

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY  
INTERNATIONAL INC.**

Quarters ended November 30, 2019 and 2018

(Unaudited)

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Financial Position

As at November 30 and May 31, 2019  
(Expressed in Canadian dollars) (Unaudited)

	November 30, 2019	May 31, 2019 <sup>1</sup>
	\$	\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	5,034,207	4,177,260
Trade and other receivables (note 5)	3,542,601	3,017,209
Current tax receivable	51,072	42,697
Inventory	946,124	653,944
Finance lease receivable (note 6)	-	93,257
	<b>9,574,004</b>	<b>7,984,367</b>
<b>Non-current assets:</b>		
Property, plant and equipment (note 7)	455,719	260,202
Right-of-use assets (note 8)	489,174	-
Intangible assets	2,013,030	2,175,262
Goodwill	2,504,974	2,520,555
Deferred tax assets	104,549	105,406
	<b>5,567,446</b>	<b>5,061,425</b>
<b>Total assets</b>	<b>15,141,450</b>	<b>13,045,792</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade payables and accrued liabilities (note 9)	4,249,348	2,549,570
Current tax liabilities	27,234	2,965
Pensions and other employer obligations	118,373	143,948
Current portion of long-term debt (note 10)	392,450	371,993
Deferred revenue (note 11)	2,026,827	2,604,590
Provisions	283,384	283,478
Lease obligations (note 12)	31,433	-
	<b>7,129,049</b>	<b>5,956,544</b>
<b>Non-current liabilities:</b>		
Contingent payable (note 15)	117,272	110,148
Long-term debt (note 10)	2,396,857	2,633,867
Lease obligations (note 12)	474,851	-
Deferred tax liabilities	400,795	450,681
	<b>3,389,775</b>	<b>3,194,696</b>
<b>Total liabilities</b>	<b>10,518,824</b>	<b>9,151,240</b>
<b>Equity</b>		
Capital stock (note 16)	32,464,780	32,464,780
Contributed surplus	4,106,015	4,002,683
Accumulated other comprehensive income	281,315	267,889
Deficit	(32,143,728)	(32,760,222)
Equity attributable to owners of the parent	4,708,382	3,975,130
Non-controlling interest	(85,756)	(80,578)
<b>Total equity</b>	<b>4,622,626</b>	<b>3,894,552</b>
<b>Total liabilities and equity</b>	<b>15,141,450</b>	<b>13,045,792</b>

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

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

On behalf of the Board:

*"William Crossland"*

Director

*"William Ollerhead"*

Director

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three and six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2019	2018 <sup>2</sup>	2019	2018 <sup>2</sup>
	\$	\$	\$	\$
Revenue (note 14)	<b>7,848,096</b>	5,193,092	<b>12,813,885</b>	11,993,953
Cost of sales <sup>1</sup>	<b>4,929,739</b>	3,358,322	<b>7,705,010</b>	8,213,148
Gross profit	<b>2,918,357</b>	1,834,770	<b>5,108,875</b>	3,780,805
Expenses:				
Administration	<b>1,580,355</b>	1,096,535	<b>2,552,783</b>	2,163,911
Selling, marketing and business development <sup>1</sup>	<b>858,987</b>	856,353	<b>1,722,528</b>	1,820,870
Research and development	<b>(130)</b>	57,563	<b>53,962</b>	87,521
	<b>2,439,212</b>	2,010,451	<b>4,329,273</b>	4,072,302
Operating income (loss)	<b>479,145</b>	(175,681)	<b>779,602</b>	(291,497)
Finance costs	<b>(106,134)</b>	(80,993)	<b>(189,411)</b>	(117,433)
Finance revenue	<b>2,111</b>	5,453	<b>5,144</b>	11,711
Income (loss) before income taxes	<b>375,122</b>	(251,221)	<b>595,335</b>	(397,219)
Income taxes recovery	<b>10,059</b>	139,099	<b>31,107</b>	235,639
<b>Net income (loss) for the period</b>	<b>385,181</b>	(112,122)	<b>626,442</b>	(161,580)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	<b>169,388</b>	(8,533)	<b>8,332</b>	(34,824)
<b>Total comprehensive income (loss) for the period</b>	<b>554,569</b>	(120,655)	<b>634,774</b>	(196,404)
Net income (loss) for the period attributable to:				
Owners of the parent	<b>370,558</b>	(105,758)	<b>616,494</b>	(161,162)
Non-controlling interest	<b>14,623</b>	(6,364)	<b>9,948</b>	(418)
<b>Net income (loss) for the period</b>	<b>385,181</b>	(112,122)	<b>626,442</b>	(161,580)
Total comprehensive income (loss) for the period attributable to:				
Owners of the parent	<b>540,677</b>	(114,523)	<b>629,920</b>	(201,626)
Non-controlling interest	<b>13,892</b>	(6,132)	<b>4,854</b>	5,222
<b>Total comprehensive income (loss) for the period</b>	<b>554,569</b>	(120,655)	<b>634,774</b>	(196,404)
Net income (loss) per share - basic and diluted	<b>0.002</b>	(0.001)	<b>0.004</b>	(0.001)

