

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY  
INTERNATIONAL INC.**

Quarters ended February 28, 2021 and February 29, 2020

(Unaudited)

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Financial Position

As at February 28, 2021 and May 31, 2020  
(Expressed in Canadian dollars) (Unaudited)

	February 28, 2021	May 31, 2020
	\$	\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	4,455,242	4,774,580
Trade and other receivables (note 4)	3,099,819	2,211,381
Current tax receivable	214,487	232,904
Inventory	837,281	844,685
	<b>8,606,829</b>	<b>8,063,550</b>
<b>Non-current assets:</b>		
Property, plant and equipment (note 5)	367,845	431,597
Right-of-use assets (note 6)	1,513,022	421,338
Intangible assets	1,131,846	1,415,756
Deferred tax assets	115,955	111,439
	<b>3,128,668</b>	<b>2,380,130</b>
<b>Total assets</b>	<b>11,735,497</b>	<b>10,443,680</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade payables and other liabilities (note 7)	1,840,273	3,437,927
Current tax liabilities	21,857	18,710
Pensions and other employer obligations	151,634	139,359
Current portion of long-term debt (note 8)	746,937	269,886
Deferred revenue (note 9)	1,152,730	937,228
Provisions	283,394	283,635
Lease obligations (note 10)	207,440	105,269
	<b>4,404,265</b>	<b>5,192,014</b>
<b>Non-current liabilities:</b>		
Long-term debt (note 8)	2,721,554	2,489,786
Lease obligations (note 10)	1,429,266	431,976
Deferred tax liabilities	237,649	323,564
	<b>4,388,469</b>	<b>3,245,326</b>
<b>Total liabilities</b>	<b>8,792,734</b>	<b>8,437,340</b>
<b>Equity</b>		
Capital stock (note 11)	32,353,001	32,117,242
Contributed surplus	4,508,023	4,426,697
Accumulated other comprehensive income	512,512	217,342
Deficit	(34,359,793)	(34,658,665)
Equity attributable to owners of the parent	3,013,743	2,102,616
Non-controlling interest	(70,980)	(96,276)
<b>Total equity</b>	<b>2,942,763</b>	<b>2,006,340</b>
Subsequent events (note 18)		
<b>Total liabilities and equity</b>	<b>11,735,497</b>	<b>10,443,680</b>

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

On behalf of the Board:  
" William Crossland "  
Director

" William Ollerhead "  
Director

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three and nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 28 2021	February 29 2020	February 28 2021	February 29 2020
	\$	\$	\$	\$
Revenue (note 13)	<b>3,735,968</b>	5,811,626	<b>11,583,512</b>	18,625,511
Cost of sales	<b>2,091,703</b>	3,394,176	<b>6,184,802</b>	11,099,186
Gross profit	<b>1,644,265</b>	2,417,450	<b>5,398,710</b>	7,526,325
Expenses (note 14):				
Administration	<b>1,005,251</b>	1,136,816	<b>2,859,962</b>	3,689,599
Selling, marketing and business development	<b>615,255</b>	804,758	<b>1,989,045</b>	2,527,286
Research and development	<b>2,555</b>	(51,242)	<b>23,963</b>	2,720
	<b>1,623,061</b>	1,890,332	<b>4,872,970</b>	6,219,605
Operating income	<b>21,204</b>	527,118	<b>525,740</b>	1,306,720
Finance costs	<b>(65,233)</b>	(118,042)	<b>(235,982)</b>	(307,453)
Finance revenue	-	-	-	5,144
(Loss) income before income taxes	<b>(44,029)</b>	409,076	<b>289,758</b>	1,004,411
Income taxes recovery	<b>10,272</b>	20,711	<b>38,810</b>	51,818
<b>Net (loss) income for the period</b>	<b>(33,757)</b>	429,787	<b>328,568</b>	1,056,229
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	<b>123,380</b>	(8,610)	<b>299,273</b>	(278)
<b>Total comprehensive income for the period</b>	<b>89,623</b>	421,177	<b>627,841</b>	1,055,951
Net (loss) income for the period attributable to:				
Owners of the parent	<b>(45,393)</b>	436,439	<b>298,872</b>	1,052,933
Non-controlling interest	<b>11,636</b>	(6,652)	<b>29,696</b>	3,296
<b>Net (loss) income for the period</b>	<b>(33,757)</b>	429,787	<b>328,568</b>	1,056,229
Total comprehensive income (loss) for the period attributable to:				
Owners of the parent	<b>75,549</b>	427,740	<b>594,042</b>	1,057,660
Non-controlling interest	<b>14,074</b>	(6,563)	<b>33,799</b>	(1,709)
<b>Total comprehensive income for the period</b>	<b>89,623</b>	421,177	<b>627,841</b>	1,055,951
Net (loss) income per share - basic and diluted	<b>0.00</b>	0.003	<b>0.002</b>	0.007

