MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 29, 2016

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial condition and results of operations for the third quarter of Fiscal Year 2016, ended February 29, 2016. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. During the period ended February 29, 2016, the Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

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

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on April 14, 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 world-wide. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, U.S., and China.

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

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

1.2 Core Businesses

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

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

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

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

1.3 Strategy

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

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

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

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

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 adjusted operating cash flow because changes in working capital items are usually only temporary and can fluctuate significantly from period to period and therefore are not a good indicator of the Company's longer term cash generating capabilities.

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

2.2 EBITDAS

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

2.3 Order Backlog

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

3. Performance

3.1 Summary of Third Quarter Results

	Q3 2016	Q3 2015
	$	$
Revenue	**3,220,621**	1,440,985
Cost of Sales	**(1,191,381)**	(729,079)
Gross Profit	**2,029,240**	711,906
Administration, selling, marketing and business development expenses	**(1,538,361)**	(1,392,551)
Research and development expenses	**(33,083)**	(38,182)
Operating income (loss)	**457,796**	(718,827)
Finance Revenue	**5,997**	12,134
Income (loss) before income taxes	**463,793**	(706,693)
Income taxes (expense) recovery	**(46,071)**	49,101
Net income (loss) for the period	**417,722**	(657,592)
Exchange differences on translation of overseas operations	**(176,603)**	130,314
Total comprehensive income (loss) for the period	**241,119**	(527,278)

Revenues and Gross Profits

Revenues were $3,220,621 in the quarter ended February 29, 2016, representing an increase of $1,779,636, or 124%, compared to $1,440,985 in the quarter ended February 28, 2015. Sales of heat recovery systems increased by $815,957 (122%) from the same period of the previous year, while sales of GEM^{TM} Condensate return systems increased by $963,679 (125%).

A large portion of heat recovery revenues in the third quarter of the previous year came from one installation at a major food and beverage company. In comparison, the current quarter included revenues from two hospital projects, as announced November 5 and November 23, 2015 respectively, as well as projects at a gypsum company, as announced October 26, 2015, a dairy supplier, as announced March 4, 2015 and a leading animal feed supplier, as announced November 11, 2015.

GEM^{TM} Condensate return system revenues in the current quarter included fulfilment of the second phase of the order from a healthcare company, as announced August 17, 2015, as well as the partial completion of conversions at two major hospitals and the conversion of four further sites of a world-leading food and beverage company. In comparison, the third quarter of FY 2015 included only one notable project; namely, the partial completion of an order from a leading chemical company.

The gross profit of $2,029,240 in the quarter ended February 29, 2016 represents an increase of $1,317,334, or 185%, from the $711,906 in the quarter ended February 28, 2015. These results expressed as a percentage of sales were 63.0% in the third quarter of FY 2016 compared with 49.4% in the third quarter of FY 2015. The margin improved as a result of improved margins on both GEM^{TM} and heat recovery sales in the current quarter over the same quarter of the prior year. The improved GEM^{TM} margins are the result of price increases and more direct sales.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended February 29, 2016 totaled $1,538,361, compared to $1,392,551 in the quarter ended February 28, 2015, an increase of $145,810, or 10.5%. The increase in commissions payable resulting from the increased revenues was partially offset by the effect of the weakening of Sterling against the Canadian Dollar.

Research and development costs in the third quarter of FY 2016 of $33,083 compared to $38,182 in the third quarter of FY 2015.

Finance revenue in the quarter ended February 29, 2016 of $5,997 compared to $12,134 recognized in the quarter ended February 28, 2015. 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 February 29, 2016 was $463,793, compared to a loss of $706,693 in the same quarter of the previous year. The increase in profitability was the direct result of the increased revenues, as fixed costs remained constant.

Income tax charge in the third quarter of FY 2016 was $46,071, compared to a recovery of $49,101 in the third quarter of FY 2015. This was the result of taxable profits within the UK entity in the third quarter of FY 2016 compared to a loss in the same period of the previous year.

