Condensed Consolidated Interim Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Three months ended August 31, 2019 and 2018

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at August 31 and May 31, 2019
(Expressed in Canadian dollars) (Unaudited)

	August 31, 2019	*May 31, 2019
	$	$
Assets		
Current assets:		
Cash and cash equivalents	**5,600,331**	4,177,260
Trade and other receivables (note 5)	**3,111,856**	3,017,209
Current tax receivable	**40,840**	42,697
Inventory	**723,921**	653,944
Finance lease receivable	**67,789**	93,257
	9,544,737	7,984,367
Non-current assets:		
Property, plant and equipment (note 6)	**253,400**	260,202
Right-of-use assets (note 7)	**196,239**	-
Intangible assets	**2,046,540**	2,175,262
Goodwill	**2,435,839**	2,520,555
Deferred tax assets	**102,161**	105,406
	5,034,179	5,061,425
Total assets	**14,578,916**	13,045,792
Liabilities		
Current liabilities:		
Trade payables and accrued liabilities (note 8)	**2,376,809**	2,549,570
Current tax liabilities	**6,313**	2,965
Pensions and other employer obligations	**105,939**	143,948
Current portion of long-term debt (note 9)	**392,630**	371,993
Deferred revenue (note 10)	**4,162,214**	2,604,590
Provisions	**280,114**	283,478
Lease obligations (note 11)	**99,021**	-
	7,423,040	5,956,544
Non-current liabilities:		
Contingent payable (note 14)	**112,701**	110,148
Long-term debt (note 9)	**2,496,110**	2,633,867
Lease obligations (note 11)	**98,709**	-
Deferred tax liabilities	**421,933**	450,681
	3,129,453	3,194,696
Total liabilities	**10,552,493**	9,151,240
Equity		
Capital stock	**32,464,780**	32,464,780
Contributed surplus	**4,054,349**	4,002,683
Accumulated other comprehensive income	**111,196**	267,889
Deficit	**(32,514,286)**	(32,760,222)
Equity attributable to owners of the parent	**4,116,039**	3,975,130
Non-controlling interest	**(89,616)**	(80,578)
Total equity	**4,026,423**	3,894,552
Total liabilities and equity	**14,578,916**	13,045,792

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
* The Company adopted IFRS 16 as described in note 3. Under this adoption, the comparative information is not restated.

On behalf of the Board:

"John Kelly"
Director

"William Ollerhead"
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended August 31, 2019 and 2018
(Expressed in Canadian dollars) (Unaudited)

	2019	*2018
	$	$
Revenue (note 13)	**4,965,789**	6,800,861
Cost of sales[1]	**2,775,271**	4,854,826
Gross profit	**2,190,518**	1,946,035
Expenses:		
Administration	**972,428**	1,067,376
Selling, marketing and business development[1]	**863,541**	964,517
Research and development	**54,092**	29,958
	1,890,061	2,061,851
Operating income (loss)	**300,457**	(115,816)
Finance costs	**(83,277)**	(36,440)
Finance revenue	**3,033**	6,258
Income (loss) before income taxes	**220,213**	(145,998)
Income taxes recovery	**21,048**	96,540
Net income (loss) for the period	**241,261**	(49,458)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**(161,056)**	(26,291)
Total comprehensive income (loss) for the period	**80,205**	(75,749)
Net income (loss) for the period attributable to:		
Owners of the parent	**245,936**	(55,404)
Non-controlling interest	**(4,675)**	5,946
Net income (loss) for the period	**241,261**	(49,458)
Total comprehensive income (loss) for the period attributable to:		
Owners of the parent	**89,243**	(87,103)
Non-controlling interest	**(9,038)**	11,354
Total comprehensive income (loss) for the period	**80,205**	(75,749)
Net income per share - basic and diluted	**0.002**	0.00

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

*The Company adopted IFRS 16 as described in note 3. Under this adoption, the comparative information is not restated.

1. The Company reclassified commission expense from selling, marketing and business development expense to cost of sales effective June 1, 2019. As a result, commission expense in the amount of $263,850 for the comparative period was reclassified from selling, marketing and business development expense to cost of sales to conform to the current period presentation.