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

1. The Company changed its accounting policy with respect to commissions and reclassified commission expense from selling, marketing and business development expense to cost of sales as described in note 3(a).
2. The Company adopted IFRS 16 as described in note 3(b). Under this adoption, the comparative information is not restated.

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended November 30, 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 13)	-	8,250	-	-	8,250	-	8,250
Stock options exercised (note 16)	233,451	(91,493)	-	-	141,958	-	141,958
Dividends paid	-	-	-	-	-	(8,579)	(8,579)
Transactions with owners	233,451	(83,243)	-	-	150,208	(8,579)	141,629
Net loss for the period	-	-	(161,162)	-	(161,162)	(418)	(161,580)
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	-	-	-	(40,464)	(40,464)	5,640	(34,824)
Total comprehensive income (loss) for the period	-	-	(161,162)	(40,464)	(201,626)	5,222	(196,404)
Balance at November 30, 2018 <sup>1</sup>	32,464,780	3,895,587	(32,497,098)	241,828	4,105,097	(54,519)	4,050,578
<b>Balance at June 1, 2019</b>	<b>32,464,780</b>	<b>4,002,683</b>	<b>(32,760,222)</b>	<b>267,889</b>	<b>3,975,130</b>	<b>(80,578)</b>	<b>3,894,552</b>
<b>Share-based compensation (note 13)</b>	<b>-</b>	<b>103,332</b>	<b>-</b>	<b>-</b>	<b>103,332</b>	<b>-</b>	<b>103,332</b>
<b>Dividends paid</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,032)</b>	<b>(10,032)</b>
<b>Transactions with owners</b>	<b>-</b>	<b>103,332</b>	<b>-</b>	<b>-</b>	<b>103,332</b>	<b>(10,032)</b>	<b>93,300</b>
<b>Net income for the period</b>	<b>-</b>	<b>-</b>	<b>616,494</b>	<b>-</b>	<b>616,494</b>	<b>9,948</b>	<b>626,442</b>
<b>Other comprehensive income (loss): exchange differences arising on translation of overseas operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,426</b>	<b>13,426</b>	<b>(5,094)</b>	<b>8,332</b>
<b>Total comprehensive income the period</b>	<b>-</b>	<b>-</b>	<b>616,494</b>	<b>13,426</b>	<b>629,920</b>	<b>4,854</b>	<b>634,774</b>
<b>Balance at November 30, 2019</b>	<b>32,464,780</b>	<b>4,106,015</b>	<b>(32,143,728)</b>	<b>281,315</b>	<b>4,708,382</b>	<b>(85,756)</b>	<b>4,622,626</b>

