Consolidated Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Years ended May 31, 2022 and 2021

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INDEPENDENT AUDITORS' 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, 2022 and May 31, 2021
- the consolidated statements of comprehensive income (loss) 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 significant accounting policies

(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, 2022 and May 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' 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.

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 auditors' 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 auditors' 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 auditors' 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 International Financial Reporting Standards (IFRS), 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

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

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Matthew J Betik

Ottawa, Canada

September 27, 2022

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2022 and 2021
(Expressed in Canadian dollars)

	2022	2021
	$	$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**2,631,543**	4,240,855
Trade and other receivables (note 6)	**3,134,279**	3,192,810
Current tax receivable	**193,578**	187,862
Inventory (note 7)	**1,054,559**	959,257
	7,013,959	8,580,784
Non-current assets:		
Property, plant and equipment (note 8)	**349,199**	407,677
Right-of-use assets (note 9)	**1,191,603**	1,416,978
Intangible assets (note 10)	**1,025,554**	1,027,850
Deferred tax assets (note 23)	**18,191**	113,430
	2,584,547	2,965,935
Total assets	**9,598,506**	11,546,719
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 11)	**1,679,640**	1,701,746
Current tax liabilities	**55,590**	19,975
Pensions and other employer obligations	**141,464**	134,941
Current portion of long-term debt (note 12)	**796,440**	850,987
Deferred revenue (note 13)	**1,063,495**	1,566,386
Provisions (note 14)	**307,213**	282,322
Current portion of lease obligations (note 15)	**193,298**	215,923
	4,237,140	4,772,280
Non-current liabilities:		
Long-term debt (note 12)	**3,139,914**	2,409,439
Lease obligations (note 15)	**1,177,582**	1,337,141
Deferred tax liabilities (note 23)	**339**	64,939
	4,317,835	3,811,519
Total liabilities	**8,554,975**	8,583,799
Equity		
Capital stock (note 16)	**32,484,814**	32,439,914
Contributed surplus	**4,735,299**	4,533,469
Accumulated other comprehensive income	**237,583**	529,448
Deficit	**(36,381,362)**	(34,460,538)
Equity attributable to owners of the parent	**1,076,334**	3,042,293
Non-controlling interest (note 18)	**(32,803)**	(79,373)
Total equity	**1,043,531**	2,962,920
Total liabilities and equity	**9,598,506**	11,546,719

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive (Loss) Income

Years ended May 31, 2022 and 2021
(Expressed in Canadian dollars)

	2022	2021
	$	$
Revenue (note 20)	**15,909,194**	15,349,326
Cost of sales	**9,176,610**	8,598,237
Gross profit	**6,732,584**	6,751,089
Expenses (note 22):		
Administration	**4,577,012**	3,956,817
Selling, marketing and business development	**3,607,099**	2,544,776
Research and development	**(38,051)**	(85,972)
	8,146,060	6,415,621
Operating (loss) income	**(1,413,476)**	335,468
Finance costs	**(335,939)**	(316,653)
(Loss) income before income taxes	**(1,749,415)**	18,815
Income taxes (expense) recovery (note 23)	**(88,556)**	204,150
Net (loss) income for the year	**(1,837,971)**	222,965
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**(302,729)**	312,674
Total comprehensive (loss) income for the year	**(2,140,700)**	535,639
Net (loss) income for the year attributable to:		
Owners of the parent	**(1,920,824)**	198,127
Non-controlling interest (note 18)	**82,853**	24,838
Net (loss) income for the year	**(1,837,971)**	222,965
Total comprehensive (loss) income for the year attributable to:		
Owners of the parent	**(2,212,689)**	510,233
Non-controlling interest (note 18)	**71,989**	25,406
Total comprehensive (loss) income for the year	**(2,140,700)**	535,639
Net (loss) income per share - basic and diluted (note 24)	**(0.012)**	0.001

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, 2022 and 2021

(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, 2020	32,117,242	4,426,697	(34,658,665)	217,342	2,102,616	(96,276)	2,006,340
Share-based compensation (note 19)	-	208,144	-	-	208,144	-	208,144
Share options excercised (note 16)	322,672	(101,372)			221,300	-	221,300
Dividends paid	-	-	-	-	-	(8,503)	(8,503)
Transactions with owners	322,672	106,772	-	-	429,444	(8,503)	420,941
Net income for the year	-	-	198,127	-	198,127	24,838	222,965
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	312,106	312,106	568	312,674
Total comprehensive income for the year	-	-	198,127	312,106	510,233	25,406	535,639
Balance at May 31, 2021	32,439,914	4,533,469	(34,460,538)	529,448	3,042,293	(79,373)	2,962,920
Balance at June 1, 2021	**32,439,914**	**4,533,469**	**(34,460,538)**	**529,448**	**3,042,293**	**(79,373)**	**2,962,920**
Share-based compensation (note 19)	**-**	**217,980**	**-**	**-**	**217,980**	**-**	**217,980**
Share options excercised (note 16)	**44,900**	**(16,150)**			**28,750**	**-**	**28,750**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(25,419)**	**(25,419)**
Transactions with owners	**44,900**	**201,830**	**-**	**-**	**246,730**	**(25,419)**	**221,311**
Net (loss) income for the year	**-**	**-**	**(1,920,824)**	**-**	**(1,920,824)**	**82,853**	**(1,837,971)**
Other comprehensive loss: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**(291,865)**	**(291,865)**	**(10,864)**	**(302,729)**
Total comprehensive (loss) income for the year	**-**	**-**	**(1,920,824)**	**(291,865)**	**(2,212,689)**	**71,989**	**(2,140,700)**
Balance at May 31, 2022	**32,484,814**	**4,735,299**	**(36,381,362)**	**237,583**	**1,076,334**	**(32,803)**	**1,043,531**

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, 2022 and 2021
(Expressed in Canadian dollars)

	2022	2021
	$	$
Operating activities:		
Net (loss) income for the year	**(1,837,971)**	222,965
Add items not involving cash:		
Depreciation of property, plant and equipment (note 8)	**131,210**	121,870
Depreciation of right-of-use assets (note 9)	**259,902**	166,676
Loss on disposal of assets (note 8)	**353**	603
Amortization of intangible assets (note 10)	**305,904**	270,867
Finance costs	**335,939**	316,653
Share-based compensation (note 19)	**217,980**	208,144
Income taxes expense (recovery) (note 23)	**88,556**	(204,150)
Unrealized foreign exchange and translation adjustments	**(277,794)**	213,884
Changes in working capital:		
Trade and other receivables	**58,531**	(981,429)
Inventory	**(95,302)**	(114,572)
Trade payables and other liabilities	**5,657**	(1,693,336)
Deferred revenue (note 13)	**(482,786)**	648,776
Income taxes paid	**(25,641)**	(5,583)
Interest paid	**(324,411)**	(357,119)
Net cash used in operating activities	**(1,639,873)**	(1,185,751)
Investing activities:		
Proceeds from disposal of property, plant and equipment (note 8)	**1,245**	-
Additions to property, plant and equipment (note 8)	**(69,751)**	(115,402)
Additions to intangible assets (note 10)	**(283,421)**	(9,988)
Net cash used in investing activities	**(351,927)**	(125,390)
Financing activities:		
Issuance of long-term debt (note 12)	**1,300,000**	1,082,760
Repayment of long-term debt (note 12)	**(728,630)**	(256,698)
Repayment of lease obligations (note 15)	**(217,138)**	(146,069)
Stock options exercised (note 16)	**28,750**	221,300
Dividends paid	**(25,419)**	(8,503)
Net cash provided by financing activities	**357,563**	892,790
Decrease in cash and cash equivalents for the year	**(1,634,237)**	(418,351)
Cash and cash equivalents, beginning of year	**4,240,855**	4,774,580
Exchange differences on cash and cash equivalents	**24,925**	(115,374)
Cash and cash equivalents, end of year	**2,631,543**	4,240,855

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

1. Nature of operations:

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 27, 2022. 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, 2022 and 2021.

2. Basis of presentation:

(a) Statement of compliance:

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

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of September 27, 2022, 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 and as otherwise indicated within these notes.

(c) Significant accounting judgements and estimates:

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and assumptions are recognized in the year in which they are revised and in any future periods affected. Actual results may differ from these estimates, judgements and assumptions.

2. Basis of presentation (continued):

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

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Company's operations in the latter half of March 2020. Management believes the extent of the COVID-19 pandemic's adverse impact on the Company's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, travel restrictions, and the willingness of customers to allow outside contractors onsite. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants and potential impairments of intangible and long-lived assets.

The critical estimates include:

- Business combinations:

  The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. In estimating fair value, the Company uses market observable data to the extent it is available. In cases when Level 1 inputs are not available, the measurement of fair value involves the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen.

- 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. Further information on the estimates used in determining the recoverable amount of other intangible assets is provided in note 10.

2. Basis of presentation (continued):

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

The critical estimates include (continued):

- 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 19.

- 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.

- Heat recovery solutions contract revenue:

  The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, significant estimates are made about milestones and the estimated costs to complete work.

- Deferred tax assets:

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

2. Basis of presentation (continued):

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

The critical judgements include:

- Business combinations:

  Judgement is applied in determining whether an acquisition is a business combination or an assets acquisition. Judgement is also required to assess whether the amounts payable on achievement of certain milestones represent contingent consideration or remuneration for post-acquisition services. When such amounts represent contingent consideration, judgement is applied on classification of such contingent consideration as equity or liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

- 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. For contracts for heat recovery solutions, the Company exercises judgement in determining the appropriate method for measuring progress over time. Various inputs as detailed in note 3(m) are used to determine progress for recognizing revenue over time. Changes to these inputs 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.

(d) Functional currency and foreign currency translation:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent. The functional currency of each entity consolidated with the Company is determined by the currency of the primary economic environment in which it operates along with consideration of other relevant factors.

2. Basis of presentation (continued):

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period: monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date; non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at the date when fair value was determined; and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from translation at year-end are recognized in profit or loss.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation by applying the exchange rates prevailing at the end of the reporting year for assets and liabilities and the average exchange rate for the year for consolidated statements of comprehensive income items. Such exchange differences, including differences that arise relating to long-term inter-company balances that form part of the net investment in the foreign operation, are recognized in other comprehensive income or loss. On disposal of a foreign entity, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the end of each reporting year. These exchange differences are recognized in accumulated other comprehensive income.

