

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Quarters ended February 28, 2022 and 2021

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at February 28, 2022 and May 31, 2021
(Expressed in Canadian dollars) (Unaudited)

	February 28, 2022	May 31, 2021
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 4)	2,294,485	4,240,855
Trade and other receivables (note 5)	3,125,557	3,192,810
Current tax receivable	194,146	187,862
Inventory	1,377,443	959,257
	6,991,631	8,580,784
Non-current assets:		
Property, plant and equipment (note 6)	383,980	407,677
Right-of-use assets	1,266,946	1,416,978
Intangible assets (note 7)	1,120,289	1,027,850
Deferred tax assets	112,682	113,430
	2,883,897	2,965,935
Total assets	9,875,528	11,546,719
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 8)	2,272,913	1,701,746
Current tax liabilities	43,345	19,975
Pensions and other employer obligations	117,689	134,941
Current portion of long-term debt (note 9)	870,513	850,987
Deferred revenue (note 10)	1,691,251	1,566,386
Provisions	282,737	282,322
Current portion of lease obligations (note 11)	221,346	215,923
	5,499,794	4,772,280
Non-current liabilities:		
Long-term debt (note 9)	1,852,304	2,409,439
Lease obligations (note 11)	1,216,713	1,337,141
Deferred tax liabilities	9,533	64,939
	3,078,550	3,811,519
Total liabilities	8,578,344	8,583,799
Equity		
Capital stock (note 12)	32,484,814	32,439,914
Contributed surplus	4,680,151	4,533,469
Accumulated other comprehensive income	387,218	529,448
Deficit	(36,215,808)	(34,460,538)
Equity attributable to owners of the parent	1,336,375	3,042,293
Non-controlling interest	(39,191)	(79,373)
Total equity	1,297,184	2,962,920
Total liabilities and equity	9,875,528	11,546,719

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

On behalf of the Board:

(signed) Michael Williams
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

For the three and nine months ended February 28, 2022 and 2021
(Expressed in Canadian dollars) (Unaudited)

	Three months ended February 28		Nine months ended February 28	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenue (note 14)	3,491,429	3,735,968	11,447,493	11,583,512
Cost of sales	2,022,327	2,091,703	6,622,444	6,184,802
Gross profit	1,469,102	1,644,265	4,825,049	5,398,710
Expenses (note 15):				
Administration	1,334,444	1,005,251	3,570,743	2,859,962
Selling, marketing and business development	942,646	615,255	2,698,703	1,989,045
Research and development	5,856	2,555	6,791	23,963
	2,282,946	1,623,061	6,276,237	4,872,970
Operating (loss) income	(813,844)	21,204	(1,451,188)	525,740
Finance costs	(83,155)	(65,233)	(246,288)	(235,982)
(Loss) income before income taxes	(896,999)	(44,029)	(1,697,476)	289,758
Income taxes recovery	2,698	10,272	8,967	38,810
Net (loss) income for the period	(894,301)	(33,757)	(1,688,509)	328,568
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	24,846	123,380	(143,390)	299,273
Total comprehensive (loss) income for the period	(869,455)	89,623	(1,831,899)	627,841
Net (loss) income for the period attributable to:				
Owners of the parent	(916,577)	(45,393)	(1,755,270)	298,872
Non-controlling interest	22,276	11,636	66,761	29,696
Net (loss) income for the period	(894,301)	(33,757)	(1,688,509)	328,568
Total comprehensive (loss) income for the period attributable to:				
Owners of the parent	(891,757)	75,549	(1,897,500)	594,042
Non-controlling interest	22,302	14,074	65,601	33,799
Total comprehensive (loss) income for the period	(869,455)	89,623	(1,831,899)	627,841
Net (loss) income per share - basic and diluted	(0.006)	0.00	(0.011)	0.002

