



## **Management's Discussion and Analysis**

For the three and nine months ended September 30, 2023 and 2022



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BASIS OF PRESENTATION AND DESCRIPTION OF THE COMPANY

**November 16, 2023** - 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 nine months ended September 30, 2023 ("Q2 2023") and September 30, 2022 ("Q2 2022") and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 ("Interim Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2022 and 2021 ("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 International Financial Reporting Standards ("IFRS") 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 November 16, 2023.

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

The 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.

In 2021, a competitor providing lighting solutions in North America initiated legal proceedings against the Company alleging patent infringement by Cleantek on a small fraction of the Company's installed HALO™ lighting units in the United States. The Company fully responded to the asserted claim and filed a counterclaim, which was expected to go to trial in October 2022. Legal costs incurred in 2022 for the patent litigation totaled \$3,430, which significantly impacted the Company's cash flows from operating activities and liquidity. At September 30, 2023, the Company had net current liabilities of \$7,982, including \$8,615 of long-term debt maturing on September 24, 2024, and generated net income (loss) of \$245 and (\$262) for the three months and nine ended September 30, 2023, respectively.

On November 21, 2022 The Company reached a settlement regarding the patent infringement with the competitor, with both parties vacating their lawsuits.

However, as a result of legal costs incurred in 2022 from the patent litigation, Cleantek required the support of its Canadian private debt lender in the near term to manage current cash flow restrictions caused by the patent litigation spend to allow time for the Company to generate sufficient cash flows to fund its operations. On October 1, 2022 the Company signed an amending agreement the Canadian private debt lender related to its Non-Revolving Term Facility that eliminated the requirement to make principal repayments from October through March 2023 to assist the Company in operational cash flow management. On September 26, 2023 the Company signed a twelve-month extension with their current Canadian private debt lender extending the term to September 24, 2024 and included a \$500 increase in the Revolving Line of Credit from \$2,500 to \$3,000 giving the Company additional liquidity. The Company will continue to require the support of the Canadian private debt lender as the Company seeks to find an alternate lender or obtains a further extension of the maturity of the Credit Facilities, which now mature on September 24, 2024. There is no certainty that the Company will be successful in obtaining credit facilities with alternate lenders or obtaining an further extension of the maturity date with the existing Canadian private debt lender. The Company is budgeting that it will not have sufficient cash available to enable repayment of the Credit Facilities upon maturity on September 24, 2024.

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 THIRD QUARTER 2023

- Cleantek generated revenue of \$3,588 for Q3 2023, an increase of \$199 or 6%, from Q3 2022. The increased revenue in 2023 is primarily due to increased HALO fleet size combined with increased rental prices as well as the first sale of a HALO lighting unit;
- Cleantek's gross profit of \$2,284 or 64% of revenue for Q3 2023 was inline with target and improved when compared with gross profit of \$2,029 and 60% of revenue for Q3 2022;



- Cleantek’s net income of \$245 for Q3 2023 was a \$1,268 improvement from the net loss of (\$1,023) for Q3 2022;
- Cleantek’s EBITDA<sup>(1)</sup> was \$1,193 for Q3 2023, a increase of \$1,217 when compared to Q3 2022 due to the increased net income; and,
- Cleantek’s Adjusted EBITDA<sup>(1)</sup> was \$1,230 for Q3 2023, a decrease of \$322 when compared to Q3 2022 as the increased revenue was offset by increased normalized general and administrative expenses.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

| <i>(Canadian \$000's, except per share amounts and percentages)</i> | Three months ended |          |        | Nine months ended |          |         |
|---|--------------------|----------|--------|-------------------|----------|---------|
|   | September 30       |          |        | September 30      |          |         |
|   | 2023               | 2022     | Change | 2023              | 2022     | Change  |
| Revenue   | 3,588              | 3,389    | 199    | 10,802            | 9,649    | 1,153   |
| Gross profit  | 2,284              | 2,029    | 255    | 6,669             | 5,560    | 1,109   |
| Gross profit %  | 64                 | 60       | 4%     | 62                | 58       | 4%      |
| Net income (loss)   | 245                | (1,023)  | 1,268  | (262)             | (3,200)  | 2,938   |
| Net income (loss per share) - basic and diluted (\$)                | \$0.01             | \$(0.04) | \$0.05 | \$(0.01)          | \$(0.12) | \$0.11  |
| EBITDA <sup>(1)</sup>   | 1,193              | (24)     | 1,217  | 2,557             | 189      | 2,368   |
| Adjusted EBITDA <sup>(1)</sup>                                      | 1,230              | 1,552    | (322)  | 2,999             | 3,544    | (545)   |
| Capital expenditures  | 356                | 1,310    | (954)  | 802               | 2,036    | (1,234) |

  

| <i>As at:</i>                          | September 30, 2023 | December 31, 2022 | Change |
|--|--------------------|-------------------|--------|
| Total assets                           | 15,675             | 15,917            | (242)  |
| Working capital deficit <sup>(1)</sup> | (7,982)            | (8,348)           | 367    |
| Non-current debt <sup>(1,2)</sup>      | 2,053              | 2,121             | (68)   |
| Total non-current liabilities          | 2,099              | 2,167             | (68)   |

(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 patent litigation expense. 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. 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.

