

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Three months ended August 31, 2021 and 2020

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at August 31 and May 31, 2021
(Expressed in Canadian dollars) (Unaudited)

	August 31, 2021	May 31, 2021
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	4,232,842	4,240,855
Trade and other receivables (note 4)	3,004,372	3,192,810
Current tax receivable	194,907	187,862
Inventory	1,009,387	959,257
	8,441,508	8,580,784
Non-current assets:		
Property, plant and equipment (note 5)	406,765	407,677
Right-of-use assets	1,395,415	1,416,978
Intangible assets (note 6)	1,274,990	1,027,850
Deferred tax assets	114,939	113,430
	3,192,109	2,965,935
Total assets	11,633,617	11,546,719
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 7)	1,803,685	1,701,746
Current tax liabilities	33,840	19,975
Pensions and other employer obligations	134,948	134,941
Current portion of long-term debt (note 8)	868,206	850,987
Deferred revenue (note 9)	1,839,982	1,566,386
Provisions	283,010	282,322
Current portion of lease obligations (note 10)	222,472	215,923
	5,186,143	4,772,280
Non-current liabilities:		
Long-term debt (note 8)	2,277,193	2,409,439
Lease obligations (note 10)	1,322,133	1,337,141
Deferred tax liabilities	47,934	64,939
	3,647,260	3,811,519
Total liabilities	8,833,403	8,583,799
Equity		
Capital stock	32,439,914	32,439,914
Contributed surplus	4,587,311	4,533,469
Accumulated other comprehensive income	465,229	529,448
Deficit	(34,641,921)	(34,460,538)
Equity attributable to owners of the parent	2,850,533	3,042,293
Non-controlling interest	(50,319)	(79,373)
Total equity	2,800,214	2,962,920
Total liabilities and equity	11,633,617	11,546,719

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

On behalf of the Board:

"William Crossland"
Director

"William Ollerhead"
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Loss

For the three months ended August 31, 2021 and 2020
(Expressed in Canadian dollars) (Unaudited)

	2021	2020
	\$	\$
Revenue (note 12)	3,879,256	2,827,862
Cost of sales	2,235,539	1,503,659
Gross profit	1,643,717	1,324,203
Expenses (note 13):		
Administration	936,443	889,033
Selling, marketing and business development	785,854	552,790
Research and development	559	17,486
	1,722,856	1,459,309
Operating loss	(79,139)	(135,106)
Finance costs	(79,932)	(99,245)
Loss before income taxes	(159,071)	(234,351)
Income taxes recovery	5,191	16,251
Net loss for the period	(153,880)	(218,100)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	(62,668)	175,698
Total comprehensive loss for the period	(216,548)	(42,402)
Net (loss) income for the period attributable to:		
Owners of the parent	(181,383)	(225,074)
Non-controlling interest	27,503	6,974
Net loss for the period	(153,880)	(218,100)
Total comprehensive (loss) income for the period attributable to:		
Owners of the parent	(245,602)	(51,677)
Non-controlling interest	29,054	9,275
Total comprehensive loss for the period	(216,548)	(42,402)
Net loss per share - basic and diluted	(0.001)	(0.001)

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 three months ended August 31, 2021 and 2020

(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, 2020	32,117,242	4,426,697	(34,658,665)	217,342	2,102,616	(96,276)	2,006,340
Share-based compensation (note 11)	-	50,230	-	-	50,230	-	50,230
Transactions with owners	-	50,230	-	-	50,230	-	50,230
Net (loss) income for the period	-	-	(225,074)	-	(225,074)	6,974	(218,100)
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	173,397	173,397	2,301	175,698
Total comprehensive (loss) income for the period	-	-	(225,074)	173,397	(51,677)	9,275	(42,402)
Balance at August 31, 2020	32,117,242	4,476,927	(34,883,739)	390,739	2,101,169	(87,001)	2,014,168
Balance at June 1, 2021	32,439,914	4,533,469	(34,460,538)	529,448	3,042,293	(79,373)	2,962,920
Share-based compensation (note 11)	-	53,842	-	-	53,842	-	53,842
Transactions with owners	-	53,842	-	-	53,842	-	53,842
Net (loss) income for the period	-	-	(181,383)	-	(181,383)	27,503	(153,880)
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	(64,219)	(64,219)	1,551	(62,668)
Total comprehensive (loss) income for the period	-	-	(181,383)	(64,219)	(245,602)	29,054	(216,548)
Balance at August 31, 2021	32,439,914	4,587,311	(34,641,921)	465,229	2,850,533	(50,319)	2,800,214

