MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2021

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the fiscal year ended May 31, 2021 (or "FY 2021"), and compares the FY 2021 financial results to the previous year ended May 31, 2020 (or "FY 2020"). The consolidated financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the fourth quarter of FY 2021 are against the fourth quarter of FY 2020. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 40% our operations, assets and liabilities are denominated in British Pound Sterling and 26% in US Dollar. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease, and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on September 21, 2021. Disclosure contained in this document is current to September 21, 2021, unless otherwise stated.

Forward-Looking Statements

This MD&A may include statements that are forward-looking. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We discuss the principal risks of our business in Section 9 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 10 entitled "Forward-Looking Information".

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial, and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, and U.S.

Thermal Energy engages clients through a unique mix of process, energy, environmental and financial expertise to save our customers money and improve their bottom lines by reducing their fuel use and carbon emissions. The Company's award-winning products have an excellent track record of longevity, proven reliability and performance and have been shown to provide: significant energy savings; improved water efficiency; reduced greenhouse gas emissions; lowered maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

More information on Thermal Energy can be found at www.thermalenergy.com. **GEM™, FLU-ACE®, THERMALONOx™** and **DRY-REX™** are trademarks of Thermal Energy.

1.2 Core Businesses

The Company operates primarily in North America and Europe but also sells its products and services through representative agents throughout the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions, including direct contact heat recovery solutions (e.g. **FLU-ACE®**), indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and condensate return system solutions (**GEM™** steam traps). The Company is also developing several other technology lines, including low temperature biomass drying systems (**DRY-REX™**).

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. On June 29, 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells HEATSPONGE and SIDEKICK indirect contact heat recovery units.

The Company has two primary operational bases of operation, one in Ottawa, Canada covering North America ("Thermal Energy Ottawa"), and the other in Bristol, United Kingdom, covering Europe and the rest of the world ("Thermal Energy Bristol"). Although Thermal Energy Ottawa is considered to be the center of excellence for heat recovery engineering and technical support, and Thermal Energy Bristol the center of excellence for GEM™ steam traps and condensate return systems engineering and technical support, continuous cross-training means that both Ottawa and Bristol have expertise across both major product lines.

Although the Company markets its products throughout the world, most sales are from within North America and Europe where the Company has direct sales and engineering staff. While North American and European markets continue to be the Company's strategic focus, the Company also continues to look for new agents and distributors in other regions deemed to have potential.

1.3 Strategy

The Company's mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency technology and solutions to the industrial, institutional, and commercial sectors, helping our clients around the world improve their bottom line, move towards sustainable operations and reduce their environmental and carbon footprint. The Company's products and services are "best-in-class" with world-wide application in a broad range of sectors.

The Company has representation in 28 countries around the world with a current focus on the key markets of North America and Europe. Thermal Energy's penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets, while at the same time, build its business in other energy-intensive markets around the world.

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors.

With an established global sales and distribution network, the Company is looking to develop and/or acquire additional complementary products and services that can be distributed through its existing network.

2. Performance Measures

The Company believes the following performance measures provide useful information to both management and investors to better understand the financial performance and financial position of the Company.

2.1 EBITDA

Management believes that EBITDA (earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write-down of lease) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital, and excludes impairment of goodwill and other intangible assets, and net write-down of lease. EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other companies. There is no direct comparable IFRS measure for EBITDA.

A reconciliation of net income (loss) to EBITDA is shown below:

	2021 $	2020 $	2019 $
Total net income (loss) attributable to owners of the parent	198,127	(1,898,443)	(424,286)
Total net income (loss) attributable to non-controlling interest	24,838	1,486	(26,817)
Interest charge	316,653	420,220	302,394
Interest received	-	-	(20,413)
Taxation	(204,150)	(303,611)	(108,703)
Depreciation and amortization	392,737	391,002	338,485
Share based compensation	208,144	203,793	115,346
Impairment – intangible assets	-	499,718	-
Impairment – goodwill	-	2,561,482	-
Net write-down of lease	-	45,848	-
EBITDA	936,349	1,921,495	176,006

2.2 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short-term future revenue of our Company resulting from already recognized orders. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

3. Performance

3.1 Selected Annual Information

The following table shows selected consolidated financial data for the three most recently completed financial years.

Financial information for the years ending May 31, 2021, 2020 and 2019:

	2021 $	2020 $	2019 $
Revenue	15,349,326	21,416,175	21,083,256
Gross Profit(1)	6,751,089	8,954,053	8,041,206(1)
Gross Profit Percentage	44.0%	41.8%	38.1%
EBITDA(2)	936,349	1,921,495	176,006
Total net income (loss) attributable to owners of the parent	198,127	(1,898,443)	(424,286)
Net profit (loss) per share – basic and diluted	0.001	(0.012)	(0.003)

(1) The Company reclassified commission expense from selling, marketing and business development expense to cost of sales effective June 1, 2019. As a result, commission expense in the amount of $1,192,170 for the year ended May 31, 2019 was reclassified from selling, marketing and business development expense to cost of sales to conform to the current presentation.

(2) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write down of lease.