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

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

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Six months ended	
	November 30		November 30	
	2019	2018 <sup>1</sup>	2019	2018 <sup>1</sup>
	\$	\$	\$	\$
<b>Operating activities:</b>				
Net income (loss) for the period	<b>385,181</b>	(112,122)	<b>626,442</b>	(161,580)
Add items not involving cash:				
Depreciation of property, plant and equipment (note 7)	<b>27,849</b>	22,167	<b>49,603</b>	39,136
Depreciation of right-of-use assets (note 8)	<b>33,364</b>	-	<b>59,057</b>	-
Gain on disposal of assets (note 7)	-	-	-	(191)
Amortization of intangible assets	<b>69,199</b>	76,384	<b>138,382</b>	114,125
Write-down of financial lease receivable (note 6)	<b>45,848</b>	-	<b>45,848</b>	-
Finance revenue	<b>(2,111)</b>	(5,453)	<b>(5,144)</b>	(11,711)
Finance costs	<b>106,134</b>	80,993	<b>189,411</b>	117,433
Share-based compensation (note 13)	<b>51,666</b>	4,125	<b>103,332</b>	8,250
Income taxes recovery	<b>(10,059)</b>	(139,099)	<b>(31,107)</b>	(235,639)
Unrealized foreign exchange and translation adjustments	<b>243,762</b>	(21,237)	<b>102,632</b>	31,234
Changes in working capital:				
Trade and other receivables	<b>(406,692)</b>	945,854	<b>(472,839)</b>	(1,024,110)
Inventory	<b>(222,203)</b>	21,133	<b>(292,180)</b>	51,750
Trade payables and accrued liabilities	<b>1,861,680</b>	(1,073,113)	<b>1,642,926</b>	(505,175)
Deferred revenue	<b>(2,233,321)</b>	232,790	<b>(623,558)</b>	277,766
Income taxes (paid) received	<b>(724)</b>	(38,389)	<b>4,301</b>	(40,236)
Interest received on finance lease	-	-	-	6,258
Other interest received	-	443	-	456
Interest paid	<b>(73,525)</b>	(71,337)	<b>(140,965)</b>	(97,611)
Net cash (used in) provided by operating activities	<b>(123,952)</b>	(76,861)	<b>1,396,141</b>	(1,429,845)
<b>Investing activities:</b>				
Finance lease principal payments received	-	-	-	22,243
Acquisition of subsidiary, net of cash	-	(60,049)	-	(2,672,894)
Proceeds from disposal of property, plant and equipment (note 7)	-	-	-	6,396
Additions to property, plant and equipment (note 7)	<b>(227,538)</b>	(21,357)	<b>(247,562)</b>	(43,834)
Net cash used in investing activities	<b>(227,538)</b>	(81,406)	<b>(247,562)</b>	(2,688,089)
<b>Financing activities:</b>				
Issuance of long-term debt (note 10)	-	-	-	2,937,375
Repayment of long-term debt (note 10)	<b>(99,245)</b>	-	<b>(164,833)</b>	-
Repayment of lease obligations (note 12)	<b>(17,876)</b>	-	<b>(42,058)</b>	-
Stock options exercised (note 16)	-	141,958	-	141,958
Dividends paid	<b>(10,032)</b>	(8,579)	<b>(10,032)</b>	(8,579)
Net cash (used in) provided by financing activities	<b>(127,153)</b>	133,379	<b>(216,923)</b>	3,070,754
(Decrease) increase in cash and cash equivalents for the period	<b>(478,643)</b>	(24,888)	<b>931,656</b>	(1,047,180)
Cash and cash equivalents, beginning of period	<b>5,600,331</b>	2,254,613	<b>4,177,260</b>	3,282,208
Exchange differences on cash and cash equivalents	<b>(87,481)</b>	5,756	<b>(74,709)</b>	453
Cash and cash equivalents, end of period	<b>5,034,207</b>	2,235,481	<b>5,034,207</b>	2,235,481

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

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

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

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### 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 six months ended November 30, 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 year 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 January 22, 2020, 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(b).

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

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### 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.

#### (a) Reclassification of Commission Expense

Effective June 1, 2019, the Company changed its accounting policy with respect to commissions and reclassified commission expense from selling, marketing and business development expense to cost of sales. The Company believes that the revised policy and presentation provides more reliable and relevant information to users of the consolidated financial statements. The change in accounting policy has been applied retrospectively. The Company has restated the comparative figures in the consolidated statements of operation resulting in reclassification of commission expense in the amount of \$267,740 and \$531,590 for the three and six months ended November 30, 2018 from selling, marketing and business development expense to cost of sales.

#### b) 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.

##### *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 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 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.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

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### 3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases (“IFRS 16”) (continued):

*Accounting policy under IFRS 16 (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.

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.

*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 the comparative period has not been 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.



# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

### 3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases ("IFRS 16") (continued):

*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 8)	\$ 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 (see note 12).