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended August 31, 2019 and 2018
(Expressed in Canadian dollars) (Unaudited)

	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, 2018	32,231,329	3,978,830	(32,335,936)	282,292	4,156,515	(51,162)	4,105,353
Share-based compensation (note 12)	-	4,125	-	-	4,125	-	4,125
Transactions with owners	-	4,125	-	-	4,125	-	4,125
Net income (loss) for the period	-	-	(55,404)	-	(55,404)	5,946	(49,458)
Other comprehensive loss: exchange differences arising on translation of overseas operations	-	-	-	(31,699)	(31,699)	5,408	(26,291)
Total comprehensive income (loss) for the period	-	-	(55,404)	(31,699)	(87,103)	11,354	(75,749)
*Balance at August 31, 2018	32,231,329	3,982,955	(32,391,340)	250,593	4,073,537	(39,808)	4,033,729
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 12)	**-**	**51,666**	**-**	**-**	**51,666**	**-**	**51,666**
Transactions with owners	**-**	**51,666**	**-**	**-**	**51,666**	**-**	**51,666**
Net income (loss) for the period	**-**	**-**	**245,936**	**-**	**245,936**	**(4,675)**	**241,261**
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**(156,693)**	**(156,693)**	**(4,363)**	**(161,056)**
Total comprehensive loss the period	**-**	**-**	**245,936**	**(156,693)**	**89,243**	**(9,038)**	**80,205**
Balance at August 31, 2019	**32,464,780**	**4,054,349**	**(32,514,286)**	**111,196**	**4,116,039**	**(89,616)**	**4,026,423**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
*The Company adopted IFRS 16 as described in note 3. Under this adoption, the comparative information is not restated.

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended August 31, 2019 and 2018
(Expressed in Canadian dollars) (Unaudited)

	2019	*2018
	$	$
Operating activities:		
Net income (loss) for the period	**241,261**	(49,458)
Add items not involving cash:		
Depreciation of property, plant and equipment (note 6)	**21,754**	16,969
Depreciation of right-of-use assets (note 7)	**25,693**	-
Gain on disposal of assets (note 6)	**-**	(191)
Amortization of intangible assets	**69,183**	37,741
Finance revenue	**(3,033)**	(6,271)
Finance costs	**83,277**	36,440
Share-based compensation (note 12)	**51,666**	4,125
Income tax recovery	**(21,048)**	(96,540)
Unrealized foreign exchange and translation adjustments	**(141,130)**	52,484
Changes in working capital:		
Trade and other receivables	**(66,147)**	(1,969,964)
Inventory	**(69,977)**	30,617
Trade payables and accrued liabilities	**(218,754)**	567,938
Deferred revenue (note 10)	**1,609,763**	44,976
Income taxes received (paid)	**5,025**	(1,847)
Interest received on finance lease	**-**	6,258
Other interest received	**-**	13
Interest paid	**(67,440)**	(26,274)
Net cash provided by (used in) operating activities	**1,520,093**	(1,352,984)
Investing activities:		
Finance lease principal payments received	**-**	22,243
Acquisition of subsidiary, net of cash	**-**	(2,612,845)
Proceeds from disposal of property, plant and equipment (note 6)	**-**	6,396
Additions to property, plant and equipment (note 6)	**(20,024)**	(22,477)
Net cash used in investing activities	**(20,024)**	(2,606,683)
Financing activities:		
Issuance of long-term debt (note 9)	**-**	2,937,375
Repayment of long-term debt (note 9)	**(65,588)**	-
Repayment of lease obligations (note 11)	**(24,182)**	-
Net cash (used in) provided by financing activities	**(89,770)**	**2,937,375**
Increase (decrease) in cash and cash equivalents for the period	**1,410,299**	(1,022,292)
Cash and cash equivalents, beginning of period	**4,177,260**	3,282,208
Exchange differences on cash and cash equivalents	**12,772**	(5,303)
Cash and cash equivalents, end of period	**5,600,331**	2,254,613

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

*The Company adopted IFRS 16 as described in note 3. Under this adoption, the comparative information is not restated.

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") under the symbol TMG. The primary office is located at Suite 850, 36 Antares Drive, Ottawa, Ontario, K2E 7W5.

