MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2018

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 2018, ended February 28, 2018. The unaudited condensed consolidated interim financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. During the period ended February 28, 2018, 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 40% 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 19, 2018. 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, Germany, U.S., and China.

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

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

1.2 Core Businesses

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

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

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

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

1.3 Strategy

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

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

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

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

2. Performance Measures

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

2.1 Adjusted Operating Cash Flow

Adjusted operating cash flow (defined as income (loss) for the period, as adjusted for revenue recorded upon signing of a finance lease, 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 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 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 our Company resulting from already recognized orders. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by 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 2018	Q3 2017
	$	$
Revenue	**3,228,386**	3,224,530
Cost of Sales	**(1,628,615)**	(1,549,297)
Gross Profit	**1,599,771**	1,675,233
Administration, selling, marketing and business development expenses	**(1,757,387)**	(1,692,820)
Research and development expenses	**(28,567)**	(26,734)
Operating income (loss)	**(186,183)**	(44,321)
Finance Revenue	**7,784**	690
Income (loss) before income taxes	**(178,399)**	(43,631)
Income taxes (expense) recovery	**19,755**	(12,841)
Net income (loss) for the period	**(158,644)**	(56,472)
Exchange differences on translation of overseas operations	**23,161**	(57,173)
Total comprehensive income (loss) for the period	**(135,483)**	(113,645)
Adjusted operating cash flow	**172,129**	(19,837)
EBITDAS	**(156,016)**	(1,811)
Order backlog	**14.9 million**	4.6 million

Revenues and Gross Profits

Revenues were $3,228,386 in the quarter ended February 28, 2018, compared to $3,224,530 in the quarter ended February 28, 2017. Sales of heat recovery systems increased by $73,677 (3.8%) from the same period of the previous year, while sales of GEM™ Condensate return systems decreased by $69,821 (5.4%).

The current quarter included heat recovery revenues from two ongoing hospital projects, as announced March 30, 2017 and October 12, 2017 respectively, continuation of a project at a sixth site of a leading Fortune 500 food and beverage producer, as announced July 6, 2017, initial work on the co-generation project, as announced August 31, 2017, plus revenue relating to the early engineering phase of the energy efficiency project with a pulp and paper customer, as announced December 5, 2017. In comparison, the prior year quarter included heat recovery revenues from three ongoing hospital projects, as announced July 25, 2016, August 4, 2016 and November 2, 2016 respectively, as well as the partial installation of a heat recovery system at a global brewing company, as announced August 8, 2016 and the early stages of an installation at a leading producer of industrial and fuel alcohols, as announced September 28, 2016.

GEM™ condensate return system sales in the quarter ended February 28, 2018 included further orders from a leading performance materials company, as well as a number of smaller value orders. The same quarter of the previous year saw higher revenue from the leading performance materials company, as well as orders from a hospital and a world-leading food and beverage company.

The gross profit of $1,599,771 in the quarter ended February 28, 2018 represents a decrease of $75,462, or 4.5%, from the $1,675,233 in the quarter ended February 28, 2017. These results expressed as a percentage of sales were 49.6% in the third quarter of FY 2018 compared with 52.0% in the third quarter of FY 2017.

The decrease in gross profit percentage resulted from current heat recovery projects carrying lower margins than in the previous year. Margins are dictated by a number of factors such as the location of the project and type of industry.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended February 28, 2018 totaled $1,757,387, compared to $1,692,820 in the quarter ended February 28, 2017, an increase of $64,567, or 3.8%. Increases associated with new sales and technical staff plus the timing of audit fee invoices were partially offset by decreases in commissions payable and recruitment costs.

Research and development costs in the third quarter of FY 2018 of $28,567 compared to $26,734 in the third quarter of FY 2017.

Finance revenue in the quarter ended February 28, 2018 of $7,784 compared to $690 recognized in the quarter ended February 28, 2017. The finance lease was extended for a further three-year period in May 2017 and the interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance.

