

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Quarters ended November 30, 2024 and 2023

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at November 30 and May 31, 2024
(Expressed in Canadian dollars) (Unaudited)

	November 30, 2024	May 31, 2024
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	2,823,168	6,965,145
Trade and other receivables (note 6)	6,124,413	4,182,566
Current tax receivable	27,244	117,078
Prepaid expenses (note 7)	746,779	1,354,060
Inventory	1,602,216	1,593,207
	11,323,820	14,212,056
Non-current assets:		
Property, plant and equipment (note 8)	454,967	530,424
Right-of-use assets (note 9)	1,125,071	1,279,626
Intangible assets	557,566	626,622
Deferred tax assets	145,906	142,074
	2,283,510	2,578,746
Total assets	13,607,330	16,790,802
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 10)	4,543,139	4,432,567
Current tax liabilities	88,891	55,347
Pensions and other employer obligations	245,427	257,350
Current portion of long-term debt (note 11)	932,888	921,018
Deferred revenue (note 12)	1,112,098	4,344,793
Provisions	386,106	382,813
Current portion of lease obligations (note 13)	327,639	308,996
	7,636,188	10,702,884
Non-current liabilities:		
Long-term debt (note 11)	989,842	1,429,733
Lease obligations (note 13)	1,094,483	1,234,971
Deferred tax liabilities	833	813
	2,085,158	2,665,517
Total liabilities	9,721,346	13,368,401
Equity		
Capital stock (note 14)	33,298,603	33,247,637
Contributed surplus	4,773,275	4,659,779
Accumulated other comprehensive income	305,613	288,798
Deficit	(34,442,631)	(34,733,899)
Equity attributable to owners of the parent	3,934,860	3,462,315
Non-controlling interest	(48,876)	(39,914)
Total equity	3,885,984	3,422,401
Total liabilities and equity	13,607,330	16,790,802

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive (Loss) Income

For the three and six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2024	2023	2024	2023
	\$	\$	\$	\$
Revenue (note 16)	8,670,911	7,105,272	17,140,301	12,288,395
Cost of sales	5,797,974	3,616,601	10,742,418	6,032,816
Gross profit	2,872,937	3,488,671	6,397,883	6,255,579
Expenses (note 17):				
Administration	1,361,291	1,616,512	3,150,435	3,112,159
Selling, marketing and business development	1,282,020	1,165,795	2,572,018	2,146,681
Research and development	119,873	12,977	181,767	26,475
	2,763,184	2,795,284	5,904,220	5,285,315
Operating income	109,753	693,387	493,663	970,264
Finance costs (note 18)	(78,151)	(114,639)	(165,446)	(227,903)
Finance revenue	12,739	-	43,938	-
Income before income taxes	44,341	578,748	372,155	742,361
Income taxes expense	(16,669)	(93,209)	(35,011)	(94,992)
Net income for the period	27,672	485,539	337,144	647,369
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	(109,121)	14,130	20,017	85,014
Total comprehensive (loss) income for the period	(81,449)	499,669	357,161	732,383
Net income for the period attributable to:				
Owners of the parent	12,978	462,777	291,268	622,020
Non-controlling interest	14,694	22,762	45,876	25,349
Net income for the period	27,672	485,539	337,144	647,369
Total comprehensive (loss) income for the period attributable to:				
Owners of the parent	(96,637)	476,373	308,083	704,150
Non-controlling interest	15,188	23,296	49,078	28,233
Total comprehensive (loss) income for the period	(81,449)	499,669	357,161	732,383
Net income per share - basic and diluted	-	0.003	0.002	0.004

