

Consolidated Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Years ended May 31, 2024 and 2023



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa, ON K2P 2P8
Canada
Telephone 613 212 5764
Fax 613 212 2896

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.



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- 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 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.

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

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-

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(Expressed in Canadian dollars except share amounts)

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.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars except share amounts)

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

THERMAL ENERGY INTERNATIONAL INC.

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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™ 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™ 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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars except share amounts)

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

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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.

THERMAL ENERGY INTERNATIONAL INC.

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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.

Nature of products and services

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

THERMAL ENERGY INTERNATIONAL INC.

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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.

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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.

THERMAL ENERGY INTERNATIONAL INC.

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Years ended May 31, 2024 and 2023

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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.

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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.

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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.

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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

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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.

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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.

THERMAL ENERGY INTERNATIONAL INC.

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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).

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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.

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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.

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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

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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

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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.

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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 instalments 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

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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.

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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.

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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.

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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

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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.

THERMAL ENERGY INTERNATIONAL INC.

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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	TEI	Total	GEMchem	TEI	Total
	Ltd.	(Guangzhou)		Ltd.	(Guangzhou)	
	\$	\$	\$	\$	\$	\$
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.

THERMAL ENERGY INTERNATIONAL INC.

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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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(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

THERMAL ENERGY INTERNATIONAL INC.

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Years ended May 31, 2024 and 2023

(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)

THERMAL ENERGY INTERNATIONAL INC.

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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

THERMAL ENERGY INTERNATIONAL INC.

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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)

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

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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).

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 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

THERMAL ENERGY INTERNATIONAL INC.

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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\$					Total CAD \$
	US \$	EUR	PLN	RON	NOK	
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					Total	May 31, 2023					Total
	US\$	EUR	PLN	RON	NOK		US\$	EUR	PLN	RON	NOK	
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

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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

THERMAL ENERGY INTERNATIONAL INC.

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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 –

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2024 and 2023

(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.

THERMAL ENERGY INTERNATIONAL INC.

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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.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2024

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the fiscal year ended May 31, 2024 (or "FY 2024"), and compares the FY 2024 financial results to the previous year ended May 31, 2023 (or "FY 2023"). The consolidated financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the fourth quarter of FY 2024 are against the fourth quarter of FY 2023. Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 50% of our operations, assets and liabilities are denominated in British Pounds and 24% in US Dollars. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease, and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on September 18, 2024. Disclosure contained in this document is current to September 18, 2024, unless otherwise stated.

Forward-Looking Statements

This MD&A may include statements that are forward-looking. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We discuss the principal risks of our business in Section 8 of this MD&A. We cannot provide any assurance that forecasted financial or operational performance will actually be achieved. If it is achieved, we cannot provide assurance that it will result in an increase in our share price. See Section 9 entitled "Forward-Looking Information".

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial, and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, and U.S.

Thermal Energy engages clients through a unique mix of process, energy, environmental and financial expertise to save our customers money and improve their bottom lines by reducing their fuel use and carbon emissions. The Company's award-winning products have an excellent track record of longevity, proven reliability and performance and have been shown to provide: significant energy savings; improved water efficiency; reduced greenhouse gas emissions; lowered maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

More information on Thermal Energy can be found at www.thermalenergy.com. **GEM™**, **FLU-ACE®**, **THERMALONox™** and **DRY-REX™** are trademarks of Thermal Energy.

1.2 Core Businesses

The Company operates primarily in North America and Europe but also sells its products and services through representative agents throughout the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions, including direct contact heat recovery solutions (e.g. **FLU-ACE®**), indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and condensate return system solutions (**GEM™** steam traps). The Company is also developing several other technology lines, including low temperature biomass drying systems (**DRY-REX™**).

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

In 2008, the Company acquired Gardner Energy Management Limited, which owns, manufactures and sells the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. In 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owns, manufactures and sells HEATSPONGE and SIDEKICK indirect contact heat recovery units. In 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

The Company has two primary operational bases of operation, one in Ottawa, Canada covering North America (“Thermal Energy Ottawa”), and the other in Bristol, United Kingdom, covering Europe and the rest of the world (“Thermal Energy Bristol”). Although Thermal Energy Ottawa is considered to be the center of excellence for heat recovery engineering and technical support, and Thermal Energy Bristol the center of excellence for GEM™ steam traps and condensate return systems engineering and technical support, continuous cross-training means that both Ottawa and Bristol have expertise across both major product lines.

Although the Company markets its products throughout the world, most sales are from within North America and Europe where the Company has direct sales and engineering staff. While North American and European markets continue to be the Company’s strategic focus, the Company also continues to look for new agents and distributors in other regions deemed to have potential.