Loss before income taxes for the quarter ended February 28, 2018 was $178,399, compared to a loss of $43,361 in the same quarter of the previous year. Although revenue was on a par with last year, gross profitability was slightly lower due mainly to product split which, combined with the small increase in other costs, served to increase the loss in the current period.

Income tax recovery in the third quarter of FY 2018 was $19,755, compared to a charge of $12,841 in the third quarter of FY 2017. Both the U.K. and U.S entities are subject to tax charges and fluctuations in the tax charge are the result of changing profitability in those entities.

Net loss for the quarter ended February 28, 2018 was $158,644, compared to a net loss of $56,472 in the same quarter of the previous year.

Comprehensive loss was $135,483 for the third quarter of FY 2018, compared to a loss of $113,645 for the third quarter of FY 2017. The current period experienced a strengthening of Sterling against the Canadian Dollar, reversing the recent trend since the result of the UK Brexit referendum in June 2016.

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at February 28, 2018 were 1,000,000, of which 833,334 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at February 28, 2018 were 8,085,787 of which 6,748,335 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the quarter ended February 28, 2018 compensation arrangements for directors was as follows:

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

During the quarter ended February 28, 2018, Directors fees paid were $20,250. Fees to the Chairperson of the Audit Committee were $1,350; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $1,350 and fees paid to the Chairman were $2,025. One in-person meeting was held during the period.

Compensation paid to directors and officers during the quarter ended February 28, (inclusive of the amounts described above but excluding stock based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**4,375**	4,375	**-**	-	**-**	-	**4,375**	4,375
J. Kelly	**5,400**	6,400	**-**	-	**-**	-	**5,400**	6,400
W. Ollerhead	**5,725**	5,725	**-**	-	**-**	-	**5,725**	5,725
J. Schoenmakers	**4,725**	5,725	**-**	-	**-**	-	**4,725**	5,725
D. Spagnolo	**4,375**	4,375	**-**	-	**-**	-	**4,375**	4,375
W. White (1)	**3,375**	4,375	**-**	-	**-**	-	**3,375**	4,375
K. Milsom (1)(2)	**-**	4,375	**-**	-	**-**	-	**-**	4,375
Total	**27,975**	35,350	**-**	-	**-**	-	**27,975**	35,350
Senior Management								
W. Crossland	**60,000**	60,000	**-**	-	**2,881**	2,934	**62,881**	62,934
J. Flynn(3)	**41,361**	36,079	**-**	-	**6,462**	5,601	**47,823**	41,680
R. Triebe	**45,250**	38,425	**-**	-	**3,082**	2,874	**48,332**	41,299
S. Mawby(3)	**44,621**	35,425	**-**	-	**6,801**	5,549	**51,422**	40,974
Total	**191,232**	169,929	**-**	-	**19,226**	16,958	**210,458**	186,887
Total Related Party Transactions	**219,207**	205,279	**-**	-	**19,226**	16,958	**238,433**	222,237

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. Milsom and Mr. White were appointed on November 28, 2016.
(2) Ms. Milsom resigned on August 31, 2017.
(3) Ms. Flynn and Mr. Mawby are compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.7289 and 1.6439 in the third quarter of FY 2018, and the third quarter of FY 2017 respectively.

3.2 Summary of Year to Date Results

	Nine months ended Feb 28, 2018	Nine months ended Feb 28, 2017
	$	$
Revenue	**10,055,417**	8,438,027
Cost of Sales	**(5,084,339)**	(3,377,995)
Gross Profit	**4,971,078**	5,060,032
Administration, selling, marketing and business development expenses	**(5,201,620)**	(4,800,725)
Research and development expenses	**(99,557)**	(96,696)
Operating income (loss)	**(330,099)**	162,611
Finance Revenue	**25,191**	7,097
Income (loss) before income taxes	**(304,908)**	169,708
Income taxes (expense) recovery	**35,998**	(130,752)
Net income (loss) for the period	**(268,910)**	38,956
Exchange differences on translation of overseas operations	**(2,998)**	(380,414)
Total comprehensive income (loss) for the period	**(271,908)**	(341,458)
Adjusted operating cash flow	**(312,038)**	152,036
EBITDAS	**(233,574)**	286,798
Order backlog	**14.9 million**	4.6 million