3. Significant 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.

(Expressed in Canadian dollars except share amounts)

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

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-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] [3]	Pennsylvania, U.S.	100%	USD	Sale of indirect contact heat recovery units
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. [4]	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. [4]	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] Boilerroom Equipment Inc., a company incorporated in the United States.
[4] 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a reporting date of May 31.

Information relating to each of the Company's subsidiaries that have non-controlling interest can be found in note 18.

3. Significant accounting policies (continued):

(b) Business combinations:

The Company measures goodwill as the fair value of the consideration transferred including any contingent consideration to be transferred and the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount of the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at fair value or at their proportionate share of the recognized amount of the identifiable net assets at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquired entity is re-measured to fair value as at the acquisition date through profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

(c) 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.

(d) 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.

(e) 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.

3. Significant accounting policies (continued):

(e) Property, plant and equipment (continued):

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	3 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.

(f) 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.

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 2 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.

3. Significant accounting policies (continued):

(f) Leases (continued):

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.

(g) 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 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.

3. Significant accounting policies (continued):

(g) Intangible assets (continued):

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	5 - 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.

(h) 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 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.

3. Significant accounting policies (continued):

(i) 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.

(j) Warranties:

The Company warrants its condensate return solution product against defects for 10 years and does not offer extended warranties beyond 10 years. 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.

(k) 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.

3. Significant accounting policies (continued):

(l) 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.

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.

3. Significant accounting policies (continued):

(m) Revenue recognition:

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

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

Sale of goods

Revenue is recognized upon transfer of control of promised goods to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods. The Company's goods are generally distinct and accounted for as separate performance obligations. A good 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 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 and after-sales service and maintenance. Revenue is recognized 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 solutions

The Company provides heat recovery solutions 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.

3. Significant accounting policies (continued):

(m) Revenue recognition (continued):

Contracts for heat recovery solutions (continued)

The stage of completion is determined by reference to the costs incurred relative to total estimated costs 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.

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 heat recovery solutions, GEM™ product, installation and servicing on a standalone basis or as part of a multiple element arrangement. Stand-alone sales include sales of heat recovery solution systems or GEM™ steam traps. When sold in a multiple element arrangement, the heat recovery solution systems 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 or services.

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.

Interest revenue and expenses

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

3. Significant accounting policies (continued):

(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 employee obligations”, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(o) 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.

(p) Government grants:

The Company received funding from various government bodies as COVID-19 wage subsidy. The grants are accounted for using the cost reduction approach and are netted against related costs for which they are intended to compensate.

(q) Investment tax credits:

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the research and development expenses.

(r) Income taxes:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting years, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

3. Significant accounting policies (continued):

(r) 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 (loss).

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.

(s) Earnings per share:

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the earnings attributable to owners of the parent by the weighted average number of common shares outstanding during the year. The diluted earnings per share is determined by adjusting the earnings attributable to owners of the parent and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise options outstanding.

3. Significant accounting policies (continued):

(t) 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.

<u>Financial assets</u>

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 under IFRS 9
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost

3. Significant accounting policies (continued):

(t) Financial instruments (continued):

Financial assets (continued):

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.

Impairment of financial assets

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 under IFRS 9
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.

3. Significant accounting policies (continued):

(u) 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.

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.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting:

In fiscal 2022 and 2021, 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 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, 2022 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**8,974,251**	8,060,309	**6,934,943**	7,289,017	**-**	-	**15,909,194**	15,349,326
Cost of sales	**(5,664,485)**	(4,586,226)	**(3,512,125)**	(4,012,011)	**-**	-	**(9,176,610)**	(8,598,237)
Gross profit	**3,309,766**	3,474,083	**3,422,818**	3,277,006	**-**	-	**6,732,584**	6,751,089
Other expenses	**(3,037,830)**	(1,797,584)	**(3,722,456)**	(2,718,033)	**(1,385,774)**	(1,900,004)	**(8,146,060)**	(6,415,621)
Net finance costs	**(79,425)**	(56,557)	**(7,393)**	(9,275)	**(249,121)**	(250,821)	**(335,939)**	(316,653)
Income (loss) before taxation	**192,511**	1,619,942	**(307,031)**	549,698	**(1,634,895)**	(2,150,825)	**(1,749,415)**	18,815
Tax (expense) recovery	**(7,938)**	147,953	**(139,202)**	(16,937)	**58,584**	73,134	**(88,556)**	204,150
Profit (loss) after taxation	**184,573**	1,767,895	**(446,233)**	532,761	**(1,576,311)**	(2,077,691)	**(1,837,971)**	222,965
Attributable to:								
Owners of the parent	**184,836**	1,767,452	**(529,349)**	508,366	**(1,576,311)**	(2,077,691)	**(1,920,824)**	198,127
Non-controlling interest	**(263)**	443	**83,116**	24,395	**-**	-	**82,853**	24,838

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Reconciling items comprise the following:

	2022	2021
Corporate administration costs	**$ 679,520**	$ 599,757
Share-based compensation	**217,980**	208,144
Professional fees	**158,938**	191,747
Depreciation of property, plant and equipment	**131,210**	121,870
Amortization of intangible assets	**305,904**	270,867
Acquisition costs	**188,357**	22,254
Foreign exchange (gain) loss	**(296,135)**	485,365
Total	**$ 1,385,774**	$ 1,900,004

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.

During the year ended May 31, 2022, the Company had no customer that accounted for more than 10% of total consolidated revenue for the year.

During the year ended May 31, 2021, the Company had no customer that accounted for more than 10% of total consolidated revenue for the year.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Further geographical analysis:

	Sales for the year ended May 31,		Property, plant and equipment as at May 31,		Intangibles assets as at May 31,	
	2022	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$
U.S.A.	**7,150,924**	5,754,397	**147,719**	168,055	**560,250**	790,064
Canada	**1,062,989**	2,305,911	**158,029**	181,385	**244,169**	–
U.K.	**3,121,707**	3,592,633	**43,451**	58,237	**221,135**	237,786
Germany	**1,479,630**	797,020	–	–	–	–
Poland	**669,113**	259,869	–	–	–	–
Italy	**395,173**	365,221	–	–	–	–
Ireland	**303,208**	839,953	–	–	–	–
Norway	**122,740**	569,493	–	–	–	–
Netherlands	**96,349**	70,374	–	–	–	–
Spain	**21,884**	76,401	–	–	–	–
France	**3,759**	183,681	–	–	–	–
Rest of Europe	**1,716**	45,451	–	–	–	–
Mexico	**600,507**	–	–	–	–	–
Russia	**340,927**	127,534	–	–	–	–
UAE	**205,594**	118,107	–	–	–	–
Mauritius	**83,005**	22,581	–	–	–	–
Ecuador	**41,280**	–	–	–	–	–
India	**40,817**	54,683	–	–	–	–
Chile	**31,096**	–	–	–	–	–
Rest of world	**136,776**	166,017	–	–	–	–
Total	**15,909,194**	15,349,326	**349,199**	407,677	**1,025,554**	1,027,850

5. Cash and cash equivalents:

	2022	2021
Cash	**$ 2,447,989**	$ 4,240,355
Cash equivalents	**15,000**	500
Restricted cash	**168,554**	-
Balance, end of year	**$ 2,631,543**	$ 4,240,855

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

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

(Expressed in Canadian dollars except share amounts)

6. Trade and other receivables:

	2022	2021
Trade receivables, gross	**$ 2,280,991**	$ 2,139,081
Allowance for doubtful accounts	**(121,849)**	(40,308)
Trade receivables, net	**2,159,142**	2,098,773
Unbilled revenue	**372,161**	283,717
Work in progress	**56,518**	35,879
Prepayments	**170,557**	200,864
Sales tax and other miscellaneous receivables	**375,901**	573,577
Balance, end of year	**$ 3,134,279**	$ 3,192,810

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

At May 31, 2022, $137,584 (6%) of the Company's trade receivables balance was over 90 days past due ($402,848 (18.8%) at May 31, 2021). $46,599 of the past due balance was impaired at May 31, 2022 ($28,837 at May 31, 2021). At May 31, 2022, $75,250 of trade receivables that was not over 90 days past due was also impaired ($11,471 at May 31, 2021).

The change in allowance for doubtful accounts was as follows:

	2022	2021
Balance, beginning of year	**$ 40,308**	$ 67,438
Provisions	**138,098**	32,061
Release of provisions due to collection	**(48,800)**	(43,165)
Amounts written off	**(4,935)**	(16,136)
Foreign exchange adjustments	**(2,822)**	110
Balance, end of year	**$ 121,849**	$ 40,308

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2022, provisions of $138,098 were made as expected credit losses and recorded under administrative expenses. $48,800 of the provisions was released due to the collection on the doubtful account.

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2021, provisions of $32,061 were made as expected credit losses and recorded under administrative expenses. $41,305 of the provisions was released due to the collection on the doubtful account (net of $1,860 sales tax).

(Expressed in Canadian dollars except share amounts)

7. Inventory:

Inventory is comprised of partly finished products purchased from suppliers and held in inventory pending finishing to the customers' requirements.

For the year ended May 31, 2022, a total of $1,151,098 of inventories was expensed to cost of sales ($1,255,083 at May 31, 2021). Provisions of $3,230 ($39,457 at May 31, 2021) were made for slow-moving inventories under cost of sales which were also written off as obsolete ($11,627 at May 31, 2021). For the year ended May 31, 2022, $5,005 of previous write-downs were released under cost of sales ($nil at May 31, 2021).

8. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve-ments	Motor Vehicles	Total
	$	$	$	$	$	$	$
Cost, May 31, 2020	432,539	141,699	52,857	430,912	191,993	4,825	1,254,825
Additions	61,492	12,693	-	21,600	9,272	10,345	115,402
Disposals	-	-	-	(19,341)	-	-	(19,341)
Translation adjustments	(26,718)	(455)	-	(597)	(251)	(880)	(28,901)
Cost, May 31, 2021	467,313	153,937	52,857	432,574	201,014	14,290	1,321,985
Additions	33,122	6,792	-	28,146	1,691	-	69,751
Disposals	-	-	-	(1,995)	-	(4,357)	(6,352)
Translation adjustments	339	4	-	(7,037)	458	612	(5,624)
Cost, May 31, 2022	**500,774**	**160,733**	**52,857**	**451,688**	**203,163**	**10,545**	**1,379,760**
Accumulated depreciation, May 31, 2020	234,677	109,516	52,857	389,070	35,259	1,849	823,228
Depreciation for the year	65,928	8,573	-	28,785	17,030	1,554	121,870
Disposals	-	-	-	(18,738)	-	-	(18,738)
Translation adjustments	(11,913)	5	-	166	(3)	(307)	(12,052)
Accumulated depreciation, May 31, 2021	288,692	118,094	52,857	399,283	52,286	3,096	914,308
Depreciation for the year	72,372	10,839	-	27,321	18,050	2,628	131,210
Disposals	-	-	-	(1,995)	-	(2,759)	(4,754)
Translation adjustments	(3,187)	(394)	-	(6,742)	9	111	(10,203)
Accumulated depreciation, May 31, 2022	**357,877**	**128,539**	**52,857**	**417,867**	**70,345**	**3,076**	**1,030,561**
Net book value, May 31, 2021	178,621	35,843	-	33,291	148,728	11,194	407,677
Net book value, May 31, 2022	**142,897**	**32,194**	**-**	**33,821**	**132,818**	**7,469**	**349,199**

During the year ended May 31, 2022, the Company disposed of depreciated assets with a net book value of $1,598 for $1,245 proceeds.

During the year ended May 31, 2021, the Company disposed of fully depreciated assets of $18,738 and a computer with a net book value of $603 for $nil proceeds.

(Expressed in Canadian dollars except share amounts)

8. Property, plant and equipment (continued):

There are no property, plant and equipment held under finance leases and no items of property, plant or equipment are subject to restrictions of title or pledged as security.

9. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2021	**1,298,734**	**100,397**	**17,847**	**1,416,978**
Depreciation	**(206,024)**	**(47,354)**	**(6,524)**	**(259,902)**
Translation adjustments	**38,853**	**(4,176)**	**(150)**	**34,527**
Balance, May 31, 2022	**1,131,563**	**48,867**	**11,173**	**1,191,603**

	Offices	Vehicles	Equipment	Total right-of-use assets
	$	$	$	$
Balance, June 1, 2020	315,789	94,534	11,015	421,338
Additions	1,154,221	45,933	13,055	1,213,209
Depreciation	(120,717)	(39,640)	(6,319)	(166,676)
Translation adjustments	(50,559)	(430)	96	(50,893)
Balance, May 31, 2021	1,298,734	100,397	17,847	1,416,978

10. Intangible assets:

	Cost, May 31, 2021	Additions	Translation adjustments	Cost, May 31, 2022
	$		$	$
Trade names and trademarks (a)	788,302	-	(55,200)	733,102
Non-compete agreement	102,822	-	(7,200)	95,622
Industrial know-how	119,959	-	(8,400)	111,559
Designs and drawings	131,955	-	(9,240)	122,715
Customer relationships	700,452	-	130	700,582
Existing technology	645,853	283,421	30,816	960,090
Proprietary software	363,367	-	17,338	380,705
Brand portfolio (b)	179,872	-	8,582	188,454
Licences	9,718	-	463	10,181
Total	3,042,300	283,421	(22,711)	3,303,010

(Expressed in Canadian dollars except share amounts)

10. Intangible assets (continued):

	Accumulated amortization and impairment, May 31, 2021	**Amortization**	**Translation adjustments**	**Accumulated amortization and impairment, May 31, 2022**
	$	**$**	**$**	**$**
Trade names and trademarks	**550,516**	**-**	**(38,549)**	**511,967**
Non-compete agreement	**102,822**	**-**	**(7,200)**	**95,622**
Industrial know-how	**119,959**	**-**	**(8,400)**	**111,559**
Designs and drawings	**131,955**	**-**	**(9,240)**	**122,715**
Customer relationships	**485,805**	**72,700**	**(9,876)**	**548,629**
Existing technology	**269,105**	**135,605**	**13,153**	**417,863**
Proprietary software	**264,955**	**94,868**	**12,951**	**372,774**
Brand portfolio	**89,333**	**-**	**4,262**	**93,595**
Licences	**-**	**2,731**	**1**	**2,732**
Total	**2,014,450**	**305,904**	**(42,898)**	**2,277,456**
Net book value	**1,027,850**			**1,025,554**

	Cost, May 31, 2020	Additions	Translation adjustments	Cost, May 31, 2021
	$		$	$
Trade names and trademarks	782,138	-	6,164	788,302
Non-compete agreement	102,018	-	804	102,822
Industrial know-how	119,021	-	938	119,959
Designs and drawings	130,923	-	1,032	131,955
Customer relationships	757,580	-	(57,128)	700,452
Existing technology	737,605	-	(91,752)	645,853
Proprietary software	414,989	-	(51,622)	363,367
Brand portfolio	205,426	-	(25,554)	179,872
Licences	-	9,988	(270)	9,718
Total	3,249,700	9,988	(217,388)	3,042,300

	Accumulated amortization and impairment, May 31, 2020	Amortization	Translation adjustments	Accumulated amortization and impairment, May 31, 2021
	$	$	$	$
Trade names and trademarks	546,212	-	4,304	550,516
Non-compete agreement	102,018	-	804	102,822
Industrial know-how	119,021	-	938	119,959
Designs and drawings	130,923	-	1,032	131,955
Customer relationships	432,934	74,614	(21,743)	485,805
Existing technology	201,963	98,889	(31,747)	269,105
Proprietary software	198,849	97,364	(31,258)	264,955
Brand portfolio	102,024	-	(12,691)	89,333
Licences	-	-	-	-
Total	1,833,944	270,867	(90,361)	2,014,450
Net book value	1,415,756			1,027,850

10. Intangible assets (continued):

During the year ended May 31, 2022, the Company acquired intangible assets in the amount of $283,421 ($9,988 – May 31, 2021). On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montréal, Quebec, for a total consideration of $283,421.

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 25% (2021 - 24%). The growth rates attributed by Management to the GEM™ product line are 20% in 2023, followed by 7% in each of the subsequent four years. The Company is expecting continued growth in revenues from GEM™ product in the next five years 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 year ended May 31, 2022 and 2021.

(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 21% (2021 - 21%). The growth rates attributed by Management to the brand portfolio are negative 8% in 2023, followed by positive 5% growth rate in each of the subsequent four years. The Company is currently facing a capacity issue. Despite the high order intake amount, the Company is expecting a slowdown on product fabrication while the Company is looking for ways to solve the capacity issue. Hence, the Company is expecting a lower revenue next year. However, the Company is expecting the revenue to continue to grow in the subsequent four years after Boilerroom Equipment Inc. solves the capacity issue. Boilerroom Equipment Inc. is expecting the sales to continue to grow as it 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 year ended May 31, 2022 and 2021.

(Expressed in Canadian dollars except share amounts)

11. Trade payables and other liabilities:

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

	2022	2021
Trade payables	**$ 663,682**	$ 797,489
Accruals	**847,926**	790,091
Other government remittances payable	**168,032**	80,611
Government grants	**-**	33,555
	$ 1,679,640	$ 1,701,746

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

For the year ended May 31, 2022, government grant of $34,596 was recognized as a reduction to the operating expenses that was netted against administration expenses, for the portion of the grant earned for the year ended May 31, 2022. A foreign translation loss in the amount of $1,041 was recognized to accumulated other comprehensive loss.

For the year ended May 31, 2021, the Company obtained financing in the total amount of $268,239 (equivalent to USD$216,182) under the Second Draw Paycheck Protection Program pursuant to the CARES Act in the U.S ("Second Draw PPP Loans"). The loans can be forgiven for applicants that meet revenue reduction criteria and eligible payroll and non-payroll costs over a certain covered period. As at May 31, 2021, management estimated that the Company would meet the forgiveness criteria. For the year ended May 31, 2021, a total amount of $233,751 was recognized as a reduction to the operating expenses, of which $91,468 was netted against administration expenses and $142,283 against selling, marketing and business development expenses, for the portion of the grant earned from origination date to the reporting date. A foreign translation gain in the amount of $933 was recognized to accumulated other comprehensive income related to the revaluation of the liability with the year-end closing rate.

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

(Expressed in Canadian dollars except share amounts)

12. Long-term debt:

	2022	2021
(a) Term loan (equivalent to USD$1,558,801), net of deferred financing costs of $20,488 (equivalent to USD$16,199), bearing interest at US dollar floating base rate plus a variance of between 1.50% to 8.00%, repayable in monthly principal instalments of $31,620 (equivalent to USD$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of $695,640 (equivalent to USD$550,000) payable on the maturity date, December 1, 2025	**$1,971,572**	$2,176,798
(b) Term loan, net of deferred financing costs of $1,029, bearing interest at the institution's floating base rate less a variance of 1.10%, repayable in monthly principal instalments of $40,000 starting June 15, 2021 and continuing up to the maturity date, May 15, 2026	**1,898,971**	997,943
(c) Term loan (equivalent to GBP£50,000), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of $1,328 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	**65,811**	85,685
Total long-term debt	**3,936,354**	3,260,426
Less: current portion	**(796,440)**	(850,987)
Long term portion	**3,139,914**	2,409,439

(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.

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

(Expressed in Canadian dollars except share amounts)

12. Long-term debt (continued):

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was at 5.30% on May 31, 2022 (4.65% on May 31, 2021). 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, 2022, the variance was 3.50% (1.50% at May 31, 2021). 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 not in compliance on May 31, 2022. On May 13, 2022, the lender waived the covenants for all the periods from May 31, 2022 up to May 31, 2023 as another COVID-19 relief measure to the Company.

(b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of $2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over next 4 years. The institution's floating base rate was 5.30% on May 31, 2022 (4.55% on May 31, 2021). Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of $1,000,000 was received by the Company on July 23, 2020. The second tranche of proceeds in the amount of $1,300,000 was received by the Company on March 30, 2022. A financing cost of $3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

(Expressed in Canadian dollars except share amounts)

12. 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. Consequently, the postponed principal repayments were added to the balloon payment on the maturity date.