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 months ended August 31, 2021 and 2020
(Expressed in Canadian dollars) (Unaudited)

	2021	2020
	\$	\$
Operating activities:		
Net loss for the period	(153,880)	(218,100)
Add items not involving cash:		
Depreciation of property, plant and equipment (note 5)	31,833	29,586
Loss on disposal of assets (note 5)	353	-
Depreciation of right-of-use assets	65,211	33,171
Amortization of intangible assets (note 6)	74,220	70,288
Finance costs	79,932	99,245
Share-based compensation (note 11)	53,842	50,230
Income tax recovery	(5,191)	(16,251)
Unrealized foreign exchange and translation adjustments	(21,955)	138,746
Changes in working capital:		
Trade and other receivables	188,438	(118,161)
Inventory	(50,130)	46,662
Trade payables and other liabilities	102,972	(1,649,634)
Deferred revenue (note 9)	235,392	422,965
Income taxes received	102	-
Interest paid	(78,550)	(69,774)
Net cash provided by (used in) operating activities	522,589	(1,181,027)
Investing activities:		
Proceeds from disposal of property, plant and equipment (note 5)	1,245	-
Additions to property, plant and equipment (note 5)	(24,282)	(4,673)
Additions to intangible assets (note 6)	(283,421)	-
Net cash used in investing activities	(306,458)	(4,673)
Financing activities:		
Issuance of long-term debt (note 8)	-	1,082,760
Repayment of long-term debt (note 8)	(215,028)	-
Repayment of lease obligations (note 10)	(52,906)	(31,671)
Net cash (used in) provided by financing activities	(267,934)	1,051,089
Decrease in cash and cash equivalents for the period	(51,803)	(134,611)
Cash and cash equivalents, beginning of period	4,240,855	4,774,580
Exchange differences on cash and cash equivalents	43,790	(50,636)
Cash and cash equivalents, end of period	4,232,842	4,589,333

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

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

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, 2021 and 2020.

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, 2021. 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, 2021.

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

THERMAL ENERGY INTERNATIONAL INC.

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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 three months ended August 31, 2021 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	2,079,501	1,550,737	1,799,755	1,277,125	-	-	3,879,256	2,827,862
Cost of sales	(1,369,732)	(836,330)	(865,807)	(667,329)	-	-	(2,235,539)	(1,503,659)
Gross profit	709,769	714,407	933,948	609,796	-	-	1,643,717	1,324,203
Other expenses	(668,442)	(337,815)	(814,765)	(567,522)	(239,649)	(553,972)	(1,722,856)	(1,459,309)
Net finance costs	(26,754)	(7,770)	(2,839)	(1,880)	(50,339)	(89,595)	(79,932)	(99,245)
Income (loss) before taxation	14,573	368,822	116,344	40,394	(289,988)	(643,567)	(159,071)	(234,351)
Tax recovery (expense)	2,068	2,231	(14,465)	(4,958)	17,588	18,978	5,191	16,251
Net income (loss)	16,641	371,053	101,879	35,436	(272,400)	(624,589)	(153,880)	(218,100)
Attributable to:								
Owners of the parent	16,890	371,053	74,127	28,462	(272,400)	(624,589)	(181,383)	(225,074)
Non-controlling interest	(249)	-	27,752	6,974	-	-	27,503	6,974

THERMAL ENERGY INTERNATIONAL INC.

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3. Segment reporting (continued):

Reconciling items comprise the following:

	Three months ended August 31	
	2021	2020
	\$	\$
Corporate admin costs	166,062	123,980
Share-based compensation	53,842	50,230
Professional fees	85,729	93,692
Depreciation of property, plant and equipment	31,833	29,586
Amortization of intangible assets	74,220	70,288
Acquisition costs	21,099	10,100
Foreign exchange (gain) loss	(193,136)	176,096
Total	239,649	553,972

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.

