Consolidated Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Years ended May 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Thermal Energy International Inc.

Opinion

We have audited the consolidated financial statements of Thermal Energy International Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at May 31, 2021 and May 31, 2020
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at May 31, 2021 and May 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Alexandra Duret

Ottawa, Canada
September 21, 2021

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2021 and 2020
(Expressed in Canadian dollars)

	2021	2020
	$	$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**4,240,855**	4,774,580
Trade and other receivables (note 6)	**3,192,810**	2,211,381
Current tax receivable	**187,862**	232,904
Inventory (note 7)	**959,257**	844,685
	8,580,784	8,063,550
Non-current assets:		
Property, plant and equipment (note 8)	**407,677**	431,597
Right-of-use assets (note 9)	**1,416,978**	421,338
Intangible assets (note 10)	**1,027,850**	1,415,756
Deferred tax assets (note 23)	**113,430**	111,439
	2,965,935	2,380,130
Total assets	**11,546,719**	10,443,680
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 11)	**1,701,746**	3,437,927
Current tax liabilities	**19,975**	18,710
Pensions and other employer obligations	**134,941**	139,359
Current portion of long-term debt (note 12)	**850,987**	269,886
Deferred revenue (note 13)	**1,566,386**	937,228
Provisions (note 14)	**282,322**	283,635
Current portion of lease obligations (note 15)	**215,923**	105,269
	4,772,280	5,192,014
Non-current liabilities:		
Long-term debt (note 12)	**2,409,439**	2,489,786
Lease obligations (note 15)	**1,337,141**	431,976
Deferred tax liabilities (note 23)	**64,939**	323,564
	3,811,519	3,245,326
Total liabilities	**8,583,799**	8,437,340
Equity		
Capital stock (note 16)	**32,439,914**	32,117,242
Contributed surplus	**4,533,469**	4,426,697
Accumulated other comprehensive income	**529,448**	217,342
Deficit	**(34,460,538)**	(34,658,665)
Equity attributable to owners of the parent	**3,042,293**	2,102,616
Non-controlling interest (note 18)	**(79,373)**	(96,276)
Total equity	**2,962,920**	2,006,340
Subsequent events (note 27)		
Total liabilities and equity	**11,546,719**	10,443,680

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

"William Crossland"
Director

"William Ollerhead"
Director

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive Income (Loss)

Years ended May 31, 2021 and 2020
(Expressed in Canadian dollars)

	2021	2020
	$	$
Revenue (note 20)	**15,349,326**	21,416,175
Cost of sales	**8,598,237**	12,462,122
Gross profit	**6,751,089**	8,954,053
Expenses (note 22):		
Administration	**3,956,817**	4,616,442
Selling, marketing and business development	**2,544,776**	3,231,569
Research and development	**(85,972)**	(35,840)
	6,415,621	7,812,171
Other income (note 25)	**-**	133,826
Operating income before impairment	**335,468**	1,275,708
Impairment of intangbile assets (note 10)	**-**	(499,718)
Impairment of goodwill (note 10)	**-**	(2,561,482)
Operating income (loss)	**335,468**	(1,785,492)
Finance costs	**(316,653)**	(420,220)
Finance revenue	**-**	5,144
Income (loss) before income taxes	**18,815**	(2,200,568)
Income taxes recovery (note 23)	**204,150**	303,611
Net income (loss) for the year	**222,965**	(1,896,957)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**312,674**	(50,973)
Total comprehensive income (loss) for the year	**535,639**	(1,947,930)
Net income (loss) for the year attributable to:		
Owners of the parent	**198,127**	(1,898,443)
Non-controlling interest (note 18)	**24,838**	1,486
Net income (loss) for the year	**222,965**	(1,896,957)
Total comprehensive income (loss) for the year attributable to:		
Owners of the parent	**510,233**	(1,948,990)
Non-controlling interest (note 18)	**25,406**	1,060
Total comprehensive income (loss) for the year	**535,639**	(1,947,930)
Net income (loss) per share - basic and diluted (note 24)	**0.001**	(0.012)

The accompanying notes are an integral part of these consolidated financial statements.

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Changes in Equity

Years ended May 31, 2021 and 2020

(Expressed in Canadian dollars)

	Capital stock $	Contributed surplus $	Deficit $	Accumulated other comprehensive income $	Total attributable to owners of the parent $	Non-controlling interest $	Total equity $
Balance at June 1, 2019	32,464,780	4,002,683	(32,760,222)	267,889	3,975,130	(80,578)	3,894,552
Share-based compensation (note 19)	-	203,793	-	-	203,793	-	203,793
Repurchase of Class A common shares (note 16)	(347,538)	220,221	-	-	(127,317)	-	(127,317)
Dividends paid	-	-	-	-	-	(16,758)	(16,758)
Transactions with owners	(347,538)	424,014	-	-	76,476	(16,758)	59,718
Net (loss) income for the year	-	-	(1,898,443)	-	(1,898,443)	1,486	(1,896,957)
Other comprehensive loss: exchange differences arising on translation of overseas operations	-	-	-	(50,547)	(50,547)	(426)	(50,973)
Total comprehensive (loss) income for the year	-	-	(1,898,443)	(50,547)	(1,948,990)	1,060	(1,947,930)
Balance at May 31, 2020	32,117,242	4,426,697	(34,658,665)	217,342	2,102,616	(96,276)	2,006,340
Balance at June 1, 2020	**32,117,242**	**4,426,697**	**(34,658,665)**	**217,342**	**2,102,616**	**(96,276)**	**2,006,340**
Share-based compensation (note 19)	**-**	**208,144**	**-**	**-**	**208,144**	**-**	**208,144**
Share options excercised (note 16)	**322,672**	**(101,372)**			**221,300**	**-**	**221,300**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(8,503)**	**(8,503)**
Transactions with owners	**322,672**	**106,772**	**-**	**-**	**429,444**	**(8,503)**	**420,941**
Net income for the year	**-**	**-**	**198,127**	**-**	**198,127**	**24,838**	**222,965**
Other comprehensive income: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**312,106**	**312,106**	**568**	**312,674**
Total comprehensive income for the year	**-**	**-**	**198,127**	**312,106**	**510,233**	**25,406**	**535,639**
Balance at May 31, 2021	**32,439,914**	**4,533,469**	**(34,460,538)**	**529,448**	**3,042,293**	**(79,373)**	**2,962,920**

The accompanying notes are an integral part of these consolidated financial statements.

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2021 and 2020
(Expressed in Canadian dollars)

	2021	2020
	$	$
Operating activities:		
Net income (loss) for the year	**222,965**	(1,896,957)
Add items not involving cash:		
Depreciation of property, plant and equipment (note 8)	**121,870**	110,422
Depreciation of right-of-use assets (note 9)	**166,676**	125,899
Loss on disposal of assets (note 8)	**603**	1,004
Amortization of intangible assets (note 10)	**270,867**	280,580
Impairment of intangible assets (note 10)	**-**	499,718
Impairment of goodwill (note 10)	**-**	2,561,482
Write-down of finance lease receivable (note 22)	**-**	45,848
Finance revenue	**-**	(5,144)
Other income (note 25)	**-**	(133,826)
Finance costs	**316,653**	420,220
Share-based compensation (note 19)	**208,144**	203,793
Income taxes recovery (note 23)	**(204,150)**	(303,611)
Unrealized foreign exchange and translation adjustments	**213,884**	(18,467)
Changes in working capital:		
Trade and other receivables	**(981,429)**	858,381
Inventory	**(114,572)**	(190,741)
Trade payables and other liabilities	**(1,693,336)**	820,039
Deferred revenue	**648,776**	(1,730,532)
Income taxes paid	**(5,583)**	(11,800)
Interest paid	**(357,119)**	(326,695)
Net cash (used in) provided by operating activities	**(1,185,751)**	1,309,613
Investing activities:		
Additions to property, plant and equipment (note 8)	**(115,402)**	(280,548)
Additions to intangible assets (note 10)	**(9,988)**	-
Net cash used in investing activities	**(125,390)**	(280,548)
Financing activities:		
Issuance of long-term debt (note 12)	**1,082,760**	-
Repayment of long-term debt (note 12)	**(256,698)**	(297,179)
Lease incentive received (note 15)	**-**	90,000
Repayment of lease obligations (note 15)	**(146,069)**	(99,832)
Stock options exercised (note 16)	**221,300**	-
Repurchase of Class A common shares (note 16)	**-**	(127,317)
Dividends paid	**(8,503)**	(16,758)
Net cash provided by (used in) financing activities	**892,790**	(451,086)
(Decrease) increase in cash and cash equivalents for the year	**(418,351)**	577,979
Cash and cash equivalents, beginning of year	**4,774,580**	4,177,260
Exchange differences on cash and cash equivalents	**(115,374)**	19,341
Cash and cash equivalents, end of year	**4,240,855**	4,774,580

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of operations:

Thermal Energy International Inc. (the "parent") was incorporated under the Ontario Business Corporations Act on May 22, 1991 and is primarily engaged in the development, engineering and supply of pollution control, heat recovery systems, and condensate return solutions. The parent company's common shares are listed on the TSX Venture Exchange ("TSX.V") and OTCQB under the symbol TMG and TMGEF, respectively. The primary office is located at Suite 850, 36 Antares Drive, Ottawa, Ontario, K2E 7W5.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 21, 2021. The consolidated financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the "Company") for the years ended May 31, 2021 and 2020.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of September 21, 2021, the date the Board of Directors approved the consolidated financial statements

(b) Measurement basis:

The financial statements have been prepared on a historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

(c) Significant accounting judgements and estimates:

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and assumptions are recognized in the year in which they are revised and in any future periods affected. Actual results may differ from these estimates, judgements and assumptions.

