MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2024

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the fiscal year ended May 31, 2024 (or "FY 2024"), and compares the FY 2024 financial results to the previous year ended May 31, 2023 (or "FY 2023"). The consolidated financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the fourth quarter of FY 2024 are against the fourth quarter of FY 2023. Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 50% of our operations, assets and liabilities are denominated in British Pounds and 24% in US Dollars. 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 September 18, 2024. Disclosure contained in this document is current to September 18, 2024, unless otherwise stated.

Forward-Looking Statements

This MD&A may include statements that are forward-looking. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We discuss the principal risks of our business in Section 8 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 9 entitled "Forward-Looking Information".

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1. Our Business

1.1 Company Overview

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

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

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

1.2 Core Businesses

The Company operates primarily in North America and Europe but also sells its products and services through representative agents throughout the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions, including direct contact heat recovery solutions (e.g. **FLU-ACE®**), indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and condensate return system solutions (**GEM™** steam traps). The Company is also developing several other technology lines, including low temperature biomass drying systems (**DRY-REX™**).

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. In 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells HEATSPONGE and SIDEKICK indirect contact heat recovery units. In 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

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

Although the Company markets its products throughout the world, most sales are from within North America and Europe where the Company has direct sales and engineering staff. While North American and European markets continue to be the Company's strategic focus, the Company also continues to look for new agents and distributors in other regions deemed to have potential.

1.3 Strategy

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

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

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors.

With an established global sales and distribution network, the Company is looking to develop and/or acquire additional complementary products and services that can be distributed through its existing network.

2. Performance Measures

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

2.1 EBITDA

Management believes that EBITDA (earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital, and excludes impairment of intangible assets. EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS Accounting Standards" or "IFRS") and therefore may not be comparable to similar measures presented by other companies. There is no direct comparable IFRS measure for EBITDA. A reconciliation of net income (loss) to EBITDA is shown below.

For the fourth quarters ended May 31:

	2024 $	2023 $
Total net income attributable to owners of the parent	278,473	965,545
Total net income attributable to non-controlling interest	11,875	5,857
Interest charge	94,700	80,299
Interest revenue	(49,340)	-
Income tax expense (recovery)	(95,126)	(28,005)
Depreciation and amortization	116,584	93,139
Share based compensation	65,306	53,319
EBITDA	422,472	1,170,154

For the years ended May 31:

	2024 $	2023 $
Total net income attributable to owners of the parent	929,504	717,959
Total net income attributable to non-controlling interest	52,664	2,490
Interest charge	416,816	449,341
Interest revenue	(49,340)	-
Income tax expense (recovery)	16,981	(26,514)
Depreciation and amortization	384,329	367,917
Share based compensation	237,251	216,934
EBITDA	1,988,205	1,728,127

2.2 Order Backlog

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

The Company's order backlog as at May 31, 2024 was approximately $18.7 million. As at September 18, 2024, the Company had an order backlog of approximately $21.3 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at May 31	18.7	13.0	4.9
Order backlog as at September reporting date	21.3	21.4	10.3

3. Performance

3.1 Selected Annual Information

The following table shows selected consolidated financial data for the two most recently completed financial years.

Financial information for the years ended May 31, 2024 and 2023:

	2024 $	2023 $
Revenue	25,880,197	21,091,570
Gross profit	12,452,309	9,569,219
Gross profit percentage	48.1%	45.4%
EBITDA(1)	1,988,205	1,728,127
Total net income attributable to owners of the parent	929,504	717,959
Net profit per share - basic	0.006	0.004
Net profit per share - diluted	0.005	0.004

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

For the preceding eight quarters ended:

Quarter ended	31-Aug-23 $	30-Nov-23 $	29-Feb-24 $	31-May-24 $
Revenue	5,183,123	7,105,272	6,063,200	7,528,602
Gross profit	2,766,908	3,488,671	3,061,019	3,135,711
Gross profit percentage	53.4%	49.1%	50.5%	41.7%
EBITDA(1)	414,329	829,830	321,574	422,472
Total net income	161,830	485,539	44,451	290,348
Income per share, basic and diluted	0.001	0.003	-	0.002

Quarter ended	31-Aug-22 $	30-Nov-22 $	28-Feb-23 $	31-May-23 $
Revenue	3,122,249	4,159,453	5,602,752	8,207,116
Gross profit	1,349,287	1,768,559	2,619,232	3,832,141
Gross profit percentage	43.2%	42.5%	46.7%	46.7%
EBITDA(1)	(229,943)	(28,445)	816,361	1,170,154
Total net (loss) income	(508,501)	(266,251)	523,799	971,402
(Loss) income per share, basic and diluted	(0.003)	(0.002)	0.003	0.006

