KONTROL TECHNOLOGIES CORP.

Management Discussion and Analysis

For the Nine Months Ended September 30, 2022

November 14, 2022

Q3 2022 AND YEAR TO DATE HIGHLIGHTS

- Revenues for the three months ended September 30, 2022, were $19.9 million, down 7.5% over the same quarter in the prior year

- Revenues for the nine months ended September 30, 2022, were $75.6 million, up 161% over the same period in the prior year

- The Company suffered a net loss of $(5.2) million for the three months ended September 30, 2022

- Net loss for the nine months ended September 30, 2022, was $(2.4) million, compared to net income of $1.4 million for the same period in the prior year

- Adjusted EBITDA loss for the three months ended September 30, 2022, was $(4.0) million

- Adjusted EBITDA for the nine months ended September 30, 2022, was $545,029, compared to Adjusted EBITDA of $5.0 million for the same period in the prior year

- Gross profit for the nine months ended September 30, 2022, was $12.7 million, compared to $10.0 million over the same period in the prior year

- Due to the impacts from COVID, ongoing supply chain challenges and material cost increase, Global HVAC & Automation Inc., a wholly owned subsidiary of Kontrol Technologies Corp. suffered losses for the three months ended September 30, 2022

- Kontrol entered into a Credit Agreement of up to $50 million with Schedule 1 Bank; Facilities provide Revolver and Acquisition financing

- As at September 30, 2022, the Company was in violation of its financial covenants in the credit facilities which includes the revolver and term facility. As a result, the Company's term loan has been classified as a current liability at September 30, 2022.

- Delivered integrated energy audit and carbon reduction RoadMap for major Canadian University

- Completed first SmartSuite installation in Florida for a leading National USA REIT

- Closed multi-year emission monitoring revenues for rail infrastructure expansion in Ontario

Caution Regarding Forward Looking Statements

Certain information included in this Management Discussion and Analysis, including information relating to future financial or operating performance and other statements that express the expectations of management or estimates of future performance constitute “forward-looking statements”. All statements contained herein that are not clearly historical in nature may constitute forward-looking information. In some cases, forward-looking information can be identified by words or phrases such as “may”, “will”, “expect”, “likely”, “should”, “would”, “plan”, “anticipate”, “intend”, “potential”, “proposed”, “estimate”, “believe” or the negative of these terms, or other similar words, expressions and grammatical variations thereof, or statements that certain events or conditions “may” or “will” happen, or by discussions of strategy. Such forward-looking statements include, without limitation, statements regarding possible future acquisitions and/or investments in operating businesses and/or technologies, accelerated organic growth, expansion of smart energy technologies into US markets, strategic partnerships to expand into North American Markets, acceleration of recurring SaaS revenues, the provision of solutions to customers and Greenhouse Gas emissions reductions, proposed financial savings and sustainable energy benefits and energy monitoring.

Where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief are based on assumptions made in good faith and believed to have a reasonable basis. Such assumptions include, without limitation, that suitable businesses and technologies for acquisition and/or investment will be available, that such acquisitions and or investment transactions will be concluded, that sufficient capital will be available to the Company, that technology will be as effective as anticipated, that organic growth will occur, and others.

However, forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected, or implied by such forward-looking statements. Such risks include, but are not limited to, lack of acquisition and investment opportunities or that such opportunities may not be concluded on reasonable terms, or at all, that sufficient capital and financing cannot be obtained on reasonable terms, or at all, that technologies will not prove as effective as expected that customers and potential customers will not be as accepting of the Company’s product and service offering as expected, and government and regulatory factors impacting the energy conservation industry. In particular, successful development and commercialization of the Kontrol BioCloud Analyzer are subject to the risk that the Kontrol BioCloud Analyzer may not prove to be successful in detecting the virus that causes COVID-19 effectively or at all, uncertainty of timing or availability of any regulatory approvals and Kontrol’s lack of track record in developing products for medical applications.

Accordingly, undue reliance should not be placed on forward-looking statements and the forward-looking statements contained in this Management Discussion and Analysis are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as at the date hereof and the Company does not undertake any obligation to update publicly or revise any such forward-looking statements or any forward-looking statements contained in any other documents whether as a result of new information, future events or otherwise, except as required under applicable securities law. In this Management Discussion and Analysis (“MD&A”), "Kontrol", “Kontrol Technologies”, the "Company", "we", "us" and "our" refer to Kontrol Technologies Corp. and its subsidiaries. All financial information is prepared in Canadian dollars and using International Financial Reporting Standards ("IFRS"). Unless otherwise specified, in this MD&A, all references to "dollars" or to "$" are to Canadian dollars.