For the eight quarters ended May 31, 2021:

Quarter ended	31-Aug-20 $	30-Nov-20 $	28-Feb-21 $	31-May-21 $
Revenue	2,827,862	5,019,682	3,735,968	3,765,814
Gross Profit	1,324,203	2,430,242	1,644,265	1,352,379
Gross Profit Percentage	46.8%	48.4%	44%	35.9%
EBITDA(1)	14,998	788,471	171,726	(38,846)
Total net income (loss)	(218,100)	580,425	(33,757)	(105,603)
Income (loss) per share, basic and diluted	(0.001)	0.004	(0.000)	(0.001)

Quarter ended	31-Aug-19 $	30-Nov-19 $	29-Feb-20 $	31-May-20 $
Revenue	4,965,789	7,848,096	5,811,626	2,790,664
Gross Profit	2,190,518	2,918,357	2,417,450	1,427,728
Gross Profit Percentage	44.1%	37.2%	41.6%	51.2%
EBITDA(1)	471,786	709,182	709,115	31,412
Total net income (loss)	241,261	385,181	429,787	(2,953,186)
Income (loss) per share, basic and diluted	0.002	0.002	0.003	(0.019)

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write-down of lease.

3.2 Summary of Fourth Quarter Results

	Q4 2021	Q4 2020
	$	$
Revenue	**3,765,814**	2,790,664
Cost of sales	**2,413,435**	1,362,936
Gross profit	**1,352,379**	1,427,728
Expenses:		
Administration, selling, marketing and business development	**1,652,586**	1,631,126
Research and development	**(109,935)**	(38,560)
	1,542,651	1,592,566
Other income	**-**	133,826
Operating loss before impairment	**(190,272)**	(31,012)
Impairment of intangible assets	**-**	(499,718)
Impairment of goodwill	**-**	(2,561,482)
Operating loss	**(190,272)**	(3,092,212)
Finance costs	**(80,671)**	(112,767)
Loss before income taxes	**(270,943)**	(3,204,979)
Income taxes recovery	**165,340**	251,793
Net loss for the period	**(105,603)**	(2,953,186)
Exchange differences on translation of overseas operations	**13,401**	(50,695)
Total comprehensive loss for the period	**(92,202)**	(3,003,881)
EBITDA for the quarter[1]	**(38,846)**	31,412
Order backlog as at May 31	**7.8 million**	3.6 million
Order backlog as at reporting date	**11 million**	9.3 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

Revenue and Gross Profit

Revenues were $3,765,814 in the quarter ended May 31, 2021, representing an increase of $975,150, or 34.9%, compared to $2,790,664 in the quarter ended May 31, 2020. The increase of revenue in the fourth quarter of FY 2021 was mainly due to the increased revenues in heat recovery systems. The COVID-19 pandemic caused significant delays on heat recovery projects in the fourth quarter of prior year because customers' sites were either closed or our technical team and the subcontractors could not travel to site due to the travel restrictions. With the ease of travel restrictions and lock-down orders, the Company delivered more revenues in heat recovery projects than the same quarter of prior year.

The gross profit of $1,352,379 in the quarter ended May 31, 2021 represented a decrease of $75,349, or 5.3%, from $1,427,728 achieved in the quarter ended May 31, 2020. Although the revenue increased in the fourth quarter of FY 2021, the gross profit decreased because the cost of sales increased due to the delay in heat recovery project execution which caused higher costs on internal labour. In addition, subcontractor installation cost also increased due to the shortage of labour under COVID-19. Gross profit expressed as a percentage of sales was 35.9% in the fourth quarter of FY 2021 compared with 51.2% in the same quarter of FY 2020.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended May 31, 2021 totaled $1,652,586 compared to $1,631,126 in the quarter ended May 31, 2020, an increase of $21,460, or 1.3%. In the fourth quarter of FY 2021, the Company incurred foreign exchange loss of $207,423, as compared to foreign exchange gain of $177,855 from the fourth quarter of FY 2020. As mentioned earlier, approximately 40% of our operations, assets and liabilities are denominated in British Pound Sterling and 26% in US Dollar, foreign currency fluctuations affect the values reported in the statement of profit and loss. During the fourth quarter of FY 2021, the US dollar weakened against the Canadian dollar. As the revenue from the US market was significant to the Company, the weakening of the US dollars caused foreign exchange loss to the Company. As a result, the foreign exchange loss increased by $385,278 compared to the same quarter of previous year. Despite the loss from foreign exchange, the Company received and recognized $117,838 more government wage subsidies compared to the same quarter of previous year. During the fourth quarter of FY 2021, $376,381 of government wage subsidies was recognized as a reduction to operating expenses. In the same quarter of previous year, the Company recognized government subsidies of $258,543. The Company's other operating expenses decreased in the fourth quarter of FY 2021 by $245,980, mainly due to the fact that the Company recorded $239,534 group incentive expense in the fourth quarter of FY 2020, but no group incentive expense was recorded in the fourth quarter of FY 2021.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company recorded the estimated R&D tax credits related to FY 2021 in the fourth quarter of FY 2021. The research and development expense decreased by $71,375 compared to the same quarter of the previous year, the decrease was mainly caused by lower costs incurred in research and development activities.

Other income in the amount of $133,826 was related to the write-down of the contingent earn-out in FY 2020, which was first recognized as a contingent liability at the time of acquisition of Boilerroom Equipment Inc. The contingent earn-out was payable if certain performance targets were met over the 36 months after the acquisition. As the performance targets were not likely to be met, the entire amount was written down to other income in the fourth quarter of previous year.