1.3 Strategy

The Company’s mission is to be a best-in-class provider of return on investment-driven thermal energy efficiency technology and solutions to the industrial, institutional, and commercial sectors, helping our clients around the world improve their bottom line, move towards sustainable operations and reduce their environmental and carbon footprint. The Company’s products and services are “best-in-class” with world-wide application in a broad range of sectors.

The Company has representation in more than thirty countries around the world with a current focus on the key markets of North America and Europe. Thermal Energy’s penetration in these markets remains low and therefore the Company plans to continue growing its sales and distribution capabilities in these markets, while at the same time, build its business in other energy-intensive markets around the world.

We have sold our proprietary and proven products to hundreds of companies and institutions, including approximately 50 large companies in the pharmaceutical, food and beverage, pulp and paper, chemical and petrochemical sectors.

With an established global sales and distribution network, the Company is looking to develop and/or acquire additional complementary products and services that can be distributed through its existing network.

2. Performance Measures

The Company believes the following performance measures provide useful information to both management and investors to better understand the financial performance and financial position of the Company.

2.1 EBITDA

Management believes that EBITDA (earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital, and excludes impairment of intangible assets. EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA does not have a standardized meaning prescribed by International Financial Reporting Standards (“IFRS Accounting Standards” or “IFRS”) and therefore may not be comparable to similar measures presented by other companies. There is no direct comparable IFRS measure for EBITDA. A reconciliation of net income (loss) to EBITDA is shown below.

For the fourth quarters ended May 31:

	2024 \$	2023 \$
Total net income attributable to owners of the parent	278,473	965,545
Total net income attributable to non-controlling interest	11,875	5,857
Interest charge	94,700	80,299
Interest revenue	(49,340)	-
Income tax expense (recovery)	(95,126)	(28,005)
Depreciation and amortization	116,584	93,139
Share based compensation	65,306	53,319
EBITDA	422,472	1,170,154

For the years ended May 31:

	2024 \$	2023 \$
Total net income attributable to owners of the parent	929,504	717,959
Total net income attributable to non-controlling interest	52,664	2,490
Interest charge	416,816	449,341
Interest revenue	(49,340)	-
Income tax expense (recovery)	16,981	(26,514)
Depreciation and amortization	384,329	367,917
Share based compensation	237,251	216,934
EBITDA	1,988,205	1,728,127

2.2 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short-term future revenue of our Company resulting from already recognized orders. The Company includes in “order backlog” any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company’s published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other companies.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

The Company's order backlog as at May 31, 2024 was approximately \$18.7 million. As at September 18, 2024, the Company had an order backlog of approximately \$21.3 million.

	2024 \$ million	2023 \$ million	2022 \$ million
Order backlog as at May 31	18.7	13.0	4.9
Order backlog as at September reporting date	21.3	21.4	10.3

3. Performance

3.1 Selected Annual Information

The following table shows selected consolidated financial data for the two most recently completed financial years.

Financial information for the years ended May 31, 2024 and 2023:

	2024 \$	2023 \$
Revenue	25,880,197	21,091,570
Gross profit	12,452,309	9,569,219
Gross profit percentage	48.1%	45.4%
EBITDA ⁽¹⁾	1,988,205	1,728,127
Total net income attributable to owners of the parent	929,504	717,959
Net profit per share - basic	0.006	0.004
Net profit per share - diluted	0.005	0.004

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

For the preceding eight quarters ended:

Quarter ended	31-Aug-23 \$	30-Nov-23 \$	29-Feb-24 \$	31-May-24 \$
Revenue	5,183,123	7,105,272	6,063,200	7,528,602
Gross profit	2,766,908	3,488,671	3,061,019	3,135,711
Gross profit percentage	53.4%	49.1%	50.5%	41.7%
EBITDA ⁽¹⁾	414,329	829,830	321,574	422,472
Total net income	161,830	485,539	44,451	290,348
Income per share, basic and diluted	0.001	0.003	-	0.002

Quarter ended	31-Aug-22 \$	30-Nov-22 \$	28-Feb-23 \$	31-May-23 \$
Revenue	3,122,249	4,159,453	5,602,752	8,207,116
Gross profit	1,349,287	1,768,559	2,619,232	3,832,141
Gross profit percentage	43.2%	42.5%	46.7%	46.7%
EBITDA ⁽¹⁾	(229,943)	(28,445)	816,361	1,170,154
Total net (loss) income	(508,501)	(266,251)	523,799	971,402
(Loss) income per share, basic and diluted	(0.003)	(0.002)	0.003	0.006

(1) EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

3.2 Summary of Fourth Quarter Results

	Q4 2024	Q4 2023
	\$	\$
Revenue	7,528,602	8,207,116
Cost of sales	4,392,891	4,374,975
Gross profit	3,135,711	3,832,141
Expenses:		
Administration, selling, marketing and business development	2,662,647	2,759,399
Research and development	232,482	49,046
	2,895,129	2,808,445
Operating income	240,582	1,023,696
Finance costs	(94,700)	(80,299)
Finance revenue	49,340	-
Income before income taxes	195,222	943,397
Income taxes recovery	95,126	28,005
Net income for the period	290,384	971,402
Exchange differences on translation of overseas operations	38,177	86,194
Total comprehensive income for the period	328,525	1,057,596
EBITDA for the period ^{1 2}	422,472	1,170,154
Order backlog as at May 31 ³	18.7 million	13 million
Order backlog as at reporting date ³	21.3 million	21.4 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. See section 5 Business Outlook for more details.

