# Management's Discussion and Analysis

For the three and six months ended June 30, 2024 and 2023

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BASIS OF PRESENTATION AND DESCRIPTION OF THE COMPANY

**August 8, 2024 -** The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for Cleantek Industries Inc. ("Cleantek" or the "Company" which includes references to "we", "our", "us", "its"), is a review of the operations, current financial position and condition for the three and six months ended June 30, 2024 ("Q2 2024") and June 30, 2023 ("Q2 2023") and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2024 ("Interim Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2024 and 2023 ("Annual Financial Statements"). All amounts are in thousands of Canadian dollars unless otherwise indicated.

The condensed consolidated interim financial statements of Cleantek have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with IFRS Accounting Standards as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. This MD&A and the unaudited condensed consolidated interim financial statements of Cleantek have been prepared by management and approved by the board of directors (the "Board") as of August 8, 2024.

Cleantek, headquartered in Calgary, Alberta, is an innovative provider of patented, clean technology solutions focused on reducing both cost and carbon intensity in the wastewater management and industrial lighting sectors across North America. Cleantek is a publicly traded company listed on the TSX Venture Exchange (the "TSXV") under the trading symbol CTEK.

## READER ADVISORIES

This MD&A contains forward-looking statements and introduces financial measures which are not defined under IFRS aimed at helping the reader in making comparisons to metrics similarly disclosed by industry peers. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Measurements" and "Forward-Looking Information" included at the end of this MD&A.

## COMPANY OVERVIEW AND STRATEGY

Cleantek is an environmental technology-based company that provides specialized and fully integrated wastewater treatment and disposal equipment along with turnkey sustainable lighting rental solutions. Cleantek leverages its patented technology and industry expertise to provide equipment to service a diverse range of clientele. Cleantek prioritizes people and the environment through our high-performance safety focused culture and our experienced technical professionals are committed to providing environmentally friendly cost-effective solutions to our clients.

Cleantek provides technology-based solutions for an increasingly demanding water treatment and disposal sector along with location lighting to provide safe working conditions for 24-hour operations. Cleantek provides its technology and services in some of the most active areas in Canada and the United States. Our environmental, safety and operational performance have enabled us to establish and maintain a blue-chip client base, including many exploration and production companies in North America.

As the market continues its shift towards environmental, social and governance ("ESG") response initiatives and best practices, Cleantek intends to leverage its technology to capture additional market share through organic growth of its ZeroE wastewater treatment and vaporization service offering, along with a forecasted strong utilization of our sustainable lighting rental solutions.

## GOING CONCERN

These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

At June 30, 2024, the Company had net current liabilities of $5,724 compared to net current assets of $2,540 and generated net income (loss) of $(511) and $11 for the three and six months ended June 30, 2024, respectively. While the Company is currently in compliance with all debt covenants there is potential to have a covenant breach in the next twelve months and there is no guarantee the Company will be able to negotiate covenant relief, if required, or repay the bank operating line or BDC term loan if called upon.

Due to facts and circumstances noted above, there are material uncertainties that exist that may cast significant doubt with respect to the Company's ability to continue as a going concern. These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

## HIGHLIGHTS FOR THE SECOND QUARTER 2024

- Cleantek generated revenue of $2,411 for Q2 2024, a decrease of $986 or 29%, from Q2 2023. The decreased revenue in 2024 is primarily due to lower activity levels and resulting lower utilization of the fleet;
- Cleantek's gross profit was $1,285 or 53% of revenue for Q2 2024 compared with gross profit of $2,084 and 61% of revenue for Q2 2023;
- Cleantek's net loss of $511 for Q2 2024 was a $176 improvement from the net loss of $687 for Q2 2023; and,
- Cleantek's Adjusted EBITDA(1) was $259 for Q2 2024 compared to $903 for Q2 2023 due primarily to the decreased revenue.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

| *(Canadian $000's, except per share amounts and percentages)* | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Revenue | 2,411 | 3,397 | (986) | 6,081 | 7,214 | (1,133) |
| Gross profit | 1,285 | 2,084 | (799) | 3,657 | 4,385 | (728) |
| Gross profit % | 53 | 61 | (8)% | 60 | 61 | (1)% |
| Net (loss) income | (511) | (687) | 176 | 11 | (507) | 518 |
| Net (loss) income per share - basic and diluted ($) | $(0.02) | $(0.02) | $0.00 | $0.00 | $(0.02) | $0.02 |
| EBITDA(1) | 310 | 252 | 58 | 1,716 | 1,363 | 353 |
| Adjusted EBITDA(1) | 259 | 903 | (644) | 1,470 | 2,234 | (764) |
| Capital expenditures | 80 | 321 | (241) | 231 | 446 | (215) |

| *As at:* | June 30, 2024 | December 31, 2023 | Change |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Total assets | 13,410 | 15,263 | (1,853) |
| Working capital deficit(1) | (3,184) | (2,942) | (242) |
| Non-current debt(1) | 7,381 | 8,470 | 1,089 |
| Total non-current liabilities | 7,427 | 8,516 | 1,089 |