Impairment of intangible assets and goodwill: The Company recognized impairment charge of $3,061,200 on intangible assets and goodwill in the fourth quarter of FY 2020. The impairment was caused by the decline in the internal forecasts of revenues due partly to economic uncertainty arising from the COVID-19 pandemic. No impairment charge was recognized in FY 2021.

Finance costs include interest expense on the long-term debt, interest accretion on contingent payable related to acquisition, and amortization on financing cost. The fourth quarter of FY 2021 incurred a finance cost of $80,671. The cost was lower than the fourth quarter of FY 2020 by $32,096 because the interest rate on the long-term debt was lower for FY 2021 than FY 2020. The interest rate is reassessed annually.

Loss before income taxes for the quarter ended May 31, 2021 was $270,943, compared to a loss of $3,204,979 in the same quarter of the previous year. Loss before income taxes decreased by $2,934,036 mainly due to no impairment charge on intangible assets and goodwill during the fourth quarter of FY 2021, whereas $3,061,200 of impairment charge was recorded in the fourth quarter of FY 2020. The increase in government salary subsidies of $117,838, the decrease of operating expense of $245,980, the decrease of research and development expense of $71,375, and the decrease of finance costs of $32,096 as mentioned earlier, offset by the decrease in gross profit of $75,349, the increase in foreign exchange loss of $385,278, and the decrease of other income of $133,826.

Income taxes recovery in the fourth quarter of FY 2021 was $165,340, as compared to a recovery of $251,793 in the fourth quarter of FY 2020, a decrease of $86,453. In the fourth quarter of FY 2020, income tax recovery of $251,793 was recognized, of which $103,230 was related to the write-down of deferred tax liabilities because of the impairment write-down on intangible assets of $499,718. When the intangible assets were first recognized at the date of acquisition, deferred tax liabilities on these assets were also recognized. When these intangible assets were written down through impairment, the deferred taxes associated with these assets were also discharged. In the fourth quarter of FY 2020, $197,322 of the tax recovery was recognized by the Company's U.S. subsidiary which incurred a taxable loss in FY 2020. The U.S. tax authority had provided a tax relief measure under COVID-19, under which a business was permitted to carry back taxable loss to apply against taxable income from previous tax years. As a result, the Company recognized income tax recovery of $197,322 relating to this tax relief measure in FY 2020. In FY 2021, one of the Company's U.S. subsidiaries incurred taxable losses which can be carried forward and utilized against future taxable profit. $147,972 of the income tax recovery of $165,340 recognized in the fourth quarter of FY 2021 was related to the temporary difference from the taxable losses.

Net loss for the fourth quarter of FY 2021 was $105,603, compared to a net loss of $2,953,186 in the same quarter of the previous year, representing a decrease of $2,847,583. The decrease in net loss was mainly due to no impairment charge recognized on intangible assets and goodwill in the fourth quarter of FY 2021, whereas $3,061,200 of impairment charge was recognized in the same quarter of FY 2020. The decrease in net loss was also due to the increase in government salary subsidies of $117,838, the decrease of operating expense of $245,980 as mentioned earlier, offset by the increase in foreign exchange loss of $385,278, the decrease of other income of $133,826, and the decrease in income tax recovery of $86,453.

Comprehensive loss was $92,202 for the fourth quarter of FY 2021, compared to a comprehensive loss of $3,003,881 for the fourth quarter of FY 2020. The decrease of $2,911,679 of comprehensive loss was due to the decrease in net loss of $2,847,583 and the increase of the gain on exchange differences arising on translation of overseas operations by $64,096. In the fourth quarter for FY2021, the Company recognized a gain of $13,401 for the exchange differences arising on translation of overseas operations, compared to a loss of $50,695 for the same quarter of the previous year.

EBITDA was negative $38,846 for the fourth quarter of FY 2021, compared to $31,412 for the same quarter of the previous year, representing a decrease of $70,258. The decrease was mainly due to the decrease in gross profit of $75,349, the decrease in other income of $133,826, offset by the decrease in research and development expenses of $71,375 as mentioned earlier. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year End Results

	2021	2020
	$	$
Revenue	**15,349,326**	21,416,175
Cost of sales	**8,598,237**	12,462,122
Gross profit	**6,751,089**	8,954,053
Expenses:		
Administration, selling, marketing and business development	**6,501,593**	7,848,011
Research and development	**(85,972)**	(35,840)
	6,415,621	7,812,171
Other income	**-**	133,826
Operating income before impairment	**335,468**	1,275,708
Impairment of intangible assets	**-**	(499,718)
Impairment of goodwill	**-**	(2,561,482)
Operating income (loss)	**335,468**	(1,785,492)
Finance costs	**(316,653)**	(420,220)
Finance revenue	**-**	5,144
Income (loss) before income taxes	**18,815**	(2,200,568)
Income taxes recovery	**204,150**	303,611
Net income (loss) for the year	**222,965**	(1,896,957)
Exchange differences on translation of overseas operations	**312,674**	(50,973)
Total comprehensive income (loss) for the year	**535,639**	(1,947,930)
EBITDA[1]	**936,349**	1,921,495
Order backlog as at May 31	**7.8 million**	3.6 million
Order backlog as at September reporting date	**11 million**	9.3 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

Revenue and Gross Profit

Revenues were $15,349,326 in the year ended May 31, 2021, representing a decrease of $6,066,849, or 28.3%, over the $21,416,175 recognized in the year ended May 31, 2020. The majority of the decrease was due to the lower revenues earned in heat recovery systems. During FY 2021, the Company had seen significant delays in the delivery of heat recovery equipment and on-site installation work. The Company's engineering and technical team could not travel to sites easily due to travel restrictions or lock-down orders. As a result, heat recovery revenue was significantly reduced due to COVID-19. The revenues from other revenue streams including GEM steam traps were comparable to the level from the previous year.