Revenues and Gross Profits

Revenues of $10,055,417 in the first three quarters of FY 2018 represented an increase of $1,617,390, or 19.2%, compared to $8,438,027 in the same period of FY 2017. Sales of heat recovery systems increased by $2,473,405 (66%) over the same period of the previous year, while sales of GEM™ Condensate return systems decreased by $856,015 (18%).

Heat recovery revenue in the first nine months of FY 2018 included revenue from seven major ongoing projects, including three hospital projects as announced July 25, 2016, March 30, 2017 and October 12, 2017 respectively, the partial installation of a system at a leading producer of industrial and fuel alcohols, as announced September 28, 2016, the substantial completion of a project at a sixth site of a leading Fortune 500 food and beverage producer, as announced July 6, 2017, plus revenue relating to the early engineering phases of both the co-generation project, as announced August 31, 2017 and the energy efficiency project with a pulp and paper customer, as announced December 5, 2017. This compared to six major ongoing projects in the first nine months of the previous year, including three hospital projects, as announced July 25, 2016, August 4, 2016 and November 2, 2016 respectively, an installation at a global brewing company, as announced August 8, 2016, an installation at a leading food products business, as announced May 3, 2016, and the early stages of an installation at a leading producer of industrial and fuel alcohols, as announced September 28, 2016.

GEM™ revenue in the first nine months of the current year included further orders received from a leading performance materials company and the completion of a conversion of a hospital. The same period of the previous year saw partial fulfilment of orders received from two major hospitals, as well as orders from an international textiles manufacturer and a multinational biotech company, plus orders received from a leading performance materials company, as mentioned in the September 20, 2016 announcement.

The gross profit of $4,971,078 in the nine months ended February 28, 2018 represented a decrease of $88,954, or 1.8%, from the $5,060,032 achieved in the nine months ended February 28, 2017. These results expressed as a percentage of sales were 49.4% in the first three quarters of FY 2018 compared with 60.0% in the first three quarters of FY 2017. The decrease is due to the product split.

Expenses

Administration, selling, marketing and business development expenses for the nine months ended February 28, 2018 totaled $5,201,620 compared to $4,800,725 for the nine months ended February 28, 2017, an increase of $400,895, or 8.4%. Increases in costs associated with additional sales and technical staff and strategic planning were partially offset by a reduction in staff incentive and reduced stock based compensation. In addition, the strengthening of the pound sterling in the first nine months of FY 2018 was in contrast to a weakening in the same period of the previous year, resulting in current year exchange losses compared to a gain in the first nine months of FY 2017.

Research and development costs in the first three quarters of FY 2018 totaled $99,557, compared to $96,696 in the same period of FY 2017.

Finance revenue in the nine months ended February 28, 2018 of $25,191 compared to $7,097 recognized in the nine months ended February 28, 2017. The finance lease was extended for a further three-year period in May 2017 and the interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance.

Loss before income taxes for the nine months ended February 28, 2018 was $304,908 compared to income of $169,708 in the same period of the previous year. This decrease in profitability was predominantly the result of costs associated with additional staffing requirements, plus exchange rate fluctuations of the pound.

Income tax recovery in the first three quarters of FY 2018 was $35,998, compared to a charge of $130,752 in the same period of FY 2017. This was the result of higher profits within the UK entity in the first nine months of the previous year.

Net loss for the nine months ended February 28, 2018 was $268,910 compared to net income of $38,956 in the same period of the previous year.

Comprehensive loss was $271,908 for the nine months ended February 28, 2018 compared to $341,458 for the nine months ended February 28, 2017. The weakening of sterling against the Canadian dollar following the Brexit referendum in June 2016 in the previous year has started to turn around somewhat in the current fiscal year, resulting in a lower exchange loss from the revaluation of goodwill and intangible assets in the U.K. in the current period.

