

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY  
INTERNATIONAL INC.**

Quarters ended November 30, 2020 and 2019

(Unaudited)

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Financial Position

As at November 30 and May 31, 2020  
(Expressed in Canadian dollars) (Unaudited)

	November 30, 2020	May 31, 2020
	\$	\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	4,903,323	4,774,580
Trade and other receivables (note 4)	3,062,114	2,211,381
Current tax receivable	219,798	232,904
Inventory	798,867	844,685
	<b>8,984,102</b>	<b>8,063,550</b>
<b>Non-current assets:</b>		
Property, plant and equipment (note 5)	370,998	431,597
Right-of-use assets	370,707	421,338
Intangible assets	1,213,909	1,415,756
Deferred tax assets	113,425	111,439
	<b>2,069,039</b>	<b>2,380,130</b>
<b>Total assets</b>	<b>11,053,141</b>	<b>10,443,680</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade payables and other liabilities (note 6)	2,195,893	3,437,927
Current tax liabilities	29,080	18,710
Pensions and other employer obligations	213,558	139,359
Current portion of long-term debt (note 7)	630,721	269,886
Deferred revenue (note 8)	1,326,734	937,228
Provisions	283,245	283,635
Lease obligations (note 9)	77,726	105,269
	<b>4,756,957</b>	<b>5,192,014</b>
<b>Non-current liabilities:</b>		
Long-term debt (note 7)	2,984,557	2,489,786
Lease obligations (note 9)	411,760	431,976
Deferred tax liabilities	263,352	323,564
	<b>3,659,669</b>	<b>3,245,326</b>
<b>Total liabilities</b>	<b>8,416,626</b>	<b>8,437,340</b>
<b>Equity</b>		
Capital stock	32,117,242	32,117,242
Contributed surplus	4,527,157	4,426,697
Accumulated other comprehensive income	391,570	217,342
Deficit	(34,314,400)	(34,658,665)
Equity attributable to owners of the parent	2,721,569	2,102,616
Non-controlling interest	(85,054)	(96,276)
<b>Total equity</b>	<b>2,636,515</b>	<b>2,006,340</b>
<b>Total liabilities and equity</b>	<b>11,053,141</b>	<b>10,443,680</b>

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

On behalf of the Board:  
" William Crossland "  
Director

" Michael Williams "  
Director

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three and six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Six months ended	
	November 30		November 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue (note 11)	5,019,682	7,848,096	7,847,544	12,813,885
Cost of sales	2,589,440	4,929,739	4,093,099	7,705,010
Gross profit	2,430,242	2,918,357	3,754,445	5,108,875
Expenses (note 12):				
Administration	965,678	1,580,355	1,854,711	2,552,783
Selling, marketing and business development	821,000	858,987	1,373,790	1,722,528
Research and development	3,922	(130)	21,408	53,962
	1,790,600	2,439,212	3,249,909	4,329,273
Operating income	639,642	479,145	504,536	779,602
Finance costs	(71,504)	(106,134)	(170,749)	(189,411)
Finance revenue	-	2,111	-	5,144
Income before income taxes	568,138	375,122	333,787	595,335
Income taxes recovery	12,287	10,059	28,538	31,107
<b>Net income for the period</b>	<b>580,425</b>	<b>385,181</b>	<b>362,325</b>	<b>626,442</b>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	195	169,388	175,893	8,332
<b>Total comprehensive income for the period</b>	<b>580,620</b>	<b>554,569</b>	<b>538,218</b>	<b>634,774</b>
Net income for the period attributable to:				
Owners of the parent	569,339	370,558	344,265	616,494
Non-controlling interest	11,086	14,623	18,060	9,948
<b>Net income for the period</b>	<b>580,425</b>	<b>385,181</b>	<b>362,325</b>	<b>626,442</b>
Total comprehensive income for the period attributable to:				
Owners of the parent	570,170	540,677	518,493	629,920
Non-controlling interest	10,450	13,892	19,725	4,854
<b>Total comprehensive income for the period</b>	<b>580,620</b>	<b>554,569</b>	<b>538,218</b>	<b>634,774</b>
Net income per share - basic and diluted	0.004	0.002	0.002	0.004