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 nine months ended February 28, 2021 and February 29, 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, 2019	32,464,780	4,002,683	(32,760,222)	267,889	3,975,130	(80,578)	3,894,552
Share-based compensation (note 12)	-	153,562	-	-	153,562	-	153,562
Repurchase of Class A common shares (note 11)	(257,294)	162,108	-	-	(95,186)	-	(95,186)
Dividends paid	-	-	-	-	-	(10,032)	(10,032)
Transactions with owners	(257,294)	315,670	-	-	58,376	(10,032)	48,344
Net income for the period	-	-	1,052,933	-	1,052,933	3,296	1,056,229
Other comprehensive income (loss): exchange differences arising on translation of overseas operations	-	-	-	4,727	4,727	(5,005)	(278)
Total comprehensive income (loss) the period	-	-	1,052,933	4,727	1,057,660	(1,709)	1,055,951
Balance at February 29, 2020	32,207,486	4,318,353	(31,707,289)	272,616	5,091,166	(92,319)	4,998,847
<b>Balance at June 1, 2020</b>	<b>32,117,242</b>	<b>4,426,697</b>	<b>(34,658,665)</b>	<b>217,342</b>	<b>2,102,616</b>	<b>(96,276)</b>	<b>2,006,340</b>
Share-based compensation (note 12)	-	154,302	-	-	154,302	-	154,302
Share options exercised (note 11)	235,759	(72,976)	-	-	162,783	-	162,783
Dividends paid	-	-	-	-	-	(8,503)	(8,503)
Transactions with owners	235,759	81,326	-	-	317,085	(8,503)	308,582
Net income for the period	-	-	298,872	-	298,872	29,696	328,568
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	295,170	295,170	4,103	299,273
Total comprehensive income the period	-	-	298,872	295,170	594,042	33,799	627,841
<b>Balance at February 28, 2021</b>	<b>32,353,001</b>	<b>4,508,023</b>	<b>(34,359,793)</b>	<b>512,512</b>	<b>3,013,743</b>	<b>(70,980)</b>	<b>2,942,763</b>

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

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended February 28, 2021 and February 29, 2020  
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 28	February 29	February 28	February 29
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Operating activities:</b>				
Net (loss) income for the period	(33,757)	429,787	328,568	1,056,229
Add items not involving cash:				
Depreciation of property, plant and equipment (note 5)	29,977	29,341	89,225	78,944
Depreciation of right-of-use assets (note 6)	37,532	33,462	103,379	92,519
Loss on disposal of assets (note 5)	-	1,004	-	1,004
Amortization of intangible assets	66,703	68,964	205,928	207,346
Write-down of finance lease receivable	-	-	-	45,848
Finance revenue	-	-	-	(5,144)
Finance costs	65,233	118,042	235,982	307,453
Share-based compensation (note 12)	53,842	50,230	154,302	153,562
Income tax recovery	(10,272)	(20,711)	(38,810)	(51,818)
Unrealized foreign exchange and translation adjustments	138,102	3,248	274,719	105,880
Changes in working capital:				
Trade and other receivables	(37,705)	(344,319)	(888,438)	(817,158)
Inventory	(38,414)	74,450	7,404	(217,730)
Trade payables and other liabilities	(415,683)	(472,992)	(1,536,575)	1,169,934
Deferred revenue (note 9)	(191,256)	(787,120)	192,730	(1,410,678)
Income taxes paid	(16,510)	(16,101)	(19,808)	(11,800)
Interest paid	(65,375)	(111,958)	(279,709)	(252,923)
Net cash (used in) provided by operating activities	(417,583)	(944,673)	(1,171,103)	451,468
<b>Investing activities:</b>				
Additions to property, plant and equipment (note 5)	(28,026)	(24,771)	(33,230)	(272,333)
Net cash used in investing activities	(28,026)	(24,771)	(33,230)	(272,333)
<b>Financing activities:</b>				
Issuance of long-term debt (note 8)	-	-	1,082,760	-
Repayment of long-term debt (note 8)	(96,192)	(98,776)	(162,835)	(263,609)
Repayment of lease obligations (note 10)	(32,687)	(26,354)	(95,722)	(68,412)
Repurchase of Class A common shares (note 11)	-	(95,186)	-	(95,186)
Share options exercised (note 11)	162,783	-	162,783	-
Dividends paid	-	-	(8,503)	(10,032)
Net cash provided by (used in) financing activities	33,904	(220,316)	978,483	(437,239)
Decrease in cash and cash equivalents for the period	(411,705)	(1,189,760)	(225,850)	(258,104)
Cash and cash equivalents, beginning of period	4,903,323	5,034,207	4,774,580	4,177,260
Exchange differences on cash and cash equivalents	(36,376)	(7,607)	(93,488)	(82,316)
Cash and cash equivalents, end of period	4,455,242	3,836,840	4,455,242	3,836,840

