Consolidated Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Years ended May 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Thermal Energy International Inc.

We have audited the accompanying consolidated financial statements of Thermal Energy International Inc., which comprise the consolidated statements of financial position as at May 31, 2017 and May 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Thermal Energy International Inc. as at May 31, 2017 and May 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

September 22, 2017

Ottawa, Canada

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**$ 2,950,140**	$ 1,143,148
Trade and other receivables (note 6)	**2,706,124**	2,084,027
Current tax receivable	**17,783**	39,875
Inventory (note 7)	**470,339**	450,514
Finance lease receivable (note 8)	**77,328**	116,560
	6,221,714	3,834,124
Non-current assets:		
Finance lease receivable (note 8)	**182,399**	–
Property, plant and equipment (note 9)	**76,623**	78,437
Intangible assets (note 10)	**646,373**	705,930
Goodwill (note 11)	**1,228,156**	1,341,316
Deferred tax assets (note 24)	**21,524**	20,902
	2,155,075	2,146,585
Total assets	**$ 8,376,789**	$ 5,980,709
Liabilities		
Current liabilities:		
Trade payables (note 13)	**$ 1,744,032**	$ 974,724
Current tax liabilities	**63,960**	83,507
Pensions and other employer obligations	**94,989**	97,617
Other liabilities (note 14)	**1,028,732**	772,199
Deferred revenue (note 15)	**1,626,817**	714,703
Provisions (note 16)	**232,387**	215,000
	4,790,917	2,857,750
Non-current liabilities:		
Deferred tax liabilities (note 24)	**76,713**	17,457
Total liabilities	**4,867,630**	2,875,207
Equity:		
Capital stock (note 17)	**32,231,329**	32,069,073
Contributed surplus (note 20)	**3,929,224**	3,853,739
Accumulated other comprehensive income	**343,235**	554,990
Deficit	**(32,974,934)**	(33,389,814)
Equity attributable to owners of the parent	**3,528,854**	3,087,988
Non-controlling interest (note 19)	**(19,695)**	17,514
Total equity	**3,509,159**	3,105,502
Commitments (note 26)		
Total liabilities and equity	**$ 8,376,789**	$ 5,980,709

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

On behalf of the Board:

Director

Director

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive Income

Years ended May 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017	2016
Revenue (note 21)	**$ 13,192,107**	$ 12,402,076
Cost of sales	**5,753,532**	5,608,071
Gross profit	**7,438,575**	6,794,005
Expenses:		
Administration	**2,844,807**	2,911,158
Selling, marketing and business development	**3,945,061**	3,510,057
Research and development	**67,730**	41,846
	6,857,598	6,463,061
Operating income	**580,977**	330,944
Finance revenue	**11,523**	25,530
Income before income taxes	**592,500**	356,474
Income tax expense (note 24)	**(199,768)**	(97,606)
Net income for the year	**392,732**	258,868
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**(218,436)**	(4,031)
Total comprehensive income for the year	**$ 174,296**	$ 254,837
Net income for the year attributable to:		
Owners of the parent	**$ 414,880**	$ 253,849
Non-controlling interest (note 19)	**(22,148)**	5,019
Net income for the year	**$ 392,732**	$ 258,868
Total comprehensive income for the year attributable to:		
Owners of the parent	**$ 203,125**	$ 249,690
Non-controlling interest (note 19)	**(28,829)**	5,147
Total comprehensive income for the year	**$ 174,296**	$ 254,837
Net income per share - basic and diluted (note 25)	**$ 0.003**	$ 0.002

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Changes in Equity

Years ended May 31, 2017 and 2016
(Expressed in Canadian dollars)

	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, 2015	**$ 32,308,827**	**$ 3,497,359**	**$ (33,643,663)**	**$ 559,149**	**$ 2,721,672**	**$ 12,367**	**$ 2,734,039**
Stock-based compensation (note 20)	–	168,074	–	–	168,074	–	168,074
Repurchase of Class A common shares (note 17)	(239,754)	188,306	–	–	(51,448)	–	(51,448)
Transactions with owners	(239,754)	356,380	–	–	116,626	–	116,626
Net income for the year	–	–	253,849	–	253,849	5,019	258,868
Other comprehensive income:							
Exchange differences arising on translation of overseas operations	–	–	–	(4,159)	(4,159)	128	(4,031)
Total comprehensive income for the year	–	–	253,849	(4,159)	249,690	5,147	254,837
Balance at May 31, 2016	**$ 32,069,073**	**$ 3,853,739**	**$ (33,389,814)**	**$ 554,990**	**$ 3,087,988**	**$ 17,514**	**$ 3,105,502**
Balance at June 1, 2016	**$ 32,069,073**	**$ 3,853,739**	**$ (33,389,814)**	**$ 554,990**	**$ 3,087,988**	**$ 17,514**	**$ 3,105,502**
Stock-based compensation (note 20)	–	117,266	–	–	117,266	–	117,266
Dividend paid	–	–	–	–	–	(8,380)	(8,380)
Share options exercised	162,256	(41,781)	–	–	120,475	–	120,475
Transactions with owners	162,256	75,485	–	–	237,741	(8,380)	229,361
Net income for the year			414,880		414,880	(22,148)	392,732
Other comprehensive income:							
Exchange differences arising on translation of overseas operations	–	–	–	(211,755)	(211,755)	(6,681)	(218,436)
Total comprehensive income for the year	162,256	75,485	414,880	(211,755)	203,125	(28,829)	174,296
Balance at May 31, 2017	**$ 32,231,329**	**$ 3,929,224**	**$ (32,974,934)**	**$ 343,235**	**$ 3,528,854**	**$ (19,695)**	**$ 3,509,159**

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017	2016
Operating activities:		
Net income for the year	**$ 392,732**	$ 258,868
Add items not involving cash:		
Depreciation of property, plant and equipment (note 9)	**38,114**	38,344
Gain on disposal of assets	**–**	(8,076)
Net investment in finance lease (note 8)	**(254,198)**	–
Finance revenue	**(11,523)**	(25,530)
Stock-based compensation (note 20)	**117,266**	168,074
Income tax expense (note 24)	**199,768**	97,606
Unrealized foreign exchange and translation adjustments	**10,226**	1,751
Changes in working capital:		
Trade and other receivables	**(622,097)**	245,488
Inventory	**(19,825)**	(41,959)
Trade payable	**771,190**	283,618
Deferred revenue	**912,114**	(583,830)
Other liabilities	**271,292**	(83,423)
Income taxes paid	**(134,585)**	42,993
Interests received on finance lease	**11,523**	25,530
Other interests received	**2,133**	3,405
Interest paid	**(4,015)**	(4,692)
Net cash provided by operating activities	**1,680,115**	418,167
Investing activities:		
Finance lease principal payments received	**111,031**	111,524
Proceeds from disposal of property, plant and equipment	**–**	8,076
Additions to property, plant and equipment	**(38,164)**	(57,365)
Net cash provided by investing activities	**72,867**	62,235
Financing activities:		
Share options exercised	**120,475**	–
Dividends paid	**(8,380)**	–
Repurchase of Class A common shares (note 17)	**–**	(51,448)
Net cash provided by (used in) investing activities	**112,095**	(51,448)
Increase in cash and cash equivalents for the year	**1,865,077**	428,954
Cash and cash equivalents, beginning of year	**1,143,148**	715,343
Exchange differences on cash and cash equivalents	**(58,085)**	(1,149)
Cash and cash equivalents, end of year	**$ 2,950,140**	$ 1,143,148

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

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 36 Bentley Avenue, Ottawa, Ontario, Canada, K2E 6T8.

These audited consolidated financial statements were approved and authorized for issue by the Board of Directors on September 22, 2017. The consolidated financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the "Company") for the years ended May 31, 2017 and 2016.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies are summarized in note 3.

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of September 22, 2017, the date the Board of Directors approved the consolidated financial statements.

(b) Measurement basis:

The financial statements have been prepared on a historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

(c) Significant accounting judgements and estimates:

The preparation of these consolidated 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 years affected. Actual results may differ from these estimates, judgements and assumptions.

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

The critical estimates include:

- 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 or cash-generating unit and determines a suitable interest 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 operating results and, in the case of other intangible assets, 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. Further information on the estimates used in determining the recoverable amount of other intangible assets and goodwill is provided in notes 10 and 11 respectively.

- Future production outputs related to the finance lease:

  When a new finance lease or amendment is signed, in determining minimum lease payments receivable, management makes estimates regarding monthly energy outputs of the leased asset based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located, penalty payments resulting from temporary plant shut-downs and residual value of the equipment. These assumptions relate to future events and circumstances. Actual results may vary from estimate. Further information on the future production outputs related to the finance lease is provided in note 8.

- 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. Further details of inputs used in the measurement of fair values at grant date are provided in note 20.

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

- Allowance for doubtful accounts:

  The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on customer and industry concentrations and the Company's knowledge of the financial conditions of its customers.

- 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, significant estimates are made about milestones 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 judgement 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 temporary differences, future taxable income and future tax planning strategies.

The critical judgements include:

- Multi-element arrangements:

  Judgement is applied in determining the components of a multiple element revenue arrangement. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates as to the fair value of each individual element. The selling price of the element on a stand-alone basis is used to determine the fair value. Where stand-alone sales do not exist, various inputs as detailed in note 3(m) are used to determine the fair value. Changes to these inputs may result in different estimates of fair value for an element and impact the allocation of consideration and timing of revenue recognition.

2. Basis of presentation (continued):

(d) Functional currency and foreign currency translation:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent. The functional currency of each entity consolidated with the Company is determined by the currency of the primary economic environment in which it operates.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year: monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date; non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at the date when fair value was determined; and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from translation at year-end are recognized in profit or loss.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation by applying the exchange rates prevailing at the end of the reporting year for assets and liabilities and the average exchange rate for the year for consolidated statements of comprehensive income items. Such exchange differences, including differences that arise relating to long-term inter-company balances that form part of the net investment in the foreign operation, are recognized in other comprehensive income or loss. On disposal of a foreign entity, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the end of each reporting year. These exchange differences are recognized in accumulated other comprehensive income or loss.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the parent, which is the ultimate parent, and its subsidiaries. Subsidiaries are consolidated from the date on which the parent company obtains control, and continue to be consolidated until control ceases. Control is established when the parent company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared using consistent accounting policies and all material inter-company transactions are eliminated in full upon consolidation.

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

Where the ownership of a subsidiary is less than 100% and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the owners of the parent and to the non-controlling interest even if that results in the non-controlling interest having a deficit balance. Non-controlling interest presented as part of equity represents the portion of a subsidiary's net income or loss and net assets that are not held by the Company. The Company attributes total comprehensive income (loss) of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The following subsidiaries have been consolidated within the consolidated financial statements:

Name of subsidiary	Place of incorporation	Ownership interest	Functional currency	Principal activity
Thermal Energy International (UK) Ltd.[1]	United Kingdom	100%	GBP	Manufacture and sale of condensate return solutions and sale of heat recovery solutions
Thermal Energy International Corporation	Delaware, U.S.	100%	CAD	Sale of heat recovery and condensate return solutions
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. [2]	Ontario, Canada	100%	CAD	Holding company
GEMchem Ltd. [1]	United Kingdom	67%	GBP	Sale of water treatment products and services
Thermal Energy International (Guangzhou) Ltd. [2]	Guangzhou, China	55%	CAD	Sale of heat recovery and condensate return solutions

[1] Thermal Energy International (UK) Ltd owns 67% of GEMchem Ltd., a company incorporated in the United Kingdom.

[2] 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a reporting date of May 31.

Information relating to each of the Company's subsidiaries that have non-controlling interest can be found in note 19.

3. Significant accounting policies (continued):

(b) Business combinations:

The Company measures goodwill as the fair value of the consideration transferred including any contingent consideration to be transferred and the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount of the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at fair value or at their proportionate share of the recognized amount of the identifiable net assets at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquired entity is re-measured to fair value as at the acquisition date through profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

(c) Cash and cash equivalents:

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, and which are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in value.

(d) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method and includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

(e) Leases:

(i) The Company as a lessor - finance leases:

Finance leases are those where substantially all of the benefits and risks of ownership of the equipment are transferred to the customer. Sales revenue recognized at the inception of the lease represents the fair value of the asset or, if lower, the present value of the minimum lease payments, net of any executory costs and related profit included therein, computed at the market rate of interest. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. Unearned finance income, effectively the difference between the total minimum lease payments adjusted for executory costs and the aggregate present value, is deferred and presented as finance lease receivable in the consolidated statements of financial position.

3. Significant accounting policies (continued):

(e) Leases (continued):

(i) The Company as a lessor - finance leases (continued):

Finance lease income is allocated to accounting years over the lease term so as to reflect a constant periodic rate of return on the Company's net investment in the lease.