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

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended November 30, 2020 and 2019

(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, 2019	32,464,780	4,002,683	(32,760,222)	267,889	3,975,130	(80,578)	3,894,552
Share-based compensation (note 10)	-	103,332	-	-	103,332	-	103,332
Dividends paid	-	-	-	-	-	(10,032)	(10,032)
Transactions with owners	-	103,332	-	-	103,332	(10,032)	93,300
Net income for the period	-	-	616,494	-	616,494	9,948	626,442
Other comprehensive income (loss): exchange differences arising on translation of overseas operations	-	-	-	13,426	13,426	(5,094)	8,332
Total comprehensive income the period	-	-	616,494	13,426	629,920	4,854	634,774
Balance at November 30, 2019	32,464,780	4,106,015	(32,143,728)	281,315	4,708,382	(85,756)	4,622,626
<b>Balance at June 1, 2020</b>	<b>32,117,242</b>	<b>4,426,697</b>	<b>(34,658,665)</b>	<b>217,342</b>	<b>2,102,616</b>	<b>(96,276)</b>	<b>2,006,340</b>
Share-based compensation (note 10)	-	100,460	-	-	100,460	-	100,460
Dividends paid	-	-	-	-	-	(8,503)	(8,503)
Transactions with owners	-	100,460	-	-	100,460	(8,503)	91,957
Net income for the period	-	-	344,265	-	344,265	18,060	362,325
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	174,228	174,228	1,665	175,893
Total comprehensive income the period	-	-	344,265	174,228	518,493	19,725	538,218
<b>Balance at November 30, 2020</b>	<b>32,117,242</b>	<b>4,527,157</b>	<b>(34,314,400)</b>	<b>391,570</b>	<b>2,721,569</b>	<b>(85,054)</b>	<b>2,636,515</b>

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

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended November 30, 2020 and 2019  
(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Operating activities:</b>				
Net income for the period	580,425	385,181	362,325	626,442
Add items not involving cash:				
Depreciation of property, plant and equipment (note 5)	29,662	27,849	59,248	49,603
Depreciation of right-of-use assets	32,676	33,364	65,847	59,057
Amortization of intangible assets	68,937	69,199	139,225	138,382
Write-down of finance lease receivable	-	45,848	-	45,848
Finance revenue	-	(2,111)	-	(5,144)
Finance costs	71,504	106,134	170,749	189,411
Share-based compensation (note 10)	50,230	51,666	100,460	103,332
Income tax recovery	(12,287)	(10,059)	(28,538)	(31,107)
Unrealized foreign exchange and translation adjustments	(2,129)	243,762	136,617	102,632
Changes in working capital:				
Trade and other receivables	(732,572)	(406,692)	(850,733)	(472,839)
Inventory	(844)	(222,203)	45,818	(292,180)
Trade payables and other liabilities	528,742	1,861,680	(1,120,892)	1,642,926
Deferred revenue (note 8)	(38,979)	(2,233,321)	383,986	(623,558)
Income taxes (paid) received	(3,298)	(724)	(3,298)	4,301
Interest paid	(144,560)	(73,525)	(214,334)	(140,965)
Net cash provided by (used in) operating activities	427,507	(123,952)	(753,520)	1,396,141
<b>Investing activities:</b>				
Additions to property, plant and equipment (note 5)	(531)	(227,538)	(5,204)	(247,562)
Net cash used in investing activities	(531)	(227,538)	(5,204)	(247,562)
<b>Financing activities:</b>				
Issuance of long-term debt (note 7)	-	-	1,082,760	-
Repayment of long-term debt (note 7)	(66,643)	(99,245)	(66,643)	(164,833)
Repayment of lease obligations (note 9)	(31,364)	(17,876)	(63,035)	(42,058)
Dividends paid	(8,503)	(10,032)	(8,503)	(10,032)
Net cash (used in) provided by financing activities	(106,510)	(127,153)	944,579	(216,923)
Increase (decrease) in cash and cash equivalents for the period	320,466	(478,643)	185,855	931,656
Cash and cash equivalents, beginning of period	4,589,333	5,600,331	4,774,580	4,177,260
Exchange differences on cash and cash equivalents	(6,476)	(87,481)	(57,112)	(74,709)
Cash and cash equivalents, end of period	4,903,323	5,034,207	4,903,323	5,034,207