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

Nine months ended February 28, 2021 and February 29, 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”) under the symbol TMG. The primary office is located at Suite 850, 36 Antares Drive, Ottawa, Ontario, K2E 7W5.

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the nine months ended February 28, 2021 and February 29, 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, 2020. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2020.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of April 15, 2021, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

#### (b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2020.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 3. Segment reporting:

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

Segment information for the quarter ended February 28, 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	1,510,845	3,003,194	2,225,123	2,808,432	-	-	3,735,968	5,811,626
Cost of sales	(995,207)	(2,028,371)	(1,096,496)	(1,365,805)	-	-	(2,091,703)	(3,394,176)
Gross profit	515,638	974,823	1,128,627	1,442,627	-	-	1,644,265	2,417,450
Other expenses <sup>(1)</sup>	(508,996)	(761,137)	(656,541)	(791,782)	(457,524)	(337,413)	(1,623,061)	(1,890,332)
Net finance costs <sup>(2)</sup>	(14,485)	(8,016)	(2,569)	(2,512)	(48,179)	(107,514)	(65,233)	(118,042)
Income (loss) before taxation	(7,843)	205,670	469,517	648,333	(505,703)	(444,927)	(44,029)	409,076
Tax recovery (expense)	443	-	(8,180)	(98)	18,009	20,809	10,272	20,711
Net income (loss)	(7,400)	205,670	461,337	648,235	(487,694)	(424,118)	(33,757)	429,787
Attributable to:								
Owners of the parent	(7,528)	212,460	449,829	648,097	(487,694)	(424,118)	(45,393)	436,439
Non-controlling interest	128	(6,790)	11,508	138	-	-	11,636	(6,652)

(1) Other expenses related to depreciation of right-of-use assets of \$33,462 for the quarter ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$8,000 and \$25,462, respectively, to conform to the current period presentation.

(2) Finance costs related to interest accretion on lease obligations of \$10,528 for the quarter ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$8,016 and \$2,512, respectively, to conform to the current period presentation.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 3. Segment reporting (continued):

Segment information for the nine months ended February 28, 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	<b>6,395,869</b>	12,308,440	<b>5,187,643</b>	6,317,071	-	-	<b>11,583,512</b>	18,625,511
Cost of sales	<b>(3,607,511)</b>	(7,949,449)	<b>(2,577,291)</b>	(3,149,737)	-	-	<b>(6,184,802)</b>	(11,099,186)
Gross profit	<b>2,788,358</b>	4,358,991	<b>2,610,352</b>	3,167,334	-	-	<b>5,398,710</b>	7,526,325
Other expenses <sup>(1)</sup>	<b>(1,484,797)</b>	(2,547,492)	<b>(2,009,561)</b>	(2,480,868)	<b>(1,378,612)</b>	(1,191,245)	<b>(4,872,970)</b>	(6,219,605)
Net finance costs <sup>(2)</sup>	<b>(29,723)</b>	(11,411)	<b>(6,012)</b>	(7,818)	<b>(200,247)</b>	(283,080)	<b>(235,982)</b>	(302,309)
Income (loss) before taxation	<b>1,273,838</b>	1,800,088	<b>594,779</b>	678,648	<b>(1,578,859)</b>	(1,474,325)	<b>289,758</b>	1,004,411
Tax recovery (expense)	<b>3,886</b>	-	<b>(20,676)</b>	(10,661)	<b>55,600</b>	62,479	<b>38,810</b>	51,818
Net income (loss)	<b>1,277,724</b>	1,800,088	<b>574,103</b>	667,987	<b>(1,523,259)</b>	(1,411,846)	<b>328,568</b>	1,056,229
Attributable to:								
Owners of the parent	<b>1,277,561</b>	1,812,443	<b>544,570</b>	652,336	<b>(1,523,259)</b>	(1,411,846)	<b>298,872</b>	1,052,933
Non-controlling interest	<b>163</b>	(12,355)	<b>29,533</b>	15,651	-	-	<b>29,696</b>	3,296