*(1) Management considers EBITDA and adjusted EBITDA key metrics in analyzing operational performance and the Company's ability to generate cashflow. EBITDA is measured as net income (loss) before interest, tax, depreciation and amortization. Adjusted EBITDA is measured as EBITDA adjusted for share-based compensation and unusual items not representative of ongoing business performance such as litigation expenses and settlements and the impact of unrealized foreign exchange gains and losses. Working capital (or also referred to as net current assets/liabilities) for Cleantek is calculated as current assets less current liabilities per the statement of financial position. Non-current debt includes the non-current portion of long-term debt and lease liabilities per the Non-Current Liabilities on the statement of financial position. These items are not defined and have no standardized meaning under IFRS. Presenting these items from period to period provides management and investors with the ability to evaluate earnings trends more readily in comparison with prior periods' results. Please see the Non-IFRS Measurements section of this MD&A for further discussion of these items, and where applicable, reconciliations to measures calculated in accordance with IFRS.*

## EXPANSION AND OUTLOOK

Cleantek's strategy focuses on delivering innovative and cost-effective solutions that reduce the carbon intensity as well as the capital and operating costs of industrial operations. By focusing on expanding the market awareness and adoption of its sustainable lighting solutions and wastewater treatment assets, Cleantek continues to experience increased utilization of these high-margin product lines.

In 2023, the Company launched two new growth initiatives, including SecureTek, Cleantek's line of remote security services, as well as the company's newest addition to the ZeroE line of wastewater treatment products, the mobile waste gas fired GZeroE. Both growth initiatives will utilize the Company's existing asset base and require minimal capital investment for what the Company believes could be substantial growth opportunities in adjacent industry verticals.

- International Expansion - Expanding on the Company's recent success with the recent HALO™ sales, Cleantek completed a proof-of-concept trial with the Kingdom of Saudi Arabia for its HALO™ line and is exploring several promising opportunities diversifying Cleantek's geographic focus and customer base, including exploring opportunities across the Middle East for rental and/or product sales.
- SecureTek - Cleantek's line of remote security services, being offered as a stand-alone system or integrated with our sustainable lighting products, is expected to drive higher utilization of existing assets and create an exciting new recurring revenue stream for the Company. Utilizing our existing infrastructure, SecureTek is an accretive service offering and a great opportunity to expand our reach into the construction, mining, storage, agriculture, and other commercial markets, with minimal new capital investment.
- Mobile GZeroE & GSteam - Adding to the fleet of ZeroE technology is our new waste-gas powered, wastewater treatment and dehydration system, or "GZeroE" and "GSteam". Both technologies utilize waste-gas as its primary energy source. The first system was launched in March 2024 to one of a growing number of clientele and has received excellent feedback. The manufacture of additional units will be determined based off customer demand and feedback.

The Company's near-term strategy will continue to focus on:

- maximizing utilization rates of its current fleet of sustainable lighting solutions and mobile ZeroE wastewater treatment assets;
- expanding and growing the Company's fleet of mobile ZeroE wastewater treatment assets to satisfy increased demand in the oil and gas, midstream, mining, industrial and construction markets;

- continuing to focus on the expansion of the international market through the sale and rental of sustainable lighting solutions;
- leveraging Cleantek's technology to capture additional market share through organic growth of the ZeroE wastewater treatment and vaporization services, including the new mobile GZeroE and GSteam, as well as the new product and service offering in SecureTek; and,
- evaluating new technology partnerships in an effort to diversify product offering and customer group.

The Company is uniquely positioned to capture expansion in both ZeroE wastewater vaporization and sustainable lighting markets. Cleantek expects that wastewater and vaporization opportunities in the oil and gas, municipal grey water, and industrial wastewater industries.

## RESULTS OF OPERATIONS

### *Revenue*

| (Canadian $000's) | Three months ended June 30 2024 | 2023 | Change | Six months ended June 30 2024 | 2023 | Change |
|---|---|---|---|---|---|---|
| Sustainable lighting solutions | 2,179 | 3,015 | (836) | 5,014 | 6,430 | (1,416) |
| ZeroE dehydration | 232 | 341 | (109) | 632 | 743 | (111) |
| HALO sales | - | 41 | (41) | 435 | 41 | 394 |
| Total revenue | 2,411 | 3,397 | (986) | 6,081 | 7,214 | (1,133) |
| Fleet Utilization percentage | 28% | 43% | (15)% | 34% | 48% | (14)% |

Cleantek's revenue is generated primarily from the rental and service of sustainable lighting solutions, including solar hybrid lighting towers and HALO lighting systems and ZeroE dehydration units, including mobile ZeroE dehydration units and a ZeroE production facility unit, based on fixed or agreed upon service contracts with its customers in the upstream and midstream segments of the energy industry as well as the commercial construction industry in western Canada and the United States.

Revenue for the three and six months ended June 30, 2024, decreased to $2,411 and $6,081, respectively, compared to $3,397 and $7,214 for the same periods in 2023. Revenue for the three and six month periods decreased primarily due to lower utilization of assets, especially in the HALO lighting systems. ZeorE dehydration revenue decreased in both the three and six month periods primarily due to lower utilization of the portable drilling rig ZeroE units. Decreased revenue for six months ended 2024 was partially offset by the sale of multiple HALO lighting systems demonstrating the Company's commitment to near-term strategy in expanding equipment sales.

### *Direct operating expenses*

| (Canadian $000's) | Three months ended June 30 2024 | 2023 | Change | Six months ended June 30 2024 | 2023 | Change |
|---|---|---|---|---|---|---|
| Direct operating expenses | 1,126 | 1,313 | 187 | 2,424 | 2,829 | 405 |
| % of revenue | 47% | 39% | (8)% | 40% | 39% | (1)% |

Direct operating expenses are comprised of direct operating costs, including salaries and wages and other labour costs; repairs and maintenance of equipment; transportation and mobilization costs of equipment to and from customers; and other direct operating expenses.