Finance leases receivable are measured at total estimated minimum lease payments receivable, net of estimated expected finance revenue. Finance leases receivable are assessed for recoverability at each year end. Any indication of impairment of the net investment in lease will result in a write-down to the revised estimated recoverable amount. Indications that a finance lease receivable may be impaired include customers experiencing significant financial difficulties, the increasing possibility of a customer going bankrupt or undergoing a financial restructuring and payment default or delays.

(ii) The Company as a lessee:

The economic ownership of a leased asset is transferred to the lessee whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of administrative expenses. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the year of the lease.

All other leases are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(f) Property, plant and equipment:

Property, plant and equipment are initially recognized at acquisition cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs of replacing components are recognized only if it is probable that future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of other replacement parts and general servicing of property, plant and equipment is recognized immediately in profit or loss.

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets less estimated residual value:

Asset	Method
Plant and equipment	5 years straight-line
Furniture and fixtures	5 years straight-line
Laboratory equipment	5 years straight-line
Computers	3 years straight-line
Leasehold improvements	3 years straight-line
Motor vehicles	4 years straight-line

Depreciation methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. In the case of assets held under finance leases, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter. Depreciation and impairment charges are included within administrative expenses.

(g) Intangible assets:

Intangible assets were acquired with the acquisition of Gardner Energy Management on July 1, 2008 and are reported at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is computed using the following rates and methods which reflect the estimated useful life of the assets:

Asset	Method
Trade names and trademarks	indefinite life
Non-compete agreements	2 years straight-line
Industrial know-how	5 years straight-line
Designs and drawings	5 years straight-line
Customer relationships	5 years straight-line

Amortization methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Intangible assets with indefinite lives are subject to annual impairment testing. See note 3(i) for a description of impairment testing procedures.

The indefinite life intangible assets represent the GEM™ Trade name and Trademark, which are used to set the product apart from those of competitors producing traditional mechanical steam traps. Management considers the reputation of the GEM™ product as continuing to strengthen and cannot be assigned a finite life after which it will have no value.

Amortization is included within administrative expenses.

3. Significant accounting policies (continued):

(h) Goodwill:

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. See note 3(b) for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. See note 3(i) for a description of impairment testing procedures. Impairment losses on goodwill are not reversed.

(i) Impairment:

The carrying values of all property and equipment and intangible assets with a finite useful-life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying values of goodwill and intangible assets with an indefinite useful life are reviewed for impairment on an annual basis.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit’s recoverable amount exceeds its carrying amount.

Impairment testing of indefinite-lived intangible assets is performed using the relief from royalty method, which requires management to estimate expected future revenue from sales of the product to which the indefinite-lived intangible assets relate and determine an appropriate royalty rate to apply to the future revenue. The royalty rate is subject to estimation uncertainty and reflects company and product specific factors as assessed by management.

3. Significant accounting policies (continued):

(j) Provisions, contingent liabilities and contingent assets:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

(k) Warranties:

The Company warrants its condensate return solution product against defects for 10 years and does not offer extended warranties beyond 10 years. A provision for warranty expense is recorded when the revenue for the related product is recognized. The provision is based upon the terms of the warranty, the Company's historical experience and management estimates of future expense for replacement or repairs. The provision is charged to cost of sales.

(l) Equity:

Capital stock represents the amount received on the issue of shares, less share issue expenses, net of any underlying income tax benefit from the issuance costs.

Contributed surplus includes charges related to stock options and warrants. When stock options and warrants are exercised, the related compensation cost is transferred to capital stock.

Deficit includes all current and prior year retained losses.

3. Significant accounting policies (continued):

(l) Equity (continued):

Accumulated other comprehensive income represents foreign currency translation differences arising on the translation of the Company's foreign subsidiaries, net of income taxes.

All transactions with owners of the parent are recorded separately in equity.

(m) Equity-settled stock-based compensation:

The Company offers an equity-settled stock-based compensation plan for its directors, employees and certain contractors. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except warrants to brokers) are ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus

Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus.

If vesting years or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of awards expected to vest. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current year. No adjustment is made to any expense recognized in prior years if awards ultimately exercised are different to that estimated on vesting.

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting year of the respective tranches.

When stock options are exercised, any consideration paid by employees is credited to capital stock in addition to the amount previously recorded in contributed surplus relating to those options.

3. Significant accounting policies (continued):

(n) Revenue recognition:

Revenue comprises revenue from the sale of goods and rendering of services. Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding sales tax and trade discounts.

Revenue is recognized when the amount of revenue can be measured reliably, collection is probable, the costs incurred can be measured reliably, and when the criteria for each of the Company's different activities have been met, as described below.

Sale of goods

Revenue from product sales is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods. Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Products shipped prior to agreed billing terms are included in unbilled product revenue.

Rendering of services

Services comprise surveys, installation of goods, project development and after-sales service and maintenance. Revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date. Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Services rendered prior to agreed billing terms are included in unbilled product revenue.

Contracts for heat recovery solutions

The Company provides heat recovery solutions specifically customized to each customer. These contracts specify a fixed price for the development and installation of heat recovery equipment, and are within the scope of IAS 11 "Construction Contracts".

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue is recognized by reference to the stage of completion of the contract. When the Company cannot measure the outcome of a contract reliably, revenue is recognized only to the extent of contract costs that have been incurred and are recoverable.

Contract costs are recognized in the year in which they are incurred. Any expected loss on a contract is recognized immediately in profit or loss.

3. Significant accounting policies (continued):

(n) Revenue recognition (continued):

Contracts for heat recovery solutions (continued)

The stage of completion is determined by reference to the proportion of contract costs for work performed to date compared to the estimated total contract costs. Only those contract costs that reflect work performed are included in costs incurred to date. Contract costs relating to work not yet performed on the contract create an asset related to future contract activity. The gross amount due to customers for contract work is presented as deferred revenue for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less losses). Costs incurred to date in excess of progress billings are recorded as unbilled revenue.

Multi-element arrangements

The Company provides its heat recovery solutions, GEM™ product, installation and servicing on a standalone basis or as part of a multiple element arrangement. Stand-alone sales include sales of heat recovery solution systems or GEM™ steam traps. When sold in a multiple element arrangement, the heat recovery solution systems or GEM™ steam traps are considered separate units of accounting as they have stand-alone value to the customer. The total consideration for the arrangement is allocated to the separate units of accounting based on their relative fair value and the revenue is recognized for each unit when the requirements for revenue recognition have been met. The Company determines the fair value of each unit of accounting based on the selling price when they are sold separately. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. Inputs considered in making this determination include the specific parameters and model used in determining the contract price, price lists and historical pricing for stand-alone sales of the same goods or services.

Interest revenue and expenses

Interest revenue and expenses are reported on an accrual basis using the effective interest method.

(o) Post employee benefits and short-term employee benefits:

Certain subsidiaries of the Company provide post-employment benefits through defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The cost of the Company's pension benefits for defined contribution plans are expensed when employees have rendered services entitling them to contributions.

3. Significant accounting policies (continued):

(o) Post employee benefits and short-term employee benefits (continued):

Short-term employee benefits, including vacation entitlement, are current liabilities included in “pension and other employee obligations”, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(p) Research costs and government assistance:

The Company carries on various research programs, and from time to time these are funded by the Government of Canada. Funding received is accounted for using the cost reduction approach and is netted against research costs. Research costs are expensed as incurred.

(q) Investment tax credits:

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the research and development expenses.

(r) Income taxes:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting years, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

Deferred income taxes are calculated using the liability method on temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax liabilities are always recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income or loss, nor the income or loss for the year reported in the Company's statements of comprehensive income (loss).

3. Significant accounting policies (continued):

(r) Income taxes (continued):

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and joint venture, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, at the tax rates that have been enacted or substantively enacted by the end of the reporting year and applicable in the year in which the liability is expected to be settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(s) Earnings per share:

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the earnings attributable to owners of the parent by the weighted average number of common shares outstanding during the year. The diluted earnings per share is determined by adjusting the earnings attributable to owners of the parent and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise options outstanding.

(t) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. Subsequently, financial assets and liabilities are measured and recognized as described below.

3. Significant accounting policies (continued):

(t) Financial instruments (continued):

Financial assets

For the purpose of subsequent measurement, financial assets of the Company are classified into the loans and receivables category upon initial recognition.

The category determines subsequent measurement and whether any resulting income and expense is recognized in net income (loss) or in other comprehensive income (loss).

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that impairment exists. Different criteria to determine impairment are applied for each category of financial assets, as described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within ‘finance revenue’ or ‘other financial items’, which the Company has not incurred to date, except for impairment of trade receivables which is presented within ‘administration’ expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, trade receivables, other miscellaneous receivables and finance lease receivable are classified as loans and receivables. Loans and receivables are recognized initially at fair value plus any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method, less any allowance for doubtful debts. An allowance for trade receivables is made when the Company has obtained an objective indication that it will not be able to collect the amount due according to the original terms and conditions agreed to with customers. Indications that loans and receivables are impaired include customers experiencing significant financial difficulties, the increasing possibility of a customer going bankrupt or undergoing a financial restructuring and payment default or delays. Individual receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Financial liabilities

The Company’s financial liabilities include trade payables and accruals which are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued):

(t) Financial instruments (continued):

Fair value hierarchy

Financial instruments measured at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company currently has no financial instruments measured at fair value on the statement of financial position. Therefore, a fair value hierarchy is not presented.

(u) Segment reporting:

In identifying its operating segments, management generally follows the Company's key geographical areas, which reflect the business of the Company's two main operating units in Ottawa, Canada and Bristol, UK. In determining its reportable segments, the Company considers qualitative factors, such as operations which are considered to be significant by management, as well as quantitative factors, so that material revenues and expenses are appropriately disclosed. Management considers assets and liabilities on a global basis, and does not assess on a segment basis. The reportable segments' financial results are reviewed quarterly by senior management and the Board. Corporate and other costs which are not easily attributable to any particular operating segment are separately disclosed within reconciling items.

The two main operating units are as follows:

- North America and China, managed from the Ottawa office.
- Europe and rest of world, managed from the Bristol office.

Reconciling items comprise corporate administration costs, stock-based compensation, professional fees, depreciation of property, plant and equipment, bank charges and interest and foreign exchange differences. Corporate administration costs include employment costs of the Chief Executive Officer and Chief Finance Officer, directors' fees, directors' and officers' liability insurance, and shareholder and investor services expenses.

3. Significant accounting policies (continued):

(v) New standards, amendments and interpretations to existing standards:

The Company has adopted the following new or amended accounting standards:

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The Company adopted the amendments on June 1, 2016. The adoption of the amendments to IAS 16 and IAS 38 did not have a material impact on the consolidated financial statements.

New standards and amendments yet to be adopted:

At the date of approval of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

3. Significant accounting policies (continued):

(v) New standards, amendments and interpretations to existing standards (continued):

IFRS 9, “Financial Instruments”

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15, “Revenue from Contracts with Customers”

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer acquisition costs. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. This standard will be effective January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 16: Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

3. Significant accounting policies (continued):

(v) New standards, amendments and interpretations to existing standards (continued):

Amendments to IFRS 2: Share Based Payments ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements for accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

Amendments to IAS 7: Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. These amendments require entities to provide disclosures that help users of the financial statements to better understand changes in liabilities that arise from financing activities, including both changes arising from cash flow and non-cash changes. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Amendments to IAS 12: Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12. The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

4. Segment reporting:

In fiscal 2017 and 2016, the Company operated in the energy efficiency industry in North America, Europe, China 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, Europe and China.

(Expressed in Canadian dollars)

4. Segment reporting (continued):

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 China, 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 year ended May 31, 2017 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**6,357,723**	5,603,330	**6,834,384**	6,798,746	-	-	**13,192,107**	12,402,076
Cost of sales	**(2,886,324)**	(2,520,316)	**(2,867,208)**	(3,087,755)	-	-	**(5,753,532)**	(5,608,071)
Gross profit	**3,471,399**	3,083,014	**3,967,176**	3,710,991	-	-	**7,438,575**	6,794,005
Other expenses	**(2,885,103)**	(2,463,536)	**(2,859,750)**	(2,813,507)	**(1,112,745)**	(1,186,018)	**(6,857,598)**	(6,463,061)
Finance revenue	**11,523**	25,530	**-**	-		-	**11,523**	25,530
Income (loss) before taxation	**597,819**	645,008	**1,107,426**	897,484	**(1,112,745)**	(1,186,018)	**592,500**	356,474
Tax (expense) recovery	**(102,766)**	(71,603)	**(188,459)**	(142,428)	**91,457**	116,425	**(199,768)**	(97,606)
Profit (loss) after taxation	**495,053**	573,405	**918,967**	755,056	**(1,021,288)**	(1,069,593)	**392,732**	258,868
Attributable to:								
Owners of the parent	**541,991**	591,272	**894,177**	732,170	**(1,021,288)**	(1,069,593)	**414,880**	253,849
Non-controlling interest	**(46,938)**	(17,867)	**24,790**	22,886	**-**	-	**(22,148)**	5,019

Reconciling items comprise the following:

	2017	2016
Corporate administration costs	**$ 894,136**	$ 849,642
Stock-based compensation	**117,266**	168,074
Professional fees	**137,418**	122,909
Depreciation of property, plant and equipment	**38,114**	38,344
Bank charges and interest	**36,143**	37,419
Foreign exchange differences	**(110,332)**	(30,370)
Total	**$ 1,112,745**	$ 1,186,018

(Expressed in Canadian dollars)

4. Segment reporting (continued):

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.

