



KONTROL
TECHNOLOGIES CORP.

Management Discussion and Analysis

For the Three Months Ended March 31, 2022

May 16, 2022

Q1 2022 HIGHLIGHTS

- Revenues for the three months ended March 31, 2022, were \$26.6 million, up 702% over the same quarter in the prior year
- Net income for the three months ended March 31, 2022, was \$1.6 million, compared to net loss of (\$823,733) for the comparative quarter in the prior year
- Gross profit for the three months ended March 31, 2022, was \$6.7 million, compared to \$1.8 million over the same quarter in the prior year
- Adjusted EBITDA for the three months ended March 31, 2022, was \$2.5 million, up 123% over the same quarter in the prior year
- Secured contract and signed letter of intent for \$16 million and \$9.7 million respectively for HVAC and Automation Projects from Canadian Multi-Family High Rise Customers
- Launched Kontrol Carbon as its branded solution to support commercial and industrial customers in the areas of GHG emission monitoring, management, and carbon credit monetization
- Proceeds from options and warrants exercise were \$95,380 for the three months ended March 31, 2022
- Conversions of convertible debentures to common shares totalled \$170,000 for the three months ended March 31, 2022

Caution Regarding Forward Looking Statements

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

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

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

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

information is prepared in Canadian dollars and using International Financial Reporting Standards ("IFRS"). Unless otherwise specified, in this MD&A, all references to "dollars" or to "\$" are to Canadian dollars.

Additional information relating to the Kontrol Technologies Corp., including our most recent Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com. This MD&A should be read in conjunction with the Company's fiscal 2021 audited consolidated financial statements, fiscal 2021 MD&A, and unaudited condensed interim consolidated financial statements as at March 31, 2022.

Non-IFRS Measures

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

ABOUT

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

Products and Services

1) *Smart Buildings and Facilities*

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

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

SmartSite®

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

SmartSite capabilities:

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

SmartSuite®

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

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

SmartSuite® capabilities:

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

2) *Emission verification, air monitoring, and compliance*

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

ORTECH is one of Canada’s leading atmospheric science consulting firms, providing a range of environmental and engineering services including stack emission testing, continuous emission testing,

power generation, due diligence, odour assessment and analytics, compliance, and other engineering services. ORTECH provides a stable blue-chip industrial client base with high quality services in technical problem solving, and evaluation with an emphasis on air quality and renewable energy.

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

Kontrol BioCloud™

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

Progress highlights:

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

BioCloud is a real-time analyzer designed to detect airborne pathogens. It has been designed to operate as a safe space technology by promoting air circulation, monitoring the air quality, and sampling continuously for pathogens like viruses and pathogens. The BioCloud analyzer combines a proprietary detection chamber with an advanced air sampling process. The air sampling system draws air in and optimizes the air for analysis. The sample flows through the detection chamber which uses both a viral collider and a chemical process to trap virus particles for identification. When a virus of concern is detected, a communication is sent to the Cloud or over local intranet.

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

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

Kontrol Carbon

In Q1 2022 the Company launched Kontrol Carbon as its branded solution to support its commercial and industrial customers in the areas of GHG emission monitoring, management, and carbon credit

monetization. The Company is seeing growth in interest from customers who are dealing with GHG emission regulations or seek to voluntarily reduce their GHG emission footprint. We seek to leverage the Kontrol brand and assist our customers in better monitoring, managing and in some cases offsetting and/or verifying the capture of their GHG emissions. Commercial and industrial buildings represent a significant source of GHG emissions, and Kontrol is participating to help solve this global challenge. Solutions offered under the Kontrol Carbon brand will include GHG emission verification, carbon offsets and carbon capture verification. The solutions will be offered under the Kontrol Carbon brand by Kontrol's wholly owned operating subsidiaries and will cover the industrial and commercial sector.