Revenue and Gross Profit

Revenues were \$7,528,602 in the quarter ended May 31, 2024, representing a decrease of \$678,514, or 8.3%, compared to \$8,207,116 in the quarter ended May 31, 2023. The decrease of revenue in the fourth quarter of FY 2024 was mainly due to the decrease in GEM sales offset by the increase in revenues from heat recovery projects and sales of equipment. The Company received a large GEM order in FY2023 from a leading snack manufacturer which resulted in higher revenues from GEM sales in the fourth quarter of the previous year. The Company did not receive any similar-sized GEM orders in FY 2024. However, the Company earned higher revenue from heat recovery projects and equipment sales. Both heat recovery projects and equipment sales from Boilerroom Equipment Inc. had a strong order intake for the first three quarters in FY 2024, which led to higher order backlog at the end of third quarter of FY 2024. As a result, the Company delivered higher revenues from heat recovery projects and equipment sales in the fourth quarter than the same quarter of last year.

The gross profit of \$3,135,711 achieved in the quarter ended May 31, 2024, represented a decrease of \$696,430, or 18.2%, from \$3,832,141 achieved in the quarter ended May 31, 2023. The decrease in gross profit was mainly due to decreased gross profit from GEM as a result of lower revenues, offset by increased gross profit from heat recovery projects and sale of equipment compared to the same quarter of prior year. The gross profit expressed as a percentage of revenue was 41.7% in the fourth quarter of FY 2024 compared

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

to 46.7% in the same quarter of FY 2023. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the quarter ended May 31, 2024, totaled \$2,662,647, compared to \$2,759,399 in the quarter ended May 31, 2023, a decrease of \$96,752, or 3.5%. In the fourth quarter, \$229,832 of expenses relating to an internally developed data collection and scoping tool, which was previously recorded under Operating Expenses, was reclassified to research and development because some features of the tool were developed for research and development purposes. This was a main reason for the decrease in Operating Expenses. The decrease was partially offset by an increase in salary expense as a result of increased headcount.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses increased by \$183,436 in the fourth quarter of FY 2024 compared to the same quarter of the previous year mainly because \$229,832 of expenses relating to an internally developed data collection and scoping tool, which was previously recorded under Operating Expenses, was reclassified to research and development, as mentioned above.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of \$94,700 in the fourth quarter of FY 2024, an increase of \$14,401. The increase was partially due to the increased interest rate on one of its long-term debt that is based on floating interest rate which increased during FY 2024. The increase was also partially due to the increase in interest accretion on lease obligations: the lease obligations increased compared to the fourth quarter of the previous year because the Company leased a new rental facility for its UK operation during FY2024 and leased more vehicles for sales team due to the team expansion.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of \$49,340 in the fourth quarter of FY 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the quarter ended May 31, 2024 was \$195,222, compared to income before income taxes of \$943,397 in the same quarter of the previous year. Income before income taxes decreased by \$748,175 mainly due to the decrease in gross profit of \$696,430 and the increase in R&D expense of \$183,436, offset by decrease in operating expenses of \$96,752 and the increase in finance revenue of \$49,340 as mentioned above.

Income taxes recovery in the fourth quarter of FY 2024 was \$95,126, as compared to \$28,005 in the fourth quarter of FY 2023, an increase of \$67,121. In the fourth quarter of FY 2024, the Company recorded an income taxes recovery of \$95,126, because one of its subsidiaries used tax losses for which no deferred tax asset was recognized previously, to reduce taxable income. In the fourth quarter of the previous year, the Company recorded an income tax recovery of \$28,005 due to temporary timing difference.

Net Income for the fourth quarter of FY 2024 was \$290,348, compared to \$971,402 in the same quarter of the previous year, representing a decrease of \$681,054. The decrease in net income was mainly due to the decrease in gross profit of \$696,430 resulting from decreased revenue and change in product mix, the increase in R&D expense of \$183,436, offset by the decrease in Operating Expenses of \$96,752, the increase in income taxes recovery of \$67,121, and the increase in finance revenue of \$49,340.

