

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Quarters ended November 30, 2021 and 2020

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at November 30 and May 31, 2021
(Expressed in Canadian dollars) (Unaudited)

	November 30, 2021	May 31, 2021
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 4)	2,547,881	4,240,855
Trade and other receivables (note 5)	3,194,751	3,192,810
Current tax receivable	195,497	187,862
Inventory	1,142,382	959,257
	7,080,511	8,580,784
Non-current assets:		
Property, plant and equipment (note 6)	400,990	407,677
Right-of-use assets	1,338,758	1,416,978
Intangible assets (note 7)	1,202,604	1,027,850
Deferred tax assets	112,556	113,430
	3,054,908	2,965,935
Total assets	10,135,419	11,546,719
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 8)	1,598,011	1,701,746
Current tax liabilities	49,286	19,975
Pensions and other employer obligations	144,100	134,941
Current portion of long-term debt (note 9)	873,213	850,987
Deferred revenue (note 10)	1,465,374	1,566,386
Provisions	282,798	282,322
Current portion of lease obligations (note 11)	221,798	215,923
	4,634,580	4,772,280
Non-current liabilities:		
Long-term debt (note 9)	2,082,827	2,409,439
Lease obligations (note 11)	1,278,135	1,337,141
Deferred tax liabilities	28,385	64,939
	3,389,347	3,811,519
Total liabilities	8,023,927	8,583,799
Equity		
Capital stock (note 12)	32,484,814	32,439,914
Contributed surplus	4,625,004	4,533,469
Accumulated other comprehensive income	362,398	529,448
Deficit	(35,299,231)	(34,460,538)
Equity attributable to owners of the parent	2,172,985	3,042,293
Non-controlling interest	(61,493)	(79,373)
Total equity	2,111,492	2,962,920
Total liabilities and equity	10,135,419	11,546,719

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

For the three and six months ended November 30, 2021 and 2020
(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue (note 14)	4,076,808	5,019,682	7,956,064	7,847,544
Cost of sales	2,364,578	2,589,440	4,600,117	4,093,099
Gross profit	1,712,230	2,430,242	3,355,947	3,754,445
Expenses (note 15):				
Administration	1,299,856	965,678	2,236,299	1,854,711
Selling, marketing and business development	970,203	821,000	1,756,057	1,373,790
Research and development	376	3,922	935	21,408
	2,270,435	1,790,600	3,993,291	3,249,909
Operating (loss) income	(558,205)	639,642	(637,344)	504,536
Finance costs	(83,201)	(71,504)	(163,133)	(170,749)
(Loss) income before income taxes	(641,406)	568,138	(800,477)	333,787
Income taxes recovery	1,078	12,287	6,269	28,538
Net (loss) income for the period	(640,328)	580,425	(794,208)	362,325
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	(105,568)	195	(168,236)	175,893
Total comprehensive (loss) income for the period	(745,896)	580,620	(962,444)	538,218
Net (loss) income for the period attributable to:				
Owners of the parent	(657,310)	569,339	(838,693)	344,265
Non-controlling interest	16,982	11,086	44,485	18,060
Net (loss) income for the period	(640,328)	580,425	(794,208)	362,325
Total comprehensive (loss) income for the period attributable to:				
Owners of the parent	(760,141)	570,170	(1,005,743)	518,493
Non-controlling interest	14,245	10,450	43,299	19,725
Total comprehensive (loss) income for the period	(745,896)	580,620	(962,444)	538,218
Net (loss) income per share - basic and diluted	(0.004)	0.004	(0.005)	0.002