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

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(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, 2020 and 2019.

### 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, 2020. 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, 2020.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of January 21, 2021, 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 accounting policies and 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, 2020.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 3. 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 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 quarter ended November 30, 2020 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
Total revenue	<b>3,334,287</b>	5,542,554	<b>1,685,395</b>	2,305,542	-	-	<b>5,019,682</b>	7,848,096
Cost of sales	<b>(1,775,974)</b>	(3,677,044)	<b>(813,466)</b>	(1,252,695)	-	-	<b>(2,589,440)</b>	(4,929,739)
Gross profit	<b>1,558,313</b>	1,865,510	<b>871,929</b>	1,052,847	-	-	<b>2,430,242</b>	2,918,357
Other expenses <sup>(1)</sup>	<b>(637,986)</b>	(968,518)	<b>(785,498)</b>	(882,678)	<b>(367,116)</b>	(588,016)	<b>(1,790,600)</b>	(2,439,212)
Net finance costs <sup>(2)</sup>	<b>(7,468)</b>	(6,019)	<b>(1,563)</b>	(2,341)	<b>(62,473)</b>	(95,663)	<b>(71,504)</b>	(104,023)
Income (loss) before taxation	<b>912,859</b>	890,973	<b>84,868</b>	167,828	<b>(429,589)</b>	(683,679)	<b>568,138</b>	375,122
Tax recovery (expense)	<b>1,212</b>	-	<b>(7,538)</b>	(10,563)	<b>18,613</b>	20,622	<b>12,287</b>	10,059
Net income (loss)	<b>914,071</b>	890,973	<b>77,330</b>	157,265	<b>(410,976)</b>	(663,057)	<b>580,425</b>	385,181
Attributable to:								
Owners of the parent	<b>914,036</b>	891,575	<b>66,279</b>	142,040	<b>(410,976)</b>	(663,057)	<b>569,339</b>	370,558
Non-controlling interest	<b>35</b>	(602)	<b>11,051</b>	15,225	-	-	<b>11,086</b>	14,623

(1) Other expenses related to depreciation of right-of-use assets of \$33,364 for the quarter ended November 30, 2019 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$10,811 and \$22,553, respectively, to conform to the current period presentation.

(2) Finance costs related to interest accretion on lease obligations of \$10,471 for the quarter ended November 30, 2019 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$8,130 and \$2,341, respectively, 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, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 3. Segment reporting (continued):

Segment information for the six months ended November 30, 2020 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	<b>4,885,024</b>	9,305,246	<b>2,962,520</b>	3,508,639	-	-	<b>7,847,544</b>	12,813,885
Cost of sales	<b>(2,612,304)</b>	(5,921,078)	<b>(1,480,795)</b>	(1,783,932)	-	-	<b>(4,093,099)</b>	(7,705,010)
Gross profit	<b>2,272,720</b>	3,384,168	<b>1,481,725</b>	1,724,707	-	-	<b>3,754,445</b>	5,108,875
Other expenses <sup>(1)</sup>	<b>(975,801)</b>	(1,786,355)	<b>(1,353,020)</b>	(1,689,086)	<b>(921,088)</b>	(853,832)	<b>(3,249,909)</b>	(4,329,273)
Net finance costs <sup>(2)</sup>	<b>(15,238)</b>	(3,395)	<b>(3,443)</b>	(5,306)	<b>(152,068)</b>	(175,566)	<b>(170,749)</b>	(184,267)
Income (loss) before taxation	<b>1,281,681</b>	1,594,418	<b>125,262</b>	30,315	<b>(1,073,156)</b>	(1,029,398)	<b>333,787</b>	595,335
Tax recovery (expense)	<b>3,443</b>	-	<b>(12,496)</b>	(10,563)	<b>37,591</b>	41,670	<b>28,538</b>	31,107
Net income (loss)	<b>1,285,124</b>	1,594,418	<b>112,766</b>	19,752	<b>(1,035,565)</b>	(987,728)	<b>362,325</b>	626,442
Attributable to:								
Owners of the parent	<b>1,285,089</b>	1,599,983	<b>94,741</b>	4,239	<b>(1,035,565)</b>	(987,728)	<b>344,265</b>	616,494
Non-controlling interest	<b>35</b>	(5,565)	<b>18,025</b>	15,513	-	-	<b>18,060</b>	9,948