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, 2022 and 2021

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2020	32,117,242	4,426,697	(34,658,665)	217,342	2,102,616	(96,276)	2,006,340
Share-based compensation (note 13)	-	154,302	-	-	154,302	-	154,302
Share options exercised (note 12)	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
Balance at February 28, 2021	32,353,001	4,508,023	(34,359,793)	512,512	3,013,743	(70,980)	2,942,763
Balance at June 1, 2021	32,439,914	4,533,469	(34,460,538)	529,448	3,042,293	(79,373)	2,962,920
Share-based compensation (note 13)	-	162,832	-	-	162,832	-	162,832
Share options exercised (note 12)	44,900	(16,150)	-	-	28,750	-	28,750
Dividends paid	-	-	-	-	-	(25,419)	(25,419)
Transactions with owners	44,900	146,682	-	-	191,582	(25,419)	166,163
Net (loss) income for the period	-	-	(1,755,270)	-	(1,755,270)	66,761	(1,688,509)
Other comprehensive loss: exchange differences arising on translation of overseas operations	-	-	-	(142,230)	(142,230)	(1,160)	(143,390)
Total comprehensive (loss) income the period	-	-	(1,755,270)	(142,230)	(1,897,500)	65,601	(1,831,899)
Balance at February 28, 2022	32,484,814	4,680,151	(36,215,808)	387,218	1,336,375	(39,191)	1,297,184

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, 2022 and 2021
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 28		February 28	
	2022	2021	2022	2021
	\$	\$	\$	\$
Operating activities:				
Net (loss) income for the period	(894,301)	(33,757)	(1,688,509)	328,568
Add items not involving cash:				
Depreciation of property, plant and equipment (note 6)	33,687	29,977	98,101	89,225
Loss on disposal of assets (note 6)	-	-	353	-
Depreciation of right-of-use assets	65,440	37,532	195,810	103,379
Amortization of intangible assets (note 7)	77,482	66,703	228,393	205,928
Finance costs	83,155	65,233	246,288	235,982
Share-based compensation (note 13)	55,147	53,842	162,832	154,302
Income tax recovery	(2,698)	(10,272)	(8,967)	(38,810)
Unrealized foreign exchange and translation adjustments	28,509	138,102	(67,591)	274,719
Changes in working capital:				
Trade and other receivables	69,194	(37,705)	67,253	(888,438)
Inventory	(235,061)	(38,414)	(418,186)	7,404
Trade payables and other liabilities	653,779	(415,683)	553,730	(1,536,575)
Deferred revenue (note 10)	227,354	(191,256)	91,694	192,730
Income taxes paid	(21,993)	(16,510)	(22,678)	(19,808)
Interest paid	(86,783)	(65,375)	(240,525)	(279,709)
Net cash provided by (used in) operating activities	52,911	(417,583)	(802,002)	(1,171,103)
Investing activities:				
Proceeds from disposal of property, plant and equipment (note 6)	-	-	1,245	-
Additions to property, plant and equipment (note 6)	(17,893)	(28,026)	(67,678)	(33,230)
Additions to intangible assets (note 7)	-	-	(283,421)	-
Net cash used in investing activities	(17,893)	(28,026)	(349,854)	(33,230)
Financing activities:				
Issuance of long-term debt (note 9)	-	-	-	1,082,760
Repayment of long-term debt (note 9)	(219,544)	(96,192)	(652,974)	(162,835)
Repayment of lease obligations (note 11)	(55,233)	(32,687)	(161,750)	(95,722)
Stock options exercised (note 12)	-	162,783	28,750	162,783
Dividends paid	-	-	(25,419)	(8,503)
Net cash (used in) provided by financing activities	(274,777)	33,904	(811,393)	978,483
Decrease in cash and cash equivalents for the period	(239,759)	(411,705)	(1,963,249)	(225,850)
Cash and cash equivalents, beginning of period	2,547,881	4,903,323	4,240,855	4,774,580
Exchange differences on cash and cash equivalents	(13,637)	(36,376)	16,879	(93,488)
Cash and cash equivalents, end of period	2,294,485	4,455,242	2,294,485	4,455,242