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Company's operations in the latter half of March 2020. Management believes the extent of the COVID-19 pandemic's adverse impact on the Company's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, travel restrictions, and the willingness of customers to allow outside contractors onsite. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants and potential impairments of intangible and long-lived assets.

The critical estimates include:

- Business combinations:

  The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. In estimating fair value, the Company uses market observable data to the extent it is available. In cases when Level 1 inputs are not available, the measurement of fair value involves the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen.

- Impairment:

  An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future expected cash flows, and determines an applicable royalty rate. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

  In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Further information on the estimates used in determining the recoverable amount of other intangible assets is provided in note 10.

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

The critical estimates include (continued):

- Assumptions used in the Black-Scholes fair value calculations:

  The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's share price and the risk-free interest rate are used. Further details of inputs used in the measurement of fair values at grant date are provided in note 19.

- Expected credit loss:

  The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on the Company's knowledge of the financial conditions of its customers, historical experience and general economic conditions.

- Heat recovery solutions contract revenue:

  The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, significant estimates are made about milestones and the estimated costs to complete work.

- Deferred tax assets:

  Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. These estimates are reviewed at every reporting date. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of temporary differences, future taxable income and future tax planning strategies.

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

The critical judgements include:

- Business combinations:

  Judgement is applied in determining whether an acquisition is a business combination or an assets acquisition. Judgement is also required to assess whether the amounts payable on achievement of certain milestones represent contingent consideration or remuneration for post-acquisition services. When such amounts represent contingent consideration, judgement is applied on classification of such contingent consideration as equity or liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

- Revenue recognition:

  Contracts with customers often include promises to deliver multiple goods and services. Judgement is applied in determining whether the goods and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates in determining the standalone selling prices (“SSP”) for distinct performance obligations. The Company uses specific parameters as detailed in note 3(m) to estimate SSP for distinct sales of goods and rendering of services. For contracts for heat recovery solutions, the Company exercises judgement in determining the appropriate method for measuring progress over time. Various inputs as detailed in note 3(m) are used to determine progress for recognizing revenue over time. Changes to these inputs may result in different estimates of completion of performance obligations and timing of revenue recognition. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes of the facts relating to each contract.

(d) Functional currency and foreign currency translation:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent. The functional currency of each entity consolidated with the Company is determined by the currency of the primary economic environment in which it operates along with consideration of other relevant factors.

2. Basis of presentation (continued):

(d) Functional currency and foreign currency translation (continued):

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period: monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date; non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at the date when fair value was determined; and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from translation at year-end are recognized in profit or loss.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation by applying the exchange rates prevailing at the end of the reporting year for assets and liabilities and the average exchange rate for the year for consolidated statements of comprehensive income items. Such exchange differences, including differences that arise relating to long-term inter-company balances that form part of the net investment in the foreign operation, are recognized in other comprehensive income or loss. On disposal of a foreign entity, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the end of each reporting year. These exchange differences are recognized in accumulated other comprehensive income.

3. Significant accounting policies

(a) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the parent, which is the ultimate parent, and its subsidiaries. Subsidiaries are consolidated from the date on which the parent company obtains control and continue to be consolidated until control ceases. Control is established when the parent company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared using consistent accounting policies and all material inter-company transactions are eliminated in full upon consolidation.

(Expressed in Canadian dollars except share amounts)

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

Where the ownership of a subsidiary is less than 100% and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the owners of the parent and to the non-controlling interest even if that results in the non-controlling interest having a deficit balance. Non-controlling interest presented as part of equity represents the portion of a subsidiary's net income or loss and net assets that are not held by the Company. The Company attributes total comprehensive income of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The following subsidiaries have been consolidated within the consolidated financial statements:

Name of subsidiary	Place of incorporation	Ownership interest	Functional currency	Principal activity
Thermal Energy International (UK) Ltd.[1]	United Kingdom	100%	GBP	Manufacture and sale of condensate return solutions and sale of heat recovery solutions
Thermal Energy International Corporation [2]	Delaware, U.S.	100%	USD	Sale of heat recovery and condensate return solutions
Boilerroom Equipment Inc. [2] [3]	Pennsylvania, U.S.	100%	USD	Sale of indirect contact heat recovery units
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. [4]	Ontario, Canada	100%	CAD	Holding company
GEMchem Ltd. [1]	United Kingdom	67%	GBP	Sale of water treatment products and services
Thermal Energy International (Guangzhou) Ltd. [4]	Guangzhou, China	55%	CAD	Non-operating

[1] Thermal Energy International (UK) Ltd owns 67% of GEMchem Ltd., a company incorporated in the United Kingdom.
[2] Thermal Energy International Corporation owns 100% of Boilerroom Equipment Inc., a company incorporated in the United States.
[3] Boilerroom Equipment Inc., a company incorporated in the United States.
[4] 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a reporting date of May 31.

Information relating to each of the Company's subsidiaries that have non-controlling interest can be found in note 18.

3. Significant accounting policies (continued):

(b) Business combinations:

The Company measures goodwill as the fair value of the consideration transferred including any contingent consideration to be transferred and the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount of the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at fair value or at their proportionate share of the recognized amount of the identifiable net assets at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquired entity is re-measured to fair value as at the acquisition date through profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

(c) Cash and cash equivalents:

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, and which are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in value.

(d) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method and includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

(e) Property, plant and equipment:

Property, plant and equipment are initially recognized at acquisition cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs of replacing components are recognized only if it is probable that future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of other replacement parts and general servicing of property, plant and equipment is recognized immediately in profit or loss.

3. Significant accounting policies (continued):

(e) Property, plant and equipment (continued):

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets less estimated residual value:

Asset	Method
Plant and equipment	5 years straight-line
Furniture and fixtures	5 years straight-line
Laboratory equipment	5 years straight-line
Computers	3 years straight-line
Leasehold improvements	3 years straight-line
Motor vehicles	4 years straight-line

Depreciation methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Depreciation and impairment charges are included within administrative expenses.

(f) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 10 years for vehicles, equipment and offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. Significant accounting policies (continued):

(f) Leases (continued):

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense in profit and loss on a straight-line basis over the lease term.

(g) Intangible assets:

Intangible assets were either acquired in business combinations or through purchases. These intangible assets are recorded at their fair value at the acquisition date. The Company uses the income approach to value intangible assets acquired.

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. The discounted cash flow ("DCF") is the methodology used, which is a form of the income approach that begins with a forecast of the annual cash flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The future cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows from a market participant perspective. The present value of the future cash flows is then added to the present value of the residual value of the intangible asset at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible asset.

After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses.

3. Significant accounting policies (continued):

(g) Intangible assets (continued):

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization is computed using the following rates and methods which reflect the estimated useful life of the assets:

Asset	Method
Trade names and trademarks	indefinite life
Non-compete agreements	2 years straight-line
Industrial know-how	5 years straight-line
Designs and drawings	5 years straight-line
Customer relationships	5 - 6 years straight-line
Existing technology	7 years straight line
Proprietary software	4 years straight line
Brand portfolio	indefinite life
Licenses	3 years straight line

Amortization methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Amortization is included within administrative expenses.

The indefinite life intangible assets include the GEM™ trade name and trademark and the brand portfolio of Boilerroom Equipment Inc., which are used to set the product apart from those of competitors producing traditional mechanical steam traps or indirect contact heat recovery units. Management considers the reputation of the GEM™ product and the brand portfolio as continuing to strengthen and cannot be assigned a finite life after which it will have no value. Intangible assets with indefinite lives are subject to annual impairment testing. See note 3(h) for a description of impairment testing procedures.

(h) Impairment:

The carrying values of all property and equipment and intangible assets with a finite useful life are reviewed for impairment whenever there is an indication that the asset's carrying amount may not be recoverable. An impairment loss is recognized if the recoverable amount of the asset is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The intangible assets with an indefinite useful life are subject to annual impairment testing. Impairment testing is performed using the relief from royalty method, which requires management to estimate expected future revenue from sales of the product to which the indefinite-lived intangible assets relate and determine an appropriate royalty rate to apply to the future revenue. The royalty rate is subject to estimation uncertainty and reflects company and product specific factors as assessed by management.