During the year ended May 31, 2017, the Company had one customer in North America that accounted for 10.2% of total consolidated revenue for the year.

During the year ended May 31, 2016, the Company had one customer in Europe and the rest of the world that accounted for 13.1% of total consolidated revenue for the year.

Further geographical analysis:

	Sales for the year ended May 31,		Property, plant and equipment as at May 31,		Goodwill and intangibles assets as at May 31,		Finance lease receivable (non-current) as at May 31,	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Canada	**1,708,140**	326,567	**40,984**	50,380	**–**	–	**182,399**	–
U.S.A.	**4,649,583**	5,270,334	**–**	–	**–**	–	**–**	–
U.K.	**4,561,505**	6,125,908	**35,639**	28,057	**1,874,529**	2,047,246	**–**	–
Italy	**1,454,195**	121,152	**–**	–	**–**	–	**–**	–
Netherlands	**63,338**	124,629	**–**	–	**–**	–	**–**	–
Ireland	**83,446**	26,939	**–**	–	**–**	–	**–**	–
Germany	**189,388**	132,326	**–**	–	**–**	–	**–**	–
Greece	**166,105**	–	**–**	–	**–**	–	**–**	–
Rest of Europe	**171,896**	31,413	**–**	–	**–**	–	**–**	–
India	**86,912**	44,897	**–**	–	**–**	–	**–**	–
Kenya	**38,187**	109,414	**–**	–	**–**	–	**–**	–
China	**–**	6,429	**–**	–	**–**	–	**–**	–
Rest of world	**19,412**	82,068	**–**	–	**–**	–	**–**	–
Total	**13,192,107**	12,402,076	**76,623**	78,437	**1,874,529**	2,047,246	**182,399**	–

5. Cash and cash equivalents:

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

	2017	2016
Cash	**$ 2,949,640**	$ 1,142,648
Cash equivalents	**500**	500
Cash and cash equivalents	**$ 2,950,140**	$ 1,143,148

(Expressed in Canadian dollars)

6. Trade and other receivables:

	2017	2016
Trade receivables, gross	**$ 2,299,892**	$ 1,577,446
Allowance for doubtful accounts	**(15,617)**	(12,157)
Trade receivables, net	**2,284,275**	1,565,289
Contracts for heat recovery solutions (see note 6(a))	**35,698**	80,085
Unbilled product and service revenue (see note 6(b))	**23,090**	59,057
Prepayments	**101,939**	65,428
Sales tax and other miscellaneous receivables	**261,122**	314,168
	$ 2,706,124	$ 2,084,027

The net carrying value of trade receivables is considered a reasonable approximation of fair value. Other miscellaneous receivables include $36,370 ($104,960 at May 31, 2016) due from a Chinese distributor receiving payments on the Company's behalf from a Chinese customer, which is net of a provision of $67,280.

At May 31, 2017, $46,840 (2.0%) of the Company's trade receivables balance was over 90 days past due, but not impaired ($1,611 (0.1%) at May 31, 2016).

The change in allowance for doubtful accounts was as follows:

	2017	2016
Balance, beginning of year	**$ 12,157**	$ –
Provisions	**4,240**	11,952
Foreign exchange adjustments	**(780)**	205
Balance, end of year	**$ 15,617**	$ 12,157

All of the Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2017, provisions were made of $71,520 and recorded under administrative expenses. For the year ended May 31, 2016, a provision of $11,952 was made.

(Expressed in Canadian dollars)

6. Trade and other receivables (continued):

(a) Contracts for heat recovery solutions:

Certain amounts recognized in the statements of financial position relate to contracts in progress at the end of the reporting year. The amounts are calculated as the net amounts of costs incurred plus recognized profits, less recognized losses and progress billings. The carrying amounts of assets and liabilities are analyzed as follows:

	2017	2016
Aggregate amount of costs incurred and recognized profits and losses for all contracts in progress	**$ 4,886,412**	$ 2,663,127
Less progress billings	**(6,389,100)**	(3,240,052)
	$ (1,502,688)	$ (576,925)

Recognized as:

	2017	2016
Due from customers for contract work, recognized in trade and other receivables	**$ 35,698**	$ 80,085
Due to customers for contract work, recognized in deferred revenue (note 15)	**(1,538,386)**	(657,010)
	$ (1,502,688)	$ (576,925)

(b) Unbilled product and service revenue:

The amounts included within unbilled product and services revenue are calculated as the net amounts of costs incurred plus recognized profits, less recognized losses and progress billings. The carrying amounts of assets and liabilities are analyzed as follows:

	2017	2016
Aggregate amount of costs incurred and recognized profits and losses for all contracts in progress	**$ 98,079**	$ 239,632
Less progress billings	**(163,420)**	(238,268)
	$ (65,341)	$ 1,364

(Expressed in Canadian dollars)

6. Trade and other receivables (continued):

(b) Unbilled product and service revenue (continued):

Recognized as:

	2017	2016
Due from customer for service performed, recognized in trade and other receivables	**$ 23,090**	$ 59,057
Due to customer for products and services not delivered yet, recognized in deferred revenue (note 15)	**(88,431)**	(57,693)
	$ (65,341)	$ 1,364

7. Inventory:

Inventory is comprised of partly finished products purchased from suppliers and held in inventory pending finishing to the customers' requirements.

For the year ended May 31, 2017, a total of $898,634 of inventories was expensed to cost of sales (2016 - $692,674). A total of $Nil of inventories (2016 - $Nil) were written off as slow-moving. No reversal of previous write-downs has been recorded during the years ended May 31, 2017 or May 31, 2016.

8. Finance lease receivable:

The Company's finance lease receivable includes the following:

	2017	2016
Total estimated minimum lease payments receivable	**$ 319,161**	$ 125,054
Less: unearned income	**(59,434)**	(8,494)
	259,727	116,560
Less: current portion	**(77,328)**	(116,560)
	$ 182,399	$ –

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs.

(Expressed in Canadian dollars)

8. Finance lease receivable (continued):

On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer had the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company.

On December 22, 2013, the site commenced a market downtime for a period of ten weeks, following the imposition of an interim duty in China on the import of Canadian dissolving pulp, further to which on April 11, 2014, an agreement was made to further extend the existing lease by five months to mid-May 2015.

On May 1, 2015, the customer signed a further extension for 24 months to May 1, 2017. Pursuant to this new extension, the customer has agreed to pay up to $12,000 per month over two years, at the end of which the customer has the option to purchase the asset from the Company.

On May 1, 2017, a final extension agreement was signed for 36 months to May 1, 2020. Pursuant to this new extension, the customer has agreed to pay up to $9,500 per month over three years, at the end of which the customer assumes full ownership of the equipment.

Until the expiry of the new lease on May 1, 2020, finance revenue will be recognized within the consolidated statements of comprehensive income at the interest rate implicit in the lease.

The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset and the operations of the plant in which it is located.

Future estimated minimum lease payments receivable, and expected residual value of equipment at the end of the lease, under the sales-type lease are as follows:

Less than one year	$ 109,554
Between two and three years	209,607
Residual value	–
	$ 319,161

The finance lease receivable at the end of the reporting year is neither past due nor impaired.

(Expressed in Canadian dollars)

9. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve-ments	Motor Vehicles	Total
	$	$	$	$	$	$	$
Cost, May 31, 2015	110,449	103,083	52,857	338,544	22,877	24,524	652,334
Additions	29,900	–	–	18,833	–	8,632	57,365
Disposals	–	–	–	(33,067)	–	(26,046)	(59,113)
Translation adjustments	(3,040)	(3)	–	(425)	–	1,008	(2,460)
Cost, May 31, 2016	137,309	103,080	52,857	323,885	22,877	8,118	648,126
Additions	20,338	–	–	17,826	–	–	38,164
Translation adjustments	(6,636)	(283)	–	(4,069)	–	(685)	(11,673)
Cost, May 31, 2017	**110,449**	**103,083**	**52,857**	**338,544**	**22,877**	**24,524**	**652,334**
Accumulated depreciation, May 31, 2015	77,206	97,562	52,857	315,386	22,436	24,524	589,971
Depreciation for the year	12,265	2,285	–	21,234	441	2,119	38,344
Disposals	–	–	–	(33,067)	–	(26,046)	(59,113)
Translation adjustments	(203)	(3)	–	(741)	–	1,434	487
Accumulated depreciation, May 31, 2016	89,268	99,844	52,857	302,812	22,877	2,031	569,689
Depreciation for the year	16,296	2,199	–	17,809	–	1,810	38,114
Translation adjustments	(5,965)	(283)	–	(3,436)	–	(125)	(9,809)
Accumulated depreciation, May 31, 2017	**99,599**	**101,760**	**52,857**	**317,185**	**22,877**	**3,716**	**597,994**
Net book value, May 31, 2016	48,041	3,236	–	21,073	–	6,087	78,437
Net book value, May 31, 2017	**51,412**	**1,037**	**–**	**20,457**	**–**	**3,717**	**76,623**

During the year ended May 31, 2017, the Company did not dispose of any assets.

During the year ended May 31, 2016, the Company disposed of a depreciated asset with net book value of $Nil for $8,076 in proceeds.

There are no property, plant and equipment held under finance leases and no items of property, plant or equipment are subject to restrictions of title or pledged as security.

(Expressed in Canadian dollars)

10. Intangible assets:

	Trade Names & Trademarks	Non-compete Agreement	Industrial Know-how	Designs & Drawings	Customer Relationships	Total
	$	$	$	$	$	$
Cost, May 31, 2015	874,506	114,066	133,079	146,385	313,683	1,581,719
Translation adjustments	(1,011)	(132)	(54)	(169)	(363)	(1,729)
Cost, May 31, 2016	873,495	113,934	133,025	146,216	313,320	1,579,990
Translation adjustments	(73,693)	(9,612)	(11,316)	(12,336)	(26,435)	(133,392)
Cost, May 31, 2017	**799,802**	**104,322**	**121,709**	**133,880**	**286,885**	**1,446,598**
Accumulated amortization, May 31, 2015	167,758	114,066	133,079	146,385	313,683	874,971
Translation adjustments	(193)	(132)	(54)	(169)	(363)	(911)
Accumulated amortization, May 31, 2016	167,565	113,934	133,025	146,216	313,320	874,060
Translation adjustments	(14,136)	(9,612)	(11,316)	(12,336)	(26,435)	(73,835)
Accumulated amortization, May 31, 2017	**153,429**	**104,322**	**121,709**	**133,880**	**286,885**	**800,225**
Net Book Value, May 31, 2016	705,930	–	–	–	–	705,930
Net Book Value, May 31, 2017	**646,373**	–	–	–	–	**646,373**

Trade Names and Trademarks are intangible assets with indefinite lives and are not subject to amortization. Trade Names and Trademarks relate specifically to the GEM™ product. They are tested for impairment at each year-end. No impairment was recognized for the years ended May 31, 2017 or May 31, 2016. The growth rates attributed by Management to the GEM™ product line are 10% in 2018, followed by positive 10% in each of the subsequent four years. This is higher than the compound annual growth rate over the previous five years of 7%, due to the increased number of experienced sales staff within the UK and North America. The royalty rate applied to the revenues for the purposes of impairment testing is 2.5%. All other assumptions relating to the calculation of the pre-tax discount rate are as detailed in Goodwill (note 11).

11. Goodwill:

Goodwill arose as a result of the acquisition of Gardner Energy Management Limited on July 1, 2008. Goodwill consists of the following amounts:

	2017	2016
Balance, beginning of year	**$ 1,341,316**	$ 1,342,869
Translation adjustments	**(113,160)**	(1,553)
Balance, end of year	**$ 1,228,156**	$ 1,341,316

(Expressed in Canadian dollars)

11. Goodwill (continued):

Goodwill was tested for impairment as at each year end, resulting in no impairment charge as at May 31, 2017 or May 31, 2016. For the purpose of annual impairment testing, goodwill is allocated to the following cash-generating units, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises: Thermal Energy International (UK) Limited and GEMchem Limited, a 67% owned subsidiary of Thermal Energy International (UK) Limited.