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

### 3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases ("IFRS 16") (continued):

*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 November 30, 2019:

	November 30, 2019 as reported	Adjustments	November 30, 2019 without adoption of IFRS 16
	\$		\$
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	5,034,207	-	5,034,207
Trade and other receivables	3,542,601	-	3,542,601
Current tax receivable	51,072	-	51,072
Inventory	946,124	-	946,124
Finance lease receivable	-	-	-
	9,574,004	-	9,574,004
<b>Non-current assets:</b>			
Property, plant and equipment	455,719	-	455,719
Right-of-use assets	489,174	(489,174)	-
Intangible assets	2,013,030	-	2,013,030
Goodwill	2,504,974	-	2,504,974
Deferred tax assets	104,549	-	104,549
	5,567,446	(489,174)	5,078,272
<b>Total assets</b>	<b>15,141,450</b>	<b>(489,174)</b>	<b>14,652,276</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Trade payables and accrued liabilities	4,249,348	-	4,249,348
Current tax liabilities	27,234	-	27,234
Pensions and other employer obligations	118,373	-	118,373
Current portion of long-term debt	392,450	-	392,450
Deferred revenue	2,026,827	-	2,026,827
Provisions	283,384	-	283,384
Lease obligations	31,433	(31,433)	-
	7,129,049	(31,433)	7,097,616
<b>Non-current liabilities:</b>			
Contingent payable	117,272	-	117,272
Long-term debt	2,396,857	-	2,396,857
Lease obligations	474,851	(474,851)	-
Deferred tax liabilities	400,795	-	400,795
	3,389,775	(474,851)	2,914,924
<b>Total liabilities</b>	<b>10,518,824</b>	<b>(506,284)</b>	<b>10,012,540</b>
<b>Equity</b>			
Capital stock	32,464,780	-	32,464,780
Contributed surplus	4,106,015	-	4,106,015
Accumulated other comprehensive income	281,315	(93)	281,222
Deficit	(32,143,728)	17,203	(32,126,525)
Equity attributable to owners of the parent	4,708,382	17,110	4,725,492
Non-controlling interest	(85,756)	-	(85,756)
<b>Total equity</b>	<b>4,622,626</b>	<b>17,110</b>	<b>4,639,736</b>
<b>Total liabilities and equity</b>	<b>15,141,450</b>	<b>(489,174)</b>	<b>14,652,276</b>

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

### 3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases (“IFRS 16”) (continued):

*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 six months ended November 30, 2019:

	Six months ended November 30, 2019 as reported	Adjustments	Six months ended November 30, 2019 without adoption of IFRS 16
	\$	\$	\$
Revenue	12,813,885	-	12,813,885
Cost of sales	7,705,010	-	7,705,010
Gross profit	5,108,875	-	5,108,875
Expenses:			
Administration	2,552,783	(17,705)	2,535,078
Selling, marketing and business development	1,722,528	14,347	1,736,875
Research and development	53,962	-	53,962
	4,329,273	(3,358)	4,325,915
Operating income	779,602	3,358	782,960
Finance costs	(189,411)	13,845	(175,566)
Finance revenue	5,144	-	5,144
Income before income taxes	595,335	17,203	612,538
Income taxes recovery	31,107	-	31,107
Net income for the period	626,442	17,203	643,645
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of overseas operations	8,332	(93)	8,239
<b>Total comprehensive income for the period</b>	<b>634,774</b>	<b>17,110</b>	<b>651,884</b>
Net income (loss) for the period attributable to:			
Owners of the parent	616,494	17,203	633,697
Non-controlling interest	9,948	-	9,948
<b>Net income for the period</b>	<b>626,442</b>	<b>17,203</b>	<b>643,645</b>
Total comprehensive income (loss) for the period attributable to:			
Owners of the parent	629,920	17,110	647,030
Non-controlling interest	4,854	-	4,854
<b>Total comprehensive income for the period</b>	<b>634,774</b>	<b>17,110</b>	<b>651,884</b>
Net income per share - basic and diluted	0.004	0.00	0.004

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

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### 3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases (“IFRS 16”) (continued):

*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 six months ended November 30, 2019:

	Six months ended November 30, 2019 as reported	Adjustments	Six months ended November 30, 2019 without adoption of IFRS 16
	\$	\$	\$
Net cash flows provided by operating activities	1,396,141	(42,058)	1,354,083
Net cash flows used in financing activities	(216,923)	42,058	(174,865)

### 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.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 4. Segment reporting (continued):