Direct operating expenses were $1,126 and $2,424, or 47% and 40% of revenue, for the three and six months ended June 30, 2024, respectively, compared with $1,313 and $2,829, or 39% of revenue, for the same periods in 2023. Direct operating expenses decreased primarily as a result of the decreased revenue and fleet utilization. Direct operating expenses as a percentage of revenue have increased 8% for the three months ended June 30, 2024 due to the 29% decrease in revenue in the same period. Direct operating expenses as a percentage of revenue have only increased by 1% for the six months ended June 30, 2024 due to the 16% decrease in revenue being largely offset by decreased variable costs combined with the lower direct costs associated with the HALO sales revenue.

*Gross profit*

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| *(Canadian $000's, except percentage)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Gross profit | 1,285 | 2,084 | (799) | 3,657 | 4,385 | (728) |
| % of revenue | 53% | 61% | (8)% | 60% | 61% | (1)% |

Management considers gross profit a key metric in analyzing operational efficiency and performance and the Company's ability to generate cash flow. Cleantek's gross profit is measured as revenue less direct operating expenses.

Cleantek's gross margin was 53% and 60%, respectively, for the three and six months ended June 30, 2024, compared to 61% and 60% for the same periods in 2023. decreased gross margins in 2024 are directly related to the increased direct operating expenses as a percentage of revenue explained above.

*General and administrative expenses*

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| General and administrative expenses | 1,060 | 1,331 | 271 | 2,236 | 2,476 | 240 |

General and administrative expenses consist of salaries and wages and related benefit costs, professional and consulting fees and other general and administrative expenses.

General and administrative expenses for the three and six months ended June 30, 2024 decreased to $1,060 and $2,236, respectively, compared to $1,331 and $2,476 for the same periods in 2023. Decreased General and administrative expenses were primarily due to decreased professional fees due to the completion of significant legal matters at the end of 2023. See *note 9 Direct Operating Expenses and General and Administrative Expenses* of the Interim Financial Statements for further details on general and administrative expenses.

*Depreciation and amortization*

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Depreciation and amortization | 576 | 544 | (31) | 1,169 | 1,094 | (75) |

Depreciation is recognized on property and equipment and right-of-use assets. Amortization is recognized on the intangible assets including patents.

Depreciation and amortization expense for the three and six months ended June 30, 2024 increased to $576 and $1,169, respectively, compared with the $544 and $1,094 in the same periods in 2023. Depreciation expense increased in 2024 due to the larger fleet size.

*Share-based compensation expense*

| | Three months ended June 30 | Six months ended June 30 |
|---|---|---|

| (Canadian $000's) | 2024 | 2023 | Change | 2024 | 2023 | Change |
|---|---|---|---|---|---|---|
| Share-based compensation expense | 21 | 334 | 312 | 50 | 405 | 355 |

Cleantek has equity-settled incentive programs and payment plans for the granting of additional Common Shares.

The Company has established a long-term incentive plan (the "Omnibus Plan") whereby the Company may grant stock options ("Options"), restricted share units ("RSUs"), performance share units or deferred share units ("DSUs") from time to time to employees, officers, directors, service providers and consultants of the Company to recognize the contributions made by individuals to the Company's growth and furnish an incentive to the future success and prosperity of the Company.

The share-based compensation expense for the three and six months ended June 30, 2024, of $21 and $50, respectively, compared to $334 and $405 for the same periods in 2023, decreased due to no new share-based compensation being granted in 2024. In the second quarter of 2023 included the cancelation of previously granted Options to officers, employees and directors of the Company with the remainder of any unrecognized expense being fully recognized during this period. See *note 7, Share-Based Payments* of the Interim Financial Statements for further details on share-based compensation.

*Finance costs*

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| (Canadian $000's) | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Finance costs | 245 | 395 | 150 | 500 | 776 | 276 |

Finance costs consist primarily of the interest expense recognized on bank debt, long-term debt, the interest component of lease liability payments, debt renewal and other lending fees, accretion of the decommissioning offset by interest income.

Cleantek recognized finance costs of $245 and $395 for the three and six months ended June 30, 2024, respectively, compared to $395 and $776 in the same periods in 2023. The decreased finance costs are the result of lower interest rate debt on the completion of the refinancing with BDC and HSBC in December of 2023.

*Other (income) expenses*

| | Three months ended June 30 | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|
| (Canadian $000's) | 2024 | 2023 | Change | 2024 | 2023 | Change |
| (Gain) loss on disposal of long-lived assets | (31) | - | 31 | (35) | (44) | (9) |
| Foreign exchange (gain) loss | (72) | 177 | 249 | (296) | 210 | 506 |
| Other income | (3) | (10) | (7) | (14) | (25) | (11) |

In 2024 and 2023, the Company recognized gains on dispositions of long-lived assets that were not being used in the normal course of operations.

Foreign exchange (gain) loss arises from exchange differences resulting from the translation of foreign denominated financial instruments as well as realized (gain) loss on the settlement of foreign denominated financial instruments. The foreign exchange gains recognized in 2024 are due to the weakening of the Canadian dollar in 2024 and resulting impact on the US dollar denominated accounts receivables and cash balances.