Net income for the quarter ended February 29, 2016 was $417,722 compared to a net loss of $657,592 in the same quarter of the previous year.

Comprehensive income was $241,119 for the third quarter of FY 2016 compared to a loss of $527,278 for the third quarter of FY 2015. The current period experienced a weakening of Sterling against the Canadian Dollar, which was the reverse of the trend in the same period of the previous year.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 29, 2016 were 1,500,000 of which 1,333,333 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 29, 2016 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 February 29, 2016 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, Governance and Compliance Committee and $1,000 payable for each in-person meeting.

During the quarter ended February 29, 2016, Directors fees paid were $22,500. Fees to the Chairperson of the Audit Committee were $1,500; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,500 and fees paid to the Chairman were $2,250. One in-person meeting was held during the period.

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

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2016 **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $	**2016** **$**	2015 $
Directors								
M. Williams	**6,250**	6,250	**-**	-	**-**	-	**6,250**	6,250
J. Kelly	**7,000**	7,000	**-**	-	**-**	-	**7,000**	7,000
W. Ollerhead	**4,750**	4,750	**-**	-	**-**	-	**4,750**	4,750
B. Linton	**6,250**	6,250	**-**	-	**-**	-	**6,250**	6,250
J. Schoenmakers	**4,750**	4,750	**-**	-	**-**	-	**4,750**	4,750
D. Spagnolo	**4,750**	4,750	**-**	-	**-**	-	**4,750**	4,750
Total	**33,750**	33,750	**-**	-	**-**	-	**33,750**	33,750
Senior Management								
W. Crossland	**60,000**	60,000	-	-	**3,881**	-	**63,881**	60,000
J. Flynn(1)	**43,130**	39,406	-	-	**6,679**	6,112	**49,809**	45,518
R. Triebe	**38,425**	38,425	-	-	**2,874**	2,874	**41,299**	41,299
S. Mawby(1)	**42,348**	38,691	-	-	**6,444**	5,992	**48,792**	44,683
Total	**183,903**	176,522	-	-	**19,878**	14,978	**203,781**	191,500
Total Related Party Transactions	**217,653**	210,272	**-**	-	**19,878**	14,978	**237,531**	225,250

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 2.0241 and 1.8493 in the second quarters of FY 2016 and FY 2015 respectively.

Normal Course Issuer Bid

On February 17, 2016, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on February 12, 2016. During the 12-month period commencing February 15, 2016 and ending February 15, 2017, the Company is able to purchase on the TSX up to 12,758,701 common shares, representing approximately 8% of the then issued and outstanding common shares. The actual number of common shares purchased, if any, and the timing of such purchases will be determined by the Company by considering market conditions, share prices, its cash position, and other factors.

In the quarter ended February 29, 2016 the Company purchased no common shares (2015: 128,000 purchased for a total purchase price of $9,920).

3.2 Summary of Year to Date Results

	Nine months ended Feb 29, 2016	Nine months ended Feb 28, 2015
	$	$
Revenue	**8,278,830**	4,275,131
Cost of Sales	**(3,532,538)**	(1,840,847)
Gross Profit	**4,746,292**	2,434,284
Administration, selling, marketing and business development expenses	**(4,580,717)**	(4,370,162)
Research and development expenses	**(154,116)**	(119,381)
Operating income (loss)	**11,459**	(2,055,259)
Finance Revenue	**20,619**	53,489
Income (loss) before income taxes	**32,078**	(2,001,770)
Income taxes (expense) recovery	**(41,323)**	184,595
Net income (loss) for the period	**(9,245)**	(1,817,175)
Exchange differences on translation of overseas operations	**(44,794)**	66,837
Total comprehensive income (loss) for the period	**(54,039)**	(1,750,338)

Revenues and Gross Profits

Revenues of $8,278,830 in the first three quarters of FY 2016 represented an increase of $4,003,699, or 93.7%, compared to $4,275,131 in the same period of FY 2015. Sales of heat recovery systems increased by $2,346,417 (130%) from the same period of the previous year, while sales of GEM™ Condensate return systems increased by $1,657,282 (67%).

