



KONTROL
TECHNOLOGIES CORP.

Management Discussion and Analysis

For the Six Months Ended June 30, 2024

August 14, 2024

Q2 2024 AND YEAR TO DATE HIGHLIGHTS

- Revenues for the three months ended June 30, 2024 were \$3.7 million, compared to \$4.7 million for the same quarter in the prior year.
- Revenues for the six months ended June 30, 2024 were \$7.4 million, compared to \$9.1 million for the same period in the prior year.
- Gross margin for the six months ended June 30, 2024 was 58%, compared to 61% for the same period in the prior year.
- Income from continuing operations for the six months ended June 30, 2024 was \$12.9 million compared to a loss from continuing operations of \$(371,057) for the same period in the prior year.
- Adjusted EBITDA from continuing operations for the six months ended June 30, 2024 was negative \$(526,453) compared to \$863,392 for the same quarter in the prior year.
- Adjusted EBITDA from continuing operations for the six months ended June 30, 2024 was \$440,037 compared to \$1.5 million for the same period in the prior year.
- Cash flows from used in operating activities were \$162,225 for the six months ended June 30, 2024, compared to cash flows from operating activities of \$815,427 for the same period in the prior year.
- The Company is continuing with its strategic focus on higher gross margin service and technology solutions in the sustainable buildings market to drive future growth.
- Proceeds (including the holdback receivable) were \$16 million in connection with the Q2 2024 sale of CEMSI's net assets.
- The Company's balance sheet as at June 30, 2024 reflects a stronger financial position as a result of a full pay off in Q2 2024 of the revolver and term loan. Our efforts to reduce debt over the last several quarters were successfully executed.
- As at June 30, 2024 the Company's cash balance was \$11.9 million which is a substantial liquidity position to accelerate the pursuit of growth opportunities in our sustainable buildings' platform.
- On June 24, 2024, the Company completed the sale of operational net assets of CEM Specialties Inc. ("CEMSI") which had been a wholly owned subsidiary. A gain on sale of \$13.3 million was recognized in Q2 2024.

Caution Regarding Forward Looking Statements

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

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

However, forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected, or implied by such forward-looking statements. Such risks include, but are not limited to, lack of acquisition and investment opportunities or that such opportunities may not be concluded on reasonable terms, or at all, that sufficient capital and financing cannot be obtained on reasonable terms, or at all, that technologies will not prove as effective as expected that customers and potential customers will not be as accepting of the Company’s product and service offering as expected, and government and regulatory factors impacting the energy conservation industry

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

Additional information relating to Kontrol Technologies Corp., including our most recent Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com. This MD&A should be read in conjunction with the Company's fiscal 2023 audited consolidated financial statements, fiscal 2023 MD&A, and unaudited condensed interim consolidated financial statements as at June 30, 2024.

Non-IFRS Measures

Adjusted EBITDA is a non-International Financial Reporting Standards ("IFRS") measure used by management that is not defined by IFRS. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Management believes that Adjusted EBITDA provides meaningful and useful financial information as these measures demonstrate the operating performance of the business excluding non-cash charges.

"Adjusted EBITDA" is calculated as net income or loss before interest, income taxes, amortization, and depreciation, share based compensation, acquisition related expenses, listing expense, gain or loss on sale of assets, and impairment of assets. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income as determined under IFRS; nor as an indicator of financial performance as determined by IFRS; nor a calculation of cash flow from operating activities as determined under IFRS; nor as a measure of liquidity and cash flow under IFRS. The Company's method of calculating Adjusted EBITDA may differ from methods used by other companies and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by any other company.

ABOUT

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

CORPORATE UPDATE

The Company is focused on providing sustainable building services and solutions to a wide range of real estate owners, property managers and institutions. The Company's customer footprint includes commercial, multi-residential and industrial customers who face similar challenges, including managing energy consumption and decarbonization.