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, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the nine months ended February 28, 2022 and 2021.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2021. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2021.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of April 26, 2022, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2021.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(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, 2022 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Total revenue	1,529,909	1,510,845	1,961,520	2,225,123	-	-	3,491,429	3,735,968
Cost of sales	(974,758)	(995,207)	(1,047,569)	(1,096,496)	-	-	(2,022,327)	(2,091,703)
Gross profit	555,151	515,638	913,951	1,128,627	-	-	1,469,102	1,644,265
Other expenses	(847,379)	(508,996)	(938,239)	(656,541)	(497,328)	(457,524)	(2,282,946)	(1,623,061)
Net finance costs	(26,210)	(14,485)	(2,083)	(2,569)	(54,862)	(48,179)	(83,155)	(65,233)
(Loss) income before taxation	(318,438)	(7,843)	(26,371)	469,517	(552,190)	(505,703)	(896,999)	(44,029)
Tax recovery (expense)	704	443	(15,966)	(8,180)	17,960	18,009	2,698	10,272
Net (loss) income	(317,734)	(7,400)	(42,337)	461,337	(534,230)	(487,694)	(894,301)	(33,757)
Attributable to:								
Owners of the parent	(317,777)	(7,528)	(64,570)	449,829	(534,230)	(487,694)	(916,577)	(45,393)
Non-controlling interest	43	128	22,233	11,508	-	-	22,276	11,636

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

3. Segment reporting (continued):

Segment information for the nine months ended February 28, 2022 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	6,255,186	6,395,869	5,192,307	5,187,643	-	-	11,447,493	11,583,512
Cost of sales	(3,930,913)	(3,607,511)	(2,691,531)	(2,577,291)	-	-	(6,622,444)	(6,184,802)
Gross profit	2,324,273	2,788,358	2,500,776	2,610,352	-	-	4,825,049	5,398,710
Other expenses	(2,367,794)	(1,484,797)	(2,768,249)	(2,009,561)	(1,140,194)	(1,378,612)	(6,276,237)	(4,872,970)
Net finance costs	(79,425)	(29,723)	(7,393)	(6,012)	(159,470)	(200,247)	(246,288)	(235,982)
(Loss) income before taxation	(122,946)	1,273,838	(274,866)	594,779	(1,299,664)	(1,578,859)	(1,697,476)	289,758
Tax recovery (expense)	3,456	3,886	(47,785)	(20,676)	53,296	55,600	8,967	38,810
Net (loss) income	(119,490)	1,277,724	(322,651)	574,103	(1,246,368)	(1,523,259)	(1,688,509)	328,568
Attributable to:								
Owners of the parent	(119,204)	1,277,561	(389,698)	544,570	(1,246,368)	(1,523,259)	(1,755,270)	298,872
Non-controlling interest	(286)	163	67,047	29,533	-	-	66,761	29,696

Reconciling items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2022	2021	2022	2021
	\$	\$	\$	\$
Corporate administration costs	179,704	172,410	515,578	442,126
Stock-based compensation	55,147	53,842	162,832	154,302
Professional fees	27,845	24,648	166,851	194,294
Depreciation of property, plant and equipment	33,687	29,977	98,101	89,225
Amortization of intangible assets	77,482	66,703	228,393	205,928
Acquisition costs	81,575	1,334	188,357	14,795
Foreign exchange differences loss (gain)	41,888	108,610	(219,918)	277,942
Total	497,328	457,524	1,140,194	1,378,612

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

4. Cash and cash equivalents:

	February 28, 2022	May 31, 2021
Cash	\$ 2,024,022	\$ 4,240,355
Cash equivalents	500	500
Restricted cash	269,963	-
Balance, end of period	\$ 2,294,485	\$ 4,240,855

Cash equivalents consist of excess cash invested in money market funds.

