KONTROL ENERGY CORP.

Management Discussion and Analysis

For the Nine Months Ended September 30, 2019

November 28, 2019

Q3 2019 AND YEAR TO DATE HIGHLIGHTS

- Adjusted EBITDA for Q3 2019 and Year to Date was $206,435 and $707,263 respectively
- Fourth consecutive quarter of positive Adjusted EBITDA
- Increase in cash flow from operating activities of $1.6 million for the nine months ended September 30, 2019 over the comparative period in the prior year
- Revenue for the nine months ended September 30, 2019 was $10.9 million, up 64% over the comparative period in the prior year
- Revenue for the three months ended September 30, 2019 was $3.3 million, up 36% over the comparative quarter in the prior year
- Kontrol Energy secured pilot with global leading plant-based meat substitute company
- Kontrol Energy received its first SmartFactory order from Toyota Tsusho Canada for deployment in Q4 of IoT enabled energy monitoring and plant upgrade program
- Convertible debenture offering raised gross proceeds in excess of $1 million
- As at September 30, 2019 $3.6 million of debentures were exchanged for a new offering with a maturity date of October 31, 2020
- Completed purchase of patents, intellectual property and computer equipment from DIMAX Controls Canada Inc. and rebranded as SmartSite®

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”. 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. 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.

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, and acquisition related expenses.

ABOUT

Kontrol Energy Corp. (CSE: KNR, OTCQB: KNRLF, FSE:1K8**)** ("Kontrol" or the "Company") is a leader in the Energy Efficiency sector through Internet of Things (IoT), Cloud and Software as a Service (SaaS) technology. With a disciplined mergers and acquisition strategy, combined with a growing technology platform, Kontrol's solutions are designed to reduce our customers overall cost of energy while providing a corresponding reduction in Greenhouse Gas (GHG) emissions.

Kontrol is addressing the significant energy challenges faced by our customers. The rise in the cost of electricity over the past several years, has significantly outpaced the rate of inflation. Now more than ever high electricity costs can have a detrimental impact on overall industry competitiveness, impact profitability and result in lower market valuations for the commercial real estate sector. Further, with increased regulations surrounding GHG at the provincial, state and national level, the Energy Efficiency sector, as one of the worlds fastest growing fuel[(1)] sources, is positioned for a decade of robust growth.

(1) From the IEA 2016 Energy Efficiency Report

With over 100 Billion square feet of commercial and industrial real estate in North America, and with the average cost of energy in the range of $2 per square foot, Kontrol services an annual addressable market of more than $200 Billion USD. The world of energy consumption and demand, at the commercial level, is directly intersecting with the growth and advancement of IoT, the Cloud and SaaS technology. Kontrol will endeavour to take a leadership position in shaping the way our customers use, mange and strategically allocate energy resources. Our customers can gain immediate energy savings, more control over their energy consumption and demand in real-time and experience a giant leap forward towards achieving sustainability objectives.

MISSION

Delivering smarter energy solutions and a more sustainable future.