The gross profit of $6,751,089 in the year ended May 31, 2021 represented a decrease of $2,202,964, or 24.6%, from the $8,954,053 achieved in the year ended May 31, 2020. The decrease was mainly due to the decreased revenues from heat recovery systems. The gross profit expressed as a percentage of revenue increased from 41.8% in FY 2020 to 44% in FY 2021 despite the decreased revenue. The increase of gross margin was due to the fact that GEM trap sales as a percentage of total sales increased in FY 2021 due to the lower revenues earned from heat recovery projects. GEM trap products carry a higher margin than heat recovery products.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the year ended May 31, 2021 totaled $6,501,593, compared to $7,848,011 in FY 2020, representing a decrease of $1,346,418, or 17.2%. The decrease was mainly due to the recognition of COVID-19 wage subsidies of $1,244,004 received from various government bodies as a reduction to the operating expenses. In FY 2020, the Company recorded $258,543 of wage subsidies. The amount of wage subsidies increased by $985,461 in FY 2021 because the Company received subsidies throughout FY 2021 as compared to receiving subsidies only for three months in FY 2020. In addition, the Company had a significant reduction in administration, selling and marketing expenses of $958,167 compared to the previous year. The Company implemented cost saving measures and reduced discretionary expense during FY 2021. The travel and business development costs decreased significantly due to travel restrictions and lock-down orders. The Company's technical and sales team mostly worked from home. Instead of visiting sites, our staff reached out to customers through remote working arrangements when conditions permit, which saved on travel costs. However, the Company's foreign exchange loss increased by $597,210 from a foreign exchange gain of $111,845 in FY 2020 to a foreign exchange loss of $485,365 in FY 2021. The US dollar weakened against Canadian dollar during FY 2021. As the U.S. is a major market for the Company's sales, the weakening of the US dollar caused the increase in foreign exchange loss.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company's R&D expense was negative $85,972 in FY 2021, compared to a negative expense $35,840 in FY 2020, a decrease of $50,132. The decrease was partially due to the decreased R&D expenses incurred in FY 2021 of $26,066 compared to $145,658 in FY 2020, a decrease of $119,592. R&D activities are often conducted for ongoing heat recovery projects. Given the lower revenues from heat recovery projects for FY 2021, lower R&D expenses were incurred. The amount of R&D tax credits and government funding applied in FY 2021 was lower than that of FY 2020. During the year ended May 31, 2020, the Company applied for R&D tax credits and government funding in the amount of $181,498. In FY 2021 the Company only recorded R&D tax credits and government funding of $112,038, a decrease of $69,460.

Finance costs and finance revenue: In the year ended May 31, 2021, finance costs and revenue decreased by $ 98,423 from $415,076 to $316,653. The decrease was mainly due to the decreased interest rate on the long-term debt.

Income before income taxes for the year ended May 31, 2021 was $18,815 compared to a loss of $2,200,568 in the same period of the previous year, representing a decrease of loss by $2,219,383. The decrease in loss was mainly due to the fact that no impairment charge was recorded in FY 2021 as compared to $3,061,200 of impairment charge recorded on intangible assets and goodwill in FY 2020. In FY 2021, the Company's operating expenses were $1,346,418 lower than FY 2020. However, due to the decreased heat recovery revenues, the gross profit was $2,202,964 lower than FY 2020.

Income taxes recovery in FY 2021 was $204,150, compared to $303,611 in FY 2020, a decrease of $99,461. Both the U.K. and the U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. In FY 2020, income tax recovery of $197,322 was recorded by the Company's U.S. subsidiary as the subsidiary incurred taxable losses in FY 2020. The income tax recovery for FY 2020 also included the write-down of deferred tax liabilities of $103,230 that were associated with certain intangible assets, which were written down through impairment charge in the fourth quarter of FY 2020. There was no impairment charge recorded in FY 2021. In FY 2021, one of the Company's U.S. subsidiaries incurred taxable losses which can be carried forward and utilized against future taxable profits. $147,972 of the income tax recovery recognized in FY 2021 was related to this temporary difference from the taxable losses. The remaining amount was mainly related to the release of deferred tax liabilities on intangible assets to the statement of profit and loss.

Net income for the year ended May 31, 2021 was $222,965, compared to a loss of $1,896,957 in the year ended May 31, 2020, representing a decrease of loss of $2,119,922. The decrease in net loss was mainly due to the decrease in loss before income taxes of $2,219,383 as mentioned earlier offset by the decrease in income taxes recovery of $99,461.

Comprehensive Income was $535,639 for the year ended May 31, 2021, compared to a loss of $1,947,930 for the year ended May 31, 2020, representing a decrease of comprehensive loss in the amount of $2,483,569. The decrease in comprehensive loss was mainly due to the decrease in net loss of $2,119,922 as mentioned earlier with the increased exchange gain of $363,647 from translation of overseas operations. The Company recognized an exchange gain arising on translation of overseas operations of $312,674 in FY 2021 as compared to an exchange loss of $50,973 in FY 2020.

