Consolidated Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Years ended May 31, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Thermal Energy International Inc.

Opinion

We have audited the consolidated financial statements of Thermal Energy International Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at May 31, 2024 and May 31, 2023
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at May 31, 2024 and May 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended May 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Estimated costs to complete for contracts for heat recovery projects

Description of the matter

We draw attention to Notes 2(c), 3(l) and 21 to the financial statements. The Entity provides heat recovery projects specifically customized to each customer. In fiscal 2024, the Entity recognized $10,063,105 in revenue from contracts for heat recovery projects. Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion for certain heat recovery projects is determined by reference to the costs incurred relative to estimated costs to complete. To determine the stage of completion, significant estimates are made about the estimated costs to complete which includes materials, subcontractors and labour costs.

Why the matter is a key audit matter

We identified the estimated costs to complete for contracts for heat recovery projects as a key audit matter. Significant auditor judgment was required to evaluate the estimated costs to complete for the contracts for heat recovery projects, given the significant judgment applied by management in the determination of these estimates.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of contracts for heat recovery projects, we evaluated the appropriateness of the Entity's estimated costs to complete by performing the following:

- Evaluated the Entity's ability to estimate costs to complete by comparing actual costs incurred upon completion to previous estimates and performed a retrospective review on related estimates from the prior period.
- Inquired with operational personnel responsible for the contracts to gain an understanding of the status of the contracts and factors impacting the estimated costs to complete.
- Obtained an understanding of the original estimated costs to completion and any increase or decrease to the estimated costs to complete as the contracts progress by inquiring with operational personnel and obtaining supporting documentation.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditor's report is Matthew Betik

Ottawa, Canada

September 18, 2024

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2024 and 2023
(Expressed in Canadian dollars)

	2024	2023
	$	$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**6,965,145**	3,000,607
Trade and other receivables[(1)] (note 6)	**4,182,566**	6,038,623
Current tax receivable	**117,078**	89,174
Prepaid expenses[(1)] (note 7)	**1,354,060**	428,581
Inventory (note 8)	**1,593,207**	1,471,873
	14,212,056	11,028,858
Non-current assets:		
Property, plant and equipment (note 9)	**530,424**	304,186
Right-of-use assets (note 10)	**1,279,626**	1,247,881
Intangible assets (note 11)	**626,622**	845,616
Deferred tax assets (note 25)	**142,074**	85,080
	2,578,746	2,482,763
Total assets	**16,790,802**	13,511,621
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 12)	**4,432,567**	4,243,911
Current tax liabilities	**55,347**	9,465
Pensions and other employer obligations	**257,350**	195,433
Current portion of long-term debt (note 13)	**921,018**	919,057
Deferred revenue (note 14)	**4,344,793**	2,088,876
Provisions (note 15)	**382,813**	322,486
Current portion of lease obligations (note 16)	**308,996**	214,684
	10,702,884	7,993,912
Non-current liabilities:		
Long-term debt (note 13)	**1,429,733**	2,346,260
Lease obligations (note 16)	**1,234,971**	1,248,295
Deferred tax liabilities (note 25)	**813**	164
	2,665,517	3,594,719
Total liabilities	**13,368,401**	11,588,631
Equity		
Capital stock (note 17)	**33,247,637**	32,526,779
Contributed surplus	**4,659,779**	4,937,468
Accumulated other comprehensive income	**288,798**	168,504
Deficit	**(34,733,899)**	(35,663,403)
Equity attributable to owners of the parent	**3,462,315**	1,969,348
Non-controlling interest (note 19)	**(39,914)**	(46,358)
Total equity	**3,422,401**	1,922,990
Commitments (note 29)		
Total liabilities and equity	**16,790,802**	13,511,621

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

On behalf of the Board:

(signed) William White — Director

(signed) William Ollerhead — Director

[(1)] Prepayments in the amount of $428,581 which were previously reported under trade and other receivables, were reclassified to prepaid expenses (see note 6 and 7) to conform with the financial statement presentation adopted in the current year.

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive Income (Loss)

Years ended May 31, 2024 and 2023
(Expressed in Canadian dollars)

	2024	2023
	$	$
Revenue (note 21)	**25,880,197**	21,091,570
Cost of sales	**13,427,888**	11,522,351
Gross profit	**12,452,309**	9,569,219
Expenses (note 23):		
Administration	**6,262,756**	4,723,294
Selling, marketing and business development	**4,554,886**	3,601,253
Research and development	**268,042**	101,396
	11,085,684	8,425,943
Operating income	**1,366,625**	1,143,276
Finance costs (note 24)	**(416,816)**	(449,341)
Finance revenue	**49,340**	-
Income before income taxes	**999,149**	693,935
Income taxes (expense) recovery (note 25)	**(16,981)**	26,514
Net income for the year	**982,168**	720,449
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**124,656**	(60,247)
Total comprehensive income for the year	**1,106,824**	660,202
Net income for the year attributable to:		
Owners of the parent	**929,504**	717,959
Non-controlling interest (note 19)	**52,664**	2,490
Net income for the year	**982,168**	720,449
Total comprehensive income for the year attributable to:		
Owners of the parent	**1,049,798**	648,880
Non-controlling interest (note 19)	**57,026**	11,322
Total comprehensive income for the year	**1,106,824**	660,202
Net income per share - basic (note 26)	**0.006**	0.004
Net income per share - diluted (note 26)	**0.005**	0.004

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, 2024 and 2023

(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, 2022	32,484,814	4,735,299	(36,381,362)	237,583	1,076,334	(32,803)	1,043,531
Share-based compensation (note 20)	-	216,934	-	-	216,934	-	216,934
Share options exercised (note 17)	41,965	(14,765)			27,200	-	27,200
Dividends paid (note 19)	-	-	-	-	-	(24,877)	(24,877)
Transactions with owners	41,965	202,169	-	-	244,134	(24,877)	219,257
Net income for the year	-	-	717,959	-	717,959	2,490	720,449
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	-	-	-	(69,079)	(69,079)	8,832	(60,247)
Total comprehensive income (loss) for the year	-	-	717,959	(69,079)	648,880	11,322	660,202
Balance at May 31, 2023	32,526,779	4,937,468	(35,663,403)	168,504	1,969,348	(46,358)	1,922,990
Balance at June 1, 2023	**32,526,779**	**4,937,468**	**(35,663,403)**	**168,504**	**1,969,348**	**(46,358)**	**1,922,990**
Share-based compensation (note 20)	**-**	**237,251**	**-**	**-**	**237,251**	**-**	**237,251**
Share options exercised (note 17)	**720,858**	**(514,940)**			**205,918**	**-**	**205,918**
Dividends paid (note 19)	**-**	**-**	**-**	**-**	**-**	**(50,582)**	**(50,582)**
Transactions with owners	**720,858**	**(277,689)**	**-**	**-**	**443,169**	**(50,582)**	**392,587**
Net income for the year	**-**	**-**	**929,504**	**-**	**929,504**	**52,664**	**982,168**
Other comprehensive income: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**120,294**	**120,294**	**4,362**	**124,656**
Total comprehensive income for the year	**-**	**-**	**929,504**	**120,294**	**1,049,798**	**57,026**	**1,106,824**
Balance at May 31, 2024	**33,247,637**	**4,659,779**	**(34,733,899)**	**288,798**	**3,462,315**	**(39,914)**	**3,422,401**