4. Trade and other receivables:

	August 31, 2021	May 31, 2021
Trade receivables, gross	\$ 1,389,022	\$ 2,139,081
Allowance for doubtful accounts	(53,973)	(40,308)
Trade receivables, net	1,335,049	2,098,773
Unbilled revenue	943,418	283,717
Work in progress	32,902	35,879
Prepayments	313,893	200,864
Sales tax and other miscellaneous receivables	379,110	573,577
Balance, end of period	\$ 3,004,372	\$ 3,192,810

The net carrying value of trade receivables is considered a reasonable approximation of fair value. At August 31, 2021, \$335,291 (24.1%) of the Company's trade receivables balance was over 90 days past due. \$26,227 of the past due balance was impaired at August 31, 2021. \$27,746 of trade receivables that was not over 90 days past due was also impaired.

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

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4. Trade and other receivables (continued):

The Company's trade and other receivables have been reviewed for indicators of impairment. For the quarter ended August 31, 2021, provisions of \$22,996 were made as expected credit losses and recorded under administrative expenses on the condensed interim statements of comprehensive income (\$nil – August 31, 2020). For the quarter ended August 31, 2021, \$9,988 of the allowance for doubtful accounts was released due to the collection (\$5,585 – August 31, 2020).

5. Property, plant and equipment:

During the quarter ended August 31, 2021, the Company acquired property, plant and equipment of \$24,282 (\$4,673 - August 31, 2020) and the Company disposed of depreciated assets with a net book value of \$1,598 for \$1,245 proceeds (\$nil – August 31, 2020). Depreciation expense of \$31,833 (\$29,586 – August 31, 2020) was recognized under administration expense. Translation gain of \$8,237 (loss of \$5,095 – August 31, 2020) was recognized under exchange differences arising on translation of overseas operations.

6. Intangible assets:

During the quarter ended August 31, 2021, the Company acquired intangible assets of \$283,421 (\$nil - August 31, 2020) and the Company did not dispose of any assets (\$nil – August 31, 2020). Amortization expense of \$74,220 (\$70,288 – August 31, 2020) was recognized under administration expense. Translation gain of \$37,939 (loss of \$55,909 – August 31, 2020) was recognized under exchange differences arising on translation of overseas operations.

On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montréal, Quebec, for a total consideration of \$283,421. For the quarter ended August 31, 2021, the Company recorded amortization relating to this acquired technology of \$8,885 in administration expense.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

7. Trade payables and other liabilities:

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

	August 31, 2021	May 31, 2021
Trade payables	\$ 991,986	\$ 797,489
Accruals	679,284	790,091
Other government remittances payable	132,415	80,611
Government grants	-	33,555
	\$ 1,803,685	\$ 1,701,746

Included in accruals is \$21,600 due to directors (\$21,600 at May 31, 2021).

For the quarter ended August 31, 2021, government grant of \$34,596 was recognized as a reduction to the operating expenses that was netted against administration expenses, for the portion of the grant earned for the three months ended August 31, 2021. A foreign translation loss in the amount of \$1,041 was recognized to accumulated other comprehensive loss.

For the quarter ended August 31, 2020, government grant of \$162,626 was recognized as a reduction to the operating expenses, of which \$78,766 was netted against administration expenses and \$83,860 against selling, marketing and business development expenses, for the portion of the grant earned for the three months ended August 31, 2020. A foreign translation gain in the amount of \$9,957 was recognized to accumulated other comprehensive loss related to the revaluation of the liability with the quarter-end closing rate.

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

8. Long-term debt:

	August 31, 2021	May 31, 2021
Term loan (equivalent to USD\$1,730,282), net of deferred financing costs of \$24,878 (equivalent to USD\$19,718), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$31,543 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$599,308 (equivalent to USD\$475,000) payable on the maturity date, December 1, 2025 (a)	\$ 2,183,097	\$ 2,176,798
Term loan, net of deferred financing costs of \$1,800, 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)	878,200	997,943
Term loan (equivalent to GBP£48,432), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,447 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026 (c)	84,102	85,685
Total long-term debt	3,145,399	3,260,426
Less: current portion	(868,206)	(850,987)
Long term portion	2,277,193	2,409,439

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 4.55% on August 31, 2021 (4.65% on May 31, 2021). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at August 31, 2021, the variance was at 1.50% (1.50% at May 31, 2021). Interest is payable monthly in arrears on the 1st day of the month.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