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

13. 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, 2021	**$ 1,403,585**	**$ 162,801**	**$ 1,566,386**
Increase from payments received	**8,648,581**	**548,805**	**9,197,386**
Decrease from revenue recognized	**(9,330,972)**	**(349,200)**	**(9,680,172)**
Translation adjustments	**395**	**(20,500)**	**(20,105)**
Balance, May 31, 2022	**$ 721,589**	**$ 341,906**	**$ 1,063,495**

	Deferred revenue relating to heat recovery solutions	Deferred revenue relating to sales of goods and rendering of services	Total deferred revenue
Balance, June 1, 2020	$ 771,089	$ 166,139	$ 937,228
Increase from payments received	9,322,559	291,220	9,613,779
Decrease from revenue recognized	(8,669,671)	(295,332)	(8,965,003)
Translation adjustments	(20,392)	774	(19,618)
Balance, May 31, 2021	$ 1,403,585	$ 162,801	$ 1,566,386

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

(Expressed in Canadian dollars except share amounts)

14. Provisions:

The change in provisions was as follows:

	Legal provision	Warranty provision	Total provisions
Balance, beginning of year	**$ 190,000**	**$ 92,322**	**$ 282,322**
Additions	**-**	**25,959**	**25,959**
Translation adjustments	**-**	**(1,068)**	**(1,068)**
Balance, end of year	**$ 190,000**	**$ 117,213**	**$ 307,213**

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, 2022 and is intended to account for future net liabilities resulting from the claim and the counterclaim.

Other than the legal provision of $190,000, the Company has another provision of $117,213 for warranty.

(Expressed in Canadian dollars except share amounts)

15. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2022:

Less than one year	$ 293,413
One to five years	837,294
Six to ten years	729,019
Total undiscounted lease obligations	1,859,726
Less: impact of present value	(488,846)
Less: current portion	(193,298)
Long term portion	$ 1,177,582

For the year ended May 31, 2022, interest expense on lease obligations was $114,182; total cash outflow for leases was $344,757, including $13,437 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.

For the year ended May 31, 2021, interest expense on lease obligations was $64,501; total cash outflow for leases was $286,775, including $76,205 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.

16. 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.

(Expressed in Canadian dollars except share amounts)

16. Capital stock (continued):

Outstanding:

	Year ended May 31, 2022		Year ended May 31, 2021	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of year	**163,887,606**	**32,439,914**	160,152,616	32,117,242
Stock options exercised[(1)]	**250,000**	**44,900**	3,734,990	322,672
Balance, end of year	**164,137,606**	**32,484,814**	163,887,606	32,439,914

(1) For the year ended May 31, 2022, 250,000 shares were issued for $28,750 following the exercise of stock options, resulting in an increase to capital stock of $44,900 and a reduction in contributed surplus of $16,150. For the year ended May 31, 2021, 3,734,990 shares were issued for $221,300 following the exercise of stock options, resulting in an increase to capital stock of $322,672 and a reduction in contributed surplus of $101,372.

17. 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, 2022 totalled $838,751 ($2,512,845 at May 31, 2021). 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 12(a) for details). The Company monitors the ratios on a quarterly basis. The Company's share capital is not subject to external restrictions.

(Expressed in Canadian dollars except share amounts)

18. 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, 2022			Year ended May 31, 2021		
	GEMchem Ltd.	**TEI (Guangzhou) Ltd.**	**Total**	GEMchem Ltd.	TEI (Guangzhou) Ltd.	Total
	$	**$**	**$**	$	$	$
NCI percentage	**33%**	**45%**		33%	45%	
Non-current assets	**617**	**-**	**617**	1,613	-	1,613
Current assets	**655,717**	**8,084**	**663,801**	491,155	8,084	499,239
Non-current liabilities	**339**	**-**	**339**	365	-	365
Current liabilities	**194,868**	**419,139**	**614,007**	173,196	418,553	591,749
Net assets (liabilities)	**461,127**	**(411,055)**	**50,072**	319,207	(410,469)	(91,262)
Carrying amount of NCI	**152,172**	**(184,975)**	**(32,803)**	105,338	(184,711)	(79,373)
Revenue	**1,128,054**	**-**	**1,128,054**	1,005,766	-	1,005,766
Profit (loss) after tax	**251,867**	**(585)**	**251,282**	73,925	985	74,910
Total comprehensive income (loss)	**218,946**	**(585)**	**218,361**	75,646	985	76,631
Profit (loss) allocated to NCI	**83,116**	**(263)**	**82,853**	24,395	443	24,838
Comprehensive income (loss) allocated to NCI	**72,252**	**(263)**	**71,989**	24,963	443	25,406
Cash flows from operating activities	**236,061**	**-**	**236,061**	31,853	(756)	31,097
Cash flows from investing activities	**-**	**-**	**-**	-	-	-
Cash flows from financing activities	**(77,027)**	**-**	**(77,027)**	(25,767)	2,681	(23,086)
Net increase in cash and cash equivalents	**159,034**	**-**	**159,034**	6,086	1,925	8,011

19. Share-based payments:

The Company established the Company's Share Option Plan applicable to directors, officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date. The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. The vesting term for options granted is at the discretion of the Board of Directors.

(Expressed in Canadian dollars except share amounts)

19. Share-based payments (continued):

Activity in stock options was as follows:

	Year ended May 31, 2022		Year ended May 31, 2021	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**14,674,675**	**0.08**	17,821,276	0.07
Granted	**4,328,000**	**0.14**	4,653,000	0.09
Forfeited	**(463,336)**	**0.09**	(811,251)	0.08
Exercised	**(250,000)**	**0.12**	(3,734,990)	0.06
Expired	**-**	**-**	(3,253,360)	0.08
Outstanding, end of year	**18,289,339**	**0.10**	14,674,675	0.08
Options exercisable, end of year	**9,942,651**	**0.08**	5,281,668	0.08

The following tables summarize information about stock options outstanding:

At May 31, 2022:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding May 31, 2022**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at May 31, 2022**	**Weighted average exercise price**
0.08-0.10	**14,036,339**	**2.37**	**0.08**	**9,942,651**	**0.08**
0.11-0.14	**4,253,000**	**4.49**	**0.14**	**-**	**-**
	18,289,339	**2.86**	**0.10**	**9,942,651**	**0.08**

(Expressed in Canadian dollars except share amounts)

19. Share-based payments (continued):

At May 31, 2021:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2021	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2021	Weighted average exercise price
0.08-0.10	14,424,675	3.37	0.08	5,031,668	0.08
0.11-0.12	250,000	0.49	0.12	250,000	0.12
	14,674,675	3.33	0.08	5,281,668	0.08

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model. As at May 31, 2022, there was $224,237 ($209,572 at May 31, 2021) 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:

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

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

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

(Expressed in Canadian dollars except share amounts)

19. Share-based payments (continued):

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:

	2022	2021
Administration	**$ 176,760**	$ 168,057
Selling, marketing and business development	**41,220**	40,087
	$ 217,980	$ 208,144

20. Revenue:

	2022	2021
Sales of goods	**$ 5,112,457**	$ 5,211,733
Rendering of services	**1,129,380**	1,181,405
Contracts for heat recovery solutions	**9,667,357**	8,956,188
	$ 15,909,194	$ 15,349,326

21. Employee benefits expense:

	2022	2021
Salaries and benefits	**$ 7,464,355**	$ 6,564,797
Share-based compensation (note 19)	**217,980**	208,144
Pension charge	**131,282**	87,860
	$ 7,813,617	$ 6,860,801

The Company contributes to defined contribution pension plans for permanent employees of two 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.

(Expressed in Canadian dollars except share amounts)

22. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	2022	2021
Depreciation of property, plant and equipment (note 8)	**$ 131,210**	$ 121,870
Depreciation of right-of-use assets (note 9)	**259,902**	166,676
Amortization of intangible assets (note 10)	**305,904**	270,867
Foreign exchange (gain) loss	**(296,135)**	485,365

The Company received funding from various government bodies as COVID-19 wage subsidies. For the year ended May 31, 2022, a total amount of $340,566 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses which was netted against administration expenses.

For the year ended May 31, 2021, a total amount of $1,244,004 related to COVID-19 wage subsidies was recognized as a reduction to operating expenses, of which $912,068 was netted against administration expenses and $331,936 against selling, marketing and business development expenses.

During the year ended May 31, 2022, the Company received funding on various research programs. For the year ended May 31, 2022, a total amount of $56,289 related to various research funding was recognized as a reduction to research and development expenses.

During the year ended May 31, 2021, the Company received funding on various research programs. For the year ended May 31, 2021, a total amount of $112,038 related to various research funding was recognized as a reduction to research and development expenses.

(Expressed in Canadian dollars except share amounts)

23. 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:

		2022		2021
(Loss) income before income taxes	$	**(1,749,415)**	$	18,815
Income taxes expense (recovery) calculated using combined federal and provincial income tax rates in Canada of 26.50% (2021 – 26.50%)	$	**(463,595)**	$	4,986
Share-based compensation		**57,765**		55,158
Difference in tax rate of foreign subsidiaries		**(4,941)**		(47,031)
Tax effect of temporary difference for which no deferred tax asset is recorded		**503,976**		(230,085)
Difference in future tax rates		**(44,498)**		(12,312)
Permanent differences and others		**39,849**		25,134
Current and deferred income tax expense (recovery)	**$**	**88,556**	$	(204,150)
Current	**$**	**66,713**	$	24,831
Deferred		**21,843**		(228,981)
	$	**88,556**	$	(204,150)

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

		2022		2021
Statutory income tax of the year	**$**	**66,573**	$	23,595
Adjustment for prior years		**140**		1,675
Carryback of losses		**-**		(439)
	$	**66,713**	$	24,831

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

		2022		2021
Origination of timing differences	**$**	**66,341**	$	(216,669)
Difference in future tax rates		**(44,498)**		(12,312)
	$	**21,843**	$	(228,981)

(Expressed in Canadian dollars except share amounts)

23. Income taxes (continued):

Change in deferred tax balances in 2022:

	June 1, 2021 $	**Recognized in income (loss) $**	**Recognized in other comprehensive income $**	**May 31, 2022 $**
Provisions	**18,514**	**13,654**	**(331)**	**31,837**
Property, plant and equipment	**(28,332)**	**(11,334)**	**279**	**(39,387)**
Non-capital losses	**314,186**	**(223,240)**	**(10,637)**	**80,309**
Intangible assets	**(255,877)**	**199,077**	**1,893**	**(54,907)**
	48,491	**(21,843)**	**(8,796)**	**17,852**
Recognized as deferred tax assets				**18,191**
Recognized as deferred tax liabilities				**(339)**
				17,852

Change in deferred tax balances in 2021:

	June 1, 2020 $	Recognized in income (loss) $	Recognized in other comprehensive income $	May 31, 2021 $
Provisions	27,826	(9,384)	72	18,514
Property, plant and equipment	(39,749)	7,902	3,515	(28,332)
Non-capital losses	163,178	156,811	(5,803)	314,186
Intangible assets	(363,380)	73,652	33,851	(255,877)
	(212,125)	228,981	31,635	48,491
Recognized as deferred tax assets				113,430
Recognized as deferred tax liabilities				(64,939)
				48,491

(Expressed in Canadian dollars except share amounts)

23. Income taxes (continued):

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

	2022	2021
Property, plant and equipment	**$ 1,163,252**	$ 1,120,856
Intangible assets	**2,764,237**	2,739,157
Provisions	**363,164**	486,846
Non-capital losses	**8,879,310**	7,087,963
Research and development pool	**3,605,000**	3,250,000
	$ 16,774,963	$ 14,684,822

As at May 31, 2022, 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	954,550
2030	3,032,173
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
2042	34,801
Total	$ 6,579,867

As at May 31, 2022, the Company had non-capital losses in foreign subsidiaries in the amount of $3,344,462 ($1,915,207 at May 31, 2021). Losses in the amount of $145,389 expire between 2023 and 2025 and losses of $3,199,073 could be carried forward indefinitely.

