

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY  
INTERNATIONAL INC.**

Three months ended August 31, 2022 and 2021

(Unaudited)

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Financial Position

As at August 31 and May 31, 2022  
(Expressed in Canadian dollars) (Unaudited)

	August 31, 2022	May 31, 2022
	\$	\$
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents (note 4)	2,320,758	2,631,543
Trade and other receivables (note 5)	2,766,343	3,134,279
Current tax receivable	199,761	193,578
Inventory	997,809	1,054,559
	6,284,671	7,013,959
<b>Non-current assets:</b>		
Property, plant and equipment (note 6)	339,592	349,199
Right-of-use assets	1,157,573	1,191,603
Intangible assets	956,780	1,025,554
Deferred tax assets	17,470	18,191
	2,471,415	2,584,547
<b>Total assets</b>	<b>8,756,086</b>	<b>9,598,506</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade payables and other liabilities (note 7)	1,620,161	1,679,640
Current tax liabilities	56,288	55,590
Pensions and other employer obligations	126,544	141,464
Current portion of long-term debt (note 8)	881,366	796,440
Deferred revenue (note 9)	1,049,243	1,063,495
Provisions	306,949	307,213
Current portion of lease obligations (note 10)	171,356	193,298
	4,211,907	4,237,140
<b>Non-current liabilities:</b>		
Long-term debt (note 8)	2,977,531	3,139,914
Lease obligations (note 10)	1,175,656	1,177,582
Deferred tax liabilities	325	339
	4,153,512	4,317,835
<b>Total liabilities</b>	<b>8,365,419</b>	<b>8,554,975</b>
<b>Equity</b>		
Capital stock	32,484,814	32,484,814
Contributed surplus	4,790,447	4,735,299
Accumulated other comprehensive income	44,815	237,583
Deficit	(36,894,019)	(36,381,362)
Equity attributable to owners of the parent	426,057	1,076,334
Non-controlling interest	(35,390)	(32,803)
<b>Total equity</b>	<b>390,667</b>	<b>1,043,531</b>
<b>Total liabilities and equity</b>	<b>8,756,086</b>	<b>9,598,506</b>

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

For the three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars) (Unaudited)

	2022	2021
	\$	\$
Revenue (note 12)	3,122,249	3,879,256
Cost of sales	1,772,962	2,235,539
Gross profit	1,349,287	1,643,717
Expenses (note 13):		
Administration	862,579	936,443
Selling, marketing and business development	866,051	785,854
Research and development	16,481	559
	1,745,111	1,722,856
Operating loss	(395,824)	(79,139)
Finance costs	(103,086)	(79,932)
Loss before income taxes	(498,910)	(159,071)
Income taxes (expense) recovery	(9,591)	5,191
<b>Net loss for the period</b>	<b>(508,501)</b>	<b>(153,880)</b>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	(199,511)	(62,668)
<b>Total comprehensive loss for the period</b>	<b>(708,012)</b>	<b>(216,548)</b>
Net (loss) income for the period attributable to:		
Owners of the parent	(512,657)	(181,383)
Non-controlling interest	4,156	27,503
<b>Net loss for the period</b>	<b>(508,501)</b>	<b>(153,880)</b>
Total comprehensive (loss) income for the period attributable to:		
Owners of the parent	(705,425)	(245,602)
Non-controlling interest	(2,587)	29,054
<b>Total comprehensive loss for the period</b>	<b>(708,012)</b>	<b>(216,548)</b>
Net loss per share - basic and diluted	(0.003)	(0.001)

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 three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2021	32,439,914	4,533,469	(34,460,538)	529,448	3,042,293	(79,373)	2,962,920
Share-based compensation (note 11)	-	53,842	-	-	53,842	-	53,842
Transactions with owners	-	53,842	-	-	53,842	-	53,842
Net (loss) income for the period	-	-	(181,383)	-	(181,383)	27,503	(153,880)
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	-	-	-	(64,219)	(64,219)	1,551	(62,668)
Total comprehensive (loss) income for the period	-	-	(181,383)	(64,219)	(245,602)	29,054	(216,548)
Balance at August 31, 2021	32,439,914	4,587,311	(34,641,921)	465,229	2,850,533	(50,319)	2,800,214
<b>Balance at June 1, 2022</b>	<b>32,484,814</b>	<b>4,735,299</b>	<b>(36,381,362)</b>	<b>237,583</b>	<b>1,076,334</b>	<b>(32,803)</b>	<b>1,043,531</b>
<b>Share-based compensation (note 11)</b>	<b>-</b>	<b>55,148</b>	<b>-</b>	<b>-</b>	<b>55,148</b>	<b>-</b>	<b>55,148</b>
<b>Transactions with owners</b>	<b>-</b>	<b>55,148</b>	<b>-</b>	<b>-</b>	<b>55,148</b>	<b>-</b>	<b>55,148</b>
<b>Net (loss) income for the period</b>	<b>-</b>	<b>-</b>	<b>(512,657)</b>	<b>-</b>	<b>(512,657)</b>	<b>4,156</b>	<b>(508,501)</b>
<b>Other comprehensive loss: exchange differences arising on translation of overseas operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(192,768)</b>	<b>(192,768)</b>	<b>(6,743)</b>	<b>(199,511)</b>
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(512,657)</b>	<b>(192,768)</b>	<b>(705,425)</b>	<b>(2,587)</b>	<b>(708,012)</b>
<b>Balance at August 31, 2022</b>	<b>32,484,814</b>	<b>4,790,447</b>	<b>(36,894,019)</b>	<b>44,815</b>	<b>426,057</b>	<b>(35,390)</b>	<b>390,667</b>