- (1) Other expenses related to depreciation of right-of-use assets of \$92,519 for the nine months ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$22,547 and \$69,972, respectively, to conform to the current period presentation.
- (2) Finance costs related to interest accretion on lease obligations of \$24,373 for the nine months ended February 29, 2020 were reclassified from "Reconciling Items" to "Thermal Energy Ottawa" and "Thermal Energy Bristol" in the amount of \$16,555 and \$7,818, respectively, to conform to the current period presentation.

Reconciling items comprise the following:

	Three months ended		Nine months ended	
	February 28 (29)		February 28 (29)	
	2021	2020	2021	2020
	\$	\$	\$	\$
Corporate admin costs	<b>172,410</b>	161,425	<b>442,126</b>	500,076
Stock-based compensation	<b>53,842</b>	50,230	<b>154,302</b>	153,562
Professional fees	<b>24,648</b>	31,814	<b>194,294</b>	185,307
Depreciation of property, plant and equipment	<b>29,977</b>	29,341	<b>89,225</b>	78,944
Amortization of intangible assets	<b>66,703</b>	68,964	<b>205,928</b>	207,346
Acquisition costs	<b>1,334</b>	-	<b>14,795</b>	-
Foreign exchange loss (gain)	<b>108,610</b>	(4,361)	<b>277,942</b>	66,010
Total	<b>457,524</b>	337,413	<b>1,378,612</b>	1,191,245

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

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

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

#### 4. Trade and other receivables:

	February 28, 2021	May 31, 2020
Trade receivables, gross	\$ 2,555,192	\$ 1,888,144
Allowance for doubtful accounts	(36,217)	(67,438)
Trade receivables, net	2,518,975	1,820,706
Unbilled revenue	110,024	77
Work in progress	7,380	10,289
Prepayments	152,766	166,144
Sales tax and other miscellaneous receivables	310,674	214,165
Balance, end of period	\$ 3,099,819	\$ 2,211,381

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

At February 28, 2021, \$274,151 (10.7%) of the Company's trade receivables balance was over 90 days past due. \$36,217 of the past due balance was impaired at February 28, 2021.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 28, 2021, provisions of \$21,457 (net of \$nil sales taxes) were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$130,133 net of sales tax of \$18,755 – February 29, 2020). For the nine months ended February 28, 2021, \$36,003 net of \$1,858 sales taxes of the provisions was released due to the collection (\$nil – February 29, 2020). The Company wrote off allowance for doubtful accounts in the amount of \$16,136 for the nine months ended February 28, 2021 by removing the amount from trade receivables (\$nil – February 29, 2020).

#### 5. Property, plant and equipment:

During the nine months ended February 28, 2021, the Company acquired property, plant and equipment of \$33,230 and the Company did not dispose of any assets. During the nine months ended February 29, 2020, the Company acquired property, plant and equipment of \$272,333 and the Company disposed of a depreciated asset with a net book value of \$1,004 for \$nil in proceeds.