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

3.2 Summary of Fourth Quarter Results

	Q4 2024	Q4 2023
	$	$
Revenue	**7,528,602**	8,207,116
Cost of sales	**4,392,891**	4,374,975
Gross profit	**3,135,711**	3,832,141
Expenses:		
Administration, selling, marketing and business development	**2,662,647**	2,759,399
Research and development	**232,482**	49,046
	2,895,129	2,808,445
Operating income	**240,582**	1,023,696
Finance costs	**(94,700)**	(80,299)
Finance revenue	**49,340**	-
Income before income taxes	**195,222**	943,397
Income taxes recovery	**95,126**	28,005
Net income for the period	**290,384**	971,402
Exchange differences on translation of overseas operations	**38,177**	86,194
Total comprehensive income for the period	**328,525**	1,057,596
EBITDA for the period[1 2]	**422,472**	1,170,154
Order backlog as at May 31 [3]	**18.7 million**	13 million
Order backlog as at reporting date [3]	**21.3 million**	21.4 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents 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. See section 5 Business Outlook for more details.

Revenue and Gross Profit

Revenues were $7,528,602 in the quarter ended May 31, 2024, representing a decrease of $678,514, or 8.3%, compared to $8,207,116 in the quarter ended May 31, 2023. The decrease of revenue in the fourth quarter of FY 2024 was mainly due to the decrease in GEM sales offset by the increase in revenues from heat recovery projects and sales of equipment. The Company received a large GEM order in FY2023 from a leading snack manufacturer which resulted in higher revenues from GEM sales in the fourth quarter of the previous year. The Company did not receive any similar-sized GEM orders in FY 2024. However, the Company earned higher revenue from heat recovery projects and equipment sales. Both heat recovery projects and equipment sales from Boilerroom Equipment Inc. had a strong order intake for the first three quarters in FY 2024, which led to higher order backlog at the end of third quarter of FY 2024. As a result, the Company delivered higher revenues from heat recovery projects and equipment sales in the fourth quarter than the same quarter of last year.

The gross profit of $3,135,711 achieved in the quarter ended May 31, 2024, represented a decrease of $696,430, or 18.2%, from $3,832,141 achieved in the quarter ended May 31, 2023. The decrease in gross profit was mainly due to decreased gross profit from GEM as a result of lower revenues, offset by increased gross profit from heat recovery projects and sale of equipment compared to the same quarter of prior year. The gross profit expressed as a percentage of revenue was 41.7% in the fourth quarter of FY 2024 compared to 46.7% in the same quarter of FY 2023. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended May 31, 2024, totaled $2,662,647, compared to $2,759,399 in the quarter ended May 31, 2023, a decrease of $96,752, or 3.5%. In the fourth quarter, $229,832 of expenses relating to an internally developed data collection and scoping tool, which was previously recorded under Operating Expenses, was reclassified to research and development because some features of the tool were developed for research and development purposes. This was a main reason for the decrease in Operating Expenses. The decrease was partially offset by an increase in salary expense as a result of increased headcount.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses increased by $183,436 in the fourth quarter of FY 2024 compared to the same quarter of the previous year mainly because $229,832 of expenses relating to an internally developed data collection and scoping tool, which was previously recorded under Operating Expenses, was reclassified to research and development, as mentioned above.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of $94,700 in the fourth quarter of FY 2024, an increase of $14,401. The increase was partially due to the increased interest rate on one of its long-term debt that is based on floating interest rate which increased during FY 2024. The increase was also partially due to the increase in interest accretion on lease obligations: the lease obligations increased compared to the fourth quarter of the previous year because the Company leased a new rental facility for its UK operation during FY2024 and leased more vehicles for sales team due to the team expansion.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $49,340 in the fourth quarter of FY 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the quarter ended May 31, 2024 was $195,222, compared to income before income taxes of $943,397 in the same quarter of the previous year. Income before income taxes decreased by $748,175 mainly due to the decrease in gross profit of $696,430 and the increase in R&D expense of $183,436, offset by decrease in operating expenses of $96,752 and the increase in finance revenue of $49,340 as mentioned above.

Income taxes recovery in the fourth quarter of FY 2024 was $95,126, as compared to $28,005 in the fourth quarter of FY 2023, an increase of $67,121. In the fourth quarter of FY 2024, the Company recorded an income taxes recovery of $95,126, because one of its subsidiaries used tax losses for which no deferred tax asset was recognized previously, to reduce taxable income. In the fourth quarter of the previous year, the Company recorded an income tax recovery of $28,005 due to temporary timing difference.