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the "Company") for the three months ended August 31, 2019 and 2018.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2019. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2019.

This is the first set of financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in note 3.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of October 24, 2019, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

In preparing these unaudited condensed consolidated interim financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2019, except for significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, which are described in note 3.

3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended May 31, 2019.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending May 31, 2020.

IFRS 16: Leases ("IFRS 16"):

Effective June 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The impact of the transition is shown in note 3(b).

(a) Accounting policy under IFRS 16:

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-to-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 4 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.

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.

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.

3. Changes in significant accounting policies (continued):

(a) Accounting policy under IFRS 16 (continued):

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.

(b) Impact of transition to IFRS 16:

Effective June 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 comparative period has not be restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of $231,780 were recorded as of June 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as at June 1, 2019. The weighted-average rate applied is 6.6%.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for leases of low-value assets or for which the lease term ends within 12 months of the date of initial application.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after June 1, 2019.

(Expressed in Canadian dollars except share amounts)

3. Changes in significant accounting policies (continued):

(b) Impact of transition to IFRS 16 (continued):

The following table reconciles the Company's operating lease obligations as at May 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at June 1, 2019.

Aggregate lease commitments as disclosed at May 31, 2019	$1,351,406
*Less: lease committed but not commenced as at June 1, 2019	(1,074,642)
Less: recognition exemption for short-term leases (leases that expire on or prior to May 31, 2020)	(85,955)
Less: recognition exemption for low-value assets	(14,493)
Add: extension options reasonably certain to be exercised	75,994
Less: foreign exchange and other adjustments	16
Adjusted lease commitments	252,326
Less: impact of present value	(20,546)
Opening IFRS 16 lease liability as at June 1, 2019 (note 7)	$ 231,780

*The company entered a 10-year lease for an office space before May 31, 2019. The lease was included in the lease commitment note in the consolidated financial statements at May 31, 2019. The lease commencement date was September 1, 2019. On June 1, 2019, the Company did not recognize the lease obligation and the right-of-use asset for this lease because the lease term had not started.

(Expressed in Canadian dollars except share amounts)

3. Changes in significant accounting policies (continued):

(b) Impact of transition to IFRS 16 (continued):

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of financial position as at August 31, 2019:

	August 31, 2019 as reported	Adjustments	August 31, 2019 without adoption of IFRS 16
	$		$
Assets			
Current assets:			
Cash and cash equivalents	5,600,331	-	5,600,331
Trade and other receivables	3,111,856	-	3,111,856
Current tax receivable	40,840	-	40,840
Inventory	723,921	-	723,921
Finance lease receivable	67,789	-	67,789
	9,544,737	-	9,544,737
Non-current assets:			
Property, plant and equipment	253,400	-	253,400
Right-of-use assets	196,239	(196,239)	-
Intangible assets	2,046,540	-	2,046,540
Goodwill	2,435,839	-	2,435,839
Deferred tax assets	102,161	-	102,161
	5,034,179	(196,239)	4,837,940
Total assets	14,578,916	(196,239)	14,382,677
Liabilities			
Current liabilities:			
Trade payables and accrued liabilities	2,376,809	-	2,376,809
Current tax liabilities	6,313	-	6,313
Pensions and other employer obligations	105,939	-	105,939
Current portion of long-term debt	392,630	-	392,630
Deferred revenue	4,162,214	-	4,162,214
Provisions	280,114	-	280,114
Lease obligations	99,021	(99,021)	-
	7,423,040	(99,021)	7,324,019
Non-current liabilities:			-
Contingent payable	112,701	-	112,701
Long-term debt	2,496,110	-	2,496,110
Lease obligations	98,709	(98,709)	-
Deferred tax liabilities	421,933	-	421,933
	3,129,453	(98,709)	3,030,744
Total liabilities	10,552,493	(197,730)	10,354,763
Equity			
Capital stock	32,464,780	-	32,464,780
Contributed surplus	4,054,349	-	4,054,349
Accumulated other comprehensive income	111,196	(20)	111,176
Deficit	(32,514,286)	1,511	(32,512,775)
Equity attributable to owners of the parent	4,116,039	1,491	4,117,530
Non-controlling interest	(89,616)	-	(89,616)
Total equity	4,026,423	1,491	4,027,914
Total liabilities and equity	14,578,916	(196,239)	14,382,677