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2023	32,526,779	4,937,468	(35,663,403)	168,504	1,969,348	(46,358)	1,922,990
Share-based compensation (note 15)	-	106,638	-	-	106,638	-	106,638
Share options exercised (note 14)	462,166	(271,498)	-	-	190,668	-	190,668
Transactions with owners	462,166	(164,860)	-	-	297,306	-	297,306
Net income for the period	-	-	622,020	-	622,020	25,349	647,369
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	82,130	82,130	2,884	85,014
Total comprehensive income for the period	-	-	622,020	82,130	704,150	28,233	732,383
Balance at November 30, 2023	32,988,945	4,772,608	(35,041,383)	250,634	2,970,804	(18,125)	2,952,679
Balance at June 1, 2024	33,247,637	4,659,779	(34,733,899)	288,798	3,462,315	(39,914)	3,422,401
Share-based compensation (note 15)	-	130,612	-	-	130,612	-	130,612
Share options exercised (note 14)	50,966	(17,116)	-	-	33,850	-	33,850
Dividends paid	-	-	-	-	-	(58,040)	(58,040)
Transactions with owners	50,966	113,496	-	-	164,462	(58,040)	106,422
Net income for the period	-	-	291,268	-	291,268	45,876	337,144
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	16,815	16,815	3,202	20,017
Total comprehensive income for the period	-	-	291,268	16,815	308,083	49,078	357,161
Balance at November 30, 2024	33,298,603	4,773,275	(34,442,631)	305,613	3,934,860	(48,876)	3,885,984

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Six months ended	
	November 30		November 30	
	2024	2023	2024	2023
	\$	\$	\$	\$
Operating activities:				
Net income for the period	27,672	485,539	337,144	647,369
Add items not involving cash:				
Depreciation of property, plant and equipment (note 8)	58,270	26,312	118,122	54,725
Loss on disposal of assets (note 8)	178	-	178	-
Depreciation of right-of-use assets (note 9)	90,774	91,469	182,658	154,094
Amortization of intangible assets	36,417	56,812	79,990	112,532
Finance costs (note 18)	78,151	114,639	165,446	227,903
Finance revenue	(12,739)	-	(43,938)	-
Share-based compensation (note 15)	65,306	53,319	130,612	106,638
Income taxes expense (recovery)	16,669	93,209	35,011	94,992
Unrealized foreign exchange and translation adjustments	(22,262)	(5,040)	138,821	91,964
Changes in working capital:				
Trade and other receivables ⁽¹⁾	(1,066,590)	(2,250,966)	(1,941,847)	225,636
Prepaid expenses ⁽¹⁾	361,487	(143,799)	607,281	(208,396)
Inventory	11,169	46,373	(9,009)	59,286
Trade payables and other liabilities	153,393	1,457,922	102,652	(439,790)
Deferred revenue (note 12)	(1,619,512)	(205,344)	(3,269,497)	273,089
Income taxes (paid) refunded	(7,982)	(41,525)	87,907	(42,044)
Interest paid	(78,850)	(115,521)	(166,522)	(228,198)
Interest received	12,739	-	43,938	-
Net cash used in operating activities	(1,895,710)	(336,601)	(3,401,053)	1,129,800
Investing activities:				
Additions to property, plant and equipment (note 8)	(13,013)	(253,129)	(33,305)	(296,363)
Net cash used in investing activities	(13,013)	(253,129)	(33,305)	(296,363)
Financing activities:				
Repayment of long-term debt (note 11)	(231,823)	(230,768)	(464,111)	(460,013)
Repayment of lease obligations (note 13)	(77,132)	(83,892)	(154,335)	(138,913)
Stock options exercised (note 14)	33,850	170,668	33,850	190,668
Dividends paid	-	-	(58,040)	-
Net cash used in financing activities	(275,105)	(143,992)	(642,636)	(408,258)
(Decrease) increase in cash and cash equivalents for the period	(2,183,828)	(733,722)	(4,076,994)	425,179
Cash and cash equivalents, beginning of period	5,047,595	4,137,768	6,965,145	3,000,607
Exchange differences on cash and cash equivalents	(40,599)	19,650	(64,983)	(2,090)
Cash and cash equivalents, end of period	2,823,168	3,423,696	2,823,168	3,423,696

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

⁽¹⁾ Changes in prepayments for the amount of \$143,799 for the three months ended November 30, 2023 and \$ 208,396 for the six months ended November 30, 2023 which were previously reported under trade and other receivables, were reclassified to prepaid expenses to conform with the financial statement presentation adopted in the current period.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the six months ended November 30, 2024 and 2023.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2024. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2024.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS Accounting Standards issued and effective as of January 27, 2025, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2024.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies:

New standards, amendments and interpretations to existing standards:

The Company has adopted the following amended accounting standard:

Amendments to IAS 1

Effective June 1, 2024, the Company adopted Amendments to IAS 1 *Presentation of Financial Statements*. 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 adoption of the amendments to IAS 1 did not have a material impact on the condensed consolidated interim financial statements.