Over the past several quarters the Company has successfully managed some significant challenges and worked diligently to right size the balance sheet, and our efforts have created opportune conditions for future growth. In Q2 2024 the Company paid off the remaining revolver and term loan balances and executed the sale of CEMSI's net assets which raised substantial internal cash, delivered a significant gain to book value and in the process we are now well positioned with the necessary resources to accelerate organic growth plans and to execute on potential acquisitions. The Company's business

model involves growing our core sustainable buildings platform which is critical to Kontrol's strategic direction. As we execute on our operational plans and objectives, there will be a decrease in revenue and earnings in future periods due to the sale of air testing, air monitoring and compliance related assets. Over the medium term we will seek to replace this decrease in activities through expansion of core operations.

PRODUCTS AND SERVICES

Smart Buildings and Facilities

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

Building Automation, Retrofit, Energy Monitoring and Verification, and Design

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

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

BUSINESS ACQUISITIONS/DIVESTURES AND PURCHASE/SALE OF ASSETS

June 24, 2024 – SALE OF ASSETS - CEM SPECIALTIES INC.

December 29, 2023 – SALE OF ASSETS - ORTECH CONSULTING INC.

February 14, 2023 – BANKRUPTCY ASSIGNMENT OF GLOBAL HVAC & AUTOMATION INC.

July 30, 2021 – ACQUISITION OF GLOBAL HVAC & AUTOMATION INC.

August 1, 2020 - ACQUISITION OF NEW FOUND AIR HVAC SERVICES INC.

January 14, 2019 - PURCHASE OF ASSETS FROM DIMAX CONTROLS CANADA INC.

September 20, 2018 - ACQUISITION OF CEM SPECIALTIES INC.

April 30, 2018 - ACQUISITION OF ASSETS FROM MCW DIMAX LTD.

August 4, 2017 - ACQUISITION OF EFFECIENCY ENGINEERING INC.

February 10, 2017 - ACQUISITION OF ORTECH CONSULTING INC.

December 1, 2016 - ACQUISITION OF PATENTS AND INTELLECTUAL PROPERTY LOG-ONE LTD.

June 30, 2016 - ACQUISITION OF KONTROL TECHNOLOGIES INC.

OVERALL PERFORMANCE

During the six months ended June 30, 2024 the Company received cash proceeds of \$20.6 million from the sale of air testing, air monitoring and compliance related assets. The sale transactions resulted in a significant premium to book value and additionally Kontrol retained certain working capital accounts which provides additional net cash inflow in 2024. Over the medium term, the Company will deploy its cash resources and seek to grow core operations in managing the decrease in revenue and earnings resulting from recent asset sales.

The Company is focused on providing sustainable building services and solutions to a wide range of real estate owners, property managers and institutions. It is our objective to keep growing recurring revenue streams and high margin building services.

While revenue is down due to the sale of assets, the Company is focussed on operational execution of core operations. Kontrol has worked diligently to reduce discretionary expenses to achieve lean operations while targeting organic growth opportunities with scale potential.

Sale of CEM Specialties Inc.

On June 24, 2024, the Company completed the sale of operational net assets of CEM Specialties Inc. which had been a wholly owned subsidiary. Proceeds (including the holdback receivable) were \$16 million and the carrying value of the disposed assets and liabilities were \$2.7 million. The Company recognized a gain on sale of assets of \$13.3 million in Q2 2024. Kontrol will retain net working capital estimated at \$1.25 million, and the transaction is subject to post-closing adjustments.

Sale of ORTECH Consulting Inc.

On December 29, 2023, Kontrol completed the sale of operational net assets of ORTECH Consulting Inc. which had been a wholly owned subsidiary. The structure of the transaction involved the sale of certain assets to the purchaser and the purchaser assumed certain liabilities based upon the terms and conditions contained in the agreement. The sale price was \$6.1 million plus or minus adjustments for any account balances where actuals differ from estimates. Cash proceeds of \$5.8 million were received in Q1 2024. The Company recognized a gain on sale of assets of \$2.5 million in Q4 2023 and a final post closing downward adjustment of negative \$(95,847) in Q2 2024.