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

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

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

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

2021 ACQUISITION OF GLOBAL HVAC & AUTOMATION INC.

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

Net assets acquired*	
Cash	\$1,212,346
Accounts receivable	27,745,106
Prepaid expenses	2,560
Unbilled revenue	1,129,784

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

*Purchase price allocation is preliminary. Final adjustments to be settled in future periods and the purchase price adjusted accordingly. Management will finalize the intangible assets and related tax effects upon settlement of the working capital.

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

PRIOR YEARS: BUSINESS ACQUISITIONS AND PURCHASE OF ASSETS

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

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

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

September 20, 2018 - ACQUISITION OF CEM SPECIALITIES INC.

June 30, 2016 - ACQUISITION OF KONTROL TECHNOLOGIES INC.

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

February 10, 2017 - ACQUISITION OF ORTECH CONSULTING INC.

August 4, 2017 - ACQUISITION OF EFFICIENCY ENGINEERING INC.

OVERALL PERFORMANCE

The Company reported positive net income and overall continued to deliver favourable revenue and earnings performance in the first quarter of 2022. Our operating portfolio has rapidly expanded as we execute on our growth strategy and scale into new verticals with commercial and industrial customers.

Revenue

Revenues for the three months ended March 31, 2022, were \$26.6 million, up 702% over the same quarter in the prior year.

HVAC operations and service groups are focussed on the high growth multi-residential market as well as the commercial and industrial markets. Acquisitions made in 2020 and 2021 in this space have added substantial new revenue, diversification, and a platform for expansion. The Company is driving performance through execution of the backlog and expanding opportunities within our existing customer relationships. The Company's presence in buildings allows for revenue generation from multiple sources including project integration, recurring revenues through software and service, maintenance, energy management, and engineering/design. Our building technology and cloud-based platform are key offerings we seek to expand in addressing sustainability, energy conservation and greenhouse gas emission reduction.

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

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

Adjusted EBITDA

Adjusted EBITDA for the three months ended March 31, 2022, was \$2.5 million compared to \$1.1 million for the same quarter in the prior year. The increase is primarily related to earnings contributions from large-scale HVAC projects, service and maintenance revenues.

Continuous emission monitoring, emission compliance and verification all made contributions to Kontrol's earnings performance. The Canada Emergency Wage Subsidy contributed to the expense savings realized in the first quarter of 2021; this benefit is not applicable for fiscal 2022. As we have stated in previous quarterly reports, management is pleased with revenue growth and cost rationalization across completed acquisitions.

Gross profit and expenses

Gross profit for the three months ended March 31, 2022, was \$6.7 million up from \$1.8 million for the comparative quarter in the prior year. The increase is primarily related to large-scale HVAC projects. Our most recent acquisition increased their technical staffing in the second half of fiscal 2021 to better align with its backlog of projects, and this accelerated the completion of project milestones. We anticipate

consistent gross profit performance from our air monitoring and emissions business over the remainder of fiscal 2022, as order activity improves in U.S. and foreign markets.

Advertising and promotion for the three months ended March 31, 2022, was \$18,699 down from \$42,853 for the comparative quarter in the prior year. The decrease is primarily related to discretionary spending on social media and marketing. These corporate campaigns can be initiated very quickly and do not require lengthy commitment terms.

Business fees and licenses for the three months ended March 31, 2022, was \$145,751 up from \$75,774 for the comparative quarter 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. The increase can be attributed to a new agreement with a press release distribution company and periodic fees paid to the Company's listing exchange.

Consulting for the three months ended March 31, 2022, was \$107,310 down from \$300,660 for the comparative quarter in the prior year. The decrease is primarily related to expenses incurred in Q1 2021 for the launch of a U.S. investor relations firm, virtual conferences and awareness campaign as the Company sought to gain greater exposure in that market. Not all of the aforementioned services will be incurred in fiscal 2022 and some were one-time (non-recurring) fees. Also included in the account are fees paid for investor relation services in both in Canada and the U.S.