(2) Total non-current debt includes the non-current portions of long-term debt and lease liabilities.

## 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 will require minimal capital investment for what the Company believes could be substantial growth opportunities in adjacent industry verticals.



- **International Expansion** - Expanding on our recent success with the first HALO sale in a geographic area historically not serviced by Cleantek, we see great opportunity diversifying Cleantek's geographic focus and customer base, including exploring opportunities outside of the North American market 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 creating 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** - Adding to the fleet of ZeroE technology is our new waste-gas powered, wastewater treatment and dehydration system, or "GZeroE". GZeroE will utilize waste-gas as its primary energy source, allowing for deployment of the ZeroE system into areas without a waste-heat source while providing substantial ESG and cost benefits. This product is currently under construction and the first system will launch to the market in late 2022 to one of a growing number of clientele who continue to express their interest. Additional units will be determined based off customer demand and feedback.

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

- maximize 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;
- 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 financial position now that the patent litigation related to the HALO™ lighting systems in the United States is completed; and,
- evaluating new technology, products and services to increase our offering to our current client base.

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 and a growing awareness regarding the disadvantages and risks of downhole injection will continue to increase the demand for Cleantek's ZeroE products.

## RESULTS OF OPERATIONS

### Revenue

|                                | Three months ended |       |        | Nine months ended |       |        |
|--------------------------------|--------------------|-------|--------|-------------------|-------|--------|
|                                | September 30       |       |        | September 30      |       |        |
| <i>(Canadian \$000's)</i>      | 2023               | 2022  | Change | 2023              | 2022  | Change |
| Sustainable lighting solutions | 3,169              | 3,021 | 148    | 9,599             | 8,583 | 1,016  |
| ZeroE dehydration              | 294                | 368   | (74)   | 1,036             | 1,066 | (30)   |
| HALO sales                     | 125                | -     | 125    | 167               | -     | 167    |
| Total revenue                  | 3,588              | 3,389 | 199    | 10,802            | 9,649 | 1,153  |



|                              |     |     |      |     |     |      |
|------------------------------|-----|-----|------|-----|-----|------|
| Fleet Utilization percentage | 43% | 50% | (7%) | 46% | 49% | (3)% |
|------------------------------|-----|-----|------|-----|-----|------|

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 nine months ended September 30, 2023, increased to \$3,588 and \$10,802, respectively, compared to \$3,389 and \$9,649 for the same periods in 2022. Revenue improved in 2023 compared to 2022 due to the increased fleet size of HALO lighting systems combined with the continued recovery of market fundamentals in the energy sustainability sector as a result of strong commodity prices and an increase in rental rates. As a result, the Company's sustainable lighting solutions rental rates started to improve throughout 2022 and into 2023. General equipment utilization decreased slightly for the three and nine months ended 2023 when compared to the same periods in 2022 due to decreased utilization of solarhybrid fleet but was more than offset by the increased revenue associated with increased HALO fleet. ZeroE dehydration revenue decreased (\$74) and (\$30) for the three and nine months ended September 30, 2023, compared to same periods in 2022, primarily due to decreased revenue from the production ZeroE unit as a result of some unexpected downtime.

#### Direct operating expenses

|                           | Three months ended |       |        | Nine months ended |       |        |
|---------------------------|--------------------|-------|--------|-------------------|-------|--------|
|                           | September 30       |       |        | September 30      |       |        |
| <i>(Canadian \$000's)</i> | 2023               | 2022  | Change | 2023              | 2022  | Change |
| Direct operating expenses | 1,304              | 1,360 | 56     | 4,133             | 4,089 | (44)   |
| % of revenue              | 36%                | 40%   | 4%     | 38%               | 42%   | 4%     |

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 \$1,304 and \$4,133, or 36% and 38% of revenue, for the three and nine months ended September 30, 2023, respectively, compared with \$1,360 and \$4,089, or 40% and 42% of revenue, for the same periods in 2022. Direct operating expenses decreased in the third quarter primarily as a result of decreased repairs and maintenance expense and lower other direct costs partially offset by increased salaries and wages. Direct operating expenses for 2023 year to date increased primarily due to increased salaries and wages partially offset by decreased repairs and maintenance expense, transportation and mobilization expense and other direct costs. Direct operating expenses as a percentage of revenue have decreased for both the three and nine months ended September 30, 2023 due to the increase in revenue combined with the reasons noted above that have resulted in decreased direct operating costs.

