profits

Revenues of $5,058,209 in the first half of FY 2016, represented an increase of $2,224,063, or 78%, compared to $2,834,146 in the first half of FY 2015. Sales of heat recovery systems increased by $1,521,979 (134%) from the same period of the previous year, while sales of GEM™ Condensate return systems increased by $702,084 (41%). The weakening of the Canadian dollar helped to increase the total revenue from the US and UK entities in the current period.

Heat recovery revenue in the first half of FY 2016 included revenue from five major ongoing projects, including installations at a world-leading food and beverage company, as announced April 29, 2015, a packaged foods business, as announced December 1, 2014, a leading dairy supplier, as announced March 4, 2015 and a major hospital, as announced January 29, 2015, plus an equipment supply to a district heating co-operative. This compared to revenue from three ongoing projects in the same period of the prior year, including another site of the world-leading food and beverage company, as announced August 27, 2014, a major pulp and paper company, as announced June 3, 2013, plus an extension to a previously installed system at a major hospital, as announced July 15, 2014.

GEM™ revenue in the first six months of the current year included fulfilment of the first phase of the order from a healthcare company, as announced August 17, 2015, as well as an order from a multinational wines and spirits company, as announced August 25, 2015 and the conversion of one site of a the world-leading food and beverage company. These three projects matched revenues in the first six months of the previous year from two site conversions of the same world-leading food and beverage company plus a leading chemicals company, as announced October 15, 2014. The increase in GEM™ revenue over the same period of the prior year is the result of general increases in North America.

The gross profit of $2,717,052 in the six months ended November 30, 2015 represented an increase of $994,674, or 58%, from the $1,722,378 achieved in the six months ended November 30, 2014. This increase was the direct result of increased revenues. These results expressed as a percentage of sales were 53.7% in the first half of FY 2016 compared with 60.8% in the first half of FY 2015. The fall in margin results from the product mix.

Expenses

Administration, selling, marketing and business development expenses for the six months ended November 30, 2015 totaled $3,042,356 compared to $2,977,611 for the six months ended November 30, 2014, an increase of $64,745, or 2%. Increases in commission payable on the increased revenue plus foreign exchange differences were partially offset by decreases in training costs (a group sales training conference held in June 2014 was not repeated in the current year) and tradeshows.

Research and development costs in the first half of FY 2016 totaled $121,033 compared to $81,199 in the first half of FY 2015. The first half of FY 2015 saw a credit from the government for the ISTP project of $81,785, with no such credit in the current year as the bulk of the work relating to the ISTP project in China was completed in the previous year. Actual costs in the current period fell by $41,951 from the same period of the prior year, again due to the completion of the ISTP project.

Finance revenue in the six months ended November 30, 2015 of $14,622 compared to $41,355 recognized in the six months ended November 30, 2014. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Loss before income taxes for the six months ended November 30, 2015 was $431,715 compared to a loss of $1,295,077 in the same period of the previous year. The improvement was predominantly the direct result of higher revenues.

Income tax recovery in the first half of FY 2016 was $4,748, compared to $135,494 in the first half of FY 2015. This was the result of a greater loss within the UK entity in the first six months of FY 2015 compared to the current period.

Net loss for the six months ended November 30, 2015 was $426,967 compared to a net loss of $1,159,583 in the same period of the previous year.

Comprehensive loss was $295,158 for the first half of FY 2016 compared to $1,223,060 for the first half of FY 2015. Exchange differences on translation of overseas operations were positive in the current six month period due to a strengthening of Sterling against the Canadian dollar since the beginning of the fiscal year, whereas the first six months of FY 2015 saw a weakening over the six month period, generating a negative exchange difference.

3.3 Liquidity and Capital Resources

The working capital was $218,416 at November 30, 2015, compared to working capital of $488,389 at May 31, 2015 – a decrease of $269,973, with the Company's net cash position (Cash and cash equivalents less Bank loans) increasing by $524,334 from $715,343 at May 31, 2015 to $1,239,677 as at November 30, 2015.