Net Income for the fourth quarter of FY 2024 was $290,348, compared to $971,402 in the same quarter of the previous year, representing a decrease of $681,054. The decrease in net income was mainly due to the decrease in gross profit of $696,430 resulting from decreased revenue and change in product mix, the increase in R&D expense of $183,436, offset by the decrease in Operating Expenses of $96,752, the increase in income taxes recovery of $67,121, and the increase in finance revenue of $49,340.

Comprehensive income was $328,525 for the fourth quarter of FY 2024, compared to $1,057,596 for the fourth quarter of FY2023. The decrease of $729,071 of comprehensive income was mainly due to the decrease of net income in the amount of $681,054 as mentioned above and the decrease in exchange gains arising on translation of overseas operations of $48,017.

EBITDA was $422,472 for the fourth quarter of FY 2024, compared to EBITDA of $1,170,154 for the same quarter of the previous year, representing a decrease of $747,682. The decrease was mainly due to the decrease in gross profit of $696,430 as a result of decrease revenue and the change in product mix. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year End Results

	2024	2023
	$	$
Revenue	**25,880,197**	21,091,570
Cost of sales	**13,427,888**	11,522,351
Gross profit	**12,452,309**	9,569,219
Expenses:		
Administration, selling, marketing and business development	**10,817,642**	8,324,547
Research and development	**268,042**	101,396
	11,085,684	8,425,943
Operating income	**1,366,625**	1,143,276
Finance costs	**(416,816)**	(449,341)
Finance revenue	**49,340**	-
Income before income taxes	**999,149**	693,935
Income taxes (expense) recovery	**(16,981)**	26,514
Net income for the year	**982,168**	720,449
Exchange differences on translation of overseas operations	**124,656**	(60,247)
Total comprehensive income for the year	**1,106,824**	660,202
EBITDA for the year[1 2]	**1,988,205**	1,728,127
Order backlog as at May 31 [3]	**18.7 million**	13 million
Order backlog as at September reporting date [3]	**21.3 million**	21.4 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents 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. See section 5 Business Outlook for more details.

Revenue and Gross Profit

Revenues were $25,880,197 in the year ended May 31, 2024, representing an increase of $4,788,627, or 22.7%, from the $21,091,570 recognized in the year ended May 31, 2023. The increase in revenues was mainly due to increased revenues from heat recovery projects.

The gross profit of $12,452,309 in the year ended May 31, 2024, represented an increase of $2,883,090, or 30.1%, from $9,569,219 achieved in the year ended May 31, 2023. The increase in gross profit was mainly due to increased revenues and improved margins on heat recovery projects and the improved margins on the equipment sales at Boilerroom Equipment Inc. compared to prior year. Overall, gross profit expressed as a percentage of revenue was 48.1% compared with 45.4% achieved in the previous year. The increase in gross profit as a percentage of revenue was mainly due to higher margins achieved on both heat recovery projects and sales of equipment.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the year ended May 31, 2024 totaled $10,817,642, compared to $8,324,547 in the year ended May 31, 2023, representing an increase of $2,493,095, or 29.9%. $603,129 of the increase was due to the increase in foreign exchange expense compared to prior year. The rest of the increases were related to the growth of the teams, the increased business development and marketing activities, increased travelling costs, investment in a new production facility, and inflationary increases on regular operating costs and salaries.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company's R&D expense was $268,042 in the year ended May 31, 2024, compared to $101,396 in the year ended May 31, 2023, an increase of $166,646. In FY 2024, the Company continued its investment in digital infrastructure. As a result, $229,832 of expenses relating to an internally developed data collection and scoping tool, was recognized as research and development expenses because some features of the tool were developed for research and development purposes. This was the main reason for the increased R&D expenses. This increase was offset by the lower R&D expense incurred on regular R&D activities conducted in FY 2024. The increase was further offset by the lower R&D tax credits recorded because of the lower R&D costs incurred in FY 2024.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by $32,525 from $449,341 to $416,816 for the year ended May 31, 2024. The decrease was mainly due to the reduced interest rate on a long-term debt, offset by the increase in interest accretion on lease obligations due to the increase in lease obligation balance.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $49,340 in FY 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the year ended May 31, 2024 was $999,149, compared to $693,935 achieved in the previous year, representing an increase of $305,214 or 44%. The increase in income before income taxes was mainly due to the increase in gross profit of $2,883,090 as a result of increased revenues and improved margins on heat recovery projects, offset by the increase in Operating Expenses of $2,493,095 and the increase in research and development expenses of $166,646 as explained earlier.