The carrying amount of goodwill allocated to each cash-generating unit as at May 31 was as follows:

	2017	2016
Thermal Energy International (UK) Limited	**$ 1,047,331**	$ 1,143,831
GEMchem Limited	**180,825**	197,485
	$ 1,228,156	$ 1,341,316

The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, covering a one year budget, followed by an extrapolation over four further years of expected cash flows to be derived from the cash-generating units assuming growth rates as set out below, and applying a pre-tax discount rate of 18% (2016 - 19%) for both cash-generating units. The pre-tax discount rate used represents the weighted average cost of capital ("WACC") of each cash-generating unit, which includes the cost of equity and the cost of debt. The cost of equity was computed as 18% (2016 - 18%) for each cash-generating unit, incorporating the following factors: market risk premium adjusted for the target levered beta, based upon comparable companies, the risk-free rate of return and a size and company specific risk premium. The cost of debt was assumed as the risk free rate plus a premium of 3%. In computing the WACC, a capital structure comprising 15% (2016 - 15%) debt and 85% (2016 - 85%) equity was assumed, after considering the capital structure of comparable companies.

For purposes of the May 31, 2017 impairment testing, Thermal Energy International (UK) Limited's growth from 2017 to 2018 was assumed to be 7%, as per the detailed budget prepared with 7% growth in the following year and 8% per annum thereafter. This fairly consistent growth is the result of a combination of the level of experience of the existing sales force in both Europe and North America, as well as additional sales representation in Europe, while allowing for unknown changes in the global economic climate following the decision of the UK to leave the European Union.

GEMchem Limited's growth from 2017 to 2018 was assumed to be 1%, as per the detailed budget prepared with subsequent growth of 10% in 2019 through to 2022. The future expected growth is the result of additional sales staff in 2018.

(Expressed in Canadian dollars)

11. Goodwill (continued):

This is based on a combination of historical results, which demonstrate steady increases year on year, plus anticipated additional sales from existing sales staff plus new agents.

Summary of rates used:

		Average Revenue Growth rates		Discount rates	
Cash Generating Unit		2017	2016	2017	2016
Thermal Energy International (UK)	Year 1	7%	43%		
	Year 2	7%	5%		
	Year 3	8%	5%	18%	19%
	Year 4	8%	5%		
	Year 5	8%	5%		
GEMchem	Year 1	1%	4%		
	Year 2	10%	9%		
	Year 3	10%	10%	18%	19%
	Year 4	10%	10%		
	Year 5	10%	10%		

Apart from the considerations described above in determining value-in-use of the cash-generating units, management is not currently aware of any other factors that would necessitate changes in its key estimates.

Management's key assumptions include stable gross profit margins, based on past experience in the market. The Company's management believes that this is the best available input for forecasting. Cash flow projections reflect stable gross profit margins achieved immediately before the budget period. No expected efficiency improvements have been taken into account and prices and wages reflect forecasts of inflation for the industry. There is significant estimation uncertainty involved in the determination of the recoverable amount of cash generating units.

12. Short-term borrowings:

The Company has an authorized credit facility of up to approximately $435,000 dependent on the level of certain UK accounts receivable balances. The available facility as at May 31, 2017 was in the amount of $435,000 (May 31, 2016 - $156,000), of which $Nil was utilized as at May 31, 2017 (May 31, 2016 - $Nil). The Company has continued access to this short-term financing facility.

(Expressed in Canadian dollars)

13. Trade payables:

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

	2017	2016
Trade payables	**$ 1,744,032**	$ 974,724

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

14. Other liabilities:

Other liabilities can be summarized as follows:

	2017	2016
Accruals	**$ 906,034**	$ 662,036
Other government remittances payable	**122,698**	110,163
	$ 1,028,732	$ 772,199

Included in accruals is $35,350 due to directors ($18,937 at May 31, 2016).

15. Deferred revenue:

	2017	2016
Deferred revenue relating to heat recovery solutions (note 6(a))	**$ 1,538,386**	$ 657,010
Deferred revenue relating to GEM™ product and services (note 6(b))	**88,431**	57,693
	$ 1,626,817	$ 714,703

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

(Expressed in Canadian dollars)

16. Provisions:

	Legal provision	Warranty provision	Total provisions
Balance, beginning of year	$	$ **25,000**	$ **215,000**
Additions	–	**17,387**	**17,387**
Balance, end of year	$ **190,000**	$ **42,387**	$ **232,387**

On October 25, 2005, the Company was served with a statement of claim from its past President. Among other things, the lawsuit alleges that the former president was wrongfully dismissed from his employment. Damages are claimed in the approximate amount of $4 million, plus an as yet undetermined value of share options, interest and legal costs. The Company has filed a statement of defence in response and has counterclaimed for approximately $5 million in damages plus interest and costs.

Two attempts have been made at a mediated settlement. Neither attempt has been successful. Although the lawsuit was commenced in October, 2005, the plaintiff has yet to take the proceeding to the point of oral examinations for discovery.

In May, 2010, the plaintiff brought a motion for summary judgement, seeking judgement in the amount of $1,105,047 plus interest and costs. This amount is comprised of: i) $398,737 allegedly owing as a result of wrongful dismissal and calculated as 24 months of salary, commissions, and related benefits; ii) $618,810 in alleged unpaid loans and advances; and iii) $87,500 in stock options which are alleged to have vested. The motion was heard on September 6 and 7, 2011 and on October 18, 2011 a decision was rendered. In its decision on the motion for summary judgement the court: i) Allowed the plaintiff's claim for wrongful dismissal assessing the damages for the plaintiff's wrongful dismissal at the equivalent of 18 months of pay in lieu of notice of termination; ii) Dismissed the plaintiff's claim for alleged unpaid loans and advances; iii) Permitted the remainder of the parties' claims and counterclaims to proceed to trial; iv) Declined to fix the amount of the damages for pay in lieu of notice of termination, suggesting instead that the parties try to agree on the amount; v) Stated that in the absence of the parties' agreement on the amount of damages for pay in lieu of notice of termination, the issue is to be referred to a Master; and vi) Stayed the execution of the partial summary judgement pending the determination of the outstanding claims at trial. The plaintiff has been awarded approximately $37,000 in costs to date and the Company has paid this amount. The parties have not yet discussed or agreed on the amount of the damages for wrongful dismissal, and there has, as yet, been no reference to a Master.

16. Provisions (continued):

The past President appealed from the dismissal of his claims for unpaid loans and advances. On September 25, 2012, the Court of Appeal for Ontario dismissed the appeal and ordered the appellant to pay the Company $8,000 toward its legal costs. As such, the remainder of the parties' claims and counterclaims will proceed to trial. In the event the past President and the Company cannot agree on the damages for his wrongful dismissal claim, the matter will be determined by the court.

Until the remaining issues are determined, it is unclear what the net balance payable between the parties will be and to which party it is to be paid and the ultimate net impact of the partial judgement on the Company remains unknown at present. While the Company is confident in the merits of its own case, there is much that is still unknown about the past President's case and the basis for his damages claim. In November 2009, the Company recorded a provision of $190,000 in its financial statements. This provision remains unchanged and is intended to account for future net liabilities resulting from the claim and the counterclaim.

Other than the legal provision of $190,000, the Company has another provision of $42,387 for warranty. This represents an increase of $17,387 over the previous year, reflecting the increased number of heat recovery projects and GEMTM traps sold.

(Expressed in Canadian dollars)

17. 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:

	Year ended May 31, 2017		Year ended May 31, 2016	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of year				
Unrestricted shares	**157,834,616**	**32,069,073**	159,014,616	32,308,827
Shares held in escrow	–	–	250,000	–
	157,834,616	**32,069,073**	159,264,616	32,308,827
Shares options exercised[1]	**1,254,334**	**162,256**		
Shares held in escrow cancelled	**–**	**–**	(250,000)	–
Shares purchased and cancelled[2]	**–**	**–**	(1,180,000)	(239,754)
Balance, end of year	**159,088,950**	**32,231,329**	157,834,616	32,069,073
Unrestricted shares	**159,088,950**	**32,231,329**	157,834,616	32,069,073
Balance, end of year	**159,088,950**	**32,231,329**	157,834,616	32,069,073

(1) During the year ended May 31, 2017,1,254,334 shares were issued following the exercise of stock options, resulting in an increase to capital stock of $162,256 and a reduction in contributed surplus of $41,780. There was no such activity in the year ended May 31, 2016.

(2) During the year ended May 31, 2017, no shares were purchased for cancellation by the Company. For the year ended May 31, 2016,1,180,000 Class A common shares were purchased for cancellation by the Company for a total purchase price of $51,448, resulting in a reduction to capital stock of $239,754 and an increase in contributed surplus of $188,306.

17. Capital stock (continued):

Normal Course Issuer Bid:

On February 17, 2016, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on February 12, 2016. During the 12-month period commencing February 15, 2016 and ending February 15, 2017, the Company was able to purchase on the TSX up to 12,758,701 common shares, representing approximately 8% of the then issued and outstanding common shares.

All of the Class A common shares purchased were purchased and cancelled directly under the NCIB for the year ended May 31, 2016.

The previously announced NCIB was approved by TSX Venture Exchange on November 3, 2014 and expired on November 3, 2015.

18. Capital management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of equity attributable to the owners of the parent, excluding accumulated other comprehensive income, which at May 31, 2017 totalled $3,185,619 (May 31, 2016 - $2,532,998). The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares. Management reviews the capital structure on a regular basis to ensure that objectives are met.

The Company's share capital is not subject to external restrictions.

(Expressed in Canadian dollars)

19. Non-controlling interest in subsidiaries:

The following table summarizes the information relating to each of the Company's subsidiaries that has non-controlling interests (NCI), before any intra-group eliminations.

There are no significant restrictions on the ability to access or use assets and settle liabilities of the group. There are no contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity.

	Year ended May 31, 2017			Year ended May 31, 2016		
	GEMchem Ltd.	**TEI (Guangzhou) Ltd.**	**Total**	GEMchem Ltd.	TEI (Guangzhou) Ltd.	Total
	$	**$**	**$**	$	$	$
NCI percentage	**33%**	**45%**		33%	45%	
Non-current assets	**574**	**–**	**574**	1,320	–	1,320
Current assets	**414,353**	**97,873**	**512,226**	363,104	162,470	525,574
Non-current liabilities	**680**	**–**	**680**	742	–	742
Current liabilities	**152,884**	**333,307**	**486,191**	133,078	292,658	425,736
Net assets (liabilities)	**261,363**	**(235,434)**	**25,929**	230,604	(130,188)	100,416
Carrying amount of NCI	**86,249**	**(105,944)**	**19,695**	76,099	(58,585)	17,514
Revenue	**912,151**	**-**	**912,151**	898,610	6,429	905,039
Profit (loss) after tax	**75,120**	**(104,305)**	**(29,185)**	69,353	(39,704)	29,649
Total comprehensive income (loss)	**56,154**	**(105,246)**	**(49,092)**	66,806	(37,540)	29,266
Profit (loss) allocated to NCI	**24,790**	**(46,938)**	**(22,148)**	22,886	(17,867)	5,019
Cash flows from operating activities	**86,105**	**(36,115)**	**49,990**	61,404	(35,389)	26,015
Cash flows from investing activities	**–**	**–**	**–**	–	–	–
Cash flows from financing activities	**(25,394)**	**40,395**	**15,001**	–	51,524	51,524
Net increase in cash and cash equivalents	**60,711**	**4,280**	**64,991**	61,404	16,135	77,539

20. Share-based payments:

The Company established the Company's Share Option Plan applicable to directors, officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date. The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. The vesting term for options granted is at the discretion of the Board of Directors.

(Expressed in Canadian dollars)

20. Share-based payments (continued):

Activity in stock options was as follows:

	Year ended May 31, 2017		Year ended May 31, 2016	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**22,718,720**	**0.08**	23,690,720	0.09
Granted	**500,000**	**0.12**	3,425,000	0.05
Forfeited	**(1,468,855)**	**0.08**	(2,334,500)	0.09
Expired	**–**	**–**	(2,062,500)	0.10
Exercised	**(1,254,334)**	**0.10**		
Outstanding, end of year	**20,495,531**	**0.08**	22,718,720	0.08
Options exercisable, end of year	**13,050,672**	**0.09**	14,187,693	0.09

The following tables summarize information about stock options outstanding:

At May 31, 2017:

Options outstanding				**Options exercisable**	
Range of exercise prices	**Number outstanding May 31, 2017**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at May 31, 2017**	**Weighted average exercise price**
0.05 - 0.07	**5,991,500**	**2.87**	**0.05**	**2,754,000**	**0.05**
0.07 - 0.10	**4,071,360**	**2.97**	**0.08**	**1,357,121**	**0.08**
0.10 - 0.12		**1.05**	**0.10**	**8,939,551**	**0.10**
	10,432,671				
	20,495,531	**1.96**	**0.08**	**13,050,672**	**0.09**

At May 31, 2016:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding May 31, 2016	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2016	Weighted average exercise price
0.05 - 0.07	6,497,000	3.84	0.05	2,048,000	0.05
0.07 - 0.10	4,474,360	3.98	0.08	1,491,453	0.08
0.10 - 0.12	11,747,360	1.86	0.10	10,648,240	0.10
	22,718,720	2.86	0.08	14,187,693	0.09

(Expressed in Canadian dollars)

20. Share-based payments (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. As at May 31, 2017 there was $65,209 (May 31, 2016 - $192,622) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Plan which are expected to be recognized over a term of three years.