3.3 Liquidity and Capital Resources

The working capital was $1,227,532 at February 28, 2018, compared to working capital of $1,430,797 at May 31, 2017 – a decrease of $203,265, with the Company's net cash position (Cash and cash equivalents less Bank loans) decreasing by $874,444 from $2,950,140 at May 31, 2017 to $2,075,696 as at February 28, 2018.

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

	May 31, 2016 $	Aug 31, 2016 $	Nov 30, 2016 $	Feb 28, 2017 $	May 31, 2017 $	Aug 31, 2017 $	Nov 30, 2017 $	Feb 28, 2018 $
Current Assets	3,834,124	3,400,711	5,066,120	5,363,954	6,221,714	4,245,864	4,450,013	4,933,877
Current Liabilities	2,857,750	2,502,425	3,806,596	4,149,552	4,790,917	3,079,805	3,099,395	3,706,345
Working Capital	976,374	898,286	1,259,524	1,214,402	1,430,797	1,166,059	1,350,618	1,227,532

Q3 FY 2018 Changes

Current assets increased in the third quarter of FY 2018 by $483,864 to $4,933,877. Cash increased by $242,574, due mainly to progress payments received on heat recovery projects. Accounts receivable also increased by $380,012 in the current quarter, while other assets had a combined decrease of $138,722.

Current liabilities increased by $606,950 to $3,706,345, due to progress of heat recovery projects, which resulted in an increase in deferred revenue of $213,668 alongside an increase in accounts payable of $336,708. Other net increases totaled $56,574, with increased commissions payable being partially offset by decreases in taxes payable as UK liabilities were settled in the quarter.

As at February 28, 2018, $125,523 (6.9%) of the Company's trade receivables balance was over 90 days past due. None of the overdue balance is considered impaired as at February 28, 2018.

At February 28, 2018, 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	312,070	155,405	156,665	nil

Net cash provided by operating activities in the quarter ended February 28, 2018 was $227,081 compared to $1,088,114 in the quarter ended February 28, 2017. The current quarter inflow was predominantly due to working capital changes resulting from various ongoing heat recovery projects.

Net cash provided by investing activities for the quarter ended February 28, 2018 of $6,733 comprised $20,715 finance lease principal payments received less $13,982 paid for additions to property, plant and equipment. This compared to $11,310 finance lease principal payments received, less $10,210 paid for additions to property, plant and equipment in the quarter ended February 28, 2017.

Net cash provided by financing activities for the quarter ended February 28, 2018 was $nil. The $1,417 net cash provided by financing activities in the same period of the prior year came from the exercise of share options.

After allowing positive $8,760 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 $242,574 over the third quarter of FY 2018, compared to an increase of $1,061,796 over the same quarter of FY 2017.

Adjusted operating cash outflow (defined as net income or loss plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the quarter ended February 28, 2018 was $172,129, compared to $19,837 for the quarter ended February 28, 2017.

In addition to its net cash balance of $2,075,696 as at February 28, 2018 the Company also had an estimated $246,000 of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately $2,321,696, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in FY 2018 and into FY 2019.

Order backlog as at February 28, 2018 was approximately $14.9 million compared to $4.6 million at the same time last year. As at April 19, 2018, the Company had $16.3 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.

Management is of the opinion that sufficient working capital will be obtained from future cash flows by achieving profitable operations through continuing to manage expenditures and concentrating on building upon the revenue levels experienced in 2016 and 2017. 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:

	Three months ended		Nine months ended	
	Feb 2018 $	Feb 2017 $	Feb 2018 $	Feb 2017 $
Net cash provided (used) in operating activities	227,081	1,088,114	(883,142)	1,318,357
Changes in working capital	(419,925)	(1,119,261)	515,241	(1,236,278)
Finance lease principal payments received	20,715	11,310	55,863	69,957
Adjusted operating cash flow	172,129	(19,837)	(312,038)	152,036

Net Investment in Lease

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

	Feb 28, 2018 $	May 31, 2017 $
Total estimated minimum lease payments receivable	238,108	319,161
Less: unearned income	(34,244)	(59,434)
	203,864	259,727
Less: current portion	(86,028)	(77,328)
	117,836	182,399

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.