(Expressed in Canadian dollars except share amounts)

3. Changes in significant accounting policies (continued):

(b) Impact of transition to IFRS 16 (continued):

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of comprehensive income for the three months ended August 31, 2019:

	August 31, 2019 as reported	Adjustments	August 31, 2019 without adoption of IFRS 16
	$	$	$
Revenue	4,965,789	-	4,965,789
Cost of sales	2,775,271	-	2,775,271
Gross profit	2,190,518	-	2,190,518
Expenses:			
Administration	972,428	(5,250)	967,178
Selling, marketing and business development	863,541	7,113	870,654
Research and development	54,092	-	54,092
	1,890,061	1,863	1,891,924
Operating income	300,457	(1,863)	298,594
Finance costs	(83,277)	3,374	(79,903)
Finance revenue	3,033	-	3,033
Income before income taxes	220,213	1,511	221,724
Income taxes recovery	21,048	-	21,048
Net income for the period	241,261	1,511	242,772
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of overseas operations	(161,056)	(20)	(161,076)
Total comprehensive income for the period	80,205	1,491	81,696
Net income (loss) for the period attributable to:			
Owners of the parent	245,936	1,511	247,447
Non-controlling interest	(4,675)	-	(4,675)
Net income for the period	241,261	1,511	242,772
Total comprehensive income (loss) for the period attributable to:			
Owners of the parent	89,243	1,491	90,734
Non-controlling interest	(9,038)	-	(9,038)
Total comprehensive income for the period	80,205	1,491	81,696
Net income per share - basic and diluted	0.002	0.00	0.002

(Expressed in Canadian dollars except share amounts)

3. Changes in significant accounting policies (continued):

(b) Impact of transition to IFRS 16 (continued):

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed consolidated interim statements of cash flows for the three months ended August 31, 2019:

	August 31, 2019 as reported	Adjustments	August 31, 2019 without adoption of IFRS 16
	$	$	$
Net cash flows from operating activities	1,520,093	(24,182)	1,495,911
Net cash flows used in financing activities	(89,770)	24,182	(65,588)

4. Segment reporting:

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 China, 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.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Segment information for the three months ended August 31, 2019 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2019 **$**	2018 $	**2019** **$**	2018 $	**2019** **$**	2018 $	**2019** **$**	2018 $
Total revenue	**3,762,692**	5,654,400	**1,203,097**	1,146,461	**-**	-	**4,965,789**	6,800,861
Cost of sales[1]	**(2,244,034)**	(4,179,314)	**(531,237)**	(675,512)	**-**	-	**(2,775,271)**	(4,854,826)
Gross profit	**1,518,658**	1,475,086	**671,860**	470,949	**-**	-	**2,190,518**	1,946,035
Other expenses[1]	**(814,101)**	(741,557)	**(784,451)**	(776,538)	**(291,509)**	(543,756)	**(1,890,061)**	(2,061,851)
Net finance (costs) income	**3,033**	6,258	**-**	-	**(83,277)**	(36,440)[2]	**(80,244)**	(30,182)
Income (loss) before taxation	**707,590**	739,787	**(112,591)**	(305,589)	**(374,786)**	(580,196)	**220,213**	(145,998)
Tax (expense) recovery	**-**	-	**-**	60,441	**21,048**	36,099	**21,048**	96,540
Net income (loss)	**707,590**	739,787	**(112,591)**	(245,148)	**(353,738)**	(544,097)	**241,261**	(49,458)
Attributable to:								
Owners of the parent	**712,553**	744,426	**(112,879)**	(255,733)	**(353,738)**	(544,097)	**245,936**	(55,404)
Non-controlling interest	**(4,963)**	(4,639)	**288**	10,585	**-**	-	**(4,675)**	5,946

1. The Company reclassified commission expenses from other expenses to cost of sales for the three months ended August 31, 2019. As a result, commission expenses in the amount of $263,850 for the three months ended August 31, 2018 were also reclassified to cost of sales to conform to the current period presentation.
2. Finance costs of $36,440 for the three months ended August 31, 2018 were reclassified from "Thermal Energy Ottawa" to "Reconciling Items" to conform to the current period presentation.