#### Gross profit

|  | Three months ended |       |        | Nine months ended |       |        |
|--|--------------------|-------|--------|-------------------|-------|--------|
|  | September 30       |       |        | September 30      |       |        |
| <i>(Canadian \$000's, except percentage)</i> | 2023               | 2022  | Change | 2023              | 2022  | Change |
| Gross profit                                 | 2,284              | 2,029 | 255    | 6,669             | 5,560 | 1,109  |
| % of revenue                                 | 64%                | 60%   | 4%     | 62%               | 58%   | 4%     |

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 64% and 62% for the three and nine months ended September 30, 2023, compared to 60% and 58% for the same periods in 2022. Increased gross margin in 2023 is directly related to the increased revenue combined with slightly lower direct operating costs as a percentage of revenue.

### ***General and administrative expenses***

| <i>(Canadian \$000's)</i>           | Three months ended |       |        | Nine months ended |       |        |
|-------------------------------------|--------------------|-------|--------|-------------------|-------|--------|
|                                     | September 30       |       |        | September 30      |       |        |
|                                     | 2023               | 2022  | Change | 2023              | 2022  | Change |
| General and administrative expenses | 1,144              | 2,391 | 1,247  | 3,666             | 5,607 | 1,941  |

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 nine months ended September 30, 2023 decreased to \$1,144 and \$3,666, respectively, compared to \$2,391 and \$5,607 for the same periods in 2022. Decreased General and administrative expenses were due to decreased professional fees primarily related to legal costs incurred for the patent litigation of \$1,500 and \$2,985 in three and nine months ended September 30, 2022, respectively, partially offset by increased spending in relation to various non-patent related litigation and claims in the normal course of business and costs associated with an enterprise resource planning system implementation. 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***

| <i>(Canadian \$000's)</i>     | Three months ended |      |        | Nine months ended |       |        |
|-------------------------------|--------------------|------|--------|-------------------|-------|--------|
|                               | September 30       |      |        | September 30      |       |        |
|                               | 2023               | 2022 | Change | 2023              | 2022  | Change |
| Depreciation and amortization | 556                | 675  | (119)  | 1,651             | 2,527 | (876)  |

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 nine months ended September 30, 2023 decreased to \$556 and \$1,651, respectively, compared with the \$675 and \$2,527 in the same periods in 2022. Depreciation expense decreased in 2023 due a review of the useful lives of long-lived rental assets completed in Q3 2022 and determined that the current accounting estimate of useful lives for certain rental assets required revisions based on additional operating experience and implementation of a more robust maintenance program. As a result, useful lives for certain rental equipment assets were extended.

### ***Research expense (recovery)***

| <i>(Canadian \$000's)</i>   | Three months ended |      |        | Nine months ended |      |        |
|-----------------------------|--------------------|------|--------|-------------------|------|--------|
|                             | September 30       |      |        | September 30      |      |        |
|                             | 2023               | 2022 | Change | 2023              | 2022 | Change |
| Research expense (recovery) | 15                 | -    | 15     | (31)              | -    | (31)   |

Research expense includes specific research and development costs expensed in net income (loss), including research and development expenditure not meeting intangible asset or property and equipment recognition criteria. Research recovery includes government grants and other subsidies including the Canadian government's Scientific Research and Experimental Development Tax Incentive Program ("SRED") recognized in net income (loss).

Research expense was \$15 for the three months ended September 30, 2023 and a recovery of \$31 for the nine months ended September 30, 2023, compared to research of nil for the same periods in 2022. In



2023, research expense in the second quarter relates to research related expenses for ongoing product development costs that were not capitalized. The research recovery for the nine months ended September 30, 2023 relates to SRED refunds received in the first quarter of 2023 relating to fiscal 2021, partially offset by current quarter expense. Research and development costs for the ZeroE technology were recovered and first credited against the intangible assets and then research recovery depending on where the original expense was recorded.

### ***Share-based compensation expense***

| <i>(Canadian \$000's)</i>        | Three months ended |      |        | Nine months ended |      |        |
|----------------------------------|--------------------|------|--------|-------------------|------|--------|
|                                  | September 30       |      |        | September 30      |      |        |
|                                  | 2023               | 2022 | Change | 2023              | 2022 | Change |
| Share-based compensation expense | 37                 | 76   | 39     | 442               | 371  | (71)   |

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 nine months ended September 30, 2023, of \$37 and \$442, respectively, compared to \$76 and \$371 for the same periods in 2022, increased on a year to date basis primarily due to cancellation of previously granted Options to officers, employees and directors of the Company during the second quarter with the remainder of any unrecognized expense being fully recognized during the second quarter of 2023. Additionally, RSUs were granted to employees and officers and DSUs to directors during the second quarter of 2023. See *note 7, Share-Based Payments* of the Interim Financial Statements for further details on share-based compensation.