3. Significant accounting policies (continued):

(i) Provisions, contingent liabilities and contingent assets:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

(j) Warranties:

The Company warrants its condensate return solution product against defects for 10 years and does not offer extended warranties beyond 10 years. A provision for warranty expense is recorded when the revenue for the related product is recognized. The provision is based upon the terms of the warranty, the Company's historical experience and management estimates of future expense for replacement or repairs. The provision is charged to cost of sales.

(k) Equity:

Capital stock represents the amount received on the issue of shares, less share issue expenses, net of any underlying income tax benefit from the issuance costs.

Contributed surplus includes charges related to stock options and warrants. When stock options and warrants are exercised, the related compensation cost is transferred to capital stock.

Deficit includes all current and prior year retained losses.

Accumulated other comprehensive income represents foreign currency translation differences arising on the translation of the Company’s foreign subsidiaries, net of income taxes. All transactions with owners of the parent are recorded separately in equity.

3. Significant accounting policies (continued):

(l) Equity-settled share-based compensation:

The Company offers an equity-settled share-based compensation plan for its directors, employees and certain contractors. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except warrants to brokers) are ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus.

If vesting years or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of awards expected to vest. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current year. No adjustment is made to any expense recognized in prior years if awards ultimately exercised are different to that estimated on vesting.

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting year of the respective tranches.

When stock options are exercised, any consideration paid by employees is credited to capital stock in addition to the amount previously recorded in contributed surplus relating to those options.

3. Significant accounting policies (continued):

(m) Revenue recognition:

Revenue is recognized when the Company transfers control of goods or services to customers at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. Some of the Company's contracts include multiple products and services. Products and services that are generally capable of being distinct are accounted for as separate performance obligations. When a contract includes a series of goods and services that are substantially the same and have the same pattern of transfer to the customer, these are accounted for as a single performance obligation.

Revenue comprises revenue from the sale of goods and rendering of services, as described below.

Nature of products and services

Sale of goods

Revenue is recognized upon transfer of control of promised goods to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods. The Company's goods are generally distinct and accounted for as separate performance obligations. A good is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good is separately identifiable from other promises in the contractual arrangement with the customer. Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Products shipped prior to agreed billing terms are included in unbilled product revenue.

Rendering of services

Services comprise surveys, installation of goods, project development and after-sales service and maintenance. Revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date.

Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Services rendered prior to agreed billing terms are included in unbilled product revenue.

Contracts for heat recovery solutions

The Company provides heat recovery solutions specifically customized to each customer. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance as the Company performs or when the Company creates or enhances an asset that the customer controls as the asset is created and enhanced, or when the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

3. Significant accounting policies (continued):

(m) Revenue recognition (continued):

Contracts for heat recovery solutions (continued)

The stage of completion is determined by reference to the costs incurred relative to total estimated costs to determine the extent of progress towards completion (“input” method). Only those contract costs that reflect work performed are included in costs incurred to date.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Multi-element arrangements

The Company provides its heat recovery solutions, GEM™ product, installation and servicing on a standalone basis or as part of a multiple element arrangement. Stand-alone sales include sales of heat recovery solution systems or GEM™ steam traps. When sold in a multiple element arrangement, the heat recovery solution systems or GEM™ steam traps are considered separate performance obligations as they are separately identifiable from other promises in the contract. The total consideration for the arrangement is allocated to the separate performance obligations based on their stand alone selling price (“SSP”) and the revenue is recognized for each unit when the requirements for revenue recognition have been met. The Company determines the SSP of each performance obligation based on the specific parameters and model used in determining the contract price, price lists and historical pricing for stand-alone sales of the same goods or services.

Practical expedients

The Company has applied the following practical expedients:

- The Company expenses sales commission costs when incurred if the amortization period is less than 12 months.
- The Company is not adjusting the transaction price for the effects of financing component when the period between customer payment and the transfer of goods and services to the customer is less than 12 months.

Interest revenue and expenses

Interest revenue and expenses are reported on an accrual basis using the effective interest method.

3. Significant accounting policies (continued):

(n) Post employee benefits and short-term employee benefits:

Certain subsidiaries of the Company provide post-employment benefits through defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution.

The cost of the Company's pension benefits for defined contribution plans are expensed when employees have rendered services entitling them to contributions.

Short-term employee benefits, including vacation entitlement, are current liabilities included in “pensions and other employee obligations”, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(o) Research costs and government assistance:

The Company carries on various research programs, and from time to time these are funded by the Government of Canada. Funding received is accounted for using the cost reduction approach and is netted against research costs. Research costs are expensed as incurred.

(p) Government grants:

The Company received funding from various government bodies as COVID-19 wage subsidy. The grants are accounted for using the cost reduction approach and are netted against related costs for which they are intended to compensate.

(q) Investment tax credits:

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the research and development expenses.

(r) Income taxes:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting years, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

3. Significant accounting policies (continued):

(r) Income taxes (continued):

Deferred income taxes are calculated using the liability method on temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax liabilities are always recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income or loss, nor the income or loss for the year reported in the Company's statements of comprehensive income (loss).

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, at the tax rates that have been enacted or substantively enacted by the end of the reporting year and applicable in the year in which the liability is expected to be settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(s) Earnings per share:

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the earnings attributable to owners of the parent by the weighted average number of common shares outstanding during the year. The diluted earnings per share is determined by adjusting the earnings attributable to owners of the parent and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise options outstanding.

3. Significant accounting policies (continued):

(t) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

On initial recognition, trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and liabilities are initially measured at their fair value. Transaction costs that directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on the trade date.

The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company’s financial assets are classified as follows:

Financial asset	**Classification under IFRS 9**
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost

3. Significant accounting policies (continued):

(t) Financial instruments (continued):

Financial assets (continued):

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

Impairment of financial assets

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlated with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification under IFRS 9
Trade payables and other liabilities	Amortized cost
Long-term debt	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method. Interest expense is recognized by applying effective interest rate except for short-term payables where the interest expense would be immaterial.

3. Significant accounting policies (continued):

(u) Segment reporting:

In identifying its operating segments, management generally follows the Company's key geographical areas, which reflect the business of the Company's two main operating units in Ottawa, Canada and Bristol, UK. In determining its reportable segments, the Company considers qualitative factors, such as operations which are considered to be significant by management, as well as quantitative factors, so that material revenues and expenses are appropriately disclosed. Management considers assets and liabilities on a global basis and does not assess on a segment basis. The reportable segments' financial results are reviewed quarterly by senior management and the Board. Corporate and other costs which are not easily attributable to any particular operating segment are separately disclosed within reconciling items.

The two main operating units are as follows:

- North America, managed from the Ottawa office.
- Europe and rest of world, managed from the Bristol office.

Reconciling items comprise corporate administration costs, share-based compensation, professional fees, depreciation of property, plant and equipment, amortization of intangible assets, acquisition costs, foreign exchange differences and finance costs. Corporate administration costs include employment costs of the Chief Executive Officer and Chief Finance Officer, directors' fees, directors' and officers' liability insurance, and shareholder and investor services expenses.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting:

In fiscal 2021 and 2020, the Company operated in the energy efficiency industry in North America, Europe and Rest of the World. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines - heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are located in Canada and Europe.

Management reporting comprises analysis of revenue and gross profit within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company’s future. The Company has two operational bases (“reporting units”), one in Ottawa, Canada covering North America and the other in Bristol, United Kingdom, covering Europe and the rest of the world. These areas are determined by proximity of the region to the reporting unit, plus the location of the contracts in existence with agents and distributors in the respective areas and the historical relationships with those agents and distributors. Corporate costs that cannot easily be attributed to either of the two reporting units are included in reconciling items. The chief operating decision maker focuses on revenues and costs by geographical segments, but manages assets and liabilities on a global basis.

Segment information for the year ended May 31, 2021 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**8,060,309**	13,337,357	**7,289,017**	8,078,818	**-**	-	**15,349,326**	21,416,175
Cost of sales	**(4,586,226)**	(8,452,200)	**(4,012,011)**	(4,009,922)	**-**	-	**(8,598,237)**	(12,462,122)
Gross profit	**3,474,083**	4,885,157	**3,277,006**	4,068,896	**-**	-	**6,751,089**	8,954,053
Other expenses	**(1,797,584)**	(3,215,008)	**(2,718,033)**	(3,266,531)	**(1,900,004)**	(1,330,632)	**(6,415,621)**	(7,812,171)
Other income	**-**	133,826	**-**	-	**-**	-	**-**	133,826
Impairment of intangible assets	**-**	(103,548)	**-**	(396,170)	**-**	-	**-**	(499,718)
Impairment of goodwill	**-**	(1,360,450)	**-**	(1,201,032)	**-**	-	**-**	(2,561,482)
Net finance income (costs)	**(56,557)**	(19,319)	**(9,275)**	(14,179)	**(250,821)**	(381,578)	**(316,653)**	(415,076)
Income (loss) before taxation	**1,619,942**	320,658	**549,698**	(809,016)	**(2,150,825)**	(1,712,210)	**18,815**	(2,200,568)
Tax recovery (expense)	**147,953**	208,132	**(16,937)**	(8,236)	**73,134**	103,715	**204,150**	303,611
Profit (loss) after taxation	**1,767,895**	528,790	**532,761**	(817,252)	**(2,077,691)**	(1,608,495)	**222,965**	(1,896,957)
Attributable to:								
Owners of the parent	**1,767,452**	548,847	**508,366**	(838,795)	**(2,077,691)**	(1,608,495)	**198,127**	(1,898,443)
Non-controlling interest	**443**	(20,057)	**24,395**	21,543	**-**	-	**24,838**	1,486

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Reconciling items comprise the following:

	2021	2020
Corporate administration costs	**$ 599,757**	$ 633,600
Share-based compensation	**208,144**	203,793
Professional fees	**191,747**	180,109
Depreciation of property, plant and equipment	**121,870**	110,422
Amortization of intangible assets	**270,867**	280,580
Acquisition costs	**22,254**	33,973
Foreign exchange loss (gain)	**485,365**	(111,845)
Total	**$ 1,900,004**	$ 1,330,632

Corporate administration costs include directors' fees, all costs relating to both the CEO and CFO, directors' and officers' insurance, corporate legal costs, public relations costs, professional fees relating to group tax planning and corporate filing costs as well as the Annual General Meeting.