Comprehensive income was \$328,525 for the fourth quarter of FY 2024, compared to \$1,057,596 for the fourth quarter of FY2023. The decrease of \$729,071 of comprehensive income was mainly due to the decrease of net income in the amount of \$681,054 as mentioned above and the decrease in exchange gains arising on translation of overseas operations of \$48,017.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

EBITDA was \$422,472 for the fourth quarter of FY 2024, compared to EBITDA of \$1,170,154 for the same quarter of the previous year, representing a decrease of \$747,682. The decrease was mainly due to the decrease in gross profit of \$696,430 as a result of decrease revenue and the change in product mix. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year End Results

	2024	2023
	\$	\$
Revenue	25,880,197	21,091,570
Cost of sales	13,427,888	11,522,351
Gross profit	12,452,309	9,569,219
Expenses:		
Administration, selling, marketing and business development	10,817,642	8,324,547
Research and development	268,042	101,396
	11,085,684	8,425,943
Operating income	1,366,625	1,143,276
Finance costs	(416,816)	(449,341)
Finance revenue	49,340	-
Income before income taxes	999,149	693,935
Income taxes (expense) recovery	(16,981)	26,514
Net income for the year	982,168	720,449
Exchange differences on translation of overseas operations	124,656	(60,247)
Total comprehensive income for the year	1,106,824	660,202
EBITDA for the year ^{1 2}	1,988,205	1,728,127
Order backlog as at May 31 ³	18.7 million	13 million
Order backlog as at September reporting date ³	21.3 million	21.4 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.
3. Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. See section 5 Business Outlook for more details.

Revenue and Gross Profit

Revenues were \$25,880,197 in the year ended May 31, 2024, representing an increase of \$4,788,627, or 22.7%, from the \$21,091,570 recognized in the year ended May 31, 2023. The increase in revenues was mainly due to increased revenues from heat recovery projects.

The gross profit of \$12,452,309 in the year ended May 31, 2024, represented an increase of \$2,883,090, or 30.1%, from \$9,569,219 achieved in the year ended May 31, 2023. The increase in gross profit was mainly due to increased revenues and improved margins on heat recovery projects and the improved margins on the equipment sales at Boilerroom Equipment Inc. compared to prior year. Overall, gross profit expressed as a percentage of revenue was 48.1% compared with 45.4% achieved in the previous year. The increase in gross profit as a percentage of revenue was mainly due to higher margins achieved on both heat recovery projects and sales of equipment.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the year ended May 31, 2024 totaled \$10,817,642, compared to \$8,324,547 in the year ended May 31, 2023, representing an increase of \$2,493,095, or 29.9%. \$603,129 of the increase was due to the increase in foreign exchange expense compared to prior year. The rest of the increases were related to the growth of the teams, the increased business development and marketing activities, increased travelling costs, investment in a new production facility, and inflationary increases on regular operating costs and salaries.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company’s R&D expense was \$268,042 in the year ended May 31, 2024, compared to \$101,396 in the year ended May 31, 2023, an increase of \$166,646. In FY 2024, the Company continued its investment in digital infrastructure. As a result, \$229,832 of expenses relating to an internally developed data collection and scoping tool, was recognized as research and development expenses because some features of the tool were developed for research and development purposes. This was the main reason for the increased R&D expenses. This increase was offset by the lower R&D expense incurred on regular R&D activities conducted in FY 2024. The increase was further offset by the lower R&D tax credits recorded because of the lower R&D costs incurred in FY 2024.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by \$32,525 from \$449,341 to \$416,816 for the year ended May 31, 2024. The decrease was mainly due to the reduced interest rate on a long-term debt, offset by the increase in interest accretion on lease obligations due to the increase in lease obligation balance.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of \$49,340 in FY 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the year ended May 31, 2024 was \$999,149, compared to \$693,935 achieved in the previous year, representing an increase of \$305,214 or 44%. The increase in income before income taxes was mainly due to the increase in gross profit of \$2,883,090 as a result of increased revenues and improved margins on heat recovery projects, offset by the increase in Operating Expenses of \$2,493,095 and the increase in research and development expenses of \$166,646 as explained earlier.

Income taxes expense in the year ended May 31, 2024 was \$16,981, compared to income tax recovery of \$26,514 for the previous year, an increase in income tax expense of \$43,495. The Company’s U.K. and U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. In FY 2024, the Company recognized current income taxes expense of \$72,413, as compared to \$39,293 from prior year, an increase in current tax expense of \$33,120. The increase was mainly due to the increased taxable profits earned in FY 2024. In FY 2024, the Company recognized \$55,432 in deferred tax recovery mainly relating to temporary timing differences, as compared to \$65,807 recognized in the previous year, which further increased the income taxes expenses for FY 2024 by \$10,375.

Net income for the year ended May 31, 2024 was \$982,168, compared to \$720,449 in the year ended May 31, 2023, representing an increase of \$261,719, or 36.3%. The increase in net income was mainly due to the increase of income before income taxes in the amount of \$305,214 as mentioned earlier, offset by the increase in income taxes expense of \$43,495.