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

# THERMAL ENERGY INTERNATIONAL INC.

## Condensed Consolidated Interim Statements of Cash Flows

For the three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars) (Unaudited)

	2022	2021
	\$	\$
<b>Operating activities:</b>		
Net loss for the period	(508,501)	(153,880)
Add items not involving cash:		
Depreciation of property, plant and equipment (note 6)	32,273	31,833
(Gain) loss on disposal of assets (note 6)	(1,289)	353
Depreciation of right-of-use assets	61,215	65,211
Amortization of intangible assets	78,460	74,220
Finance costs	103,086	79,932
Share-based compensation (note 11)	55,148	53,842
Income taxes expense (recovery)	9,591	(5,191)
Unrealized foreign exchange and translation adjustments	(189,521)	(21,955)
Changes in working capital:		
Trade and other receivables	367,936	188,438
Inventory	56,750	(50,130)
Trade payables and other liabilities	(78,028)	102,972
Deferred revenue (note 9)	(7,743)	235,392
Income taxes (paid) received	(6,341)	102
Interest paid	(98,001)	(78,550)
Net cash (used in) provided by operating activities	(124,965)	522,589
<b>Investing activities:</b>		
Proceeds from disposal of property, plant and equipment (note 6)	1,933	1,245
Additions to property, plant and equipment (note 6)	(19,928)	(24,282)
Additions to intangible assets	-	(283,421)
Net cash used in investing activities	(17,995)	(306,458)
<b>Financing activities:</b>		
Repayment of long-term debt (note 8)	(148,030)	(215,028)
Repayment of lease obligations (note 10)	(53,054)	(52,906)
Net cash used in financing activities	(201,084)	(267,934)
Decrease in cash and cash equivalents for the period	(344,044)	(51,803)
Cash and cash equivalents, beginning of period	2,631,543	4,240,855
Exchange differences on cash and cash equivalents	33,259	43,790
Cash and cash equivalents, end of period	2,320,758	4,232,842

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

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

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### 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 three months ended August 31, 2022 and 2021.

### 2. Basis of presentation:

#### (a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2022. 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, 2022.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of October 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, 2022.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 3. Segment reporting:

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

Segment information for the three months ended August 31, 2022 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	1,991,503	2,079,501	1,130,746	1,799,755	-	-	3,122,249	3,879,256
Cost of sales	(1,264,330)	(1,369,732)	(508,632)	(865,807)	-	-	(1,772,962)	(2,235,539)
Gross profit	727,173	709,769	622,114	933,948	-	-	1,349,287	1,643,717
Other expenses	(671,561)	(668,442)	(852,104)	(814,765)	(221,446)	(239,649)	(1,745,111)	(1,722,856)
Net finance costs	(25,443)	(26,754)	(1,181)	(2,839)	(76,462)	(50,339)	(103,086)	(79,932)
Income (loss) before taxation	30,169	14,573	(231,171)	116,344	(297,908)	(289,988)	(498,910)	(159,071)
Tax (expense) recovery	(6,342)	2,068	(3,249)	(14,465)	-	17,588	(9,591)	5,191
Net income (loss)	23,827	16,641	(234,420)	101,879	(297,908)	(272,400)	(508,501)	(153,880)
Attributable to:								
Owners of the parent	24,039	16,890	(238,788)	74,127	(297,908)	(272,400)	(512,657)	(181,383)
Non-controlling interest	(212)	(249)	4,368	27,752	-	-	4,156	27,503

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 3. Segment reporting (continued):

Reconciling items comprise the following:

	Three months ended August 31	
	2022	2021
	\$	\$
Corporate admin costs	142,825	166,062
Share-based compensation	55,148	53,842
Professional fees	103,248	85,729
Depreciation of property, plant and equipment	32,273	31,833
Amortization of intangible assets	78,460	74,220
Acquisition costs	-	21,099
Foreign exchange gain	(190,508)	(193,136)
Total	221,446	239,649

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.