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2020	32,117,242	4,426,697	(34,658,665)	217,342	2,102,616	(96,276)	2,006,340
Share-based compensation (note 13)	-	100,460	-	-	100,460	-	100,460
Dividends paid	-	-	-	-	-	(8,503)	(8,503)
Transactions with owners	-	100,460	-	-	100,460	(8,503)	91,957
Net income for the period	-	-	344,265	-	344,265	18,060	362,325
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	174,228	174,228	1,665	175,893
Total comprehensive income the period	-	-	344,265	174,228	518,493	19,725	538,218
Balance at November 30, 2020	32,117,242	4,527,157	(34,314,400)	391,570	2,721,569	(85,054)	2,636,515
Balance at June 1, 2021	32,439,914	4,533,469	(34,460,538)	529,448	3,042,293	(79,373)	2,962,920
Share-based compensation (note 13)	-	107,685	-	-	107,685	-	107,685
Share options exercised (note 12)	44,900	(16,150)	-	-	28,750	-	28,750
Dividends paid	-	-	-	-	-	(25,419)	(25,419)
Transactions with owners	44,900	91,535	-	-	136,435	(25,419)	111,016
Net (loss) income for the period	-	-	(838,693)	-	(838,693)	44,485	(794,208)
Other comprehensive loss: exchange differences arising on translation of overseas operations	-	-	-	(167,050)	(167,050)	(1,186)	(168,236)
Total comprehensive (loss) income the period	-	-	(838,693)	(167,050)	(1,005,743)	43,299	(962,444)
Balance at November 30, 2021	32,484,814	4,625,004	(35,299,231)	362,398	2,172,985	(61,493)	2,111,492

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operating activities:				
Net (loss) income for the period	(640,328)	580,425	(794,208)	362,325
Add items not involving cash:				
Depreciation of property, plant and equipment (note 6)	32,581	29,662	64,414	59,248
Loss on disposal of assets (note 6)	-	-	353	-
Depreciation of right-of-use assets	65,159	32,676	130,370	65,847
Amortization of intangible assets (note 7)	76,691	68,937	150,911	139,225
Finance costs	83,201	71,504	163,133	170,749
Share-based compensation (note 13)	53,843	50,230	107,685	100,460
Income tax recovery	(1,078)	(12,287)	(6,269)	(28,538)
Unrealized foreign exchange and translation adjustments	(74,145)	(2,129)	(96,100)	136,617
Changes in working capital:				
Trade and other receivables	(190,379)	(732,572)	(1,941)	(850,733)
Inventory	(132,995)	(844)	(183,125)	45,818
Trade payables and other liabilities	(203,021)	528,742	(100,049)	(1,120,892)
Deferred revenue (note 10)	(371,052)	(38,979)	(135,660)	383,986
Income taxes paid	(787)	(3,298)	(685)	(3,298)
Interest paid	(75,192)	(144,560)	(153,742)	(214,334)
Net cash (used in) provided by operating activities	(1,377,502)	427,507	(854,913)	(753,520)
Investing activities:				
Proceeds from disposal of property, plant and equipment (note 6)	-	-	1,245	-
Additions to property, plant and equipment (note 6)	(25,503)	(531)	(49,785)	(5,204)
Additions to intangible assets (note 7)	-	-	(283,421)	-
Net cash used in investing activities	(25,503)	(531)	(331,961)	(5,204)
Financing activities:				
Issuance of long-term debt (note 9)	-	-	-	1,082,760
Repayment of long-term debt (note 9)	(218,402)	(66,643)	(433,430)	(66,643)
Repayment of lease obligations (note 11)	(53,611)	(31,364)	(106,517)	(63,035)
Stock options exercised (note 12)	28,750	-	28,750	-
Dividends paid	(25,419)	(8,503)	(25,419)	(8,503)
Net cash (used in) provided by financing activities	(268,682)	(106,510)	(536,616)	944,579
(Decrease) increase in cash and cash equivalents for the period	(1,671,687)	320,466	(1,723,490)	185,855
Cash and cash equivalents, beginning of period	4,232,842	4,589,333	4,240,855	4,774,580
Exchange differences on cash and cash equivalents	(13,274)	(6,476)	30,516	(57,112)
Cash and cash equivalents, end of period	2,547,881	4,903,323	2,547,881	4,903,323

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the six months ended November 30, 2021 and 2020.