EBITDA was $936,349 for the year ended May 31, 2021 compared to $1,921,495 for the previous year, representing a decrease of $985,146. The decrease was mainly due to the decrease in gross profit of $2,202,964 as a result of decreased sales from heat recovery systems, offset by the decrease in operating expense of $1,346,418 because of the cost savings achieved and the higher wage subsidies received in FY 2021. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets increased by $517,234 to $8,580,784 at May 31, 2021, compared to $8,063,550 at May 31, 2020. This increase was mainly due to the increase in trade and other receivables of $981,429, increase in inventory of $114,572 offset by reduction in cash and cash equivalents of $533,725. Current liabilities decreased by $419,734 to $4,772,280, mainly due to the decrease in trade payables and other liabilities of $1,736,181, offset by the increase in deferred revenue of $629,158, current portion of long-term debt of $581,101 and lease obligations of $110,654.

Working capital increased by $936,968 to $3,808,504 at May 31, 2021, compared to $2,871,536 at May 31, 2020. On July 23, 2020, the Company received $1,000,000 from the Working Capital - COVID-19 loan. The Company was able to pay off a significant amount of trade payables and other liabilities with the loan proceeds received. The current portion of this long-term debt was $478,971, with the rest of the balance of $521,029 recorded within non-current liabilities as at May 31, 2021. Hence, $521,029 of the working capital improvement was directly related to the proceeds received. In addition, during FY 2021, the Company received a few significant heat recovery orders, see Section 6 Business Outlook for more details. As a result, the Company's trade and other receivables increased significantly by $981,429, while the deferred revenue increased by $629,158, which contributed to a net increase of $352,271 to the working capital. The increase was mainly due to the COVID-19 loan proceeds received and the net increase in trade receivables and deferred revenue as a result of the new orders received.

The Company's working capital position over the last eight quarters can be summarized as follows:

	Aug 31, 2019 $	Nov 30, 2019 $	Feb 29, 2020 $	May 31, 2020 $	Aug 31, 2020 $	Nov 30, 2020 $	Feb 28, 2021 $	May 31, 2021 $
Current Assets	9,544,737	9,574,004	8,646,798	8,063,550	7,938,009	8,984,102	8,606,829	8,580,784
Current Liabilities	7,423,040	7,129,049	5,859,669	5,192,014	4,198,761	4,756,957	4,404,265	4,772,280
Working Capital	2,121,697	2,444,955	2,787,129	2,871,536	3,739,248	4,227,145	4,202,564	3,808,504

The Company's cash position was $4,240,855 as at May 31, 2021, compared to $4,774,580 at May 31, 2020, representing a decrease of $533,725. The decrease was mainly due to net cash used in operating activities of $1,185,751 and investing activities of $125,390 and foreign exchange impact of $115,374, offset by the net cash generated from financing activities of $892,790.

The net cash used in the operating activities included the net income of $222,965, the negative change in working capital of $2,140,561, the interest paid on long-term debt of $357,119 and the income taxes paid of $5,583, offset by the addbacks of non-cash items of $1,094,547. The Company's cash position normally fluctuates based on the timing of long-term projects. Cash increases at the beginning of a project because the Company receives upfront deposits before a project is started. The cash position decreases when a project is near the end because the Company has collected from its customer and needs to make full payments to the suppliers and subcontractors. A few heat recovery projects were close to completion at May 31, 2021, therefore there was a negative change in working capital of $2,140,561 because the Company paid off a significant amount of trade payables to creditors during the year with the COVID-19 loan proceeds received.

The Company invested $115,402 in property, plant and equipment during the year ended May 31, 2021, of which $88,346 was related to investment in the Company's U.S. subsidiary, Boilerroom Equipment Inc. During FY 2021, Boilerroom Equipment Inc. moved to a new facility with a 10-year leasing contract. Boilerroom Equipment Inc. purchased new vehicle and equipment, furniture for the office space, computer equipment for staff, and leasehold improvements. In addition, Boilerroom Equipment Inc. acquired intangible assets amounting to $9,988 during the year which relates to the acquisition of production license.

The Company generated cash from financing activities, which included the receipt of COVID-19 related loans of $1,082,760 and receipt from stock option exercise of $221,300, offset by repayments related to the lease obligations of $146,069, repayment of long-term debt of $256,698 and dividend paid of $8,503 during the year.

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

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

Less than one year	$ 326,987
One to five years	904,426
Six to ten years	905,054
Total undiscounted lease obligations	2,136,467
Less: impact of present value	(583,403)
Total lease obligations	1,553,064
Less: current portion	(215,923)
Long term portion	$ 1,337,141

The Company's ability to realize its assets and discharge its liabilities depends on its ability to generate sufficient cash from operations or its ability to arrange debt or equity financing.

On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of $2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over 3 years. The institution's floating base rate was 4.55% on June 9, 2020 and May 31, 2021. 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 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.

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 12 months. Once the COVID-19 pandemic ends, the Company will be generating sufficient cash flow by achieving profitable operations through continuing to manage expenditures, and concentrating on building upon revenue levels experienced from FY 2016 to FY 2020.

3.5 Segmentation Information

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

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

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

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

Reconciling items comprise the following:

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

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

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

Material Segmentation Variances

Thermal Energy Ottawa:

Revenue for the year ended May 31, 2021 of $8,060,309, represented a decrease of $5,277,048, or 39.6%, over $13,337,357 achieved in the previous year. The decrease was mainly due to the reduced sales in heat recovery systems.