Heat recovery revenue in the first nine months of FY 2016 included revenue from nine 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 three major hospitals, as announced January 29, 2015, November 5, 2015 and November 23, 2015 respectively, a leading animal feed supplier, as announced November 11, 2015, and a gypsum company, as announced October 26, 2015, plus an equipment supply to a district heating co-operative. 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 nine months of the current year included approximately three quarters of the order from a healthcare company, as announced August 17, 2015, as well as the conversion of five sites of a world-leading food and beverage company and the partial completion of conversions at two major hospitals. These projects combined provided $669,595 more revenue than was provided by equivalent larger projects in the first nine months of the previous year, which saw two site conversions of the same world-leading food and beverage company plus revenue from a leading chemicals company, as announced October 15, 2014. Virtually all of the rest of the increase in GEM™ revenue over the same period of the prior year was the result of general increases in North America.

The gross profit of $4,746,292 in the nine months ended February 29, 2016 represented an increase of $2,312,008, or 95%, over the $2,434,284 achieved in the nine months ended February 28, 2015. This increase was the direct result of increased revenues. These results expressed as a percentage of sales were 57.3% in the first three quarters of FY 2016 compared with 56.9% in the first three quarters of FY 2015.

Expenses

Administration, selling, marketing and business development expenses for the nine months ended February 29, 2016 totaled $4,580,717 compared to $4,370,162 for the nine months ended February 28, 2015, an increase of $210,555, or 4.8%. Increases in commission payable on the increased revenue plus patents and trademark costs were partially offset by decreases in training costs (a group sales training conference held in June 2014 was not repeated in the current year), tradeshows and stock based compensation.

Research and development costs in the first three quarters of FY 2016 totaled $154,116 compared to $119,381 in the same period of FY 2015. The first nine months 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. In addition, the prior period saw a SR&ED credit received of $34,412. Actual costs in the current period fell by $82,862 from the same period of the prior year, again mainly due to the completion of the ISTP project.

Finance revenue in the nine months ended February 29, 2016 of $20,619 compared to $53,489 recognized in the nine months ended February 28, 2015. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Income before income taxes for the nine months ended February 29, 2016 was $32,078 compared to a loss of $2,001,770 in the same period of the previous year. This increase in profitability was predominantly the direct result of the improved revenues.

Income tax charge in the first three quarters of FY 2016 was $41,323, compared to a recovery of $184,595 in the same period of FY 2015. This was the result of a loss within the UK entity in the first nine months of FY 2015 compared to a tax generating profit in the same period of the current year.

Net loss for the nine months ended February 29, 2016 was $9,245 compared to a net loss of $1,817,175 in the same period of the previous year.

Comprehensive loss was $54,039 for the nine months ended February 29, 2016 compared to $1,750,338 for the nine months ended February 28, 2015. Exchange difference arising on translation of overseas operations was positive in the prior period due to the continued weakening of the Canadian Dollar. The recent weakening of sterling against the Canadian dollar, however, has resulted in a negative exchange difference for the current year to date.

3.3 Liquidity and Capital Resources

The working capital was $700,472 at February 29, 2016, compared to working capital of $488,389 at May 31, 2015 – an increase of $212,083 with the Company's net cash position (Cash and cash equivalents less Bank loans) increasing by $580,302 from $715,343 at May 31, 2015 to $1,295,645 as at February 29, 2016.