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

	Feb 28, 2014 $	May 31, 2014 $	Aug 31, 2014 $	Nov 30, 2014 $	Feb 28, 2015 $	May 31, 2015 $	Aug 31, 2015 $	Nov 30, 2015 $
Current Assets	5,729,213	5,273,288	4,533,588	3,722,822	3,768,369	3,650,605	2,641,290	3,747,206
Current Liabilities	3,899,718	2,503,008	2,415,447	2,193,708	2,848,970	3,162,216	2,512,531	3,528,790
Working Capital	1,829,495	2,770,280	2,118,141	1,529,114	919,399	488,389	128,759	218,416

Q2 FY 2016 Changes

Current assets increased in the second quarter of FY 2016 by $1,105,916 to $3,747,206, mainly due to increases in cash balances of $580,236, trade receivables of $195,571 and deposits paid to heat recovery equipment suppliers of $258,861.

Current liabilities increased by $1,016,259 to $3,528,790, mainly due to an increase in deferred revenue relating to deposits paid by customers at the end of the current quarter for projects on which work has not yet commenced. Two such heat recovery project deposits totaled $680,978 plus two customers gave deposits against GEM™ projects totaling $294,118. Other liabilities also increased, predominantly commissions payable at quarter end.

At November 30, 2015, $3,702 (0.29%) of the Company's trade receivables balance was over 90 days past due. None of the overdue balance is considered impaired as at November 30, 2015.

At November 30, 2015, the Company has operating lease commitments as shown below. The Company had no purchase obligations:

	Total $	Less than 1 year $	1-5 years $	More than 5 years $
Operating Leases	254,414	110,677	143,415	322

Net cash provided by operating activities in the quarter ended November 30, 2015 was $552,837, compared to net cash used of $611,594 in the quarter ended November 30, 2014. Much of the inflow related to deposits paid by customers in the quarter.

Net cash provided by investing activities for the quarter ended November 30, 2015 of $21,696 comprised $22,252 finance lease principal payments received less $556 paid for additions to property, plant and equipment. This compared to $147,971 finance lease principal payments received less $1,896 paid for additions to property, plant and equipment for the quarter ended November 30, 2014.

Net cash provided by financing activities for the quarter ended November 30, 2015 was $nil. No repurchases of Class A common shares were made under the Normal Course Issuer Bid, as announced October 28, 2014. This compared to $141,962 used in investing activities in the second quarter of FY 2015, for the repurchase of Class A common shares.

After allowing positive $5,703 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was an increase in cash balance of $580,236 over the second three months of FY 2016, compared to a decrease of $621,827 over the second three months of FY 2015.

Adjusted operating cash inflow (defined as net income or loss attributable to the owners of the parent, plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended November 30, 2015 was $84,678, compared to cash outflow of $338,107 for the quarter ended November 30, 2014. The increase in inflow for the quarter compared to the same quarter of last year was predominantly the result of the higher revenues and resulting improved results in the current quarter.

In addition to its net cash balance of $1,239,677 as at November 30, 2015 the Company also had an estimated $147,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $1,386,677, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2016. Order backlog as at November 30, 2015 was approximately $6.5 million compared to $2.3 million at the same time last year. As at January 19, 2016, the Company had $6.9 million in projects in respect of which purchase orders have been received that had not yet been reflected as revenue in the Company's published quarterly financial statements.

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

Management is of the opinion that sufficient working capital will be obtained from future cash flows by achieving profitable operations through continuing to manage expenditures, concentrating on restoring revenue to the level experienced in 2014 and growing revenues at growth rates experienced in the years ended May 31, 2010 through May 31, 2014. The Company cannot be certain that cash generated from its operations will be sufficient to satisfy its liquidity requirements and it may need to raise capital by obtaining financing.