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

	01-Dec-14	29-May-15	30-May-16	28-Nov-16
Grant date share price ($)(1)	0.08	0.06	0.04	0.12
Exercise price ($)	0.09	0.08	0.05	0.12
Expected volatility (%)(2)	89.64	87.70	90.20	97.75
Expected life (years)	4.00	4.00	4.00	4.00
Expected dividend yield (%)	0.00	0.00	0.00	0.00
Risk-free interest rate (%)	1.38	0.88	0.79	0.95
Forfeiture rate (%)	0.00	13.00	17.00	17.00

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

	2017	2016
Administration	**$ 77,446**	$ 117,714
Selling, marketing and business development	**39,820**	50,360
	$ 117,266	$ 168,074

21. Revenue:

	2017	2016
Sales of goods	**$ 5,505,564**	$ 4,430,090
Rendering of services	**1,393,773**	1,280,266
Contracts for heat recovery solutions	**6,292,770**	6,691,720
	$13,192,107	$12,402,076

Finance revenue comprises interest income earned from the finance lease. See note 8 “Finance lease receivable” for more details.

(Expressed in Canadian dollars)

22. Employee benefits expense:

	2017	2016
Salaries and benefits	**$ 5,043,148**	$ 4,842,212
Stock-based compensation (note 20)	**117,266**	168,074
Pension charge	**62,893**	77,290
	$ 5,223,307	$ 5,087,576

The Company contributes to defined contribution pension plans for permanent employees of two of its subsidiaries. The Company matches employee contributions. The plans and their assets are held by independent managers. The pension charge represents contributions paid by the Company.

23. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	2017	2016
Depreciation of property, plant and equipment (note 9)	**$ 38,114**	$ 38,344
Foreign exchange gain	**(110,332)**	(30,370)

(Expressed in Canadian dollars)

24. Income taxes:

The Company's effective tax rate differs from the combined federal and provincial income tax rate in Canada. This difference comes from the following items:

		2017		2016
Income before income taxes	$	**592,500**	$	356,474
Income taxes calculated using combined federal and provincial income tax rates in Canada of 26.50% (2016 - 26.50%)	$	**157,012**	$	94,466
Stock-based compensation		**31,075**		44,539
Difference in tax rate of foreign subsidiaries		**(12,586)**		(2,949)
Tax effect of temporary difference for which no deferred tax asset is recorded		**(15,687)**		23,558
Difference in future tax rates		**(802)**		–
Permanent differences and others		**40,756**		(62,008)
Current and deferred income tax provision	**$**	**199,768**	$	97,606
Current	**$**	**140,815**	$	83,409
Deferred		**58,953**		14,197
	$	**199,768**	$	97,606

Major components of the current tax expense are as follows:

Statutory income tax of the year	**$**	**140,722**	$	96,730
Adjustment for prior years		**93**		(13,321)
	$	**140,815**	$	83,409

Major components of the deferred tax expense are as follows:

		2017		2016
Origination and reversal of timing differences	**$**	**94,609**	$	14,197
Difference in future tax rates		**(802)**		–
Change in enacted tax rates		**(19,167)**		–
Tax effect of temporary difference for which no tax asset is recorded		**(15,687)**		–
	$	**58,953**	$	14,197

(Expressed in Canadian dollars)

24. Income taxes (continued):

Change in deferred tax balances in 2017:

	June 1, 2016 $	Recognized in income $	Recognized in other comprehensive income $	May 31, 2017 $
Provisions	**73,958**	**17,853**		**91,811**
Property, plant and equipment	**277,251**	**3,649**		**280,900**
Finance lease receivable	**(30,888)**	**(37,940)**		**(68,828)**
Non-capital losses	**(175,690)**	**(73,498)**		**(249,188)**
Intangible assets	**(141,186)**	**19,312**	**11,990**	**(109,884)**
	3,445	**(70,624)**	**11,990**	**(55,189)**
Recognized as deferred tax assets				**21,524**
Recognized as deferred tax liabilities				**(76,713)**
				(55,189)

Change in deferred tax balances in 2016:

	June 1, 2015 $	Recognized in income $	Recognized in other comprehensive income $	May 31, 2016 $
Provisions	66,016	7,087	855	73,958
Property, plant and equipment	274,372	2,879	–	277,251
Finance lease receivable	(60,443)	29,555	–	(30,888)
Non-capital losses	(121,485)	(53,718)	(487)	(175,690)
Intangible assets	(141,350)	–	164	(141,186)
	17,110	(14,197)	532	3,445
Recognized as deferred tax assets				20,902
Recognized as deferred tax liabilities				(17,457)
				3,445

(Expressed in Canadian dollars)

24. Income taxes (continued):

At May 31, the Company had the following temporary differences for which no deferred tax asset was recorded:

	2017	2016
Property, plant and equipment	**$ 827,979**	$ 951,015
Intangible assets	**2,739,157**	2,739,157
Provisions	**190,000**	190,000
Non-capital losses	**14,139,550**	14,073,035
	$ 17,896,686	$ 17,953,207

As at May 31, 2017, the Company had available non-capital income tax loss carry forwards in the following amounts for which no deferred tax asset was recognized. These tax loss carry forwards may be used to reduce federal and provincial taxable income:

Year of expiry	Amount
2025	$ 13,641
2026	1,276,366
2027	1,692,621
2028	1,441,849
2029	3,486,435
2030	3,032,173
2031	714,141
2032	43,753
2033	1,704,505
2035	171,249
2037	328,068
Total	$ 13,904,801

As at May 31, 2017, the Company had non-capital losses in foreign subsidiaries, for which no deferred tax asset was recorded in the amount of $234,749. All losses expire between 2018 and 2022.

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the parent is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of the temporary differences at May 31, 2017 was $1,118,966 (2016 - $666,184).

(Expressed in Canadian dollars)

25. Earnings per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2017 was based on the net income attributable to owners of the parent of $414,880 (2016 - $253,849), a weighted average number of basic common shares outstanding of 158,465,406 (2016 - 159,011,392) and a weighted average number of diluted common shares outstanding of 165,738,180 (2016 - 159,011,392).

The average market value of the Company's shares for purposes of calculating the dilutive effect of stock options was based on quoted market prices for the year during which options were outstanding.

The following tables summarize the calculation of the weighted average number of basic and diluted common shares:

	2017	2016
Issued common shares at beginning of year	**157,834,616**	159,014,616
Effect of shares issued	**630,790**	–
Effect of repurchase of shares	**–**	(3,224)
Weighted average number of basic common shares at end of year	**158,465,406**	159,011,392
Effect of stock options on issue	**7,272,774**	–
Weighted average number of diluted common shares at end of year	**165,738,180**	159,011,392

26. Operating lease commitments:

Thermal Energy International Inc. and its UK subsidiary have entered into lease agreements for the use of land and buildings, motor vehicles, telecommunication systems and other office equipment. These leases range from one to five years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

At May 31, 2017, the Company has operating lease commitments as follows:

	Total	Less than 1 year	1-5 years	More than 5 years
Operating leases	$ 301,884	$ 149,232	$ 152,652	$ –

Lease payments recognized as an expense for the year ended May 31, 2017 totalled $139,142 (2016 - $149,700).

(Expressed in Canadian dollars)

27. Financial instruments:

Financial risk management:

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company does not use derivative financial instruments to manage these risks, as management believes the risks arising from the Company's financial instruments to be at an already acceptably low level. The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk, and capital risk. These risks are discussed in more detail below.

(a) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange, will affect the Company's net earnings or loss or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximising returns.

(i) Foreign currency risk:

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table shows the foreign currency exchange risk on the financial assets and liabilities of the Company's operations denominated in currencies other than the functional currency of the different Company entities.

	Net financial assets/(liabilities) in CAD$		
	US $	Euros	Total CAD $
Functional currency of Company entity			
May 31, 2017			
Canadian Dollar	**1,133,586**	**–**	**1,133,586**
British Pound	**–**	**493,203**	**493,203**
	1,133,586	**493,203**	**1,626,789**
May 31, 2016			
Canadian Dollar	304,536	–	304,536
British Pound	(1,039)	294,242	293,203
	303,497	294,242	597,739

27. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

A 10% strengthening of the following currencies against the Canadian dollar would have had the following effect on operations and equity:

	2017			2016		
	US $	**Euros**	**Total**	US $	Euros	Total
Net income	**113,359**	**49,320**	**162,679**	30,350	29,424	59,774
Equity	**113,359**	**49,320**	**162,679**	30,350	29,424	59,774

The Company operates internationally with subsidiaries in the United Kingdom and China and operations in the United States. The Company earns revenues and incurs cost of sales, administration, selling, marketing and business development expenses in U.S. dollars, Euros and Chinese Renminbi. The majority of the foreign denominated transactions are in U.S. dollars, GBP and Euros.

The Company does not enter into arrangements to hedge its foreign exchange risk. The Company's policy is to endeavour to keep its net exposure to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk:

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates. The Company minimizes risk by investing only with credit worthy banking institutions or draws on its available facility with floating rate borrowings, as mentioned in liquidity risk above.

The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. There were no significant investments or borrowings to expose the Company to interest rate sensitivity either at May 31, 2017 or 2016.

27. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instruments that potentially expose the Company to credit risk are trade receivables, cash and cash equivalents, other miscellaneous receivables and finance lease receivable. Credit risk relating to the finance lease receivable is considered to be low, based upon the payment history of the customer.

The Company's management considers that all of the above financial assets that are not impaired or past due at each of the reporting dates under review are of good credit quality.

Accounts receivable

Each new customer is assessed individually for creditworthiness before standard payment and delivery terms and conditions are offered. Consideration is given to the country and industry in which the customer operates, as well as maturity of the customer, existence of previous financial difficulties and general reputation. Within the US market for GEM products, a significant percentage of revenue is attributable to a small number of country-wide distributors with whom the Company has a trading history of at least two years. Within the European market for GEM products, credit insurance is available in accordance with the existing borrowing facility held by the UK subsidiary. In the case of refused credit insurance, a full or partial deposit is required from the customer which will at least cover the cost of producing the goods. Documentary credits may be requested for larger orders to geographical regions where credit insurance is not applicable. Goods are sold subject to retention of title clauses, so that in the event of non-payment, the Company may have a secured claim.

Contracts for heat recovery solutions are planned to help achieve positive cash flows throughout the life of the project. A project may be halted pending payment by a customer, thus preventing further commitments under the contract.

The amounts reported for trade receivables in the statement of financial position are net of allowances for doubtful accounts. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (see note 5), trade receivables, other miscellaneous receivables (see note 6) and finance lease receivable (see note 8). In determining the fair value of the finance lease, the Company uses the discounted cash future cash flows of the asset, being the minimum lease payments, discounted using a rate of 14.3% - rate implicit in the lease. The fair value of the finance lease receivable at May 31, 2017 was $319,161.

The credit risk for cash and cash equivalents is considered negligible, since the counter-parties are reputable banks with high quality external credit ratings.

(Expressed in Canadian dollars)

27. Financial instruments (continued):

Financial risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations of its financial liabilities that are settled by cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources such as bank loans for an authorized amount. The Company continues to actively seek external financing to ensure it has the necessary funds to fulfill its obligations. In addition, a UK subsidiary of the Company has access to borrowings secured against certain accounts receivable.

As at May 31, 2017, the Company's financial liabilities, which consist of trade payables and other liabilities, have a carrying value of $2,772,764 ($1,746,923 at May 31, 2016) and are all due within one year.

28. 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:

	2017	2016
Salaries and other short-term employee benefits	**$ 1,013,940**	$ 1,163,528
Share-based payments	**54,376**	77,189
	$ 1,068,316	$ 1,240,717

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 year 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 year.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2017

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 results of operations for the fiscal year ended May 31, 2017 (or "FY 2017"), and compares the FY 2017 financial results to the previous year ended May 31, 2016 (or "FY 2016"). The consolidated financial statements and notes to the consolidated financial statements 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 2017 are against the fourth quarter of FY 2016. 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 55% of our operations, assets and liabilities are denominated in British Pound Sterling. 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 22, 2017. Disclosure contained in this document is current to this date, 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 7 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 8 entitled "Forward-Looking Information".