Revenue

Revenues for the three months ended June 30, 2024 were \$3.7 million, compared to \$4.7 million for the same quarter in the prior year. Revenues for the six months ended June 30, 2024 were \$7.4 million, down 19% over the same period in the prior year. The decrease is attributable to the sale of air testing and compliance assets. For the six months ended June 30, 2024 and June 30, 2023, CEMSI contributed revenue of \$4 million and \$3.4 million respectively, and ORTECH contributed revenue of \$0 and \$2.1 million, respectively.

The Company's presence in buildings allows for revenue generation from multiple sources including project integration, energy retrofit and service, recurring revenues through energy monitoring, maintenance, energy management, and engineering/design. Our building technology and cloud-based

platform are addressing sustainability, energy conservation and greenhouse gas emission reduction. Further, we continue to grow our net zero emission business with a new Municipal opportunity. Our industrial emission platform continues to drive organic growth as we address new regulations in the U.S. market. Revenues for the six months ended June 30, 2024 exclude ORTECH air testing and compliance but do include CEMSI air monitoring/emission compliance and verification, however, as these assets were sold around the end of Q2 2024, this revenue stream will no longer apply for the second half of 2024 and beyond.

Adjusted EBITDA

Adjusted EBITDA from continuing operations for the three months ended June 30, 2024 was negative \$(526,453) compared to \$863,392 for the same quarter in the prior year. Adjusted EBITDA from continuing operations for the six months ended June 30, 2024 was \$440,037 compared to \$1.5 million for the same period in the prior year. The reduction of earnings from air testing and compliance and increases in professional and consulting fees had a negative impact on EBITDA.

The company experienced earnings contributions from continuous emission monitoring, emission compliance and verification services. The industrial HVAC group continues to provide steady revenue and earnings through service maintenance under contract. Kontrol's audit and systems design team are leading experts in net zero emission engineering and have been putting decarbonization and mitigating environmental impacts at the forefront as we address a renewed focus on helping our customers achieve their sustainability objectives.

Gross profit and expenses

Gross profit for the six months ended June 30, 2024 was \$4.4 million, down 21% over the same period in the prior year; Gross margin for the six months ended June 30, 2024 was 58%, compared to 61% for the same period in the prior year. The decrease in dollars is attributable to air testing and compliance. The overall gross margin has remained favourable due to the Company's strategic focus on higher gross margin service and technology solutions.

Advertising and promotion for the three months ended June 30, 2024, was \$20,116 up from \$16,391 for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$38,713 down from \$46,172 for the comparative period in the prior year. Advertising is primarily related to social media campaigns, marketing, trade shows and product awareness campaigns. Management will utilize these campaigns on a strategic basis as required to communicate Company news, technology deployments, customer outreach and overall corporate updates. As these expenses are often discretionary in nature, management has focussed on essential programs.

Business fees and licenses for the three months ended June 30, 2024, was \$126,685 down from \$138,385 for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$228,589 down from \$243,431 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, software licenses and cloud computing fees. Management's efforts to rework scope of services with a third-party provider of

cloud computing/storage, web services and computing processing capacity has resulted in greater stability and consistency of the overhead. Further, less financing activities has reduced administrative expenses.

Consulting for the three months ended June 30, 2024, was \$1.1 million up from \$80,842 for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$1.2 million up from \$130,147 for the comparative period in the prior year. The increase relates to consulting fees incurred in connection with the successful closing of the CEMSI asset sale transaction. Further, consulting fees were incurred in connection with the Company's SR&ED filings. Kontrol will also engage investor relations firms and strategic communication professionals on a case-by-case basis depending on company awareness needs.

Employee salaries and benefits for the three months ended June 30, 2024, was \$970,781 down from \$1.6 million for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$1.9 million down from \$3.1 million for the comparative period in the prior year. The reduction is largely due to the sale of ORTECH in December 2023. As a percentage of revenue, employee salaries and benefits has decreased in line with management expectations.