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

	Quarter ended	
	Nov 2015 $	Nov 2014 $
Net cash provided (used) in operating activities	552,837	(611,594)
Changes in working capital	(490,410)	125,516
Finance lease principal payments received	22,252	147,971
Adjusted operating cash flow	84,679	(338,107)

Net Investment in Lease

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

	Nov 30, 2015 $	May 31, 2015 $
Total estimated minimum lease payments receivable	197,054	262,108
Less: unearned income	(19,401)	(34,024)
	177,653	228,084
Less: current portion	(119,740)	(111,524)
	57,913	116,560

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

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

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

As part of calculating the impact of the new lease extension, the existing net residual value of the equipment was re-assessed. The estimated value of any re-sale value or scrap value of the equipment less removal and re-sale costs was assessed as $nil and so a write-down of the $139,530 net residual value was taken. This write-down, combined with the write-down of the May 2015 expected payment under the terms of the previous lease, which was expected to expire in mid-May 2015, reduced the net revenue recognized on renewal of the lease by $69,791.

Until the expiry of the new lease on May 1, 2017, finance revenue will be recognized within the income statement at the interest rate implicit in the lease.

The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset and the operations of the plant in which it is located.

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

	$
Less than one year	137,054
Between two and five years	60,000
Residual value of equipment	-
	197,054

3.4 Segmented Information

In the quarters and six month periods ended November 30, 2015 and November 30, 2014, the Company operated in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

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

Segment information for the quarter ended November 30, 2015 and the comparative period are detailed in the table below.

	North America and China		Europe and Rest of World		Reconciling items		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,469,703**	828,124	**1,031,892**	834,681	**-**	-	**2,501,595**	1,662,805
Cost of sales	**(548,398)**	(390,929)	**(335,915)**	(252,450)	**-**	-	**(884,313)**	(643,379)
Gross profit	**921,305**	437,195	**695,977**	582,231	**-**	-	**1,617,282**	1,019,426
Other expenses	**(637,055)**	(576,252)	**(661,199)**	(758,981)	**(297,715)**	(263,601)	**(1,595,969)**	(1,598,834)
Finance revenue	**6,801**	18,090	**-**	-	**-**	-	**6,801**	18,090
Income (loss) before income taxes	**291,051**	(120,967)	**34,778**	(176,750)	**(297,715)**	(263,601)	**28,114**	(561,318)
Income taxes (expense) recovery	**-**	(134)	**(19,160)**	58,409	**16,676**	11,879	**(2,484)**	70,154
Net income (loss)	**291,051**	(121,101)	**15,618**	(118,341)	**(281,039)**	(251,722)	**25,630**	(491,164)
Attributable to:								
Owners of the parent	**292,999**	(122,214)	**7,638**	(120,429)	**(281,039)**	(251,722)	**19,598**	(494,365)
Non-controlling interest	**(1,948)**	1,113	**7,980**	2,088	**-**	-	**6,032**	3,201

Segment information for the six months ended November 30, 2015 and the comparative period are detailed in the table below.

	North America and China		Europe and Rest of World		Reconciling items		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**2,722,733**	1,302,064	**2,335,476**	1,532,082	**-**	-	**5,058,209**	2,834,146
Cost of sales	**(1,434,947)**	(628,978)	**(906,210)**	(482,790)	**-**	-	**(2,341,157)**	(1,111,768)
Gross profit	**1,287,786**	673,086	**1,429,266**	1,049,292	**-**	-	**2,717,052**	1,722,378
Other expenses	**(1,230,643)**	(1,093,193)	**(1,307,891)**	(1,379,993)	**(624,855)**	(585,624)	**(3,163,389)**	(3,058,810)
Finance revenue	**14,622**	41,355	**-**	-	**-**	-	**14,622**	41,355
Income (loss) before income taxes	**71,765**	(378,752)	**121,375**	(330,701)	**(624,855)**	(585,624)	**(431,715)**	(1,295,077)
Income taxes (expense) recovery	**493**	(134)	**(19,408)**	108,387	**23,663**	27,241	**4,748**	135,494
Net income (loss)	**72,258**	(378,886)	**101,967**	(222,314)	**(601,192)**	(558,383)	**(426,967)**	(1,159,583)
Attributable to:								
Owners of the parent	**76,205**	(377,547)	**87,964**	(223,649)	**(601,192)**	(558,383)	**(437,023)**	(1,159,579)
Non-controlling interest	**(3,947)**	(1,339)	**14,003**	1,335	**-**	-	**10,056**	(4)