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, 2024 and 2023
(Expressed in Canadian dollars)

	2024	2023
	$	$
Operating activities:		
Net income for the year	**982,168**	720,449
Add items not involving cash:		
Depreciation of property, plant and equipment (note 9)	**158,940**	137,381
Depreciation of right-of-use assets (note 10)	**338,703**	245,008
loss (Gain) on disposal of assets (note 9)	**820**	(1,289)
Amortization of intangible assets (note 11)	**225,389**	230,536
Finance costs (note 24)	**416,816**	449,341
Finance revenue	**(49,340)**	-
Share-based compensation (note 20)	**237,251**	216,934
Income taxes expense (recovery) (note 25)	**16,981**	(26,514)
Unrealized foreign exchange and translation adjustments	**165,559**	57,232
Changes in working capital:		
Trade and other receivables	**1,856,057**	(3,074,901)
Prepaid expenses (note 7)	**(925,479)**	(258,024)
Inventory	**(121,334)**	(417,314)
Trade payables and other liabilities	**317,523**	2,624,045
Deferred revenue (note 14)	**2,204,733**	908,609
Income taxes (paid) refunded	**(56,888)**	30,811
Interest paid	**(418,871)**	(436,536)
Interest received	**49,340**	-
Net cash provided by operating activities	**5,398,368**	1,405,768
Investing activities:		
Proceeds from disposal of property, plant and equipment (note 9)	**-**	1,933
Additions to property, plant and equipment (note 9)	**(376,890)**	(79,637)
Net cash used in investing activities	**(376,890)**	(77,704)
Financing activities:		
Repayment of long-term debt (note 13)	**(921,281)**	(825,534)
Repayment of lease obligations (note 16)	**(290,483)**	(214,087)
Stock options exercised (note 17)	**205,918**	27,200
Dividends paid	**(50,582)**	(24,877)
Net cash used in financing activities	**(1,056,428)**	(1,037,298)
Increase in cash and cash equivalents for the year	**3,965,050**	290,766
Cash and cash equivalents, beginning of year	**3,000,607**	2,631,543
Exchange differences on cash and cash equivalents	**(512)**	78,298
Cash and cash equivalents, end of year	**6,965,145**	3,000,607

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”) and OTCQB under the symbol TMG and TMGEF, respectively. The primary office is located at Suite 850, 36 Antares Drive, Ottawa, Ontario, K2E 7W5.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 18, 2024. 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, 2024 and 2023.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS Accounting Standards issued and effective as of September 18, 2024, 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 Accounting Standards 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 periods 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 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 and determines a suitable discount rate to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future expected cash flows and 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 is provided in note 11.

- 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 share 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.

- Expected credit loss:

  The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on the Company's knowledge of the financial conditions of its customers, historical experience and general economic conditions.

- 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 temporary differences, future taxable income and future tax planning strategies.

2. Basis of presentation (continued):

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

The critical estimates include (continued):

- Revenue recognition:

  Contracts with customers often include promises to deliver multiple goods and services. Judgement is applied in determining whether the goods and services are distinct, and should be accounted for as separate performance obligations, or together as a combined performance obligation. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates in determining the standalone selling prices ("SSP") for distinct performance obligations. The Company uses specific parameters as detailed in note 3(m) to estimate SSP for distinct sales of goods and rendering of services.

- Revenue from contracts for heat recovery projects:

  Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete ("input" method). Changes to these estimated costs may result in different estimates of completion of performance obligations and timing of revenue recognition. When a percentage of completion estimate is used, estimates related to cost to complete are routinely revised based on changes of the facts relating to each contract.

  The stage of completion of contracts for heat recovery projects is assessed by management by taking into consideration all information available at the reporting date. To determine the stage of completion, significant estimates are made about estimated costs to complete which includes materials, subcontractors and labour costs.

  In other instances, the stage of completion is determined by the expected level of service we will provide over the term of the contract to determine the extent of progress towards completion ("output" method).

(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 along with consideration of other relevant factors.

2. Basis of presentation (continued):

(d) Functional currency and foreign currency translation (continued):

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 period: 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

3. Material 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.

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 of subsidiaries between the owners of the parent and the non-

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(a) Basis of consolidation (continued):

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 [2]	Delaware, U.S.	100%	USD	Sale of heat recovery and condensate return solutions
Boilerroom Equipment Inc. [2]	Pennsylvania, U.S.	100%	USD	Sale of indirect contact heat recovery units
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. [3]	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. [3]	Guangzhou, China	55%	CAD	Non-operating

[1] Thermal Energy International (UK) Ltd owns 67% of GEMchem Ltd., a company incorporated in the United Kingdom.
[2] Thermal Energy International Corporation owns 100% of Boilerroom Equipment Inc., a company incorporated in the United States.
[3] 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a fiscal year end of May 31.

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

(b) 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.

3. Material accounting policies (continued):

(c) 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.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

(d) 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.

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	10 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. Depreciation and impairment charges are included within administrative expenses.

(e) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

3. Material accounting policies (continued):

(e) Leases (continued):

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 10 years for vehicles, equipment and offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense in profit and loss on a straight-line basis over the lease term.

(f) Intangible assets:

Intangible assets were either acquired in business combinations or through purchases. These intangible assets are recorded at their fair value at the acquisition date. The Company uses the income approach to value intangible assets acquired.

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. The discounted cash flow (“DCF”) is the methodology used, which is a form of the income approach that begins with a forecast of the annual cash

3. Material accounting policies (continued):

(f) Intangible assets (continued):

flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The future cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows from a market participant perspective. The present value of the future cash flows is then added to the present value of the residual value of the intangible asset at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible asset.

After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. 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	6 years straight-line
Existing technology	7 years straight line
Proprietary software	4 years straight line
Brand portfolio	indefinite life
Licenses	3 years straight line

Amortization methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Amortization is included within administrative expenses.

The indefinite life intangible assets include the GEM^{TM} trade name and trademark and the brand portfolio of Boilerroom Equipment Inc., which are used to set the product apart from those of competitors producing traditional mechanical steam traps or indirect contact heat recovery units. Management considers the reputation of the GEM^{TM} product and the brand portfolio as continuing to strengthen and cannot be assigned a finite life after which it will have no value. Intangible assets with indefinite lives are subject to annual impairment testing. See note 3(h) for a description of impairment testing procedures.

(g) Impairment:

The carrying values of all property and equipment and intangible assets with a finite useful life are reviewed for impairment whenever there is an indication that the asset's carrying amount may not be recoverable. An impairment loss is recognized if the recoverable amount of the

3. Material accounting policies (continued):

(g) Impairment (continued):

asset is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The intangible assets with an indefinite useful life are subject to annual impairment testing. Impairment testing 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.

(h) 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.

(i) Warranties:

The Company warrants its heat recovery solutions products against defects for 1-2 years and condensate return solution product against defects for 10 years and does not offer extended warranties. 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.