On May 1, 2017, a final extension agreement was signed for 36 months to May 1, 2020. Pursuant to this new extension, the customer has agreed to pay up to $9,500 per month over three years, at the end of which the customer assumes full ownership of the equipment.

Until the expiry of the new lease on May 1, 2020, finance revenue will be recognized within the consolidated statements of comprehensive income 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	109,554
Between two and five years	128,554
Residual value of equipment	-
	238,108

3.4 Segmented Information

In the quarters and nine-month periods ended February 28, 2018 and February 28, 2017, the Company operated in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada, Europe and China.

Management reporting comprises analysis of revenue and gross profit by product segment within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company's future. The Company has two operational bases ("reporting units"), one in Canada covering North America and China ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). These areas are determined by proximity of the region to the reporting unit, plus the location of the contracts in existence with agents and distributors in the respective areas and the historical relationships with those agents and distributors. Corporate costs that cannot easily be attributed to either of the two reporting units are included in reconciling items. The chief operating decision maker focuses on revenues and costs by geographical segments but manages assets and liabilities on a global basis.
Segment information for the quarter ended February 28, 2018 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**1,314,194**	1,042,297	**1,914,192**	2,182,233	**-**	-	**3,228,386**	3,224,530
Cost of sales	**(840,105)**	(398,413)	**(788,510)**	(1,150,884)	**-**	-	**(1,628,615)**	(1,549,297)
Gross profit	**474,089**	643,884	**1,125,682**	1,031,349	**-**	-	**1,599,771**	1,675,233
Other expenses	**(602,082)**	(633,607)	**(892,731)**	(766,867)	**(291,141)**	(319,080)	**(1,785,954)**	(1,719,554)
Finance revenue	**7,784**	690	**-**	-	**-**	-	**7,784**	690
Income (loss) before income taxes	**(120,209)**	10,967	**232,951**	264,482	**(291,141)**	(319,080)	**(178,399)**	(43,631)
Income taxes (expense) recovery	**33,108**	(24)	**(20,118)**	(44,812)	**6,765**	31,995	**19,755**	(12,841)
Net income (loss)	**(87,101)**	10,943	**212,833**	219,670	**(284,376)**	(287,085)	**(158,644)**	(56,472)
Attributable to:								
Owners of the parent	**(87,867)**	14,239	**212,479**	215,924	**(284,376)**	(287,085)	**(159,764)**	(56,922)
Non-controlling interest	**766**	(3,296)	**354**	3,746	**-**	-	**1,120**	450

Segment information for the nine months ended February 28, 2018 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling items		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**6,405,749**	2,897,650	**3,649,668**	5,540,377	**-**	-	**10,055,417**	8,438,027
Cost of sales	**(3,778,548)**	(968,162)	**(1,305,791)**	(2,409,833)	**-**	-	**(5,084,339)**	(3,377,995)
Gross profit	**2,627,201**	1,929,488	**2,343,877**	3,130,544	**-**	-	**4,971,078**	5,060,032
Other expenses	**(2,061,342)**	(1,963,867)	**(2,335,294)**	(2,133,283)	**(904,541)**	(800,271)	**(5,301,177)**	(4,897,421)
Finance revenue	**25,191**	7,097	**-**	-	**-**	-	**25,191**	7,097
Income (loss) before income taxes	**591,050**	(27,282)	**8,583**	997,261	**(904,541)**	(800,271)	**(304,908)**	169,708
Income taxes (expense) recovery	**(15,372)**	-	**24,306**	(203,853)	**27,064**	73,101	**35,998**	(130,752)
Net income (loss)	**575,678**	(27,282)	**32,889**	793,408	**(877,477)**	(727,170)	**(268,910)**	38,956
Attributable to:								
Owners of the parent	**585,155**	(11,095)	**32,410**	777,370	**(877,477)**	(727,170)	**(259,912)**	39,105
Non-controlling interest	**(9,477)**	(16,187)	**479**	16,038	**-**	-	**(8,998)**	(149)