Other expenses within reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2015	2014	**2015**	2014
	$	$	**$**	$
Corporate admin costs	**213,113**	200,957	**401,138**	367,927
Stock-based compensation	**46,012**	64,685	**96,840**	130,508
Professional fees	**14,930**	57,856	**106,866**	120,491
Depreciation of property, plant and equipment	**8,205**	8,973	**15,771**	17,695
Bank charges and interest	**10,299**	9,723	**18,953**	18,608
Foreign exchange differences	**5,156**	(78,593)	**(14,713)**	(69,605)
Total	**297,715**	263,601	**624,855**	585,624

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

During the three months ended November 30, 2015, the company had one customer in North America and China that accounted for 13% of total revenue and one customer in Europe and Rest of World that accounted for 11% of total revenue.

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

During the six months ended November 30, 2015, the company had one customer in North America and China that accounted for 15% of total revenue and one customer in Europe and Rest of World that accounted for 11% of total revenue.

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

Further geographical analysis:

	Revenues for the six months ended		Property, plant and equipment as at		Goodwill and intangibles assets as at		Finance lease receivable (non-current) as at	
	November 30		**Nov 30,**	May 31,	**Nov 30,**	May 31,	**Nov 30,**	May 31,
	2015	2014	**2015**	2015	**2015**	2015	**2015**	2015
	$	$	**$**	$	**$**	$	**$**	$
Canada	**119,501**	357,519	**37,006**	46,260	**-**	-	**57,913**	116,560
U.S.A.	**2,596,803**	937,996	**-**	-	**-**	-	**-**	-
U.K.	**1,997,336**	1,003,845	**20,456**	16,103	**2,168,318**	2,049,617	**-**	-
Germany	**104,996**	187,631	**-**	-	**-**	-	**-**	-
Italy	**87,212**	107,666	**-**	-	**-**	-	**-**	-
Netherlands	**33,008**	54,924	**-**	-	**-**	-	**-**	-
Rest of Europe	**8,952**	61,950	**-**	-	**-**	-	**-**	-
Kenya	**75,066**	46,539	**-**	-	**-**	-	**-**	-
India	**2,753**	45,840	**-**	-	**-**	-	**-**	-
China	**6,429**	6,549	**-**	-	**-**	-	**-**	-
Rest of world	**26,153**	23,687	**-**	-	**-**	-	**-**	-
Total	**5,058,209**	2,834,146	**57,462**	62,363	**2,168,318**	2,049,617	**57,913**	116,560

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended November 30, 2015 was $1,469,703 compared to $828,124 for the quarter ended November 30, 2014. Heat recovery revenue decreased by $25,880, with the prior period revenue from the project at a major pulp and paper company and an installation at a site of a global food and beverage company being replaced in the current period with an equipment sale to a district heating co-operative and a project at another site of the global food and beverage company. Revenue from sales of GEM™ products meanwhile increased by $667,459 with the current period including fulfilment of the first phase of the order from a healthcare company, as announced August 17, 2015, as well as an order from a multinational wines and spirits company, as announced August 25, 2015 and the conversion of one site of a the world-leading food and beverage company, which was greater in value than the site converted in the first half of FY 2015. In addition, revenue from sales of GEM™ product was higher generally than during the first six months of the previous year. In addition, the weakening of the Canadian dollar helped to increase the total revenue from the US entity in the current period.

Revenue for the six months ended November 30, 2015 was $2,722,733 compared to $1,302,064 for the six months ended November 30, 2014. Heat recovery revenue increased by $689,540, with the previous period's revenue from the project at a major pulp and paper company and a project at a site of a global food and beverage company being more than covered in the current six month period by another site of the global food and beverage company, along with a project at a packaged foods business plus the equipment sale to the district heating co-operative. Revenue from sales of GEM™ products meanwhile increased by $731,129. The two orders from a major Fortune 500 food and beverage company during the prior year period compared to one lower value order from the same customer in the current period, however the decrease in revenue from this customer was more than made up for by revenue from the first phase of the order from a healthcare company, as announced August 17, 2015, as well as an order from a multinational wines and spirits company, as announced August 25, 2015 and sales overall in the region increased significantly from the same period of the previous year. In addition, the weakening of the Canadian dollar helped to increase the total revenue from the US entity in the current period.