Additional information relating to the Kontrol Technologies Corp., including our most recent Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com. This MD&A should be read in conjunction with the Company's fiscal 2021 audited consolidated financial statements, fiscal 2021 MD&A, and unaudited condensed interim consolidated financial statements as at September 30, 2022.

Non-IFRS Measures

This Management Discussion and Analysis includes certain measures which have not been prepared in accordance with IFRS such as EBITDA and Adjusted EBITA. Management believes these measures are widely accepted and useful financial indicators in evaluating the historical operating performance of the Company. These financial measures are not recognized under IFRS. The Company defines EBITDA as net income or loss before interest, income taxes, amortization, and depreciation. The Company defines Adjusted EBITDA as EBITDA before share-based compensation, acquisition related expenses and listing expense.

ABOUT

The Company is a provider of energy management, continuous air quality and emission solutions to commercial and industrial consumers. Management considers its products and services to comprise one operating segment - energy management, emission compliance and air quality technology and services. The Company delivers building intelligence through the Internet of Things (IoT), software and cloud technology as well as project integration. Kontrol works to provide products and services that are intended to benefit customers from reduced energy costs, lower emissions, improved operating performance real-time data and analytics, smart-learning, and increased sustainability.

Products and Services

1) Smart Buildings and Facilities

Kontrol’s Smart Technology is deployed to customers through a cloud-based interface accessible on desktops and mobile devices. The Company collects real-time and historical data through the use of IoT sensors and direct connection to industrial control systems, bringing various sources of asset performance data in the cloud where smart-learning software is applied to optimize performance.

The global pandemic has changed the way in which commercial, multi-residential and industrial buildings are managed and maintained. More than ever, there is an emphasis on how to deploy technology to reduce operating costs, optimize energy savings and increase automation to reduce labor costs while advancing sustainability.

SmartSite®

This SmartSite software is a building energy software technology designed to assist in the operation and management of complex heating, ventilation, and cooling systems for factories, large multi-residential, commercial, and mission critical buildings. Kontrol's IoT technology can be rapidly deployed within any building and can send energy data into Kontrol's cloud architecture where the data is analyzed in real-time. Through comparison and analysis to over 50 billion data points spanning more than 200 buildings, Kontrol can quickly identify inefficiencies, savings, and mission critical risk for its customers.

SmartSite capabilities:

- Fast installation
- Immediate access to energy data
- Secure export to Kontrol's energy management system in the cloud
- Interoperability across building automation systems and HVAC equipment
- Immediate visibility into energy demand and consumption

SmartSuite®

Designed for commercial buildings, multi-residential buildings, factories, and the hospitality industry and driven by the move to smart buildings and smart cities, the SmartSuite thermostat can connect into existing building automation systems and to also communicate with utilities.

The SmartSuite thermostat provides in-suite energy management with rich analytics and user interfaces, which in turn is intended to deliver energy savings, comfort and measurable GHG reductions.

SmartSuite® capabilities:

- Real-time energy management and conversation
- Rich data analytics
- Smart learning algorithms
- Multiple user interfaces
- Bluetooth connection
- Integrated with window and door sensors
- Ability to communicate with utilities

2) Emission verification, air monitoring, and compliance

Through two operating subsidiaries, ORTECH Consulting Inc. ("ORTECH") and CEM Specialties Inc. ("CEMSI"), the Company provides emission verification, air monitoring, and compliance services. For industrial facilities, these services include the installation of continuous emission monitoring equipment and ongoing monitoring and management of industrial emissions which must be reported to local, state, and provincial authorities.

ORTECH is one of Canada's leading atmospheric science consulting firms, providing a range of environmental and engineering services including stack emission testing, continuous emission testing, power generation, due diligence, odour assessment and analytics, compliance, and other engineering services. ORTECH provides a stable blue-chip industrial client base with high quality services in technical problem solving, and evaluation with an emphasis on air quality and renewable energy.

CEMSI is a leading integrator of turn-key emission monitoring equipment and generates revenue from continuous emission systems, integration design, manufacturing, service, repairs, and on-site performance certification testing. Together CEMSI and ORTECH have expanded the Company's emission monitoring and solutions business by capturing a growing footprint across Canada and the United States.

Kontrol BioCloud™

The Company has invested in the development and commercialization of BioCloud with approximately 50% of investment funding provided by Government sources.