Segment information for the quarter ended November 30, 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	<b>5,542,554</b>	4,300,032	<b>2,305,542</b>	893,060	-	-	<b>7,848,096</b>	5,193,092
Cost of sales <sup>(1)</sup>	<b>(3,677,044)</b>	(2,813,921)	<b>(1,252,695)</b>	(544,401)	-	-	<b>(4,929,739)</b>	(3,358,322)
Gross profit	<b>1,865,510</b>	1,486,111	<b>1,052,847</b>	348,659	-	-	<b>2,918,357</b>	1,834,770
Other expenses <sup>(1)</sup>	<b>(957,707)</b>	(913,654)	<b>(860,125)</b>	(827,305)	<b>(621,380)</b>	(269,492)	<b>(2,439,212)</b>	(2,010,451)
Net finance (costs) income	<b>2,111</b>	5,453	-	-	<b>(106,134)</b>	(80,993)	<b>(104,023)</b>	(75,540)
Income (loss) before taxation	<b>909,914</b>	577,910	<b>192,722</b>	(478,646)	<b>(727,514)</b>	(350,485)	<b>375,122</b>	(251,221)
Tax (expense) recovery	-	34,432	<b>(10,563)</b>	85,737	<b>20,622</b>	18,930	<b>10,059</b>	139,099
Net income (loss)	<b>909,914</b>	612,342	<b>182,159</b>	(392,909)	<b>(706,892)</b>	(331,555)	<b>385,181</b>	(112,122)
Attributable to:								
Owners of the parent	<b>910,516</b>	616,043	<b>166,934</b>	(390,246)	<b>(706,892)</b>	(331,555)	<b>370,558</b>	(105,758)
Non-controlling interest	<b>(602)</b>	(3,701)	<b>15,225</b>	(2,663)	-	-	<b>14,623</b>	(6,364)

(1) The Company reclassified commission expenses from other expenses to cost of sales for the three months ended November 30, 2019. As a result, commission expenses in the amount of \$267,740 for the three months ended November 30, 2018 were also reclassified to cost of sales to conform to the current period presentation.

Segment information for the six months ended November 30, 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	<b>9,305,246</b>	9,954,432	<b>3,508,639</b>	2,039,521	-	-	<b>12,813,885</b>	11,993,953
Cost of sales <sup>(1)</sup>	<b>(5,921,078)</b>	(6,993,234)	<b>(1,783,932)</b>	(1,219,914)	-	-	<b>(7,705,010)</b>	(8,213,148)
Gross profit	<b>3,384,168</b>	2,961,198	<b>1,724,707</b>	819,607	-	-	<b>5,108,875</b>	3,780,805
Other expenses <sup>(1)</sup>	<b>(1,771,808)</b>	(1,691,652)	<b>(1,644,576)</b>	(1,603,842)	<b>(912,889)</b>	(776,808)	<b>(4,329,273)</b>	(4,072,302)
Net finance (costs) income	<b>5,144</b>	11,711	-	-	<b>(189,411)</b>	(117,433)	<b>(184,267)</b>	(105,722)
Income (loss) before taxation	<b>1,617,504</b>	1,281,257	<b>80,131</b>	(784,235)	<b>(1,102,300)</b>	(894,241)	<b>595,335</b>	(397,219)
Tax (expense) recovery	-	34,432	<b>(10,563)</b>	146,178	<b>41,670</b>	55,029	<b>31,107</b>	235,639
Net income (loss)	<b>1,617,504</b>	1,315,689	<b>69,568</b>	(638,057)	<b>(1,060,630)</b>	(839,212)	<b>626,442</b>	(161,580)
Attributable to:								
Owners of the parent	<b>1,623,069</b>	1,324,029	<b>54,055</b>	(645,979)	<b>(1,060,630)</b>	(839,212)	<b>616,494</b>	(161,162)
Non-controlling interest	<b>(5,565)</b>	(8,340)	<b>15,513</b>	7,922	-	-	<b>9,948</b>	(418)

(1) The Company reclassified commission expenses from other expenses to cost of sales for the six months ended November 30, 2019. As a result, commission expenses in the amount of \$531,590 for the six months ended November 30, 2018 were also reclassified to cost of sales to conform to the current period presentation.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

### 4. Segment reporting (continued):

Reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2019 \$	2018 \$	2019 \$	2018 \$
Corporate admin costs	188,737	120,961	338,651	374,395
Stock-based compensation	51,666	4,125	103,332	8,250
Professional fees	94,606	26,722	153,493	102,168
Depreciation of property, plant and equipment	27,849	22,167	49,603	39,136
Depreciation of right-of-use assets	33,364	-	59,057	-
Amortization of intangible assets	69,199	76,384	138,382	114,125
Acquisition costs	-	60,762	-	168,104
Foreign exchange differences	155,959	(41,629)	70,371	(29,370)
<b>Total</b>	<b>621,380</b>	<b>269,492</b>	<b>912,889</b>	<b>776,808</b>

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.