ACCELERATING GROWTH THROUGH KEY STRATEGIC PRIORITIES

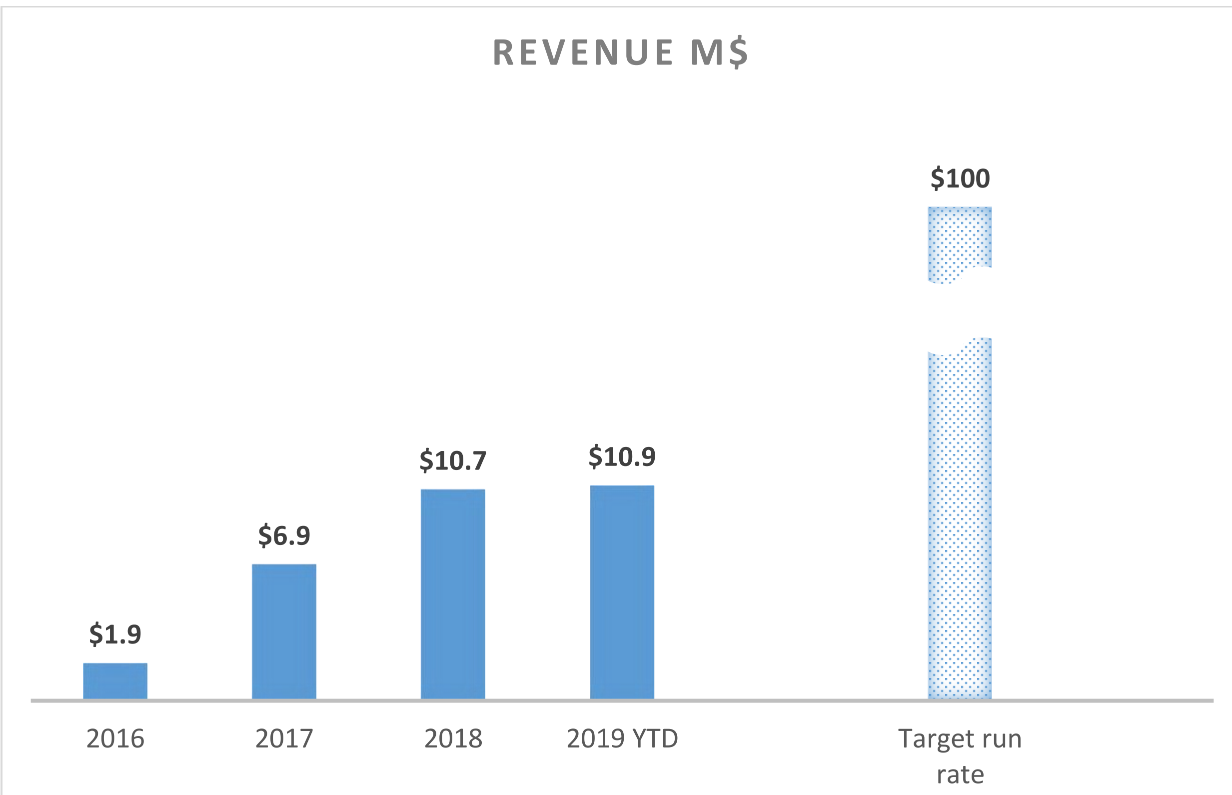
Acquisitions	Organic
❑ Strategic accretive acquisitions ❑ 6 completed to date at attractive valuations ❑ LOI announced to acquire retrofit business, $6.5 Million revenue and $700K EBITDA ❑ Multiple cross-sales and operating efficiencies across acquisitions	❑ Acceleration of Internet of Things (IOT) Devices and Software as a Service (SaaS) ❑ Recurring revenue growth acceleration ❑ Digitizing energy ❑ Expansion into US markets through Smart Factory

Kontrol seeks to grow its revenues and customer base through an accretive M&A strategy combined with strong organic growth. The organic growth is driven by cross-selling and customer synergies through the various operating divisions.

REVENUE

For the second consecutive year, Canadian Business and Maclean's ranked Kontrol on the Startup 50 ranking of Canada's Top New Growth Companies. Kontrol made the ranking by growing its revenue 468% from 2016 to 2018 and by more than 2,000% from 2015 to 2017.

Kontrol's internal target of achieving a run rate of $100 million over the medium term is based on the Company's ability to raise capital when needed and promptly closing suitable acquisitions along with delivering organic growth across its operating platform. *(See Forward Looking Statements).*



Revenue is comprised of the following energy service offerings:

- IoT enabled energy and property technology solutions
- SmartSite® Software as a Service and SmartSuite® Energy Management Building Automation and Controls
- Cogeneration and other Mechanical Equipment Installation

Actuals

- Energy Retrofits, monitoring & verification, energy project assessment, mechanical, electrical and renewable design
- GHG measurement and verification
- Continuous emissions and process monitoring applications

VERTICAL INTEGRATION

Kontrol's energy solutions are designed for commercial and industrial building applications and include IoT and SaaS enabled energy technologies, deep energy retrofits, distributed power generation, and GHG measurement and verification.

SmartSite® Software as a Service
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 20 Billion data points spanning more than 200 buildings, Kontrol can quickly identify inefficiencies, savings and mission critical risk. SmartSite® operates as a SaaS platform and is highly scalable.

SmartSite® capabilities:
- Fast installation (typically 1 hour or less)
- 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

The SmartSite® platform is the basis for the strategic partnership with Toyota Tsusho to develop Smart Factory solutions and services.

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 has the ability to connect into existing building automation systems and to also communicate with utilities.