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

	May 31, 2014 $	Aug 31, 2014 $	Nov 30, 2014 $	Feb 28, 2015 $	May 31, 2015 $	Aug 31, 2015 $	Nov 30, 2015 $	Feb 29, 2016 $
Current Assets	5,273,288	4,533,588	3,722,822	3,768,369	3,650,605	2,641,290	3,747,206	4,018,307
Current Liabilities	2,503,008	2,415,447	2,193,708	2,848,970	3,162,216	2,512,531	3,528,790	3,317,835
Working Capital	2,770,280	2,118,141	1,529,114	919,399	488,389	128,759	218,416	700,472

Q3 FY 2016 Changes

Current assets increased in the third quarter of FY 2016 by $271,101 to $4,018,307. Cash increased by $55,968 and trade receivables increased by $221,335, due to February billings relating to GEM™ sales, while other assets had a combined decrease of $6,202.

Current liabilities, meanwhile, decreased by $210,955 to $3,317,835, due to progress of heat recovery projects, which resulted in a decrease in deferred revenue of $347,069 alongside an increase in accounts payable of $167,794. Other net reductions of $31,680 added to the decrease.

As at February 29, 2016, $4,341 (0.3%) of the Company's trade receivables balance was over 90 days past due. None of the overdue balance is considered impaired as at February 29, 2016.

At February 29, 2016, the Company had operating lease commitments as shown below. The Company had no purchase obligations:

	Total $	Less than 1 year $	1-5 years $	More than 5 years $
Operating Leases	356,133	135,171	220,640	322

Net cash provided by operating activities in the quarter ended February 29, 2016 was $44,687, compared to net cash used of $137,757 in the quarter ended February 28, 2015. The cash provided was less than net income for the period, due to revenue being recorded for which we had already received deposits on heat recovery projects, plus the volume of invoices which went out to customers towards the end of the quarter.

Net cash provided by investing activities for the quarter ended February 29, 2016 of $15,667 comprised $30,003 finance lease principal payments received less $14,336 paid for additions to property, plant and equipment. This compared to $247,749 finance lease principal payments received, less $3,554 paid for additions to property, plant and equipment in the quarter ended February 28, 2015.

No cash was used in investing activities in the third quarter of FY 2016, for the repurchase of Class A common shares under the Normal Course Issuer Bid, as announced February 17, 2016. The same period of the previous year saw $9,920 such investment.

After allowing negative $4,386 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 $55,968 over the third quarter of FY 2016, compared to an increase of $107,466 over the same quarter of FY 2015.

Adjusted operating cash inflow (defined as net income or loss plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended February 29, 2016 was $496,397, compared to cash outflow of $466,693 for the quarter ended February 28, 2015. The increase in inflow for the quarter compared to the same quarter of last year was predominantly the result of the increased revenues, partially offset by decreased finance lease payments in the current quarter as the lease nears its end date.

In addition to its net cash balance of $1,295,645 as at February 29, 2016 the Company also had an estimated $105,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $1,400,645, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2016 and into FY 2017.

Order backlog as at February 29, 2016 was approximately $4.4 million compared to $3.6 million at the same time last year. As at April 14, 2016, the Company had $4.7 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 February 29(28)	
	2016 $	2015 $
Net cash provided (used) in operating activities	44,687	(137,757)
Changes in working capital	421,707	(576,685)
Finance lease principal payments received	30,003	247,749
Adjusted operating cash flow	496,397	(466,693)

Net Investment in Lease

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

	Feb 29, 2016 $	May 31, 2015 $
Total estimated minimum lease payments receivable	161,054	262,108
Less: unearned income	(13,404)	(34,024)
	147,650	228,084
Less: current portion	(124,072)	(111,524)
	23,578	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	24,000
Residual value of equipment	-
	161,054

3.4 Segmented Information

In the quarters and nine month periods ended February 29, 2016 and February 28, 2015, the Company operated in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