### 5. Trade and other receivables:

	November 30, 2019	May 31, 2019
Trade receivables, gross	\$ 3,115,703	\$ 1,981,726
Allowance for doubtful accounts	(174,345)	(22,864)
Trade receivables, net	2,941,358	1,958,862
Unbilled revenue related to heat recovery solutions	220,567	267,699
Unbilled revenue related to product and services	13,967	119,830
Prepayments	126,282	298,746
Sales tax and other miscellaneous receivables	240,427	372,072
<b>Balance, end of period</b>	<b>\$ 3,542,601</b>	<b>\$ 3,017,209</b>

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

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 5. Trade and other receivables (continued):

The change in allowance for doubtful accounts was as follows:

	November 30, 2019	May 31, 2019
Balance, beginning of period	\$ 22,864	\$ 23,074
Provisions	151,338	219,445
Amounts written off	-	(219,445)
Foreign exchange adjustments	143	(210)
Balance, end of period	\$ 174,345	\$ 22,864

The Company's trade and other receivables have been reviewed for indicators of impairment. At November 30, 2019, \$344,670 (11.1%) of the Company's trade receivables balance was over 90 days past due. \$141,955 of the past due balance was impaired at November 30, 2019. In addition, \$32,390 of trade receivables (including sales tax of \$4,219) that were not over 90 days past due on November 30, 2019 was also impaired (note 6). Total impaired balance was \$174,345 as at November 30, 2019. For the six months ended November 30, 2019, total bad debt provision of \$132,142 (net of sales tax of \$19,196) was recognized under administration expense on the condensed consolidated interim statements of comprehensive income. \$102,142 (net of sales tax of \$15,296) of the total provision related to one customer (see note 6).

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. For the six months ended November 30, 2018, a provision of \$24,152 was made, but \$24,202 of the provision was subsequently released due to the collection on the doubtful account.

### 6. Finance lease receivable:

The Company's finance lease receivable includes the following:

	November 30, 2019	May 31, 2019
Total estimated minimum lease payments receivable	\$ 47,500	\$ 100,053
Less: unearned income	(1,652)	(6,796)
Less: write-down	(45,848)	-
	-	93,257
Less: current portion	-	(93,257)
	-	-

On December 16, 2019, Fortress Specialty Cellulose sought and obtained a First Day Initial Order under the Companies' Creditors Arrangement Act from the Quebec Superior Court. The Company's finance lease receivable was reviewed for indicators of impairment. For the six months ended November 30, 2019, a write-down of \$45,848 was recognized on the remaining finance lease receivable under administrative expenses. A bad debt provision of \$102,142 net of \$15,296 sales tax was made on the Company's trade receivables from the customer, out of which \$28,171 was under 90 days (note 5).

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 7. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improvements	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost, May 31, 2018	167,282	102,768	52,857	360,948	22,877	7,362	714,094
Additions	31,777	3,868	-	37,853	-	-	73,498
Additions from acquisition	192,770	-	-	-	-	4,643	197,413
Disposals	(7,923)	-	-	-	-	(7,456)	(15,379)
Translation adjustments	2,904	(35)	-	(675)	-	185	2,379
Cost, May 31, 2019	386,810	106,601	52,857	398,126	22,877	4,734	972,005
Additions	19,083	34,899	-	24,464	169,116	-	247,562
Translation adjustments	(2,306)	41	-	702	-	(83)	(1,646)
<b>Cost, November 30, 2019</b>	<b>403,587</b>	<b>141,541</b>	<b>52,857</b>	<b>423,292</b>	<b>191,993</b>	<b>4,651</b>	<b>1,217,921</b>
Accumulated depreciation, May 31, 2018	115,747	102,768	52,857	336,931	22,877	5,519	636,699
Depreciation for the year	56,479	777	-	24,717	-	2,536	84,509
Disposals	(1,718)	-	-	-	-	(7,149)	(8,867)
Translation adjustments	39	(33)	-	(506)	-	(38)	(538)
Accumulated depreciation, May 31, 2019	170,547	103,512	52,857	361,142	22,877	868	711,803
Depreciation for the period	30,071	2,122	-	13,021	3,926	463	49,603
Translation adjustments	147	39	-	623	-	(13)	796
<b>Accumulated depreciation, November 30, 2019</b>	<b>200,765</b>	<b>105,673</b>	<b>52,857</b>	<b>374,786</b>	<b>26,803</b>	<b>1,318</b>	<b>762,202</b>
Net book value, May 31, 2019	216,263	3,089	-	36,984	-	3,866	260,202
<b>Net book value, November 30, 2019</b>	<b>202,822</b>	<b>35,868</b>	<b>-</b>	<b>48,506</b>	<b>165,190</b>	<b>3,333</b>	<b>455,719</b>