(1) Other expenses related to depreciation of right-of-use assets of \$59,057 for the six months ended November 30, 2019 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$14,547 and \$44,510, respectively, to conform to the current period presentation.

(2) Finance costs related to interest accretion on lease obligations of \$13,845 for the six months ended November 30, 2019 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$8,539 and \$5,306, respectively, to conform to the current period presentation.

Reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Corporate admin costs	<b>145,736</b>	188,737	<b>269,716</b>	338,651
Stock-based compensation	<b>50,230</b>	51,666	<b>100,460</b>	103,332
Professional fees	<b>75,954</b>	94,606	<b>169,646</b>	153,493
Depreciation of property, plant and equipment	<b>29,662</b>	27,849	<b>59,248</b>	49,603
Amortization of intangible assets	<b>68,937</b>	69,199	<b>139,225</b>	138,382
Acquisition costs	<b>3,361</b>	-	<b>13,461</b>	-
Foreign exchange differences (gain) loss	<b>(6,764)</b>	155,959	<b>169,332</b>	70,371
Total	<b>367,116</b>	588,016	<b>921,088</b>	853,832

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, and interest accretion on lease obligations.



# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 4. Trade and other receivables:

	November 30, 2020	May 31, 2020
Trade receivables, gross	\$ 2,720,270	\$ 1,888,144
Allowance for doubtful accounts	(67,837)	(67,438)
Trade receivables, net	2,652,433	1,820,706
Unbilled revenue	34,716	77
Work in progress	38,938	10,289
Prepayments	169,781	166,144
Sales tax and other miscellaneous receivables	166,246	214,165
Balance, end of period	\$ 3,062,114	\$ 2,211,381

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

At November 30, 2020, \$206,096 (7.6%) of the Company's trade receivables balance was over 90 days past due. \$48,698 of the past due balance was impaired at November 30, 2020. \$19,139 of trade receivables that was not over 90 days past due was also impaired.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the six months ended November 30, 2020, provisions of \$17,384 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$132,142 – November 30, 2019). For the six months ended November 30, 2020, \$15,583 (\$nil – November 30, 2019) of the allowance for doubtful accounts was released due to the collection.

### 5. Property, plant and equipment:

During the six months ended November 30, 2020, the Company acquired property, plant and equipment of \$5,204 (\$247,562 – November 30, 2019) and the Company did not dispose of any assets (\$nil – November 30, 2019). Depreciation expense of \$59,248 (\$49,603 – November 30, 2019) was recognized under administration expense. Translation loss of \$6,555 (\$2,442 – November 30, 2019) was recognized under exchange differences arising on translation of overseas operations.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 6. Trade payables and other liabilities:

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

	November 30, 2020	May 31, 2020
Trade payables	\$ 1,149,563	\$ 1,156,736
Accruals	705,094	1,118,819
Other government remittances payable	243,191	891,162
Government grants	98,045	271,210
	<b>\$ 2,195,893</b>	<b>\$ 3,437,927</b>

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

Included in accruals is \$21,060 due to directors (\$46,580 at May 31, 2020).