Finance costs within the reconciling items include interest and deferred financing charge on the long-term debt.

During the year ended May 31, 2021, the Company had no customer that accounted for more than 10% of total consolidated revenue for the year.

During the year ended May 31, 2020, the Company had two customers in North America that accounted for 29.4% and 10.9% of total consolidated revenue for the year.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Further geographical analysis:

	Sales for the year ended May 31,		Property, plant and equipment as at May 31,		Intangibles assets as at May 31,	
	2021	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$
U.S.A.	**5,754,397**	9,689,024	**168,055**	135,506	**790,064**	1,179,829
Canada	**2,305,911**	3,562,712	**181,385**	229,780	–	–
U.K.	**3,592,633**	2,665,328	**58,237**	66,311	**237,786**	235,927
Ireland	**839,953**	1,508,915	–	–	–	–
Germany	**797,020**	902,838	–	–	–	–
Norway	**569,493**	1,620,667	–	–	–	–
Italy	**365,221**	151,917	–	–	–	–
Poland	**259,869**	299,919	–	–	–	–
France	**183,681**	245,786	–	–	–	–
Spain	**76,401**	108,859	–	–	–	–
Netherlands	**70,374**	46,419	–	–	–	–
Belgium	**45,451**	23,890	–	–	–	–
Rest of Europe	**–**	4,953	–	–	–	–
Russia	**127,534**	–	–	–	–	–
UAE	**118,107**	83,486	–	–	–	–
Singapore	**85,736**	–	–	–	–	–
Kenya	**63,559**	194,561	–	–	–	–
India	**54,683**	83,742	–	–	–	–
Mauritius	**22,581**	110,153	–	–	–	–
Rest of world	**16,722**	113,006	–	–	–	–
Total	**15,349,326**	21,416,175	**407,677**	431,597	**1,027,850**	1,415,756

5. Cash and cash equivalents:

Cash equivalents consist of excess cash invested in money market funds.

	2021	2020
Cash	**$ 4,240,355**	$ 4,774,080
Cash equivalents	**500**	500
Balance, end of year	**$ 4,240,855**	$ 4,774,580

(Expressed in Canadian dollars except share amounts)

6. Trade and other receivables:

	2021	2020
Trade receivables, gross	**$ 2,139,081**	$ 1,888,144
Allowance for doubtful accounts	**(40,308)**	(67,438)
Trade receivables, net	**2,098,773**	1,820,706
Unbilled revenue	**283,717**	77
Work in progress	**35,879**	10,289
Prepayments	**200,864**	166,144
Sales tax and other miscellaneous receivables	**573,577**	214,165
Balance, end of year	**$ 3,192,810**	$ 2,211,381

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

At May 31, 2021, $402,848 (18.8%) of the Company's trade receivables balance was over 90 days past due ($189,442 (10%) at May 31, 2020). $28,837 of the past due balance was impaired at May 31, 2021 ($61,120 at May 31, 2020). At May 31, 2021, $11,471 of trade receivables that was not over 90 days past due was also impaired ($6,318 at May 31, 2020).

The change in allowance for doubtful accounts was as follows:

	2021	2020
Balance, beginning of year	**$ 67,438**	$ 22,864
Provisions	**32,061**	217,647
Release of provisions due to collection	**(43,165)**	(34,962)
Amounts written off	**(16,136)**	(138,024)
Foreign exchange adjustments	**110**	(87)
Balance, end of year	**$ 40,308**	$ 67,438

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2021, provisions of $32,061 were made as expected credit losses and recorded under administrative expenses. $41,305 of the provisions was released due to the collection on the doubtful account (net of $1,860 sales tax).

For the year ended May 31, 2020, provisions of $195,212 (net of $22,435 sales tax) were made as expected credit losses and recorded under administrative expenses. $31,062 of the provisions was released due to the collection on the doubtful account (net of $3,900 sales tax). $106,241 (net of $15,910 sales tax) of the provisions related to one customer.

(Expressed in Canadian dollars except share amounts)

7. Inventory:

Inventory is comprised of partly finished products purchased from suppliers and held in inventory pending finishing to the customers' requirements.

For the year ended May 31, 2021, a total of $ 1,255,083 of inventories was expensed to cost of sales ($1,070,859 at May 31, 2020). Provisions of $39,457 ($9,453 at May 31, 2020) were made for slow-moving inventories under cost of sales, of which $11,627 ($9,453 at May 31, 2020) were written off as obsolete. No reversal of previous write-downs has been recorded during the years ended May 31, 2021 or 2020.

8. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve-ments	Motor Vehicles	Total
	$	$	$	$	$	$	$
Cost, May 31, 2019	386,810	106,601	52,857	398,126	22,877	4,734	972,005
Additions	43,327	35,129	-	32,976	169,116	-	280,548
Disposals	(1,432)	-	-	-	-	-	(1,432)
Translation adjustments	3,834	(31)	-	(190)	-	91	3,704
Cost, May 31, 2020	432,539	141,699	52,857	430,912	191,993	4,825	1,254,825
Additions	61,492	12,693	-	21,600	9,272	10,345	115,402
Disposals	-	-	-	(19,341)	-	-	(19,341)
Translation adjustments	(26,718)	(455)	-	(597)	(251)	(880)	(28,901)
Cost, May 31, 2021	**467,313**	**153,937**	**52,857**	**432,574**	**201,014**	**14,290**	**1,321,985**
Accumulated depreciation, May 31, 2019	170,547	103,512	52,857	361,142	22,877	868	711,803
Depreciation for the year	62,968	6,013	-	28,121	12,382	938	110,422
Disposals	(428)	-	-	-	-	-	(428)
Translation adjustments	1,590	(9)	-	(193)	-	43	1,431
Accumulated depreciation, May 31, 2020	234,677	109,516	52,857	389,070	35,259	1,849	823,228
Depreciation for the year	65,928	8,573	-	28,785	17,030	1,554	121,870
Disposals	-	-	-	(18,738)	-	-	(18,738)
Translation adjustments	(11,913)	5	-	166	(3)	(307)	(12,052)
Accumulated depreciation, May 31, 2021	**288,692**	**118,094**	**52,857**	**399,283**	**52,286**	**3,096**	**914,308**
Net book value, May 31, 2020	197,862	32,183	-	41,842	156,734	2,976	431,597
Net book value, May 31, 2021	**178,621**	**35,843**	**-**	**33,291**	**148,728**	**11,194**	**407,677**

During the year ended May 31, 2021, the Company disposed of fully depreciated assets of $18,738 and a computer with a net book value of $603 for $nil proceeds.

During the year ended May 31, 2020, the Company disposed of depreciated assets with a net book value of $1,004 for $nil proceeds.

(Expressed in Canadian dollars except share amounts)

8. Property, plant and equipment (continued):

There are no property, plant and equipment held under finance leases and no items of property, plant or equipment are subject to restrictions of title or pledged as security.

9. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2020	**315,789**	**94,534**	**11,015**	**421,338**
Additions (note 15)	**1,154,221**	**45,933**	**13,055**	**1,213,209**
Depreciation	**(120,717)**	**(39,640)**	**(6,319)**	**(166,676)**
Translation adjustments	**(50,559)**	**(430)**	**96**	**(50,893)**
Balance, May 31, 2021	**1,298,734**	**100,397**	**17,847**	**1,416,978**

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2019	123,114	90,666	18,000	231,780
Additions (note 15)	296,519	35,231	-	331,750
Lease modification	(15,258)	-	-	(15,258)
Depreciation	(88,077)	(30,780)	(7,042)	(125,899)
Translation adjustments	(509)	(583)	57	(1,035)
Balance, May 31, 2020	315,789	94,534	11,015	421,338

10. Intangible assets and goodwill:

	Cost, May 31, 2020	Additions	Translation adjustments	Cost, May 31, 2021
	$		$	$
Trade names and trademarks	782,138	-	6,164	788,302
Non-compete agreement	102,018	-	804	102,822
Industrial know-how	119,021	-	938	119,959
Designs and drawings	130,923	-	1,032	131,955
Customer relationships	757,580	-	(57,128)	700,452
Existing technology	737,605	-	(91,752)	645,853
Proprietary software	414,989	-	(51,622)	363,367
Brand portfolio	205,426	-	(25,554)	179,872
Licences	-	9,988	(270)	9,718
Total	3,249,700	9,988	(217,388)	3,042,300

(Expressed in Canadian dollars except share amounts)

10. Intangible assets and goodwill (continued):

	Accumulated amortization and impairment, May 31, 2020	**Amortization**	**Translation adjustments**	**Accumulated amortization and impairment, May 31, 2021**
	$	**$**	**$**	**$**
Trade names and trademarks	**546,212**	**-**	**4,304**	**550,516**
Non-compete agreement	**102,018**	**-**	**804**	**102,822**
Industrial know-how	**119,021**	**-**	**938**	**119,959**
Designs and drawings	**130,923**	**-**	**1,032**	**131,955**
Customer relationships	**432,934**	**74,614**	**(21,743)**	**485,805**
Existing technology	**201,963**	**98,889**	**(31,747)**	**269,105**
Proprietary software	**198,849**	**97,364**	**(31,258)**	**264,955**
Brand portfolio	**102,024**	**-**	**(12,691)**	**89,333**
Licences	**-**	**-**	**-**	**-**
Total	**1,833,944**	**270,867**	**(90,361)**	**2,014,450**
Net book value	**1,415,756**			**1,027,850**

	Cost, May 31, 2019	Translation adjustments	Cost, May 31, 2020
	$	$	$
Trade names and trademarks	784,990	(2,852)	782,138
Non-compete agreement	102,390	(372)	102,018
Industrial know-how	119,455	(434)	119,021
Designs and drawings	131,400	(477)	130,923
Customer relationships	749,607	7,973	757,580
Existing technology	723,695	13,910	737,605
Proprietary software	407,163	7,826	414,989
Brand portfolio	201,552	3,874	205,426
Total	3,220,252	29,448	3,249,700

	Accumulated amortization and impairment, May 31, 2019	Impairment	Amortization	Translation adjustments	Accumulated amortization and impairment, May 31, 2020
	$	$	$	$	$
Trade names and trademarks	150,590	396,170	-	(548)	546,212
Non-compete agreement	102,390	-	-	(372)	102,018
Industrial know-how	119,455	-	-	(434)	119,021
Designs and drawings	131,400	-	-	(477)	130,923
Customer relationships	353,078	-	77,289	2,567	432,934
Existing technology	94,769	-	102,435	4,759	201,963
Proprietary software	93,308	-	100,856	4,685	198,849
Brand portfolio	-	103,548	-	(1,524)	102,024
Total	1,044,990	499,718	280,580	8,656	1,833,944
Net book value	2,175,262				1,415,756

10. Intangible assets and goodwill (continued):

Trade names and trademarks, and brand portfolio are intangible assets with indefinite lives and are not subject to amortization. They are tested for impairment at each year-end. The recoverable amount of trade names and trademarks, and brand portfolio were determined using the relief from royalty method.

(a) Trade names and trademarks:

Trade names and trademarks relate specifically to the GEM™ product. The calculation of the expected future revenues from the GEM™ product covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 24% (2020 - 23%). The growth rates attributed by Management to the GEM™ product line are 17% in 2022, followed by 7% in each of the subsequent four years. The Company is expecting continued growth in revenues from GEM™ product in the next five years as the Company will continue to invest in its sales force and will have an increased number of experienced sales staff within Europe and North America, which will generate more sales opportunities. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the year ended May 31, 2021. An impairment charge of $396,170 was recognized for the year ended May 31, 2020.

(b) Brand portfolio:

Brand portfolio relates specifically to Boilerroom Equipment Inc's products. The calculation of the expected future revenues from the brand portfolio covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 21% (2020 - 20%). The growth rates attributed by Management to the brand portfolio are 24% in 2022, followed by 5% in each of the subsequent four years. The Company is expecting the revenue to grow in 2022 as Boilerroom Equipment Inc. will continue to expand its sales territories by utilizing the existing sales channels and network that have been established by the group of companies. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the year ended May 31, 2021. An impairment charge of $103,548 was recognized for the year ended May 31, 2020.

(c) Goodwill:

Goodwill arose as a result of the acquisition of Gardner Energy Management Limited based in the UK on July 1, 2008, and the acquisition of Boilerroom Equipment Inc. based in the US on June 29, 2018. The entire carrying amount of goodwill arising from both acquisitions was written off due to impairment at May 31, 2020. A total impairment charge of $2,561,482 was recognized to the profit and loss for the year ended May 31, 2020.

(Expressed in Canadian dollars except share amounts)

11. Trade payables and other liabilities:

Trade payables and other liabilities recognized in the statements of financial position can be summarized as follows:

	2021	2020
Trade payables	**$ 797,489**	$ 1,156,736
Accruals	**790,091**	1,118,819
Other government remittances payable	**80,611**	891,162
Government grants	**33,555**	271,210
	$ 1,701,746	$ 3,437,927

Included in accruals is $21,600 due to Directors ($46,580 at May 31, 2020).

For the year ended May 31, 2021, the Company obtained financing in the total amount of $268,239 (equivalent to USD$216,182) under the Second Draw Paycheck Protection Program pursuant to the CARES Act in the U.S ("Second Draw PPP Loans"). The loans can be forgiven for applicants that meet revenue reduction criteria and eligible payroll and non-payroll costs over a certain covered period. As at May 31, 2021, management estimated that the Company would meet the forgiveness criteria. For the year ended May 31, 2021, a total amount of $233,751 was recognized as a reduction to the operating expenses, of which $91,468 was netted against administration expenses and $142,283 against selling, marketing and business development expenses, for the portion of the grant earned from origination date to the reporting date. A foreign translation gain in the amount of $933 was recognized to accumulated other comprehensive income related to the revaluation of the liability with the year-end closing rate.

For the year ended May 31, 2020, the Company obtained financing in the total amount of $309,423 (equivalent to USD$221,127) under the First Draw Paycheck Protection Program pursuant to the CARES Act in the U.S ("First Draw PPP Loans"). The loans can be forgiven for applicants that meet eligible payroll and non-payroll costs over a certain covered period. As at May 31, 2020, management estimated that the Company would meet the forgiveness criteria. For the year ended May 31, 2020, a total amount of $34,161 was recognized as a reduction to the operating expenses, of which $15,166 was netted against administration expenses and $18,995 against selling, marketing and business development expenses, for the portion of the grant earned from origination date to the reporting date. A foreign translation gain in the amount of $4,052 was recognized to accumulated other comprehensive income related to the revaluation of the liability with the year-end closing rate. The First Draw PPP Loans that were received in the year ended May 31, 2020, were fully forgiven in the year ended May 31, 2021.

All amounts are short-term. The carrying values of trade payables are considered to be a reasonable approximation of fair value.

(Expressed in Canadian dollars except share amounts)

12. Long-term debt:

	2021	2020
Term loan (equivalent to USD$1,803,179), net of deferred financing costs of $26,342 (equivalent to USD$21,821), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of $30,180 (equivalent to USD$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of $573,420 (equivalent to USD$475,000) payable on the maturity date, December 1, 2025 (a)	**$2,176,798**	$2,759,672
Term loan, net of deferred financing costs of $2,057, bearing interest at the institution's floating base rate less a variance of 1.10%, repayable in monthly principal instalments of $40,000 starting June 15, 2021 and continuing up to the maturity date, with a balloon payment on the maturity date, May 15, 2023 (b)	**997,943**	-
Term loan (equivalent to GBP£50,000), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of $1,428 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026 (c)	**85,685**	-
Total long-term debt	**3,260,426**	2,759,672
Less: current portion	**(850,987)**	(269,886)
Long term portion	**2,409,439**	2,489,786

(a) On March 19, 2020, the lender agreed to postpone the next three payments of principal to the end of the payment schedule as a COVID-19 relief measure to the Company. On May 13, 2020, the lender agreed to further postpone another three payments to the end of the payment schedule. Consequently, the maturity date of the loan was extended by six months from June 1, 2025 to December 1, 2025. As a result, the Company did not make any monthly principal repayment for the period April 1, 2020 to September 30, 2020.

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was at 4.65% on May 31, 2021 (4.70% on May 31, 2020). Interest is payable monthly in arrears on the 1st day of the month commencing on the August 1st, 2018.

(Expressed in Canadian dollars except share amounts)

12. Long-term debt (continued):

As collateral security for the fulfilment of all present and future obligations under this loan, the Company granted to the lender a general and continuing security interest in all of the Company's present and after acquired tangible assets and on all present and future assets of the Company related to intellectual property. This security interest shall rank in first position with respect to intellectual property but subordinated in rank to any other security granted.