Gross profit for the year ended May 31, 2021 decreased by $1,411,074 over the last year. The decrease in gross profit was mainly due to the decreased sales in heat recovery systems. As a percentage of revenue, gross profit was 43.1% for the year ended May 31, 2021, compared to 36.6% achieved in last year. The increase in gross profit as a percentage of revenue was due to the change in product split. The sales from GEM steam traps as a percentage of total revenue were higher in FY 2021 because of the reduced heat recovery revenue. GEM products carry a higher gross margin than heat recovery systems.

Other expenses in this segment decreased by $1,417,424, or 44.1%, for the year ended May 31, 2021 over the last year. The decrease was mainly due to the decrease in operating costs of $483,180 due to the reduced amount of business development activities and discretionary expense, and cost control measures implemented. In addition, the segment had an increase of $934,244 in government wage subsidies received. In FY 2021, this segment received government wage subsidies of $1,132,139, as compared to $197,895 received in FY 2020.

Other income and impairment charge both decreased in FY 2021. In FY 2020, the Company recognized other income of $133,826 due to the release of contingent consideration payable to profit and loss. Impairment charge of intangible assets of $103,548 and goodwill of $1,360,450 were recognized in FY 2020 due to the lower forecasted sales given the uncertainties arising from COVID-19. In FY 2021, no impairment charge was recognized.

Income before tax of $1,619,942 was achieved in FY 2021, represented an increase of $1,299,284, or 405.2%, from the previous year. The increase was mainly due to the fact that no impairment was charged in FY 2021, as compared to the impairment charge of $1,463,998 recognized in the previous year. In addition, this segment had a significant decrease in other expenses in the amount of $1,417,424, offset by the decrease of gross profit of $1,411,074 because of the decreased revenues from heat recover projects.

Thermal Energy Bristol:

Revenue for the year ended May 31, 2021 was $7,289,017, representing a decrease of $789,801, or 9.8%, over the $8,078,818 achieved in the previous year. The decrease for the year ended May 31, 2021 was due to decreased sales in both GEM products and heat recovery systems.

Gross profit decreased in the year ended May 31, 2021 by $791,890, compared to the previous year. The decrease in gross profit was mainly due to the decreased sales in both GEM products and heat recovery systems. As a percentage of revenue, gross profit was 45% in the FY 2021, compared to 50.4% achieved in the FY 2020. The product split was similar to the previous year. The decrease in gross profit as a percentage of revenue was due to the decreased gross margin for both GEM products and heat recovery systems. During FY 2021, the segment provided a significant discount on a GEM sale to a repeat customer to win the bid for a large order. For the heat recovery projects, the cost of installation and shipping both increased in FY 2021 due to the shortage of labour under COVID-19. As a result, the gross margin on heat recovery projects also decreased.

Other expenses decreased by $548,498 or 16.8% for the year ended May 31, 2021, compared to prior year. This segment operating costs decreased by $497,281 due to reduced business activities and cost control measures implemented in FY 2021. In addition, the segment received the government wage subsidies of $111,865 during FY 2021 as compared to $60,648 received in FY 2020, an increase of $51,217.

Impairment charge decreased in FY 2021. In FY 2020, impairment charge of intangible assets of $396,170 and goodwill of $1,201,032 were recognized due to the lower forecasted sales given the uncertainties arising from COVID-19. In FY 2021, no impairment charge was recognized.

Income before taxes was $549,698 for the year ended May 31, 2021, as compared to a loss of $809,016 for the prior year, an increase of $1,358,714. The increase in income was mainly due to no impairment charge recognized in FY 2021 as compared to the impairment charge of $1,597,202 recognized in FY 2020. In FY 2021, the segment's gross profit was $791,890 lower than prior year due to the decreased sales and decreased gross margin. However, the segment achieved cost savings in operating expenses of $548,498. Overall, the income before impairment charge in FY 2021 was $243,392 lower than prior year.

Reconciling Items:

Other expenses within reconciling items, which incorporates all costs not specifically attributable to either regional operational center, increased by $569,372 to $1,900,004, compared to the previous year. The increase in other expenses was mainly due to the increase of the foreign exchange loss of $597,210. During FY 2021, US dollar weakened against Canadian dollar. As the U.S. is a major sales market for the Company, the weakening of US dollar caused the loss in foreign exchange.

4. Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at May 31, 2021 were 1,250,000, of which 750,000 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2021 were 5,125,000, of which 2,041,667 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the year ended May 31, 2021 compensation arrangements for Directors were as follows:

$13,500 per annum per Director plus an additional $8,100 per annum payable to the Chairman of the Board, $5,400 per annum payable to the Chairperson of the Audit Committee, $5,400 per annum payable to the Chairperson of the Ethics Committee, and $1,000 payable for each in-person meeting.

For the period April 15, 2020 to September 15, 2020, the Directors elected to reduce their compensation by 15% in support of the Company's cost control initiatives.

During the year ended May 31, 2021, Directors fees paid were $64,547. Fees to the Chairperson of the Audit Committee were $5,164; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $5,164; fees paid to the Chairman of the Board were $7,745. No in-person meetings were held during the year.