2. Basis of presentation:

(a) Statement of compliance:

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

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of January 20, 2022, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

3. Segment reporting:

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

Segment information for the quarter ended November 30, 2021 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	2,645,776	3,334,287	1,431,032	1,685,395	-	-	4,076,808	5,019,682
Cost of sales	(1,586,423)	(1,775,974)	(778,155)	(813,466)	-	-	(2,364,578)	(2,589,440)
Gross profit	1,059,353	1,558,313	652,877	871,929	-	-	1,712,230	2,430,242
Other expenses	(851,973)	(637,986)	(1,015,245)	(785,498)	(403,217)	(367,116)	(2,270,435)	(1,790,600)
Net finance costs	(26,461)	(7,468)	(2,471)	(1,563)	(54,269)	(62,473)	(83,201)	(71,504)
Income (loss) before taxation	180,919	912,859	(364,839)	84,868	(457,486)	(429,589)	(641,406)	568,138
Tax recovery (expense)	684	1,212	(17,354)	(7,538)	17,748	18,613	1,078	12,287
Net income (loss)	181,603	914,071	(382,193)	77,330	(439,738)	(410,976)	(640,328)	580,425
Attributable to:								
Owners of the parent	181,683	914,036	(399,255)	66,279	(439,738)	(410,976)	(657,310)	569,339
Non-controlling interest	(80)	35	17,062	11,051	-	-	16,982	11,086

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

3. Segment reporting (continued):

Segment information for the six months ended November 30, 2021 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	4,725,277	4,885,024	3,230,787	2,962,520	-	-	7,956,064	7,847,544
Cost of sales	(2,956,155)	(2,612,304)	(1,643,962)	(1,480,795)	-	-	(4,600,117)	(4,093,099)
Gross profit	1,769,122	2,272,720	1,586,825	1,481,725	-	-	3,355,947	3,754,445
Other expenses	(1,520,415)	(975,801)	(1,830,010)	(1,353,020)	(642,866)	(921,088)	(3,993,291)	(3,249,909)
Net finance costs	(53,215)	(15,238)	(5,310)	(3,443)	(104,608)	(152,068)	(163,133)	(170,749)
Income (loss) before taxation	195,492	1,281,681	(248,495)	125,262	(747,474)	(1,073,156)	(800,477)	333,787
Tax recovery (expense)	2,752	3,443	(31,819)	(12,496)	35,336	37,591	6,269	28,538
Net income (loss)	198,244	1,285,124	(280,314)	112,766	(712,138)	(1,035,565)	(794,208)	362,325
Attributable to:								
Owners of the parent	198,573	1,285,089	(325,128)	94,741	(712,138)	(1,035,565)	(838,693)	344,265
Non-controlling interest	(329)	35	44,814	18,025	-	-	44,485	18,060

Reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Corporate admin costs	169,812	145,736	335,874	269,716
Stock-based compensation	53,843	50,230	107,685	100,460
Professional fees	53,277	75,954	139,006	169,646
Depreciation of property, plant and equipment	32,581	29,662	64,414	59,248
Amortization of intangible assets	76,691	68,937	150,911	139,225
Acquisition costs	85,683	3,361	106,782	13,461
Foreign exchange differences (gain) loss	(68,670)	(6,764)	(261,806)	169,332
Total	403,217	367,116	642,866	921,088

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

4. Cash and cash equivalents:

	November 30, 2021	May 31, 2021
Cash	\$ 2,274,264	\$ 4,240,355
Cash equivalents	500	500
Restricted cash	273,117	-
Balance, end of period	\$ 2,547,881	\$ 4,240,855

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

As at November 30, 2021, restricted cash of \$273,117 (equivalent to EUR€190,500) consist of cash held in an escrow account as collateral for an advance payment guarantee issued by a financial institution in favour of a Company's customer. The bank guarantee has an expiry date of March 31, 2022.