### ***Finance costs***

| <i>(Canadian \$000's)</i> | Three months ended |      |        | Nine months ended |      |        |
|---------------------------|--------------------|------|--------|-------------------|------|--------|
|                           | September 30       |      |        | September 30      |      |        |
|                           | 2023               | 2022 | Change | 2023              | 2022 | Change |
| Finance costs             | 392                | 324  | (68)   | 1,168             | 862  | (306)  |

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 \$392 and \$1,168 for the three and nine months ended September 30, 2023, respectively, compared to \$324 and \$862 in the same periods in 2022. The increased finance costs are due to rising interest rates throughout 2022 and 2023 on the floating rate debt and higher debt balances due to the draw on the revolving debt facility throughout 2022 due to the patent litigation spend.

### ***Other (income) expenses***

| <i>(Canadian \$000's)</i>                    | Three months ended |       |        | Nine months ended |       |        |
|--|--------------------|-------|--------|-------------------|-------|--------|
|  | September 30       |       |        | September 30      |       |        |
|  | 2023               | 2022  | Change | 2023              | 2022  | Change |
| (Gain) loss on disposal of long-lived assets | -                  | -     | -      | (44)              | (148) | (104)  |
| Foreign exchange (gain) loss                 | (102)              | (412) | (310)  | 108               | (445) | (553)  |
| Other income                                 | (3)                | (2)   | (1)    | (29)              | (14)  | 15     |





In 2023 and 2022, 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 working capital as well as realized (gain) loss on the settlement of foreign denominated working capital. The foreign exchange (gains) losses recognized in 2023 are due to movements in the value of the Canadian dollar compared to the US dollar in the current year 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***

| <i>(Canadian \$000's)</i>           | Three months ended |          |          | Nine months ended |          |          |
|-------------------------------------|--------------------|----------|----------|-------------------|----------|----------|
|                                     | September 30       |          |          | September 30      |          |          |
|                                     | 2023               | 2022     | Change   | 2023              | 2022     | Change   |
| Current tax expense (recovery)      | -                  | -        | -        | -                 | -        | -        |
| Deferred tax expense (recovery)     | -                  | -        | -        | -                 | -        | -        |
| <b>Total tax expense (recovery)</b> | <b>-</b>           | <b>-</b> | <b>-</b> | <b>-</b>          | <b>-</b> | <b>-</b> |

Income taxes consist of current and deferred income taxes.

The Company did not recognize any deferred tax expense or recovery for the third quarter of 2023 or 2022.

The Company did not incur current taxes in 2023 due to the Company's tax loss position. Due to the Company's significant unrecognized deferred tax assets, no deferred tax expense is recognized in 2023 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 income (loss)***

| <i>(Canadian \$000's)</i>        | Three months ended |         |        | Nine months ended |         |        |
|----------------------------------|--------------------|---------|--------|-------------------|---------|--------|
|                                  | September 30       |         |        | September 30      |         |        |
|                                  | 2023               | 2022    | Change | 2023              | 2022    | Change |
| Net income (loss) for the period | 245                | (1,023) | 1,268  | (262)             | (3,200) | 2,938  |

Net income (loss) of \$245 and (\$262) for the three and nine months ended September 30, 2023, respectively, was a \$1,268 and \$2,938 improvement from the net (loss) of (\$1,023) and (\$3,200) for the same periods in 2022. The decreased net losses in 2023 were mainly due to the increased revenue and resulting gross profit combined with lower depreciation and general and administrative expenses partially offset by higher finance costs, share-based compensation, foreign exchange loss and a lower gain on asset sales, which have been explained in detail above.

### ***EBITDA and Adjusted EBITDA***

| <i>(Canadian \$000's)</i>            | Three months ended |              |              | Nine months ended |              |              |
|--------------------------------------|--------------------|--------------|--------------|-------------------|--------------|--------------|
|                                      | September 30       |              |              | September 30      |              |              |
|                                      | 2023               | 2022         | Change       | 2023              | 2022         | Change       |
| EBITDA <sup>(1)</sup>                | 1,193              | (24)         | 1,217        | 2,557             | 189          | 2,368        |
| <b>Adjusted EBITDA<sup>(1)</sup></b> | <b>1,230</b>       | <b>1,552</b> | <b>(322)</b> | <b>2,999</b>      | <b>3,544</b> | <b>(545)</b> |

*(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 and unusual items not representative of ongoing business performance such as patent litigation expense. EBITDA and adjusted EBITDA are non-IFRS measures as defined under “Non-IFRS Measurement”.