Other income for the three months June 30, 2024 was \$112,469 down from \$113,790 for the comparative quarter in the prior year, , and the six months ended June 30, 2024, totalled \$200,216 down from \$210,345 for the comparative period in the prior year. Other income is comprised of benefits from scientific research and experimental development, funding from the Industrial Research Assistance Program, and other miscellaneous income and expenses.

Professional fees for the three months ended June 30, 2024 was \$260,210 up from \$67,883 for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$358,830 up from \$167,660 for the comparative period in the prior year. Professional fees include audit, legal, recruiter, investment banking, dispute settlement, and professional fees relating to asset sales and discontinued operations, and other miscellaneous. The increase is mainly attributable to legal fees associated with the asset sales and closure of the credit facility.

Travel for the three months ended June 30, 2024, was \$37,085 down from \$50,760 for the comparative quarter in the prior year, and the six months ended June 30, 2024, totalled \$84,458 down from \$92,063 for the comparative period in the prior year. The emissions and monitoring and energy teams incur expenses for travel to customers both locally and in the U.S. The Ontario based service teams in the field incur typical expenses such as fuel, and road tolls.

Finance expense for the three months ended June 30, 2024, was \$91,967 down from \$391,080 for the same quarter in the prior year, and the six months ended June 30, 2024, totalled \$250,629 down from \$902,344 for the comparative period in the prior year. Finance expense includes interest primarily relating to the revolver, term loan, lease liabilities, and vendor take back. Significant revolver and term loan principal payments were made in 2023 and in 2024 the remaining balances were paid off; this has markedly improved debt leverage and as a result interest expense has decreased. Cash proceeds from the

asset sales were in part used to pay off debt. The Company experienced an increase in the prime lending rate over the last several quarters. However, due to debt reduction efforts in 2023 and 2024, the Company experienced a manageable level of interest expense during the first half of 2024.

Share-based compensation for the six months ended June 30, 2024, was \$125,594 down from \$233,713 for the comparative quarter in the prior year. Share-based compensation relates to expensing of employee and board options and share awards; timing of compensation will impact expense recognition.

DISCONTINUED OPERATIONS

On February 14, 2023, the Company's former wholly owned subsidiary, Global HVAC & Automation Inc. ("Global"), made an assignment pursuant to the Bankruptcy and Insolvency Act and a trustee in bankruptcy was appointed. As a result of the voluntary bankruptcy, the Company is deemed to have lost control of Global, and as such, has deconsolidated the subsidiary effective February 14, 2023.

Net (loss) from discontinued operations	January 1, 2023 to February 14, 2023
Revenue	\$-
Cost of sales	-
Gross profit	-
Bad debt	-
Business fees and licenses	15
Employee salaries and benefits	18,801
Insurance	-
Office and general	-
Professional fees	13,431
Provision for loss on contract	-
Rent and utilities	13,365
Supplies	9,270
Telecommunication	966
Travel	4,528
Depreciation	12,085
Finance expense	32,337
Income tax	-
	104,798
Net (loss) from discontinued operations	\$(104,798)

Gain on disposal of discontinued operations

Following the deconsolidation, the carrying amount of assets and liabilities of Global were removed from the Company's consolidated statements of financial position. The effect of the disposal was recorded in the first quarter of 2023 and is noted below.

Proceeds	\$-
Net working capital deficiency	21,137,515
Property and equipment	(354,146)
Right-of-use	(169,938)
Advances	999,145
Vehicle loan	95,323
Lease liabilities	183,534
	21,891,433
Gain on disposal of discontinued operations	\$21,891,433