Income taxes expense in the year ended May 31, 2024 was $16,981, compared to income tax recovery of $26,514 for the previous year, an increase in income tax expense of $43,495. The Company's U.K. and U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. In FY 2024, the Company recognized current income taxes expense of $72,413, as compared to $39,293 from prior year, an increase in current tax expense of $33,120. The increase was mainly due to the increased taxable profits earned in FY 2024. In FY 2024, the Company recognized $55,432 in deferred tax recovery mainly relating to temporary timing differences, as compared to $65,807 recognized in the previous year, which further increased the income taxes expenses for FY 2024 by $10,375.

Net income for the year ended May 31, 2024 was $982,168, compared to $720,449 in the year ended May 31, 2023, representing an increase of $261,719, or 36.3%. The increase in net income was mainly due to the increase of income before income taxes in the amount of $305,214 as mentioned earlier, offset by the increase in income taxes expense of $43,495.

Comprehensive income was $1,106,824 for the year ended May 31, 2024, compared to $660,202 for the year ended May 31, 2023, representing an increase of comprehensive income in the amount of $446,622. The increase in comprehensive income was mainly due to the increase in net income of $261,719 as mentioned earlier, and the increase in exchange gains of $184,903 arising on translation of overseas operations. The Company recognized exchange gains arising on translation of overseas operations of

$124,656 in the year ended May 31, 2024 as compared to exchange losses of $60,247 recognized in the previous year.

EBITDA was $1,988,205 for the year ended May 31, 2024 compared to $1,728,127 achieved in the previous year, representing an increase of $260,078. The increase was mainly due to the increase in income before income taxes of $305,214 as mentioned earlier, offset by the increase in finance revenue of $49,340 and decrease in finance costs of $32,525. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets increased by $3,183,198 to $14,212,056 at May 31, 2024, compared to $11,028,858 at May 31, 2023. This increase was mainly due to increase in cash and cash equivalents of $3,964,538, prepaid expenses of $925,479, inventory of $121,334, offset by decrease in trade and other receivables of $1,856,057. Current liabilities increased by $2,708,972 to $10,702,884, mainly due to increase in deferred revenue of $2,255,917, trade payables and other liabilities of $188,656, and current portion of lease obligations of $94,312.

Working capital[4] increased by $474,226 to $3,509,172 at May 31, 2024, compared to $3,034,946 at May 31, 2023. During FY 2024, the Company earned net income in the amount of $982,168, which led to the improved working capital position.

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

	Aug 31, 2022 $	Nov 30, 2022 $	Feb 28, 2023 $	May 31, 2023 $	Aug 31, 2023 $	Nov 30, 2023 $	Feb 29, 2024 $	May 31, 2024 $
Current Assets	6,284,671	7,775,570	9,501,012	11,028,858	9,741,660	11,414,589	14,392,481	14,212,056
Current Liabilities	4,211,907	6,009,454	7,321,170	7,993,912	6,678,212	7,923,055	11,014,267	10,702,884
Working Capital[4]	2,072,764	1,766,116	2,179,842	3,034,946	3,063,448	3,491,534	3,378,214	3,509,172

4. Working capital represents the difference between the Company's current assets and current liabilities.

The Company's cash position was $6,965,145 as at May 31, 2024, compared to $3,000,607 at May 31, 2023, representing an increase of $3,964,538. The increase was mainly due to net cash generated from operating activities of $5,398,368, offset by the net cash used in financing activities of $1,056,428 and investing activities of $376,890.

The net cash provided in the operating activities for the year ended May 31, 2024 was $5,398,368, which included the net income of $982,168, the addbacks of non-cash items of $1,511,119, the positive change in working capital of $3,331,500, the income tax payment of $56,888, the interest paid on long-term debt and lease obligations of $418,871, and the interest received of $49,340. The positive change in working capital was mainly due to the increase in deferred revenue as a result of the upfront deposits received for a few heat recovery projects that started in FY 2024, the decrease on the trade and other receivables of $1,856,057 due to collections, offset by the increase in prepaid expenses $925,479 due to higher amount of prepayments made to vendors for equipment purchases on heat recovery projects.

The net cash used in investing activities was $376,890 for the year ended May 31, 2024, which related to purchase of property, plant and equipment. The Company invested in leasehold improvements for a rental facility in the UK during the year ended May 31, 2024, which resulted in a higher amount of cash used in investing activities.

The net cash paid in financing activities was $1,056,428, which included repayments of long-term debt of $921,281, repayments on lease obligations of $290,483, the dividends paid to a minority interest of $50,582 offset by the proceeds received from stock option exercise of $205,918.