8. Long-term debt (continued):

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

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

- (b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of \$2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over 3 years. The institution's floating base rate was 4.55% on August 31, 2021 and May 31, 2021. Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of \$1,000,000 was received by the Company on July 23, 2020. A financing cost of \$3,000 was charged by the lending institution. According to the agreement, the remaining amount of \$1,300,000 can be drawn later, subject to meeting certain conditions in accordance with this term loan. A standby fee of 1.50% per annum is charged on the portion of the amount which had not been advanced by February 2021. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.
- (c) On June 10, 2020, the Company entered into a COVID-19 bounce back fixed rate loan with a UK lending institution for a total amount of GBP£50,000 (equivalent to \$85,760 on June 10, 2020). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over 6 years.

9. 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, 2021	\$ 1,403,585	\$ 162,801	\$ 1,566,386
Increase from payments received	2,368,394	53,856	2,422,250
Decrease from revenue recognized	(2,165,389)	(21,469)	(2,186,858)
Translation adjustments	35,919	2,285	38,204
Balance, August 31, 2021	\$ 1,642,509	\$ 197,473	\$ 1,839,982

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

9. Deferred revenue (continued):

	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	2,075,188	62,041	2,137,229
Decrease from revenue recognized	(1,651,618)	(62,646)	(1,714,264)
Translation adjustments	4,918	3,007	7,925
Balance, August 31, 2020	\$ 1,199,577	\$ 168,541	\$ 1,368,118

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

10. Lease obligations:

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

	August 31, 2021	May 31, 2021
Less than one year	\$ 333,365	\$ 326,987
One to five years	899,970	904,426
Six to ten years	884,063	905,054
Total undiscounted lease obligations	2,117,398	2,136,467
Less: impact of present value	(572,793)	(583,403)
Less: current portion	(222,472)	(215,923)
Long term portion	\$ 1,322,133	\$ 1,337,141

During the quarter ended August 31, 2021, the interest expense on lease obligations was \$29,635 and total cash outflow for leases was \$82,541.

During the quarter ended August 31, 2020, the interest expense on lease obligations was \$9,648 and total cash outflow for leases was \$68,838, including \$27,519 for short-term leases.

For the three months ended August 31, 2021 and 2020, 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.

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11. Share based payments:

Activity in stock options was as follows:

	Three months ended August 31, 2021		Three months ended August 31, 2020	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,674,675	0.08	17,821,276	0.07
Forfeited	(156,668)	0.09	-	-
Outstanding, end of period	14,518,007	0.08	17,821,276	0.07
Options exercisable, end of period	5,281,668	0.08	8,827,943	0.07

The following tables summarize information about stock options outstanding at August 31, 2021:

Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding August 31, 2021	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at August 31, 2021	Weighted average exercise price
0.08-0.10	14,268,007	3.12	0.08	5,031,668	0.08
0.11-0.12	250,000	0.24	0.12	250,000	0.12
	14,518,007	3.07	0.08	5,281,668	0.08

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, 2021	Three months ended August 31, 2020
Administration	\$ 43,690	\$ 40,339
Selling, marketing and business development	10,152	9,891
	\$ 53,842	\$ 50,230

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(Expressed in Canadian dollars except share amounts)

12. Revenue:

	Three months ended August 31, 2021	Three months ended August 31, 2020
Sale of goods	\$ 1,177,484	\$ 901,490
Rendering of services	315,381	247,569
Contracts for heat recovery solutions	2,386,391	1,678,803
	\$ 3,879,256	\$ 2,827,862

13. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended August 31, 2021	Three months ended August 31, 2020
Depreciation of property, plant and equipment	\$ 31,833	\$ 29,586
Depreciation of right-of-use assets	65,211	33,171
Amortization of intangible assets	74,220	70,288
Foreign exchange (gain) loss	(193,136)	176,096

The Company received funding from various government bodies as COVID-19 wage subsidies. For the quarter ended August 31, 2021, a total amount of \$148,569 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

For the quarter ended August 31, 2020, a total amount of \$408,563 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$283,303 was netted against administration expenses and \$125,260 against selling, marketing and business development expenses.

14. 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

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, 2021	Three months ended August 31, 2020
Salaries and other short-term employee benefits	\$ 204,892	\$ 175,600
Share-based payments	21,248	18,915
	\$ 226,140	\$ 194,515

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.