5. Trade and other receivables:

	November 30, 2021	May 31, 2021
Trade receivables, gross	\$ 2,025,797	\$ 2,139,081
Allowance for doubtful accounts	(38,884)	(40,308)
Trade receivables, net	1,986,913	2,098,773
Unbilled revenue	613,131	283,717
Work in progress	81,245	35,879
Prepayments	276,262	200,864
Sales tax and other miscellaneous receivables	237,200	573,577
Balance, end of period	\$ 3,194,751	\$ 3,192,810

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

At November 30, 2021, \$145,253 (7.2%) of the Company's trade receivables balance was over 90 days past due. \$27,540 of the past due balance was impaired at November 30, 2021. \$11,344 of trade receivables that was not over 90 days past due was also impaired.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the six months ended November 30, 2021, provisions of \$31,611 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$17,384 – November 30, 2020). For the six months ended November 30, 2021, \$32,719 (\$15,583 – November 30, 2020) of previously provided credit losses was released due to the collection on the doubtful accounts.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

6. Property, plant and equipment:

During the six months ended November 30, 2021, the Company acquired property, plant and equipment of \$49,785 (\$5,204 – November 30, 2020) and the Company disposed of depreciated assets with a net book value of \$1,598 for \$1,245 proceeds (\$nil – November 30, 2020). Depreciation expense of \$64,414 (\$59,248 – November 30, 2020) was recognized under administration expense. Translation gain of \$9,540 (loss of \$6,555 – November 30, 2020) was recognized under exchange differences arising on translation of overseas operations.

7. Intangible assets:

During the six months ended November 30, 2021, the Company acquired intangible assets in the amount of \$283,421 (\$nil – November 30, 2020). On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montréal, Quebec, for a total consideration of \$283,421. For the six months ended November 30, 2021, the Company recorded amortization relating to this acquired technology of \$19,007 under administration expense.

During the six months ended November 30, 2021, the Company did not dispose of any assets (\$nil – November 30, 2020). Total amortization expense on intangible assets in the amount of \$150,911 (\$139,225 – November 30, 2020) was recognized under administration expense. Translation gain of \$42,244 (loss of \$62,622 – November 30, 2020) was recognized under exchange differences arising on translation of overseas operations.

8. Trade payables and other liabilities:

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

	November 30, 2021	May 31, 2021
Trade payables	\$ 846,891	\$ 797,489
Accruals	572,099	790,091
Other government remittances payable	179,021	80,611
Government grants	-	33,555
	\$ 1,598,011	\$ 1,701,746

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

For the six months ended November 30, 2021, government grant of \$34,596 was recognized as a reduction to the operating expenses that was netted against administration expenses, for the portion of the grant earned for the six months ended November 30, 2021. A foreign translation loss in the amount of \$1,041 was recognized to accumulated other comprehensive loss.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

8. Trade payables and other liabilities (continued):

For the six months ended November 30, 2020, government grant of \$162,626 was recognized as a reduction to the operating expenses, of which \$78,766 was netted against administration expenses and \$83,860 against selling, marketing and business development expenses, for the portion of the grant earned for the six months ended November 30, 2020. A foreign translation gain in the amount of \$10,539 was recognized to accumulated other comprehensive income related to the revaluation of the liability with the quarter-end closing rate.

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

9. Long-term debt:

	November 30, 2021	May 31, 2021
(a) Term loan (equivalent to USD\$1,656,696), net of deferred financing costs of \$23,415 (equivalent to USD\$18,304), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$31,980 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$607,620 (equivalent to USD\$475,000) payable on the maturity date, December 1, 2025	\$ 2,119,245	\$ 2,176,798
(b) Term loan, net of deferred financing costs of \$1,543, bearing interest at the institution's floating base rate less a variance of 1.10%, repayable in monthly principal instalments of \$40,000 starting June 15, 2021 and continuing up to the maturity date, with a balloon payment on the maturity date, May 15, 2023	758,457	997,943
(c) Term loan (equivalent to GBP£46,068), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,417 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	78,338	85,685
Total long-term debt	2,956,040	3,260,426
Less: current portion	(873,213)	(850,987)
Long term portion	2,082,827	2,409,439

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

9. Long-term debt (continued):

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 4.55% on November 30, 2021 (4.65% on May 31, 2021). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at November 30, 2021, the variance was at 3.50% (1.50% at May 31, 2021). Interest is payable monthly in arrears on the 1st day of the month.