Depreciation expense of \$89,225 (\$78,944 – February 29, 2020) was recognized under administration expense. Translation loss of \$7,757 (\$981 – February 29, 2020) was recognized under exchange differences arising on translation of overseas operations.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

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

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2020	<b>315,789</b>	<b>94,534</b>	<b>11,015</b>	<b>421,338</b>
Additions (note 10)	<b>1,132,111</b>	<b>45,933</b>	<b>13,055</b>	<b>1,191,099</b>
Depreciation	<b>(71,126)</b>	<b>(27,582)</b>	<b>(4,671)</b>	<b>(103,379)</b>
Translation adjustments	<b>559</b>	<b>3,112</b>	<b>293</b>	<b>3,964</b>
Balance, February 28, 2021	<b>1,377,333</b>	<b>115,997</b>	<b>19,692</b>	<b>1,513,022</b>

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2019	123,114	90,666	18,000	231,780
Additions	296,519	35,231	-	331,750
Lease modification	(15,258)	-	-	(15,258)
Depreciation	(65,344)	(21,915)	(5,260)	(92,519)
Translation adjustments	(154)	402	152	400
Balance, February 29, 2020	338,877	104,384	12,892	456,153

### 7. Trade payables and other liabilities:

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

	February 28, 2021	May 31, 2020
Trade payables	<b>\$ 1,114,931</b>	\$ 1,156,736
Accruals	<b>607,190</b>	1,118,819
Other government remittances payable	<b>118,152</b>	891,162
Government grants	-	271,210
	<b>\$ 1,840,273</b>	\$ 3,437,927

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

Included in accruals is \$21,600 due to directors (\$46,580 at May 31, 2020).

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 8. Long-term debt:

	February 28, 2021	May 31, 2020
Term loan (equivalent to USD\$1,878,080), net of deferred financing costs of \$27,806 (equivalent to USD\$21,920), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$31,713 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$602,538 (equivalent to USD\$475,000) payable on the maturity date, December 1, 2025 (a)	<b>\$ 2,382,345</b>	\$ 2,759,672
Term loan, net of deferred financing costs of \$2,314, 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)	<b>997,686</b>	-
Term loan (equivalent to GBP£50,000), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,569 (equivalent to GBP£887) starting June 10, 2021 and continuing up to the maturity date, May 10, 2026 (c)	<b>88,460</b>	-
Total long-term debt	<b>3,468,491</b>	2,759,672
Less: current portion	<b>(746,937)</b>	(269,886)
Long term portion	<b>2,721,554</b>	2,489,786

(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.

For the three months ended February 28, 2021, the Company made repayment of \$96,192 (equivalent to USD\$75,000). For the nine months ended February 28, 2021, the Company made repayment of \$162,835 (equivalent to USD\$125,000).

For the three months ended February 29, 2020, the Company made repayment of \$98,776 (equivalent to USD\$75,000). For the nine months ended February 29, 2020, the Company made repayment of \$263,609 (equivalent to USD\$200,000).

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

---

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 4.70% on February 28, 2021 and May 31, 2020. The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at February 28, 2021, the variance was at 1.50% (8.00% at May 31, 2020). Interest is payable monthly in arrears on the 1st day of the month.

The Company had certain covenants in accordance with this term loan. As at May 31, 2020, the Company was in compliance with its covenants. On May 13, 2020, the lender waived the covenants for all the periods from June 1, 2020 up to May 15, 2021 as another COVID-19 relief measure to the Company.

- (b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of \$2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over 3 years. The institution's floating base rate was 4.55% on June 9, 2020 and February 28, 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.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 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, 2020	\$ 771,089	\$ 166,139	\$ 937,228
Increase from payments received	7,003,902	196,134	7,200,036
Decrease from revenue recognized	(6,769,617)	(237,689)	(7,007,306)
Translation adjustments	17,713	5,059	22,772
Balance, February 28, 2021	\$ 1,023,087	\$ 129,643	\$ 1,152,730
Balance, June 1, 2019	\$ 2,530,047	\$ 74,543	\$ 2,604,590
Increase from payments received	12,610,351	73,819	12,684,170
Decrease from revenue recognized	(14,054,951)	(39,897)	(14,094,848)
Translation adjustments	46,781	1,673	48,454
Balance, February 29, 2020	\$ 1,132,228	\$ 110,138	\$ 1,242,366

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:

	February 28, 2021	May 31, 2020
Less than one year	\$ 324,431	\$ 141,157
One to five years	954,575	293,827
Six to ten years	991,746	286,500
Total undiscounted lease obligations	2,270,752	721,484
Less: impact of present value	(634,046)	(184,239)
Total lease obligations	1,636,706	537,245
Less: current portion	(207,440)	(105,269)
Long term portion	\$ 1,429,266	\$ 431,976

During the nine months ended February 28, 2021, the interest expense on lease obligations was \$34,406 and total cash outflow for leases was \$206,333, including \$76,205 for short-term leases.