Comprehensive income was \$1,106,824 for the year ended May 31, 2024, compared to \$660,202 for the year ended May 31, 2023, representing an increase of comprehensive income in the amount of \$446,622. The increase in comprehensive income was mainly due to the increase in net income of \$261,719 as mentioned earlier, and the increase in exchange gains of \$184,903 arising on translation of overseas operations. The Company recognized exchange gains arising on translation of overseas operations of

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

\$124,656 in the year ended May 31, 2024 as compared to exchange losses of \$60,247 recognized in the previous year.

EBITDA was \$1,988,205 for the year ended May 31, 2024 compared to \$1,728,127 achieved in the previous year, representing an increase of \$260,078. The increase was mainly due to the increase in income before income taxes of \$305,214 as mentioned earlier, offset by the increase in finance revenue of \$49,340 and decrease in finance costs of \$32,525. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets increased by \$3,183,198 to \$14,212,056 at May 31, 2024, compared to \$11,028,858 at May 31, 2023. This increase was mainly due to increase in cash and cash equivalents of \$3,964,538, prepaid expenses of \$925,479, inventory of \$121,334, offset by decrease in trade and other receivables of \$1,856,057. Current liabilities increased by \$2,708,972 to \$10,702,884, mainly due to increase in deferred revenue of \$2,255,917, trade payables and other liabilities of \$188,656, and current portion of lease obligations of \$94,312.

Working capital⁴ increased by \$474,226 to \$3,509,172 at May 31, 2024, compared to \$3,034,946 at May 31, 2023. During FY 2024, the Company earned net income in the amount of \$982,168, which led to the improved working capital position.

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

	Aug 31, 2022 \$	Nov 30, 2022 \$	Feb 28, 2023 \$	May 31, 2023 \$	Aug 31, 2023 \$	Nov 30, 2023 \$	Feb 29, 2024 \$	May 31, 2024 \$
Current Assets	6,284,671	7,775,570	9,501,012	11,028,858	9,741,660	11,414,589	14,392,481	14,212,056
Current Liabilities	4,211,907	6,009,454	7,321,170	7,993,912	6,678,212	7,923,055	11,014,267	10,702,884
Working Capital ⁴	2,072,764	1,766,116	2,179,842	3,034,946	3,063,448	3,491,534	3,378,214	3,509,172

4. Working capital represents the difference between the Company's current assets and current liabilities.

The Company's cash position was \$6,965,145 as at May 31, 2024, compared to \$3,000,607 at May 31, 2023, representing an increase of \$3,964,538. The increase was mainly due to net cash generated from operating activities of \$5,398,368, offset by the net cash used in financing activities of \$1,056,428 and investing activities of \$376,890.

The net cash provided in the operating activities for the year ended May 31, 2024 was \$5,398,368, which included the net income of \$982,168, the addbacks of non-cash items of \$1,511,119, the positive change in working capital of \$3,331,500, the income tax payment of \$56,888, the interest paid on long-term debt and lease obligations of \$418,871, and the interest received of \$49,340. The positive change in working capital was mainly due to the increase in deferred revenue as a result of the upfront deposits received for a few heat recovery projects that started in FY 2024, the decrease on the trade and other receivables of \$1,856,057 due to collections, offset by the increase in prepaid expenses \$925,479 due to higher amount of prepayments made to vendors for equipment purchases on heat recovery projects.

The net cash used in investing activities was \$376,890 for the year ended May 31, 2024, which related to purchase of property, plant and equipment. The Company invested in leasehold improvements for a rental facility in the UK during the year ended May 31, 2024, which resulted in a higher amount of cash used in investing activities.

The net cash paid in financing activities was \$1,056,428, which included repayments of long-term debt of \$921,281, repayments on lease obligations of \$290,483, the dividends paid to a minority interest of \$50,582 offset by the proceeds received from stock option exercise of \$205,918.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

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).

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.

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

	May 31, 2024	May 31, 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

The Company's ability to realize its assets and discharge its liabilities depends on its ability to generate sufficient cash from operations or its ability to arrange debt or equity financing.

Management is of the opinion that there is sufficient cash to support the Company's operations for the next 12 months.

3.5 Segmentation Information

In the year ended May 31, 2024 and May 31, 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 main 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 mainly located in Canada, the US and the UK.

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, UK, 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.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

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.

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

Material Segmentation Variances

Thermal Energy Ottawa:

For the year ended May 31, 2024, revenue was \$11,812,843, representing an increase of \$1,315,093, or 12.5%, from the revenue of \$10,497,750 achieved in the previous year. The increase was mainly due to the increased revenues from heat recovery projects.