At May 31, 2024, $194,435 (5.9%) of the Company's trade receivables balance was over 90 days past due ($723,843 (13.5%) at May 31, 2023). $12,263 of the past due balance was impaired at May 31, 2024 ($19,689 at May 31, 2023).

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2024, provisions of $10,789 were made as expected credit losses and recorded under administrative expenses. $8,359 of the provisions were released due to the collection on the doubtful account.

For the year ended May 31, 2023, provisions of $18,306 were made as expected credit losses and recorded under administrative expenses. $77,706 of the provisions were released due to the collection on the doubtful account.

The following table presents the contractual undiscounted cash flows for lease obligations:

	May 31, 2024	May 31, 2023
Less than one year	**$ 422,806**	$ 318,925
One to five years	**1,163,437**	1,025,020
Six to ten years	**320,224**	547,953
Total undiscounted lease obligations	**1,906,467**	1,891,898

The Company's ability to realize its assets and discharge its liabilities depends on its ability to generate sufficient cash from operations or its ability to arrange debt or equity financing.

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 12 months.

3.5 Segmentation Information

In the year ended May 31, 2024 and May 31, 2023, the Company operated in the energy efficiency industry in North America, Europe and Rest of the World. The Company markets, sells, engineers, fabricates, constructs, installs and supports two main 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 mainly located in Canada, the US and the UK.

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

Segment information for the year ended May 31, 2024 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**11,812,843**	10,497,750	**14,067,354**	10,593,820	**-**	-	**25,880,197**	21,091,570
Cost of sales	**(6,399,343)**	(5,890,301)	**(7,028,545)**	(5,632,050)	**-**	-	**(13,427,888)**	(11,522,351)
Gross profit	**5,413,500**	4,607,449	**7,038,809**	4,961,770	**-**	-	**12,452,309**	9,569,219
Other expenses	**(4,052,818)**	(3,272,673)	**(5,242,729)**	(4,114,705)	**(1,790,137)**	(1,038,565)	**(11,085,684)**	(8,425,943)
Finance costs	**(92,949)**	(101,087)	**(33,176)**	(5,313)	**(290,691)**	(342,941)	**(416,816)**	(449,341)
Finance revenue	**49,340**	-	**-**	-	**-**	-	**49,340**	-
Income (loss) before taxation	**1,317,073**	1,233,689	**1,762,904**	841,752	**(2,080,828)**	(1,381,506)	**999,149**	693,935
Tax recovery (expense)	**40,824**	20,582	**(57,805)**	5,484	**-**	448	**(16,981)**	26,514
Profit (loss) after taxation	**1,357,897**	1,254,271	**1,705,099**	847,236	**(2,080,828)**	(1,381,058)	**982,168**	720,449
Attributable to:								
Owners of the parent	**1,357,868**	1,254,752	**1,652,464**	844,265	**(2,080,828)**	(1,381,058)	**929,504**	717,959
Non-controlling interest	**29**	(481)	**52,635**	2,971	**-**	-	**52,664**	2,490

Other expenses in Reconciling Items comprise the following:

	2024	2023
Corporate administration costs	**$ 769,274**	$ 678,080
Share-based compensation	**237,251**	216,934
Professional fees	**175,982**	155,462
Depreciation of property, plant and equipment	**158,940**	137,381
Amortization of intangible assets	**225,389**	230,536
Foreign exchange loss (gain)	**223,301**	(379,828)
Total	**$ 1,790,137**	$ 1,038,565

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

Finance costs within the reconciling items include interest and deferred financing charge on the long-term debt.

Material Segmentation Variances

Thermal Energy Ottawa:

For the year ended May 31, 2024, revenue was $11,812,843, representing an increase of $1,315,093, or 12.5%, from the revenue of $10,497,750 achieved in the previous year. The increase was mainly due to the increased revenues from heat recovery projects.

Gross profit increased by $806,051, or 17.5%, compared to last year. The increase in gross profit was mainly due to the increased revenues from heat recovery projects and improved margins on both heat recovery projects and equipment sales. The gross profit as a percentage of revenue for the year ended May 31, 2024 was 45.8% as compared to 43.9% achieved in the previous year. The increase was mainly due to improved margins on heat recovery projects and equipment sales as well as the change in product mix.

In FY2024, other operating expenses increased by $780,145, or 23.8%, mainly due to the increased salary expense resulting from increased headcount and salary raises. In addition, the Company also incurred higher operating costs due to higher amount of business activities engaged and general cost increase due to the general inflationary environment experienced in FY 2024.