New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

In April 2024, the IASB issued IFRS 18, Presentation and Disclosures of Financial Statements ("IFRS 18") with the aim of improving companies' reporting of financial performance and giving investors a better basis for analyzing and comparing companies.

IFRS 18 introduces three new sets of requirements:

- Improved comparability in the statements of income which introduces three defined categories for income and expenses: operating, investing and financing. These changes would require all companies to use the same structure of the statements of income and provide new defined subtotals, including operating profit.
- Enhanced transparency of management-defined performance measures which would require companies to disclose explanations of those company specific measures that are related to the income statement.
- More useful grouping of information in the financial statements which provides enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, which will be June 1, 2027 for the Company, with early adoption permitted.

The Company is currently evaluating the impact of this new standard.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

4. Segment reporting:

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

Segment information for the quarter ended November 30, 2024 and the comparative period 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	3,874,796	2,780,632	4,796,115	4,324,640	-	-	8,670,911	7,105,272
Cost of sales	(2,824,054)	(1,591,198)	(2,973,920)	(2,025,403)	-	-	(5,797,974)	(3,616,601)
Gross profit	1,050,742	1,189,434	1,822,195	2,299,237	-	-	2,872,937	3,488,671
Other expenses	(1,063,972)	(1,163,120)	(1,458,252)	(1,243,548)	(240,960)	(388,616)	(2,763,184)	(2,795,284)
Finance costs	(21,427)	(23,710)	(8,168)	(10,197)	(48,556)	(80,732)	(78,151)	(114,639)
Finance revenue	12,739	-	-	-	-	-	12,739	-
(Loss) income before taxation	(21,918)	2,604	355,775	1,045,492	(289,516)	(469,348)	44,341	578,748
Tax expense	-	-	(16,669)	(93,209)	-	-	(16,669)	(93,209)
Net (loss) income	(21,918)	2,604	339,106	952,283	(289,516)	(469,348)	27,672	485,539
Attributable to:								
Owners of the parent	(20,061)	2,627	322,555	929,498	(289,516)	(469,348)	12,978	462,777
Non-controlling interest	(1,857)	(23)	16,551	22,785	-	-	14,694	22,762

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Segment information for the six months ended November 30, 2024 and the comparative period 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	6,670,354	5,894,917	10,469,947	6,393,478	-	-	17,140,301	12,288,395
Cost of sales	(4,314,816)	(3,171,678)	(6,427,602)	(2,861,138)	-	-	(10,742,418)	(6,032,816)
Gross profit	2,355,538	2,723,239	4,042,345	3,532,340	-	-	6,397,883	6,255,579
Other expenses	(2,281,526)	(2,019,829)	(2,812,213)	(2,409,722)	(810,481)	(855,764)	(5,904,220)	(5,285,315)
Finance costs	(43,399)	(47,548)	(17,064)	(13,530)	(104,983)	(166,825)	(165,446)	(227,903)
Finance revenue	43,938	-	-	-	-	-	43,938	-
Income (loss) before taxation	74,551	655,862	1,213,068	1,109,088	(915,464)	(1,022,589)	372,155	742,361
Tax expense	-	-	(35,011)	(94,992)	-	-	(35,011)	(94,992)
Net income (loss)	74,551	655,862	1,178,057	1,014,096	(915,464)	(1,022,589)	337,144	647,369
Attributable to:								
Owners of the parent	69,968	655,807	1,136,764	988,802	(915,464)	(1,022,589)	291,268	622,020
Non-controlling interest	4,583	55	41,293	25,294	-	-	45,876	25,349

Other expenses in reconciling items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2024	2023	2024	2023
	\$	\$	\$	\$
Corporate admin costs	207,857	208,733	382,098	376,001
Stock-based compensation	65,306	53,319	130,612	106,638
Professional fees	76,052	122,957	148,869	137,940
Depreciation of property, plant and equipment	58,270	26,312	118,122	54,725
Amortization of intangible assets	36,417	56,812	79,990	112,532
Foreign exchange (gain) loss	(202,942)	(79,517)	(49,210)	67,928
Total	240,960	388,616	810,481	855,764