Gross profit increased by \$806,051, or 17.5%, compared to last year. The increase in gross profit was mainly due to the increased revenues from heat recovery projects and improved margins on both heat recovery projects and equipment sales. The gross profit as a percentage of revenue for the year ended May 31, 2024 was 45.8% as compared to 43.9% achieved in the previous year. The increase was mainly due to improved margins on heat recovery projects and equipment sales as well as the change in product mix.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

In FY2024, other operating expenses increased by \$780,145, or 23.8%, mainly due to the increased salary expense resulting from increased headcount and salary raises. In addition, the Company also incurred higher operating costs due to higher amount of business activities engaged and general cost increase due to the general inflationary environment experienced in FY 2024.

In FY2024, the Company earned finance revenue of \$49,340 from this segment. The finance costs, i.e. the interest accretion on lease obligations, also decreased by \$8,138 as a result of decreased lease obligation balance for this segment. As a result, the net finance costs decreased by \$57,478 compared to the previous year.

Income before taxation for FY 2024 was \$1,317,073, compared to \$1,233,689 achieved in the previous year, an increase of \$83,384. The increase of income before taxation was mainly due to the increase in gross profit of \$806,051, the decrease in net finance costs of \$57,478, offset by the increase of other expenses in the amount of \$780,145 as a result of increased salary, increased business activities and increased general operational costs.

Thermal Energy Bristol:

Revenue was \$14,067,354, representing an increase of \$3,473,534, or 32.8%, from \$10,593,820 achieved in the previous year. The increase was mainly due to increased revenues from heat recovery projects for this segment.

Gross profit increased by \$2,077,039, or 41.9%, from \$4,961,770 to \$7,038,809. The increase was mainly due to increased revenues and improved margins from heat recovery projects. In FY 2024, this segment achieved higher margins on heat recovery projects due to the successful execution of multiple projects for a single customer. The Company capitalized on economies of scale, leading to improved margins. The gross profit as a percentage of revenue was 50% for FY 2024, as compared to 46.8% achieved in prior year. The increase in gross profit as a percentage of revenue was mainly due to improved margins on heat recovery projects.

Other expenses were \$5,242,729, an increase of \$1,128,024 or 27.4%, from \$4,114,705 of the previous year. The staff salary expense was higher than prior year due to inflationary salary increase. The Company also hired more technical and sales staff in this segment in order to support and to develop more businesses in the European market. As a result of the increased headcount, the general operating expenses including travel and business development costs, professional fees, etc. also increased. In addition, this segment continued investing in digitalization of production and data collection process. In FY 2024, the UK production team from this segment relocated to a new production facility which further increased operating costs including additional rent, leasehold improvements, the purchase of new office furniture, repair and maintenance costs associated with restoring the old facility.

Finance costs were \$33,176, an increase of \$27,863 from \$5,313 of the previous year. Finance costs related to interest accretion on lease obligations. During FY 2024, lease obligation balance increased in this segment as a result of the addition of a new rental facility and the signing of new car leases, which led to the increased finance costs.

Income before taxes was \$1,762,904 as compared to \$841,752 for the previous year, an increase of \$921,152. The increase was mainly due to the increase in gross profit of \$2,077,039 as a result of increased revenues and margins from heat recovery projects, offset by the increase in other operating expenses of \$1,128,024 and finance costs of \$27,863.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items increased from \$1,038,565 to \$1,797,137, an increase of \$751,572, compared to prior year. The increase was mainly due to the increase in foreign exchange loss of \$603,129 and the increase in corporate admin cost of \$91,194 mainly due to increased activities and costs on investor relationship work.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2024 compensation arrangements for Directors were as follows:

\$13,500 per annum per Director plus an additional \$8,100 per annum payable to the Chair of the Board, \$5,400 per annum payable to the Chair of the Audit Committee, \$5,400 per annum payable to the Chair of the Ethics, Governance and Compliance Committee, and \$1,000 payable for each in-person meeting.

During the year ended May 31, 2024, Directors fees paid were \$54,000. Fees to the Chair of the Audit Committee were \$5,400; fees to the Chair of the Ethics, Governance and Compliance Committee were \$5,400; fees paid to the Chair of the Board were \$8,100. One in-person meeting was held during the year, a total cost of \$4,000.