Table of Contents

1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is an innovative cleantech company and 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, U.S., China and sales worldwide.

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; lower 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 in the energy efficiency industry in North America, Europe, China and the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions (**FLU-ACE**®) and condensate return system solutions (**GEM™** steam traps). The Company is also developing a third technology line - low temperature biomass drying systems (**DRY-REX™)**.

Before 2007, the Company concentrated mainly on the selling of heat recovery systems but had begun selling GEM™ product through a distribution agreement with Gardner Energy Management Limited, based in the U.K. In 2008, the Company acquired Gardner Energy Management Limited, which sells the GEM™ product throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a U.K.-based water treatment company providing services within the U.K. only.

The acquisition of Gardner Energy Management Limited resulted in the Company having two primary operational bases, one in Ottawa, Canada covering North America and China, and the other in Bristol, United Kingdom, covering Europe and the rest of the world. Although the Ottawa base is deemed to be the center of excellence for the heat recovery side of the business and Bristol the center of excellence for condensate return system solutions, continuous cross-training means that both bases have expertise across both major product lines.

Although the Company markets its products throughout the world, the majority of sales are from within North America and Europe, due to the proximity to the Company's bases. While this continues to be the key focus, the Company also continues to look for new distributors in 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 but our current focus is on the key markets of North America, Europe and the Middle East. Despite significant growth over the last few years, Thermal Energy's penetration in these markets remains low and therefore the Company plans to continue growing our sales and distribution capabilities in these markets while at the same time begin to build our 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 multinational companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors. So far the Company has only partially penetrated 100 of the more than 2,000 global sites of these multi-national companies. Thermal Energy has executed a corporate-wide global roll-out of our product with two of these multi-national companies and is currently working with additional companies with the goal of executing similar corporate roll-outs.

With a global sales and distribution network the Company also has the opportunity to introduce new synergistic products and services, and acquire complementary products and businesses that can be distributed through our existing network.

Finally, the Company is also developing a number of recurring revenue streams such as rental and shared savings programs as well as service and maintenance programs.

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 Adjusted Operating Cash Flow

Adjusted operating cash flow (defined as income (loss) for the period, as adjusted for revenue recorded upon signing of a finance lease, plus items not involving cash but excluding any changes in working capital items, plus finance lease payments received) is a performance measure used to gauge the cash generating capability of the Company. The impact changes in working capital items has on cash balances is excluded from the calculation of operating cash flow because changes in working capital items are usually only temporary and can fluctuate significantly from period to period and therefore are not a good indicator of the Company's longer term cash generating capabilities.

It is important to note that cash flow is not the same as net income, which includes transactions that did not involve actual cash outflows and excludes some transactions that did involve actual cash inflows. The calculation of adjusted operating cash flow starts with net income as identified in the Consolidated Statements of Comprehensive Income and then adds or subtracts a number of items identified in the Statement of Cash Flows. Adjusted operating cash flow 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. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is net cash provided (used) in operating activities, as disclosed in the statement of cash flows.

2.2 EBITDAS

Management believes that EBITDAS (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 non-operating items. EBITDAS also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDAS 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. The most directly comparable measure calculated in accordance with generally accepted accounting principles within the financial statements is income (loss) before income taxes, as disclosed in the statements of comprehensive income.

2.3 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 generally accepted accounting principles or International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

3. Performance

3.1 Summary of Fourth Quarter Results

	Q4 2017	Q4 2016
	$	$
Revenue	**4,754,080**	4,123,246
Cost of Sales	**(2,375,537)**	(2,075,533)
Gross Profit	**2,378,543**	2,047,713
Administration, selling, marketing and business development expenses	**(1,989,143)**	(1,840,498)
Research and development (expenses) recovery	**28,966**	112,270
Operating income	**418,366**	319,485
Finance Revenue	**4,426**	4,911
Income before income taxes	**422,792**	324,396
Income taxes (expense) recovery	**(69,016)**	(56,283)
Net income for the period	**353,776**	268,113
Exchange differences on translation of overseas operations	**161,978**	40,763
Total comprehensive income for the period	**515,754**	308,876

Revenues and Gross Profits

Revenues were $4,754,080 in the quarter ended May 31, 2017, representing an increase of $630,834, or 15.3%, compared to $4,123,246 in the quarter ended May 31, 2016. Sales of heat recovery systems increased by $17,222 (1.2%) over the same period in the previous year, while sales of GEM™ condensate return systems increased by $613,612 (35.4%).

Revenues from sales of heat recovery systems in the current quarter included the substantial completion of an installation at a major hospital, as announced November 2, 2016, the partial delivery of a system to a leading producer of industrial and fuel alcohols, as announced September 28, 2016, plus the further extension of the finance lease in May 2017. In comparison, the same period of the previous year saw the substantial completion of installations at two major hospitals, as announced October 29, 2015 and November 23, 2015, as well as the second half of a project at another hospital, as announced November 5, 2015 and the substantial completion of the project at an animal feed supplier, as announced November 11, 2015.

The increase in GEM™ condensate return system sales in the final quarter of FY 2017 over the same period of the prior year was due mainly to sales to a leading chemical producer as well as the fulfilment of orders from a further three sites of the Fortune 500 food and beverage company, which has already had a number of site conversions to GEM™. The final quarter of FY 2016 saw lower sales to the chemical producer and partial fulfilment of one order from the same food and beverage company.

The gross profit of $2,378,543 in the quarter ended May 31, 2017 represented an increase of $330,830, or 16.2%, from the $2,047,713 achieved in the quarter ended May 31, 2016. The increase was solely the result of increased GEM™ revenues. Gross profit expressed as a percentage of sales was 50.0% in the final quarter of FY 2017 compared with 49.7% in the final quarter of FY 2016.

Expenses

Administration, selling, marketing and business development expenses in the quarter ended May 31, 2017 totaled $1,989,143 compared to $1,840,498 in the quarter ended May 31, 2016, an increase of $148,645. This increase was predominantly the result of higher commissions associated with the revenues, plus a staff incentive in the current year, as well as costs associated with a new salesperson and technical staff members plus the provision against an ageing debt. These cost increases were partially offset by an improvement in net foreign exchange losses in the final quarter of FY 2017 over the same period of the previous year which saw a strengthening of Sterling against the Canadian dollar.

Research and development credits relating to SR&ED claims accrued in the final quarter of FY 2017 gave rise to a net credit of $28,966, compared to $112,270 in the final quarter of FY 2016, which included an increase in the prior year's claim as well as the current period.

Finance revenue in the fourth quarter of FY 2017 of $4,426 compared to $4,911 recognized in the fourth quarter of FY 2016. The interest rate implicit in the lease of 14.3% is applied against the reducing finance lease receivable balance, hence lower finance revenues as the term of the agreement progresses.

Income before income taxes for the quarter ended May 31, 2017 was $422,792 compared to $324,396 in the same quarter of the previous year.

Income tax charge in the fourth quarter of FY 2017 was $69,016, compared to a charge of $56,283 in the fourth quarter of FY 2016. Taxes are payable on profits made in subsidiaries in both the U.S. and the U.K.

Net income for the fourth quarter of FY 2017 was $353,776 compared to $268,113 in the same quarter of the previous year.

Comprehensive income was $515,754 for the final quarter of FY 2017 compared to $308,876 for the final quarter of FY 2016. Both periods saw a weakening of the Canadian dollar against the U.K. pound sterling from the end of the February quarter, hence the higher comprehensive income arising from the translation of assets recorded in sterling.

3.2 Review of Year End Results

	2017	2016
	$	$
Revenue	**13,192,107**	12,402,076
Cost of Sales	**(5,753,532)**	(5,608,071)
Gross Profit	**7,438,575**	6,794,005
Administration, selling, marketing and business development expenses	**(6,789,868)**	(6,421,215)
Research and development expenses	**(67,730)**	(41,846)
Operating income	**580,977**	330,944
Finance Revenue	**11,523**	25,530
Income before income taxes	**592,500**	356,474
Income taxes expense	**(199,768)**	(97,606)
Net income for the period	**392,732**	258,868
Exchange differences on translation of overseas operations	**(218,436)**	(4,031)
Total comprehensive income for the period	**174,296**	254,837

Revenues and Gross Profits

Revenues were $13,192,107 in FY 2017 compared to $12,402,076 in FY 2016, an increase of $790,031, or 6.4%. Sales of heat recovery systems decreased by $389,191 (9.4%), while sales of GEM™ condensate return systems increased by $1,179,222 (28.6%).

FY 2017 included the substantial completion of installations at two major hospitals as well as the substantial completion of an extension project at another major hospital which had a heat recovery system installed in FY 2016. Other projects completed in the year included an installation at a global brewing company, as announced August 8, 2016, an installation at a leading food products business, as announced May 3, 2016 and a second equipment sale to a global mining company. In addition, an equipment sale to a leading producer of industrial and fuel alcohols, as announced September 28, 2016, was partially complete by year end, plus negotiations for the final extension to the finance lease were completed in May 2017. The previous fiscal year saw three hospital projects, as well as installations at a world-leading food and beverage company, as announced April 29, 2015, a packaged foods business, as announced December 1, 2014, a leading dairy supplier, as announced March 4, 2015, a leading animal feed supplier, as announced November 11, 2015, and a gypsum company, as announced October 26, 2015, plus an equipment supply to a district heating co-operative.

GEM™ condensate return systems sales in FY 2017 were $6,652,146 compared to $5,472,924 in FY 2016. Although the previous year saw the Company's largest ever single GEM order, from a leading pharmaceutical company, as announced August 17, 2015, current year sales exceeded the previous year by $1,179,222 due predominantly to an increase in orders from a leading performance materials company, as well as orders from an international textiles manufacturer and a multinational biotech company, as reported in the press release dated September 20, 2016, plus two hospitals, as announced August 8, 2016 and September 14. Sales of GEM™ product increased generally in both North America and U.K. and the rest of the world.

FY 2017 gross profit of $7,438,575 represents an increase of $644,570, or 9.5%, over the $6,794,005 achieved in FY 2016. The gross profit expressed as a percentage of sales was 56.4% in FY 2017 compared with 54.8% in FY 2016.

Expenses

Administration, selling, marketing and business development expenses in FY 2017 totaled $6,789,868, compared to $6,421,215 in FY 2016, an increase of $368,653, or 5.7%. The increased commissions on the higher revenues and a staff incentive provision were the main contributors to the increase, along with recruitment costs associated with the addition of sales staff and technical staff and the replacement of finance staff, plus increased advertising and promotional spend and the bi-annual sales meeting which was held in June 2016 and the provision against an ageing debt. These increases were partially offset by decreases in stock based compensation plus foreign exchange gains predominantly from the weakening of U.K. pound sterling against both the Canadian and U.S. dollar.

Research and development costs in FY 2017 totaled $67,730, compared to $41,846 in FY 2016. During the current year, the company recorded SR&ED credits receivable totaling $63,594, compared to $98,845 in the previous year, which included an adjustment for an earlier year's under-provision.

Finance revenue in FY 2017 was $11,523, a decrease of $14,007 from the $25,530 received in FY 2016. April 2017 saw the expiry of the existing lease, which was further extended in May 2017 by an additional 24 months to April 2019.

Income before income taxes for the fiscal year ended May 31, 2017 was $592,500 compared to $356,474 for the fiscal year ended May 31, 2016.

Income tax charge in FY 2017 was $199,768, compared to $97,606 in the previous year. This change is due to improved results of both the U.K. entity and the North American entity.

Net income for FY 2017 was $392,732, compared to $258,868 in the year ended May 31, 2016.

Comprehensive income was $174,296 in the year ended May 31, 2017, compared to $254,837 in the previous year. U.K. Sterling weakened against the Canadian Dollar in FY 2017, giving rise to an exchange loss on translation of overseas operations of $218,436. In comparison, the previous year saw less fluctuation, resulting in a smaller loss of $4,031.

Liquidity & Capital Resources

The working capital was $1,669,699 at May 31, 2017 compared to working capital of $976,374 at May 31, 2016 – an increase of $693,325, with the Company's net cash position (Cash and cash equivalents less Bank loans) increasing by $1,806,992 from $1,143,148 as at May 31, 2016 to $2,950,140 as at May 31, 2017.