Providing in-suite energy management with rich analytics and user interfaces, the SmartSuite® thermostat delivers 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

Application of the technology offerings

Smart Factories

Kontrol and Toyota Tsusho Canada entered into an agreement in 2018 to implement Smart Factory technology solutions combining Kontrol's IoT hardware and software solutions with Toyota Tsusho Canada's existing production, operating improvement platforms, and power generation / HVAC products for the North American automobile and parts OEMs. The strategic partnership will enable Smart Factory customers to benefit from production and energy efficiencies to drive down their operating costs and gain a competitive advantage.

Smart Buildings

Kontrol's commercial building and multi-residential solutions and technologies are specifically designed to reduce our customers' energy costs. For the multi-residential segment, this means that owners of buildings experience an increase in Net Operating Income and a rise in property valuation. Further, Kontrol is a leader in tenant engagement and understands the importance of tenant satisfaction to the overall success of a multi-residential property operation and portfolio.

Cogeneration and other Mechanical Equipment revenues

Cogeneration is a distributed energy solution which involves efficient natural gas generation system that produces electricity and hot water simultaneously. The result is a significant reduction in a commercial customer's electricity and gas heating bills. The system generates electricity while also capturing the usable heat which is produced in the process. In jurisdictions with high electricity rates, highly efficient on-site power generation is an energy solution that will significantly reduce electricity grid dependence for many of Kontrol's commercial customers.

***Energy Retrofit, audit,* monitoring & verification, and design**

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

GHG measurement and verification and continuous emission monitoring systems

Through two operating subsidiaries, ORTECH and CEMSI, the Company is a leader in emission verification and compliance.

ORTECH is one of Canada's leading atmospheric science consulting firm providing a range of environmental science and engineering services including stack emission testing, continuous emission testing, power generation, due diligence, odour assessment and analytics, compliance and other engineering services. ORTECH takes pride in providing a stable industrial client base with the highest 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 revenues from monitoring solutions, services, and product sales. The closing of this acquisition is a strong strategic fit with ORTECH, which is Kontrol's existing emission business. Expanding our emission monitoring and solutions vertical in Canada and gaining a growing footprint in the USA is part of the Company's overall strategic growth initiatives.

2019 PURCHASE OF ASSETS

PURCHASE OF ASSETS FROM DIMAX CONTROLS CANADA INC.

On January 14, 2019, the Company purchased patents, intellectual property and computer equipment from DIMAX Controls Canada Inc. Following the business acquisition and integration of the operating assets of MCW DIMAX LTD. on April 30, 2018, Kontrol purchased specific technology related assets, which includes 2 U.S. patents and 1 Canadian patent. Purchase price consideration was 600,000 common shares of Kontrol and cash of $400,000 to be paid over the course of 18 months. This purchase allows further portfolio development of the Kontrol SmartSite® building energy software technology designed to assist in the operation and management of complex heating, ventilation and cooling systems for large multi-residential, commercial, and mission critical buildings.

2018 BUSINESS ACQUISTIONS

AQUISITION OF ASSETS FROM MCW DIMAX LTD.

On April 30, 2018, the Company acquired various assets and intangibles from MCW Dimax Ltd. ("DIMAX"). The purchased assets are used to manage HVAC systems in real time through ongoing monitoring and analysis. Through IoT and Cloud services, the acquisition adds SaaS revenue to Kontrol's operating and technology platform.

Assets acquired	
Computer equipment	$98,239
Customer relationships	512,000
Goodwill*	398,000
	$1,008,239
Consideration	
Cash	$1,008,239

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

AQUISITION OF CEM SPECIALITIES INC.

On September 20, 2018, the Company completed its acquisition of CEM Specialties Inc. ("CEMSI"). With more than 25 years of operating history, CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications. The Company acquired 100% of the issued and outstanding shares of CEMSI.

Net assets acquired	
Cash	$449,330
Accounts receivable	1,154,204
Work-in-progress and inventory	231,954
Prepaid expenses	34,792
Property and equipment	73,503
Customer relationships	1,821,000
Brand names	227,000
Goodwill*	1,000,253
Accounts payable and accrued liabilities	(838,724)
Deferred income taxes	(539,256)
	$3,614,056
Consideration	
Cash	$2,476,556

Vendor take back	502,500
Holdback payable**	582,500
Warrant reserve	52,500
	$3,614,056

*The excess of consideration over the identifiable net assets is allocated to Goodwill.