Compensation paid to Directors and Officers during the year ended May 31, 2024 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
W. White	22,600	21,600	-	-	-	-	22,600	21,600
W. Ollerhead	19,900	18,900	-	-	-	-	19,900	18,900
D. Spagnolo	19,900	18,900	-	-	-	-	19,900	18,900
M. Williams	14,500	13,500	-	-	-	-	14,500	13,500
J. Kelly ⁽¹⁾	-	1,125	-	-	-	-	-	1,125
Total	76,900	74,025	-	-	-	-	76,900	74,025
Senior Management								
W. Crossland	264,576	264,576	22,798	19,500	-	-	287,374	284,076
R. Triebe	209,511	199,535	18,053	14,700	4,266	3,877	231,830	218,112
S. Mawby ⁽²⁾	205,928	161,851	15,665	12,100	27,786	26,280	249,379	200,231
J. Zhang	151,580	137,800	15,665	12,100	4,266	3,877	171,511	153,777
Total	831,595	763,762	72,181	58,400	36,318	34,034	940,094	856,196
Total Related Party Transactions	908,495	837,787	72,181	58,400	36,318	34,034	1,016,994	930,221

(1) Mr. Kelly passed away on June 28, 2022. He remained as a member of the Board till June 28, 2022.

(2) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.701 and 1.605 in FY 2024 and FY 2023, respectively.

Other short-term benefits include cash payments for social security costs, employee benefits, and payments made into defined contribution pension plans of the Company's U.K. based subsidiaries.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

Options outstanding for Directors (excluding the CEO) as at May 31, 2024 were 1,000,000, of which 416,666 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2024 were 4,424,000, of which 2,124,994 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

Governments around the world are taking unprecedented action, including increasing regulations, to reduce carbon emissions. Energy efficiency can make the transition toward a clean energy economy faster and cheaper than other initiatives, and therefore is an important element in energy policies around the world. As such, the industrial sector has begun to feel the pressing need to adopt measures that can improve the energy efficiency of internal processes and operations, thus contributing to an increased demand for energy efficiency products, solutions and services globally.

Other than our order backlog, we do not provide specific financial performance guidance. However, we believe that we are well positioned to benefit from this increased demand, particularly in our key markets of North America, the United Kingdom, and the European Union. As mentioned in Section 2.2 earlier, Management uses order backlog as an indicator of the short-term future revenue of our Company resulting from already recognized orders. Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements.

The Company's order backlog as at May 31, 2024 was approximately \$18.7 million. As at September 18, 2024, the Company had an order backlog of approximately \$21.3 million.

	2024 \$ million	2023 \$ million	2022 \$ million
Order backlog as at May 31	18.7	13.0	4.9
Order backlog as at September reporting date	21.3	21.4	10.3

- On May 6, 2024, the Company announced that it had received an order valued at approximately \$1.9 million from a global materials company. This \$1.9 million Turn-key project is expected to save the customer over \$980,000 annually on its energy bill, reduce CO₂ emissions by 977 tonnes per year and improve pollution prevention and control. The turn-key project is expected to be completed, and revenue earned within the next 12 months from the year-end.
- On January 17, 2024, the Company announced that it had received an order valued at approximately \$1 million for a hybrid Flu-Ace from a privately owned meat processing plant in Europe. The Hybrid Flu-Ace is an ultra-high efficiency unit that is expected to reduce onsite fuel use for hot water by approximately 80%, and fuel use for steam production by a further 20%. The project is expected to provide fuel savings of approximately \$240,000 per year, while reducing CO₂ emissions by 292 tonnes per year resulting in additional financial savings of about \$36,000 per year. The heat recovery component of the project could result in a 50% to 90% reduction in particulate matter emissions (contributors to asthma and other respiratory diseases) and acid gasses (SO₂). The project was about 20% complete at the year end.
- On December 7, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately \$3.7 million from one of Europe's largest food and drink producers. The project is expected to provide annual natural gas savings of approximately \$1.3 million while reducing CO₂ emissions by 3,078 tonnes, resulting in additional financial savings of about \$313 thousand per year based on approximately \$102 tonnes per year. The project is expected to provide a payback of approximately 2.3 years, or 1.6 years after receipt of IETF grant funding. The project is expected to be completed and revenue earned within 12 months from the year-end. The project was about 8% complete at the year end.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

- On October 17, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately \$2.6 million from a multinational dairy and nutrition company. The project is expected to result in estimated annual savings of \$1.2 million on fuel while reducing CO₂ emissions by 4,231 tonnes, as well as a 50% - 90% reduction in annual emissions of particulate matter (which are contributors to asthma and other respiratory diseases) and acid gases such as SO₂. The project is expected to provide a payback of approximately 2.1 years. The project was about 61% complete at the year end.
- On October 10, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately \$1.9 million from a global nutrition company. The project is expected to reduce natural gas use by the site's steam boilers by 75%, CO₂ emissions by 1,587 tonnes annually, and the emission of particulate matter and acid gases such as SO₂ by 50% - 90%. The project is expected to result in a payback of approximately 1.2 years. The project was about 57% complete at the year end.
- On September 13, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately \$4 million from a leading multinational pharmaceutical company. The expected reduction in natural gas consumption would reduce CO₂ emissions by 1,280 tons per year, representing a 13.5% reduction in site thermal CO₂ emissions. Based on the client's expected natural gas prices, the project is expected to deliver approximately \$1 million in annual fuel savings, resulting in a payback for a turn-key implementation in 4.1 years before application of any available utility. The project was about 17% complete at the year end.
- On November 22, 2022, the Company announced that it had received a multi-site order from a leading snack manufacturer. Valued at \$2.5 million, this order covers the engineering, supply and installation of GEM™ steam traps at 16 sites. On November 29, 2022, the Company announced, in addition to the \$2.5 million announced on November 22, 2022, it has received additional GEM™ orders of approximately \$1.5 million from the same customer. The customer has now extended its multi-site GEM™ project to an additional 9 sites bringing the total project up to a combined 25 sites and \$4 million. This project will deliver combined annual utility and water savings of over \$1.4 million, annual CO₂ reduction of 8,066 tonnes and save more than 17 million gallons of water per year. The project was about 93% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at May 31, 2024, the Company had the following shares and dilutive instruments outstanding:

Shares:

172,734,305 class A common shares.

Options:

Range of exercise prices	Options outstanding			Options exercisable	
	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

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

The preparation of 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.

The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, and any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" Section 9 of this MD&A.

Valuation of intangible assets and asset impairment

Intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future 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.

Assumptions used in the Black-Scholes fair value calculations

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, and the risk-free interest rate are used.

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.

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 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).

Deferred tax assets

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. These estimates are reviewed at every reporting date. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of existing differences, future taxable income, and future tax planning strategies.

Changes in Accounting Standards

There were no changes in accounting standards that had a material impact for the year ended May 31, 2024.

New standards and amendments yet to be adopted:

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

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below.

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.

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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.

8. Risk Factors and Risk Management

Management is confident about our long-term prospects, but does recognize that the Company is exposed to a number of risks in the normal course of business that could negatively impact the financial condition of the Company.

Operational risks of the Company include the ability to continue to secure and implement sales contracts for its **GEM™**, indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and **FLU-ACE®** technology solutions.

Financial risks and uncertainties of the Company include:

- The Company's history of operating losses and uncertainty of future profitability;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- The ability to secure and maintain the required outside working capital financing;
- The ability to achieve profitable operations through increased sales;
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars and conflicts;
- The impact of inflation; and
- The impact of major global pandemics.

Management's addressing of the risks:

In FY 2022, the Company incurred a loss of \$1,837,971. Cash balance decreased by \$1,609,312. The loss was mainly caused by the decreased revenues from heat recovery projects as customers were delaying their purchase decisions on these projects in the light of uncertainties resulting from COVID. The loss was also caused by the increased Operating Expenses. Despite the loss, the Company maintained its staff levels and its full production and project development capabilities anticipating order intake to return to pre-pandemic levels in the following fiscal year. The Company applied for subsidies from government agencies and received \$340,566 in FY 2022. The Company also applied for and received the second tranche of COVID loan in the amount of \$1,300,000 in FY 2022 to support the Company's operations. In FY 2023, the order intake levels returned and exceeded pre-pandemic levels. The Company received \$27.3 million of orders in total in FY 2023. As a result, the Company's revenue returned to the pre-pandemic level and achieved a net income of \$720,449. In FY2024, the Company continued to see increase in total order intake. As a result, the Company recognized revenue of \$25,880,197 and net income of \$982,168 in FY2024. In addition, the Company

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2024

generated cash from operating activities in the amount of \$5,398,368 and paid back long-term debt of \$921,281.

The Company actively protects its proprietary technology through registered trademarks and confidentiality agreements.

The Company maintains adequate forms of general liability insurance including product liability and errors and omission coverage.

Management still believes that competition against its core technologies is limited at this time and believes that the marketplace is sufficiently large enough to mitigate the risk of stronger competition in the future.

Controlling foreign exchange risk is essential for our business because we operate in international markets. Our primary strategy is natural hedging, where we align our revenues and expenses in the same foreign currencies to offset exposure. In addition, we diversify our supply chain across multiple countries to minimize reliance on any single currency. We also strategically time payments and receipts, adjusting them based on currency trends to further mitigate foreign exchange risk.

Inflation rates had been rising since the start of the global pandemic, and the wave of inflation was driven by a range of factors including supply chain issues and shortages of intermediate goods and labour. The surge in inflation had resulted in higher costs of sales for the Company's product lines. The Company has been coping with the inflation impact by implementing new measures, including implementing price increases where warranted, making bulk purchases to increase its purchasing power and to lock in on purchase prices for raw materials, securing supplies by increasing inventory level to avoid ordering sporadically, and negotiating with customers to cover additional costs caused by inflation on long-term projects.

Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

9. Forward-Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of Management, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although Management believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

10. Management's Responsibility for Financial Reporting

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures, and the design of internal controls over financial reporting.

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the year ended May 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility principally through its Audit Committee.