Compensation paid to Directors and Officers during the year ended May 31, 2021 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$	**$**	$
Directors								
M. Williams	**12,909**	16,247	**-**	-	**-**	-	**12,909**	16,247
J. Kelly	**20,656**	25,195	**-**	-	**-**	-	**20,656**	25,195
W. Ollerhead	**18,073**	22,546	**-**	-	**-**	-	**18,073**	22,546
D. Spagnolo	**18,073**	22,546	**-**	-	**-**	-	**18,073**	22,546
W. White	**12,909**	17,247	**-**	-	**-**	-	**12,909**	17,247
Total	**82,620**	103,781	**-**	-	**-**	-	**82,620**	103,781
Senior Management								
W. Crossland	**229,500**	235,500	**-**	34,883	**-**	4,097	**229,500**	274,480
R. Triebe	**173,085**	177,606	**-**	26,307	**3,160**	7,619	**176,245**	211,532
S. Mawby(1) (2)	**114,525**	150,342	**-**	20,243	**23,769**	24,534	**138,294**	195,119
J. Zhang	**119,531**	122,656	**-**	20,242	**3,160**	7,347	**122,691**	150,245
Total	**636,641**	686,104	**-**	101,675	**30,089**	43,597	**666,730**	831,376
Total Related Party Transactions	**719,261**	789,885	**-**	101,675	**30,089**	43,597	**749,350**	935,157

Other short-term benefits include cash payments for social security costs, employee benefits, and payments made into defined contribution pension plans of the Company's U.K. based subsidiaries.

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.7242 and 1.6895 in FY 2021 and FY 2020, respectively.

(2) Mr. Mawby was on paternity leave for the period October 19, 2020 to December 31, 2020.

5. COVID-19 Update

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. The Company has been closely monitoring the impact of COVID-19 on all aspects of its business. COVID-19 has had disruptive effects in countries in which the Company operates including Canada, U.S. and the UK.

We are conducting business with substantial modifications to employee travel and employee work locations. The travel restrictions have decreased business development and sales activities. While most of our customers are essential businesses and continue to operate, the pandemic also has impacts on many of them, including adapting their operation to include physical distancing, limiting site visits, delays in making purchasing decisions and the temporary suspension of on-going projects.

The Company has taken proactive measures to cope with the impact from COVID-19 including the deployment of video conferencing tools, the development of remote working and file-sharing capabilities, a temporary reduction in non-essential expenditures, and the application of government sponsored emergency loans and salary subsidy programs. Despite the COVID-19 slowdown, the Company has maintained its pre-pandemic staff levels and has maintained its full production and project development capabilities.

In FY 2021, the Company's revenue from heat recovery systems was reduced due to COVID-19. Fortunately, the GEM products as well as other product sales were not impacted by COVID-19. Currently, we are still unable to estimate the long-term impact of COVID-19 on our businesses, financial position, results of operations, and cash flows. Despite the ease of travel restrictions and lock-down orders, we still expect COVID-19 to have some impact on our sales and the results of operations in the next 6 to 12 months.

6. Business Outlook

Governments around the world are taking unprecedented action, including increasing regulations, to reduce carbon emissions. Energy efficiency can make the transition toward a clean energy economy faster and cheaper than other initiatives, and therefore is an important element in energy policies around the world. As such, the industrial sector has begun to feel the pressing need to adopt measures that can improve the energy efficiency of internal processes and operations, thus contributing to an increased demand for energy efficiency products, solutions and services globally.

Other than our order backlog, we do not provide specific financial performance guidance. However, we believe that we are well positioned to benefit from this increased demand, particularly in our key markets of North America, the United Kingdom, and the European Union. As mentioned in Section 2.2 earlier, Management uses order backlog as an indicator of the short-term future revenue of our Company resulting from already recognized orders.

The Company's order backlog as at May 31, 2021 was approximately $7.8 million. As at September 21, 2021, the Company had an order backlog of approximately $11.0 million.

	2019 $ million	2020 $ million	2021 $ million
Order backlog as at May 31	14.0	3.6	7.8
Order backlog as at September reporting date	18.2	9.3	11.0

- On September 14, 2021, the Company announced that it had received its third heat recovery order from a multinational food products corporation. The order includes major equipment, engineering, and commissioning and is valued at over $900,000. The heat recovery system is expected to deliver an annual carbon reduction of 1,426 tonnes and energy savings of $300,000 per year.

- On April 15, 2021, the Company announced that it had received its second heat recovery order from one of the world's largest brewers. The order includes major equipment, engineering, and commissioning and is valued at over $500,000. Thermal Energy will design and deliver a customized FLU-ACE® system for the customer's Russian production facility. The FLU-ACE® will be integrated with, and improve the efficiency of, the biogas generation system already present at the site. The project was about 25% complete at the year-end.

- On March 17, 2021, the Company announced that it had been commissioned to design and implement an extensive $1,180,000 heat recovery project with a major U.S. dairy group. By implementing the Company's ultra-efficient solution, this repeat customer expects to reduce this site's natural gas usage by 13% as well cut its annual CO2 emissions by over 730 tonnes. The project was about 4% complete at the year-end.

- On February 24, 2021, the Company announced that it had been commissioned by a prominent multinational brewer to supply a turn-key heat recovery system to one of its North American sites. The system, valued at over $1,000,000, is expected to increase energy efficiency, reduce fuel use, and save an estimated 8 million litres of water annually, as well as reduce CO2 emissions by over 1,800 metric tonnes per year. The project was about 8% complete at the year-end.