Progress highlights:

- Industrial Research Assistance Program Funding (IRAP) Funding from the National Research Council of Canada of approximately $500,000
- Ontario Government Investment of $2.0 million
- Moved from prototype to commercialization and production
- 4 patents filed (3 USA and 1 Canada)
- Several domestic and international distribution partners signed

BioCloud is a real-time analyzer designed to detect airborne pathogens. It has been designed to operate as a safe space technology by promoting air circulation, monitoring the air quality, and sampling continuously for pathogens like viruses and pathogens. The BioCloud analyzer combines a proprietary detection chamber with an advanced air sampling process. The air sampling system draws air in and optimizes the air for analysis.

Each BioCloud is a self-contained analyzer that requires no additional laboratory tests or movement of samples. The proprietary detection chamber and cartridges can be replaced as needed, or after a detection event.

BioCloud is an air quality technology and not a medical device. The Company is not making any express or implied claims that its product has the ability to eliminate, cure or contain the COVID-19 (or SARS-2 Coronavirus).

Kontrol Carbon

In Q1 2022 the Company launched Kontrol Carbon as its branded solution to support its commercial and industrial customers in the areas of GHG emission monitoring, management, and carbon credit monetization. The Company is seeing growth in interest from customers who are dealing with GHG emission regulations or seek to voluntarily reduce their GHG emission footprint. We seek to leverage the

Kontrol brand and assist our customers in better monitoring, managing and in some cases offsetting and/or verifying the capture of their GHG emissions. Commercial and industrial buildings represent a significant source of GHG emissions, and Kontrol is participating to help solve this global challenge. Solutions offered under the Kontrol Carbon brand will include GHG emission verification, carbon offsets and carbon capture verification. The solutions will be offered under the Kontrol Carbon brand by Kontrol's wholly owned operating subsidiaries and will cover the industrial and commercial sector.

Kontrol BioWater

In Q2 2022 the Company launched the development of Kontrol BioWater, an extension of the Company's current Kontrol BioCloud technology, for early viral detection in water systems. Kontrol has been an early adopter and innovator in the area of early viral detection monitoring, and we continue to invest in our technology solutions and platform. The Kontrol BioWater technology will be designed with the goal of being the first real-time, in the cloud, detection technology for virus in wastewater. The current process for the collection of wastewater sampling involves on-site technicians, transporting samples to a laboratory and then undertaking a separate analysis of the wastewater. This process is time consuming and can take a number of days to complete. The intention of the Kontrol BioWater is to advance sampling automation for faster, on-site detection which can potentially accelerate a response plan. The Company has launched the development of the Kontrol BioWater and has budgeted $300,000 in research and development for the initial phase of development which includes modifying the current Kontrol BioCloud technology. The Kontrol BioWater viral detection system will utilize the core scientific technique of the BioCloud technology and will include a new proprietary sample extraction process for wastewater.

Similar to the approach taken with the Kontrol BioCloud, the Company has sought government funding to support its research and development. And subsequent to Q2 2022, the Company announced in July 2022 that its operating subsidiary - CEM Specialties Inc. - is receiving advisory services and funding of up to $300,000 from the National Research Council of Canada Industrial Research Assistance Program supporting a research and development project to accelerate its new wastewater testing technology.

The Company is not making any express or implied claims that its product has the ability to eliminate, cure or contain the COVID-19 (or SARS-2 Coronavirus).

3) Building Automation, Retrofit, Monitoring and Verification, and Design

In addition to the installation of Smart Technology, the Company provides building HVAC integration, automation and retrofits to improve the energy efficiency of buildings and facilities. These are typically one-time projects with annual recurring service revenue generated to manage and maintain the energy and building assets following their installation.

Kontrol and its subsidiaries provide technical services to help building owners across North America improve their facilities, save money, and conserve valuable energy resources. These services are intended to uncover, design, and manage facility systems solutions, with an emphasis on economic feasibility and energy savings. The Company works with clients to provide thorough and cost-effective energy auditing, monitoring and verification, energy project assessment, mechanical, electrical, and renewable design, and LEED facilitation.

Kontrol has expanded its presence in HVAC and control systems through the Q3 2021 acquisition of Global HVAC & Automation Inc. ("Global"). Global provides integrated installations of complex heating, cooling, ventilation and building automation systems to its customers. HVAC systems can account for up to 70% of overall energy consumption in commercial buildings. Efficient and smart HVAC systems make buildings more sustainable, profitable, and healthier. Kontrol also provides building energy services through its subsidiary New Found Air HVAC Services Inc. ("NFA"). This service company provides energy and maintenance services that ensures the effective operation of essential heating, cooling, ventilation, and utility systems.