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

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

- (b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of \$2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over 3 years. The institution's floating base rate was 4.55% on November 30, 2021 and May 31, 2021. Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of \$1,000,000 was received by the Company on July 23, 2020. A financing cost of \$3,000 was charged by the lending institution. According to the agreement, the remaining amount of \$1,300,000 can be drawn later, subject to meeting certain conditions in accordance with this term loan. A standby fee of 1.50% per annum is charged on the portion of the amount which had not been advanced by February 2021. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.
- (c) On June 10, 2020, the Company entered into a COVID-19 bounce back fixed rate loan with a UK lending institution for a total amount of GBP£50,000 (equivalent to \$85,760 on June 10, 2020). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over 6 years.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

10. Deferred revenue:

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2021	\$ 1,403,585	\$ 162,801	\$ 1,566,386
Increase from payments received	4,524,855	116,757	4,641,612
Decrease from revenue recognized	(4,749,426)	(27,846)	(4,777,272)
Translation adjustments	36,327	(1,679)	34,648
Balance, November 30, 2021	\$ 1,215,341	\$ 250,033	\$ 1,465,374
Balance, June 1, 2020	\$ 771,089	\$ 166,139	\$ 937,228
Increase from payments received	5,061,441	93,483	5,154,924
Decrease from revenue recognized	(4,627,492)	(143,446)	(4,770,938)
Translation adjustments	3,203	2,317	5,520
Balance, November 30, 2020	\$ 1,208,241	\$ 118,493	\$ 1,326,734

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

11. Lease obligations:

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

	November 30, 2021	May 31, 2021
Less than one year	\$ 329,993	\$ 326,987
One to five years	877,987	904,426
Six to ten years	841,127	905,054
Total undiscounted lease obligations	2,049,107	2,136,467
Less: impact of present value	(549,174)	(583,403)
Less: current portion	(221,798)	(215,923)
Long term portion	\$ 1,278,135	\$ 1,337,141

During the six months ended November 30, 2021, the interest expense on lease obligations was \$58,568 and total cash outflow for leases was \$172,030, including \$6,945 for short-term leases.

During the six months ended November 30, 2020, the interest expense on lease obligations was \$18,678 and total cash outflow for leases was \$135,119, including \$53,406 for short-term leases.

For the six months ended November 30, 2021 and 2020, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

12. Capital stock:

Authorized:

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

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

Outstanding:

	Six months ended November 30, 2021		Year ended May 31, 2021	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of period	163,887,606	32,439,914	160,152,616	32,117,242
Stock options exercised ⁽¹⁾	250,000	44,900	3,734,990	322,672
Balance, end of period	164,137,606	32,484,814	163,887,606	32,439,914

(1) For the six months ended November 30, 2021, 250,000 shares were issued for \$28,750 following the exercise of stock options, resulting in an increase to capital stock of \$44,900 and a reduction in contributed surplus of \$16,150.

For the six months ended November 30, 2020, no stock options were exercised. For the year ended May 31, 2021, 3,734,990 shares were issued for \$221,300 following the exercise of stock options, resulting in an increase to capital stock of \$322,672 and a reduction in contributed surplus of \$101,372.

13. Share based compensation:

Activity in stock options was as follows:

	Three months ended November 30, 2021		Three months ended November 30, 2020	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,518,007	0.08	17,821,276	0.07
Granted	4,328,000	0.14	4,653,000	0.09
Expired	-	-	(3,228,360)	0.08
Forfeited	(151,668)	0.08	(497,916)	0.07
Exercised	(250,000)	0.12	-	-
Outstanding, end of period	18,444,339	0.10	18,748,000	0.08
Options exercisable, end of period	10,002,651	0.08	9,056,667	0.07

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

13. Share based compensation (continued):

	Six months ended November 30, 2021		Six months ended November 30, 2020	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	14,674,675	0.08	17,821,276	0.07
Granted	4,328,000	0.14	4,653,000	0.09
Expired	-	-	(3,228,360)	0.08
Forfeited	(308,336)	0.08	(497,916)	0.07
Exercised	(250,000)	0.12	-	-
Outstanding, end of period	18,444,339	0.10	18,748,000	0.08
Options exercisable, end of period	10,002,651	0.08	9,056,667	0.07