Employee salaries and benefits for the three months ended March 31, 2022, was \$3,266,060 compared to \$1,425,898 for the comparative quarter in the prior year. This change includes incremental employee salaries from the Global acquisition and reflects overall increases in Company sales initiatives across verticals. In Q1 2021, salaries declined in groups where employee working hours were down due to the impact of COVID-19. As a percentage of revenue, office and administrative salaries have decreased significantly with overall Company growth.

Other income for the three months ended March 31, 2022, was \$3,102 compared to \$1,447,344 for the comparative quarter in the prior year. The benefits of tax incentives for scientific research and experimental development expenditures, funding for Industrial Research Assistance Program, subsidy assistance through the Canada Emergency Wage Subsidy, and grants from the Ontario Together Fund are recognized in the period the qualifying claim is made providing there is reasonable assurance of recoverability. This account also includes other miscellaneous income and expenses. The decrease in Q1 2022 compared to the same quarter in the prior year is due to termination of the Canada Emergency Wage Subsidy and the Company was not in receipt of IRAP funding. Further, funding from the Ontario Together Fund in Q1 2021 was in connection with a specific prior year project.

Professional fees for the three months ended March 31, 2022, was \$170,028 compared to \$31,778 for the comparative quarter in the prior year. The increase relates to legal and investment banking assistance provided in connection with the filing of a base shelf prospectus and other financing related documents. Audit fees have increased due to the acquisition of Global.

Travel for the three months ended March 31, 2022, was \$41,618 compared to \$11,616 for the comparative quarter in the prior year. As pandemic restrictions continue to ease, we expect travel expenses to increase with revenue expansion. The increase also relates to travel expenses incurred by Global. Kontrol’s air monitoring and emissions business has grown its sales staff as they pursue new business opportunities across North America, and we’re seeing an increase in commuting expenses.

Finance expense for the three months ended March 31, 2022, was \$278,867 compared to \$267,110 for the comparative quarter in the prior year. Finance expense includes interest primarily relating to debentures, convertible debentures, debt financing, lease liabilities, operating lines, term loan and vendor take backs. While the Company has realized savings due to the prepayment of the \$3,000,000 debt financing that was paid off in 2021, interest accretion and interest accruals relating to the vendor take backs were higher than Q1 2021 mainly due to the NFA and Global acquisitions. Going forward the Company will experience a cash flow benefit from the prepayment of the debt financing along with potential savings from further conversions of convertible debentures to common shares.

Share-based compensation for the three months ended March 31, 2022, was \$37,574 compared to \$1,216,503 for the comparative quarter in the prior year. The decrease is significant and relates to expensing of warrants issued to a U.S. based investment bank advisory firm in Q1 2021.

Other expense accounts have increased in part due to the Q3 2021 acquisition. Amortization of financing fees decreased in Q1 2022 over Q1 2021 as the debentures near their maturity date in 2022.

Selected Financial Information and Discussion of Operations

Financial Results <i>(unaudited)</i>	Three months ended	
	March 31, 2022	March 31, 2021
Revenue	\$26,621,533	\$3,319,194
Gross profit	\$6,742,135	\$1,771,560
Net income (loss)	\$1,641,673	\$(823,733)
Basic EPS	\$0.03	\$(0.02)
Diluted EPS	\$0.03	-
Add for adjusted EBITDA reconciliation:		
Amortization and depreciation	\$543,185	\$393,460
Finance expense	\$278,867	\$267,110
Share based compensation	\$37,574	\$1,216,503
Listing expense	-	\$70,000
Adjusted EBITDA	\$2,501,299	\$1,123,340
Financial Position		
	at March 31, 2022	at December 31, 2021
Assets	\$64,935,229	\$60,697,996
Non-current liabilities	\$10,064,362	\$10,221,747
Cash dividends	\$0	\$0

Total assets and liabilities

As at March 31, 2022, the Company had total assets of \$64.9 million. Accounts receivable, unbilled revenue, goodwill, and intangible assets were the most significant dollar asset account balances. Non-current liabilities are comprised of term loan, debentures, convertible debentures, lease liabilities, vendor take back and earn-out, and deferred income taxes. Total assets increased by \$4.2 million as at March 31, 2022 compared to December 31, 2021 and is mainly attributable to an increase in accounts receivable as our HVAC project activities continue to be very active due to a sizable backlog of work.