Thermal Energy Bristol: revenue for the quarter ended November 30, 2015 was $1,031,892 compared to $834,681 for the same period of the previous year. Heat recovery revenue increased by $170,640, with an extension to an existing system in a hospital in the first half of FY 2015 being replaced with revenue from an installation at a leading dairy provider plus partial completion of an extension to an existing system at a gypsum company in the current quarter. Revenue from sales of GEM™ products increased by $26,571, with revenue from a leading chemicals company in second quarter of FY 2015 being replaced with a general increase in other sales within the region in the second quarter of FY 2016. In addition, the weakening of the Canadian dollar helped to increase the total revenue from the UK entity in the current period.

For the six months ended November 30, 2015 revenue for Thermal Energy Bristol was $2,335,476 compared to $1,532,082 for the six months ended November 30, 2014. Heat recovery revenue increased by $832,439 due mainly to the substantial completion of an installation at a leading dairy provider in the current six month period, plus revenue from the project at a gypsum supplier. Revenue from sales of GEM™ products meanwhile decreased by $29,045, with revenue from a leading chemicals company in second quarter of FY 2015 being almost replaced with a general increase in other sales within the region in the second quarter of FY 2016. In addition, the weakening of the Canadian dollar helped to increase the total revenue from the UK entity in the current period.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit increased by $484,110 in the quarter ended November 30, 2015 compared to the same quarter of the preceding year as a result of the increased revenue from GEM™ sales for the region. Other expenses increased by $60,803 from the same quarter of the previous year, predominantly due to increased commission payable plus the strengthening of the US dollar against the Canadian dollar. These variances, combined with a decrease in finance revenue as the lease progresses of $11,289 totaled $412,018, serving to turn around a loss before tax of $120,967 in the first three months of FY 2015 into income before tax of $291,051 in the first three months of FY 2016.

For the six months ended November 30, 2015, gross profit generated by Thermal Energy Ottawa increased by $614,700 due to the increased revenues, while other expenses grew by $137,450, again mainly due to increased commission payable plus the strengthening of the US dollar against the Canadian dollar. With finance revenue decreasing in the second half of FY 2016 by $26,733 from the same period of FY 2015, this resulted in a total increase in profitability for Thermal Energy Ottawa of $450,517.

Thermal Energy Bristol gross profit increased by $113,746 in the quarter ended November 30, 2015 from the same quarter of the preceding year as a result of the increased revenue. Other net costs decreased by $97,782, despite the strengthening of the pound against the dollar, due mainly to unpaid parental leave plus less spending on promotional and training activities in the current quarter. The resulting net income before tax of $34,778 for the second quarter of FY 2016 compared to a loss of $176,750 for the second quarter of FY 2015.

For the six months ended November 30, 2015, gross profit generated by Thermal Energy Bristol increased by $379,974 due to the increased revenues, while other expenses fell by $72,102. The effects of the strengthening of Sterling against the dollar were more than cancelled out by the unpaid parental leave plus reduced spending on promotional and training activities. This resulted in a growth in profitability for Thermal Energy Bristol of $452,076.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to $297,715 in the second quarter of FY 2016 compared to $263,601 in the second quarter of FY 2015, with a less favorable swing in exchange rate fluctuations in the current quarter over the same period of last year being partially offset by the timing of invoices relating to the annual audit as well as a reduction in stock based compensation.

For the six months ended November 30, 2015, other expenses within reconciling items totaled $624,855, an increase of $39,231 from the first half of FY 2015. As with the second quarter, this was mainly due to an increase in stock based compensation being more than offset by favorable exchange rate fluctuations in the current six month period over the same period of last year.