2021 ACQUISITION OF GLOBAL HVAC & AUTOMATION INC.

On July 30, 2021, , the Company acquired 100% of the issued and outstanding shares of Global HVAC & Automation Inc., a company incorporated in Ontario. Global provides integrated installations of complex heating, cooling, ventilation, plumbing and building automation systems to its customers. The acquisition was accounted for using the acquisition method for business combinations. The net assets are included at their fair value.

Net assets acquired*	
Cash	$1,212,346
Accounts receivable	27,745,106
Prepaid expenses	2,560
Unbilled revenue	1,129,784
Property and equipment	115,362
Customer relationships	3,633,000
Goodwill	2,308,708
Accounts payable	(12,582,960)
Income taxes payable	(196,733)
Deferred revenue	(7,972,002)
Note payable	(1,800,000)
Term loan	(125,801)
Deferred income taxes	(1,684,658)
	$11,784,712
Consideration*	
Cash	$6,500,000
Vendor take back**	2,777,827
Earn-out**	1,229,293
Working capital adjustment payable	1,277,592
	$11,784,712

*Vendor take back fair value determined by taking face value amount of $3.5 million and discounting over 3-year term at market rate of 8%. The Vendor earn-out equal to 45% of adjusted 3 years cumulative earnings after-tax in excess of $4.5 million was assigned a value of $1,229,293. Based on management's Q3 2022 fair value calculation the earn-out was adjusted to zero.

PRIOR YEARS: BUSINESS ACQUISTIONS AND PURCHASE OF ASSETS

August 1, 2020 - ACQUISITION OF NEW FOUND AIR HVAC SERVICES INC.
January 14, 2019 - PURCHASE OF ASSETS FROM DIMAX CONTROLS CANADA INC.
April 30, 2018 - ACQUISITION OF ASSETS FROM MCW DIMAX LTD.
September 20, 2018 - ACQUISITION OF CEM SPECIALITIES INC.
June 30, 2016 - ACQUISITION OF KONTROL TECHNOLOGIES INC.
December 1, 2016 - ACQUISITION OF PATENTS AND INTELLECTUAL PROPERTY LOG-ONE LTD.
February 10, 2017 - ACQUISITION OF ORTECH CONSULTING INC.
August 4, 2017 - ACQUISITION OF EFFECIENCY ENGINEERING INC.

OVERALL PERFORMANCE

The Company experienced poor performance from Global HVAC & Automation Inc. ("Global") in Q3 2022. Other subsidiaries performed to expectations. The following factors at Global contributed to Kontrol's net loss in Q3 2022: Supply chain challenges, material and labour cost increases, and the impact from COVID has caused disruptions.

Revenue
Revenues for the three months ended September 30, 2022, were $19.9 million, down 7.5% over the same quarter in the prior year. Revenues for the nine months ended September 30, 2022, were $75.6 million, up 161% over the same period in the prior year.

Global's large-scale HVAC operation is focussed primarily on high rise multi-residential. As a whole, Kontrol's HVAC operations and service groups provide new build and ongoing asset care for the multi-residential, commercial and industrial building markets. Acquisitions made in 2020 and 2021 in this space have added substantial new revenue, diversification, and a platform for expansion.

The Company's presence in buildings allows for revenue generation from multiple sources including project integration, recurring revenues through software and service, maintenance, energy management, and engineering/design. Our building technology and cloud-based platform are key offerings we seek to expand in addressing sustainability, energy conservation and greenhouse gas emission reduction.

We have earned a leadership position in emission compliance and verification. Our business is based on regulatory compliance and includes a wide range of blue-chip customers across Canadian industry. The Company continues to expand its service offerings to deal with the increasing regulations from local and provincial governments in new industries.

We provide the Canadian, US, and international markets with value added solutions for continuous emissions, process monitoring applications and instrumentation. The Company works with customers across diverse industries to provide consulting, integration design, manufacturing, service, repairs, and on-site performance certification testing. Through deep industry experience, knowledge, and technical capability we have been able to leverage existing air quality monitoring technology process and add viral detection technology.

Adjusted EBITDA

Adjusted EBITDA loss for the three months ended September 30, 2022, was $(4.0) million. Adjusted EBITDA for the nine months ended September 30, 2022, was $545,029, compared to Adjusted EBITDA of $5.0 million for the same period in the prior year.

Supply chain challenges, material and labour cost increases, and the impact from COVID has caused disruptions and as such Q3 2022 resulted in an Adjusted EBITDA loss. Global did not perform to expectations in Q3 2022; execution was impacted due to difficult market conditions.

Earnings contributions have come from continuous emission monitoring, emission compliance and verification services. While the Canada Emergency Wage Subsidy contributed to the expense savings realized in 2021, this benefit is not applicable for fiscal 2022.