During the six months ended November 30, 2019, the Company did not dispose of any assets.

During the six months ended November 30, 2018, the Company disposed of a depreciated asset with a net book value of \$6,205 for \$6,396 in proceeds.

### 8. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, May 31, 2019	-	-	-	-
Balance, June 1, 2019, on the adoption date of IFRS 16 (note 3(b))	123,114	90,666	18,000	231,780
Additions (note 12)	296,519	34,975	-	331,494
Lease modification	(15,258)	-	-	(15,258)
Depreciation	(42,703)	(12,870)	(3,484)	(59,057)
Translation adjustments	(232)	307	140	215
<b>Balance, end of period</b>	<b>361,440</b>	<b>113,078</b>	<b>14,656</b>	<b>489,174</b>



# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 9. Trade payables and accrued liabilities:

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

	November 30, 2019	May 31, 2019
Trade payables	\$ 2,348,956	\$ 914,497
Accruals	1,734,277	1,387,381
Other government remittances payable	166,115	247,692
	<b>\$ 4,249,348</b>	<b>\$ 2,549,570</b>

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 \$30,600 due to directors (\$26,600 at May 31, 2019).

### 10. Long-term debt:

	November 30, 2019	May 31, 2019
Term loan, net of deferred financing costs of \$34,605 (\$37,715 as at May 31, 2019), bearing interest at US dollar floating base rate plus a variance of 8.00%, 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	\$ 2,789,307	\$ 3,005,860
Less: current portion	(392,450)	(371,993)
Long term portion	<b>2,396,857</b>	<b>2,633,867</b>

This loan bears interest at the institution's US dollar floating base rate plus a variance. The US dollar floating base rate was 6.20% on November 30, 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 November 30, 2019, the variance was at 8.00% (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 November 30, 2019, the Company was in compliance with its covenants under the term loan agreement.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 11. 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	9,630,974	58,174	9,689,148
Decrease from revenue recognized	(10,296,161)	(16,545)	(10,312,706)
Translation adjustments	44,250	1,545	45,795
Balance, end of period	\$ 1,909,110	\$ 117,717	\$ 2,026,827

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

### 12. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of November 30, 2019:

Less than one year	\$ 160,900
One to five years	329,470
Six to ten years	310,875
Total undiscounted lease obligations	\$ 801,245

For the six months ended November 30, 2019, interest expense on lease obligations was \$13,845; total cash outflow for leases was \$116,515, including \$60,612 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.

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)), which included variable lease payments of \$579,642. On September 1, 2019, the lease commencement date, the Company recognized the lease obligation and the right-of-use asset of \$296,519 for this lease (note 8) under IFRS 16. Variable lease payments were not included in the measurement of the lease obligation.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 13. Share based compensation:

Activity in stock options was as follows:

	Three months ended November 30, 2019		Three months ended November 30, 2018	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,259,193	0.07	20,495,531	0.08
Granted	4,085,000	0.08	7,650,000	0.08
Exercised	-	-	(2,796,667)	0.05
Expired	-	-	(6,995,311)	0.10
Forfeited	-	-	(1,417,250)	0.08
Outstanding, end of period	18,344,193	0.08	16,936,303	0.08
Options exercisable, end of period	9,142,526	0.07	8,259,220	0.08

  

	Six months ended November 30, 2019		Six months ended November 30, 2018	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,259,193	0.07	20,495,531	0.08
Granted	4,085,000	0.08	7,650,000	0.08
Exercised	-	-	(2,796,667)	0.05
Expired	-	-	(6,995,311)	0.10
Forfeited	-	-	(1,417,250)	0.08
Outstanding, end of period	18,344,193	0.08	16,936,303	0.08
Options exercisable, end of period	9,142,526	0.07	8,259,220	0.08