**Holdback is to secure any indemnifications of Vendors; payable 15 months after acquisition date.

2016 AND 2017

AQUISITION OF KONTROL TECHNOLGIES INC.

On June 30, 2016 the Company acquired 100% of Kontrol Technologies Inc., a company incorporated in Ontario. This entity and its parent company's activities are designed for commercial building applications and include deep energy retrofits, distributed power generation and energy conservation solutions.

AQUISITION OF PATENTS AND INTELLECTUAL PROPERTY

On December 1, 2016 the Company acquired Log-One Ltd.'s Energy Management System, an intelligent, occupancy-based heating and air-conditioning control product, including the hardware, software, intellectual property and patents.

AQUISITION OF ORTECH CONSULTING INC.

On February 10, 2017 the Company acquired 100% of ORTECH Consulting Inc. ("ORTECH"), a company incorporated in Ontario. ORTECH is an engineering consulting firm specializing in GHG reporting, air quality testing, emission testing and renewable energy/power consulting.

AQUISITION OF EFFECIENCY ENGINEERING INC.

On August 4, 2017 the Company acquired 100% of Efficiency Engineering Inc. ("EE Inc."), a company incorporated in Ontario. EE Inc. provides engineering services to industrial, municipal and commercial building owners across Canada.

OVERALL PERFORMANCE

The Company experienced a strong year to date 2019 performance with revenue and EBITDA higher compared to same period in the prior year. Third quarter of 2019 represents the fourth consecutive quarter pf positive Adjusted EBITDA.

Revenue

Revenue for the three months ended September 30, 2019 was $3,266,270 an increase of $857,967 or 36% over the comparative quarter in the prior year. For the nine months ended September 30, 2019, revenue increased by 64% to $10,856,816 compared to $6,632,091 in the same period of 2018.

During the third quarter and year to date, our energy retrofit business was active with multiple boiler system and Combined Heat and Power (CHP) installations involving customers in the commercial building sector. We were able to win mechanical projects using the SmartSite proprietary energy management software to drive the installation and retrofit work. We have expanded SaaS monthly subscriptions through the addition of new buildings into the customer portfolio. Proprietary energy management hardware and software service is deployed in commercial and multi-residential buildings and designed to reduce our customers' energy costs. Kontrol's audit and design subsidiary, EE, has played a key operational role in leading the integration of these complex mechanical projects.

Our emission compliance group, ORTECH, has earned a leadership position as the go to experts in the field of atmospheric science consulting, and has consistently generated very steady revenue streams for the Company. ORTECH is expanding its service offerings to deal with the increasing regulations from local and provincial governments for the Cannabis Industry. ORTECH is advising Licensed Producers on new regulations which are meant to deal with emissions that could be harmful to the environment and volatile organic compounds that may contribute to strong odours. Continued organic growth from the Cannabis sector is expected in 2019. ORTECH secured a new Contract with a Canadian based Cannabis Licensed Producer to provide energy, emission and odor compliance services. ORTECH's stack testing group has contributed strong revenue through out the year to date and ongoing performance is anticipated for the fourth quarter of 2019.

CEMSI provides the Canadian and US market with value added solutions for continuous emissions and process monitoring applications and we're pleased with performance on a year to date basis despite a revenue decline in the third quarter of 2019 compared to earlier quarters. CEMSI is aggressively building up it's instrumentation portfolio and we're expecting growth in this division over the next several quarters. CEMSI was the lead in securing the pilot with the plant-based meat substitute company which involves customized analyzers that provide real-time analytics on process and quality. In addition CEMSI was instrumental in established a local partner in Saudi Arabia to expand Kontrol's solutions and technologies to the region.

Adjusted EBITDA

Adjusted EBITDA for the three months ended September 30, 2019 was $206,435 compared to $8,453 for the third quarter in the prior year. For the nine months ended September 30, 2019, Adjusted EBITDA improved significantly to $707,263 compared to negative $(368,257) in the same period of 2019.