Corporate Financial Outlook

Kontrol provided guidance for fiscal year 2022 in our press release of November 17, 2021. The table below shows a comparison of our previously announced financial outlook for fiscal year 2022 compared to actuals for the nine months ended September 30, 2022.

We now expect that fiscal year 2022 targets will not be met. The expected miss is primarily related to the acquisition of Global. The new acquisition’s large-scale HVAC operation is focussed primarily on the high growth condominium market. During Q3 2022 Global was significantly impacted by Covid disruptions, material shortages, supply chain disruptions and wage inflation. Collectively these impacts caused a significant reduction in EBITDA and Net Income. The Company is removing its estimates for 2022 and beyond.

A number of factors contributed to a reduction in revenue and earnings:

- As certain key construction projects neared completion, additional labour expenses were required and at higher rates due to overtime and hourly wage increases
- Material shortages, supply chain disruptions, and price inflation caused a spike in material costs
- The ongoing shutdowns related to COVID in China have added to supply chain disruptions have impacted the delivery of various HVAC equipment
- In prior periods the Company was successful at working with some customers to get extra revenue related to material and labour increases. However, in the third quarter the Company was not able to secure offsetting revenue from every customer.

- The unprecedented rise in interest rates due to central bank tightening of monetary policy has impacted the ability to secure new projects in the multi-residential sector. This has caused a delay in the initiation of new projects that were previously anticipated.

Revenue estimate – FY2022	$95 million to $105 million
Revenue for the nine months ended September 30, 2022	$75.6 million
Adjusted EBITDA estimate – FY2022	$10 million to $12 million
Adjusted EBITDA for the nine months ended September 30, 2022	$545,029

Gross profit (loss) and expenses

Gross profit (loss) for the three months ended September 30, 2022, was $(904,130) down from $5.7 million for the comparative quarter in the prior year. Gross profit for the nine months ended September 30, 2022, was $12.7 million, compared to $10.0 million over the same period in the prior year.

Overall Gross Profit has been significantly impacted by an increase in material costs for projects, supply chain disruptions and increase in labor costs. While all of Kontrol's operations have been impacted the most significant impacts are on the operations of wholly owned subsidiary Global HVAC and Automation Inc. given the scale of Global's operations. Supply chains remain an issue for equipment that is included in HVAC and emission monitoring projects as well as the Company's technology. The Company works closely with its suppliers to manage any supply chain disruptions; however, challenges continue.

Advertising and promotion for the three months ended September 30, 2022, was $37,935 down from $231,642 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $75,741 down from $289,099 for the comparative period in the prior year. The decrease is primarily related to a social media campaigns, marketing and product awareness campaigns entered into in Q1 2021 and Q3 2021. These corporate campaigns can be initiated very quickly and do not require lengthy commitment terms. Management will utilize these campaigns on a strategic basis as required to communicate Company news, technology deployments, customer outreach and overall corporate updates.

Business fees and licenses for the three months ended September 30, 2022, was $142,554 up from $131,553 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $440,597 up from $309,485 for the comparative period in the prior year. This expense account includes all fees associated with Kontrol's public listing, administrative fees relating to financings, and software license and cloud computing fees. The increase can be attributed to additional expenses incurred with a third-party provider of cloud computing/storage, web services and computing processing capacity. Further the increase is also attributable to a new agreement with a press release distribution company and periodic fees paid to the Company's listing exchange.

Consulting for the three months ended September 30, 2022, was $86,342 down from $154,385 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $295,476 down from $665,491 for the comparative period in the prior year. The decrease is primarily related to expenses incurred in 2021 for the launch of a U.S. investor relations firm, virtual conferences and awareness campaign as the Company sought to gain greater exposure in that market. The Company also used the services of a strategic Canadian based communications firm to improve product awareness in Canada. Both these firms were no longer used in 2022 which resulted in significant savings.

Employee salaries and benefits for the three months ended September 30, 2022, was $3.7 million compared to $2.3 million for the same quarter in the prior year, and the nine months ended September 30, 2022, totalled $10.9 million up from $5.0 million for the comparative period in the prior year. This change includes incremental employee salaries from the Global acquisition and reflects overall increases in Company revenue. Global payroll union benefits make up a significant portion of this account. In the prior year, salaries declined in groups where employee working hours were down due to the impact of COVID-19. As a percentage of revenue, office and administrative salaries have decreased significantly with overall Company growth.