The following tables summarize information about stock options outstanding at November 30, 2019:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding November 30, 2019	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2019	Weighted average exercise price
0.05-0.07	2,770,833	1.5	0.05	2,770,833	0.05
0.08-0.10	15,323,360	3.45	0.08	6,121,693	0.08
0.11-0.12	250,000	1.99	0.12	250,000	0.12
	18,344,193	3.13	0.08	9,142,526	0.07

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

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### 13. Share based compensation (continued):

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.

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

	29-Nov-19
Grant date share price (\$) <sup>(1)</sup>	0.08
Exercise price (\$)	0.08
Expected volatility (%) <sup>(2)</sup>	84.01
Expected life (years)	4.00
Expected dividend yield (%)	0.00
Risk-free interest rate (%)	1.49
Forfeiture rate (%)	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.

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 November 30, 2019	Three months ended November 30, 2018
Administration	\$ 42,043	\$ 3,290
Selling, marketing and business development	9,623	835
	<b>\$ 51,666</b>	<b>\$ 4,125</b>
	Six months ended November 30, 2019	Six months ended November 30, 2018
Administration	\$ 84,086	\$ 6,580
Selling, marketing and business development	19,246	1,670
	<b>\$ 103,332</b>	<b>\$ 8,250</b>

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian dollars except share amounts)

### 14. Revenue:

	Three months ended November 30, 2019	Three months ended November 30, 2018
Sale of goods	\$ 1,029,534	\$ 836,978
Rendering of services	397,266	427,407
Contracts for heat recovery solutions	6,421,296	3,928,707
	<b>\$ 7,848,096</b>	<b>\$ 5,193,092</b>

  

	Six months ended November 30, 2019	Six months ended November 30, 2018
Sale of goods	\$ 1,930,350	\$ 1,531,416
Rendering of services	802,705	1,088,203
Contracts for heat recovery solutions	10,080,830	9,374,334
	<b>\$ 12,813,885</b>	<b>\$ 11,993,953</b>

### 15. 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.

	Level 1	Level 2	Level 3
As at November 30, 2019:			
Contingent payable	\$ -	\$ -	\$ 117,272
As at May 31, 2019:			
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 six months ended November 30, 2019 or 2018.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

### 15. Financial instruments (continued):

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	9,015
Foreign exchange	(1,891)
Balance, end of period	117,272
Classified as current liability	-
Classified as non-current liability	\$ 117,272

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.

*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.

### 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.

Outstanding:

	Six months ended November 30, 2019		Year ended May 31, 2019	
	# Shares	\$	# Shares	\$
<b>Class A Common shares issued</b>				
Balance, beginning of period	161,885,616	32,464,780	159,088,950	32,231,329
Stock options exercised <sup>(1)</sup>	-	-	2,796,666	233,451
Balance, end of period	161,885,616	32,464,780	161,885,616	32,464,780

(1) For the six months ended November 30, 2018, 2,796,666 shares were issued for \$141,958 following the exercise of stock options, resulting in an increase to capital stock of \$233,451 and a reduction in contributed surplus of \$91,493.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 16. Capital stock (continued):

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 may purchase on the TSX up to 8,094,280 common shares, representing approximately 5% of the then issued and outstanding common shares. The actual number of common shares purchased, if any, and the timing of such purchases will be determined by the Company by considering market conditions, share prices, its cash position, and other factors.

### 17. 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:

	<b>Three months ended November 30, 2019</b>	Three months ended November 30, 2018
Salaries and other short-term employee benefits	<b>\$ 213,221</b>	\$ 216,005
Share-based payments	<b>24,876</b>	1,576
	<b>\$ 238,097</b>	\$ 217,581

  

	<b>Six months ended November 30, 2019</b>	Six months ended November 30, 2018
Salaries and other short-term employee benefits	<b>\$ 421,876</b>	\$ 449,273
Share-based payments	<b>49,752</b>	3,152
	<b>\$ 471,628</b>	\$ 452,425

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.

# **THERMAL ENERGY INTERNATIONAL INC.**

## **Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

Six months ended November 30, 2019 and 2018

(Expressed in Canadian dollars except share amounts)

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### **18. Comparative information:**

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