Other income arises from sub rental income of unused office space.

*Income taxes*

| | Three months ended | Six months ended |
|---|---|---|

| | | June 30 | | | June 30 | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Current tax expense (recovery) | - | - | - | 36 | - | (36) |
| Deferred tax expense (recovery) | - | - | - | - | - | - |
| Total tax expense (recovery) | - | - | - | 36 | - | (36) |

Income taxes consist of current and deferred income taxes.

The Company did not recognize any deferred tax expense or recovery for the first quarter of 2024 or 2023.

The Company did incur current taxes in the first half of 2024 due to the Company's US operations and tax limitations on using prior year tax losses to offset only 80% of 2023 income. Due to the Company's significant unrecognized deferred tax assets, no deferred tax expense is recognized in 2024 due to the unrecognized tax assets. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered through deductions available against future taxable income.

*Net (loss) income*

| | Three months ended | June 30 | | Six months ended | June 30 | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Net (loss) income for the period | (511) | (687) | 176 | 11 | (507) | 518 |

Net loss of $511 for the three months ended June 30, 2024, was a $176 improvement from the net loss of $687 for the same period in 2023. Net income of $11 for the six months ended June 30, 2024 was a $518 improvement from the net loss of $507 in the same period in 2023. The improvements in 2024 were mainly due to the lower finance costs combined with the foreign exchange gains, which have been explained in detail above.

*EBITDA and Adjusted EBITDA*

| | Three months ended | June 30 | | Six months ended | June 30 | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | Change | 2024 | 2023 | Change |
| EBITDA[(1)] | 310 | 252 | 58 | 1,716 | 1,363 | 353 |
| Adjusted EBITDA[(1)] | 259 | 903 | (644) | 1,470 | 2,234 | (764) |

*(1) These items are not defined and have no standardized meaning under IFRS. Please see the Non-IFRS Measurements section of this MD&A for further discussion of these items, and where applicable, reconciliations to measures calculated in accordance with IFRS.*

Management considers EBITDA and adjusted EBITDA key metrics in analyzing operational performance and the Company's ability to generate cashflow. EBITDA is measured as net income (loss) before interest, tax, depreciation and amortization. Adjusted EBITDA is measured as EBITDA adjusted for share-based compensation unusual items not representative of ongoing business performance such as litigation expense and settlements and impact of unrealized foreign exchange gains and losses. EBITDA and adjusted EBITDA are non-IFRS measures as defined under "Non-IFRS Measurement".

Cleantek's EBITDA of $310 and $1,716 for the three and six months ended June 30, 2024, respectively, increased from EBITDA of $252 and $1,363 in the same periods in 202s mainly due to the improved net (loss) income, which has been explained in detail above.

Cleantek's adjusted EBITDA was $259 and $1,470 in the three and six months ended June 30, 2024, respectively, compared with the adjusted EBITDA of $903 and $2,234 in the same periods in 2023. Movements for adjusted EBITDA were due to the same reasons described above.

CAPITAL EXPENDITURES

| | Three months ended | Three months ended |
|---|---|---|

| (Canadian $000's) | 2024 | June 30 2023 | Change | 2024 | June 30 2023 | Change |
|---|---|---|---|---|---|---|
| Additions to property and equipment | 80 | 321 | (241) | 231 | 439 | (208) |
| Additions to intangible assets | - | - | - | - | 7 | (7) |
| Total capital expenditures | 80 | 321 | (241) | 231 | 446 | (215) |

Capital expenditures include additions to property and equipment and intangible assets.

In 2024, Cleantek had capital expenditures that included the new GZeroE and additions to the HALO™ crown-mounted lighting system fleet.

## SUPPLEMENTAL QUARTERLY INFORMATION

The table below summarizes Cleantek's quarterly financial and operational highlights for the three months ended June 30, 2024 as well as the previous seven quarters:

| (Canadian $000's, except per share amounts and percentages) | 2024 Q2 | 2024 Q1 | 2023 Q4 | 2023 Q3 | 2023 Q2 | 2023 Q1 | 2022 Q4 | 2022 Q3 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 2,411 | 3,670 | 3,188 | 3,588 | 3,397 | 3,817 | 3,483 | 3,391 |
| Gross profit | 1,285 | 2,372 | 1,716 | 2,284 | 2,084 | 2,301 | 2,232 | 2,029 |
| Gross profit % | 53 | 65 | 54 | 64 | 61 | 60 | 65 | 60 |
| Net income (loss) | (511) | 522 | (1,562) | 245 | (687) | 180 | (388) | (1,023) |
| Net income (loss) per share - basic and diluted ($) | $(0.02) | $0.02 | $(0.06) | $0.01 | $(0.02) | $0.01 | $(0.01) | $(0.04) |
| EBITDA[(1)] | 310 | 1,405 | (373) | 1,193 | 252 | 1,112 | 612 | (24) |
| Adjusted EBITDA[(1)] | 259 | 1,210 | 559 | 1,258 | 903 | 1,331 | 1,273 | 1,163 |
| Total assets | 13,410 | 14,379 | 15,263 | 15,675 | 15,810 | 16,601 | 15,917 | 15,852 |
| Working capital deficit[(1)] | (3,184) | (2,739) | (2,942) | (7,982) | (8,196) | (8,043) | (8,348) | (1,083) |
| Non-current debt[(1)] | 7,381 | 7,758 | 8,470 | 2,053 | 2,205 | 2,304 | 2,121 | 9,102 |
| Total non-current liabilities | 7,427 | 7,804 | 8,516 | 2,099 | 2,251 | 2,350 | 2,167 | 9,159 |

*(1) These items are not defined and have no standardized meaning under IFRS. Please see the Non-IFRS Measurements section of this MD&A for further discussion of these items, and where applicable, reconciliations to measures calculated in accordance with IFRS.*

Reported revenue, net loss, EBITDA, adjusted EBITDA are generally higher in the first and fourth quarters due to higher activity in the oil and gas sector.