Quarterly financial information (unaudited)
For the eight quarters ended November 30, 2015

Quarter ended	30-Nov-15 $	31-Aug-15 $	31-May-15 $	28-Feb-15 $
Revenue	2,501,595	2,556,614	2,525,061	1,440,985
Gross Profit	1,617,282	1,099,770	1,193,821	711,906
Gross Profit Percentage	64.5%	43.0%	47.3%	49.4%
EBITDAS(1)	83,538	(400,871)	(256,642)	(647,245)
Total net income (loss)	25,630	(452,597)	(337,642)	(657,592)
Income (loss) per share, basic and diluted	0.000	(0.003)	(0.002)	(0.004)

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

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

4. Business Outlook

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

- On August 17, 2015 the Company announced that it had received a purchase order valued at approximately $520,000 from a world-leading diversified healthcare company for the supply of GEM™ traps. The order represents the third GEM™ order for this company, and is the largest GEM™ order received to date. Due to customer verification of traps before production, this order is now expected to be fulfilled and revenue earned over the next six months. As at November 2015, approximately one third of this order had been fulfilled.

- In October 2015, the Company announced that it had received an order for approximately $229,000 from a gypsum company. This order represents an extension to a previously installed system at the same site. As at November 2015, approximately one third of this order had been fulfilled, with the remainder expected to be fulfilled and revenue earned over the next three months.

- Also in October 2015, the Company announced that it had received an initial purchase order towards a $1,530,000 project from a multi-site hospital group. The Project includes the installation of two heat recovery systems and the Company's venturi orifice designed GEM™ steam traps. The initial purchase order for approximately $650 thousand represents 100% of the total value of the GEM™ steam traps and a 35% deposit for the heat recovery systems. The Project is expected to be completed and revenue earned over the next six months.

- In November 2015, the Company announced that it had received an order for approximately $965,000 from a hospital for a heat recovery solution. This is an example of how we are cross-selling our products to the same customers, as the site as fully converted to our GEM™ steam traps about four years ago. This current order is expected to be fulfilled and revenue earned over the next six months.

- Also in November 2015, the Company announced that it had been engaged by a leading animal feed supplier to manufacture and install a heat recovery solution. The total project is valued at approximately $641,000 and the company has received a purchase order for the 35% deposit, with the remaining 65% due on shipment of the equipment. The project is expected to be fulfilled and revenue earned over the next six months.

- Later in November 2015, the Company announced that it had received an order for approximately $910,000 from a major hospital group for a heat recovery solution at one of its sites. This order is expected to be fulfilled and revenue earned over the next six months.

- The Company's order backlog as at November 30, 2015 was approximately $6.5 million. As at January 19, 2016, the Company had an order backlog of approximately $6.9 million, of which approximately $0.5 million is related to long term contracts and is not expected to be reflected in revenue within the next 12 months.

5. Summary of Outstanding Shares and Dilutive Instruments

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

Shares

159,264,616 class A common shares.

Options

Number of Options outstanding	Number of Options Exercisable	Exercise Price Per Share $	Expiry Date
2,187,500	**2,187,500**	**0.10**	**10-May-2016**
250,000	**250,000**	**0.10**	**12-Jul-2016**
4,220,000	**4,220,000**	**0.10**	**01-Dec-2016**
4,700,000	**4,700,000**	**0.10**	**22-Nov-2017**
3,326,000	**2,217,334**	**0.05**	**18-Nov-2018**
3,551,360	**1,183,787**	**0.10**	**28-May-2019**
250,000	**-**	**0.09**	**01-Dec-2019**
4,563,360	**-**	**0.08**	**29-May-2020**
23,048,220	**14,758,621**		

6. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

Valuation of goodwill and intangible assets and asset impairment

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

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

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

Future production outputs relating to the finance lease

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

Assumptions used in the Black-Scholes fair value calculations

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

Allowance for Doubtful Accounts

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

Revenue Recognition relating to contracts for heat recovery solutions

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

Deferred tax assets

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

Changes in Accounting Standards

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

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

IFRS 9, "Financial Instruments"
In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement. IFRS 9 is applied retrospectively for annual years beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers"
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

7. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

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

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022, but this was again followed by a net loss of $2,154,817 in FY 2015, as well as a further loss in the first quarter of the current year of $452,597. The second quarter of the current year generated net income of $25,630 and saw an increase in cash and bank balances of $580,236.

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

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

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

8. Forward-Looking Information

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

9. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended November 30, 2015 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.