Reconciling items comprise the following:

	Three months ended August 31	
	2019 **$**	2018 $
Corporate admin costs	**149,914**	289,874
Share-based compensation	**51,666**	4,125
Professional fees	**58,887**	75,446
Depreciation of property, plant and equipment	**21,754**	16,969
Depreciation of right-of-use assets	**25,693**	-
Amortization of intangible assets	**69,183**	37,741
Acquisition costs	**-**	107,342
Foreign exchange differences	**(85,588)**	12,259
Total	**291,509**	543,756

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, interest accretion on lease obligations, and interest accretion on contingent consideration and holdback payable following the acquisition of Boilerroom Equipment Inc.

(Expressed in Canadian dollars except share amounts)

5. Trade and other receivables:

	August 31, 2019	May 31, 2019
Trade receivables, gross	**$ 2,468,654**	$ 1,981,726
Allowance for doubtful accounts	**(21,685)**	(22,864)
Trade receivables, net	**2,446,969**	1,958,862
Unbilled revenue related to heat recovery solutions	**35,498**	267,699
Unbilled revenue related to product and services	**60,566**	119,830
Prepayments	**473,378**	298,746
Sales tax and other miscellaneous receivables	**95,445**	372,072
Balance, end of period	**$ 3,111,856**	$ 3,017,209

The net carrying value of trade receivables is considered a reasonable approximation of fair value. At August 31, 2019, $274,792 (11.1%) of the Company's trade receivables balance was over 90 days past due, but not impaired.

At May 31, 2019, $123,223 (6.2%) of the Company's trade receivables balance was over 90 days past due. $22,864 of the past due balance was impaired at May 31, 2019.

The Company's trade and other receivables have been reviewed for indicators of impairment. No provisions were made for the quarter ended August 31, 2019. For the quarter ended August 31, 2018, a provision of $24,152 was made.

6. Property, plant and equipment:

During the quarter ended August 31, 2019, the Company acquired property, plant and equipment of $20,024 and the Company did not dispose of any assets.

During the quarter ended August 31, 2018, the Company disposed of depreciated assets with a net book value of $6,205 for $6,396 in proceeds.

7. Right-of-use assets:

	Offices $	Vehicles $	Equipment $	Total right-of-use assets $
Balance, beginning of period (note 3(b))	123,114	90,666	18,000	231,780
Depreciation	(17,641)	(6,298)	(1,754)	(25,693)
Translation adjustments	(4,843)	(4,400)	(605)	(9,848)
Balance, end of period	100,630	79,968	15,641	196,239

(Expressed in Canadian dollars except share amounts)

8. Trade payables and accrued liabilities:

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

	August 31, 2019	May 31, 2019
Trade payables	**$ 928,547**	$ 914,497
Accruals	**$ 1,186,385**	1,387,381
Other government remittances payable	**261,877**	247,692
	$ 2,376,809	$ 2,549,570

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

Included in accruals is $26,600 due to directors ($26,600 at May 31, 2019).

9. Long-term debt:

	August 31, 2019	May 31, 2019
Term loan, net of deferred financing costs of $36,160 ($37,715 as at May 31, 2019), bearing interest at US dollar floating base rate plus a variance of 1.50%, repayable in monthly principal instalments of USD$25,000 starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of USD$475,000 payable on the maturity date, June 1, 2025	**$ 2,888,740**	$ 3,005,860
Less: current portion	**(392,630)**	(371,993)
Long term portion	**2,496,110**	2,633,867

This loan bears interest at the institution's US dollar floating base rate plus a variance. The US dollar floating base rate was 6.80% on August 31, 2019 (7.00% on May 31, 2019). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at August 31, 2019, the variance was at 1.50% (1.50% at May 31, 2019). Interest is payable monthly in arrears on the 1st day of the month.

The Company has certain covenants in accordance with this term loan. As at August 31, 2019, the Company was in breach of two covenants, namely Total Funded Debt to EBITDAS ratio and Debt Service Coverage ratio. On August 31, 2019, the lender waived the covenants breach.