As at May 31, 2022, the Company had a pool balance in the amount of $3,605,000 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely ($3,250,000 at May 31, 2021).

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, 2022 was $1,791,612 ($2,436,286 at May 31, 2021).

(Expressed in Canadian dollars except share amounts)

24. Earnings (loss) per share:

The calculation of basic and diluted loss per share for the year ended May 31, 2022 was based on the net loss attributable to owners of the parent of $1,920,824 (2021 – net income of $198,127) and a weighted average number of basic common shares outstanding of 164,015,688 (2021 – 160,955,437). Diluted loss per share for the year ended May 31, 2022 did not include the effect of outstanding stock options existing at this date as they would have the effect of decreasing the loss per share. For the year ended May 31, 2022, 14,036,339 stock options out of 18,289,339 outstanding options could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted loss per share because they were anti-dilutive.

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:

	2022	2021
Issued common shares at beginning of year	**163,887,606**	160,152,616
Effect of shares issued	**128,082**	802,821
Weighted average number of basic common shares at end of year	**164,015,688**	160,955,437
Effect of stock options on issue	**-**	4,852,469
Weighted average number of diluted common shares at end of year	**164,015,688**	165,807,906

25. 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 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.

25. Financial instruments (continued):

Financial risk management (continued):

a) Market risk (continued):

(i) Foreign currency risk:

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table shows the foreign currency exchange risk on the financial assets and liabilities of the Company's operations denominated in currencies other than the functional currency of the different Company entities.

	Net financial assets/(liabilities) in CAD$			
	US $	EUR	NOK	Total CAD $
Functional currency of Company entity				
May 31, 2022				
Canadian Dollar	**609,099**	**–**	**–**	**609,099**
British Pound	**1,560**	**650,737**	**2,049**	**654,346**
	610,659	**650,737**	**2,049**	**1,263,445**
May 31, 2021				
Canadian Dollar	1,670,379	–	–	1,670,379
British Pound	(79,497)	1,009,030	(46,375)	883,158
	1,590,882	1,009,030	(46,375)	2,553,537

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

	May 31, 2022				May 31, 2021			
	US$	**EUR**	**NOK**	**Total**	US$	EUR	NOK	Total
Net income (loss)	**61,066**	**65,074**	**205**	**126,345**	159,088	100,903	(4,637)	255,354
Equity	**61,066**	**65,074**	**205**	**126,345**	159,088	100,903	(4,637)	255,354

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, GBP and Euros.

25. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

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 minimizes risk by investing only with credit worthy banking institutions or draws on its available facility with floating rate borrowings, as mentioned in liquidity risk above.

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, 2022, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in an increase/decrease in loss before tax of $39,579.

(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 retention of title clauses, so that in the event of non-payment, the Company may have a secured claim.

(Expressed in Canadian dollars except share amounts)

25. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk (continued):

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 receivables, and other miscellaneous 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 15, 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	1,679,640	1,679,640	1,679,640	-	-
Long-term debt	3,936,354	4,714,957	1,140,808	2,118,176	1,455,973
	5,615,994	6,394,597	2,820,448	2,118,176	1,455,973

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

25. Financial instruments (continued):

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

The Company has no financial assets or financial liabilities measured at fair value after initial recognition other than contingent payable recognized in connection with business acquisition.

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, 2022 and 2021.

The contingent consideration was payable in cash or shares at Company's choice over the three-year post-acquisition period based on Boilerroom Equipment Inc. meeting certain performance targets. Estimates of the fair value of contingent payable was performed by the Company on a quarterly basis. Key unobservable inputs included revenue growth rates over the post-acquisition period and discount rate applied (16%). The estimated fair value increased as the annual revenue growth rate increased and decreased as the discount rate increased, and vice versa.

Boilerroom Equipment Inc's post-acquisition growth rate for the twenty-three months ended May 31, 2020 had been lower than the rate anticipated at the date of acquisition. The growth rate for the remaining months based on the forecasts at May 31, 2020 was also expected to be lower due to the COVID-19 pandemic. As a result, it was highly unlikely that the performance targets would be met. As the Company did not expect to make any contingent payment at the end of the three-year post-acquisition period based on this assessment, the fair value of contingent payable was written down to $nil as at May 31, 2020. The three-year post acquisition period has ended on June 29, 2021. Boilerroom Equipment Inc. did not meet the performance targets. Therefore, the contingent payable was also $nil at May 31, 2022 and 2021.

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 the market interest rate.

26. 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.

26. Related party transactions (continued):

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:

	2022	2021
Salaries and other short-term employee benefits	**$ 861,380**	$ 749,350
Share-based payments	**84,655**	79,283
	$ 946,035	$ 828,633

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2022

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, 2022 (or "FY 2022"), and compares the FY 2022 financial results to the previous year ended May 31, 2021 (or "FY 2021"). 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 2022 are against the fourth quarter of FY 2021. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 39% our operations, assets and liabilities are denominated in British Pound Sterling and 32% in US Dollar. 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 27, 2022. Disclosure contained in this document is current to September 27, 2022, 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 9 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 10 entitled "Forward-Looking Information".

Table of Contents

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™**).

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. On June 29, 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.

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 28 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") 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:

	2022 $	2021 $
Total net income (loss) attributable to owners of the parent	(165,554)	(100,745)
Total net income (loss) attributable to non-controlling interest	16,092	(4,858)
Interest charge	89,651	80,671
Income tax (recovery) expense	97,523	(165,340)
Depreciation and amortization	110,620	97,584
Share based compensation	55,148	53,842
EBITDA	203,480	(38,846)

For the years ended May 31:

	2022 $	2021 $
Total net income (loss) attributable to owners of the parent	(1,920,824)	198,127
Total net income (loss) attributable to non-controlling interest	82,853	24,838
Interest charge	335,939	316,653
Income tax (recovery) expense	88,556	(204,150)
Depreciation and amortization	437,114	392,737
Share based compensation	217,980	208,144
EBITDA	(758,382)	936,349

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 International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies.

The Company's order backlog as at May 31, 2022 was approximately $4.9 million. As at September 27, 2022, the Company had an order backlog of approximately $10.3 million.

	2022 $ million	2021 $ million	2020 $ million
Order backlog as at May 31	4.9	7.8	3.6
Order backlog as at September reporting date	10.3	11.0	9.3

3. Performance

3.1 Selected Annual Information

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

Financial information for the years ended May 31, 2022 and 2021:

	2022 $	2021 $
Revenue	15,909,194	15,349,326
Gross profit	6,732,584	6,751,089
Gross profit percentage	42.3%	44.0%
EBITDA(1)	(758,382)	936,349
Total net income (loss) attributable to owners of the parent	(1,920,824)	198,127
Net profit (loss) per share – basic and diluted	(0.012)	0.001

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

For the eight quarters ended May 31, 2022:

Quarter ended	31-Aug-21 $	30-Nov-21 $	28-Feb-22 $	31-May-22 $
Revenue	3,879,256	4,076,808	3,491,429	4,461,701
Gross profit	1,643,717	1,712,230	1,469,102	1,907,535
Gross profit percentage	42.4%	42.0%	42.1%	42.8%
EBITDA(1)	80,756	(395,091)	(647,527)	203,480
Total net income (loss)	(153,880)	(640,328)	(894,301)	(149,462)
Income (loss) per share, basic and diluted	(0.001)	(0.004)	(0.006)	(0.001)

Quarter ended	31-Aug-20 $	30-Nov-20 $	28-Feb-21 $	31-May-21 $
Revenue	2,827,862	5,019,682	3,735,968	3,765,814
Gross profit	1,324,203	2,430,242	1,644,265	1,352,379
Gross profit percentage	46.8%	48.4%	44%	35.9%
EBITDA(1)	14,998	788,471	171,726	(38,846)
Total net income (loss)	(218,100)	580,425	(33,757)	(105,603)
Income (loss) per share, basic and diluted	(0.001)	0.004	(0.000)	(0.001)

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

3.2 Summary of Fourth Quarter Results

	Q4 2022	Q4 2021
	$	$
Revenue	**4,461,701**	3,765,814
Cost of sales	**2,554,166**	2,413,435
Gross profit	**1,907,535**	1,352,379
Expenses:		
Administration, selling, marketing and business development	**1,914,665**	1,652,586
Research and development	**(44,842)**	(109,935)
	1,869,823	1,542,651
Operating income (loss)	**37,712**	(190,272)
Finance costs	**(89,651)**	(80,671)
Loss before income taxes	**(51,939)**	(270,943)
Income taxes (expense) recovery	**(97,523)**	165,340
Net loss for the period	**(149,462)**	(105,603)
Exchange differences on translation of overseas operations	**(159,339)**	13,401
Total comprehensive loss for the period	**(308,801)**	(92,202)
EBITDA for the quarter[1]	**203,480**	(38,846)
Order backlog as at May 31	**4.9 million**	7.8 million
Order backlog as at reporting date	**10.3 million**	11 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

Revenue and Gross Profit

Revenues were $4,461,701 in the quarter ended May 31, 2022, representing an increase of $695,887, or 18.5%, compared to $3,765,814 in the quarter ended May 31, 2021. The increase in revenues was mainly due to increased revenues from indirect contact heat recovery systems delivered by Boilerroom Equipment Inc., a US subsidiary of the Company. The heat recovery project revenue decreased compared to the same quarter of prior year. For the past two years, customers had been delaying the purchase of heat recovery systems given the uncertainties arising from the global pandemic. As a result, less orders were received for heat recovery system sales.