Other income for the three months ended September 30, 2022, was $1.3 million compared to $361,708 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $1.4 million down from $2.5 million for the comparative period in the prior year. The changes is mostly comprised of write down of the Global earn-out in the amount of $1.2 million, and benefits from scientific research and experimental development. During the nine months ended September 30, 2021, the Company recognized $2.3 million in funding from the Industrial Research Assistance Program and Ontario Together Fund. In 2022 the Company did not receive any Canada Emergency Wage Subsidy due to its termination and the Company was not in receipt of IRAP funding. The benefits of tax incentives for scientific research and experimental development expenditures, funding for Industrial Research Assistance Program, subsidy assistance through the Canada Emergency Wage Subsidy, and grants from the Ontario Together Fund are recognized in the period the qualifying claim is made providing there is reasonable assurance of recoverability. This account also includes other miscellaneous income and expenses.

Professional fees for the three months ended September 30, 2022, was $31,998 compared to $165,707 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $359,527 down from $402,632 for the comparative period in the prior year. In Q2 2022, some professional fees were allocated to Share Issuance Costs. For the nine months ended September 30, 2022 the increase relates to legal and investment banking assistance provided in connection with financing related documents. Audit fees have increased due to the acquisition of Global and the growth in the Company's operating platform. Legal fees in connection with a vendor holdback dispute were included in 2022.

Travel for the three months ended September 30, 2022, was $54,043 compared to $29,651 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $126,169 up from $51,717 for the comparative period in the prior year. On-site service and maintenance work has resumed to pre-pandemic levels and as such our HVAC team has incurred road tolls and other travel related expenses necessary to execute work orders. Higher travel was anticipated by management with easing of pandemic restrictions and increasing revenue. The increase also relates to travel expenses incurred by Global.

Finance expense for the three months ended September 30, 2022, was $311,509 compared to $192,844 for the comparative quarter in the prior year, and the nine months ended September 30, 2022, totalled $876,762 down from $918,308 for the comparative period in the prior year.

Finance expense includes interest primarily relating to new revolvers, new term loan, debentures, convertible debentures, debt financing, lease liabilities, and vendor take backs. The Company has assumed more debt in Q3 2022 to finance Global's working capital needs. Further, the Company is currently experiencing higher overall interest expense due to markedly higher benchmark rates. The Company did realize savings due to the prepayment of the $3,000,000 debt financing that was paid off in 2021. Interest accretion and interest accruals relating to the vendor take backs were higher compared to prior periods mainly due to the NFA and Global acquisitions.

Share-based compensation for the nine months ended September 30, 2022, was $387,189 compared to $1.3 million for the comparative period in the prior year. The decrease is significant and relates to expensing of warrants issued to a U.S. based investment bank advisory firm in Q1 2021.

Other expense accounts have increased in part due to the Q3 2021 acquisition.

Selected Financial Infomation and Discussion of Operations

Financial Results	**Three months ended**		**Nine months ended**	
(unaudited)	**Sept 30, 2022**	**Sept 30, 2021**	**Sept 30, 2022**	**Sept 30, 2021**
Revenue	$19,876,566	$21,494,039	$75,635,161	$28,980,685
Gross profit (loss)	$(904,130)	$5,706,336	$12,724,826	$9,968,132
Net income (loss)	$(5,167,235)	$2,060,880	$(2,435,398)	1,415,283
Basic EPS	$(0.11)	$0.04	$(0.05)	$0.03
Diluted EPS	$(0.11)	$0.04	$(0.05)	$0.03
Add for adjusted EBITDA reconciliation:				
Amortization and depreciation	$602,612	$430,166	$1,716,476	$1,245,453
Finance expense	$311,509	$192,844	$876,762	$918,308
Share based compensation	$262,318	$67,267	$387,189	$1,283,770
Listing expense	$0	$0	$0	$117,797
Adjusted EBITDA (loss)	$(3,990,796)	$2,751,157	$545,029	$4,980,611
Financial Position	**at Sept 30, 2022**	**at Dec 31, 2021**		
Assets	$66,639,958	$60,697,996		
Non-current liabilities	$7,952,982	$10,221,747		
Cash dividends	$0	$0		

Total assets and liabilities

As at September 30, 2022, the Company had total assets of $66.6 million. Accounts receivable, unbilled revenue, goodwill, and intangible assets were the most significant dollar asset account balances. Non-current liabilities are comprised of term loan, convertible debentures, lease liabilities, vendor take back and earn-out, and deferred income taxes. Total assets increased by $6.0 million as at September 30, 2022 compared to December 31, 2021 and is mainly attributable to an increase in accounts receivable and unbilled revenue relating to HVAC project activities.

Disclosure of Outstanding Share Data

As at September 30, 2022, 48,868,127 common shares, 1,794,736 options, and 3,753,745 warrants were outstanding. The options and warrants are exercisable on a one-for-one basis for common shares of the Company.