(Expressed in Canadian dollars except share amounts)

10. Deferred revenue:

	Deferred revenue related to heat recovery solutions	Deferred revenue related to GEM™ product and services	Total deferred revenue
Balance, beginning of period	**$ 2,530,047**	**$ 74,543**	**$ 2,604,590**
Increase from payments received	**5,274,003**	**7,475**	**5,281,478**
Decrease from revenue recognized	**(3,659,534)**	**(12,181)**	**(3,671,715)**
Translation adjustments	**(48,364)**	**(3,775)**	**(52,139)**
Balance, end of period	**$ 4,096,152**	**$ 66,062**	**$ 4,162,214**

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

11. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of August 31, 2019:

Less than one year	$ 108,829
One to five years	105,177
Total undiscounted lease obligations	$ 214,006

Interest expense on lease obligations for the three months ended August 31, 2019 was $3,374. Total cash outflow for leases was $57,803, including $30,247 for short-term leases. Expenses for leases of low-dollar value items are not material. There are no variable lease payments which are not included in the measurement of lease obligations. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

The Company entered a 10-year lease for an office space before May 31, 2019. The lease was included in the lease commitment note in the consolidated financial statements at May 31, 2019 in the amount of $1,074,642 (note 3(b)). The lease commencement date was September 1, 2019. At August 31, 2019, the Company did not recognize the lease obligation and the right-of-use asset for this lease because the lease term had not started.

(Expressed in Canadian dollars except share amounts)

12. Share based payments:

There were no options granted, forfeited, expired or exercised for the three months ended August 31, 2019 or 2018.

The following tables summarize information about stock options outstanding at August 31, 2019:

Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding August 31, 2019	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at August 31, 2019	Weighted average exercise price
0.05-0.07	2,770,833	1.75	0.05	2,770,833	0.05
0.08-0.10	11,238,360	3.13	0.08	3,563,360	0.08
0.11-0.12	250,000	2.24	0.12	166,666	0.12
	14,259,193	2.85	0.07	6,500,859	0.07

Stock-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:

	Three months ended August 31, 2019	Three months ended August 31, 2018
Administration	**$ 42,043**	$ 3,290
Selling, marketing and business development	**9,623**	835
	$ 51,666	$ 4,125

13. Revenue:

	Three months ended August 31, 2019	Three months ended August 31, 2018
Sale of goods	**$ 900,816**	$ 694,438
Rendering of services	**405,439**	660,796
Contracts for heat recovery solutions	**3,659,534**	5,445,627
	$ 4,965,789	$ 6,800,861

(Expressed in Canadian dollars except share amounts)

14. Financial instruments:

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).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

As at August 31, 2019:	Level 1	Level 2	Level 3
Contingent payable	$ -	$ -	$ 112,701
As at May 31, 2019:	Level 1	Level 2	Level 3
Contingent payable	$ -	$ -	$ 110,148

The Company has no additional financial liabilities measured at fair value after initial recognition other than those recognized in connection with business combination.

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the three months ended August 31, 2019 or 2018.

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	
Balance, beginning of period	**$ 110,148**
Charges through profit or loss under finance costs	**4,416**
Foreign exchange	**(1,863)**
Balance, end of period	**112,701**
Classified as current liability	**-**
Classified as non-current liability	**$ 112,701**

Estimates of the fair value of contingent payable is performed by the Company on a quarterly basis. Key unobservable inputs include revenue growth rates and discount rate applied (16%). The estimated fair value increases as the annual revenue growth rate increases and decreases as the discount rate increases, and vice versa.

(Expressed in Canadian dollars except share amounts)

14. Financial instruments (continued):

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, finance lease receivable, trade payables and accrued liabilities approximate their fair values due to their short-term to maturity. Lease obligations and long-term debt are subject to incremental borrowing rate and market interest rate, respectively.

15. 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:

	Three months ended August 31, 2019	Three months ended August 31, 2018
Salaries and other short-term employee benefits	**$ 208,655**	$ 233,268
Share-based payments	**24,876**	1,576
	$ 233,531	$ 234,844

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 period 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 period.

16. Comparative information:

Certain figures and information from prior period have been adjusted to conform to the current period presentation.