In FY2024, the Company earned finance revenue of $49,340 from this segment. The finance costs, i.e. the interest accretion on lease obligations, also decreased by $8,138 as a result of decreased lease obligation balance for this segment. As a result, the net finance costs decreased by $57,478 compared to the previous year.

Income before taxation for FY 2024 was $1,317,073, compared to $1,233,689 achieved in the previous year, an increase of $83,384. The increase of income before taxation was mainly due to the increase in gross profit of $806,051, the decrease in net finance costs of $57,478, offset by the increase of other expenses in the amount of $780,145 as a result of increased salary, increased business activities and increased general operational costs.

Thermal Energy Bristol:

Revenue was $14,067,354, representing an increase of $3,473,534, or 32.8%, from $10,593,820 achieved in the previous year. The increase was mainly due to increased revenues from heat recovery projects for this segment.

Gross profit increased by $2,077,039, or 41.9%, from $4,961,770 to $7,038,809. The increase was mainly due to increased revenues and improved margins from heat recovery projects. In FY 2024, this segment achieved higher margins on heat recovery projects due to the successful execution of multiple projects for a single customer. The Company capitalized on economies of scale, leading to improved margins. The gross profit as a percentage of revenue was 50% for FY 2024, as compared to 46.8% achieved in prior year. The increase in gross profit as a percentage of revenue was mainly due to improved margins on heat recovery projects.

Other expenses were $5,242,729, an increase of $1,128,024 or 27.4%, from $4,114,705 of the previous year. The staff salary expense was higher than prior year due to inflationary salary increase. The Company also hired more technical and sales staff in this segment in order to support and to develop more businesses in the European market. As a result of the increased headcount, the general operating expenses including travel and business development costs, professional fees, etc. also increased. In addition, this segment continued investing in digitalization of production and data collection process. In FY 2024, the UK production team from this segment relocated to a new production facility which further increased operating costs including additional rent, leasehold improvements, the purchase of new office furniture, repair and maintenance costs associated with restoring the old facility.

Finance costs were $33,176, an increase of $27,863 from $5,313 of the previous year. Finance costs related to interest accretion on lease obligations. During FY 2024, lease obligation balance increased in this segment as a result of the addition of a new rental facility and the signing of new car leases, which led to the increased finance costs.

Income before taxes was $1,762,904 as compared to $841,752 for the previous year, an increase of $921,152. The increase was mainly due to the increase in gross profit of $2,077,039 as a result of increased revenues and margins from heat recovery projects, offset by the increase in other operating expenses of $1,128,024 and finance costs of $27,863.

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items increased from $1,038,565 to $1,797,137, an increase of $751,572, compared to prior year. The increase was mainly due to the increase in foreign exchange loss of $603,129 and the increase in corporate admin cost of $91,194 mainly due to increased activities and costs on investor relationship work.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2024 compensation arrangements for Directors were as follows:

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

During the year ended May 31, 2024, Directors fees paid were $54,000. Fees to the Chair of the Audit Committee were $5,400; fees to the Chair of the Ethics, Governance and Compliance Committee were $5,400; fees paid to the Chair of the Board were $8,100. One in-person meeting was held during the year, a total cost of $4,000.

Compensation paid to Directors and Officers during the year ended May 31, 2024 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2024 $	2023 $	**2024 $**	2023 $	**2024 $**	2023 $	**2024 $**	2023 $
Directors								
W. White	**22,600**	21,600	**-**	-	**-**	-	**22,600**	21,600
W. Ollerhead	**19,900**	18,900	**-**	-	**-**	-	**19,900**	18,900
D. Spagnolo	**19,900**	18,900	**-**	-	**-**	-	**19,900**	18,900
M. Williams	**14,500**	13,500	**-**	-	**-**	-	**14,500**	13,500
J. Kelly(1)	**-**	1,125	**-**	-	**-**	-	**-**	1,125
Total	**76,900**	74,025	**-**	-	**-**	-	**76,900**	74,025
Senior Management								
W. Crossland	**264,576**	264,576	**22,798**	19,500	**-**	-	**287,374**	284,076
R. Triebe	**209,511**	199,535	**18,053**	14,700	**4,266**	3,877	**231,830**	218,112
S. Mawby(2)	**205,928**	161,851	**15,665**	12,100	**27,786**	26,280	**249,379**	200,231
J. Zhang	**151,580**	137,800	**15,665**	12,100	**4,266**	3,877	**171,511**	153,777
Total	**831,595**	763,762	**72,181**	58,400	**36,318**	34,034	**940,094**	856,196
Total Related Party Transactions	**908,495**	837,787	**72,181**	58,400	**36,318**	34,034	**1,016,994**	930,221

(1) Mr. Kelly passed away on June 28, 2022. He remained as a member of the Board till June 28, 2022.
(2) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.701 and 1.605 in FY 2024 and FY 2023, respectively.