Disclosure of Outstanding Share Data

As at March 31, 2022, 48,334,967 common shares, 1,574,236 options, and 3,868,847 warrants were outstanding. The options and warrants are exercisable on a one-for-one basis for common shares of the Company.

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

As at March 31, 2022, the outstanding principal amount of the 2023 convertible debenture offering was \$375,000; convertible into common shares at a conversion price of \$0.50 on or prior to June 30, 2022, and at a price of \$0.60 after June 30, 2022, until or on June 30, 2023. Any convertible debentures that have not been converted will mature on June 30, 2023.

SUMMARY OF QUARTERLY RESULTS

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

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	March 31, 2022	Dec 31, 2021	Sept 30, 2021	June 30, 2021	March 31, 2021	Dec 31, 2020	Sept 30, 2020	June 30, 2020
Revenue	\$26,621,533	\$28,683,615	\$21,494,039	\$4,167,452	\$3,319,194	\$4,302,514	\$3,012,386	\$2,273,537
Gross Profit	\$6,742,135	\$5,869,989	\$5,706,336	\$2,490,574	\$1,771,223	\$1,734,510	\$1,601,830	\$1,014,378
Net profit (loss)	\$1,641,673	\$(389,762)	\$2,060,880	\$178,135	\$(823,733)	\$(598,816)	\$(193,541)	\$(437,194)
Basic EPS	\$0.03	\$(0.01)	\$0.04	\$0.00	\$(0.02)	\$(0.02)	\$(0.01)	\$(0.01)
Diluted EPS	\$0.03	-	\$0.04	-	\$(0.02)	\$(0.02)	\$(0.01)	\$(0.01)

Management is pleased with its continued growth and improvement in business operations as well as delivering positive net income in Q1 2022 and for the fiscal year 2021. The trend in revenue was favourable with rapid growth coming in Q3 2021, Q4 2021, and Q1 2022 as the Global acquisition was included in consolidated results. In comparing net income (loss) for Q1 2022 and Q1 2021, in addition to the recent acquisition having a positive impact on results, the Q1 2021 net loss included the expensing of warrants at fair value amount of \$1.1 million issued to a U.S. based investment bank advisory firm.

Pandemic impact on Business

There remain issues related to the COVID-19 pandemic impacting the ability to get site access over our entire customer base. Further the supply chain for all projects remains subject to volatility and we're subject to increased lead times in securing materials. These challenges in the supply chain also continue for sourcing components and materials. It is not possible to predict when supply chains will return to pre-pandemic functioning.

LIQUIDITY AND CAPITAL RESOURCES

Cash balance as at March 31, 2022, was \$2.0 million. As at March 31, 2022, the Company had current assets and current liabilities of \$40.6 million and \$33.5 million respectively. The acquisition of Global increased each of the account balances that comprise the Company's working capital. The Company's debentures (excluding deferred financing costs) were \$5.7 million as at March 31, 2022 and are maturing on October 31, 2022, and as such are classified as current liabilities. The Company has a successful track record of refinancing debentures as required.

Cash flows used in operating activities were \$2.5 million for the three months ended March 31, 2022. While positive net income in Q1 2022 improved cash flows, this change is a result of a net decrease in working capital movements. Accounts receivable increased significantly as at March 31, 2022 compared to December 31, 2021 due to a sizable HVAC project backlog. Collection of receivables in Q2 2022 will add to cash flows.