- On January 19, 2021, the Company announced that it had been commissioned by a Canadian hospital to supply heat recovery equipment to reduce fuel use and carbon emissions. The systems, valued at $770,000, are expected to deliver an annual fuel saving of $198,000 and reduce carbon emissions by 1,115 metric tonnes per year. The project was about 61% complete at the year-end.

- On October 27, 2020, the Company announced that it had been commissioned by a leading hospital group to supply two heat recovery systems to reduce fuel use and carbon emissions. The systems, valued at $1,530,000, will be installed at two facilities. The systems are expected to deliver an annual fuel saving of $410,600 and reduce carbon emissions by over 2,300 tonnes per year. The project was about 59% complete at the year-end.

- On August 18, 2020, the Company announced that it had been commissioned by one of Europe's largest food and drink groups to supply a turnkey heat recovery system designed to reduce fuel use and carbon emissions, while also minimizing particulate matter, and NOx emissions. The project, valued at approximately $920,000, will be installed at a canning and pouch packaging facility in the UK. At the heart of the system will be Thermal Energy's proprietary direct contact heat recovery technology, FLU-ACE®. Once commissioned, the system is expected to deliver an annual fuel saving of $383,300 and reduce the site's carbon emissions by 2,868 tonnes a year. The project was about 76% complete at the year-end.

7. Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares:

163,887,606 class A common shares.

Options:

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

8. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

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

The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, and any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

Business combinations

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

Valuation of intangible assets and asset impairment

Intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

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

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Assumptions used in the Black-Scholes fair value calculations

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company’s stock price, and the risk-free interest rate are used.

Expected credit loss

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

Heat recovery solutions contract revenue

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

Deferred tax assets

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

Changes in Accounting Standards

There was no change in accounting standards for the year ended May 31, 2021.

9. Risk Factors and Risk Management

Management is confident about our long-term prospects, but does recognize that the Company is exposed to a number of risks in the normal course of business that could negatively impact the financial condition of the Company.

Operational risks of the Company include the ability to continue to secure and implement sales contracts for its **GEM™**, indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and **FLU-ACE®** technology solutions.

Financial risks and uncertainties of the Company include:

- The impact of major global pandemics;
- The Company's history of operating losses and uncertainty of future profitability;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- The ability to secure and maintain the required outside working capital financing;
- The ability to achieve profitable operations through increased sales;
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects; and
- The impact of the departure from the European Union by the U.K.

Management's addressing of the risks:

FY 2012 saw the Company's first ever net profit, which was the result of increased revenues and strict cost control. FY 2013, however, produced an operating loss of $844,328, resulting from diminished revenues and increasing costs. Despite further cost increases as management continued to build the sales force, FY 2014 produced the Company's best ever post-tax income of $634,023 as well as an increase in cash balance of $742,022. However, this was again followed by a net loss of $2,154,817, accompanied by a cash decrease of $1,331,074 in FY 2015. FY 2016 and FY 2017 saw a return to profitability and an increase in cash balances of $427,805 and $1,806,992, respectively. This was followed in FY 2018 by another profitable year which saw cash balances increase by $336,334. In FY 2019, sales increased by 21.1% due to the increased revenue in heat recovery systems and the acquisition of Boilerroom Equipment Inc. In FY 2020, despite of the COVID-19 pandemic, the Company maintained the same sales level as FY 2019 with higher gross margins and recorded operating income before impairment of $1,275,708. The Company reported a loss for the year because of the impairment write-down of $3,061,200 on intangible assets and goodwill. In FY 2021, the Company's revenue decreased due to the delays in heat recovery project delivery caused by COVID-19. However, the Company implemented cost control measures to decrease the operating expenses and the Company applied for wage subsidies from the U.K., the U.S. and Canadian government. The Company also applied and received $1,000,000 COVID-19 loan from a Canadian financial institution to support the Company's global operations during the unprecedented time. With all these efforts, the Company was able to finish FY 2021 under COVID-19 with a net income of $222,965.

The Company actively protects its proprietary technology through registered trademarks and confidentiality agreements.

The Company maintains adequate forms of general liability insurance including product liability and errors and omission coverage.

Management still believes that competition against its core technologies is limited at this time and believes that the marketplace is sufficiently large enough to mitigate the risk of stronger competition in the future.

On June 23, 2016, a referendum was held in the U.K., resulting in the decision to leave the European Union ("EU"). The withdrawal of the UK from the EU is also called "Brexit". On December 24, 2020, a week away from the end of the exit transition period, a post-Brexit trade deal was reached between the EU and the UK. This deal ensures that Britain can continue to trade in goods with EU countries without tariffs or quotas in the post-Brexit era, although the deal does not completely eliminate the possibility of tariffs in the future. Also, the UK is no longer following the EU's rules on product standards. This means there are more paperwork required, which could cause problems and delays if businesses turned up at ports unprepared. It appears that the deal may allow service suppliers to travel on short term visits without the need for work permits and it may allow the recognition of UK qualifications. At this moment, the most prominent post-Brexit concern for our business is related to potential shipping delays on product sales to EU countries. The Company has implemented new processes to adapt to the changes, including changing shipping terms to cover additional costs arising post-Brexit (i.e. taxes, custom clearing fees, etc.) to avoid shipping delays, and registering sales taxes in EU countries to be in compliance with local sales tax rules.

Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

10. Forward-Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of Management, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although Management believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

11. Management's Responsibility for Financial Reporting

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures, and the design of internal controls over financial reporting.

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the year ended May 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility principally through its Audit Committee.