As at September 30, 2022, the outstanding principal amount of the 2024 convertible debenture offering was $20,000; convertible into common shares at a conversion price of $0.80 per share. Any convertible debentures that have not been converted will mature on August 31, 2024.

As at September 30, 2022, the outstanding principal amount of the 2023 convertible debenture offering was $325,000; convertible into common shares at a conversion price of $0.50 on or prior to June 30, 2022, and at a price of $0.60 after June 30, 2022, until or on June 30, 2023. Any convertible debentures that have not been converted will mature on June 30, 2023.

SUMMARY OF QUARTERLY RESULTS

The following summary information is taken from the Company's quarterly and annual financial reports.

	Q3 Sept 30, 2022	Q2 June 30, 2022	Q1 March 31, 2022	Q4 Dec 31, 2021	Q3 Sept 30, 2021	Q2 June 30, 2021	Q1 March 31, 2021	Q4 Dec 31, 2020
Revenue	$19,876,566	$29,137,061	$26,621,533	$28,683,615	$21,494,039	$4,167,452	$3,319,194	$4,302,514
Gross Profit (loss)	$(904,130)	$6,886,821	$6,742,135	$5,869,989	$5,706,336	$2,490,574	$1,771,223	$1,734,510
Net profit (loss)	$(5,167,235)	$1,090,164	$1,641,673	$(389,762)	$2,060,880	$178,135	$(823,733)	$(598,816)
Basic EPS	$(0.05)	$0.02	$0.03	$(0.01)	$0.04	$0.00	$(0.02)	$(0.02)
Diluted EPS	$(0.05)	$0.02	$0.03	-	$0.04	-	$(0.02)	$(0.02)

After experiencing a revenue growth trend line, revenue declined significantly in Q3 2022 from Q2 2022 as illustrated in the above chart. The Company suffered a net loss of $(5.2) million in Q3 2022, after generating profitability in the previous two quarters of 2022.

The Company had benefited from large-scale HVAC project work; however, new opportunities in the multi-residiential building sector have declined as the industry deals with on-going supply chain challenges, labour issues, interest rate increases, and other macro economic headwinds and challenges. This also includes many current customers in the multi-residential sector are experiencing economic conditions which are not as favourable as recent years and hence have placed projects on hold. This includes the impact of higher interest rates and softening demand for multi-residential unit new construction purchases.

Pandemic impact on Business

There remain issues related to the COVID-19 pandemic. Supply chain for all projects remains subject to volatility and we're subject to increased lead times and price increases in securing materials. These challenges in the supply chain also continue for sourcing components. It is not possible to predict when supply chains will return to pre-pandemic functioning.

LIQUIDITY AND CAPITAL RESOURCES

Cash balance as at September 30, 2022, was $3.7 million. As at September 30, 2022, the Company had current assets and current liabilities of $44.0 million and $40.8 million respectively. The acquisition of Global increased each of the account balances that comprise the Company's working capital. The Company's debentures (excluding deferred financing costs) were $5.7 million as at September 30, 2022 and are maturing on October 31, 2022, and as such are classified as current liabilities. Subsequent to the nine months ended September 30, 2022 the Debenture unit holders were paid off through a financing involving a financial institution.

A three-year maturing revolving credit facility of up to $10 million, subject to borrowing base requirements was entered into during the third quarter of 2022. The balance was $2.5 million as at September 30, 2022. A three-year maturing term facility was entered into during the third quarter of 2022. The balance was $6.1 million as at September 30, 2022. As at September 30, 2022, the Company was in violation of its financial covenants in the credit facilities which includes the revolver and term facility. As a result, the Company's term loan has been classified as a current liability at September 30, 2022. The Company is in discussion with the financial institution.

Cash flows used in operating activities were $7.5 million for the nine months ended September 30, 2022, compared to cash flows from operating activities of $5.6 million for the comparative period in the prior year. For the nine months ended September 30, 2022, the aggregate net increase in accounts receivable and unbilled revenue was $5.8 million. This was significant and reflects the sizable project work under completion at Global.

Cash flows used in investing activities were $127,814 for the nine months ended September 30, 2022, compared to cash flows used of $7.0 million for the same period in the prior year. The prior period included the cash paid in respect of the Global shares acquisition. During the nine months ended September 30, 2021 additions to product development were incurred in connection with the Kontrol BioCloud and the Company's technology assets including SmartSite and SmartSuite.

Cash flows from financing activities were $8.1 million for the nine months ended September 30, 2022, compared to cash flows from financing activities of $4.4 million for the same period in the prior year. During the nine months ended September 30, 2022, drawdowns from revolver totalled $2.5 million compared to zero for the same period in the prior year. During the nine months ended September 30, 2022, proceeds from the term loan totalled $5.3 million, net of fees.