Net loss attributable to shareholders has also been impacted by the following variations and events:

- Improved net income (loss) in first and second quarters of 2024 reflect the decreased financing costs associated with fixed lower interest rate debt refinanced with BDC as the end of 2023 combined with lower professional fees in general and administration and foreign exchange gains.
- Increase in net loss in the fourth quarter of 2023 due to increased general and administrative expense and other expense due to related litigation expense and settlement combined with the lower revenue.
- Increase in net loss in the second and third quarters of 2022 due to higher general and administrative expense primarily related to the legal spend on the patent litigation. The increased general and administrative expense also contributed to the draw on the Revolving Debt Facility and resulting additional non-current debt borrowings.
- Increase in working capital deficiency in the fourth quarter of 2022 due to there being less than twelve months remaining on the current credit facility at that time.

- Improved working capital deficiency in the fourth quarter of 2023 reflects the new BDC term loan and long term financing completed during this this quarter.

Working capital was in a large deficit starting in the fourth quarter of 2022 due to there being less than twelve months remaining on the credit facility and all associated debt being classified as current until the new long term financing was completed in the fourth quarter of 2023. See the Annual Financial Statements for further details on these events.

## CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

The following discussion relates to the consolidated position of liquidity and capital of Cleantek as at June 30, 2024 and December 31, 2023

The Company's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

Cleantek considers its capital structure to include working capital, long-term debt, lease liabilities and shareholders' equity.

To maintain or adjust the capital structure, the Company may issue additional debt, issue new shares and adjust capital and operating expenditures to manage its current and projected debt levels.

The capital structure of Cleantek consists of the following:

| *(Canadian $000's)* | June 30 2024 | December 31 2023 |
|---|---|---|
| Current assets | 2,540 | 3,404 |
| Current liabilities | 5,724 | 6,346 |
| Working capital deficit | (3,184) | (2,942) |
| Long-term debt – non-current | 7,141 | 7,806 |
| Lease liabilities – non-current | 240 | 664 |
| Shareholders' equity | 259 | 401 |
| | 10,824 | 11,813 |

### *Debt and credit facilities*

Cleantek's debt and credit facilities are comprised of the following:

| *(Canadian $000's)* | June 30 2024 | December 31 2023 |
|---|---|---|
| Revolving Current Debt | | |
| Bank Operating Line | 1,382 | 1,880 |
| | | |
| Long-term debt | | |
| BDC term loan | 6,870 | 6,926 |
| Loans payable | 1,136 | 1,299 |
| Promissory notes | 491 | 494 |
| | 8,497 | 8,719 |
| Current portion of long-term debt | | |
| BDC Term Loan | 975 | 555 |
| Loans payable | 363 | 343 |
| Promissory notes | 17 | 15 |
| | 1,355 | 913 |
| Non-current portion of long-term debt | | |
| BDC Term Loan | 5,895 | 6,371 |
| Loans payable | 773 | 956 |
| Promissory notes | 474 | 479 |

| | | |
|---|---|---|
| | 7,142 | 7,806 |

*Credit facilities*

| *(Canadian $000's)* | June 30 2024 | December 31 2023 |
|---|---|---|
| BDC Term Loan | | |
| BDC term loan | 7,122 | 7,200 |
| Deferred financing costs | (252) | (274) |
| | 6,870 | 6,926 |
| Current portion of BDC term loan | (975) | (555) |
| Non-current portion of BDC term loan | 5,895 | 6,371 |

*Bank Operating Line*

On December 21, 2023, the Company entered into a revolving operating line with HSBC Bank Canada (HSBC) which provides for a revolving debt facility up to a maximum amount of $2,500. The amount available on a month-to-month balance is based on a percentage of accounts receivable and is determined at each month end. At June 30, 2024 the Company was in compliance with all covenants and had access to $1,525 (December 31, 2023 - $1,881) of the debt facility. The operating line carries an interest rate of prime plus 1% and is secured against the Company's accounts receivable. The operating line is payable on demand. The operating line is subject to covenants of: (i) maintaining a Funded Debt to Adjusted EBITDA on a trailing 12 months ratio to not exceed more than 3 to 1 at any given time and (ii) a Fixed Charge Coverage ratio that must be above 1.1 to 1 at all times. Funded debt includes the Bank Operating line, long term debt and lease liabilities less cash on hand, the promissory note and customer term loan. Adjusted EBITDA is defined as net earnings excluding interest expense, provisions for income taxes, non-cash items including depreciation and amortization and non-cash unrealized foreign exchange gains/losses, and certain non-recuring expenses such as litigation expenses and settlement. Fixed Charge Coverage ratio is calculated by taking Adjusted EBITDA and dividing it by Debt Service costs which include current portions of long-term debt, term loans and lease liabilities plus finance costs for the last twelve months.