As at February 28, 2022, restricted cash of \$269,963 (equivalent to EUR€190,500) consist of cash held in an escrow account as collateral for an advance payment guarantee issued by a financial institution in favour of a Company's customer. The bank guarantee has an expiry date of March 31, 2022.

5. Trade and other receivables:

	February 28, 2022	May 31, 2021
Trade receivables, gross	\$ 2,054,685	\$ 2,139,081
Allowance for doubtful accounts	(61,249)	(40,308)
Trade receivables, net	1,993,436	2,098,773
Unbilled revenue	512,868	283,717
Work in progress	89,879	35,879
Prepayments	256,752	200,864
Sales tax and other miscellaneous receivables	272,622	573,577
Balance, end of period	\$ 3,125,557	\$ 3,192,810

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

At February 28, 2022, \$235,950 (11.5%) of the Company's trade receivables balance was over 90 days past due. \$55,928 of the past due balance was impaired at February 28, 2022. \$5,321 of trade receivables that was not over 90 days past due was also impaired.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 28, 2022, provisions of \$61,534 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$21,457 – February 28, 2021). For the nine months ended February 28, 2022, \$40,288 (\$36,003 – February 28, 2021) of previously provided credit losses was released due to the collection on the doubtful accounts.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

6. Property, plant and equipment:

During the nine months ended February 28, 2022, the Company acquired property, plant and equipment of \$67,678 (\$33,230 – February 28, 2021) and the Company disposed of depreciated assets with a net book value of \$1,598 for \$1,245 proceeds (\$nil – February 28, 2021). Depreciation expense of \$98,101 (\$89,225 – February 28, 2021) was recognized under administration expense. Translation gain of \$8,324 (loss of \$7,757 – February 28, 2021) was recognized under exchange differences arising on translation of overseas operations.

7. Intangible assets:

During the nine months ended February 28, 2022, the Company acquired intangible assets in the amount of \$283,421 (\$nil – February 28, 2021). On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montréal, Quebec, for a total consideration of \$283,421. For the nine months ended February 28, 2022, the Company recorded amortization relating to this acquired technology of \$29,129 under administration expense.

During the nine months ended February 28, 2022, the Company did not dispose of any assets (\$nil – February 28, 2021). Total amortization expense on intangible assets in the amount of \$228,393 (\$205,928 – February 28, 2021) was recognized under administration expense. Translation gain of \$37,411 (loss of \$77,982 – February 28, 2021) was recognized under exchange differences arising on translation of overseas operations.

8. Trade payables and other liabilities:

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

	February 28, 2022	May 31, 2021
Trade payables	\$ 1,191,780	\$ 797,489
Accruals	922,943	790,091
Other government remittances payable	158,190	80,611
Government grants	-	33,555
	\$ 2,272,913	\$ 1,701,746

Included in trade payables is \$4,725 due to Directors (\$nil at May 31, 2021).

Included in accruals is \$16,875 due to Directors (\$21,600 at May 31, 2021).

For the nine months ended February 28, 2022, government grant of \$34,596 was recognized as a reduction to the operating expenses that was netted against administration expenses, for the portion of the grant earned for the nine months ended February 28, 2022. A foreign translation loss in the amount of \$1,041 was recognized to accumulated other comprehensive loss.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

8. Trade payables and other liabilities (continued):

For the nine months ended February 28, 2021, government grant of \$259,006 was recognized as a reduction to the operating expenses, of which \$126,703 was netted against administration expenses and \$132,303 against selling, marketing and business development expenses, for the portion of the grant earned for the nine months ended February 28, 2021. A foreign translation gain in the amount of \$12,204 was recognized to accumulated other comprehensive income related to the revaluation of the liability with the quarter-end closing rate.