Cash flows used in investing activities were \$43,300 for the three months ended March 31, 2022, compared to cash flows used of \$1.7 million for the comparative quarter in the prior year. During the three months ended March 31, 2021 additions to product development were incurred in connection with the Kontrol BioCloud and the Company's technology assets including SmartSite and SmartSuite.

Cash flows from financing activities were \$1.3 million for the three months ended March 31, 2022, compared to cash flows from financing activities of \$884,271 for the comparative quarter in the prior year. During the three months ended March 31, 2021, the Company received net debenture proceeds of \$398,350 compared to zero in the first quarter of 2022. Lease principal payments of \$108,395 were made during the three months ended March 31, 2022. Proceeds of \$89,500 and \$5,880 were received in connection with options exercise and warrants exercise respectively for the three months ended March 31, 2022. While the aggregate of options and warrants proceeds were \$710,607 for the comparative

quarter in the prior year. An additional operating line was added in connection with the Global acquisition and drawdowns totalled \$1.5 million in Q1 2022. Interest payments were \$164,448 for the three months ended March 31, 2022. The Q2 2021 payoff of the \$3.0 million debt financing is a material savings in interest for the fiscal year 2022. While interest accretion and interest accruals relating to the vendor take backs were higher in Q1 2022 compared to Q1 2021 mainly due to the NFA and Global acquisitions.

Conversions of convertible debentures to common shares totalled \$170,000 for the three months ended March 31, 2022. While the conversion does not affect cash flows from financing activities, this has a positive impact on the Company's interest expense due to a reduction of debt.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

COVID-19

The global pandemic outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, store closures, self-imposed quarantine periods and social distancing, may cause material disruption to businesses globally resulting in an economic slowdown. COVID-19 continued to impact operations during the three months ended March 31, 2022, by making it difficult to access customer sites. However, in many cases customers have resumed or budgeted projects for completion.

The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Company is uncertain and remains a developing situation. Accordingly, there is a higher level of uncertainty with respect to management's judgements and estimates.

RELATED PARTY TRANSACTIONS

	Three months ended March 31, 2022	Three months ended March 31, 2021
Salaries, benefits, and consulting	85,177	106,241
Share based compensation	-	88,934
	<u>\$85,177</u>	<u>\$195,175</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 three months ended March 31, 2022, and 2021.

FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to the liquidity of its cash and accounts receivable. The Company limits exposure to credit risk by maintaining its cash with large Canadian financial institutions. To mitigate credit risk with respect to accounts receivable the Company subjects all major customer accounts to its credit evaluation process. The Company's maximum exposure to credit risk as at March 31, 2022, is the carrying value of cash held with financial institutions and accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital to meet short-term business requirements after taking into account cash flows from operations, the Company's holdings of cash, and the available credit facilities. The Company manages liquidity risk through the management of its capital structure. In addition to working capital related liabilities, the Debentures are due within the current operating period.

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	21,099,428	-	-	21,099,428
Operating line	1,500,000	-	-	1,500,000
Holdback, note payable, VTB, earn-out	582,500	5,885,376	-	6,467,876
Term loan	30,887	129,136	-	160,023
Debenture	5,988,520	-	-	5,988,520
Convertible debenture	31,600	404,772	-	436,372
Lease liabilities	464,541	403,997	-	868,538
Total	\$29,697,476	\$6,823,281	\$0	\$36,520,757

(c) Interest rate risk

As at March 31, 2022, the Company's Operating Line is subject to varying rates with the financial institution's prime rate and are subject to cash flow risks. The Company monitors its exposure to interest rates and has not entered into any derivative contracts to mitigate this risk. Based on the outstanding credit facilities, a 1% increase in interest rates for the Company would decrease year to date 2022 net income before tax by approximately \$1,875 (March 31, 2021 - \$7,397).

(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 March 31, 2022 and December 31, 2021, the earn-out relating to the acquisition of Global was classified as level 3.

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

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

(e) Foreign currency risk

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

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

There were no changes in the Company's Internal Control over Financial Reporting during the three months ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control over Financial Reporting.