During the nine months ended February 29, 2020, the interest expense on lease obligations was \$23,980 and total cash outflow for leases was \$183,482, including \$91,090 for short-term leases.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 10. Lease obligations (continued):

During the nine months ended February 28, 2021, the Company entered a 10-year lease for a commercial space and a 2-year lease for an office space. As a result, the Company recognized the lease obligation and the right-of-use asset of \$990,605 for the 10-year lease and \$141,506 for the 2-year lease under IFRS 16 (note 6). Variable lease payments were not included in the measurement of lease obligation.

For the nine months ended February 28, 2021 and February 29, 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.

### 11. Capital stock:

Authorized:

Unlimited number of Class A common shares, no par value.

Unlimited number of Series 1 preferred shares, voting only in the case of dissolution of the Company, redeemable at the option of the Company, at \$0.01 per share and convertible to common shares on a 1 to 1 basis at the rate of 20% of the number originally issued per year.

Outstanding:

	Nine months ended February 28, 2021		Year ended May 31, 2020	
	# Shares	\$	# Shares	\$
<b>Class A Common shares issued</b>				
Balance, beginning of period	160,152,616	32,117,242	161,885,616	32,464,780
Stock options exercised <sup>(1)</sup>	2,831,661	235,759	-	-
Shares purchased and cancelled <sup>(2)</sup>	-	-	(1,733,000)	(347,538)
<b>Balance, end of period</b>	<b>162,984,277</b>	<b>32,353,001</b>	160,152,616	32,117,242

(1) For the nine months ended February 28, 2021, 2,831,661 shares were issued for \$162,783 following the exercise of stock options, resulting in an increase to capital stock of \$235,759 and a reduction in contributed surplus of \$72,976.

(2) For the nine months ended February 29, 2020, 1,283,000 shares were purchased for cancellation by the Company for a total purchase price of \$95,186, resulting in a reduction to capital stock of \$257,294 and an increase in contributed surplus of \$162,108. For the year ended May 31, 2020, 1,733,000 shares were purchased for cancellation by the Company for a total purchase price of \$127,317, resulting in a reduction to capital stock of \$347,538 and an increase in contributed surplus of \$220,221.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 12. Share based compensation:

Activity in stock options was as follows:

	Three months ended February 28, 2021		Three months ended February 29, 2020	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	18,748,000	0.08	18,344,193	0.08
Exercised	(2,831,661)	0.06	-	-
Expired	(25,000)	0.08	(250,000)	0.08
Forfeited	-	-	(111,667)	0.08
Outstanding, end of period	15,891,339	0.08	17,982,526	0.07
Options exercisable, end of period	6,200,006	0.08	8,892,526	0.07

	Nine months ended February 28, 2021		Nine months ended February 29, 2020	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	17,821,276	0.07	14,259,193	0.07
Granted	4,653,000	0.09	4,085,000	0.08
Exercised	(2,831,661)	0.06	-	-
Expired	(3,253,360)	0.08	(250,000)	0.08
Forfeited	(497,916)	0.07	(111,667)	0.08
Outstanding, end of period	15,891,339	0.08	17,982,526	0.07
Options exercisable, end of period	6,200,006	0.08	8,892,526	0.07

The following tables summarize information about stock options outstanding at February 28, 2021:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding February 28, 2021	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2021	Weighted average exercise price
0.05-0.07	500,000	0.25	0.05	500,000	0.05
0.08-0.10	15,141,339	3.62	0.08	5,450,006	0.08
0.11-0.12	250,000	0.75	0.12	250,000	0.12
	15,891,339	3.47	0.08	6,200,006	0.08

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

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

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model.

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

	26-Nov-20	30-Nov-19
Grant date share price (\$) <sup>(1)</sup>	0.09	0.08
Exercise price (\$)	0.09	0.08
Expected volatility (%) <sup>(2)</sup>	81.14	84.01
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	0.44	1.49
Forfeiture rate (%)	14.00	11.00

(1) The closing market price of the shares on the TSX Venture Exchange on the day immediately preceding the date of grant or the last day of trading preceding the date of grant if no shares traded on the day immediately preceding the date of grant.

(2) The expected volatility was based on historical volatility of the Company over a period of time that is commensurate with the expected life of the options.