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

9. Long-term debt:

	February 28, 2022	May 31, 2021
(a) Term loan (equivalent to USD\$1,582,712), net of deferred financing costs of \$21,952 (equivalent to USD\$17,288), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$31,745 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$698,390 (equivalent to USD\$550,000) payable on the maturity date, December 1, 2025	\$ 2,009,728	\$ 2,176,798
(b) Term loan, net of deferred financing costs of \$1,286, 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	638,714	997,943
(c) Term loan (equivalent to GBP£43,688), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,418 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	74,375	85,685
Total long-term debt	2,722,817	3,260,426
Less: current portion	(870,513)	(850,987)
Long term portion	1,852,304	2,409,439

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

9. Long-term debt (continued):

- (a) On March 28, 2022, 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. Consequently, the postponed principal repayments were added to the balloon payment on the maturity date.

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 4.70% on February 28, 2022 (4.65% on May 31, 2021). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at February 28, 2022, the variance was at 3.50% (1.50% at May 31, 2021). Interest is payable monthly in arrears on the 1st day of the month.

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

The Company has certain covenants in accordance with this term loan, namely Total Funded Debt to EBITDA ratio and Debt Service Coverage ratio. On May 28, 2021, the lender waived the covenants for all the periods from May 31, 2021 up to May 31, 2022 as another COVID-19 relief measure to the Company. Subsequently, the lender waived the covenants for all the periods up to May 31, 2023 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 4.80% on February 28, 2022 (4.55% on May 31, 2021). Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of \$1,000,000 was received by the Company on July 23, 2020. A financing cost of \$3,000 was charged by the lending institution. According to the agreement, the remaining amount of \$1,300,000 can be drawn later, subject to meeting certain conditions in accordance with this term loan. A standby fee of 1.50% per annum is charged on the portion of the amount which had not been advanced by February 2021.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

9. Long-term debt (continued):

Subsequent to the quarter ended February 28, 2022, the Company received the remaining amount of \$1,300,000. 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.

On March 28, 2022, 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. Consequently, the postponed principal repayments were added to the balloon payment on the maturity date.

- (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.

10. Deferred revenue:

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2021	\$ 1,403,585	\$ 162,801	\$ 1,566,386
Increase from payments received	6,452,849	315,683	6,768,532
Decrease from revenue recognized	(6,626,008)	(50,830)	(6,676,838)
Translation adjustments	34,953	(1,782)	33,171
Balance, February 28, 2022	\$ 1,265,379	\$ 425,872	\$ 1,691,251
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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

11. Lease obligations:

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

	February 28, 2022	May 31, 2021
Less than one year	\$ 325,432	\$ 326,987
One to five years	846,484	904,426
Six to ten years	784,055	905,054
Total undiscounted lease obligations	1,955,971	2,136,467
Less: impact of present value	(517,912)	(583,403)
Less: current portion	(221,346)	(215,923)
Long term portion	\$ 1,216,713	\$ 1,337,141

During the nine months ended February 28, 2022, the interest expense on lease obligations was \$86,861 and total cash outflow for leases was \$258,962, including \$10,351 for short-term leases.

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.

For the nine months ended February 28, 2022 and 2021, 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.

12. 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

12. Capital stock (continued):

Outstanding:

	Nine months ended February 28, 2022		Year ended May 31, 2021	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of period	163,887,606	32,439,914	160,152,616	32,117,242
Stock options exercised ⁽¹⁾	250,000	44,900	3,734,990	322,672
Balance, end of period	164,137,606	32,484,814	163,887,606	32,439,914

(1) For the nine months ended February 28, 2022, 250,000 shares were issued for \$28,750 following the exercise of stock options, resulting in an increase to capital stock of \$44,900 and a reduction in contributed surplus of \$16,150.

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.