Earnings improvement is attributable to organic growth in our energy retrofit and SaaS activities, and strong contribution coming form accretive acquisitions. The 2018 DIMAX and CEMSI acquisitions has added scale to overall operations and this scaling has resulted in lower operating expenses as a percentage of revenue. Total operating expenses (excluding share-based compensation) for the nine months ended September 30, 2019 was $5,725,832 or 57% of revenue and that compares to a ratio of 79% in the same period of 2018. We expect this ratio to improve in future quarters and it demonstrates the favourable impact on earnings as Corporate overhead expenses are spread over a much larger and growing revenue base.

Gross profit and expenses

Gross profit for the three months ended September 30, 2019 was $1,709,248 an increase of $96,446 over the comparative quarter in the prior year. For the nine months ended September 30, 2019, gross profit increased by $1,005,293 to $5,465,008 compared to $4,459,715 in the same period of 2018. Gross margin for the nine months ended September 30, 2019 was 50% compared to 67% for the same period in the prior year.

The gross margin is in line with management's expectations and reflects the adjusted mix of revenue and cost of sales under a growing organization with changing product and service offerings. Management is pleased with year to date gross profit levels; contributions have come from all business activities.

As Kontrol continues to execute on its growth plans, the Company is taking a systematic approach to rationalizing operating expenses across completed acquisitions and the Company is benefiting from a successful action plan to generate revenue synergies across verticals.

Advertising and promotion for the three months ended September 30, 2019 was $31,998 up from $18,142 for the comparative quarter in the prior year, and year to date totalled $132,324 down from $232,831 for the comparative period in the prior year. The year to date decrease was significant and is primarily related with a terminated acquisition and associated equity financing in the first quarter of 2018.

Business fees and licenses for the three months ended September 30, 2019 was $74,903 down from $80,337 for the comparative quarter in the prior year, and year to date totalled $218,067 up from $168,088 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 fees. Further, various expenses relating to the application process to achieve our U.S. Listing on the OTCQB Market were incurred in Q1 2019. In Q2 2019 additional expenses relating to DTC were incurred and the Company now enjoys the benefit of full trading capability on this platform. The Company raised incremental debenture funds during the year and issuer service expenses are recorded to this expense account.
Consulting for the three months ended September 30, 2019 was $133,733 down from $139,018 for the comparative quarter in the prior year, and year to date totalled $448,052 up from $364,136 for the comparative period in the prior year. During the first quarter some salaries were reallocated from the employee salaries account to consulting due to nature of work terms. The increase is also attributable to greater investor relation expenses that were incurred throughout the year to date.

Employee salaries and benefits increased by 6% or $64,408 for the three months ended September 30, 2019 compared to the third quarter in the prior year. For the nine months ended September 30, 2019, employee salaries and benefits increased by 6% to $3,315,324 compared to $3,118,745 in the same period of 2018. Management is pleased with this level of increase based on revenue increases of 36% and 64% for the three months ended September 30, 2019 and year to date respectively over the comparative periods in 2018. And importantly, while CEMSI was acquired at the end of Q3 2018 and therefore minimal salaries recorded during that period, the Company was able to realize reductions at other subsidiaries such that the overall employee salaries expense increase for the year to date ended September 30, 2019 was reasonable. While some salaries in 2019 have been reallocated to consulting fees, the containment of salaries is a positive trend that reflects the impact of scaling operations and management oversight.

Rent and utilities decreased by $114,969 and $324,323 for the three months ended September 30, 2019 and year to date respectively over the comparative periods in 2018. This was attributable to application of new IFRS 16 that came into effect on January 1, 2019. The new standard requires lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. Interest expense on the lease contracts is captured on the statement of income. The principal portion of the lease payments is presented on the statement of cash flow. Lease contracts impacted are in connection with property office leases and vehicle leases. Additionally, the Company is achieving savings through office space rationalization. These savings represent a reduction of approximately $70,000 per annum which will favourably impact earnings and cash flow starting in the third quarter of 2019.

Professional fees for the three months ended September 30, 2019 was $30,421 and $118,254 for the comparative quarter in the prior year, and year to date totalled $180,320 and $269,555 for the comparative period in the prior year. However, additional legal fees relating to the issuance of debentures and debt financing were incurred in 2019 and recorded to deferred financing cost and are being amortized over the term of the financings. Legal fees relating to our convertible debentures were allocated to the liability and equity portions of the convertible debentures. The professional fees account is impacted by the timing of acquisition and financing related activities.