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

	Aug 31, 2015 $	Nov 30, 2015 $	Feb 29, 2016 $	May 31, 2016 $	Aug 31, 2016 $	Nov 30, 2016 $	Feb 28, 2017 $	May 31, 2017 $
Current Assets	2,641,290	3,747,206	4,018,307	3,834,124	3,400,711	5,066,120	5,363,954	6,221,714
Current Liabilities	2,512,531	3,528,790	3,317,835	2,857,750	2,502,425	3,806,596	4,149,552	4,790,917
Working Capital	128,759	218,416	700,472	976,374	898,286	1,259,524	1,214,402	1,430,797

FY 2017 Changes

Current assets increased in FY 2017 by $2,387,590 to $6,221,714, mostly due to in the increase in cash balances of $1,806,992 plus an increase in trade receivables from sales made towards the end of the period. Current liabilities meanwhile increased by $1,933,167 to $4,790,917. Main increases were to trade payables of $769,308 and deferred revenue of $912,114 relating to heat recovery projects in progress at year end plus other liabilities, which increased by $256,533, mainly due to accruals for commission and staff incentive payable.

As at May 31, 2017, $46,840 (2.0%) of the Company's trade receivables balance was over 90 days past due, none of which is considered impaired.

At May 31, 2017, the Company had operating lease commitments as shown below. The Company had no purchase obligations:

	Total $	Less than 1 year $	1-5 years $	More than 5 years $
Operating Leases	301,884	149,232	152,652	nil

Net cash provided by operating activities in the year ended May 31, 2016 was $1,680,114. Net cash provided by investing activities of $72,867 comprised $111,031 finance lease principal payments received less $38,164 paid for net additions to property, plant and equipment. Net cash provided by financing activities of $112,096 comprised $120,476 from the exercise of share options less $8,380 dividends paid out to the minority shareholder of a UK subsidiary. After allowing negative $58,085 for the effect of exchange rate fluctuations on cash and cash equivalents, the net result of the above activities was an increase in cash balance of $1,806,992.

Adjusted operating cash inflow (defined as net income or loss attributable to the owners of the parent, as adjusted for revenue recorded upon signing of a finance lease, plus items not involving cash, after net tax and interest cash inflows or outflows, plus finance lease payments received) for the year ended May 31, 2016 was $478,472. After adjusting this for $1,312,674 of positive changes in non-cash working capital items and deducting $38,164 for the net purchase of fixed assets, adding $112,095 generated by financing activities, and deducting $58,085 to allow for the effect of exchange rate fluctuations on cash and cash equivalents, the net cash inflow was $1,806,992, increasing the net cash balance as at May 31, 2017 to $2,950,140 from $1,143,148 as at May 31, 2016.

In addition to its net cash balance of $2,950,140 as at May 31, 2017 the Company also had an estimated $435,000 of unused borrowing capacity under its bank loans.

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. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

Management is of the opinion that sufficient working capital will be obtained from future cash flows by achieving profitable operations through continuing to manage expenditures, concentrating on building upon revenue levels experienced in 2016 and 2017 and growing revenues at growth rates experienced in the years ended May 31, 2010 through May 31, 2014.

A reconciliation of Net cash provided (used) in operating activities to adjusted operating cash flow is shown below:

	2015 $	2016 $	2017 $
Net cash provided (used) in operating activities	(1,806,222)	418,167	1,680,115
Changes in working capital	(322,219)	180,106	(1,312,674)
Finance lease principal payments received	724,014	111,524	111,031
Adjusted operating cash flow	(1,404,427)	709,797	478,472

Net Investment in Lease

The Company’s net investment in lease includes the following:

	May 31, 2017 $	May 31, 2016 $
Total estimated minimum lease payments receivable	319,161	125,054
Less: unearned income	(59,434)	(8,494)
	259,727	116,560
Less: current portion	(77,328)	(116,560)
	182,399	-

Finance lease receivable relates to one arrangement. The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs. On December 31, 2012, the lease with Fortress Specialty Cellulose, as signed on June 29, 2010, expired. On November 27, 2012, an agreement was signed whereby the customer agreed to purchase the recovered energy for a further two years, after which the customer had the option to renew for an additional 24 months on substantially the same terms or purchase the asset from the Company.

On December 22, 2013, the site commenced a market downtime for a period of ten weeks, following the imposition of an interim duty in China on the import of Canadian dissolving pulp, further to which on April 11, 2014, an agreement was made to further extend the existing lease by five months to mid-May 2015.

On May 1, 2015, the customer signed a further extension for 24 months to May 1, 2017. Pursuant to this new extension, the customer has agreed to pay up to $12,000 per month over two years, at the end of which the customer has the option to purchase the asset from the Company.

On May 1, 2017, a final extension agreement was signed for 36 months to May 1, 2020. Pursuant to this new extension, the customer has agreed to pay up to $9,500 per month over three years, at the end of which the customer assumes full ownership of the equipment.

Until the expiry of the new lease on May 1, 2020, finance revenue will be recognized within the consolidated statements of comprehensive income at the interest rate implicit in the lease.

The estimated minimum lease payments receivable in this lease represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset and the operations of the plant in which it is located.

Future estimated minimum lease payments receivable, and expected residual value of equipment at the end of the lease, under the sales-type lease are as follows:

	$
Less than one year	109,554
Between two and five years	209,607
Residual value of equipment	-
	319,161

Related Party Transactions

Options outstanding for Directors (excluding the CEO) as at May 31, 2017 were 1,250,000 of which 583,334 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2017 were 9,305,787 of which 6,158,096 were exercisable. There were no warrants outstanding for Senior Management.

Directors and Senior Management Compensation

During the year ended May 31, 2017 compensation arrangements for directors was as follows:

Until November 27, 2016: $15,000 per annum per Director plus an additional $9,000 per annum payable to the Chairman of the Board, $6,000 per annum payable to the chairperson of the Audit Committee, $6,000 per annum payable to the chairperson of the Ethics Committee and $1,000 payable for each in-person meeting.

From November 28, 2016: $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.

During the year ended May 31, 2017, Directors fees paid were $84,913. Fees to the Chairperson of the Audit Committee were $5,695; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $5,695, fees paid to the Chairman were $8,542; and a total of $29,000 was paid for in-person meetings.

Compensation paid to directors and officers during the year ended May 31, (inclusive of the amounts described above but excluding stock based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2017 **$**	2016 $	**2017** **$**	2016 $	**2017** **$**	2016 $	**2017** **$**	2016 $
Directors								
M. Williams	**22,187**	26,000	**-**	-	**-**	-	**22,187**	26,000
J. Kelly	**27,780**	29,000	**-**	-	**-**	-	**27,780**	29,000
W. Ollerhead	**21,982**	20,000	**-**	-	**-**	-	**21,982**	20,000
B. Linton(3)	**-**	20,687	**-**	-	**-**	-	**-**	20,687
J. Schoenmakers	**23,932**	22,313	**-**	-	**-**	-	**23,932**	22,313
D. Spagnolo	**19,238**	20,000	**-**	-	**-**	-	**19,238**	20,000
K. Milsom (3)	**9,863**	-	**-**	-	**-**	-	**9,863**	-
W. White (3)	**8,863**	-	**-**	-	**-**	-	**8,863**	-
Total	**133,845**	138,000	**-**	-	**-**	-	**133,845**	138,000
Senior Management								
W. Crossland	**240,000**	240,000	**42,077**	28,658	**3,735**	4,440	**285,812**	273,098
J. Flynn(1)	**146,378**	168,373	**25,058**	17,677	**26,218**	28,661	**197,654**	214,711
R. Triebe	**167,347**	153,699	**25,058**	17,677	**7,457**	8,006	**199,862**	179,382
S. Mawby(1)(2)	**145,832**	106,904	**25,058**	17,677	**25,877**	19,704	**196,767**	144,285
Total	**699,557**	668,976	**117,251**	81,689	**63,287**	60,811	**880,095**	811,476
Total Related Party Transactions	**833,402**	806,976	**117,251**	81,689	**63,287**	60,811	**1,013,940**	949,476

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) Ms. Flynn and Mr. Mawby are compensated in U.K. Pound sterling. Average exchange rate to Canadian dollar was 1.693 and 1.975 in FY 2017 and FY 2016 respectively.

(2) Mr. Mawby was on parental leave between June 15, 2015 and November 8, 2015.

(3) Mr. Linton resigned and Ms. Milsom and Mr. White were appointed on November 28, 2016.

Normal Course Issuer Bid

On February 17, 2016, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on February 12, 2016. During the 12-month period commencing February 15, 2016 and ending February 15, 2017, the Company was able to purchase on the TSX up to 12,758,701 common shares, representing approximately 8% of the then issued and outstanding common shares.

The actual number of common shares purchased, if any, and the timing of such purchases was to be determined by the Company by considering market conditions, share prices, its cash position, and other factors. All of the Class A common shares purchased were purchased and cancelled directly under the NCIB for the year ended May 31, 2016.

The previously announced NCIB was approved by TSX Venture Exchange on November 3, 2014 and expired on November 3, 2015.

In the year ended May 31, 2017 the Company purchased no common shares (2016: 1,180,000 shares purchased for a total purchase price of $51,488).

Segmented Information

In the years ended May 31, 2017 and May 31, 2016, the Company operated in the energy efficiency industry in North America, Europe, China and the 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, Europe and China.

Management reporting comprises analysis of revenue and gross profit by product segment 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 Canada covering North America and China, 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 year ended May 31, 2017 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**6,357,723**	5,603,330	**6,834,384**	6,798,746	-	-	**13,192,107**	12,402,076
Cost of sales	**(2,886,324)**	(2,520,316)	**(2,867,208)**	(3,087,755)	-	-	**(5,753,532)**	(5,608,071)
Gross profit	**3,471,399**	3,083,014	**3,967,176**	3,710,991	-	-	**7,438,575**	6,794,005
Other expenses	**(2,885,103)**	(2,463,536)	**(2,859,750)**	(2,813,507)	**(1,112,745)**	(1,186,018)	**(6,857,598)**	(6,463,061)
Finance revenue	**11,523**	25,530	**-**	-		-	**11,523**	25,530
Income (loss) before taxation	**597,819**	645,008	**1,107,426**	897,484	**(1,112,745)**	(1,186,018)	**592,500**	356,474
Tax (expense) recovery	**(102,766)**	(71,603)	**(188,459)**	(142,428)	**91,457**	116,425	**(199,768)**	(97,606)
Profit (loss) after taxation	**495,053**	573,405	**918,967**	755,056	**(1,021,288)**	(1,069,593)	**392,732**	258,868
Attributable to:								
Owners of the parent	**541,991**	591,272	**894,177**	732,170	**(1,021,288)**	(1,069,593)	**414,880**	253,849
Non-controlling interest	**(46,938)**	(17,867)	**24,790**	22,886	**-**	-	**(22,148)**	5,019

Reconciling items comprise the following:

	2017	2016
	$	$
Corporate administration costs	**894,136**	849,642
Stock-based compensation	**117,266**	168,074
Professional fees	**137,418**	122,909
Depreciation of property, plant and equipment	**38,114**	38,344
Bank charges and interest	**36,143**	37,419
Foreign exchange differences	**(110,332)**	(30,370)
Total	**1,112,745**	1,186,018

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.

During the year ended May 31, 2017, the Company had one customer in North America that accounted for 10.2% of total group revenue for the year.

During the year ended May 31, 2016, the Company had one customer in Europe and the rest of the world that accounted for 13.1% of total group revenue for the year.

Further geographical analysis:

	Sales for the year ended May 31,		Property, plant and equipment as at May 31,		Goodwill and intangibles assets as at May 31,		Finance lease receivable (non-current) as at May 31,	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$	$	**$**	$	**$**	$	**$**	$
Canada	**1,708,140**	326,567	**40,984**	50,380			**182,399**	-
U.S.A.	**4,649,583**	5,270,334						
U.K.	**4,561,505**	6,125,908	**35,639**	28,057	**1,874,529**	2,047,246		
Italy	**1,454,195**	121,152						
Netherlands	**63,338**	124,629						
Ireland	**83,446**	26,939						
Germany	**189,388**	132,326						
Greece	**166,105**	-						
Rest of Europe	**171,896**	31,413						
India	**86,912**	44,897						
Kenya	**38,187**	109,414						
China	**-**	6,429						
Rest of world	**19,412**	82,068						
Total	**13,192,107**	12,402,076	**76,623**	78,437	**1,874,529**	2,047,246	**182,399**	–

Material Segmentation Variances

Revenue

North America and China: revenue for the year ended May 31, 2017 was $6,357,723 compared to $5,603,330 for FY 2016. Heat recovery revenue increased by $323,310. Although FY 2016 saw the substantial completion of three turnkey projects plus an equipment sale, revenue was higher in the current year due to the size of the two projects substantially completed during the period. Revenue from sales of GEM™ products meanwhile increased by $431,083. A further five orders were received from a major Fortune 500 food and beverage company during the current year, following six orders in the prior year. Whilst the order from a healthcare company, as announced August 17, 2015, was substantially fulfilled in the previous year, increases in orders from a leading chemical manufacturer plus general sales within the region more than made up for this.