13. Share based compensation:

Activity in stock options was as follows:

	Three months ended February 28, 2022		Three months ended February 28, 2021	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	18,444,339	0.10	18,748,000	0.08
Forfeited	(50,000)	0.12	-	-
Exercised	-	-	(2,831,661)	0.06
Expired	-	-	(25,000)	0.08
Outstanding, end of period	18,394,339	0.10	15,891,339	0.08
Options exercisable, end of period	10,002,651	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, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

13. Share based compensation (continued):

	Nine months ended February 28, 2022		Nine months ended February 28, 2021	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,674,675	0.08	17,821,276	0.07
Granted	4,328,000	0.14	4,653,000	0.09
Forfeited	(358,336)	0.09	(497,916)	0.07
Exercised	(250,000)	0.12	(2,831,661)	0.06
Expired	-	-	(3,253,360)	0.08
Outstanding, end of period	18,394,339	0.10	15,891,339	0.08
Options exercisable, end of period	10,002,651	0.08	6,200,006	0.08

The following tables summarize information about stock options outstanding at February 28, 2022:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding February 28, 2022	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2022	Weighted average exercise price
0.08 - 0.10	14,096,339	2.62	0.08	10,002,651	0.08
0.11 - 0.14	4,298,000	4.75	0.14	-	-
	18,394,339	3.11	0.10	10,002,651	0.08

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-21	26-Nov-20
Grant date share price (\$) ⁽¹⁾	0.13	0.09
Exercise price (\$)	0.14	0.09
Expected volatility (%) ⁽²⁾	66.07	81.14
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	1.39	0.44
Forfeiture rate (%)	15.00	14.00

(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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

13. Share based compensation (continued):

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, 2022	Three months ended February 28, 2021
Administration	\$ 44,689	\$ 43,690
Selling, marketing and business development	10,458	10,152
	\$ 55,147	\$ 53,842

	Nine months ended February 28, 2022	Nine months ended February 28, 2021
Administration	\$ 132,070	\$ 124,368
Selling, marketing and business development	30,762	29,934
	\$ 162,832	\$ 154,302

14. Revenue:

	Three months ended February 28, 2022	Three months ended February 28, 2021
Sale of goods	\$ 1,392,389	\$ 1,189,740
Rendering of services	321,038	329,186
Contracts for heat recovery solutions	1,778,002	2,217,042
	\$ 3,491,429	\$ 3,735,968

	Nine months ended February 28, 2022	Nine months ended February 28, 2021
Sale of goods	\$ 3,699,368	\$ 3,821,827
Rendering of services	946,190	892,224
Contracts for heat recovery solutions	6,801,935	6,869,461
	\$ 11,447,493	\$ 11,583,512

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

15. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended February 28, 2022	Three months ended February 28, 2021
Depreciation of property, plant and equipment	\$ 33,687	\$ 29,977
Depreciation of right-of-use assets	65,440	37,532
Amortization of intangible assets	77,482	66,703
Foreign exchange loss	41,888	108,610

	Nine months ended February 28, 2022	Nine months ended February 28, 2021
Depreciation of property, plant and equipment	\$ 98,101	\$ 89,225
Depreciation of right-of-use assets	195,810	103,379
Amortization of intangible assets	228,393	205,928
Foreign exchange (gain) loss	(219,918)	277,942

The Company received funding from various government bodies as COVID-19 wage subsidies.

For the nine months ended February 28, 2022, a total amount of \$187,846 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

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.

16. 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 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 28, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

16. Financial instruments (continued):

The carrying values of long-term 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. Fair value increases with lower market interest rates and decreases with higher market interest rates.

17. Related party transactions:

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

Transactions with key management personnel

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

	Three months ended February 28, 2022	Three months ended February 28, 2021
Salaries and other short-term employee benefits	\$ 237,737	\$ 186,734
Share-based payments	20,752	20,033
	\$ 258,489	\$ 206,767

	Nine months ended February 28, 2022	Nine months ended February 28, 2021
Salaries and other short-term employee benefits	\$ 647,116	\$ 544,449
Share-based payments	63,510	58,351
	\$ 710,626	\$ 602,800

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.