3. Material accounting policies (continued):

(j) 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.

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.

(k) Equity-settled share-based compensation:

The Company offers an equity-settled share-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.

3. Material accounting policies (continued):

(k) Equity-settled share-based compensation (continued):

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.

Stock options may be exercised on a net exercise basis, whereby stock options are exercised without the optionee making any cash payment so that the Company does not receive any cash from the exercise of the subject options, and instead the optionee receives only the number of underlying shares that is calculated based on a formula defined in the Company's Stock Option Plan.

(l) Revenue recognition:

Revenue is recognized when the Company transfers control of goods, equipment or services to customers at an amount that reflects the consideration expected to be received in exchange for transferring those goods, equipment or services. Some of the Company's contracts include multiple products, equipment and services. Products, equipment and services that are generally capable of being distinct are accounted for as separate performance obligations. When a contract includes a series of goods, equipment and services that are substantially the same and have the same pattern of transfer to the customer, these are accounted for as a single performance obligation.

Revenue comprises revenue from the sale of goods, equipment, and from rendering of services, as described below.

<u>Nature of products and services</u>

Sale of goods and equipment

Revenue is recognized upon transfer of control of promised goods or equipment to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or equipment. The Company's goods and equipment are generally distinct and accounted for as separate performance obligations. A good or equipment is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or equipment is separately identifiable from other promises in the contractual arrangement with the customer. 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, engineering design, after-sales maintenance, and professional water treatment service. Revenue is recognized

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

Rendering of services (continued)

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 projects

The Company provides heat recovery projects specifically customized to each customer. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance as the Company performs or when the Company creates or enhances an asset that the customer controls as the asset is created and enhanced, or when the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. For certain performance obligations the stage of completion is determined by reference to the costs incurred relative to estimated costs to complete to determine the extent of progress towards completion ("input" method). Only those contract costs that reflect work performed are included in costs incurred to date. In other instances, the stage of completion is determined by the expected level of service we will provide over the term of the contract to determine the extent of progress towards completion ("output" method).

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Multi-element arrangements

The Company provides its direct contact heat recovery solutions (e.g. FLU-ACE® heat recovery projects), indirect contact heat recovery equipment (e.g. **HEATSPONGE** and **SIDEKICK),** GEM™ product, installation and servicing on a standalone basis or as part of a multiple element arrangement. Stand-alone sales include sales of FLU-ACE® heat recovery projects, sales of indirect contact heat recovery equipment, or GEM™ steam traps. When sold in a multiple element arrangement, heat recovery projects, indirect contact heat recovery equipment, or GEM™ steam traps are considered separate performance obligations as they are separately identifiable from other promises in the contract. The total consideration for the arrangement is allocated to the separate performance obligations based on their stand alone selling price ("SSP") and the revenue is recognized for each unit when the requirements for revenue recognition have been met. The Company determines the SSP of each performance obligation based on the specific parameters and model used in determining the contract price, price lists and historical pricing for stand-alone sales of the same goods, equipment, or services.

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

Practical expedients

The Company has applied the following practical expedients:

- The Company expenses sales commission costs when incurred if the amortization period is less than 12 months.
- The Company is not adjusting the transaction price for the effects of financing component when the period between customer payment and the transfer of goods and services to the customer is less than 12 months.

(m) 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.

(n) 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.

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

(o) 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.

3. Material accounting policies (continued):

(o) Income taxes (continued):

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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, 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.

(p) Earnings per share:

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated similar to basic earnings per share except the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares, which are comprised of additional shares from the assumed exercise of stock options or vesting of share units. Options and share units that have a dilutive impact are assumed to have been exercised or vested on the later of the beginning of the period or the date granted.

3. Material accounting policies (continued):

(q) 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, trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and liabilities are initially measured at their fair value. Transaction costs that directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on the trade date.

The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company’s financial assets are classified as follows:

Financial asset	Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

3. Material accounting policies (continued):

(q) Financial instruments (continued):

Impairment of financial assets

The Company has elected a practical expedient whereby the Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlated with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification
Trade payables and other liabilities	Amortized cost
Long-term debt	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method. Interest expense is recognized by applying effective interest rate except for short-term payables where the interest expense would be immaterial.

Interest revenue and expenses

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

(r) 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.

3. Material accounting policies (continued):

(r) Segment reporting (continued):

The two main operating units are as follows:

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

Reconciling items comprise corporate administration costs, share-based compensation, professional fees, depreciation of property, plant and equipment, amortization of intangible assets, acquisition costs, foreign exchange differences and finance costs. 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.

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

Amendments to IAS 1

In October 2022, the IASB amended IAS 1, *Presentation of Financial Statements* with the aim of improving the information companies provide about long-term debt covenants.

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment requires a company to disclose information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Such disclosure includes information about covenants and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, which will be June 1, 2024 for the Company. The adoption of the amendments to IAS 1 is not expected to have a material impact on the consolidated financial statements.

4. Segment reporting:

In fiscal 2024 and 2023, the Company operated in the energy efficiency industry in North America, Europe 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 and Europe.

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

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

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 year ended May 31, 2024 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**11,812,843**	10,497,750	**14,067,354**	10,593,820	**-**	-	**25,880,197**	21,091,570
Cost of sales	**(6,399,343)**	(5,890,301)	**(7,028,545)**	(5,632,050)	**-**	-	**(13,427,888)**	(11,522,351)
Gross profit	**5,413,500**	4,607,449	**7,038,809**	4,961,770	**-**	-	**12,452,309**	9,569,219
Other expenses	**(4,052,818)**	(3,272,673)	**(5,242,729)**	(4,114,705)	**(1,790,137)**	(1,038,565)	**(11,085,684)**	(8,425,943)
Finance costs	**(92,949)**	(101,087)	**(33,176)**	(5,313)	**(290,691)**	(342,941)	**(416,816)**	(449,341)
Finance revenue	**49,340**	-	**-**	-	**-**	-	**49,340**	-
Income (loss) before taxation	**1,317,073**	1,233,689	**1,762,904**	841,752	**(2,080,828)**	(1,381,506)	**999,149**	693,935
Tax recovery (expense)	**40,824**	20,582	**(57,805)**	5,484	**-**	448	**(16,981)**	26,514
Profit (loss) after taxation	**1,357,897**	1,254,271	**1,705,099**	847,236	**(2,080,828)**	(1,381,058)	**982,168**	720,449
Attributable to:								
Owners of the parent	**1,357,868**	1,254,752	**1,652,464**	844,265	**(2,080,828)**	(1,381,058)	**929,504**	717,959
Non-controlling interest	**29**	(481)	**52,635**	2,971	**-**	-	**52,664**	2,490

Other expenses in Reconciling Items comprise the following:

	2024	2023
Corporate administration costs	**$ 769,274**	$ 678,080
Share-based compensation	**237,251**	216,934
Professional fees	**175,982**	155,462
Depreciation of property, plant and equipment	**158,940**	137,381
Amortization of intangible assets	**225,389**	230,536
Foreign exchange loss (gain)	**223,301**	(379,828)
Total	**$ 1,790,137**	$ 1,038,565

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.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

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

During the year ended May 31, 2024, the Company had one customer in North America and one customer in Europe that accounted for 14.1% and 11.3% of total consolidated revenue for the year, respectively. During the year ended May 31, 2023, the Company had one customer in North America that accounted for 17.6% of total consolidated revenue for the year.