Cleantek’s EBITDA of \$1,193 and \$2,557 for the three and nine months ended September 30, 2023, respectively, increased from EBITDA of \$(24) and \$189 in the same periods in 2022 mainly due to the decreased net loss and increased finance costs partially offset by decreased depreciation expenses, which have been explained in detail above.

Cleantek’s adjusted EBITDA was \$1,230 and \$2,999 in the three and nine months ended September 30, 2023, respectively, compared with the adjusted EBITDA of \$1,552 and \$3,554 in the same periods in 2022. Movements for adjusted EBITDA were due to the same reasons described above.

## CAPITAL EXPENDITURES

| <i>(Canadian \$000's)</i>           | Three months ended |       |        | Nine months ended |       |         |
|-------------------------------------|--------------------|-------|--------|-------------------|-------|---------|
|                                     | September 30       |       |        | September 30      |       |         |
|                                     | 2023               | 2022  | Change | 2023              | 2022  | Change  |
| Additions to property and equipment | 356                | 1,266 | (910)  | 795               | 1,946 | (1,151) |
| Additions to intangible assets      | -                  | 44    | (44)   | 7                 | 90    | (83)    |
| Total capital expenditures          | 356                | 1,310 | (954)  | 802               | 2,036 | (1,234) |

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

In 2023, Cleantek had capital expenditures that included new additions to the HALO™ crown-mounted lighting system fleet, capital connectors for the mobile ZeroE dehydration rental units, upgrades to the operations field staff vehicle fleet and office equipment.

## SUPPLEMENTAL QUARTERLY INFORMATION

The table below summarizes Cleantek’s quarterly financial and operational highlights for the three months ended September 30, 2023 as well as the previous seven quarters:

| <i>(Canadian \$000's, except per share amounts and percentages)</i> | 2023    | 2023     | 2023    | 2022     | 2022     | 2022     | 2022     | 2021     |
|---|---------|----------|---------|----------|----------|----------|----------|----------|
|   | Q3      | Q2       | Q1      | Q4       | Q3       | Q2       | Q1       | Q4       |
| Revenue   | 3,588   | 3,397    | 3,817   | 3,483    | 3,391    | 3,125    | 3,147    | 2,372    |
| Gross profit  | 2,284   | 2,084    | 2,301   | 2,248    | 2,031    | 1,706    | 1,837    | 1,126    |
| Gross profit %  | 64      | 61       | 60      | 65       | 60       | 55       | 58       | 47       |
| Net income (loss)   | 245     | (687)    | 180     | (388)    | (1,023)  | (1,443)  | (734)    | (4,747)  |
| Net income (loss) per share   |         |          |         |          |          |          |          |          |
| - basic and diluted (\$)  | \$0.01  | \$(0.02) | \$0.01  | \$(0.01) | \$(0.04) | \$(0.05) | \$(0.03) | \$(0.22) |
| EBITDA <sup>(1)</sup>   | 1,193   | 252      | 1,112   | 612      | (24)     | (241)    | 454      | (4,482)  |
| Adjusted EBITDA <sup>(1)</sup>                                      | 1,230   | 586      | 1,183   | 1,155    | 1,552    | 831      | 1,160    | 694      |
| Total assets  | 15,675  | 15,810   | 16,601  | 15,917   | 15,852   | 15,075   | 15,358   | 17,156   |
| Working capital   |         |          |         |          |          |          |          |          |
| Surplus (deficiency) <sup>(1)</sup>                                 | (7,982) | (8,196)  | (8,043) | (8,348)  | (1,083)  | (57)     | 153      | 535      |
| Non-current debt <sup>(1)</sup>                                     | 2,053   | 2,205    | 2,304   | 2,121    | 9,102    | 8,124    | 7,383    | 7,875    |
| Total non-current liabilities                                       | 2,099   | 2,251    | 2,350   | 2,167    | 9,159    | 8,181    | 7,440    | 7,932    |

(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 income (loss), EBITDA, adjusted EBITDA are generally higher in the first and fourth quarters due to higher activity in the oil and gas sector. Revenue was negatively affected by reduced activity due to COVID-19 impacts starting in 2020 and into the fourth quarter of 2021.

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

- Increase in net loss in the fourth quarter of 2021 due to listing expense and transaction costs associated with the RTO, partially offset by an impairment reversal on rental assets due to improvements in the market fundamentals as oil and gas activity increased and COVID-19 impacts decreased.
- 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 and first quarter of 2023 due to there being less than twelve months remaining on the term of the current credit facility.
- Increase in net income and EBITDA during 2023 is primarily due to continued revenue growth combined with the absence of patent litigation expense which was settled in the fourth quarter of 2022.