Selected Financial Information and Discussion of Operations

Financial Results <i>(Unaudited)</i>	Three months ended		Six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Revenue	\$3,654,825	\$4,678,027	\$7,441,059	\$9,139,345
Gross profit	\$2,020,525	\$2,901,891	\$4,352,600	\$5,540,115
Income (loss) from continuing operations	\$12,321,014	\$98,405	\$12,854,502	\$(371,057)
Gain from discontinued operations	-	-	-	\$21,786,635
Net income and comprehensive income	\$12,321,014	\$98,405	\$12,854,502	\$21,415,578
Basic EPS - continuing operations	\$0.21	\$0.00	\$0.22	\$(0.01)
Diluted EPS - continuing operations	\$0.17	\$0.00	\$0.18	\$(0.01)
Basic EPS - discontinued operations	-	-	-	\$0.41
Diluted EPS - discontinued operations	-	-	-	\$0.33
Add/Deduct for Adjusted EBITDA reconciliation - continuing operations:				
Amortization and depreciation	\$228,334	\$360,615	\$450,717	\$719,507
Finance expense	\$91,967	\$391,080	\$250,629	\$902,344
Gain on sale of assets	\$(13,241,405)	-	\$(13,241,405)	-
Share based compensation	\$73,637	\$13,292	\$125,594	\$233,713
Adjusted EBITDA - continuing operations	\$(526,453)	\$863,392	\$440,037	\$1,484,507
Financial Position	at June 30, 2024	at December 31, 2023		
Assets	\$22,809,325	\$22,754,245		
Non-current liabilities	\$1,098,670	\$1,279,965		
Cash dividends	\$0	\$0		

Total assets and liabilities

As at June 30, 2024, the Company had total assets of \$22.8 million. Cash, accounts receivable, goodwill, and intangible assets were the most significant dollar asset account balances. Non-current liabilities are comprised of lease liabilities, and deferred income taxes; the term loan was paid off in Q2 2024. The asset composition has changed; Goodwill and intangibles are down at June 30, 2024 due to sale of some assets; however, cash has increased which reflects proceeds from the sale transactions.

Disclosure of Outstanding Share Data

As at June 30, 2024, 56,930,669 common shares, 3,717,500 options, and 10,829,006 warrants were outstanding. The options and warrants are exercisable on a one-for-one basis for common shares of the Company.

SUMMARY OF QUARTERLY RESULTS

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

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	June 30, 2024	March 31, 2024	Dec 31, 2023	Sept 30, 2023	June 30, 2023	March 31, 2023	Dec 31, 2022	Sept 30, 2022
Revenue	\$3,654,825	\$3,786,234	\$5,145,668	\$4,543,367	\$4,678,027	\$4,461,317	\$5,493,877	\$3,440,745
Gross Profit	\$2,020,525	\$2,332,075	\$2,872,762	\$3,149,791	\$2,901,891	\$2,638,224	\$2,868,951	1,923,569
Net income (loss) from continuing operations	\$12,321,014	\$533,487	\$(294,882)	\$665,558	\$98,405	\$(469,463)	\$(3,723,463)	\$606,501
Gain (loss) from discontinued operations	-	-	-	-	-	21,786,635	\$(38,378,098)	\$(5,773,736)
<u>Continuing Operations</u>								
Basic EPS	\$0.21	\$0.01	\$(0.01)	\$0.01	\$0.00	\$(0.01)	\$(0.08)	\$0.01
Diluted EPS	\$0.17	\$0.01	\$(0.01)	\$0.01	\$0.00	\$(0.01)	\$(0.08)	\$0.01
<u>Discontinued Operations</u>								
Basic EPS	-	-	-	-	-	\$0.42	\$(0.78)	\$(0.12)
Diluted EPS	-	-	-	-	-	\$0.35	\$(0.78)	\$(0.12)

Due to the sale of air testing and compliance assets in Q4 2023, revenue and gross profit have decreased over the last two quarters. Management is pleased with Q1 and Q2 2024 net income. Q2 2024 net income includes the gain on sale of air monitoring and compliance assets, which reflects a significant premium to book value.

The table above has been presented to remove Global from revenue and gross profit. Net income (loss) and earnings per share are shown for continuing operations and discontinued operations. Disposal of

Global assets and liabilities was recorded as a gain on disposal of discontinued operations in the first quarter of 2023. In the quarter preceding the discontinued operations (Q4 2022), the Company recorded an expense amount for impairment of goodwill and intangibles relating to Global, which is why the net loss from continuing operations was significant in that quarter.