The gross profit of $1,907,535 in the quarter ended May 31, 2022 represented an increase of $555,156, or 41.1%, from $1,352,379 achieved in the quarter ended May 31, 2021. In the fourth quarter of FY 2022, the gross profit as a percentage of sales increased compared to the same period of prior year. Gross profit expressed as a percentage of sales was 42.8% in the fourth quarter of FY 2022 compared with 35.9% in the same quarter of FY 2021. Inflation rates have been rising during the global pandemic, and the current wave of inflation is driven by a range of factors including rising raw material prices, logistics and transportation bottlenecks and shortages of intermediate goods and labour. The surge in inflation has resulted in higher costs of sales for the Company's product lines. The Company is coping with the inflation impact by implementing new measures, including implementing price increases where warranted, making bulk purchases, securing supplies by increasing inventory level, and negotiating with customers to cover additional costs caused by inflation on long-term projects. As a result, the gross profit as a percentage of sales improved in the fourth quarter of FY 2022.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended May 31, 2022, totaled $1,914,665, compared to $1,652,586 in the quarter ended May 31, 2021, an increase of $262,079, or 15.9%. During the fourth quarter of FY 2021, the Company received government subsidies of $376,381, but only $152,720 was received in the fourth quarter of FY 2022, a decrease of $223,661. The government wage subsidies were recorded as a reduction to the Operating Expenses. The Company's other operating expenses increased by $322,058, compared to the same quarter of prior year. The staff's salary expense increased in FY 2022 in order to catch up with the increased inflation rate; the Company also incurred more costs on travel and business development activities in the fourth quarter of FY 2022 as Covid related restrictions were mostly lifted. The increase in operating expenses was partially offset by the increase in foreign exchange gains of $283,640 compared to the same quarter of the previous year.

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 research and development credit decreased by $65,093 compared to the same quarter of the previous year. The decrease was mainly due to lower R&D tax credits claimed in the fourth quarter of FY 2022 compared to the same period of prior year.

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 $89,651 in the fourth quarter of FY 2022. The costs were higher than the fourth quarter of FY 2021 by $8,980 because the interest rate on a long-term debt was higher for FY 2022 than FY 2021. The interest rate is reassessed annually. In addition, the Company received the second tranche of working capital Covid loan in the amount of $1.3 million during the fourth quarter of FY 2022, resulting in higher finance costs.

Loss before income taxes for the quarter ended May 31, 2022 was $51,939, compared to a loss of $270,943 in the same quarter of the previous year. Loss before income taxes decreased by $219,004 mainly due to increased gross profit of $555,156 as a result of increased revenue, offset by the increased Operating Expenses of $262,079 as mentioned above and the decrease of research and development tax credits of $65,093.

Income taxes expense in the fourth quarter of FY 2022 was $97,523, as compared to an income tax recovery of $165,340 in the fourth quarter of FY 2021, a change of $262,863. In FY 2021, one of the Company's U.S. subsidiaries incurred taxable losses which could be carried forward and utilized against future taxable profit. $147,972 of the income tax recovery of $165,340 recognized in the fourth quarter of FY 2021 was related to the temporary difference from the taxable losses. In the fourth quarter of FY 2022, one of the Company's U.K. subsidiaries recognized income tax expense of $76,821 due to the write-down of deferred tax assets.

Net loss for the fourth quarter of FY 2022 was $149,462, compared to a net loss of $105,603 in the same quarter of the previous year, representing an increase of loss of $43,859. The increase in net loss was mainly due to the increase in gross profit of $555,156 resulting from increased revenue, offset by the increase in Operating Expenses of $262,079, the decrease of $65,093 for research and development tax credits claimed and the decrease of income tax recovery of $262,863.

Comprehensive loss was $308,801 for the fourth quarter of FY 2022, compared to a comprehensive loss of $92,202 for the fourth quarter of FY 2021. The increase of $216,599 of comprehensive loss was mainly due to the increase of the loss on exchange differences arising on translation of overseas operations by $172,740.

EBITDA was $203,480 for the fourth quarter of FY 2022, compared to negative $38,846 for the same quarter of the previous year, representing an increase of $242,326. The increase was mainly due to the decrease in loss before income taxes of $219,004 as mentioned above. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year End Results

	2022	2021
	$	$
Revenue	**15,909,194**	15,349,326
Cost of sales	**9,176,610**	8,598,237
Gross profit	**6,732,584**	6,751,089
Expenses:		
Administration, selling, marketing and business development	**8,184,111**	6,501,593
Research and development	**(38,051)**	(85,972)
	8,146,060	6,415,621
Operating (loss) income	**(1,413,476)**	335,468
Finance costs	**(335,939)**	(316,653)
(Loss) income before income taxes	**(1,749,415)**	18,815
Income taxes (expense) recovery	**(88,556)**	204,150
Net (loss) income for the year	**(1,837,971)**	222,965
Exchange differences on translation of overseas operations	**(302,729)**	312,674
Total comprehensive (loss) income for the year	**(2,140,700)**	535,639
EBITDA[1]	**(758,382)**	936,349
Order backlog as at May 31	**4.9 million**	7.8 million
Order backlog as at September reporting date	**10.3 million**	11 million

1. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

Revenue and Gross Profit

Revenues were $15,909,194 in the year ended May 31, 2022, representing an increase of $559,868, or 3.6%, over the $15,349,326 recognized in the year ended May 31, 2021. The increase in revenues was mainly due to increased revenue from indirect contact heat recovery systems delivered by Boilerroom Equipment Inc., a US subsidiary of the Company. Boilerroom's sales order intake doubled the amount received from prior year. During FY 2022, revenues from direct contact heat recovery systems decreased compared to the previous year. The decrease in revenues from direct contact heat recovery systems was mainly due to less orders received. Customers were delaying the purchase of heat recovery systems given the uncertainties arising from the global pandemic.

The gross profit of $6,732,584 in the year ended May 31, 2022 represented a decrease of $18,505, or 0.3%, from $6,751,089 achieved in the year ended May 31, 2021. Although the revenue increased by 3.6% compared to prior year, the gross profit decreased by 0.3%. This is because the cost of materials increased due to the recent global supply chain issue. The cost of labour also increased due to the shortage of labour caused by the pandemic. The continued shortage of materials and labour resulted in the decrease in gross margin on direct and indirect contact heat recovery systems. Overall, gross profit expressed as a percentage of sales was 42.3% for FY 2022 compared with 44% in FY 2021.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the year ended May 31, 2022 totaled $8,184,111, compared to $6,501,593 in FY 2021, representing an increase of $1,682,518, or 25.9%. The Company recognizes government wage subsidies as a reduction to Operating Expenses. During FY 2022, the Company recognized government wage subsidies in the amount of $340,566, compared to $1,244,004 recognized in the previous year, representing a decrease of $903,439. In FY 2022, the Company's acquisition related cost also increased by $166,103 due to the purchase of the technology from Sofame Technologies Inc. In addition, the Company's other operating expenses increased by $1,394,476 compared to prior year. The staff's salary expense increased in FY 2022 in order to catch up with the significantly increased annual inflation rate. The Company incurred more costs relating to travel and business development activities in FY 2022 with the ease of COVID-19 restrictions. During FY 2022, the Company continued to invest in sales development in the European market. The increase in total operating expenses was partially offset by a positive change in foreign exchange gains of $781,500 compared to the previous year. As mentioned earlier, approximately 39% of our operations, assets and liabilities are denominated in British Pound Sterling and 32% in US Dollar. Foreign currency fluctuations affect the values reported in the statement of profit and loss. The US dollar strengthened against Canadian dollar during FY 2022. As the U.S. is a major market for the Company's sales, the strengthening of the US dollar caused the increase in foreign exchange gains.

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 negative $85,972 in FY 2021, compared to a negative expense $38,051 in FY 2022, a decrease of $47,921. The decrease was mainly due to less R&D tax credits claimed in FY 2022 as compared to FY 2021.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs increased by $19,286 to $335,939 from $316,653 in the year ended May 31, 2022. The increase was mainly due to increased interest accretion on lease obligations.

Loss before income taxes for the year ended May 31, 2022 was $1,749,415 compared to an income of $18,815 in the previous year, representing a decrease of income by $1,768,230. The decrease in income was mainly due to the increase in Operating Expenses of $1,682,518 as explained earlier.

Income taxes expense in FY 2022 was $88,556, compared to an income tax recovery of $204,150 in FY 2021, an increase of $292,706. Both the U.K. and the U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. In FY 2021, one of the Company's U.S. subsidiaries incurred taxable losses which could be carried forward and utilized against future taxable profits. As a result, $147,972 of the income tax recovery recognized in FY 2021 was related to this temporary difference from the taxable losses. In FY 2022, one of the Company's U.K. subsidiaries which had taxable losses carried over from prior years incurred taxable losses again in FY 2022. As a result, the Company recognized income tax expense and to reduce deferred tax assets in the amount of $76,821 to lower the temporary difference from the taxable losses.

Net loss for the year ended May 31, 2022 was $1,837,971, compared to an income of $222,965 in the year ended May 31, 2021, representing an increase of loss of $2,060,936. The increase in net loss was mainly due to the increased Operating Expense of $1,682,518 as mentioned earlier and the increase in income taxes expense of $292,706.

Comprehensive Loss was $2,140,700 for the year ended May 31, 2022, compared to an income of $535,639 for the year ended May 31, 2021, representing an increase of comprehensive loss in the amount of $2,676,339. The increase in comprehensive loss was mainly due to the increase in net loss of $2,060,936 as mentioned earlier with the increased exchange loss of $615,403 from translation of overseas operations. The Company recognized an exchange gain arising on translation of overseas operations of $312,674 in FY 2021 as compared to an exchange loss of $302,729 recognized in FY 2022.