Working capital was in a large deficit until the fourth quarter of 2021 due to the debt position of the Company prior to the RTO and Private Placement, combined with all debt being classified as current prior to the RTO. Working capital moved back into a large deficit in the fourth quarter of 2022 due to there being less than twelve months remaining on the credit facility term and all associated debt being classified as current and 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 September 30, 2023 and December 31, 2022. Please also refer to *Going Concern* within this MD&A for additional information regarding the financial position of Cleantek.

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:

|                                 | September 30 | December 31 |
|---------------------------------|--------------|-------------|
| (Canadian \$000's)              | 2023         | 2022        |
| Current assets                  | 3,768        | 3,774       |
| Current liabilities             | 11,750       | 12,122      |
| Working capital deficit         | (7,982)      | (8,348)     |
| Long-term debt – non-current    | 1,541        | 1,853       |
| Lease liabilities – non-current | 512          | 268         |
| Shareholders' equity            | 1,826        | 1,628       |
|                                 | 11,861       | 12,097      |

(1) Current liabilities include all amounts related to outstanding credit facility as there are less than twelve months remaining on the current term.



### ***Debt and credit facilities***

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

| <i>(Canadian \$000's)</i>             | September 30<br>2023 | December 31<br>2022 |
|---------------------------------------|----------------------|---------------------|
| <b>Long-term debt</b>                 |                      |                     |
| Credit facilities                     | 8,514                | 8,573               |
| Loans payable                         | 1,397                | 1,689               |
| Promissory notes                      | 503                  | 509                 |
|                                       | 10,414               | 10,771              |
| Current portion of long-term debt     |                      |                     |
| Credit facilities                     | 8,514                | 8,573               |
| Loans payable                         | 344                  | 330                 |
| Promissory notes                      | 15                   | 15                  |
|                                       | 8,873                | 8,918               |
| Non-current portion of long-term debt |                      |                     |
| Credit facilities                     | -                    | -                   |
| Loans payable                         | 1,053                | 1,359               |
| Promissory notes                      | 488                  | 494                 |
|                                       | 1,541                | 1,853               |

### ***Credit facilities***

| <i>(Canadian \$000's)</i>                | September 30<br>2023 | December 31<br>2022 |
|--|----------------------|---------------------|
| <b>Credit facilities</b>                 |                      |                     |
| Canadian Private Debt Term Facility      | 8,615                | 8,661               |
| Deferred financing costs                 | (101)                | (88)                |
|  | 8,514                | 8,573               |
| Current portion of credit facilities     | 8,514                | 8,573               |
| Non-current portion of credit facilities | -                    | -                   |

### ***Canadian Private Debt Term Facility***

On September 24, 2021, the Company entered into a senior-secured credit agreement with a Canadian private debt asset manager, which provides for:

- i. the non-revolving term facility in a maximum principal amount of \$7,500, in a single loan advance ("Non-Revolving Term Facility"); and
- ii. a revolving line of credit up to \$3,000 in one or more loan advances (the "Revolving Line of Credit", and together with the Non-Revolving Term Facility, the "Credit Facilities").

The Credit Facilities were for an initial term of 24 months with an additional 12 month extension completed on September 26, 2023 for a total of 36 months and now matures on September 24, 2024. On September 30, 2023, \$6,127 of the Non-Revolving Term Facility amount was drawn and outstanding (December 31, 2022 - \$6,846). As of September 30, 2023, \$2,488 has been drawn on the Revolving Debt Facility (December 31, 2022 - \$1,815). The availability limit calculated on the Revolving Debt Facility at September, 2023 was \$3,000, which provides an additional \$512 available to be drawn, which combined with cash on hand of \$549, provides for \$1,061 of liquidity for the Company. Please refer to note 2(b) for future details.

The Non-Revolving Term Facility is subject to monthly scheduled repayments as follows: (i) interest only payments in the first 4 months; (ii) \$83 plus interest in months 5 to 8; (iii) \$108 plus interest in months 9 to 11; (iv) interest only in months 12 to 17; (v) \$120 plus interest in months 18 to 36; and (vii) the remaining



balance on the Non-Revolver Term Facility and Revolving Debt Facility on September 24, 2024. The credit agreement was amended on May 10, 2023 and extended on September 26, 2023 and those terms have been reflected above.