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

Segment information for the quarter ended February 29, 2016 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,333,652**	665,108	**1,886,969**	775,877	**-**	-	**3,220,621**	1,440,985
Cost of sales	**(373,305)**	(505,551)	**(818,076)**	(223,528)	**-**	-	**(1,191,381)**	(729,079)
Gross profit	**960,347**	159,557	**1,068,893**	552,349	**-**	-	**2,029,240**	711,906
Other expenses	**(644,360)**	(509,284)	**(735,444)**	(668,933)	**(191,640)**	(252,516)	**(1,571,444)**	(1,430,733)
Finance revenue	**5,997**	12,134	**-**	-	**-**	-	**5,997**	12,134
Income (loss) before income taxes	**321,984**	(337,593)	**333,449**	(116,584)	**(191,640)**	(252,516)	**463,793**	(706,693)
Income taxes (expense) recovery	**-**		**(101,416)**	41,441	**55,345**	7,660	**(46,071)**	49,101
Net income (loss)	**321,984**	(337,593)	**232,033**	(75,143)	**(136,295)**	(244,856)	**417,722**	(657,592)
Attributable to:								
Owners of the parent	**327,512**	(334,278)	**229,823**	(77,336)	**(136,295)**	(244,856)	**421,040**	(656,470)
Non-controlling interest	**(5,528)**	(3,315)	**2,210**	2,193	**-**	-	**(3,318)**	(1,122)

Segment information for the nine months ended February 29, 2016 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**4,056,385**	1,967,172	**4,222,445**	2,307,959	**-**	-	**8,278,830**	4,275,131
Cost of sales	**(1,808,252)**	(1,134,528)	**(1,724,286)**	(706,319)	**-**	-	**(3,532,538)**	(1,840,847)
Gross profit	**2,248,133**	832,644	**2,498,159**	1,601,640	**-**	-	**4,746,292**	2,434,284
Other expenses	**(1,875,003)**	(1,602,477)	**(2,043,335)**	(2,048,926)	**(816,495)**	(838,140)	**(4,734,833)**	(4,489,543)
Finance revenue	**20,619**	53,489	**-**	-	**-**	-	**20,619**	53,489
Income (loss) before income taxes	**393,749**	(716,344)	**454,824**	(447,286)	**(816,495)**	(838,140)	**32,078**	(2,001,770)
Income taxes (expense) recovery	**493**	(134)	**(120,825)**	149,828	**79,009**	34,901	**(41,323)**	184,595
Net income (loss)	**394,242**	(716,478)	**333,999**	(297,458)	**(737,486)**	(803,239)	**(9,245)**	(1,817,175)
Attributable to:								
Owners of the parent	**403,718**	(711,824)	**317,785**	(300,986)	**(737,486)**	(803,239)	**(15,983)**	(1,816,049)
Non-controlling interest	**(9,476)**	(4,654)	**16,214**	3,528	**-**	-	**6,738**	(1,126)

Other expenses within reconciling items comprise the following:

	Three months ended February 29		Nine months ended February 29	
	2016	2015	**2016**	2015
	$	$	**$**	$
Corporate admin costs	**193,418**	192,944	**594,556**	560,871
Stock-based compensation	**31,314**	49,395	**128,154**	179,903
Professional fees	**14,146**	10,250	**121,012**	130,741
Depreciation of property, plant and equipment	**8,306**	9,029	**24,077**	26,724
Bank charges and interest	**12,483**	12,028	**31,436**	30,636
Foreign exchange differences	**(68,027)**	(21,130)	**(82,740)**	(90,735)
Total	**191,640**	252,516	**816,495**	838,140

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

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

During the three months ended February 28, 2015, Thermal Energy Ottawa had one customer that accounted for 29% of the company's total revenue for the period.

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

During the nine months ended February 28, 2015, Thermal Energy Ottawa had one customer that accounted for 19% of total revenue.