EBITDA was negative $758,382 for the year ended May 31, 2022 compared to positive $936,349 for the previous year, representing a decrease of $1,694,731. The decrease was mainly due to the increase in Operating Expenses of $1,682,518 as mentioned earlier. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets decreased by $1,566,825 to $7,013,959 at May 31, 2022, compared to $8,580,784 at May 31, 2021. This decrease was mainly due to the decrease in cash and cash equivalents of $1,609,312 as a result of the loss incurred in FY 2022. Current liabilities decreased by $535,140 to $4,237,140, mainly due to the decrease in deferred revenue of $502,891.

Working capital decreased by $1,031,685 to $2,776,819 at May 31, 2022, compared to $3,808,504 at May 31, 2021. The decrease in working capital was mainly due to the decrease in cash balance as a result of the cash used in operating activities of $1,639,873 offset by the decrease of $502,891 in deferred revenue.

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

	Aug 31, 2020 $	Nov 30, 2020 $	Feb 28, 2021 $	May 31, 2021 $	Aug 31, 2021 $	Nov 30, 2021 $	Feb 28, 2022 $	May 31, 2022 $
Current Assets	7,938,009	8,984,102	8,606,829	8,580,784	8,441,508	7,080,511	6,991,631	7,013,959
Current Liabilities	4,198,761	4,756,957	4,404,265	4,772,280	5,186,143	4,634,580	5,499,794	4,237,140
Working Capital	3,739,248	4,227,145	4,202,564	3,808,504	3,255,365	2,445,931	1,491,837	2,776,819

The Company's cash position was $2,631,543 as at May 31, 2022, compared to $4,240,855 at May 31, 2021, representing a decrease of $1,609,312. The decrease was mainly due to net cash used in operating activities of $1,639,873 and investing activities of $351,927, offset by the net cash provided by financing activities of $357,563 and foreign exchange gain of $24,925.

The net cash used in the operating activities included the net loss of $1,837,971, the negative change in working capital of $513,900, the interest paid on long-term debt and lease obligations of $324,411 and the income taxes paid of $25,641, offset by the addbacks of non-cash items of $1,062,050. The Company's cash position normally fluctuates based on the timing of long-term projects. Cash increases at the beginning of a project because the Company receives upfront deposits before a project is started. The cash position decreases when a project is near the end because the Company has collected from its customer and needs to make full payments to the suppliers and subcontractors. Deferred revenue balance also decreases after we deliver products and services to customers on work that were paid by customers in advance. A few heat recovery projects were close to completion at May 31, 2022, therefore, there was a negative change in working capital of $513,900 during the year because the deferred revenue decreased by $482,786 excluding the foreign exchange adjustment of $20,105.

The net cash used in investing activities was $351,927 for FY 2022, including the purchase of intangible assets of $283,421, relating to the technology acquired from Sofame Technologies Inc. on June 11, 2021, and the purchase of property, plant and equipment of $69,751, offset by the proceeds from disposal of property, plant and equipment of $1,245.

The Company generated cash from financing activities in the amount of $357,563, which included the proceeds for the second tranche of COVID-19 working capital loan of $1,300,000 and the receipt from stock option exercise of $28,750, offset by repayments on lease obligations of $217,138, repayments of long-term debt of $728,630 and dividend paid to a non-controlling interest during the year of $25,419.

At May 31, 2022, $137,584 (6%) of the Company's trade receivables balance was over 90 days past due ($402,848 (18.8%) at May 31, 2021). $46,599 of the past due balance was impaired at May 31, 2022 ($28,837 at May 31, 2021). At May 31, 2022, $75,250 of trade receivables that was not over 90 days past due was also impaired ($11,471 at May 31, 2021).

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2022:

Less than one year	$ 293,413
One to five years	837,294
Six to ten years	729,019
Total undiscounted lease obligations	1,859,726
Less: impact of present value	(488,846)
Total discounted lease obligations	1,370,880
Less: current portion	(193,298)
Long term portion	$ 1,177,582

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.

The Company has been actively applying for COVID-related government salary subsidy programs provide by the Canadian, the U.S. and the UK government since March 2020. The Company recognized salary subsidies of $340,566 during FY 2022, which was recorded as a reduction to the Operating Expenses.

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. The amounts advanced under the financing is 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. This loan bears interest at the institution's floating base rate less a variance of 1.10% and is repayable over the next 4 years. The institution's floating base rate was at 5.3% on May 31, 2022. The first tranche of the proceeds in the amount of $1,000,000 was received by the Company on July 23, 2020. The second tranche of $1,300,000 was received on March 30, 2022.

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 fiscal 2022 and 2021, 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 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.

Segment information for the year ended May 31, 2022 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**8,974,251**	8,060,309	**6,934,943**	7,289,017	**-**	-	**15,909,194**	15,349,326
Cost of sales	**(5,664,485)**	(4,586,226)	**(3,512,125)**	(4,012,011)	**-**	-	**(9,176,610)**	(8,598,237)
Gross profit	**3,309,766**	3,474,083	**3,422,818**	3,277,006	**-**	-	**6,732,584**	6,751,089
Other expenses	**(3,037,830)**	(1,797,584)	**(3,722,456)**	(2,718,033)	**(1,385,774)**	(1,900,004)	**(8,146,060)**	(6,415,621)
Net finance costs	**(79,425)**	(56,557)	**(7,393)**	(9,275)	**(249,121)**	(250,821)	**(335,939)**	(316,653)
Income (loss) before taxation	**192,511**	1,619,942	**(307,031)**	549,698	**(1,634,895)**	(2,150,825)	**(1,749,415)**	18,815
Tax (expense) recovery	**(7,938)**	147,953	**(139,202)**	(16,937)	**58,584**	73,134	**(88,556)**	204,150
Profit (loss) after taxation	**184,573**	1,767,895	**(446,233)**	532,761	**(1,576,311)**	(2,077,691)	**(1,837,971)**	222,965
Attributable to:								
Owners of the parent	**184,836**	1,767,452	**(529,349)**	508,366	**(1,576,311)**	(2,077,691)	**(1,920,824)**	198,127
Non-controlling interest	**(263)**	443	**83,116**	24,395	**-**	-	**82,853**	24,838

Reconciling items comprise the following:

	2022	2021
Corporate administration costs	**$ 679,520**	$ 599,757
Share-based compensation	**217,980**	208,144
Professional fees	**158,938**	191,747
Depreciation of property, plant and equipment	**131,210**	121,870
Amortization of intangible assets	**305,904**	270,867
Acquisition costs	**188,357**	22,254
Foreign exchange (gain) loss	**(296,135)**	485,365
Total	**$ 1,385,774**	$ 1,900,004

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:

Revenue for the year ended May 31, 2022 of $8,974,251, represented an increase of $913,942, or 11.3%, over $8,060,309 achieved in the previous year. The increase was mainly due to the increased revenue from indirect contact heat recovery units delivered by Boilerroom Equipment Inc., partially offset by the reduced revenues from direct contact heat recovery systems and condensate return systems due to less orders received in the North America markets for these two product lines.

Gross profit for the year ended May 31, 2022 decreased by $164,317 despite the increased revenue compared to prior year. The decrease in gross profit was partially due to the decreased gross margin on indirect contact heat recovery units. During FY 2022, cost of raw material increased as a result of global supply chain issue and the cost of labor also increased because the Company increased salary for staff to catch up on the high inflation rate. As a percentage of revenue, gross profit was 36.9% for the year ended May 31, 2022, compared to 43.1% achieved in prior year. The decrease in gross profit as a percentage of revenue was also partially due to the change in product mix. GEM products carry a higher gross margin than heat recovery systems. The sales from GEM steam traps as a percentage of total revenue were lower in FY 2022 than FY 2021.

Other expenses in this segment increased by $1,240,246, or 69%, for the year ended May 31, 2022 over prior year. During FY 2022, Thermal Energy Ottawa recognized government wage subsidies in the amount of $340,566, compared to $1,132,139 recognized in the previous year, representing a decrease of $791,573. This segment's other operating expenses increased by $448,673, compared to prior year. During FY 2021, the Company implemented some temporary cost control measures in order to prepare for the potential adverse financial impact from COVID-19, including reducing non-essential and discretionary expenditures. Some of these measures were no longer in place in FY 2022. The Company incurred higher cost relating to travel and business development activities in FY 2022. Sales and technical team conducted more business and site visits with the ease of COVID restrictions. The staff's salary expense also increased in FY 2022 in order to catch up with the significantly increased annual inflation rate.

Income before tax of $192,511 was achieved in FY 2022, represented a decrease of $1,427,431, or 88.1%, from the previous year. The decrease was mainly due to the decrease in gross profit of $164,317, which was caused by the declined gross margin on indirect contact heat recovery units and the change in product mix, the decrease of $791,573 on government wage subsidies received, and the increase of $448,673 in other operating expenses.

Thermal Energy Bristol:

Revenue for the year ended May 31, 2022 was $6,934,943, representing a decrease of $354,074, or 4.9%, over $7,289,017 achieved in the previous year. The decrease was mainly due to decreased revenues from long-term heat recovery projects. For the past two years, the Company including this segment has received less purchase orders from heat recovery projects. Customers delayed purchase decisions on large capital projects in the light of uncertainties arising from COVID. Despite COVID, this segment received more orders for GEM products in FY 2022 than prior year. As a result, the increased GEM revenue partially offset the decreased revenue from heat recovery systems.

Gross profit increased in the year ended May 31, 2022 by $145,812, compared to the previous year despite the decrease in revenue. The increase in gross profit was mainly due to the increased revenue and the increased margin on GEM products. During the previous year, this segment provided a significant discount on a large GEM sale to a repeat customer which decreased the gross margin for FY 2021, but no such arrangement occurred in FY 2022. As a percentage of revenue, gross profit was 49.4% in the FY 2022, compared to 45% achieved in the FY 2021. The increased margin was also partially due to the change in product mix with higher portion of the revenues from GEM products, which carry a higher margin than other product lines.