The Credit Facilities bear interest equal to the greater of 9% per annum and a Canadian bank's prime rate plus 6.55%, payable on the last day of each calendar month. The Credit Facilities are secured by the assets of the Company and its subsidiaries. The Credit Facilities are subject to monthly financial covenants of: (i) maintaining a tangible net worth of at least \$1,000; and (ii) an interest coverage ratio of no less than 2:1. Tangible net worth is determined by taking total assets less the book value of all liabilities, excluding any subordinated debt, prepaid expenses, intangible assets and related party receivables. Interest coverage ratio is determined by taking EBITDA over total interest expense of funded debt on a rolling 6-month basis. EBITDA is defined as net earnings excluding interest expense, provisions for income taxes, non-cash items including depreciation and amortization and non-cash impairment charges, transactions costs related to the Private Placement and RTO and certain non-recurring expenses.

At September 30, 2023, the Company was in compliance with all debt covenants.

### Loans payable

| <i>(Canadian \$000's)</i>            | September 30<br>2023 | December 31<br>2022 |
|--------------------------------------|----------------------|---------------------|
| <b>Loans payable</b>                 |                      |                     |
| Customer Term Loan                   | 529                  | 574                 |
| Term loan payable – Other            | 868                  | 1,115               |
|                                      | 1,397                | 1,689               |
| Current portion of loans payable     | (344)                | (330)               |
| Non-current portion of loans payable | 1,053                | 1,359               |

### *Customer Term loan*

In April 2018, Cleantek signed a ZeroE™ management agreement with a private, upstream oil and gas customer to manufacture, deliver and install a dehydrator ZeroE™ rental unit for the customer for a period of nine years (the "ZeroE™ Management Agreement"). In November 2020, this ZeroE™ Management Agreement was amended and restated to include a financing arrangement and to supersede and replace the earlier agreement in its entirety. In November 2020, a \$700 loan (the "Customer Loan") was advanced by the customer to Cleantek pursuant to the ZeroE™ Management Agreement and upon full installation and commissioning of this unit.

Under the terms of the ZeroE™ Management Agreement, the Customer Loan bears interest at a rate of 13.5% per annum, in arrears, compounded annually; 85% of monthly rental income invoiced by Cleantek to the customer will be applied to and be set off against the Customer Loan and accrued interest payable until such time as the Customer Loan has been fully repaid; is for a term of 9 years from installation of the unit; and as collateral security for the payment and performance of Cleantek's obligations under the ZeroE™ Management Agreement, the rental unit, as well as the Company's ZeroE™ technology is subject to a lien.

Cleantek evaluated the classification of the Customer agreement at inception under IFRS 16 Lease and made an assessment that it is an operating lease as the Customer agreement does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. Cleantek recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

During the three and nine months ended September 30, 2023, \$40 and \$150, respectively (2022 - \$14 and \$144) of rental income was invoiced to the customer for dehydration facility services. Of the amounts invoiced, for the three and nine months ended September 30, 2023, \$13 and \$83 (2022 - \$7 and \$48) was



recognized as interest expense on the outstanding Customer Loan and included in finance costs, and \$28 and \$67, (2022 - \$7 and \$96) 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 \$27 and \$44 for the three and nine months ended September 30, 2023, respectively (2022 - \$5 and \$74).

## Promissory notes

| <i>(Canadian \$000's)</i>               | Carrying value | Face value |
|---|----------------|------------|
| <b>Promissory notes</b>                 |                |            |
| At December 31, 2022                    | 509            | 965        |
| Principal payments                      | (40)           | (25)       |
| Accretion                               | 34             | -          |
| At September 30, 2023                   | 503            | 940        |
| Current portion of promissory notes     | (15)           | (60)       |
| Non-current portion of promissory notes | 488            | 880        |

### *Vendor Promissory Note*

In January 2021, the Company entered into an agreement with one of its vendors to convert outstanding accounts payable balance of \$1,045 to an unsecured promissory note (the "Vendor Promissory Note"). The Vendor Promissory Note is (i) non-interest bearing; (ii) repayable at \$5 per month; and (iii) the Vendor Promissory Note matures on the earlier of a change of control, a liquidity event or on such earlier date as the Company has the financial liquidity to pay the principal amount.

The Company reclassified the amounts from current to long-term and fair valued the debt using the effective interest rate method. A gain of \$508 was recorded in December 2021 as a result of application of IFRS 9 as the Vendor Promissory Note bears an interest rate of zero. The fair value and resulting gain were based on the present value of future payments discounted at an interest rate of 9%.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## SHARE CAPITAL

Cleantek had the following outstanding Common Shares and equity instruments at September 30, 2023, and December 31, 2022:

|                              | September 30<br>2023 | December 31<br>2022 |
|------------------------------|----------------------|---------------------|
| Common Shares                | 27,645,380           | 27,645,380          |
| Options                      | -                    | 1,630,000           |
| RSUs                         | 1,395,000            | -                   |
| DSUs                         | 450,000              | -                   |
| Warrants                     | 3,101,098            | 3,101,098           |
| Total outstanding securities | 32,591,478           | 32,376,478          |

As of the date of this MD&A, Cleantek had 27,645,380 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, 2022. There have been no significant changes to the use of estimates, judgements or assumptions since December 31, 2022.