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

5. Cash and cash equivalents:

	November 30, 2024	May 31, 2024
Cash	\$ 2,807,775	\$ 6,949,752
Cash equivalents	15,393	15,393
Balance, end of period	\$ 2,823,168	\$ 6,965,145

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

6. Trade and other receivables:

	November 30, 2024	May 31, 2024
Trade receivables, gross	\$ 4,329,779	\$ 3,300,990
Allowance for doubtful accounts	(16,134)	(12,263)
Trade receivables, net	4,313,645	3,288,727
Unbilled revenue	1,368,706	246,802
Contract assets	309,016	257,989
Sales tax and other miscellaneous receivables	133,046	389,048
Balance, end of period	\$ 6,124,413	\$ 4,182,566

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

At November 30, 2024, \$177,342 (4.1%) of the Company's trade receivables balance was over 90 days past due. \$16,134 of the past due balance was impaired at November 30, 2024.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the six months ended November 30, 2024, provisions of \$5,045 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$854 – November 30, 2023). For the six months ended November 30, 2024, \$1,416 of the provisions was released due to the collection on the doubtful account (\$1,846 – November 30, 2023). The company wrote off allowance for doubtful accounts in the amount of \$nil for the six months ended November 30, 2024 by removing the amount from trade receivables (\$10,083 – November 30, 2023). Translation loss of \$242 (loss of \$65 – November 30, 2023) was recognized under exchange differences arising on translation of overseas operations.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

7. Prepaid expenses:

	November 30, 2024	May 31, 2024
Prepayments for goods, equipment and projects	\$ 297,208	\$ 738,838
Other prepaid expenses	449,571	615,222
Balance, end of year	\$ 746,779	\$ 1,354,060

8. Property, plant and equipment:

During the six months ended November 30, 2024, the Company acquired property, plant and equipment of \$33,305 (\$296,363 – November 30, 2023) and the Company disposed of depreciated assets with a net book value of \$178 for \$nil proceeds, (\$nil – November 30, 2023). Depreciation expense of \$118,122 (\$54,725 – November 30, 2023) was recognized under administration expense. Translation gain of \$9,538 (gain of \$5,458 – November 30, 2023) was recognized under exchange differences arising on translation of overseas operations.

9. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2024	1,180,389	95,079	4,158	1,279,626
Additions	-	-	-	-
Depreciation	(161,247)	(20,025)	(1,386)	(182,658)
Translation adjustments	25,793	2,310	-	28,103
Balance, November 30, 2024	1,044,935	77,364	2,772	1,125,071

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2023	1,184,520	56,430	6,931	1,247,881
Additions	274,042	44,517	-	318,559
Depreciation	(127,914)	(24,795)	(1,385)	(154,094)
Translation adjustments	744	1,199	-	1,943
Balance, November 30, 2023	1,331,392	77,351	5,546	1,414,289

During the six month ended November 30, 2023, the company leased a new facility in the U.K. for 2.5 years and recognized a right-of-use asset for \$274,042.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

10. Trade payables and other liabilities:

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

	November 30, 2024	May 31, 2024
Trade payables	\$ 2,344,656	\$ 2,429,063
Accruals	1,893,051	1,813,981
Other government remittances payable	305,432	189,523
	\$ 4,543,139	\$ 4,432,567

Included in accruals is \$13,500 due to directors (\$13,500 at May 31, 2024).

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

11. Long-term debt:

	November 30, 2024	May 31, 2024
(a) Term loan (equivalent to USD \$845,822), net of deferred financing costs of \$5,854 (equivalent to USD\$4,178), currently bearing interest at 10.7% (11.4% on May 31, 2024), repayable in monthly principal instalments of \$35,025 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$770,550 (equivalent to USD\$550,000) payable on the maturity date, December 1, 2025	\$ 1,184,997	\$1,354,919
(b) Term loan currently bearing interest at 6.95% (8.2% on May 31, 2024), 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	708,327	958,329
(c) Term loan (equivalent to GBP£16,514), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,516 (equivalent to GBP£851) starting July 10, 2021, and continuing up to the maturity date, June 10, 2026	29,406	37,503
Total long-term debt	1,922,730	2,350,751
Less: current portion	(932,888)	(921,018)
Long term portion	989,842	1,429,733

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

11. 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 9.2% on November 30, 2024 (9.9% on May 31, 2024). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at November 30, 2024, the variance was at 1.50% (1.50% at May 31, 2024). 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.