Stock-based compensation expense related to the issuance of stock options is included in administration, selling, marketing and business development expenses and is broken down as follows:

	Three months ended February 28, 2021	Three months ended February 29, 2020
Administration	\$ 43,690	\$ 40,339
Selling, marketing and business development	10,152	9,891
	<b>\$ 53,842</b>	<b>\$ 50,230</b>

  

	Nine months ended February 28, 2021	Nine months ended February 29, 2020
Administration	\$ 124,368	\$ 124,425
Selling, marketing and business development	29,934	29,137
	<b>\$ 154,302</b>	<b>\$ 153,562</b>

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 13. Revenue:

	Three months ended February 28, 2021	Three months ended February 29, 2020
Sale of goods	\$ 1,189,740	\$ 1,329,513
Rendering of services	329,186	493,455
Contracts for heat recovery solutions	2,217,042	3,988,658
	<b>\$ 3,735,968</b>	<b>\$ 5,811,626</b>

  

	Nine months ended February 28, 2021	Nine months ended February 29, 2020
Sale of goods	\$ 3,821,827	\$ 3,259,863
Rendering of services	892,224	1,296,160
Contracts for heat recovery solutions	6,869,461	14,069,488
	<b>\$ 11,583,512</b>	<b>\$ 18,625,511</b>

### 14. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended February 28, 2021	Three months ended February 29, 2020
Depreciation of property, plant and equipment	\$ 29,977	\$ 29,341
Depreciation of right-of-use assets	37,532	33,462
Amortization of intangible assets	66,703	68,964
Foreign exchange loss (gain)	108,610	(4,361)

  

	Nine months ended February 28, 2021	Nine months ended February 29, 2020
Depreciation of property, plant and equipment	\$ 89,225	\$ 78,944
Depreciation of right-of-use assets	103,379	92,519
Amortization of intangible assets	205,928	207,346
Foreign exchange loss	277,942	66,010

The Company received funding from various government bodies as COVID-19 wage subsidies. For the three months ended February 28, 2021, a total amount of \$246,951 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$197,360 was netted against administration expenses and \$49,591 against selling, marketing and business development expenses.

For the nine months ended February 28, 2021, a total amount of \$867,623 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$677,969 was netted against administration expenses and \$189,654 against selling, marketing and business development expenses.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

### 15. 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.

### 16. Related party transactions:

Related parties include the members of the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals and shareholders.

#### *Transactions with key management personnel*

Key management personnel of the Company include members of the Company's Board of Directors as well as members of the Company's senior management team. Key management personnel remuneration includes the following expenses:

	<b>Three months ended February 28, 2021</b>	Three months ended February 29, 2020
Salaries and other short-term employee benefits	<b>\$ 186,734</b>	\$ 216,638
Share-based payments	<b>20,033</b>	18,720
	<b>\$ 206,767</b>	\$ 235,358

  

	<b>Nine months ended February 28, 2021</b>	Nine months ended February 29, 2020
Salaries and other short-term employee benefits	<b>\$ 544,449</b>	\$ 638,514
Share-based payments	<b>58,351</b>	68,472
	<b>\$ 602,800</b>	\$ 706,986

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2021 and February 29, 2020

(Expressed in Canadian dollars except share amounts)

---

### 16. Related party transactions (continued):

Salaries and other short-term employee benefits include cash payments for base salaries and related social security costs and employee benefits, as well as payments made into defined contribution pension plans of the Company's UK based subsidiary, amounts expensed in the period as due to key management personnel under the Company's employee incentive plan, and Directors' fees including meeting fees, committee chairman fees and retainers. Share-based payments include the fair value of equity settled share-based payment arrangements expensed during the period.

### 17. Comparative information:

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

### 18. Subsequent events:

On March 15 and 29, 2021, the Company obtained the 2nd tranche of financing in the total amount of \$274,227 (equivalent to USD\$216,182) under the Paycheck Protection Program pursuant to the CARES Act in the U.S. The loans bear interest at 1% per annum and are repayable over the next 5 years.

Like the 1st tranche, the loans can be forgiven for applicants that meet certain criteria over a certain covered period. However, the forgiveness criteria for the 2nd tranche are different from the 1st tranche. The Company will assess whether it meets the forgiveness criteria for the 2nd tranche of the loans.