*BDC Term Loan*

On December 21, 2023, the Company entered into a term loan agreement with the Business Development Bank of Canada (BDC) which provides for a $7,200 non-revolving term loan, in a single loan advance ("BDC Term Loan"). The term loan matures on May 20, 2030 and includes an initial 6 month interest only period after which time a blended monthly payment of $127 for principal and interest began. The loan carries a three year fixed interest rate of 8.20% per annum, after three years the interest rate will be renegotiated. The term loan is subject to a covenant of a Fixed Charge Coverage ratio that must be above 1.1 to 1 at all times. The Term Loan is secured by the fixed assets of the Company and its subsidiaries. The Fixed Charge Coverage is calculated the same as for the Bank Operating Line above. At June 30, 2024 the Company was in compliance with all covenants.

Loans payable

| *(Canadian $000's)* | June 30 2024 | December 31 2023 |
|---|---|---|
| Loans payable | | |
| Customer Term Loan | 518 | 529 |
| Term loan payable – Other | 618 | 770 |
| | 1,136 | 1,299 |
| Current portion of loans payable | 363 | 343 |
| Non-current portion of loans payable | 773 | 956 |

*Customer Term loan*

During the three and six months ended June 30, 2024, $5 and $42, respectively, (2023 - $43 and $109) of rental income was invoiced to the customer for dehydration facility services. Of the amounts invoiced, for the three and six months ended June 30, 2024, $5 and $25, respectively, (2023 - $19 and $70) was recognized as interest expense on the outstanding Customer Loan and included in finance costs, and nil and $17, (2023 - $24 and $39) was recognized as rental income. Of the amounts invoiced and recognized as rental income, a portion was applied to the outstanding Customer Loan as principal repayments of nil and $11 for the three and six months ended June 30, 2024, respectively (2023 - $17 and $23).

### Promissory notes

| *(Canadian $000's)* | Carrying value | Face value |
|---|---|---|
| Promissory notes | | |
| Vendor Promissory Note | 491 | 494 |
| | 491 | 494 |
| Current portion of promissory notes | 17 | 15 |
| Non-current portion of promissory notes | 474 | 479 |

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any special purpose entities nor is it a party to any material off-balance sheet arrangements.

## SHARE CAPITAL

Cleantek had the following outstanding Common Shares and equity instruments at June 30, 2024, and December 31, 2023:

| | June 30 2024 | December 31 2023 |
|---|---|---|
| Common Shares | 28,110,377 | 27,762,044 |
| RSUs | 930,003 | 1,278,336 |
| DSUs | 450,000 | 450,000 |
| Warrants | 3,101,098 | 3,101,098 |
| Total outstanding securities | 32,591,478 | 32,591,478 |

As of the date of this MD&A, Cleantek had 28,260,377 Common Shares outstanding.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Cleantek was established for the purposes of contributing to a greener economy through the reduction of burning fossil fuels and increased water recycling, through waste heat water treatment and vaporization technology, operating and developing sustainable infrastructure, and fulfilling the Company's ESG values.

The Company places great emphasis on providing a safe and secure working environment for all employees, contractors and consultants, and recognizes the importance of operating in a sustainable manner. The Company has a strong commitment to safety and sustainability in its business operations and the identification, elimination or control of workplace hazards; promotion and provision of a work environment in which individuals are treated with respect, provided with equal opportunity and is free of all forms of and abusive and harassing conduct; and ethical business conduct and legal compliance. Cleantek's executive team places the highest priority on the health and safety of its staff and third parties at its sites, as well as the preservation of the environment. The Company's corporate culture is built around supporting these priorities, as reflected in its well-established practices and policies. Cleantek's high safety standards include active monitoring of all field workers, performing environmental, health and safety ("EHS") audits and using third parties and implementing safety processes from employee training in compliance with operational processes and procedures to emergency preparedness. By extension, the Company incorporates its EHS standards into its subcontractor selection process to ensure that its commitment to high EHS standards is shared by its subcontractors and stakeholders.

The Board also maintains a focus on safety and sustainability working with management to fulfill its oversight responsibilities relating to operating in a safe, environmentally and socially responsible (sustainable) manner and ensuring the integrity of policies and practices with respect to: workforce and public safety in Company activities and at its operating sites; and sustainability in Company activities with respect to people (wellbeing), planet (environmental) and prosperity (community and innovation) considerations ensuring that there are appropriate processes in place to facilitate identification of various safety and sustainability risks that may arise from the Company's operations and related mitigation and possible resulting consequential risks to the Company, its subsidiaries and directors, officers and employees; assessing whether the Company's safety and sustainability policies are effective, properly implemented and comply with applicable legislation and industry standards; reviewing corporate safety and sustainability activities and performance; reviewing the Company's method of communicating (internally and externally) safety and sustainability policies, practises and procedures; reviewing and assessing the sufficiency of resources to the Company's safety and sustainability program; ensuring that appropriate reporting procedures are established relating to safety and sustainability matters by management to the Board.

## RISK ASSESSMENT

There are a number of risks facing Cleantek. Some of the risks are common to all businesses while others are specific to a sector.

Many of these risks are outside of the Company's control. The risks and uncertainties described below are not the only risks that the Company faces. Additional risks and uncertainties, including those of which management is not currently aware of or which are currently deemed immaterial, may adversely affect the Company. Any of these factors, either alone or taken together, could have a material adverse effect on the Company and could change whether any forward-looking statements are ultimately realized.