Further geographical analysis:

	Revenue for the year ended May 31		Property, plant and equipment As at May 31		Intangibles assets as at May 31	
	2024	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$
U.S.A.	**10,117,471**	9,088,158	**105,304**	125,441	**222,453**	407,965
Canada	**1,534,343**	1,234,271	**110,704**	130,877	**163,192**	203,680
U.K.	**2,273,285**	2,316,567	**314,416**	47,868	**240,977**	233,971
Ireland	**3,798,719**	2,309,414	–	–	–	–
Netherlands	**1,916,251**	140,701	–	–	–	–
Romania	**1,519,898**	1,745,520	–	–	–	–
Germany	**1,367,391**	434,056	–	–	–	–
Poland	**1,181,967**	537,214	–	–	–	–
Italy	**537,270**	706,278	–	–	–	–
Spain	**340,439**	437,612	–	–	–	–
Portugal	**153,985**	239,627	–	–	–	–
Belgium	**47,337**	53,327	–	–	–	–
Bulgaria	**46,283**	-	–	–	–	–
France	**38,104**	69,809	–	–	–	–
Norway	**5,618**	23,695	–	–	–	–
Rest of Europe	**33,117**	47,969	–	–	–	–
Mauritius	**357,844**	361,841	–	–	–	–
Brazil	**252,795**	-	–	–	–	–
Mexico	**180,831**	322,858	–	–	–	–
Australia(1)	**77,137**	11,350	–	–	–	–
India	**42,063**	61,848	–	–	–	–
South Africa	**8,710**	229,284	–	–	–	–
UAE	**-**	650,613	–	–	–	–
Rest of world	**49,339**	69,558	–	–	–	–
Total	**25,880,197**	21,091,570	**530,424**	304,186	**626,622**	845,616

(1) The comparative information has been reclassified from Rest of world to conform with the financial statement presentation adopted in the current year.

(Expressed in Canadian dollars except share amounts)

5. Cash and cash equivalents:

	2024	2023
Cash	**$ 6,949,752**	$ 2,796,986
Cash equivalents	**15,393**	15,128
Restricted cash	**-**	188,493
Balance, end of year	**$ 6,965,145**	$ 3,000,607

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

As at May 31, 2023, restricted cash of $188,493 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.

6. Trade and other receivables:

	2024	2023
Trade receivables, gross	**$ 3,300,990**	$ 5,370,162
Allowance for doubtful accounts	**(12,263)**	(19,689)
Trade receivables, net	**3,288,727**	5,350,473
Unbilled revenue	**246,802**	144,458
Contract assets (1)	**257,989**	221,884
Sales tax and other miscellaneous receivables	**389,048**	321,808
Balance, end of year (2)	**$ 4,182,566**	$ 6,038,623

(1) Renamed from work in progress to contract assets.
(2) Prepayments in the amount of $428,581 which were previously reported under trade and other receivables, were reclassified to prepaid expenses (see note 7) to conform with the financial statement presentation adopted in the current year.

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

At May 31, 2024, $194,435 (5.9%) of the Company's trade receivables balance was over 90 days past due ($723,843 (13.5%) at May 31, 2023). $12,263 of the past due balance was impaired at May 31, 2024 ($19,689 at May 31, 2023).

(Expressed in Canadian dollars except share amounts)

6. Trade and other receivables (continued):

The change in allowance for doubtful accounts was as follows:

	2024	2023
Balance, beginning of year	**$ 19,689**	$ 121,849
Provisions	**10,789**	18,306
Release of provisions due to collection	**(8,359)**	(77,706)
Amounts written off	**(10,083)**	(45,405)
Foreign exchange adjustments	**227**	2,645
Balance, end of year	**$ 12,263**	$ 19,689

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2024, provisions of $10,789 were made as expected credit losses and recorded under administrative expenses. $8,359 of the provisions were released due to the collection on the doubtful account.

For the year ended May 31, 2023, provisions of $18,306 were made as expected credit losses and recorded under administrative expenses. $77,706 of the provisions were released due to the collection on the doubtful account.

7. Prepaid expenses:

	2024	2023
Prepayments for goods, equipment and projects	**$ 738,838**	$ 153,153
Other prepaid expenses	**615,222**	275,428
Balance, end of year [1]	**$ 1,354,060**	$ 428,581

[1] Prepayments in the amount of $428,581 which were previously reported under trade and other receivables, were reclassified to prepaid expenses (see note 6) to conform with the financial statement presentation adopted in the current year.

8. Inventory:

	2024	2023
Raw materials	**$ 1,072,685**	$ 1,083,429
Work in progress	**336,046**	233,400
Finished goods	**184,476**	155,044
Balance, end of year	**$ 1,593,207**	$ 1,471,873

For the year ended May 31, 2024, a total of $1,960,826 of inventories was expensed to cost of sales ($2,030,381 at May 31, 2023). Provisions of $2,739 ($3,705 at May 31, 2023) were made for slow-moving inventories under cost of sales.

(Expressed in Canadian dollars except share amounts)

9. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve-ments	Motor Vehicles	Total
	$	$	$	$	$	$	$
Cost, May 31, 2022	500,774	160,733	52,857	451,688	203,163	10,545	1,379,760
Additions	46,613	11,147	-	21,877	-	-	79,637
Disposals	(8,259)	-	-	(1,366)	-	-	(9,625)
Translation adjustments	29,444	2,059	-	9,340	843	796	42,482
Cost, May 31, 2023	568,572	173,939	52,857	481,539	204,006	11,341	1,492,254
Additions	67,987	24,267	-	51,917	232,719	-	376,890
Disposals	(8,400)	-	-	(29,144)	-	-	(37,544)
Translation adjustments	6,952	637	-	3,853	7,370	28	18,840
Cost, May 31, 2024	**635,111**	**198,843**	**52,857**	**508,165**	**444,095**	**11,369**	**1,850,440**
Accumulated depreciation, May 31, 2022	357,877	128,539	52,857	417,867	70,345	3,076	1,030,561
Depreciation for the year	80,241	12,833	-	23,406	18,117	2,784	137,381
Disposals	(8,259)	-	-	(722)	-	-	(8,981)
Translation adjustments	20,834	741	-	7,132	117	283	29,107
Accumulated depreciation, May 31, 2023	450,693	142,113	52,857	447,683	88,579	6,143	1,188,068
Depreciation for the year	50,133	14,708	-	27,607	63,807	2,685	158,940
Disposals	(7,580)	-	-	(29,144)	-	-	(36,724)
Translation adjustments	5,084	575	-	3,393	507	173	9,732
Accumulated depreciation, May 31, 2024	**498,330**	**157,396**	**52,857**	**449,539**	**152,893**	**9,001**	**1,320,016**
Net book value, May 31, 2023	117,879	31,826	-	33,856	115,427	5,198	304,186
Net book value, May 31, 2024	**136,781**	**41,447**	**-**	**58,626**	**291,202**	**2,368**	**530,424**

During the year ended May 31, 2024, the Company disposed of depreciated assets with a net book value of $820 for $nil proceeds.