Travel for the three months ended September 30, 2019 was $36,161 up from $9,337 for the comparative quarter in the prior year, and year to date totalled $107,597 up from $42,928 for the comparative period in the prior year. The increase has to do with the timing of the CEMSI acquisition which occurred at the end of Q3 2019. Further, CEMSI is growing its sales staff who are actively pursuing new business opportunities across North America.

Finance expense for the three months ended September 30, 2019 was $272,458 up from $135,242 for the comparative quarter in the prior year, and year to date totalled $779,277 up from $376,590 for the comparative period in the prior year. Finance expense includes interest primarily relating to debentures, bridge debt financing, lease liabilities, operating lines, and term loan. Interest on lease liabilities in connection with right-of-use assets is a new item included in interest and explained in the rent section above. The bridge debt financing facility closed on September 20, 2018 and was utilized to fund the CEMSI acquisition. Management has refinanced this loan subsequent to the third quarter.

Selected Financial Information and Discussion of Operations

	Three months ended		Nine months ended	
Financial Results	**Sept 30, 2019**	**Sept 30, 2018**	**Sept 30, 2019**	**Sept 30, 2018**
Revenue	$3,266,270	$2,408,303	$10,856,816	$6,632,091
Gross profit	$1,709,248	$1,612,802	$5,465,008	$4,459,715
Net loss	$(692,175)	$(443,742)	$(1,968,653)	$(1,774,672)
Basic and Diluted EPS	$(0.02)	$(0.02)	$(0.07)	$(0.07)
Add for adjusted EBITDA reconciliation:				
Amortization and depreciation	$486,187	$224,489	$1,355,686	$728,766
Finance expense	$272,458	$135,242	$779,277	$376,590
Share based compensation	$72,686	$19,464	$462,576	$208,809
Acquisition related expenses	$67,279	$73,000	$78,377	$92,250
Adjusted EBITDA	$206,435	$8,453	$707,263	$(368,257)

Financial Position	**at Sept 30, 2019**	**at Dec 31, 2018**
Assets	$18,436,353	$17,396,142
Non-current liabilities	$8,221,148	$1,845,828
Cash dividends	$0	$0

Total assets and liabilities

As at September 30, 2019, the Company had total assets of $18,436,353. This is an increase of $1,040,211 from December 31, 2018 and in part reflects the purchase of patents, intellectual property, and computer equipment from DIMAX Controls Canada Inc. Goodwill, intangible assets and the credit facilities were the most significant dollar account balances. Non-current liabilities are comprised of term loan, debenture, convertible debenture, lease liabilities and deferred income taxes.

SUMMARY OF QUARTERLY RESULTS

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

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Sept 30, 2019	June 30, 2019	March 31, 2019	Dec 31, 2018	Sept 30, 2018	June 30, 2018	March 31, 2018	Dec 31, 2017
Revenue	$3,266,270	$3,912,186	$3,678,360	$4,095,070	$2,408,303	$2,027,364	$2,196,564	$2,048,262
Gross Profit	$1,709,248	$1,895,500	$1,860,260	$1,960,103	$1,612,802	$1,564,479	$1,282,435	$1,355,107
Net loss	$(692,175)	$(595,281)	$(681,196)	$(451,495)	$(443,742)	$(329,995)	$(1,000,935)	$(405,945)
Basic and Diluted EPS	$(0.02)	$(0.02)	$(0.03)	$(0.02)	$(0.02)	$(0.01)	$(0.04)	$(0.02)

Revenue for the third quarter of 2019 increased 36% over the comparable quarter in the prior year.

Third quarter performance reflects contributions from energy retrofit activities, stack testing, continuous emission installations, instrumentation sales, and SaaS.

LIQUIDITY AND CAPITAL RESOURCES

Cash balance as at September 30, 2019 was $1,069,520. As at September 30, 2019 the Company had current liabilities of $8.14 million.

Short term obligations

Current liabilities as at September 30, 2019 include debt financing of $1,838,776. Subsequent to third quarter the Debt Financing of $1,838,77 was refinanced for a 3-year term, providing incremental increased funding capacity and converts the existing short-term debt into a long-term obligation. As such the Debt Financing will be re-classified to long-term in the fourth quarter of 2019

The operating line was $392,663 as at September 30, 2019 and is included in current liabilities. The operating line allows for drawdowns as required with a total capacity of $900,000 based on the aggregate of two available facilities. Accounts receivable and accounts payable are key working capital accounts and the net amount of these two balances was positive $458,197 as at September 30, 2019. Current liabilities as at September 30, 2019 include holdbacks of $982,500 and debentures of $1,584,000. Both of these Balance Sheet line items have decreased during the year to date.