Other expenses within reconciling items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2018	2017	**2018**	2017
	$	$	**$**	$
Corporate admin costs	**193,865**	230,112	**649,070**	632,845
Stock-based compensation	**10,880**	31,056	**38,725**	86,208
Professional fees	**48,873**	17,643	**132,134**	136,737
Depreciation of property, plant and equipment	**11,061**	10,300	**31,238**	28,397
Bank charges and interest	**7,652**	8,104	**24,954**	27,433
Foreign exchange differences	**18,810**	21,865	**28,420**	(111,349)
Total	**291,141**	319,080	**904,541**	800,271

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

During the three months ended February 28, 2018, Thermal Energy Bristol had one customer that accounted for 31% of total group revenue.

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

During the nine months ended February 28, 2018, Thermal Energy Bristol had one customer that accounted for 10% and Thermal Energy Ottawa had two customers that accounted for 16% and 17% respectively of the company's total revenue for the period.

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

Further geographical analysis:

	Sales for the nine months ended		Property, Plant and Equipment as at		Goodwill and other Intangible assets as at		Finance lease receivable (non-current) as at	
	Feb 28, 2018	Feb 28, 2017	**Feb 28, 2018**	May 31, 2017	**Feb 28, 2018**	May 31, 2017	**Feb 28, 2018**	May 31, 2017
	$	$	**$**	$	**$**	$	**$**	$
Canada	**1,389,079**	490,508	**46,199**	40,984	**-**	-	**117,836**	182,399
U.S.A.	**5,014,422**	2,407,142	**-**	-	**-**	-	**-**	-
U.K.	**2,860,228**	3,730,513	**37,224**	35,639	**1,904,715**	1,874,529	**-**	-
Germany	**159,544**	82,431	**-**	-	**-**	-	**-**	-
Italy	**199,447**	1,287,795	**-**	-	**-**	-	**-**	-
Netherlands	**60,635**	46,627	**-**	-	**-**	-	**-**	-
Ireland	**33,272**	73,209	**-**	-	**-**	-	**-**	-
Greece	-	165,380	**-**	-	**-**	-	**-**	-
Slovenia	**32,879**	51,657	**-**	-	**-**	-	**-**	-
Norway	**44,196**	-	**-**	-	**-**	-	**-**	-
Rest of Europe	**41,432**	31,145	**-**	-	**-**	-	**-**	-
Kenya	**43,998**	23,231	**-**	-	**-**	-	**-**	-
India	**72,080**	40,935	**-**	-	**-**	-	**-**	-
China	**2,248**	-	**-**	-	**-**	-	**-**	-
U.A.E.	**46,197**	-	**-**	-	**-**	-	**-**	-
Rest of World	**55,760**	7,454	**-**	-	**-**	-	**-**	-
Total	**10,055,417**	8,438,027	**83,423**	76,623	**1,904,715**	1,874,529	**117,836**	182,399

Material Segmentation Variances

Revenue

Thermal Energy Ottawa: revenue for the quarter ended February 28, 2018 was $1,314,194 compared to $1,042,297 for the quarter ended February 28, 2017. Heat recovery revenue increased by $594,455, with two new projects starting in the current quarter. Revenue from sales of GEM™ products decreased by $322,558 due to lower sales in the current quarter from a Fortune 500 food and beverage company and a leading performance materials company.

Revenue for the nine months ended February 28, 2018 was $6,405,749 compared to $2,897,650 for the nine months ended February 28, 2017. Heat recovery revenue increased by $4,118,105, with the current quarter seeing an additional five ongoing projects compared to the first nine months of FY 2017. Revenue from sales of GEM™ products meanwhile decreased by $610,006 with the current period seeing a smaller number of larger orders from various customers, as well as decreased sales to a leading performance materials company.