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 November 30, 2024 and 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% and is repayable over next 4 years. The institution's floating base rate was 8.05% on November 30, 2024 (9.30% on May 31, 2024). Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of \$1,000,000 was received by the Company on July 23, 2020. The second tranche of proceeds in the amount of \$1,300,000 was received by the Company on March 30, 2022. A financing cost of \$3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

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

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

12. Deferred revenue:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2024	\$ 3,572,966	\$ 771,827	\$ 4,344,793
Increase from payments received	6,167,954	934,136	7,102,090
Decrease from revenue recognized	(9,091,117)	(1,280,470)	(10,371,587)
Translation adjustments	26,966	9,836	36,802
Balance, November 30, 2024	\$ 676,769	\$ 435,329	\$ 1,112,098

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2023	\$ 1,369,539	\$ 719,337	\$ 2,088,876
Increase from payments received	3,908,763	801,329	4,710,092
Decrease from revenue recognized	(3,476,281)	(960,722)	(4,437,003)
Translation adjustments	11,820	3,579	15,399
Balance, November 30, 2023	\$ 1,813,841	\$ 563,523	\$ 2,377,364

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

13. Lease obligations:

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

	November 30, 2024	May 31, 2024
Less than one year	\$ 431,387	\$ 422,806
One to five years	1,089,848	1,163,437
Six to ten years	210,145	320,224
Total undiscounted lease obligations	1,731,380	1,906,467
Less: impact of present value	(309,258)	(362,500)
Less: current portion	(327,639)	(308,996)
Long term portion	\$ 1,094,483	\$ 1,234,971

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

13. Lease obligations (continued):

During the six months ended November 30, 2024, the interest expense on lease obligations was \$60,462 and total cash outflow for leases was \$233,543, including \$18,746 for short-term leases.

During the six months ended November 30, 2023, the interest expense on lease obligations was \$61,078 and total cash outflow for leases was \$215,252, including \$15,261 for short-term leases.

For the six months ended November 30, 2024 and 2023, 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.

14. Capital stock:

Authorized:

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

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

Outstanding:

	Six months ended November 30, 2024		Year ended May 31, 2024	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of year	172,734,305	33,247,637	164,477,606	32,526,779
Stock options exercised (note 15) ⁽¹⁾	380,000	50,966	8,256,699	720,858
Balance, end of period	173,114,305	33,298,603	172,734,305	33,247,637

(1) For the six months ended November 30, 2024, the Company issued total 380,000 shares following the exercise of 380,000 stock options for cash proceeds of \$33,850, resulting in an increase to capital stock of \$50,966 and a reduction in contributed surplus of \$17,116.

For the six months ended November 30, 2023, the Company issued total 4,581,504 shares following the exercise of 6,238,339 stock options. Out of 4,581,504 shares issued, 2,383,339 shares were issued upon the exercise of 2,383,339 options for cash proceeds of \$190,668, resulting in an increase to capital stock of \$294,104 and a reduction in contributed surplus of \$103,436. In addition, 2,198,165 shares were issued upon the exercise of 3,855,000 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of \$168,062 and a reduction in contributed surplus of the same amount.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

15. Share based compensation:

Activity in stock options was as follows:

	Three months ended November 30, 2024		Three months ended November 30, 2023	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	12,985,902	0.14	21,342,089	0.10
Granted	2,930,400	0.20	3,560,400	0.20
Forfeited	(41,000)	0.16	(400,000)	0.10
Exercised	(380,000)	0.09	(5,988,339)	0.08
Outstanding, end of period	15,495,302	0.15	18,514,150	0.13
Options exercisable, end of period	8,939,707	0.13	10,880,896	0.10