Cash flows from operating activities was $221,518 for the nine months ended September 30, 2019. For the nine months ended September 30, 2018, cash flows used in operating activities was $1,424,438. This is a significant positive change of $1,645,956 and reflects strong working capital management and improved operational performance. This positive change is also due to the application of IFRS 16; beginning on January 1, 2019 the new model requires the recognition of lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset".

Cash flows used in investing activities was $425,576 for the nine months ended September 30, 2019 compared to $2,819,747 for the year to date period in the prior year. During the nine months ended September 30, 2019 a cash payment of $100,000 was made in respect of the purchase of assets from DIMAX Controls Canada Inc while the comparative period was $3,015,000 and related to the CEMSI acquisition. Investing activities also included product development payments of $282,420 made during the nine months ended September 30, 2019.

Cash flows from financing activities was $251,517 for the nine months ended September 30, 2019 compared to cash flows from financing activities of $4,100,517 for the year to date period in the prior year. During the nine months ended September 30, 2019, the Company received net debenture proceeds of $637,987 compared to $1,308,376 for the year to date period in the prior year. Proceeds received from the exercise of warrants and options was zero for the nine months ended September 30, 2019 while the amount was $990,008 for the year to date period in the prior year. The Company paid down $120,823 of the term loan during the nine months ended September 30, 2019. Lease payments of $410,083 (comprised of principal - $305,711 and interest - $104,372) were made during the nine months ended September 30, 2019. The Company paid holdbacks and vendor take back of $652,500 during the nine months ended September 30, 2019. Net proceeds from convertible debentures which includes the liability and equity portions and net of transaction costs was $1,038,332 for the nine months ended September 30, 2019.

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 16, Leases ("IFRS 16"):
IFRS 16 *Leases* replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively.

IFRS 16 has been applied by the Company using the cumulative catch-up approach for annual periods beginning on January 1, 2019. Under this approach, the Company will not restate its comparative figures and will recognize a right-of-use asset equal to the present value of the future lease payments.

On transition to IFRS 16, the Company has elected to apply the practical expedient to only transition contracts which were previously identified as leases. The Company has also elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company accounts for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

On initial application, the Company elected to record right-of-use assets of $2,011,667 and lease liabilities of $2,011,667 as at January 1, 2019.

At the inception, the Company assesses whether a contract is or contains a lease. Lease assets are capitalized at the commencement date of the lease initially measured based on the present value of the lease payments, plus initial direct costs incurred when entering into the lease and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. The Company uses the straight-line method of depreciation. An impairment review is undertaken for any asset that shows indicators of impairment and an impairment loss is recognized against the asset that is impaired. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The property lease payments have been discounted using an incremental borrowing rate of 8% at January 1, 2019.

The following table reconciles the operating lease payments as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019.

Operating lease payments as at December 31, 2018	2,413,126
Impact of discounting	(401,459)
Lease liabilities as at January 1, 2019	$2,011,667

Contractual lease payments by fiscal year as at January 1, 2019	
2019	$569,330
2020	$498,020
2021	$445,930
2022	$445,930
2023	$393,738
2024	$60,178

RELATED PARTY BALANCES AND TRANSACTIONS

	September 30, 2019	December 31, 2018
Due to shareholder	$39,500	$45,000

Due to shareholder is unsecured, non-interest bearing and due on demand.

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Salaries, benefits and consulting	389,100	340,350
Share based compensation	141,196	10,333
	$530,296	$350,683

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, 2019.

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 a large Canadian financial institution. 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 is the carrying value of cash held with financial institutions and accounts receivable. Allowance for expected credit losses as at September 30, 2019 is $66,013 (December 31, 2018 - $71,513).

(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 flow from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

As at September 30, 2019, the Company's Operating Line and Term Loan are 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 2019 net income before tax by approximately $6,220 (September 30, 2018 - $7,500).

(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).

(e) Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company's newly acquired subsidiary, 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 as approved by its

Board. 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.