Further geographical analysis:

	Revenues for the nine months ended		Property, plant and equipment as at		Goodwill and intangibles assets as at		Finance lease receivable (non-current) as at	
	February 29		**February 29**	May 31	**February 29**	May 31	**February 29**	May 31
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	$	$	**$**	$	**$**	$	**$**	$
Canada	**185,483**	421,470	**45,641**	46,260	**-**	-	**23,578**	116,560
U.S.A.	**3,864,473**	1,539,153	**-**	-	**-**	-	**-**	-
U.K.	**3,779,999**	1,555,951	**16,733**	16,103	**2,030,535**	2,049,617	**-**	-
Germany	**120,752**	192,972	**-**	-	**-**	-	**-**	-
Italy	**105,061**	232,534	**-**	-	**-**	-	**-**	-
Netherlands	**35,556**	76,399	**-**	-	**-**	-	**-**	-
Ireland	**16,059**	28,925	**-**	-	**-**	-	**-**	-
Rest of Europe	**8,571**	36,636	**-**	-	**-**	-	**-**	-
Kenya	**96,942**	46,539	**-**	-	**-**	-	**-**	-
India	**23,277**	68,412	**-**	-	**-**	-	**-**	-
China	**6,429**	6,549	**-**	-	**-**	-	**-**	-
Rest of world	**36,228**	69,591	**-**	-	**-**	-	**-**	-
Total	**8,278,830**	4,275,131	**62,374**	62,363	**2,030,535**	2,049,617	**23,578**	116,560

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended February 29, 2016 was $1,333,652 compared to $665,108 for the quarter ended February 28, 2015. Heat recovery revenue decreased by $269,502, predominantly due to the previous year seeing the substantial installation at a site of a Fortune 500 food and beverage company, compared to the initial stages of a hospital conversion in the current period. Revenue from sales of GEM^{TM} products meanwhile increased by $938,046 with four site conversions of the same Fortune 500 food and beverage company, plus the second phase of the order from a healthcare company, as announced August 17, 2015, as well as increased sales generally in the North America region.

Revenue for the nine months ended February 29, 2016 was $4,056,385 compared to $1,967,172 for the nine months ended February 28, 2015. Heat recovery revenue increased by $428,518, with the previous period's revenue from the project at a major pulp and paper company being more than covered in the current nine month period by a project at a packaged foods business plus the equipment sale to the district heating co-operative and the initial engineering phase of a hospital installation. Each period included the substantial completion of an installation at a site of a Fortune 500 global food and beverage company. Revenue from sales of GEM™ products meanwhile increased by $1,660,695. The five orders from a major Fortune 500 food and beverage company during the current nine months compared to three orders from the same customer in the same period of the prior year. In addition, the first two phases of the order from a healthcare company, as announced August 17, 2015, plus general increased sales within the region contributed to the increase.

Thermal Energy Bristol: revenue for the quarter ended February 29, 2016 was $1,886,969 compared to $775,877 for the same period of the previous year, an increase of $1,111,092. Heat recovery revenue increased by $1,085,459, the current quarter including revenue from a hospital installation, as announced November 5, 2015, as well as projects at a gypsum company, as announced October 26, 2015, a dairy supplier, as announced March 4, 2015 and a leading animal feed supplier, as announced November 11, 2015. This compared to very little activity in the same period of the previous year. Revenue from sales of GEM^{TM} products increased by $25,633, with the partial completion of two hospital projects more than making up for a decrease in smaller projects in the current period compared to the same quarter of the previous year.

For the nine months ended February 29, 2016 revenue for Thermal Energy Bristol was $4,222,445 compared to $2,307,959 in the same period of the prior year. Heat recovery revenue rose by $1,917,899 due to the projects mentioned above. Revenue from sales of GEM^{TM} products decreased by $3,413, with the increase in sales to hospitals and other general sales replacing the prior year order to a leading chemical company.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit increased by $800,790 in the quarter ended February 29, 2016 from the same quarter of the preceding year as a result of the increased revenue for the region, while expenses increased by $135,076, predominantly due to increased commissions. The net effect of these differences, combined with a decrease in finance revenue of $6,137 resulted in an improvement in profitability over the previous year's third quarter of $659,577.