These risks cannot be eliminated, however, Cleantek's management is committed to proactively monitoring, and where possible, mitigating risk. Issues affecting, or with the potential to affect, the Company's assets, operations and/or reputation, are generally of a strategic nature or are emerging issues that can be identified early and then managed, but occasionally include unforeseen issues that arise unexpectedly and must be managed on an urgent basis. Cleantek takes a proactive approach to the identification and management of issues that may affect the Company's assets, operations and/or reputation and has established consistent and clear policies, procedures, guidelines and responsibilities for issue identification, management and mitigation.

## FINANCIAL RISKS

Cleantek defines financial risk as the risk of loss or lost opportunity resulting from financial management and market conditions that could have a positive or negative impact on the Company's cash flows in the normal course of business. These risks are: credit risk, liquidity risk, and market risk. The Corporation's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Corporation's financial performance. The MD&A should be read in conjunction with the Annual Financial Statements.

## ACCOUNTING STANDARDS, CHANGES AND PRONOUNCEMENTS

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

A summary of significant accounting policies can be found in *note 3 Significant Accounting Policies* of the Annual Financial Statements.

## CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

A summary of Cleantek's critical accounting estimates, judgments and assumptions can be found in *note 2* to the Annual Financial Statements for the year ended December 31, 2023. There have been no significant changes to the use of estimates, judgements or assumptions since December 31, 2023.

## COMMITMENTS AND CONTINGENCIES

### *Contractual obligations and commitments*

The expected timing of cash outflows relating to financial liabilities at June 30, 2024 are outlined in the table below:

| | Carrying amount(1) | Contractual outflows(2)(3) | | | | |
|---|---|---|---|---|---|---|
| *(Canadian $000's)* | | < 1 year | 2 to 3 years | 4 to 5 years | Thereafter | Total(1) |
| **Financial liabilities** | | | | | | |
| Accounts payable and accrued liabilities | 2,337 | 2,337 | - | - | - | 2,337 |
| Bank operating line(5) | 1,382 | 1,382 | - | - | - | 1,382 |
| Long-term debt | | | | | | |
| Term loan(3) | 6,870 | 1,523 | 3,047 | 3,047 | 1,396 | 9,013 |
| Loans payable | 1,136 | 526 | 533 | 269 | - | 1,328 |
| Promissory notes | 491 | 60 | 120 | 120 | 590 | 890 |
| | 12,216 | 5,828 | 3,700 | 3,436 | 1,986 | 14,950 |
| **Lease liabilities and other commitments** | | | | | | |
| Lease liabilities | 890 | 645 | 261 | - | - | 906 |
| Other property lease commitments(4) | - | 165 | 165 | - | - | 330 |
| Other operating and capital commitments | - | 79 | 58 | 58 | - | 195 |
| | 890 | 899 | 484 | 58 | - | 1,431 |

*(1) Includes the current and non-current portions.*

*(2) Amounts include principal and interest portions, except for the Bank Operating Line.*

*(3) Carrying amount excludes deferred financing charges of $252. Amounts are based on Term loan balances including principal and interest based on the three year fixed rate assuming rate is mainitianed for the duration of the loan.*

*(4) Includes leased property utility, operating cost and property tax commitments.*

*(5) Operating line is interest only and both the loan balance and the rate are variable. The Bank Operating line is a demand loan and is considered current as a result.*

### *Litigation and claims*

The Company is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on the Company's financial position or results of operations.

## SUBSEQUENT EVENTS

### *Management Change, Private Placement and Option Grant*

On July 22, 2024, the Board of Directors of Cleantek announced the appointment of Riley Taggart as the new President and CEO of the Company. Upon Riley Taggart assuming the positions of President and CEO Matt Gowanlock stepped down from the positions of President and CEO with immediate effect and resigned as Director effective August 4, 2024, and Riley Taggart was appointed Director of Cleantek on August 8, 2024. In conjunction with this change a grant of 500,000 stock options were issued to Riley Taggart on July 19, 2024, at an exercise price of $0.15 per share and vesting 1/3 per year on each anniversary date with an expiry of five years after grant date. On August 8, 2024, an additional 487,500 stock options were issued to Cleantek directors and officers at an identical $0.15 per share exercise price and also vesting 1/3 per year on each anniversary date with an expiry of five years after grant date.

Also on July 22, 2024, Cleantek announced its intention to complete a non-brokered private placement of units at a subscription price of $0.15 per unit for aggregate gross proceeds of up to $150, subject to the approval of the TSX Venture Exchange. Each unit will consist of one Cleantek common share and one-half of one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at an exercise price of $0.25 per common share for a period of three years from the closing of the private placement.

### *BDC Manufacturing Financing Facility*

On July 29, 2024 the Company signed a new BDC facility for a build loan to fund the manufacture of new equipment, including GZeroE or GSteam and Halo units, for an amount up to $4,000. This is in addition to the term loan currently in place with BDC. The new build loan will carry floating rate interest at BDC 's floating base rate, which is currently 8.80%, plus an additional 0.45%. Loan will be repayable as interest only until June 28, 2025 and then interest plus principal payments of $55.6 starting on July 28, 2025 and maturing on June 28, 2031. The build loan is subject to a covenant of a Fixed Charge Coverage ratio that must be above 1.1 to 1 at all times. The build loan is secured by the fixed assets of the Company and its subsidiaries. The Fixed Charge Coverage is calculated the same as for the BDC Term Loan and HSBC Bank Operating Line above.