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

Options outstanding for Directors (excluding the CEO) as at May 31, 2024 were 1,000,000, of which 416,666 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2024 were 4,424,000, of which 2,124,994 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

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

Other than our order backlog, we do not provide specific financial performance guidance. However, we believe that we are well positioned to benefit from this increased demand, particularly in our key markets of North America, the United Kingdom, and the European Union. As mentioned in Section 2.2 earlier, Management uses order backlog as an indicator of the short-term future revenue of our Company resulting from already recognized orders. Order backlog represents 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.

The Company's order backlog as at May 31, 2024 was approximately $18.7 million. As at September 18, 2024, the Company had an order backlog of approximately $21.3 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at May 31	18.7	13.0	4.9
Order backlog as at September reporting date	21.3	21.4	10.3

- On May 6, 2024, the Company announced that it had received an order valued at approximately $1.9 million from a global materials company. This $1.9 million Turn-key project is expected to save the customer over $980,000 annually on its energy bill, reduce CO_2 emissions by 977 tonnes per year and improve pollution prevention and control. The turn-key project is expected to be completed, and revenue earned within the next 12 months from the year-end.

- On January 17, 2024, the Company announced that it had received an order valued at approximately $1 million for a hybrid Flu-Ace from a privately owned meat processing plant in Europe. The Hybrid Flu-Ace is an ultra-high efficiency unit that is expected to reduce onsite fuel use for hot water by approximately 80%, and fuel use for steam production by a further 20%. The project is expected to provide fuel savings of approximately $240,000 per year, while reducing CO_2 emissions by 292 tonnes per year resulting in additional financial savings of about $36,000 per year. The heat recovery component of the project could result in a 50% to 90% reduction in particulate matter emissions (contributors to asthma and other respiratory diseases) and acid gasses (SO2). The project was about 20% complete at the year end.

- On December 7, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $3.7 million from one of Europe's largest food and drink producers. The project is expected to provide annual natural gas savings of approximately $1.3 million while reducing CO_2 emissions by 3,078 tonnes, resulting in additional financial savings of about $313 thousand per year based on approximately $102 tonnes per year. The project is expected to provide a payback of approximately 2.3 years, or 1.6 years after receipt of IETF grant funding. The project is expected to be completed and revenue earned within 12 months from the year-end. The project was about 8% complete at the year end.

- On October 17, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $2.6 million from a multinational dairy and nutrition company. The project is expected to result in estimated annual savings of $1.2 million on fuel while reducing CO_2 emissions by 4,231 tonnes, as well as a 50% - 90% reduction in annual emissions of particulate matter (which are contributors to asthma and other respiratory diseases) and acid gases such as SO_2. The project is expected to provide a payback of approximately 2.1 years. The project was about 61% complete at the year end.

- On October 10, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $1.9 million from a global nutrition company. The project is expected to reduce natural gas use by the site's steam boilers by 75%, CO_2 emissions by 1,587 tonnes annually, and the emission of particulate matter and acid gases such as SO_2 by 50% - 90%. The project is expected to result in a payback of approximately 1.2 years. The project was about 57% complete at the year end.

- On September 13, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $4 million from a leading multinational pharmaceutical company. The expected reduction in natural gas consumption would reduce CO_2 emissions by 1,280 tons per year, representing a 13.5% reduction in site thermal CO_2 emissions. Based on the client's expected natural gas prices, the project is expected to deliver approximately $1 million in annual fuel savings, resulting in a payback for a turn-key implementation in 4.1 years before application of any available utility. The project was about 17% complete at the year end.

- On November 22, 2022, the Company announced that it had received a multi-site order from a leading snack manufacturer. Valued at $2.5 million, this order covers the engineering, supply and installation of GEM™ steam traps at 16 sites. On November 29, 2022, the Company announced, in addition to the $2.5 million announced on November 22, 2022, it has received additional GEM™ orders of approximately $1.5 million from the same customer. The customer has now extended its multi-site GEM™ project to an additional 9 sites bringing the total project up to a combined 25 sites and $4 million. This project will deliver combined annual utility and water savings of over $1.4 million, annual CO_2 reduction of 8,066 tonnes and save more than 17 million gallons of water per year. The project was about 93% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at May 31, 2024, the Company had the following shares and dilutive instruments outstanding:

Shares:

172,734,305 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2024	Weighted average exercise price
0.08-0.10	2,400,000	1.40	0.09	2,400,000	0.09
0.11-0.15	7,070,502	3.01	0.13	3,136,648	0.13
0.16-0.20	3,515,400	4.50	0.20	-	-
	12,985,902	3.12	0.14	5,536,648	0.11

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and assumptions are recognized in the year in which they are revised and in any future periods affected. Actual results may differ from these estimates, judgements and assumptions.