	Six months ended November 30, 2024		Six months ended November 30, 2023	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	12,985,902	0.14	21,592,089	0.10
Granted	2,930,400	0.20	3,560,400	0.20
Forfeited	(41,000)	0.16	(400,000)	0.10
Exercised	(380,000)	0.09	(6,238,339)	0.08
Outstanding, end of period	15,495,302	0.15	18,514,150	0.13
Options exercisable, end of period	8,939,707	0.13	10,880,896	0.10

The following tables summarize information about stock options outstanding at November 30, 2024:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding November 30, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2024	Weighted average exercise price
0.08 - 0.10	2,065,000	0.99	0.09	2,065,000	0.09
0.11 - 0.15	7,005,502	2.51	0.13	5,709,908	0.13
0.16 - 0.20	6,424,800	4.46	0.20	1,164,799	0.20
	15,495,302	3.11	0.15	8,939,707	0.13

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

15. Share based compensation (continued):

The following tables summarize information about stock options outstanding at November 30, 2023:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding November 30, 2023	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2023	Weighted average exercise price
0.08 - 0.10	6,823,000	1.56	0.09	6,823,000	0.09
0.11 - 0.15	8,130,750	3.50	0.13	4,057,896	0.13
0.16 - 0.20	3,560,400	5.00	0.20	-	-
	18,514,150	3.07	0.13	10,880,896	0.10

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

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

	30-Nov-24	26-Nov-23
Grant date share price (\$) ⁽¹⁾	0.20	0.20
Exercise price (\$)	0.20	0.20
Expected volatility (%) ⁽²⁾	64.42	66.19
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	2.93	3.64
Forfeiture rate (%)	22.00	22.39

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

15. Share based compensation (continued):

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

	Three months ended November 30, 2024	Three months ended November 30, 2023
Administration	\$ 51,487	\$ 43,254
Selling, marketing and business development	13,819	10,065
	\$ 65,306	\$ 53,319
	Six months ended November 30, 2024	Six months ended November 30, 2023
Administration	\$ 102,973	\$ 86,509
Selling, marketing and business development	27,639	20,129
	\$ 130,612	\$ 106,638

16. Revenue:

	Three months ended November 30, 2024	Three months ended November 30, 2023
Sale of goods and equipment	\$ 2,805,829	\$ 4,774,631
Services	547,892	708,705
Contracts for heat recovery projects	5,317,190	1,621,936
	\$ 8,670,911	\$ 7,105,272
	Six months ended November 30, 2024	Six months ended November 30, 2023
Sale of goods and equipment	\$ 6,038,120	\$ 7,992,670
Services	1,042,431	1,054,837
Contracts for heat recovery projects	10,059,750	3,240,888
	\$ 17,140,301	\$ 12,288,395

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

17. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended November 30, 2024	Three months ended November 30, 2023
Depreciation of property, plant and equipment	\$ 58,270	\$ 26,312
Depreciation of right-of-use assets	90,774	91,469
Amortization of intangible assets	36,417	56,812
Foreign exchange gain	(202,942)	(79,517)

	Six months ended November 30, 2024	Six months ended November 30, 2023
Depreciation of property, plant and equipment	\$ 118,122	\$ 54,725
Depreciation of right-of-use assets	182,658	154,094
Amortization of intangible assets	79,990	112,532
Foreign exchange (gain) loss	(49,210)	67,928

18. Finance costs:

	Three months ended November 30, 2024	Three months ended November 30, 2023
Interest on indebtedness	\$ 48,556	\$ 80,732
Interest on leases (note 13)	29,595	33,907
	\$ 78,151	\$ 114,639

	Six months ended November 30, 2024	Six months ended November 30, 2023
Interest on indebtedness	\$ 104,984	\$ 166,825
Interest on leases (note 13)	60,462	61,078
	\$ 165,446	\$ 227,903

19. Financial instruments:

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

19. Financial instruments (continued):

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

20. Related party transactions:

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

Transactions with key management personnel

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

	Three months ended November 30, 2024	Three months ended November 30, 2023
Salaries and other short-term employee benefits	\$ 257,930	\$ 219,580
Share-based payments	24,921	17,666
	\$ 282,851	\$ 237,246

	Six months ended November 30, 2024	Six months ended November 30, 2023
Salaries and other short-term employee benefits	\$ 505,684	\$ 439,581
Share-based payments	49,842	36,684
	\$ 555,526	\$ 476,265

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