### 7. Long-term debt:

	November 30, 2020	May 31, 2020
Term loan (equivalent to USD\$1,952,425), net of deferred financing costs of \$29,269 (equivalent to USD\$22,575), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$32,413 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$615,838 (equivalent to USD\$475,000) payable on the maturity date, December 1, 2025 (a)	\$ 2,531,319	\$ 2,759,672
Term loan, net of deferred financing costs of \$2,571, 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)	997,429	-
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 \$1,535 (equivalent to GBP£887) starting June 10, 2021 and continuing up to the maturity date, May 10, 2026 (c)	86,530	-
Total long-term debt	<b>3,615,278</b>	2,759,672
Less: current portion	<b>(630,721)</b>	(269,886)
Long term portion	<b>2,984,557</b>	2,489,786

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

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### 7. Long-term debt (continued):

- (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.

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 4.70% on November 30, 2020 and May 31, 2020. The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at November 30, 2020, the variance was at 1.50% (8.00% at May 31, 2020). Interest is payable monthly in arrears on the 1st day of the month.

The Company had certain covenants in accordance with this term loan. As at May 31, 2020, the Company was in compliance with its covenants. On May 13, 2020, the lender waived the covenants for all the periods from June 1, 2020 up to May 15, 2021 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 the next 3 years. The institution's floating base rate was 4.55% on June 9, 2020 and November 30, 2020. 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. 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 will be charged on the portion of the amount which has not been advanced or cancelled 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.
- (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 \$86,530 (equivalent to GBP£50,000). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over the next 6 years.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 8. Deferred revenue:

	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	5,061,441	93,483	5,154,924
Decrease from revenue recognized	(4,627,492)	(143,446)	(4,770,938)
Translation adjustments	3,203	2,317	5,520
Balance, November 30, 2020	\$ 1,208,241	\$ 118,493	\$ 1,326,734
Balance, June 1, 2019	\$ 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, November 30, 2019	\$ 1,909,110	\$ 117,717	\$ 2,026,827

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

### 9. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations:

	November 30, 2020	May 31, 2020
Less than one year	\$ 111,361	\$ 141,157
One to five years	292,754	293,827
Six to ten years	252,375	286,500
Total undiscounted lease obligations	656,490	721,484
Less: impact of present value	(167,004)	(184,239)
Total lease obligations	489,486	537,245
Less: current portion	(77,726)	(105,269)
Long term portion	\$ 411,760	\$ 431,976

During the six months ended November 30, 2020, the interest expense on lease obligations was \$18,678 and total cash outflow for leases was \$135,119, including \$53,406 for short-term leases.

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

For the six months ended November 30, 2020 and 2019, 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.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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### 10. Share based compensation:

Activity in stock options was as follows:

	Three months ended November 30, 2020		Three months ended November 30, 2019	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	17,821,276	0.07	14,259,193	0.07
Granted	4,653,000	0.09	4,085,000	0.08
Expired	(3,228,360)	0.08	-	-
Forfeited	(497,916)	0.07	-	-
Outstanding, end of period	18,748,000	0.08	18,344,193	0.08
Options exercisable, end of period	9,056,667	0.07	9,142,526	0.07

  

	Six months ended November 30, 2020		Six months ended November 30, 2019	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	17,821,276	0.07	14,259,193	0.07
Granted	4,653,000	0.09	4,085,000	0.08
Expired	(3,228,360)	0.08	-	-
Forfeited	(497,916)	0.07	-	-
Outstanding, end of period	18,748,000	0.08	18,344,193	0.08
Options exercisable, end of period	9,056,667	0.07	9,142,526	0.07

The following tables summarize information about stock options outstanding at November 30, 2020:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding November 30, 2020	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2020	Weighted average exercise price
0.05-0.07	2,625,000	0.5	0.05	2,625,000	0.05
0.08-0.10	15,873,000	2.37	0.08	6,181,667	0.08
0.11-0.12	250,000	0.99	0.12	250,000	0.12
	18,748,000	2.09	0.08	9,056,667	0.07

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

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### 10. 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:

	26-Nov-20	30-Nov-19
Grant date share price (\$) <sup>(1)</sup>	0.09	0.08
Exercise price (\$)	0.09	0.08
Expected volatility (%) <sup>(2)</sup>	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.