During the year ended May 31, 2023, the Company disposed of depreciated assets with a net book value of $644 for $1,933 proceeds.

(Expressed in Canadian dollars except share amounts)

10. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2023	**1,184,520**	**56,430**	**6,931**	**1,247,881**
Additions	**274,044**	**86,828**	**-**	**360,872**
Depreciation	**(285,177)**	**(50,753)**	**(2,773)**	**(338,703)**
Translation adjustments	**7,002**	**2,574**	**-**	**9,576**
Balance, May 31, 2024	**1,180,389**	**95,079**	**4,158**	**1,279,626**

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2022	1,131,563	48,867	11,173	1,191,603
Additions	192,906	40,022	-	232,928
Depreciation	(206,969)	(33,834)	(4,205)	(245,008)
Translation adjustments	67,020	1,375	(37)	68,358
Balance, May 31, 2023	1,184,520	56,430	6,931	1,247,881

During the year ended May 31, 2024, the Company leased a new facility in the U.K. for 2.5 years and recognized a right-of-use asset for $274,044.

During the year ended May 31, 2023, the Company re-leased a facility in the U.K. for 3 years and recognized a right-of-use asset for $192,906.

11. Intangible assets:

	Cost, May 31, 2023	Translation adjustments	Cost, May 31, 2024
	$	$	$
Trade names and trademarks (a)	**775,652**	**23,230**	**798,882**
Non-compete agreement	**101,172**	**3,030**	**104,202**
Industrial know-how	**118,034**	**3,535**	**121,569**
Designs and drawings	**129,837**	**3,889**	**133,726**
Customer relationships	**748,888**	**9,509**	**758,397**
Existing technology	**1,011,182**	**1,820**	**1,013,002**
Proprietary software	**409,450**	**1,023**	**410,473**
Brand portfolio (b)	**202,684**	**507**	**203,191**
Licences	**10,950**	**30**	**10,980**
Total	**3,507,849**	**46,573**	**3,554,422**

(Expressed in Canadian dollars except share amounts)

11. Intangible assets (continued):

	Accumulated amortization and impairment, May 31, 2023	**Amortization**	**Translation adjustments**	**Accumulated amortization and impairment, May 31, 2024**
	$	**$**	**$**	**$**
Trade names and trademarks (a)	**541,682**	**-**	**16,223**	**557,905**
Non-compete agreement	**101,172**	**-**	**3,030**	**104,202**
Industrial know-how	**118,034**	**-**	**3,535**	**121,569**
Designs and drawings	**129,837**	**-**	**3,889**	**133,726**
Customer relationships	**663,905**	**77,952**	**9,984**	**751,841**
Existing technology	**590,905**	**143,803**	**2,191**	**736,899**
Proprietary software	**409,451**	**-**	**1,023**	**410,474**
Brand portfolio (b)	**100,662**	**-**	**252**	**100,914**
Licences	**6,585**	**3,634**	**51**	**10,270**
Total	**2,662,233**	**225,389**	**40,178**	**2,927,800**
Net book value	**845,616**			**626,622**

	Cost, May 31, 2022	Translation adjustments	Cost, May 31, 2023
	$	$	$
Trade names and trademarks (a)	733,102	42,550	775,652
Non-compete agreement	95,622	5,550	101,172
Industrial know-how	111,559	6,475	118,034
Designs and drawings	122,715	7,122	129,837
Customer relationships	700,582	48,306	748,888
Existing technology	960,090	51,092	1,011,182
Proprietary software	380,705	28,745	409,450
Brand portfolio (b)	188,454	14,230	202,684
Licences	10,181	769	10,950
Total	3,303,010	204,839	3,507,849

	Accumulated amortization and impairment, May 31, 2022	Amortization	Translation adjustments	Accumulated amortization and impairment, May 31, 2023
	$	$	$	$
Trade names and trademarks (a)	511,967	-	29,715	541,682
Non-compete agreement	95,622	-	5,550	101,172
Industrial know-how	111,559	-	6,475	118,034
Designs and drawings	122,715	-	7,122	129,837
Customer relationships	548,629	77,034	38,242	663,905
Existing technology	417,863	142,586	30,456	590,905
Proprietary software	372,774	7,335	29,342	409,451
Brand portfolio (b)	93,595	-	7,067	100,662
Licences	2,732	3,581	272	6,585
Total	2,277,456	230,536	154,241	2,662,233
Net book value	1,025,554			845,616

11. Intangible assets (continued):

Trade names and trademarks, and brand portfolio are intangible assets with indefinite lives and are not subject to amortization. They are tested for impairment at each year-end. The recoverable amount of trade names and trademarks, and brand portfolio were determined using the relief from royalty method.

(a) Trade names and trademarks:

Trade names and trademarks relate specifically to the GEM™ product. The calculation of the expected future revenues from the GEM™ product covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 32% (2023 - 27%). The growth rates attributed by Management to the GEM™ product line are negative 22% in 2025, followed by positive 7% in each of the subsequent four years. The Company is expecting lower revenues in 2025 compared to 2024 because the revenue in 2024 from GEM™ was higher due to the receipt of a large one-time order from a customer with total order value of $4 million. There is no large order expected in 2025. The Company still expect growth in revenues from GEM™ product in the subsequent four years from 2026 to 2029 as the Company will continue to invest in its sales force and will have an increased number of experienced sales staff within Europe and North America, which will generate more sales opportunities. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the years ended May 31, 2024 and 2023.

(b) Brand portfolio:

Brand portfolio relates specifically to Boilerroom Equipment Inc’s products. The calculation of the expected future revenues from the brand portfolio covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 23% (2023 - 21%). The growth rates attributed by Management to the brand portfolio are 8% in 2025, followed by 5% growth rate in each of the subsequent four years. The sales and revenue are expected to grow in the next five because the Company will continue to expand its sales territories by utilizing the existing sales channels and network that have been established by the group of companies. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the years ended May 31, 2024 and 2023.

(Expressed in Canadian dollars except share amounts)

12. Trade payables and other liabilities:

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

	2024	2023
Trade payables	**$ 2,429,063**	$ 2,237,603
Accruals	**1,813,981**	1,834,429
Other government remittances payable	**189,523**	171,879
	$ 4,432,567	$ 4,243,911

Included in accruals is $13,500 due to Directors ($13,500 at May 31, 2023).