For the nine months ended February 29, 2016, gross profit generated by Thermal Energy Ottawa increased by $1,415,489 due to the increased revenues, while other expenses grew by $272,526. Again, commissions were the main cause of the increase, due to the increased revenues. With finance revenue decreasing in the first three quarters of FY 2016 by $32,870 from the same period of FY 2015, the net effect was an increase in profitability for Thermal Energy Ottawa of $1,110,093.

Thermal Energy Bristol gross profit increased by $516,544 in the quarter ended February 29, 2016 from the same quarter of the preceding year as a result of the increased revenue. With other net costs increasing by $66,511, mostly due to additional commission payable, the resulting income before tax of $333,449 for the third quarter of FY 2016 represented an increase of $450,033 over the loss before tax of $116,584 for the third quarter of FY 2015.

For the nine months ended February 29, 2016, gross profit generated by Thermal Energy Bristol increased by $896,519, while other expenses decreased by $5,591. Increases in commission payable and expenditure on patents and trademark renewals were offset by reduced promotional spend and saved salaries from one less sales person and parental leave taken. This resulted in a rise in profitability for Thermal Energy Bristol of $902,110.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to $191,640 in the third quarter of FY 2016 compared to $252,516 in the third quarter of FY 2015, with a decrease in stock based compensation expense and an increase in foreign exchange gain resulting from the weakening of sterling against both the US and Canadian dollar contributing towards the reduction..

For the nine months ended February 29, 2016, other expenses within reconciling items totaled $816,495, a decrease of $21,645 from the same period of FY 2015. This was mainly due to a decrease in stock based compensation being partially offset by increased corporate admin costs, which resulted from both greater in-person attendance at board meetings held in the current period plus executive management salaries allocated to R&D in the prior year relating to the ISTP project.

Quarterly financial information (unaudited)
For the eight quarters ended February 29, 2016

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

Quarter ended	28-Feb-15 $	30-Nov-14 $	31-Aug-14 $	31-May-14 $
Revenue	1,440,985	1,662,805	1,171,341	4,717,007
Gross Profit	711,906	1,019,426	702,952	2,737,568
Gross Profit Percentage	49.4%	61.3%	60.0%	58.0%
EBITDAS(1)	(647,245)	(486,557)	(658,108)	709,637
Total net income (loss)	(657,592)	(491,164)	(668,419)	654,740
Income (loss) per share, basic and diluted	(0.004)	(0.003)	(0.004)	0.004

(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 February 2016, approximately 75% of this order had been fulfilled.

- 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 Company has since received the remaining orders for the full project value and the project is expected to be completed and revenue earned over the next three 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 was fully converted to our GEM™ steam traps about four years ago. As at February 29, 2016, the order was two thirds complete and is expected to be complete by year end.

- 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 was approximately 40% complete as at February 29, 2016, with the balance expected to be fulfilled and revenue earned over the next three 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 was approximately 15% complete as at February 29, 2016, with the balance expected to be fulfilled and revenue earned over the next three months.

- The Company's order backlog as at February 29, 2016 was approximately $4.4 million. As at April 14, 2016, the Company had an order backlog of approximately $4.7 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

159,014,616 class A common shares.

Options

Number of Options outstanding	Number of Options Exercisable	Exercise Price Per Share $	Expiry Date
2,062,500	**2,062,500**	**0.10**	**10-May-2016**
250,000	**250,000**	**0.10**	**12-Jul-2016**
3,860,000	**3,860,000**	**0.10**	**01-Dec-2016**
4,340,000	**4,340,000**	**0.10**	**22-Nov-2017**
3,072,000	**2,048,001**	**0.05**	**18-Nov-2018**
3,297,360	**1,099,120**	**0.10**	**28-May-2019**
250,000	**83,333**	**0.09**	**01-Dec-2019**
4,224,360	**-**	**0.08**	**29-May-2020**
21,356,220	**13,742,954**		

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. The first three quarters of FY 2016 have produced a net loss of $9,245 and an increase in cash balance of $580,302.

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

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

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

8. Forward-Looking Information

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

9. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended February 29, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting principally through its Audit Committee.