Europe and the rest of the world: revenue for the year ended May 31, 2017 was $6,834,384 compared to $6,798,746 for the previous year. Heat recovery revenue decreased by $712,501 in FY 2017, due to smaller value projects within the hospital sector. In FY 2017, the Company did complete its first turnkey in Europe, outside of the U.K.. Revenue from sales of GEM™ products meanwhile increased by $748,139 from FY 2016, with two hospital conversions, compared to one in the previous year, and improved sales across Europe generally.

Segment Income (loss) Before Tax

North America and China: Gross profit increased by $388,385 in FY 2017 over the previous year. As a percentage of revenue, gross profit was 54.6% in FY 2017, compared to 55.0% achieved in FY 2016. Other expenses in the region increased by $421,567 (17.1%), due to increased commissions payable and profit related incentive, plus an additional sales manager and technical staff, costs relating to the two-yearly sales conference which was held in the current year and increased advertising and promotional costs, and the provision against an ageing Chinese debt. With finance revenue decreasing by $14,007 as the finance lease progresses, the resulting segment income before tax of $597,819 represented a reduction of $47,181 from the previous year.

Europe and the rest of the world: gross profit increased in the year ended May 31, 2017 over the previous year by $256,185, as a result of the increased revenues, with gross profit as a percentage of revenue increasing from 54.6% to 58.0% due to the increase in GEM revenue. As with North America, the increase in other expenses represents increased commissions payable and profit related incentive, plus an additional sales manager and technical staff. These increases were softened by the weakening of the pound against the Canadian dollar. The resulting pre-tax income of $1,107,426 compared to $897,484 in the prior year, an improvement of $209,942.

Other expenses within Reconciling items, which incorporates all costs not specifically attributable to either regional operational center, decreased in FY 2017 from the prior year by $73,273. An increase in profit related incentive was more than offset by reduced stock based compensation expense plus a gain on foreign currency translation, due to the weakening of U.K. Sterling against the Canadian dollar.

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, 2015, 2016 and 2017

	2015 $	2016 $	2017 $
Revenue	6,800,192	12,402,076	13,192,107
Gross Profit	3,628,105	6,794,005	7,438,575
Gross Profit Percentage	53.4%	54.8%	56.4%
EBITDAS(1)	(2,048,552)	564,179	749,762
Total net income (loss) attributable to owners of the parent	(2,151,385)	253,849	414,880
Net profit (loss) per share – basic and diluted	(0.013)	0.002	0.003
Total assets	5,896,865	5,980,709	8,376,789
Total long term financial liabilities	0	0	0
Cash dividends declared per share	0.00	0.00	0.00
Adjusted operating cash flow(2)	(1,404,427)	709,797	478,472

(1) EBITDAS represents earnings before interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share-based compensation expense and net write down of lease.
(2) Adjusted operating cash flow represents net income (loss) plus items not involving cash, plus lease payments received.

A reconciliation of Net income (loss) to EBITDAS is shown below:

	2015 $	2016 $	2017 $
Total net income (loss) attributable to owners of the parent	(2,151,385)	253,849	414,880
Total net income (loss) attributable to non-controlling interest	(3,432)	5,019	(22,148)
Interest paid	4,473	4,692	4,015
Interest received	(129)	(3,405)	(2,133)
Taxation	(163,454)	97,606	199,768
Depreciation	36,077	38,344	38,114
Share based compensation	229,298	168,074	117,266
EBITDAS	(2,048,552)	564,179	749,762

Despite the weakening of U.K. Sterling against the Canadian dollar, FY 2017 generated $790,031 more revenue than FY 2016, an increase of 6%. All of this increase came from sales of GEM traps, both within North America and Europe, and the result was an increase in gross profit of $644,570. Most of the increase in costs was the direct result of the increased revenue, with commissions and incentive payable being higher than in the previous year. Over the current year, cash balances grew by $1,806,992, contributing to the overall increase in total assets of $2,396,080 from May 31, 2016.

FY 2016 provided $5,601,884 more revenue than FY 2015 – an increase of 82%. Whereas the previous year saw just one heat recovery order from a hospital, which was partially completed that year, the current year included the completion of that project as well as two other hospital conversions and a significant extension project at the first site. In addition, FY 2016 included three FLU-ACE® projects from other markets as well as two equipment sales, compared to two conversions and one smaller equipment sale in the prior year. Revenue from the sale of GEM™ products in North America increased by $2,116,969 in the current year, much of which was due to orders from three customers, but also some resulting from a general increase in orders from that region. This increase in revenue contributed directly to the increase in gross profit, with the main increases in other expenses also being the result of the increased activity, as commissions payable and incentive payable being higher than in FY 2015. Total assets grew by $83,844 in the current year, with an increase in cash balances of $427,805 being partially offset by a decrease in finance lease receivable and current tax assets, due to the profits realized in the U.K. entity this year.

FY 2015 saw a 48% drop in revenue from the previous year, with a corresponding 48% decrease in gross profit to $3,628,105. Sales to hospitals fell drastically in FY 2015, with no entire heat recovery conversions or GEM™ installations being recorded. In the U.K., a number of expected projects were delayed due to the increased use of third parties to review and often manage energy reduction programs on behalf of the estates departments. This was a major contributory factor in the drop in both heat recovery and GEM sales, and consequently gross profit, in FY 2015. Despite lower commissions payable and no staff incentive due in FY 2015, other expenses were just 5% less than in FY 2014 due to increased costs relating to the extra sales and marketing staff added towards the end of FY 2014. Total assets fell in FY 2015 by $1,549,099, predominantly as a result of the decreased cash balance due to the performance in the year. The decrease in finance lease receivable was partially offset by increases in trade receivables and deferred tax assets.

Quarterly financial information (unaudited)
For the eight quarters ended May 31, 2017

Quarter ended	31-May-17 $	28-Feb-17 $	30-Nov-16 $	31-Aug-16 $
Revenue	4,754,080	3,224,530	3,078,744	2,134,753
Gross Profit	2,378,543	1,675,233	1,929,114	1,455,685
Gross Profit Percentage	50.0%	52.0%	62.7%	68.2%
EBITDAS(1)	462,964	(1,811)	285,307	3,302
Total net income (loss)	353,776	(56,472)	175,158	(79,730)
Income (loss) per share, basic and diluted	0.002	0.000	0.001	(0.001)

Quarter ended	31-May-16 $	29-Feb-16 $	30-Nov-15 $	31-Aug-15 $
Revenue	4,123,246	3,220,621	2,501,595	2,556,614
Gross Profit	2,047,713	2,029,240	1,617,282	1,099,770
Gross Profit Percentage	49.7%	63.0%	64.6%	43.0%
EBITDAS(1)	376,858	504,654	83,538	(400,871)
Total net income (loss)	268,113	417,722	25,630	(452,597)
Income (loss) per share, basic and diluted	0.001	0.003	0.000	(0.003)

(1) EBITDAS represents earnings before interest, taxation, depreciation, amortization, share-based compensation expense and net write down of lease.

4. 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 2.3 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, 2017 was approximately $4.2 million. As at September 22, 2017, the Company had an order backlog of approximately $9.0 million, of which approximately $0.3 million is related to long term contracts and is not expected to be reflected in revenue within the next 12 months.

	2015 $ million	2016 $ million	2017 $ million
Order backlog as at May 31	3.7	2.6	4.2
Order backlog as at September reporting date	5.7	7.3	9.0

- In August 2017, the Company announced that it had received a Super-Efficient Cogeneration Heat Recovery order from a leading Fortune 500 food and beverage producer for approximately $1,460,000. This order is expected to be fulfilled and the revenue earned over the next six to nine months.

- In July 2017, the Company announced that it had received a sixth heat recovery solution order from a leading Fortune 500 food and beverage producer for approximately $1,820,000. This order is expected to be fulfilled and the revenue earned over the next six to nine months.

- In March 2017, the Company announced that it had received a third heat recovery solution order from a major hospital group for approximately $1,700,000. This order was only 4% complete at year end and is expected to be fulfilled and the revenue earned over the next six months.

- In November 2016, the Company received an order for approximately $1,250,000 from a major hospital group for a heat recovery solution. This, the group's second order, was approximately 92% complete at May 31, 2017 and is expected to be fulfilled and revenue earned over the next three months.

- In September 2016, the Company announced that it had received an order for approximately $1,700,000 from a leading producer of industrial and fuel alcohols for the supply and installation of a FLU-ACE® heat recovery solution at one of its ethanol plants. The Company subsequently received a change order for additional scope, increasing the project value to approximately $1,875,000. As at May 31, 2017, this project was 72% complete, with the order expected to be fulfilled and revenue earned over the next six months.

- In August 2016, the Company announced that it had received two orders from a hospital trust: the first valued at approximately $868,000 for the supply and installation of a heat recovery system at one of its sites; and the second for the supply and installation of GEM™ steam traps at another site, worth approximately $280,000. The heat recovery order was approximately 82% complete as at the end of the year and is expected to be fulfilled and revenue earned over the next three months, whilst the GEM™ order was completed during the current year.

- In July 2016, the Company announced that it had received an order for approximately $840,000 from a multi-site hospital group for the extension of a heat recovery system previously installed by Thermal Energy. This project was approximately 75% complete as at the end of the third quarter and the order is expected to be fulfilled and revenue earned over the next three months.

- In June 2012, the Company received an order for approximately $562,000 from a publicly owned hospital for a heat recovery solution. This order was partially completed in FY 2013 and the customer is currently deciding on changes it may wish to be made before the project is continued. It is not yet known when this project may be completed.

5. Summary of Outstanding Shares and Dilutive Instruments

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

Shares

159,088,950 class A common shares.

Options

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2017	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2017	Weighted average exercise price
0.05-0.07	5,991,500	2.87	0.05	2,754,000	0.05
0.07-0.10	4,071,360	2.97	0.08	1,357,121	0.08
0.10-0.12	10,432,671	1.05	0.10	8,939,551	0.10
	20,495,531	1.96	0.08	13,050,672	0.09

6. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, 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.

Valuation of goodwill and intangible assets and asset impairment

Goodwill and 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 or cash-generating unit and determines a suitable interest 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 operating results. 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.

Future production outputs relating to the finance lease

When a new finance lease or amendment is signed, in determining minimum lease payments receivable, management makes estimates regarding monthly energy outputs of the leased asset based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located, penalty payments resulting from temporary plant shut-downs and residual value of the equipment. These assumptions relate to future events and circumstances.

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.

Revenue Recognition relating to contracts for heat recovery solutions

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

The Company has adopted the following new or amended accounting standards.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The Company adopted the amendments on June 1, 2016. The adoption of the amendments to IAS 16 and IAS 38 did not have a material impact on the consolidated financial statements.

At the date of approval of the accompanying consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. These standards will be adopted at the effective date.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued, but are not expected to have an impact on the Company's consolidated financial statements.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer acquisition costs. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. This standard will be effective for annual periods beginning on or after January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, Leases, which specifies how to recognize, measure present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize all assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Amendments to IFRS 2: Share Based Payments ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements for accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. They also provide guidance on the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2018. Early adoption is allowed and specific transitional provisions apply. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting these amendments on the consolidated financial statements.

Amendments to IAS 7: Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. These amendments require entities to provide disclosures that help users of the financial statements to better understand changes in liabilities that arise from financing activities, including both changes arising from cash flow and non-cash changes. These amendments became effective for annual periods beginning on or after January 1, 2017. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Amendments to IAS 12: Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12. The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

7. 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™ and FLU-ACE® technology solutions.

Financial risks and uncertainties of the Company include:

- 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; and,
- The effect of a continuing prolonged recession in Canada, U.S.A. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects.
- The impact of the pending 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 continue 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, but 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 saw a return to profitability and an increase in cash balances of $427,805, and this was followed in FY 2017 by another profitable year which saw cash balances increase by $1,806,992. Management is confident that this recent trend is set to continue.

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 technology of GEM™, FLU-ACE® and DRY-REX™ is limited at this time and believes that the market place 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. One immediate effect was a significant fall in the value of U.K. Pound Sterling against most other major currencies, although it has now stabilized. Negotiations regarding how trade will continue after the U.K. leaves are ongoing, the outcome of which is difficult to predict. Management continues to monitor the situation, but at this point cannot comment on how the eventual break will impact the Company. In the meantime, business continues as normal.

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.

8. 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.

9. 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, 2017 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.

Thermal Energy's auditors, KPMG LLP, conducted an independent audit of the consolidated financial statements for the year ended May 31, 2017, performing such tests and other procedures as they consider necessary to express an audit opinion. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.