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

13. Long-term debt:

	2024	2023
(a) Term loan (equivalent to USD$993,561), net of deferred financing costs of $8,781 (equivalent to USD$6,439), currently bearing interest at 11.4% (13.05% on May 31, 2023), repayable in monthly principal instalments of $34,093 (equivalent to USD$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of $750,035 (equivalent to USD$550,000) payable on the maturity date, December 1, 2025	**$1,354,919**	$1,753,755
(b) Term loan, currently bearing interest at 8.2% (7.7% on May 31, 2023), repayable in monthly principal instalments of $40,000 until April 15, 2023 and in monthly principal installments of $41,667 starting May 15, 2023 and continuing up to the maturity date, with a balloon payment of $41,655 payable on the maturity date, April 15, 2026	**958,329**	1,458,333
(c) Term loan (equivalent to GBP£21,594), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of $1,460 (equivalent to GBP£841) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	**37,503**	53,229
Total long-term debt	**2,350,751**	3,265,317
Less: current portion	**(921,018)**	(919,057)
Long term portion	**$ 1,429,733**	$ 2,346,260

(Expressed in Canadian dollars except share amounts)

13. 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 at 9.9% on May 31, 2024 (9.55% on May 31, 2023). Interest is payable monthly in arrears on the 1st day of the month commencing on the August 1st, 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.

As at May 31, 2024, the variance was 1.50% (3.50% at May 31, 2023). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio:

Consolidated total funded debt /EBITDA(1)	Variance
Less than 2.50	1.50%
Between 2.50 and 3.00	2.00%
Between 3.00 and 3.50	2.50%
Between 3.50 and 3.75	4.50%
Between 3.75 and 4.00	5.50%
More than 4.00	8.00%

(1) EBITDA, per the agreement, means, for any fiscal period, the net income from continuing operations (excluding any extraordinary gains or losses) plus, to the extent deducted in determining net income, interest expense, taxes paid and accrued, depreciation, depleting and amortization expenses, plus share-based compensation deducted, for the period. EBITDA is also before the acquisition costs related to the acquisition of Boilerroom Equipment Inc. to a cumulative maximum of USD$400,000.

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 in compliance on May 31, 2024.

(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%. The institution's floating base rate was 9.30% on May 31, 2024 (8.80% on May 31, 2023). 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.

(Expressed in Canadian dollars except share amounts)

13. Long-term debt (continued):

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.

On November 7, 2022, the lender agreed to extend the maturity date to April 15, 2026 as a COVID-19 relief measure to the Company.

(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.

14. Deferred revenue:

The change in deferred revenue was as follows:

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2023	**$ 1,369,539**	**$ 719,337**	**$ 2,088,876**
Increase from payments received	**12,101,114**	**3,907,716**	**16,008,830**
Decrease from revenue recognized	**(9,936,667)**	**(3,867,430)**	**(13,804,097)**
Translation adjustments	**38,980**	**12,204**	**51,184**
Balance, May 31, 2024	**$ 3,572,966**	**$ 771,827**	**$ 4,344,793**

	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	$ 434,481	$ 629,014	$ 1,063,495
Increase from payments received	7,189,253	4,957,189	12,146,442
Decrease from revenue recognized	(6,338,347)	(4,899,486)	(11,237,833)
Translation adjustments	84,152	32,620	116,772
Balance, May 31, 2023	$ 1,369,539	$ 719,337	$ 2,088,876

All amounts are short-term and is expected to be settled within the next reporting year.

(Expressed in Canadian dollars except share amounts)

15. Provisions:

The change in provisions was as follows:

	Legal provision	Warranty provision	Total provisions
Balance, June 1, 2023	**$ 190,000**	**$ 132,486**	**$ 322,486**
Additions	**-**	**59,048**	**59,048**
Translation adjustments	**-**	**1,279**	**1,279**
Balance, May 31, 2024	**$ 190,000**	**$ 192,813**	**$ 382,813**
Balance, June 1, 2022	$ 190,000	$ 117,213	$ 307,213
Additions	-	11,727	11,727
Translation adjustments	-	3,546	3,546
Balance, May 31, 2023	$ 190,000	$ 132,486	$ 322,486

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. In November 2009, the Company recorded a provision of $190,000 in its financial statements. In May, 2010, the plaintiff brought a motion for summary judgment. On October 18, 2011, a decision was rendered. In its decision on the motion for summary judgment 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 in the amount of $618,810; iii) Permitted the remainder of the parties' claims and counterclaims to proceed to trial. 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. However, there has been no progress since October 18, 2011. Until the remaining issues are determined, it is unclear what the net balance payable will be. 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. This provision remains unchanged as at May 31, 2024 and is intended to account for future liabilities resulting from the claim.

Other than the legal provision of $190,000, the Company has another provision of $192,813 for warranty.

(Expressed in Canadian dollars except share amounts)

16. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2024 and May 31, 2023:

	2024	2023
Less than one year	**$422,806**	$318,925
One to five years	**1,163,437**	1,025,020
Six to ten years	**320,224**	547,953
Total undiscounted lease obligations	**1,906,467**	1,891,898
Less: impact of present value	**(362,500)**	(428,919)
Less: current portion	**(308,996)**	(214,684)
Long term portion	**$1,234,971**	$1,248,295

For the year ended May 31, 2024, interest expense on lease obligations (see note 24) was $126,131 ($106,401 on May 31, 2023); total cash outflow for leases was $442,499 ($352,954 on May 31, 2023), including $25,885 ($32,466 on May 31, 2023) for short-term leases. 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.

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, 2024		Year ended May 31, 2023	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of year	**164,477,606**	**32,526,779**	164,137,606	32,484,814
Stock options exercised (note 20)	**8,256,699**	**720,858**	340,000	41,965
Balance, end of year	**172,734,305**	**33,247,637**	164,477,606	32,526,779

17. Capital stock (continued):

On November 21, 2023, the Company amended its Stock Option Plan to bring it in line with current TSX Venture Exchange policies and market norms. Under the new Stock Option Plan, the stock options may be exercised on a net exercise basis, whereby stock options are exercised without the optionee making any cash payment so that the Company does not receive any cash from the exercise of the subject options, and instead the optionee receives only the number of underlying shares that is calculated based on a formula defined in the Company's Stock Option Plan.

For the year ended May 31, 2024, the Company issued total 8,256,699 shares for cash proceeds of $205,918 following the exercise of 11,582,587 stock options. Out of 8,256,699 shares issued, 2,538,339 shares were issued upon the exercise of 2,538,339 options for cash proceeds of $205,918, resulting in an increase to capital stock of $316,592 and a reduction in contributed surplus of $110,674. In addition, 5,718,360 shares were issued upon the exercise of 9,044,248 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of $404,266 and a reduction in contributed surplus of the same amount.

For the year ended May 31, 2023, 340,000 shares were issued for $27,200 following the exercise of stock options, resulting in an increase to capital stock of $41,965 and a reduction in contributed surplus of $14,765.

18. Capital management:

The Company's objectives when managing capital is to ensure financial stability and sufficient liquidity to increase shareholder value through strategic acquisitions and organic growth by investing in sales, marketing and production development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process.

The capital structure of the Company consists of long-term debt and components of equity including capital stock, contributed surplus and deficit, which at May 31, 2024 totaled $3,173,517 ($1,800,844 at May 31, 2023). 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, repurchase shares, or issue debt. Management reviews the capital structure on a regular basis to ensure that objectives are met.

The Company is subject to two debt covenants on its long-term debt (see note 13(a) for details). The Company monitors the ratios on a quarterly basis. The Company's share capital is not subject to external restrictions.