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, 2020	Three months ended November 30, 2019
Administration	\$ 40,339	\$ 42,043
Selling, marketing and business development	9,891	9,623
	<b>\$ 50,230</b>	<b>\$ 51,666</b>

  

	Six months ended November 30, 2020	Six months ended November 30, 2019
Administration	\$ 80,678	\$ 84,086
Selling, marketing and business development	19,782	19,246
	<b>\$ 100,460</b>	<b>\$ 103,332</b>

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

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### 11. Revenue:

	Three months ended November 30, 2020	Three months ended November 30, 2019
Sale of goods	\$ 1,730,597	\$ 1,029,534
Rendering of services	315,469	397,266
Contracts for heat recovery solutions	2,973,616	6,421,296
	<b>\$ 5,019,682</b>	<b>\$ 7,848,096</b>

  

	Six months ended November 30, 2020	Six months ended November 30, 2019
Sale of goods	\$ 2,632,087	\$ 1,930,350
Rendering of services	563,038	802,705
Contracts for heat recovery solutions	4,652,419	10,080,830
	<b>\$ 7,847,544</b>	<b>\$ 12,813,885</b>

### 12. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended November 30, 2020	Three months ended November 30, 2019
Depreciation of property, plant and equipment	\$ 29,662	\$ 27,849
Depreciation of right-of-use assets	32,676	33,364
Amortization of intangible assets	68,937	69,199
Foreign exchange (gain) loss	(6,764)	155,959

  

	Six months ended November 30, 2020	Six months ended November 30, 2019
Depreciation of property, plant and equipment	\$ 59,248	\$ 49,603
Depreciation of right-of-use assets	65,847	59,057
Amortization of intangible assets	139,225	138,382
Foreign exchange loss	169,332	70,371

The Company received funding from various government bodies as COVID-19 wage subsidies. For the three months ended November 30, 2020, a total amount of \$212,109 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$197,306 was netted against administration expenses and \$14,803 against selling, marketing and business development expenses.

For the six months ended November 30, 2020, a total amount of \$620,672 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$480,609 was netted against administration expenses and \$140,063 against selling, marketing and business development expenses.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

### 13. Financial instruments:

The fair values of the following financial instrument assets and liabilities are not measured at fair value, but fair value disclosures are required: cash and cash equivalents, trade and other receivables, trade payables and other liabilities, lease obligations, and long-term debt. The carrying values 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.

The carrying values of long-term debt and lease obligations are different from their fair values. The fair values of long-term debt, except the COVID-19 bounce back fixed rate loan, are subject to market interest rate. The fair values of lease obligations are subject to incremental borrowing rate. Fair value increases with lower market interest rates and incremental borrowing rates, and decreases with higher market interest rates and incremental borrowing rates.

### 14. 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, 2020</b>	Three months ended November 30, 2019
Salaries and other short-term employee benefits	<b>\$ 182,115</b>	\$ 213,221
Share-based payments	<b>19,403</b>	24,876
	<b>\$ 201,518</b>	\$ 238,097

  

	<b>Six months ended November 30, 2020</b>	Six months ended November 30, 2019
Salaries and other short-term employee benefits	<b>\$ 357,715</b>	\$ 421,876
Share-based payments	<b>38,318</b>	49,752
	<b>\$ 396,033</b>	\$ 471,628



# **THERMAL ENERGY INTERNATIONAL INC.**

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

Six months ended November 30, 2020 and 2019

(Expressed in Canadian dollars except share amounts)

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### **14. Related party transactions (continued):**

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.

### **15. Comparative information:**

Certain figures and information from prior period have been adjusted to conform to the current period presentation, see note 3 for more details.