As at May 31, 2021, the variance was 1.50% (8.00% at May 31, 2020). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio:

Consolidated total funded debt /EBITDA[(1)]	Variance
Less than 2.50	1.50%
Between 2.50 and 3.00	2.00%
Between 3.00 and 3.50	2.50%
Between 3.50 and 3.75	4.50%
Between 3.75 and 4.00	5.50%
More than 4.00	8.00%

(1) EBITDA, per the agreement, means, for any fiscal period, the net income from continuing operations (excluding any extraordinary gains or losses) plus, to the extent deducted in determining net income, interest expense, taxes paid and accrued, depreciation, depleting and amortization expenses, plus share-based compensation deducted, for the period. EBITDA is also before the acquisition costs related to the acquisition of Boilerroom Equipment Inc. to a cumulative maximum of USD$400,000.

The Company has certain covenants in accordance with this term loan, namely Total Funded Debt to EBITDA ratio and Debt Service Coverage ratio. On May 28, 2021, the lender waived the covenants for all the periods from May 31, 2021 up to May 31, 2022 as another COVID-19 relief measure to the Company.

(b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of $2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over 3 years. The institution's floating base rate was 4.55% on June 9, 2020 and May 31, 2021. Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of $1,000,000 was received by the Company on July 23, 2020. A financing cost of $3,000 was charged by the lending institution. According to the agreement, the remaining amount of $1,300,000 can be drawn later, subject to meeting certain conditions in accordance with this term loan. A standby fee of 1.50% per annum is charged on the portion of the amount which had not been advanced by February 2021. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

(Expressed in Canadian dollars except share amounts)

12. Long-term debt (continued):

(c) On June 10, 2020, the Company entered into a COVID-19 bounce back fixed rate loan with a UK lending institution for a total amount of GBP£50,000 (equivalent to $85,760 on June 10, 2020). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over 6 years.

13. Deferred revenue:

The change in deferred revenue was as follows:

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2020	**$ 771,089**	**$ 166,139**	**$ 937,228**
Increase from payments received	**9,322,559**	**291,220**	**9,613,779**
Decrease from revenue recognized	**(8,669,671)**	**(295,332)**	**(8,965,003)**
Translation adjustments	**(20,392)**	**774**	**(19,618)**
Balance, May 31, 2021	**$ 1,403,585**	**$ 162,801**	**$ 1,566,386**

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2019	$ 2,530,047	$ 74,543	$ 2,604,590
Increase from payments received	13,409,301	408,327	13,817,628
Decrease from revenue recognized	(15,229,727)	(318,433)	(15,548,160)
Translation adjustments	61,468	1,702	63,170
Balance, May 31, 2020	$ 771,089	$ 166,139	$ 937,228

All amounts are short-term and will be settled within the next reporting year.

(Expressed in Canadian dollars except share amounts)

14. Provisions:

The change in provisions was as follows:

	Legal provision	Warranty provision	Total provisions
Balance, beginning of year	**$ 190,000**	**$ 93,635**	**$ 283,635**
Translation adjustments	**-**	**(1,313)**	**(1,313)**
Balance, end of year	**$ 190,000**	**$ 92,322**	**$ 282,322**

On October 25, 2005, the Company was served with a statement of claim from its past President. Among other things, the lawsuit alleges that the former President was wrongfully dismissed from his employment. In November 2009, the Company recorded a provision of $190,000 in its financial statements. In May, 2010, the plaintiff brought a motion for summary judgment. On October 18, 2011, a decision was rendered. In its decision on the motion for summary judgment the court: i) Allowed the plaintiff's claim for wrongful dismissal assessing the damages for the plaintiff's wrongful dismissal at the equivalent of 18 months of pay in lieu of notice of termination; ii) Dismissed the plaintiff's claim for alleged unpaid loans and advances in the amount of $618,810; iii) Permitted the remainder of the parties' claims and counterclaims to proceed to trial. As such, the remainder of the parties’ claims and counterclaims will proceed to trial. In the event the past President and the Company cannot agree on the damages for his wrongful dismissal claim, the matter will be determined by the court. However, there has been no progress since October 18, 2011. Until the remaining issues are determined, it is unclear what the net balance payable will be. While the Company is confident in the merits of its own case, there is much that is still unknown about the past President's case and the basis for his damages claim. This provision remains unchanged as at May 31, 2021 and is intended to account for future net liabilities resulting from the claim and the counterclaim.

Other than the legal provision of $190,000, the Company has another provision of $92,322 for warranty.

(Expressed in Canadian dollars except share amounts)

15. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2021:

Less than one year	$ 326,987
One to five years	904,426
Six to ten years	905,054
Total undiscounted lease obligations	2,136,467
Less: impact of present value	(583,403)
Less: current portion	(215,923)
Long term portion	$ 1,337,141

For the year ended May 31, 2021, interest expense on lease obligations was $64,501; total cash outflow for leases was $286,775, including $76,205 for short-term leases. Expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

For the year ended May 31, 2020, interest expense on lease obligations was $34,101; total cash outflow for leases was $250,993, including $117,060 for short-term leases. Expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

16. Capital stock:

Authorized:

Unlimited number of Class A common shares, no par value.

Unlimited number of Series 1 preferred shares, voting only in the case of dissolution of the Company, redeemable at the option of the Company, at $0.01 per share and convertible to common shares on a 1 to 1 basis at the rate of 20% of the number originally issued per year.

(Expressed in Canadian dollars except share amounts)

16. Capital stock (continued):

Outstanding:

	Year ended May 31, 2021		Year ended May 31, 2020	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of year	**160,152,616**	**32,117,242**	161,885,616	32,464,780
Stock options exercised[1]	**3,734,990**	**322,672**	-	-
Shares purchased and cancelled[2]	**-**	**-**	(1,733,000)	(347,538)
Balance, end of year	**163,887,606**	**32,439,914**	160,152,616	32,117,242

(1) For the year ended May 31, 2021, 3,734,990 shares were issued for $221,300 following the exercise of stock options, resulting in an increase to capital stock of $322,672 and a reduction in contributed surplus of $101,372. For the year ended May 31, 2020, no stock options were exercised.

(2) For the year ended May 31, 2021, no shares were purchased for cancellation. For the year ended May 31, 2020, 1,733,000 shares were purchased for cancellation by the Company for a total purchase price of $127,317, resulting in a reduction to capital stock of $347,538 and an increase in contributed surplus of $220,221.

Normal Course Issuer Bid:

On November 19, 2019, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on November 18, 2019. During the 12-month period commencing November 22, 2019 and ending November 21, 2020, the Company could purchase on the TSX up to 8,094,280 common shares, representing approximately 5% of the then issued and outstanding common shares. For the year ended May 31, 2021, no Class A common shares were purchased and cancelled directly under the NCIB. For the year ended May 31, 2020 all the purchased Class A common shares were purchased and cancelled directly under the NCIB.

17. Capital management:

The Company's objectives when managing capital is to ensure financial stability and sufficient liquidity to increase shareholder value through strategic acquisitions and organic growth by investing in sales, marketing and production development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process.

(Expressed in Canadian dollars except share amounts)

17. Capital management (continued):

The capital structure of the Company consists of long-term debt and components of equity including capital stock, contributed surplus and deficit, which at May 31, 2021 totalled $2,512,845 ($1,885,274 at May 31, 2020). The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, repurchase shares, or issue debt. Management reviews the capital structure on a regular basis to ensure that objectives are met.

The Company is subject to two debt covenants on its long-term debt (see note 12(a) for details). The Company monitors the ratios on a quarterly basis. The Company's share capital is not subject to external restrictions.

18. Non-controlling interest in subsidiaries:

The following table summarizes the information relating to each of the Company's subsidiaries that has non-controlling interests (NCI), before any intra-group eliminations.

There are no significant restrictions on the ability to access or use assets and settle liabilities of the group. There are no contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity.

	Year ended May 31, 2021			Year ended May 31, 2020		
	GEMchem Ltd.	**TEI (Guangzhou) Ltd.**	**Total**	GEMchem Ltd.	TEI (Guangzhou) Ltd.	Total
	$	**$**	**$**	$	$	$
NCI percentage	**33%**	**45%**		33%	45%	
Non-current assets	**1,613**	**-**	**1,613**	2,523	-	2,523
Current assets	**491,155**	**8,084**	**499,239**	458,061	6,159	464,220
Non-current liabilities	**365**	**-**	**365**	362	-	362
Current liabilities	**173,196**	**418,553**	**591,749**	190,894	417,613	608,507
Net assets (liabilities)	**319,207**	**(410,469)**	**(91,262)**	269,328	(411,454)	(142,126)
Carrying amount of NCI	**105,338**	**(184,711)**	**(79,373)**	88,878	(185,154)	(96,276)
Revenue	**1,005,766**	**-**	**1,005,766**	1,051,603	-	1,051,603
Profit (loss) after tax	**73,925**	**985**	**74,910**	65,283	(44,571)	20,712
Total comprehensive income (loss)	**75,646**	**985**	**76,631**	63,990	(44,571)	19,419
Profit (loss) allocated to NCI	**24,395**	**443**	**24,838**	21,543	(20,057)	1,486
Comprehensive income (loss) allocated to NCI	**24,963**	**443**	**25,406**	21,117	(20,057)	1,060
Cash flows from operating activities	**31,853**	**(756)**	**31,097**	190,774	(43,506)	147,268
Cash flows from investing activities	**-**	**-**	**-**	(1,583)	-	(1,583)
Cash flows from financing activities	**(25,767)**	**2,681**	**(23,086)**	(50,783)	36,515	(14,268)
Net increase (decrease) in cash and cash equivalents	**6,086**	**1,925**	**8,011**	138,408	(6,991)	131,417

(Expressed in Canadian dollars except share amounts)

19. Share-based payments:

The Company established the Company's Share Option Plan applicable to directors, officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date. The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. The vesting term for options granted is at the discretion of the Board of Directors.