The following tables summarize information about stock options outstanding at November 30, 2021:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding November 30, 2021	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2021	Weighted average exercise price
0.08 - 0.10	14,116,339	2.86	0.08	10,002,651	0.08
0.11 - 0.14	4,328,000	4.99	0.14	-	-
	18,444,339	3.36	0.10	10,002,651	0.08

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

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

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

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

13. Share based compensation (continued):

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

	Three months ended November 30, 2021	Three months ended November 30, 2020
Administration	\$ 43,691	\$ 40,339
Selling, marketing and business development	10,152	9,891
	\$ 53,843	\$ 50,230
	Six months ended November 30, 2021	Six months ended November 30, 2020
Administration	\$ 87,381	\$ 80,678
Selling, marketing and business development	20,304	19,782
	\$ 107,685	\$ 100,460

14. Revenue:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Sale of goods	\$ 1,129,495	\$ 1,730,597
Rendering of services	309,771	315,469
Contracts for heat recovery solutions	2,637,542	2,973,616
	\$ 4,076,808	\$ 5,019,682
	Six months ended November 30, 2021	Six months ended November 30, 2020
Sale of goods	\$ 2,306,979	\$ 2,632,087
Rendering of services	625,152	563,038
Contracts for heat recovery solutions	5,023,933	4,652,419
	\$ 7,956,064	\$ 7,847,544

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

15. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended November 30, 2021	Three months ended November 30, 2020
Depreciation of property, plant and equipment	\$ 32,581	\$ 29,662
Depreciation of right-of-use assets	65,159	32,676
Amortization of intangible assets	76,691	68,937
Foreign exchange gain	(68,670)	(6,764)

	Six months ended November 30, 2021	Six months ended November 30, 2020
Depreciation of property, plant and equipment	\$ 64,414	\$ 59,248
Depreciation of right-of-use assets	130,370	65,847
Amortization of intangible assets	150,911	139,225
Foreign exchange (gain) loss	(261,806)	169,332

The Company received funding from various government bodies as COVID-19 wage subsidies. For the three months ended November 30, 2021, a total amount of \$39,277 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

For the six months ended November 30, 2021, a total amount of \$187,846 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

For the three months ended November 30, 2020, a total amount of \$212,109 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$197,306 was netted against administration expenses and \$14,803 against selling, marketing and business development expenses.

For the six months ended November 30, 2020, a total amount of \$620,672 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which \$480,609 was netted against administration expenses and \$140,063 against selling, marketing and business development expenses.

16. Financial instruments:

The fair values of the following financial instrument assets and liabilities are not measured at fair value, but fair value disclosures are required: cash and cash equivalents, trade and other receivables, trade payables and other liabilities, lease obligations, and long-term debt.

The carrying values of cash and cash equivalents, trade and other receivables, trade payables and other liabilities approximate their fair values due to their short-term to maturity.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2021 and 2020

(Expressed in Canadian dollars except share amounts)

16. Financial instruments (continued):

The carrying values of long-term debt and lease obligations are different from their fair values. The fair values of long-term debt, except the COVID-19 bounce back fixed rate loan, are subject to market interest rate. The fair values of lease obligations are subject to incremental borrowing rate. Fair value increases with lower market interest rates and incremental borrowing rates, and decreases with higher market interest rates and incremental borrowing rates.

17. Related party transactions:

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

Transactions with key management personnel

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

	Three months ended November 30, 2021	Three months ended November 30, 2020
Salaries and other short-term employee benefits	\$ 204,487	\$ 182,115
Share-based payments	21,510	19,403
	\$ 225,997	\$ 201,518
	Six months ended November 30, 2021	Six months ended November 30, 2020
Salaries and other short-term employee benefits	\$ 409,379	\$ 357,715
Share-based payments	42,758	38,318
	\$ 452,137	\$ 396,033

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