The change in the revolver and term loan is significant and was necessary due to working capital requirements. Global's accounts receivable include holdbacks which are customary in the industry and since collection of these holdbacks occurs post job completion, this will stretch out the timing of cash collection. During the nine months ended September 30, 2022, the Company received advances of $1.0 million from the Vendors of Global. During the nine months ended September 30, 2021, the Company received net debenture proceeds of $498,112 compared to zero during the nine months ended September 30, 2022. Lease principal payments of $345,083 were made during the nine months ended September 30, 2022. Proceeds of $164,335 and $74,941 were received in connection with options exercise and warrants exercise respectively for the nine months ended September 30, 2022. The aggregate of options and warrants proceeds were $1.1 million for the comparative period in the prior year. During the nine months ended September 30, 2022, the Company incurred $209,332 of share issue costs relating to the base shelf prospectus. Interest payments were $522,431 for the nine months ended September 30, 2022. The Company has assumed more debt through a new revolver and new term loan in Q3 2022 and funds primarily used to finance Global's working capital needs. Further, the Company is currently experiencing higher overall interest expense due to markedly higher benchmark rates. The Company did realize savings due to the prepayment of the $3,000,000 debt financing that was paid off in 2021.

Conversions of convertible debentures to common shares totalled $220,000 for the nine months ended September 30, 2022. While the conversion does not affect cash flows from financing activities, this has a positive impact on the Company's interest expense due to a reduction of debt.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes differ from these estimates under different assumptions and conditions.

COVID-19
The global pandemic outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, store closures, self-imposed quarantine periods and social distancing which caused material disruption to businesses globally resulting in an economic slowdown. COVID-19 continued to impact operations during the nine months ended September 30, 2022. Site access at points in time was an issue, and supply chain volatility remains a challenge. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Company is uncertain and remains a developing situation. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

RELATED PARTY TRANSACTIONS

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Salaries, benefits, and consulting	290,300	403,984
Share based compensation	97,000	128,580
	$387,300	$532,564

The Company's key management personnel have the authority and responsibility for planning, directing, and controlling the activities of the Company and consists of the Company's executive management team and management directors. The above table is a summary of the related party transactions, including key management compensation for the nine months ended September 30, 2022, and 2021.

FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at September 30, 2022, is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flows from operations, the Company's holdings of cash, available credit facilities, and by initiating new debt or equity financings. The Company manages liquidity risk through the management of its capital structure. In addition to working capital and other current liabilities, the Debentures are due within the current operating period. Subsequent to the nine months ended September 30, 2022 the Debenture unit holders were paid off through a financing involving a financial institution. As at September 30, 2022, the Company was in violation of its financial covenants in the credit facilities which includes the revolver and term facility. As a result, the Company's term loan has been classified as a current liability at September 30, 2022.

The Company's contractual liabilities and obligations are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	18,183,795	-	-	18,183,795
Operating line	2,528,271	-	-	2,528,271
Holdback, advances, VTB, earn-out	2,249,563	3,824,545	-	6,074,107
Term loan	6,615,837	113,693	-	6,729,530
Debenture	5,761,360	-	-	5,761,360
Convertible debenture	346,100	21,472	-	367,572
Lease liabilities	470,539	421,027	-	891,566
Total	$36,155,465	$4,380,736	$0	$40,536,201

As at September 30, 2022, the Company was in violation of its financial covenants in the credit facilities which includes the revolver and term facility. As a result, the Company's term loan has been classified as a current liability at September 30, 2022.

(c) Interest rate risk

As at September 30, 2022, the Company's Revolver and Term Loan is subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2022 net income before tax by approximately $32,400.

(d) Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).
As at September 30, 2022 and December 31, 2021, the earn-out relating to the acquisition of Global was classified as level 3.

As at September 30, 2022 and December 31, 2021, the vendor take back relating to the acquisition of NFA was classified as level 3.

As at September 30, 2022 and December 31, 2021, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. CEMSI conducts a portion of its business activities in U.S. dollars. Management of foreign exchange currency exposure is governed by the Company’s foreign exchange policy. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

The financial assets and liabilities that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar. This primarily includes cash, accounts receivable, and accounts payables and accrued liabilities which are denominated in foreign currencies.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

In accordance with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", our certifying officers have evaluated the design effectiveness of Disclosure Controls and Procedures, and our Company's Internal Control over Financial Reporting.

There were no changes in the Company’s Internal Control over Financial Reporting during the three months ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.