The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, and any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" Section 9 of this MD&A.

Valuation of intangible assets and asset impairment

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 and determines a suitable discount 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 expected cash flows, and determines an applicable royalty rate. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial 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.

Assumptions used in the Black-Scholes fair value calculations

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

Expected credit loss

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

Revenue recognition

Contracts with customers often include promises to deliver multiple goods and services. Judgement is applied in determining whether the goods and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates in determining the standalone selling prices ("SSP") for distinct performance obligations. The Company uses specific parameters to estimate SSP for distinct sales of goods and rendering of services.

Revenue from contracts for heat recovery projects

Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete (“input” method). Changes to these estimated costs may result in different estimates of completion of performance obligations and timing of revenue recognition. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes of the facts relating to each contract.

The stage of completion of contracts for heat recovery projects is assessed by management by taking into consideration all information available at the reporting date. To determine the stage of completion, significant estimates are made about estimated costs to complete which includes materials, subcontractors and labour costs.

In other instances, the stage of completion is determined by the expected level of service we will provide over the term of the contract to determine the extent of progress towards completion (“output” method).

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

There were no changes in accounting standards that had a material impact for the year ended May 31, 2024.

New standards and amendments yet to be adopted:

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

Management anticipates that all of the pronouncements will be adopted in the Company’s accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s consolidated financial statements is provided below.

Amendments to IAS 1

In October 2022, the IASB amended IAS 1, Presentation of Financial Statements with the aim of improving the information companies provide about long-term debt covenants. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment requires a company to disclose information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Such disclosure includes information about covenants and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, which will be June 1, 2024 for the Company. The adoption of the amendments to IAS 1 is not expected to have a material impact on the consolidated financial statements.

8. Risk Factors and Risk Management

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

Operational risks of the Company include the ability to continue to secure and implement sales contracts for its **GEM™**, indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), 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;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars and conflicts;
- The impact of inflation; and
- The impact of major global pandemics.

Management's addressing of the risks:

In FY 2022, the Company incurred a loss of $1,837,971. Cash balance decreased by $1,609,312. The loss was mainly caused by the decreased revenues from heat recovery projects as customers were delaying their purchase decisions on these projects in the light of uncertainties resulting from COVID. The loss was also caused by the increased Operating Expenses. Despite the loss, the Company maintained its staff levels and its full production and project development capabilities anticipating order intake to return to pre-pandemic levels in the following fiscal year. The Company applied for subsidies from government agencies and received $340,566 in FY 2022. The Company also applied for and received the second tranche of COVID loan in the amount of $1,300,000 in FY 2022 to support the Company's operations. In FY 2023, the order intake levels returned and exceeded pre-pandemic levels. The Company received $27.3 million of orders in total in FY 2023. As a result, the Company's revenue returned to the pre-pandemic level and achieved a net income of $720,449. In FY2024, the Company continued to see increase in total order intake. As a result, the Company recognized revenue of $25,880,197 and net income of $982,168 in FY2024. In addition, the Company generated cash from operating activities in the amount of $5,398,368 and paid back long-term debt of $921,281.

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

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

Management still believes that competition against its core technologies is limited at this time and believes that the marketplace is sufficiently large enough to mitigate the risk of stronger competition in the future.

Controlling foreign exchange risk is essential for our business because we operate in international markets. Our primary strategy is natural hedging, where we align our revenues and expenses in the same foreign currencies to offset exposure. In addition, we diversify our supply chain across multiple countries to minimize reliance on any single currency. We also strategically time payments and receipts, adjusting them based on currency trends to further mitigate foreign exchange risk.

Inflation rates had been rising since the start of the global pandemic, and the wave of inflation was driven by a range of factors including supply chain issues and shortages of intermediate goods and labour. The surge in inflation had resulted in higher costs of sales for the Company’s product lines. The Company has been coping with the inflation impact by implementing new measures, including implementing price increases where warranted, making bulk purchases to increase its purchasing power and to lock in on purchase prices for raw materials, securing supplies by increasing inventory level to avoid ordering sporadically, and negotiating with customers to cover additional costs caused by inflation on long-term projects.

Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

9. Forward-Looking Information

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

10. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the year ended May 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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