Activity in stock options was as follows:

	Year ended May 31, 2021		Year ended May 31, 2020	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**17,821,276**	**0.07**	14,259,193	0.07
Granted	**4,653,000**	**0.09**	4,085,000	0.08
Expired	**(3,253,360)**	**0.08**	(250,000)	0.09
Forfeited	**(811,251)**	**0.08**	(272,917)	0.08
Exercised	**(3,734,990)**	**0.06**	-	-
Outstanding, end of year	**14,674,675**	**0.08**	17,821,276	0.07
Options exercisable, end of year	**5,281,668**	**0.08**	8,827,943	0.07

The following tables summarize information about stock options outstanding:

At May 31, 2021:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding May 31, 2021**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at May 31, 2021**	**Weighted average exercise price**
0.08-0.10	**14,424,675**	**3.37**	**0.08**	**5,031,668**	**0.08**
0.11-0.12	**250,000**	**0.49**	**0.12**	**250,000**	**0.12**
	14,674,675	**3.33**	**0.08**	**5,281,668**	**0.08**

(Expressed in Canadian dollars except share amounts)

19. Share-based payments (continued):

At May 31, 2020:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2020	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2020	Weighted average exercise price
0.05-0.07	2,739,583	1.00	0.05	2,739,583	0.05
0.08-0.10	14,831,693	3.09	0.08	5,838,360	0.08
0.11-0.12	250,000	1.49	0.12	250,000	0.12
	17,821,276	2.75	0.07	8,827,943	0.07

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model. As at May 31, 2021, there was $209,572 ($206,502 at May 31, 2020) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Plan, which are expected to be recognized over a term of three years.

The following inputs were used in the measurement of the fair values at grant date of the share-based payment plans:

	26-Nov-20	30-Nov-19
Grant date share price ($)(1)	0.09	0.08
Exercise price ($)	0.09	0.08
Expected volatility (%)(2)	81.14	84.01
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	0.44	1.49
Forfeiture rate (%)	14.00	11.00

(1) The closing market price of the shares on the TSX Venture Exchange on the day immediately preceding the date of grant or the last day of trading preceding the date of grant if no shares traded on the day immediately preceding the date of grant.
(2) The expected volatility was based on historical volatility of the Company over a period of time that is commensurate with the expected life of the options.

(Expressed in Canadian dollars except share amounts)

19. Share-based payments (continued):

Share-based compensation expense related to the issuance of stock options is included in administration, selling, marketing and business development expenses and is broken down as follows:

	2021	2020
Administration	**$ 168,057**	$ 164,765
Selling, marketing and business development	**40,087**	39,028
	$ 208,144	$ 203,793

20. Revenue:

	2021	2020
Sales of goods	**$ 5,211,733**	$ 4,534,203
Rendering of services	**1,181,405**	1,625,466
Contracts for heat recovery solutions	**8,956,188**	15,256,506
	$ 15,349,326	$ 21,416,175

21. Employee benefits expense:

	2021	2020
Salaries and benefits	**$ 6,564,797**	$ 7,237,573
Share-based compensation (note 19)	**208,144**	203,793
Pension charge	**87,860**	46,632
	$ 6,860,801	$ 7,487,998

The Company contributes to defined contribution pension plans for permanent employees of two of its subsidiaries. The Company matches employee contributions. The plans and their assets are held by independent managers. The pension charge represents contributions paid by the Company.

(Expressed in Canadian dollars except share amounts)

22. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	2021	2020
Depreciation of property, plant and equipment (note 8)	**$ 121,870**	$ 110,422
Depreciation of right-of-use assets (note 9)	**166,676**	125,899
Amortization of intangible assets (note 10)	**270,867**	280,580
Write-down of finance lease receivable	**-**	45,848
Foreign exchange loss (gain)	**485,365**	(111,845)

The Company received funding from various government bodies as COVID-19 wage subsidies. For the year ended May 31, 2021, a total amount of $1,244,004 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which $912,068 was netted against administration expenses and $331,936 against selling, marketing and business development expenses.

For the year ended May 31, 2020, a total amount of $258,543 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which $100,592 was netted against administration expenses and $157,951 against selling, marketing and business development expenses.

During the year ended May 31, 2021, the Company received funding on various research programs. For the year ended May 31, 2021, a total amount of $112,038 related to various research funding was recognized as a reduction to research and development expenses.

For the year ended May 31, 2020, a total amount of $181,498 related to various research funding was recognized as a reduction to research and development expenses.

(Expressed in Canadian dollars except share amounts)

23. Income taxes:

The Company's effective tax rate differs from the combined federal and provincial income tax rate in Canada. This difference comes from the following items:

		2021		2020
Income (loss) before income taxes	$	**18,815**	$	(2,200,568)
Income taxes recovery calculated using combined federal and provincial income tax rates in Canada of 26.50% (2020 – 26.50%)	$	**4,986**	$	(583,150)
Share-based compensation		**55,158**		54,005
Impairment of intangible assets		**-**		24,778
Impairment of goodwill		**-**		621,110
Difference in tax rate of foreign subsidiaries		**(47,031)**		(849)
Tax effect of temporary difference for which no deferred tax asset is recorded		**(230,085)**		(705,729)
Difference in future tax rates		**(12,312)**		(18,548)
Permanent differences and others		**25,134**		304,772
Current and deferred income tax recovery	**$**	**(204,150)**	$	(303,611)
Current	**$**	**24,831**	$	(165,930)
Deferred		**(228,981)**		(137,681)
	$	**(204,150)**	$	(303,611)

Major components of the current tax (recovery) expense are as follows:

		2021		2020
Statutory income tax of the year	**$**	**23,595**	$	18,950
Adjustment for prior years		**1,675**		14,261
Carryback of losses		**(439)**		(199,141)
	$	**24,831**	$	(165,930)

Major components of the deferred tax recovery are as follows:

		2021		2020
Origination of timing differences	**$**	**(216,669)**	$	(119,133)
Difference in future tax rates		**(12,312)**		(18,548)
	$	**(228,981)**	$	(137,681)

(Expressed in Canadian dollars except share amounts)

23. Income taxes (continued):

Change in deferred tax balances in 2021:

	June 1, 2020 $	Recognized in income (loss) $	Recognized in other comprehensive income $	May 31, 2021 $
Provisions	**27,826**	**(9,384)**	**72**	**18,514**
Property, plant and equipment	**(39,749)**	**7,902**	**3,515**	**(28,332)**
Non-capital losses	**163,178**	**156,811**	**(5,803)**	**314,186**
Intangible assets	**(363,380)**	**73,652**	**33,851**	**(255,877)**
	(212,125)	**228,981**	**31,635**	**48,491**
Recognized as deferred tax assets				**113,430**
Recognized as deferred tax liabilities				**(64,939)**
				48,491

Change in deferred tax balances in 2020:

	June 1, 2019 $	Recognized in income (loss) $	Recognized in other comprehensive income $	May 31, 2020 $
Provisions	38,939	(10,916)	(197)	27,826
Property, plant and equipment	(34,826)	(5,642)	719	(39,749)
Finance lease receivable	(24,712)	24,712	-	-
Non-capital losses	199,206	(34,806)	(1,222)	163,178
Intangible assets	(523,882)	164,333	(3,831)	(363,380)
	(345,275)	137,681	(4,531)	(212,125)
Recognized as deferred tax assets				111,439
Recognized as deferred tax liabilities				(323,564)
				(212,125)

(Expressed in Canadian dollars except share amounts)

23. Income taxes (continued):

At May 31, the Company had the following temporary differences for which no deferred tax asset was recorded:

	2021	2020
Property, plant and equipment	**$ 1,120,856**	$ 1,070,546
Intangible assets	**2,739,157**	2,739,157
Provisions	**486,846**	248,854
Non-capital losses	**7,087,963**	8,753,252
Research and development pool	**3,250,000**	2,950,000
	$ 14,684,822	$ 15,761,809

As at May 31, 2021, the Company had available non-capital income tax loss carry forwards in the following amounts for which no deferred tax asset was recognized. These tax loss carry forwards may be used to reduce federal and provincial taxable income:

Year of expiry	Amount
2029	1,089,640
2030	3,032,173
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
Total	$ 6,680,156

As at May 31, 2021, the Company had non-capital losses in foreign subsidiaries in the amount of $1,915,207. Losses in the amount of $249,693 expire between 2022 and 2025 and losses of $1,665,514 could be carried forward indefinitely.