Thermal Energy Bristol: revenue for the quarter ended February 28, 2018 was $1,914,192 compared to $2,182,233 for the same period of the previous year. Heat recovery revenue decreased by $520,778, with the current quarter including the substantial completion of an installation at one hospital, compared to installations at two hospitals and a global brewing company in the same quarter of FY 2017. Revenue from sales of GEM™ products increased by $252,737 due to increased sales generally.

For the nine months ended February 28, 2018 revenue for Thermal Energy Bristol was $3,649,668 compared to $5,540,377 the same period of the prior year. Heat recovery revenue fell by $1,644,700 due to the completion of an installation at a leading food products business plus and the substantial completion of an installation at a global brewing company in the first three quarters of the prior year not being replaced in the current period. Revenue from sales of GEM™ products decreased by $246,009 as general sales increases did not make up for the deficit in hospital sales in the current year.

Segment Income (loss) Before Tax

Thermal Energy Ottawa gross profit decreased by $169,795 in the quarter ended February 28, 2018 from the same quarter of the preceding year as a result of the decreased GEM™ revenue for the region, while expenses fell by $31,525, due predominantly to lower commissions payable. The net effect of these differences, combined with an increase in finance revenue of $7,094 resulted in a reduction in income before taxes of $131,176 for the quarter ended February 29, 2018 compared to the same period of the previous year.

For the nine months ended February 28, 2018, gross profit generated by Thermal Energy Ottawa increased by $697,713 due to increased heat recovery revenues, while other expenses grew by $97,475, due to increased commissions payable plus costs associated with additional sales and technical staff. With finance revenue increasing in the first three quarters of FY 2018 by $18,094 from the same period of FY 2017, the net effect was an increase in profitability for Thermal Energy Ottawa of $618,332.

Thermal Energy Bristol gross profit increased by $94,333 in the quarter ended February 28, 2018 from the same quarter of the preceding year despite the lower revenue, due to the product split. With other net costs increasing by $125,864, mostly due to increased commissions plus costs associated with additional staff, the resulting income before tax of $232,951 for the third quarter of FY 2018 represented a decrease of $31,531 from the $264,482 for the third quarter of FY 2017.

For the nine months ended February 28, 2018, gross profit generated by Thermal Energy Bristol decreased by $786,667 as a result of the decreased revenue, while other expenses rose by $202,011. The decrease in commission payable was more than offset by costs relating to additional sales staff. The net effect of these changes was a fall in income before tax for Thermal Energy Bristol of $988,678.

Other expenses within reconciling items, which incorporates all costs not specifically attributable to the either regional operational center, amounted to $291,141 in the third quarter of FY 2018 compared to $319,080 in the third quarter of FY 2017, with increased professional fees due to the timing of audit fee invoices being more than offset by a reduction in stock based compensation plus reduced fees payable to a company appointed to assist with the corporate expansion strategy.

For the nine months ended February 28, 2018, other expenses within reconciling items totaled $904,541, an increase of $104,270 from the same period of FY 2017. A decrease in stock based compensation was partially offset by increased professional fees payable to a company to assist with the corporate expansion strategy, however the predominant cause of the increase was the strengthening of the British pound in the current period, compared to a weakening in the same period of the prior year following the Brexit referendum.

Quarterly financial information (unaudited)
For the eight quarters ended February 28, 2018

Quarter ended	28-Feb-18 $	30-Nov-17 $	31-Aug-17 $	31-May-17 $
Revenue	3,228,386	3,729,447	3,097,584	4,754,080
Gross Profit	1,599,771	1,853,510	1,517,797	2,378,543
Gross Profit Percentage	49.6%	49.7%	49.0%	50.0%
EBITDAS(1)	(156,016)	108,711	(186,269)	462,964
Total net income (loss)	(158,644)	70,514	(180,780)	353,776
Income (loss) per share, basic and diluted	(0.001)	0.000	(0.001)	0.002

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

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

4. Business Outlook

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

Other than our order backlog, we do not provide specific financial performance guidance. However, we believe that we are well positioned to benefit from this increased demand, particularly in our key markets of North America, the United Kingdom, and the European Union. As mentioned in Section 2.3 earlier, Management uses order backlog as an indicator of the short-term future revenue of our Company resulting from already recognized orders.