(Expressed in Canadian dollars except share amounts)

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, 2024			Year ended May 31, 2023		
	GEMchem Ltd. $	**TEI (Guangzhou) Ltd. $**	**Total $**	GEMchem Ltd. $	TEI (Guangzhou) Ltd. $	Total $
NCI percentage	**33%**	**45%**		33%	45%	
Non-current assets	**2,935**	**-**	**2,935**	4,157	-	4,157
Current assets	**707,525**	**8,084**	**715,609**	624,122	8,084	632,206
Non-current liabilities	**813**	**-**	**813**	164	-	164
Current liabilities	**268,697**	**420,143**	**688,840**	206,605	420,208	626,813
Net assets (liabilities)	**440,950**	**(412,059)**	**28,891**	421,510	(412,124)	9,386
Carrying amount of NCI	**145,513**	**(185,427)**	**(39,914)**	139,098	(185,456)	(46,358)
Revenue	**1,258,718**	**-**	**1,258,718**	1,107,735	-	1,107,735
Profit (loss) after tax	**159,499**	**65**	**159,564**	9,004	(1,069)	7,935
Total comprehensive income (loss)	**172,718**	**65**	**172,783**	35,768	(1,069)	34,699
Profit (loss) allocated to NCI	**52,635**	**29**	**52,664**	2,971	(481)	2,490
Comprehensive income (loss) allocated to NCI	**56,997**	**29**	**57,026**	11,803	(481)	11,322
Cash flows from operating activities	**280,528**	**-**	**280,528**	(29,128)	-	(29,128)
Cash flows from investing activities	**-**	**-**	**-**	(4,549)	-	(4,549)
Cash flows from financing activities[1]	**(153,279)**	**-**	**(153,279)**	(75,384)	-	(75,384)
Net (decrease) increase in cash and cash equivalents	**127,249**	**-**	**127,249**	(109,061)	-	(109,061)

[1] The portion of the dividend attributable to the non-controlling interests (33%) amounted to $50,582 (2023: $24,877). This amount has been recorded as a reduction in the non-controlling interests' equity.

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 except share amounts)

20. Share-based payments (continued):

Activity in stock options was as follows:

	Year ended May 31, 2024		Year ended May 31, 2023	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**21,592,089**	**0.10**	18,289,339	0.10
Granted	**3,560,400**	**0.20**	4,207,750	0.12
Forfeited	**(584,000)**	**0.11**	(565,000)	0.10
Exercised (note 17)	**(11,582,587)**	**0.09**	(340,000)	0.08
Outstanding, end of year	**12,985,902**	**0.14**	21,592,089	0.10
Options exercisable, end of year	**5,536,648**	**0.11**	13,302,983	0.09

The following tables summarize information about stock options outstanding:

At May 31, 2024:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding May 31, 2024**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at May 31, 2024**	**Weighted average exercise price**
0.08-0.10	**2,400,000**	**1.40**	**0.09**	**2,400,000**	**0.09**
0.11-0.15	**7,070,502**	**3.01**	**0.13**	**3,136,648**	**0.13**
0.16-0.20	**3,515,400**	**4.50**	**0.20**	**-**	**-**
	12,985,902	**3.12**	**0.14**	**5,536,648**	**0.11**

At May 31, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2023	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2023	Weighted average exercise price
0.08-0.10	13,316,339	1.39	0.08	11,915,327	0.08
0.11-0.14	8,275,750	4.00	0.13	1,387,656	0.14
	21,592,089	2.39	0.10	13,302,983	0.09

(Expressed in Canadian dollars except share amounts)

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, 2024, there was $266,946 ($212,150 at May 31, 2023) 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:

	30-Nov-23	30-Nov-22
Grant date share price ($)(1)	0.20	0.12
Exercise price ($)	0.20	0.12
Expected volatility (%)(2)	66.19	64.48
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	3.64	3.18
Forfeiture rate (%)	22.39	21.00

(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.

Share-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:

	2024	2023
Administration	**$ 189,483**	$ 175,890
Selling, marketing and business development	**47,768**	41,044
	$ 237,251	$ 216,934

(Expressed in Canadian dollars except share amounts)

21. Revenue:

	2024	2023
Sales of goods and equipment	**$ 13,950,373**	$ 13,445,925
Services	**1,866,719**	1,334,356
Contracts for heat recovery projects	**10,063,105**	6,311,289
	$ 25,880,197	$ 21,091,570

Sales of goods and equipment include sales of heat recovery equipment, GEM product and related service (e.g. installation, surveys, etc.).

Services include engineering design, after-sales maintenance, and professional water treatment service.

Contracts for heat recovery projects include long-term heat recovery projects and related project development service.

22. Employee benefits expense:

	2024	2023
Salaries and benefits	**$ 9,970,860**	$ 7,981,686
Share-based compensation (note 20)	**237,251**	216,934
Pension expense	**271,810**	171,600
	$ 10,479,921	$ 8,370,220

The Company contributes to defined contribution pension plans for permanent employees 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:

	2024	2023
Depreciation of property, plant and equipment (note 9)	**$ 158,940**	$ 137,381
Depreciation of right-of-use assets (note 10)	**338,703**	245,008
Amortization of intangible assets (note 11)	**225,389**	230,536
Foreign exchange loss (gain)	**223,301**	(379,828)

(Expressed in Canadian dollars except share amounts)

23. Other significant expenses (continued):

The Company received funding from various government bodies as COVID-19 wage subsidies. For the year ended May 31, 2024, a total amount of $nil ($24,284 at May 31, 2023) related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

The Company received funding on various research programs. For the year ended May 31, 2024, a total amount of $2,990 related to various research funding was recognized as a reduction to research and development expenses. For the year ended May 31, 2023, a total amount of $28,680 related to various research funding was recognized as an increase to research and development expenses due to adjustment to funding claims from prior years.

24. Finance costs:

	2024	2023
Interest on indebtedness	**$ 290,685**	$ 342,940
Interest on leases (note 16)	**126,131**	106,401
	$ 416,816	$ 449,341

(Expressed in Canadian dollars except share amounts)

25. 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:

		2024		2023
Income before income taxes	$	**999,149**	$	693,935
Income taxes expense calculated using combined federal and provincial income tax rates in Canada of 26.50% (2023 – 26.50%)	$	**264,775**	$	183,893
Share-based compensation		**62,872**		57,488
Research and development expenditure		**(101,869)**		(86,629)
Difference in tax rate of foreign subsidiaries		**(11,726)**		(7,300)
Utilization of previously unrecognized tax losses		**(261,813)**		(319,735)
Tax effect of temporary difference for which no deferred tax asset is (used) recorded		**(5,454)**		130,732
Difference in future tax rates		**(5,051)**		(9,214)
Permanent differences and other items		**75,247**		24,251
Current and deferred income tax expense (recovery)	**$**	**16,981**	$	(26,514)
Current	**$**	**72,413**	$	39,293
Deferred		**(55,432)**		(65,807)
	$	**16,981**	$	(26,514)

Major components of the current tax expense (recovery) are as follows:

		2024		2023
Statutory income tax of the year	**$**	**72,782**	$	42,614
Adjustment for prior years		**(369)**		(3,321)
	$	**72,413**	$	39,293