As at May 31, 2021, the Company had a pool balance in the amount of $3,250,000 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely ($2,950,000 at May 31, 2020).

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the parent is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of the temporary differences at May 31, 2021 was $2,436,286 ($1,851,673 at May 31, 2020).

(Expressed in Canadian dollars except share amounts)

24. Earnings (loss) per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2021 was based on the net income attributable to owners of the parent of $198,127 (2020 – net loss of $1,898,443) and a weighted average number of basic common shares outstanding of 160,955,437 (2020 – 161,319,023) and a weighted average number of dilutive common shares outstanding of 165,807,906 (2020 – 161,319,023). For the year ended May 31, 2020, 2,739,583 stock options out of 8,827,943 exercisable options could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted loss per share because they were anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of stock options was based on quoted market prices for the year during which options were outstanding.

The following tables summarize the calculation of the weighted average number of basic and diluted common shares:

	2021	2020
Issued common shares at beginning of year	**160,152,616**	161,885,616
Effect of shares purchased and cancelled	**-**	(566,593)
Effect of shares issued	**802,821**	-
Weighted average number of basic common shares at end of year	**160,955,437**	161,319,023
Effect of stock options on issue	**4,852,469**	-
Weighted average number of diluted common shares at end of year	**165,807,906**	161,319,023

25. Financial instruments:

Financial risk management:

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company does not use derivative financial instruments to manage these risks, as management believes the risks arising from the Company's financial instruments to be at an already acceptably low level. The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. These risks are discussed in more detail below.

(a) Market risk is the risk that changes in market prices, such as interest rates and foreign exchange, will affect the Company's net earnings or loss or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

25. Financial instruments (continued):

Financial risk management (continued):

a) Market risk (continued):

(i) Foreign currency risk:

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table shows the foreign currency exchange risk on the financial assets and liabilities of the Company's operations denominated in currencies other than the functional currency of the different Company entities.

	Net financial assets/(liabilities) in CAD$			
	US $	EUR	NOK	Total CAD $
Functional currency of Company entity				
May 31, 2021				
Canadian Dollar	**1,670,379**	**–**	**–**	**1,670,379**
British Pound	**(79,497)**	**1,009,030**	**(46,375)**	**883,158**
	1,590,882	**1,009,030**	**(46,375)**	**2,553,537**
May 31, 2020				
Canadian Dollar	1,617,576	–	–	1,617,576
British Pound	–	1,587,337	(13,079)	1,574,258
	1,617,576	1,587,337	(13,079)	3,191,834

A 10% strengthening of the following currencies against the Canadian dollar would have had the following effect on operations and equity:

	May 31, 2021				May 31, 2020			
	US$	**EUR**	**NOK**	**Total**	US$	EUR	NOK	Total
Net income (loss)	**159,088**	**100,903**	**(4,637)**	**255,354**	161,758	158,734	(1,308)	319,184
Equity	**159,088**	**100,903**	**(4,637)**	**255,354**	161,758	158,734	(1,308)	319,184

The Company operates internationally with subsidiaries in the United Kingdom and the United States. The Company earns revenues and incurs cost of sales, administration, selling, marketing and business development expenses in U.S. dollars, Euros and Norwegian Krone. The majority of the foreign denominated transactions are in U.S. dollars, GBP and Euros.

25. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

The Company does not enter into arrangements to hedge its foreign exchange risk. The Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk:

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates. The Company minimizes risk by investing only with credit worthy banking institutions or draws on its available facility with floating rate borrowings, as mentioned in liquidity risk above.

The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The Company is exposed to interest rate risk on its long-term debt. For the year ended May 31, 2021, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in an decrease/increase in income before tax of $32,888.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instruments that potentially expose the Company to credit risk are trade and other receivables.

The Company's management considers that all of the above financial assets that are not impaired or past due at each of the reporting dates under review are of good credit quality.

Trade and other receivables

Each new customer is assessed individually for creditworthiness before standard payment and delivery terms and conditions are offered. Consideration is given to the country and industry in which the customer operates, as well as maturity of the customer, existence of previous financial difficulties and general reputation. For GEM and Boilerroom Equipment Inc. products, a significant percentage of revenue is attributable to a small number of country-wide distributors with whom the Company has a trading history of at least two years. Goods are sold subject to retention of title clauses, so that in the event of non-payment, the Company may have a secured claim.

(Expressed in Canadian dollars except share amounts)

25. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk (continued):

Contracts for heat recovery solutions are planned to help achieve positive cash flows throughout the life of the project. A project may be halted pending payment by a customer, thus preventing further commitments under the contract.

The amounts reported for trade and other receivables in the statement of financial position are net of expected credit loss. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (see note 5), trade receivables, and other miscellaneous receivables (see note 6).

The credit risk for cash and cash equivalents is considered negligible, since the counter-parties are reputable banks with high quality external credit ratings.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations of its financial liabilities that are settled by cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources such as bank loans for an authorized amount. The Company continues to actively seek external financing to ensure it has the necessary funds to fulfill its obligations.

In addition to the lease obligations disclosed in note 15, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount $	Contractual cash flows $	Year 1 $	Year 2-3 $	Year 4 and onwards $
Trade payables and other liabilities	1,701,746	1,701,746	1,701,746	-	-
Long-term debt	3,260,426	3,871,549	1,114,210	1,520,490	1,236,849
	4,962,172	5,573,295	2,815,956	1,520,490	1,236,849

Fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis:

Financial instruments measured at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in Canadian dollars except share amounts)

25. Financial instruments (continued):

Fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis (continued):

The Company has no financial assets or financial liabilities measured at fair value after initial recognition other than contingent payable recognized in connection with business acquisition.

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the year ended May 31, 2021 and 2020.

The following table shows a reconciliation from the beginning balance to the ending balance for fair value measurements in level 3 of the fair value hierarchy.

Contingent payable	**2021**	2020
Balance, beginning of year	**-**	$ 110,148
Charges through profit or loss under finance costs	**-**	19,061
Write-down through profit or loss under other income	**-**	(133,826)
Foreign exchange	**-**	4,617
Balance, end of year	**-**	-

The contingent consideration was payable in cash or shares at Company's choice over the three-year post-acquisition period based on Boilerroom Equipment Inc. meeting certain performance targets. Estimates of the fair value of contingent payable was performed by the Company on a quarterly basis. Key unobservable inputs included revenue growth rates over the post-acquisition period and discount rate applied (16%). The estimated fair value increased as the annual revenue growth rate increased and decreased as the discount rate increased, and vice versa.

Boilerroom Equipment Inc's post-acquisition growth rate for the twenty-three months ended May 31, 2020 had been lower than the rate anticipated at the date of acquisition. The growth rate for the remaining months based on the forecasts at May 31, 2020 was also expected to be lower due to the COVID-19 pandemic. As a result, it was highly unlikely that the performance targets would be met. As the Company did not expect to make any contingent payment at the end of the three-year post-acquisition period based on this assessment, the fair value of contingent payable was written down to $nil as at May 31, 2020. The three-year post acquisition period has ended on June 29, 2021. Boilerroom Equipment Inc. did not meet the performance targets. Therefore, the contingent payable was also $nil at May 31, 2021.

Fair value of financial instrument assets and liabilities that are not measured at fair value but fair value disclosures are required:

The carrying value of cash and cash equivalents, trade and other receivables, trade payables and other liabilities approximate their fair values due to their short-term to maturity. Long-term debt is subject to the market interest rate.

(Expressed in Canadian dollars except share amounts)

26. Related party transactions:

Related parties include the members of the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals and shareholders.

Transactions with key management personnel

Key management personnel of the Company include members of the Company's Board of Directors as well as members of the Company's senior management team. Key management personnel remuneration includes the following expenses:

	2021	2020
Salaries and other short-term employee benefits	**$ 749,350**	$ 914,914
Share-based payments	**79,283**	80,773
	$ 828,633	$ 995,687

Salaries and other short-term employee benefits include cash payments for base salaries and related social security costs and employee benefits, as well as payments made into defined contribution pension plans of the Company's UK based subsidiary, amounts expensed in the year as due to key management personnel under the Company's employee incentive plan, and Directors' fees including meeting fees, committee chairman fees and retainers. Share-based payments include the fair value of equity settled share-based payment arrangements expensed during the year.

27. Subsequent events:

On June 11, 2021, the Company has acquired all the material assets of Sofame Technologies ("Sofame") based in Montréal, QC for a total consideration of $283,421. The acquisition includes all rights and title to Sofame's five unique proprietary thermal energy efficiency and sustainability product lines, as well as all: licenses, patents, trademarks, trade names, logos, corporate and product names, slogans, copyrights, trade secrets, drawings, specifications, designs, plans, books, records, distributor and vendor relationships and customer lists.