The Company's order backlog as at February 28, 2018 was approximately $14.9 million. As at April 19, 2018, the Company had an order backlog of approximately $16.3 million, of which approximately $0.3 million is related to long term contracts and is not expected to be reflected in revenue within the next 12 months.

	2016 $ million	2017 $ million	2018 $ million
Order backlog as at February 28	4.4	4.6	14.9
Order backlog as at April reporting date	4.7	8.0	16.3

- In March 2018, the Company announced that it had received an order for approximately $840 thousand for the installation of a heat recovery system at a teaching hospital. The order is expected to be fulfilled and the revenue earned over the next three to six months.

- In December 2017, the Company announced that it has been engaged by an existing pulp and paper customer to design, develop and implement a major energy efficiency improvement and greenhouse gas reduction project. The project includes the installation of two of Thermal Energy's proprietary FLU-ACE® Heat Recovery Systems and the conversion of the mill's steam traps to Thermal Energy's proprietary GEM™ Steam Trap system.

  Working closely with the customer, the Company helped secure $5 million in funding for the project from the Ministry of Research, Innovation and Science through the TargetGHG Industrial Demonstration Program ("TargetGHG Stream 1 Program") administered by Ontario Centres of Excellence (OCE). The project was in the very early stages at quarter end and is expected to be fulfilled and the revenue earned over the next fifteen months.

- In October 2017, the Company announced that it had received a $1.32 million order for the installation of a heat recovery system at a further site of an existing hospital customer. The order was approximately 70% complete as at February 28, 2018 and is expected to be fulfilled and the revenue earned over the next three months.

- In August 2017, the Company announced that it had received a Super-Efficient Cogeneration Heat Recovery order from a leading Fortune 500 food and beverage producer for approximately $1,460,000. As at February 28, 2018 this order was less than 10% complete and is expected to be fulfilled and the remaining revenue earned over the next three months.

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

5. Summary of Outstanding Shares and Dilutive Instruments

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

Shares

159,088,950 class A common shares.

Options

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
0.05-0.07	5,991,500	2.09	0.05	3,895,667	0.05
0.07-0.10	4,071,360	2.22	0.08	2,797,570	0.08
0.10-0.12	10,432,671	0.54	0.10	10,266,001	0.10
	20,495,531	1.33	0.08	16,959,238	0.09

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.

Revenue Recognition relating to contracts for heat recovery solutions

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

Deferred tax assets

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

Changes in Accounting Standards

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

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

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

Amendments to IAS 7: Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. These amendments require entities to provide disclosures that help users of the financial statements to better understand changes in liabilities that arise from financing activities, including both changes arising from cash flow and non-cash changes. These amendments became effective for annual periods beginning on or after January 1, 2017. The Company adopted the amendments on June 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Amendments to IAS 12: Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12. The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments became effective for annual periods beginning on or after January 1, 2017.The Company adopted the amendments on June 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

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

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

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer acquisition costs. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. This standard will be effective for annual periods beginning on or after January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 16, "Leases"

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

Amendments to IFRS 2: Share Based Payments ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements for accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

7. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

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

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continue to build the sales force, FY 2014 produced the company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022, but this was again followed by a net loss of $2,154,817, accompanied by a cash decrease of $1,331,074 in FY 2015. FY 2016 year saw a return to profitability and an increase in cash balances of $427,805 which was further improved upon in FY 2017. Although the current year to date has produced a loss, the Company has its strongest ever order backlog going into the final quarter of FY 2018 and beyond.

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

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

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

8. Forward-Looking Information

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

9. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the quarter ended February 28, 2018 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.