## COMMITMENTS AND CONTINGENCIES

### *Contractual obligations and commitments*

The expected timing of cash outflows relating to financial liabilities at September 30, 2023 are outlined in the table below:

|   | Carrying amount <sup>(1)</sup> | Contractual outflows <sup>(2)(3)</sup> |              |              |            | Total <sup>(1)</sup> |
|---|--------------------------------|--|--------------|--------------|------------|----------------------|
|   |                                | < 1 year                               | 2 to 3 years | 4 to 5 years | Thereafter |                      |
| <i>(Canadian \$000's)</i>                       |                                |  |              |              |            |                      |
| <b>Financial liabilities</b>                    |                                |  |              |              |            |                      |
| Accounts payable and accrued liabilities        | 2,471                          | 2,471                                  | -            | -            | -          | 2,471                |
| Long-term debt                                  |                                |  |              |              |            |                      |
| Credit facilities <sup>(3)</sup>                | 8,514                          | 9,800                                  | -            | -            | -          | 9,800                |
| Loans payable                                   | 1,397                          | 522                                    | 796          | 304          | 92         | 1,714                |
| Promissory notes                                | 503                            | 60                                     | 120          | 120          | 630        | 930                  |
|   | 12,885                         | 12,853                                 | 916          | 424          | 722        | 14,915               |
| <b>Lease liabilities and other commitments</b>  |                                |  |              |              |            |                      |
| Lease liabilities                               | 918                            | 456                                    | 488          | 53           | -          | 997                  |
| Other property lease commitments <sup>(4)</sup> | -                              | 248                                    | -            | -            | -          | 248                  |
| Other operating and capital                     |                                |  |              |              |            |                      |





|             |     |     |     |    |   |       |
|-------------|-----|-----|-----|----|---|-------|
| commitments | -   | 112 | 32  | 32 | - | 176   |
|             | 918 | 816 | 520 | 85 | - | 1,421 |

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

(2) Amounts include principal and interest portions

(3) Credit facilities mature on September 24, 2024. Carrying amount excludes deferred financing charges of \$101 and includes interest at 13.75%

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

### ***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.

### **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 are 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 as well as unusual items not representative of ongoing business performance such as patent litigation expense.

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

| <i>(Canadian \$000's)</i>     | Three months ended |         | Nine months ended |         |
|-------------------------------|--------------------|---------|-------------------|---------|
|                               | September 30       |         | September 30      |         |
|                               | 2023               | 2022    | 2023              | 2022    |
| Net income (loss)             | 245                | (1,023) | (262)             | (3,200) |
| Depreciation and amortization | 556                | 675     | 1,651             | 2,527   |
| Finance costs                 | 392                | 324     | 1,168             | 862     |
| EBITDA                        | 1,193              | (24)    | 2,557             | 189     |
| Share-based compensation      | 37                 | 76      | 442               | 371     |
| Patent litigation expense     | -                  | 1,500   | -                 | 2,984   |
| Adjusted EBITDA               | 1,230              | 1,552   | 2,999             | 3,544   |

### ***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:



|                          | September 30 | December 31 |
|--------------------------|--------------|-------------|
| <i>(Canadian \$000s)</i> | 2023         | 2022        |
| Current assets           | 3,768        | 3,774       |
| Current liabilities      | 11,750       | 12,122      |
| Working capital deficit  | (7,982)      | (8,348)     |

### ***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:

|   | September 30 | December 31 |
|---|--------------|-------------|
| <i>(Canadian \$000s)</i>                | 2023         | 2022        |
| Long-term debt – non-current portion    | 1,541        | 1,853       |
| Lease liabilities – non-current portion | 512          | 268         |
| Non-current debt                        | 2,053        | 2,121       |

### **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:

- maximize 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;
- 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;
- expanding and diversifying Cleantek's geographic focus and customer base, including exploring opportunities outside of the North American market for rental or product sales;
- focusing on growth, generating positive return for shareholders and improving financial position now that the patent litigation related to the HALO™ lighting systems in the United States is completed; 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 3200, 500 – 4<sup>th</sup> Avenue SW, Calgary, Alberta, Canada T2P 2V6 or by e-mail at [info@cleantekinc.com](mailto:info@cleantekinc.com). Additional information related to Cleantek is available on [www.cleantekinc.com](http://www.cleantekinc.com) and on the Company's SEDAR profile at [www.sedarplus.ca](http://www.sedarplus.ca).