Major components of the deferred tax expense (recovery) are as follows:

		2024		2023
Origination of timing differences	**$**	**(50,381)**	$	(56,593)
Difference in future tax rates		**(5,051)**		(9,214)
	$	**(55,432)**	$	(65,807)

(Expressed in Canadian dollars except share amounts)

25. Income taxes (continued):

Change in deferred tax balances in 2024:

	June 1, 2023 $	**Recognized in income (loss) $**	**Recognized in other comprehensive income $**	**May 31, 2024 $**
Provisions	**90,474**	**50,079**	**478**	**141,031**
Property, plant and equipment	**(32,890)**	**(38,930)**	**(779)**	**(72,599)**
Non-capital losses	**84,970**	**43,328**	**2,963**	**131,261**
Intangible assets	**(57,638)**	**955**	**(1,749)**	**(58,432)**
	84,916	**55,432**	**913**	**141,261**
Recognized as deferred tax assets				**142,074**
Recognized as deferred tax liabilities				**(813)**
				141,261

Change in deferred tax balances in 2023:

	June 1, 2022 $	Recognized in income (loss) $	Recognized in other comprehensive income $	May 31, 2023 $
Provisions	31,837	56,122	2,515	90,474
Property, plant and equipment	(39,387)	9,237	(2,740)	(32,890)
Non-capital losses	80,309	-	4,661	84,970
Intangible assets	(54,907)	448	(3,179)	(57,638)
	17,852	65,807	1,257	84,916
Recognized as deferred tax assets				85,080
Recognized as deferred tax liabilities				(164)
				84,916

(Expressed in Canadian dollars except share amounts)

25. Income taxes (continued):

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

	2024	2023
Property, plant and equipment	**$ 1,230,336**	$ 1,197,316
Intangible assets	**3,047,741**	3,007,252
Provisions	**358,908**	358,280
Non-capital losses	**6,748,639**	7,828,720
Research and development pool	**3,555,000**	3,476,000
	$ 14,940,624	$ 15,867,568

As at May 31, 2024, 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
2029	337,627
2030	3,032,173
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
2043	108,378
Total	$ 6,036,521

As of May 31, 2024, the Company had non-capital losses in foreign subsidiaries in the amount of $712,118 ($2,026,987 at May 31, 2023). Losses in the amount of $44,570 expire in 2025 and losses of $667,548 could be carried forward indefinitely (as of May 31, 2023, losses in the amount of $113,442 expire between 2024 and 2025 and losses of $1,913,545 could be carried forward indefinitely).

As of May 31, 2024, the Company had a pool balance in the amount of $3,555,000 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely ($3,476,000 at May 31, 2023).

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, 2024 was $4,542,407 ($3,265,594 at May 31, 2023).

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26. Earnings per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2024 was based on the net income attributable to owners of the parent of $929,504 (2023 – net income of $717,959) and a weighted average number of basic common shares outstanding of 168,028,651 (2023 – 164,228,894) and a weighted average number of dilutive common shares outstanding of 171,702,387 (2023 – 166,212,865).

For the year ended May 31, 2024, 3,673,736 stock options out of 12,985,902 outstanding options were included in the calculation of diluted earnings per share. For the year ended May 31, 2023, 1,983,971 stock options out of 21,592,089 outstanding options were included in the calculation of diluted earnings per share.

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:

	2024	2023
Issued common shares at beginning of year	**164,477,606**	164,137,606
Effect of shares issued	**3,551,045**	91,288
Weighted average number of basic common shares at end of year	**168,028,651**	164,228,894
Effect of stock options on issue	**3,673,736**	1,983,971
Weighted average number of diluted common shares at end of year	**171,702,387**	166,212,865

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

(Expressed in Canadian dollars except share amounts)

27. Financial instruments (continued):

Financial risk management (continued):

following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. These risks are discussed in more detail below.

(a) 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 maximizing 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 $	EUR	PLN	RON	NOK	Total CAD $
Functional currency of Company entity						
May 31, 2024						
Canadian Dollar	**2,368,103**	**–**	**–**	**–**	**–**	**2,368,103**
British Pound	**319,863**	**1,729,169**	**(61,132)**	**(28,003)**	**–**	**1,959,897**
	2,687,966	**1,729,169**	**(61,132)**	**(28,003)**	**–**	**4,328,000**
May 31, 2023						
Canadian Dollar	2,258,550	–	–	–	–	2,258,550
British Pound	414,908	2,481,819	–	–	1,081	2,897,808
	2,673,458	2,481,819	–	–	1,081	5,156,358

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

	May 31, 2024						May 31, 2023					
	US$	**EUR**	**PLN**	**RON**	**NOK**	**Total**	US$	EUR	PLN	RON	NOK	Total
Net income (loss)	**268,797**	**172,917**	**(6,113)**	**(2,800)**	**-**	**432,801**	267,346	248,182	-	-	108	515,636
Equity	**268,797**	**172,917**	**(6,113)**	**(2,800)**	**-**	**432,801**	267,346	248,182	-	-	108	515,636

27. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

The Company operates internationally with subsidiaries in the United Kingdom and 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 Norwegian Krone. The majority of the foreign denominated transactions are in U.S. dollars and Euros.

The Company does not enter into arrangements to hedge its foreign exchange risk. The Company's policy is to ensure that its net exposure is kept 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 currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The Company is exposed to interest rate risk on its long-term debt. For the year ended May 31, 2024, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in an decrease/increase in income before tax of $23,550.

(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 and other receivables.

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.

Trade and other receivables

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. For GEM and Boilerroom Equipment Inc. 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. Goods are sold subject to

(Expressed in Canadian dollars except share amounts)

27. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk (continued):

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 and other receivables in the statement of financial position are net of expected credit loss. 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 and other receivables (see note 6).

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

(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 to the lease obligations disclosed in note 16, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount $	Contractual cash flows $	Year 1 $	Year 2-3 $	Year 4 and onwards $
Trade payables and other liabilities	4,432,567	4,432,567	4,432,567	-	-
Long-term debt	2,350,751	2,613,665	1,115,752	1,497,913	-
	6,783,318	7,046,232	5,548,319	1,497,913	-

Fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis:

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 –

(Expressed in Canadian dollars except share amounts)

27. Financial instruments (continued):

Fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis (continued):

valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial assets or financial liabilities measured at fair value after initial recognition.

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the year ended May 31, 2024 and 2023.

Fair value of financial instrument assets and liabilities that are not measured at fair value but fair value disclosures are required:

The carrying value 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. Long-term debt is subject to changes in market interest rates.

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:

	2024	2023
Salaries and other short-term employee benefits	**$ 1,016,994**	$ 930,221
Share-based payments	**86,526**	80,721
	$ 1,103,520	$ 1,010,942

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.

29. Commitments:

On March 26, 2024, an advanced payment guarantee of $1,143,454 (equivalent to GBP£658,406), with no collateral, was issued by a financial institution in favour of a customer of the Company. The bank guarantee had an expiry date of August 31, 2024.

On September 12, 2024, subsequent to the year ended May 31, 2024, the advanced payment guarantee was renewed until October 31, 2024.