Other expenses increased by $1,004,423 or 37% for the year ended May 31, 2022, compared to prior year. During FY 2022, Thermal Energy Bristol did not receive any government wage subsidies, but it received $111,865 in the previous year. The wage subsidies were recorded as a reduction to other operating expenses. Other operating expenses also increased by $892,558, compared to prior year. Similar to Thermal Energy Ottawa, this segment implemented some temporary cost control measures in order to prepare for the potential adverse financial impact from COVID-19, including reducing non-essential and discretionary expenditures in FY 2021. Some of these measures were no longer in place in FY 2022. Sales and technical team conducted more site visits and increased travel and business development activities in FY 2022 with the ease of COVID restrictions, which caused higher operating expenses. The staff's salary expense also increased in the current year in order to catch up with the significantly increased annual inflation rate. In addition, Thermal Energy Bristol invested in the growth of staff members in FY 2022.

Loss before taxes was $307,031 for the year ended May 31, 2022, as compared to an income of $549,698 for the previous year, a decrease of $856,729. The decrease was mainly due to the increase in other operating expenses of $892,558, decrease in wage subsidies received of $111,865, offset by the increase in gross profit of $145,812 as a result of increased revenue and margin on GEM products.

Reconciling Items:

Other expenses within reconciling items, which incorporates all costs not specifically attributable to either regional operational center, decreased by $514,230 to $1,385,774, compared to the previous year. The decrease was mainly due to the increase of the foreign exchange gain of $781,500, offset by the increase in acquisition cost of $166,103 relating to the acquisition of the technology from Sofame Technologies Inc. During FY 2022, US dollar strengthened against Canadian dollar. As the U.S. is a major sales market for the Company, the strengthening of US dollar resulted in foreign exchange gains.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2022 compensation arrangements for Directors were as follows:

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

During the year ended May 31, 2022, Directors fees paid were $67,500. Fees to the Chairperson of the Audit Committee were $5,400; fees to the Chairperson of the Ethics, Governance and Compliance Committee were $5,400; fees paid to the Chairman of the Board were $8,100. No in-person meetings were held during the year.

Compensation paid to Directors and Officers during the year ended May 31, 2022 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2022 $	2021 $	**2022 $**	2021 $	**2022 $**	2021 $	**2022 $**	2021 $
Directors(1)								
M. Williams	**13,500**	12,909	**-**	-	**-**	-	**13,500**	12,909
J. Kelly(2)	**17,393**	20,656	**-**	-	**-**	-	**17,393**	20,656
W. Ollerhead	**18,900**	18,073	**-**	-	**-**	-	**18,900**	18,073
D. Spagnolo	**18,900**	18,073	**-**	-	**-**	-	**18,900**	18,073
W. White(2)	**17,707**	12,909	**-**	-	**-**	-	**17,707**	12,909
Total	**86,400**	82,620	**-**	-	**-**	-	**86,400**	82,620
Senior Management								
W. Crossland	**254,400**	229,500	**-**	-	**-**	-	**254,400**	229,500
R. Triebe	**191,864**	173,085	**-**	-	**3,591**	3,160	**195,455**	176,245
S. Mawby(3)(4)	**161,847**	114,525	**-**	-	**27,187**	23,769	**189,034**	138,294
J. Zhang	**132,500**	119,531	**-**	-	**3,591**	3,160	**136,091**	122,691
Total	**740,611**	636,641	**-**	-	**34,369**	30,089	**774,980**	666,730
Total Related Party Transactions	**827,011**	719,261	**-**	-	**34,369**	30,089	**861,380**	749,350

(1) In FY 2021, the Directors elected to reduce their compensation by 15% in support of the Company's cost control initiatives for the period June 1, 2020 to September 15, 2020.
(2) Mr. Kelly stepped down as Chairman of the Board effective November 23, 2021 and Mr. White was appointed Chairman of the Board effective the same date. Mr. Kelly passed away on June 28, 2022. He remained as a member of the Board till June 2022.
(3) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.695 and 1.7242 in FY 2022 and FY 2021, respectively.
(4) Mr. Mawby was on paternity leave for the period October 19, 2020 to December 31, 2020 during FY 2021.

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.

Options outstanding for Directors (excluding the CEO) as at May 31, 2022 were 1,250,000, of which 833,332 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2022 were 6,500,000, of which 3,749,994 were exercisable. There were no warrants outstanding for Senior Management.

5. COVID-19 Update

On March 11, 2020, COVID-19 was declared a global pandemic by the World Health Organization. The Company has been closely monitoring the impact of COVID-19 on all aspects of its business. COVID-19 has had disruptive effects in countries in which the Company operates including Canada, the US and the UK.

We are conducting business with substantial modifications to employee travel and employee work locations. The travel restrictions had decreased business development and sales activities. As travel restrictions and quarantine requirements are slowly easing, the Company starts resuming some of its regular sales and business development activities. While most of our customers are essential businesses and continue to operate, the pandemic also has impacts on many of them, including adapting their operation to include physical distancing, limiting site visits, delays in making purchasing decisions and the temporary suspension of on-going projects. The continued global supply chain issues caused by shortages of labour and materials have also affected the Company's operations.

The Company has taken proactive measures to cope with the impact from COVID-19 including the deployment of video conferencing tools, the development of remote working and file-sharing capabilities, a temporary reduction in non-essential expenditures, the implementation of temporary control measures, and the application of government sponsored emergency loans and salary subsidy programs. Despite the COVID-19 slowdown, the Company has maintained its pre-pandemic staff levels and has maintained its full production and project development capabilities.

Currently, we are still unable to estimate the long-term impact of COVID-19 on our businesses, financial position, results of operations, and cash flows. Despite the ease of travel restrictions and lock-down orders, we still expect COVID-19 to have some impact on our sales and the results of operations in the next 6 to 12 months.

6. 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, 2022 was approximately $4.9 million. As at September 27, 2022, the Company had an order backlog of approximately $10.3 million.

	2022 $ million	2021 $ million	2020 $ million
Order backlog as at May 31	4.9	7.8	3.6
Order backlog as at September reporting date	10.3	11.0	9.3

- On September 20, 2022, the Company announced that it has received over $1.5 million GEM steam trap orders subsequent to the year-end of FY 2022.

- On September 13, 2022, the Company announced that it has been commissioned by a leading textile manufacturer to deliver its proprietary RBT® wastewater heat recovery system, a technology acquired through Sofame acquisition. This order totals almost $350,000 and includes $40,000 for additional GEM steam traps specified on new equipment at the plant and has a payback of approximately 2 years.

- On September 7, 2022, the Company announced that it has been commissioned by a leading meat producer to deliver a new innovative turn-key energy efficiency and carbon emission reduction solution. This project is expected to deliver a 27% reduction in fuel and offset approximately 550 tonnes of CO_2 per year, the equivalent of permanently removing 115 cars from the road. Valued at approximately $800,000, this order covers all engineering, manufacturing, installation, and training for the system.

- On March 17, 2021, the Company announced that it had been commissioned to design and implement an extensive $1,180,000 heat recovery project with a major U.S. dairy group. By implementing the Company's ultra-efficient solution, this repeat customer expects to reduce this site's natural gas usage by 13% as well cut its annual CO_2 emissions by over 730 tonnes. The project was about 71% complete at the year-end.

7. Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares:

164,137,606 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding May 31, 2022	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2022	Weighted average exercise price
0.08-0.10	14,036,339	2.37	0.08	9,942,651	0.08
0.11-0.14	4,253,000	4.49	0.14	-	-
	18,289,339	2.86	0.10	9,942,651	0.08

8. 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 COVID-19 outbreak began to impact the Company's operations in the latter half of March 2020. Management believes the extent of the COVID-19 pandemic's adverse impact on the Company's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, travel restrictions, and the willingness of customers to allow outside contractors onsite. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants and potential impairments of intangible and long-lived assets.

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 of this MD&A.

Business combinations

The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. In estimating fair value, the Company uses market observable data to the extent it is available. In cases when Level 1 inputs are not available, the measurement of fair value involves the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen.

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.

Heat recovery solutions contract revenue

The stage of completion of any heat recovery solutions contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management exercises significant estimate about milestones, actual work performed, and the estimated costs to complete work.

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 was no change in accounting standards for the year ended May 31, 2022.

9. 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 impact of major global pandemics;
- 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;
- The impact of the departure from the European Union by the U.K.;
- The impact of wars and conflicts; and
- The impact of inflation.

Management's addressing of the risks:

In FY 2020, the Company maintained the same sales level as FY 2019 with higher gross margins and recorded operating income before impairment of $1,275,708. In FY 2021, the Company's revenue decreased due to the delays in heat recovery project delivery caused by COVID-19. However, the Company implemented cost control measures to decrease operating expenses and the Company applied for wage subsidies from the U.K., the U.S. and Canadian government. The Company also applied and received $1,000,000 COVID-19 loan from a Canadian financial institution to support the Company's global operations during the unprecedented time. With all these efforts, the Company was able to finish FY 2021 under COVID-19 with a net income of $222,965. In FY 2022, the Company incurred a loss of $1,837,971. Cash balance decreased by $1,609,312 as a result of the loss. 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 pre-pandemic staff levels and its full production and project development capabilities anticipating order intake to return to pre-pandemic levels in the next 12 to 24 months. The Company applied subsidies from government agencies and received $340,566 during the year. The Company also received the second tranche of COVID loan in the amount of $1,300,000 in FY 2022 to support the Company's operations.

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.

On June 23, 2016, a referendum was held in the U.K., resulting in the decision to leave the European Union (“EU”). On December 24, 2020, a post-Brexit trade deal was reached between the EU and the UK. The Company has implemented new processes to adapt to the changes, including changing shipping terms to cover additional costs arising post-Brexit (i.e. taxes, custom clearing fees, etc.) to avoid shipping delays, and registering sales taxes in EU countries to be in compliance with local sales tax rules.

The Russia-Ukraine conflict has brought tragic losses of life and destruction across Ukraine. The crisis is also causing political and economic disruptions across the world, with businesses navigating conflict-related risks to their people, assets, operations, and supply chains in the region and globally. Thermal Energy has been monitoring the situation closely and assessing the potential effect of sanctions on our business. During FY 2022, We continued our dialogue with our trading partner and sought legal advice to ensure we were in compliance with the sanction requirements while we delivered work in this region.

Inflation rates have been rising during the global pandemic, and the current wave of inflation is driven by a range of factors including rising raw material prices, logistics and transportation bottlenecks and shortages of intermediate goods and labour. The surge in inflation has resulted in higher costs of sales for the Company’s product lines. The Company is 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.

10. 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.

11. 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, 2022 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.