### 4. Cash and cash equivalents:

	August 31, 2022	May 31, 2022
Cash	\$ 2,140,983	\$ 2,447,989
Cash equivalents	15,000	15,000
Restricted cash	164,775	168,554
Balance, end of year	\$ 2,320,758	\$ 2,631,543

Cash equivalents consist of excess cash invested in guaranteed investment certificate.

As at August 31, 2022, restricted cash of \$164,775 (equivalent to EUR€127,000) consist of cash held in an escrow account as collateral for a performance guarantee issued by a financial institution in favour of a Company's customer (\$168,554 at May 31, 2022). The bank guarantee has an expiry date of May 31, 2023.



# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 5. Trade and other receivables:

	August 31, 2022	May 31, 2022
Trade receivables, gross	\$ 2,019,924	\$ 2,280,991
Allowance for doubtful accounts	(46,724)	(121,849)
Trade receivables, net	1,973,200	2,159,142
Unbilled revenue	193,960	372,161
Work in progress	98,592	56,518
Prepayments	255,747	170,557
Sales tax and other miscellaneous receivables	244,844	375,901
Balance, end of period	\$ 2,766,343	\$ 3,134,279

The net carrying value of trade receivables is considered a reasonable approximation of fair value. At August 31, 2022, \$182,692 (9%) of the Company's trade receivables balance was over 90 days past due. \$46,724 of the past due balance was impaired at August 31, 2022.

At May 31, 2022, \$137,584 (6%) of the Company's trade receivables balance was over 90 days past due. \$46,599 of the past due balance was impaired at May 31, 2022. \$75,250 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 quarter ended August 31, 2022, provisions of \$1,188 were made as expected credit losses and recorded under administrative expenses on the condensed interim statements of comprehensive loss (\$22,996 – August 31, 2021). For the quarter ended August 31, 2022, \$77,706 of the allowance for doubtful accounts was released due to the collection (\$9,988 – August 31, 2021). Translation loss of \$1,393 (loss of \$657 – August 31, 2021) was recognized under exchange differences arising on translation of overseas operations.

### 6. Property, plant and equipment:

During the quarter ended August 31, 2022, the Company acquired property, plant and equipment of \$19,928 (\$24,282 - August 31, 2021) and the Company disposed of depreciated assets with a net book value of \$644 for \$1,933 proceeds (net book value of \$1,598 for proceeds of \$1,245 – August 31, 2021). Depreciation expense of \$32,273 (\$31,833 – August 31, 2021) was recognized under administration expense. Translation gain of \$3,382 (gain of \$8,237 – August 31, 2021) was recognized under exchange differences arising on translation of overseas operations.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 7. Trade payables and other liabilities:

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

	August 31, 2022	May 31, 2022
Trade payables	\$ 627,485	\$ 663,682
Accruals	864,460	847,926
Other government remittances payable	128,216	168,032
	<b>\$ 1,620,161</b>	<b>\$ 1,679,640</b>

Included in accruals is \$18,225 due to directors (\$21,600 at May 31, 2022).

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

### 8. Long-term debt:

	August 31, 2022	May 31, 2022
(a) Term loan (equivalent to USD\$1,510,489), net of deferred financing costs of \$19,025 (equivalent to USD\$14,511), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of \$32,778 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$721,105 (equivalent to USD\$550,000) payable on the maturity date, December 1, 2025	<b>\$ 1,980,403</b>	\$ 1,971,572
(b) Term loan, net of deferred financing costs of \$771, 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, May 15, 2026	<b>1,819,229</b>	1,898,971
(c) Term loan (equivalent to GBP£38,885), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,270 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	<b>59,265</b>	65,811
Total long-term debt	<b>3,858,897</b>	3,936,354
Less: current portion	<b>(881,366)</b>	(796,440)
Long term portion	<b>2,977,531</b>	3,139,914

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

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

- (a) On March 28, 2022, the lender agreed to postpone the next three payments of principal to the end of the payment schedule as a COVID-19 relief measure to the Company. Consequently, the postponed principal repayments were added to the balloon payment on the maturity date.

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 6.75% on August 31, 2022 (5.30% on May 31, 2022). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at August 31, 2022, the variance was at 8.00% (3.50% at May 31, 2022). Interest is payable monthly in arrears on the 1<sup>st</sup> day of the month commencing on the August 1<sup>st</sup>, 2018.