## NON-IFRS MEASUREMENTS

Cleantek uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by IFRS. The following terms: "EBITDA", "adjusted EBITDA", "working capital" and "non-current debt" are not recognized measures under IFRS and may not be comparable to that reported by other companies. Cleantek believes that, in addition to measures prepared in accordance with IFRS, the non-IFRS measurements provide useful information to evaluate the Company's performance and ability to generate cash, profitability and meet financial commitments.

These non-IFRS measures ae intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

### *EBITDA and Adjusted EBITDA*

Management considers EBITDA and adjusted EBITDA key metrics in analyzing operational performance and the Company's ability to generate cash flow. EBITDA is measured as net income (loss) before interest, tax, depreciation and amortization as differences in accounting treatments may distort our core business results. Adjusted EBITDA is measured as EBITDA adjusted for certain non-cash items, including share-based compensation, impact of unrealized foreign exchange gains and losses as well as unusual items not representative of ongoing business performance such as litigation expense and settlements.

The following table provides a reconciliation of the non-IFRS measures, EBITDA and adjusted EBITDA, to the applicable IFRS measurements for Cleantek:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| *(Canadian $000's)* | 2024 | 2023 | 2024 | 2023 |
| Net income (loss) | (511) | (687) | 11 | (507) |
| Tax expense | - | - | 36 | - |
| Depreciation and amortization | 576 | 544 | 1,169 | 1,094 |
| Finance costs | 245 | 395 | 500 | 776 |
| EBITDA | 310 | 252 | 1,716 | 1,363 |
| Share-based compensation | 21 | 334 | 50 | 405 |
| Litigation expense | - | 140 | - | 256 |
| Unrealized FX (gain) loss | (72) | 177 | (296) | 210 |
| Adjusted EBITDA | 259 | 903 | 1,470 | 2,234 |

### *Working capital*

Working capital (or also referred to as net current assets/liabilities) for Cleantek is calculated as current assets less current liabilities per the statement of financial position. The following table provides a reconciliation of working capital, a non-IFRS measure to the applicable IFRS measurements for the Company:

| *(Canadian $000s)* | June 30 2024 | December 31 2023 |
|---|---|---|
| Current assets | 2,540 | 3,404 |
| Current liabilities | 5,724 | 6,346 |
| Working capital deficit | (3,184) | (2,942) |

### *Non-current debt*

Management considers non-current debt in analyzing the Company's capital structure. Cleantek's capital structure consists of working capital, non-current debt and shareholders' equity. Non-current debt measures the long-term borrowings of the Company. Non-current debt for Cleantek is calculated as the non-current portions of long-term debt and lease liabilities. The following table provides a reconciliation of non-current debt, a non-IFRS measure to the applicable IFRS measurements for the Company:

| *(Canadian $000s)* | June 30 2024 | December 31 2023 |
|---|---|---|
| Long-term debt – non-current portion | 7,141 | 7,806 |
| Lease liabilities – non-current portion | 240 | 664 |
| Non-current debt | 7,381 | 8,470 |

## FORWARD LOOKING STATEMENTS

Certain statements in this MD&A constitute forward-looking statements and forward-looking information (collectively "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as: "anticipates", "believes", "continues", "estimates", "could", "expects", "intends", "may", "objective", "ongoing", "plans", "will", "projects", "should", or similar expressions suggesting future outcomes or events. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- maximizing utilization rates of its current fleet of sustainable lighting solutions and mobile ZeroE wastewater treatment assets;
- expanding and growing the Company's fleet of sustainable lighting solutions and mobile ZeroE wastewater treatment assets to satisfy increased demand in the oil and gas, midstream, mining, industrial and construction markets;
- evaluating and assessing markets, including International expansion, suitable for sales of sustainable lighting solutions to compliment our rental revenues and grow total revenue for the Company;
- leveraging Cleantek's technology to capture additional market share through organic growth of the ZeroE wastewater treatment and vaporization services, including the new mobile GZeroE, as well as the new product and service offering in SecureTek;
- focusing on growth, generating positive return for shareholders and improving the Company's financial position now that long-term financing is in place and the longstanding legal disputes have been settled; and,
- evaluating new technology, products and services to increase our offering to our current client base.

Such statements are based on assumptions of future events and actual results could vary from these assumptions. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of Cleantek. These include, but are not limited to, risks associated with renewable energy sources, such as market competition, volatility of prices, currency fluctuations, environmental risk, and competition from other producers and ability to access sufficient capital from internal and external sources.

Although management believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. As such, readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this MD&A are made as of the date hereof for the purposes of providing the readers with Cleantek's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Furthermore, the Company undertakes no obligation to update or revise these forward-looking statements or information as a result of new information or future events, other than as required by applicable securities laws. However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from forward-looking statements previously disclosed by the Company for a period that is not yet complete, Cleantek will provide disclosure on such events and the anticipated impact of such events.

## ADDITIONAL INFORMATION

Additional information regarding Cleantek and its business and operations can be obtained by contacting the Company at Cleantek Industries Inc., Suite 1210, 520 – 5th Avenue SW, Calgary, Alberta, Canada T2P 3R7 or by e-mail at info@cleantekinc.com. Additional information related to Cleantek is available on www.cleantekinc.com and on the Company's SEDAR profile at www.sedarplus.ca.