LIQUIDITY AND CAPITAL RESOURCES

Cash balance as at June 30, 2024 was \$11.9 million, which is a significant increase over the December 31, 2023 cash balance of \$3.2 million. The increase is due to the sale of air testing, air monitoring and compliance assets. As at June 30, 2024, the Company had current assets and current liabilities of \$17.2 million and \$6.2 million, respectively. The Vendor Take Back associated with the Global discontinued operation is classified as current based on the contractual terms of the purchase agreement. However, the Company is pursuing legal action against the vendor, as the full amount is under legal dispute.

The revolver and term loan were paid off in Q2 2024 and the credit facility was closed accordingly. The general security agreement and Company guarantees have remained in place for any future borrowing request.

Cash flows used in operating activities were \$162,225 for the six months ended June 30, 2024, compared to cash flows from operating activities of \$815,427 for the same period in the prior year. The reduction of earnings from air testing and compliance, additional expenses relating to the sale of assets, and changes in working capital accounts due to the sale of assets all had a downward impact on cash flows used in operating activities.

Cash flows from investing activities were \$20.6 million for the six months ended June 30, 2024, compared to cash flows used of \$133,581 for the same period in the prior year. During the six months ended June 30, 2024, the Company received \$20.6 million from the sale of air testing, air monitoring and compliance assets.

Cash flows used in financing activities were \$11.8 million for six months ended June 30, 2024, compared to \$432,450 for the same period in the prior year. In part cash proceeds received from the sale of assets were used to pay off debt. During the six months ended June 30, 2024, the Company made total principal payments of \$11.1 million to the term loan and revolver, compared to a total of \$3.8 million for the same period in the prior year. The elimination of interest-bearing bank debt was a key priority for Management and the Company has succeeded in its efforts to reduce leverage. Interest payments were \$348,629 for the six months ended June 30, 2024 compared to \$762,854 for the same period in the prior year. The Company has been experiencing markedly higher benchmark rates; however, this exposure has now been mitigated through debt reduction.

On February 22, 2023, the Company completed a private placement of common shares, common share equivalents, and warrants, for gross proceeds received in Q1 2023 of \$5 million. The Company has enjoyed the ongoing support of its Financiers in accessing the capital markets, to continue to fund growth, paydown debt, and meet its business plan objectives through to sustained profitability. During the three months ended March 31, 2023, the Company incurred \$558,939 of share issue costs relating to the private

placement. Lease principal payments of \$114,640 were made during the six months ended June 30, 2024 compared to \$178,133 for the same period in the prior year. During the first half of 2024 the Company announced a new normal course issuer bid program to buy back common shares of Kontrol. The Company repurchased \$230,000 of common shares during the six months ended June 30, 2024.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

RELATED PARTY TRANSACTIONS

	Six months ended June 30, 2024	Six months ended June 30, 2023
Salaries, benefits, and consulting	1,027,703	176,350
Share based compensation	40,627	68,666
	<u>\$1,068,330</u>	<u>\$245,016</u>

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 six months ended June 30, 2024, and 2023.

FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company’s maximum exposure to credit risk as at June 30, 2024, is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flows from operations, the Company’s holdings of cash, available credit facilities, and by initiating new debt or equity financings. The Company manages liquidity risk through the management of its capital structure.

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

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Accounts payable	1,967,960	-	-	1,967,960
Holdback and VTB	4,407,045	-	-	4,407,045
Lease liabilities	134,938	294,489	-	429,427
Total	\$6,509,943	\$294,489	\$0	\$6,804,432

The Global VTB is classified as current based on the contractual terms of the purchase agreement. However, the Company is pursuing legal action against the vendor, as the full amount is under legal dispute.

(c) Interest rate risk

As at June 30, 2024, the Company’s Revolver and Term Loan is subject to varying rates with the financial institution’s prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2024 net income before tax by approximately \$27,700 (June 30, 2023 - \$66,700).

(d) Fair Value

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities:

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2024 and December 31, 2023, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

(e) Foreign currency risk

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

There were no changes in the Company's Internal Control over Financial Reporting during the three months ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.