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, which were not in compliance on August 31, 2022 and on May 31, 2022. On May 13, 2022, the lender waived the covenants for all the periods from May 31, 2022 up to May 31, 2023 as another COVID-19 relief measure to the Company.

- (b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of \$2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over next 4 years. The institution's floating base rate was 6.80% on August 31, 2022 (5.30% on May 31, 2022). 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. The second tranche of proceeds in the amount of \$1,300,000 was received by the Company on March 30, 2022. A financing cost of \$3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

On March 28, 2022, the lender agreed to postpone the next three payments of principal to the end of the payment schedule as a COVID-19 relief measure to the Company. Consequently, the postponed principal repayments were added to the balloon payment on the maturity date.

- (c) On June 10, 2020, the Company entered into a COVID-19 bounce back fixed rate loan with a UK lending institution for a total amount of GBP£50,000 (equivalent to \$85,760 on June 10, 2020). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over 6 years.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

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### 9. Deferred revenue:

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2022	\$ 721,589	\$ 341,906	\$ 1,063,495
Increase from payments received	1,311,441	45,168	1,356,609
Decrease from revenue recognized	(1,338,262)	(26,090)	(1,364,352)
Translation adjustments	5,564	(12,073)	(6,509)
Balance, August 31, 2022	\$ 700,332	\$ 348,911	\$ 1,049,243
	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	2,368,394	53,856	2,422,250
Decrease from revenue recognized	(2,165,389)	(21,469)	(2,186,858)
Translation adjustments	35,919	2,285	38,204
Balance, August 31, 2021	\$ 1,642,509	\$ 197,473	\$ 1,839,982

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

### 10. Lease obligations:

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

	August 31, 2022	May 31, 2022
Less than one year	\$ 270,790	\$ 293,413
One to five years	855,667	837,294
Six to ten years	695,781	729,019
Total undiscounted lease obligations	1,822,238	1,859,726
Less: impact of present value	(475,226)	(488,846)
Less: current portion	(171,356)	(193,298)
Long term portion	\$ 1,175,656	\$ 1,177,582

During the quarter ended August 31, 2022, the interest expense on lease obligations was \$26,624 and total cash outflow for leases was \$83,571, including \$3,893 for short-term leases.

During the quarter ended August 31, 2021, the interest expense on lease obligations was \$29,635 and total cash outflow for leases was \$82,541.

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 10. Lease obligations (continued):

For the three months ended August 31, 2022 and 2021, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

### 11. Share based payments:

Activity in stock options was as follows:

	Three months ended August 31, 2022		Three months ended August 31, 2021	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	18,289,339	0.10	14,674,675	0.08
Forfeited	(180,000)	0.11	(156,668)	0.09
Outstanding, end of period	18,109,339	0.10	14,518,007	0.08
Options exercisable, end of period	9,942,651	0.08	5,281,668	0.08

The following tables summarize information about stock options outstanding at August 31, 2022:

Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding August 31, 2022	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at August 31, 2022	Weighted average exercise price
0.08-0.10	13,946,339	2.11	0.08	9,942,651	0.08
0.11-0.14	4,163,000	4.24	0.14	-	-
	18,109,339	2.60	0.10	9,942,651	0.08

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 August 31, 2022	Three months ended August 31, 2021
Administration	\$ 44,690	\$ 43,690
Selling, marketing and business development	10,458	10,152
	\$ 55,148	\$ 53,842

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

(Expressed in Canadian dollars except share amounts)

### 12. Revenue:

	Three months ended August 31, 2022	Three months ended August 31, 2021
Sale of goods	\$ 1,515,254	\$ 1,177,484
Rendering of services	257,516	315,381
Contracts for heat recovery solutions	1,349,479	2,386,391
	<b>\$ 3,122,249</b>	<b>\$ 3,879,256</b>

### 13. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended August 31, 2022	Three months ended August 31, 2021
Depreciation of property, plant and equipment	\$ 32,273	\$ 31,833
Depreciation of right-of-use assets	61,215	65,211
Amortization of intangible assets	78,460	74,220
Foreign exchange gain	<b>(190,508)</b>	<b>(193,136)</b>

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

For the quarter ended August 31, 2022, a total amount of \$24,284 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

For the quarter ended August 31, 2021, a total amount of \$148,569 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

### 14. Financial instruments:

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

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

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

# THERMAL ENERGY INTERNATIONAL INC.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2022 and 2021

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### 15. 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 August 31, 2022	Three months ended August 31, 2021
Salaries and other short-term employee benefits	\$ 210,329	\$ 204,892
Share-based payments	21,414	21,248
	<b>\$ 231,743</b>	<b>\$ 226,140</b>

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.