Consolidated Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Years ended May 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Thermal Energy International Inc.

Opinion

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

- the consolidated statements of financial position as at May 31, 2023 and May 31, 2022
- 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, 2023 and May 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended May 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Estimated costs to complete for contracts for heat recovery projects

Description of the matter

We draw attention to Notes 2(c), 3(m) and 20 to the financial statements. The Entity provides heat recovery projects specifically customized to each customer. In fiscal 2023, the Entity recognized $6,311,289 in revenue from contracts for heat recovery projects. Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete. To determine the stage of completion, significant estimates are made about the estimated costs to complete which includes materials, subcontractors and labour costs.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's 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 auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

KPMG LLP

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

Ottawa, Canada
September 26, 2023

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
	$	$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**3,000,607**	2,631,543
Trade and other receivables (note 6)	**6,467,204**	3,134,279
Current tax receivable	**89,174**	193,578
Inventory (note 7)	**1,471,873**	1,054,559
	11,028,858	7,013,959
Non-current assets:		
Property, plant and equipment (note 8)	**304,186**	349,199
Right-of-use assets (note 9)	**1,247,881**	1,191,603
Intangible assets (note 10)	**845,616**	1,025,554
Deferred tax assets (note 23)	**85,080**	18,191
	2,482,763	2,584,547
Total assets	**13,511,621**	9,598,506
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 11)	**4,243,911**	1,679,640
Current tax liabilities	**9,465**	55,590
Pensions and other employer obligations	**195,433**	141,464
Current portion of long-term debt (note 12)	**919,057**	796,440
Deferred revenue (note 13)	**2,088,876**	1,063,495
Provisions (note 14)	**322,486**	307,213
Current portion of lease obligations (note 15)	**214,684**	193,298
	7,993,912	4,237,140
Non-current liabilities:		
Long-term debt (note 12)	**2,346,260**	3,139,914
Lease obligations (note 15)	**1,248,295**	1,177,582
Deferred tax liabilities (note 23)	**164**	339
	3,594,719	4,317,835
Total liabilities	**11,588,631**	8,554,975
Equity		
Capital stock (note 16)	**32,526,779**	32,484,814
Contributed surplus	**4,937,468**	4,735,299
Accumulated other comprehensive income	**168,504**	237,583
Deficit	**(35,663,403)**	(36,381,362)
Equity attributable to owners of the parent	**1,969,348**	1,076,334
Non-controlling interest (note 18)	**(46,358)**	(32,803)
Total equity	**1,922,990**	1,043,531
Total liabilities and equity	**13,511,621**	9,598,506

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive Income (Loss)

Years ended May 31, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
	$	$
Revenue (note 20)	**21,091,570**	15,909,194
Cost of sales	**11,522,351**	9,176,610
Gross profit	**9,569,219**	6,732,584
Expenses (note 22):		
Administration	**4,723,294**	4,577,012
Selling, marketing and business development	**3,601,253**	3,607,099
Research and development	**101,396**	(38,051)
	8,425,943	8,146,060
Operating income (loss)	**1,143,276**	(1,413,476)
Finance costs	**(449,341)**	(335,939)
Income (loss) before income taxes	**693,935**	(1,749,415)
Income taxes recovery (expense) (note 23)	**26,514**	(88,556)
Net income (loss) for the year	**720,449**	(1,837,971)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	**(60,247)**	(302,729)
Total comprehensive income (loss) for the year	**660,202**	(2,140,700)
Net income (loss) for the year attributable to:		
Owners of the parent	**717,959**	(1,920,824)
Non-controlling interest (note 18)	**2,490**	82,853
Net income (loss) for the year	**720,449**	(1,837,971)
Total comprehensive income (loss) for the year attributable to:		
Owners of the parent	**648,880**	(2,212,689)
Non-controlling interest (note 18)	**11,322**	71,989
Total comprehensive income (loss) for the year	**660,202**	(2,140,700)
Net income (loss) per share - basic and diluted (note 24)	**0.004**	(0.012)

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, 2023 and 2022

(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, 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
Balance at June 1, 2022	**32,484,814**	**4,735,299**	**(36,381,362)**	**237,583**	**1,076,334**	**(32,803)**	**1,043,531**
Share-based compensation (note 19)	**-**	**216,934**	**-**	**-**	**216,934**	**-**	**216,934**
Share options excercised (note 16)	**41,965**	**(14,765)**			**27,200**	**-**	**27,200**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(24,877)**	**(24,877)**
Transactions with owners	**41,965**	**202,169**	**-**	**-**	**244,134**	**(24,877)**	**219,257**
Net income for the year	**-**	**-**	**717,959**	**-**	**717,959**	**2,490**	**720,449**
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**(69,079)**	**(69,079)**	**8,832**	**(60,247)**
Total comprehensive income (loss) for the year	**-**	**-**	**717,959**	**(69,079)**	**648,880**	**11,322**	**660,202**
Balance at May 31, 2023	**32,526,779**	**4,937,468**	**(35,663,403)**	**168,504**	**1,969,348**	**(46,358)**	**1,922,990**

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, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
	$	$
Operating activities:		
Net income (loss) for the year	**720,449**	(1,837,971)
Add items not involving cash:		
Depreciation of property, plant and equipment (note 8)	**137,381**	131,210
Depreciation of right-of-use assets (note 9)	**245,008**	259,902
(Gain) loss on disposal of assets (note 8)	**(1,289)**	353
Amortization of intangible assets (note 10)	**230,536**	305,904
Finance costs	**449,341**	335,939
Share-based compensation (note 19)	**216,934**	217,980
Income taxes (recovery) expense (note 23)	**(26,514)**	88,556
Unrealized foreign exchange and translation adjustments	**57,232**	(277,794)
Changes in working capital:		
Trade and other receivables	**(3,332,925)**	58,531
Inventory	**(417,314)**	(95,302)
Trade payables and other liabilities	**2,624,045**	5,657
Deferred revenue (note 13)	**908,609**	(482,786)
Income taxes refund (paid)	**30,811**	(25,641)
Interest paid	**(436,536)**	(324,411)
Net cash provided by (used in) operating activities	**1,405,768**	(1,639,873)
Investing activities:		
Proceeds from disposal of property, plant and equipment (note 8)	**1,933**	1,245
Additions to property, plant and equipment (note 8)	**(79,637)**	(69,751)
Additions to intangible assets (note 10)	**-**	(283,421)
Net cash used in investing activities	**(77,704)**	(351,927)
Financing activities:		
Issuance of long-term debt (note 12)	**-**	1,300,000
Repayment of long-term debt (note 12)	**(825,534)**	(728,630)
Repayment of lease obligations (note 15)	**(214,087)**	(217,138)
Stock options exercised (note 16)	**27,200**	28,750
Dividends paid	**(24,877)**	(25,419)
Net cash (used in) provided by financing activities	**(1,037,298)**	357,563
Increase (decrease) in cash and cash equivalents for the year	**290,766**	(1,634,237)
Cash and cash equivalents, beginning of year	**2,631,543**	4,240,855
Exchange differences on cash and cash equivalents	**78,298**	24,925
Cash and cash equivalents, end of year	**3,000,607**	2,631,543

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 26, 2023. 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, 2023 and 2022.

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 26, 2023, 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):

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.

- 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.

2. Basis of presentation (continued):

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

The critical estimates include (continued):

- 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.

- 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.

2. Basis of presentation (continued):

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

The critical judgements include (continued):

- Revenue recognition (continued):

  - Revenue from contracts for heat recovery projects:

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

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

(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.

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.

2. Basis of presentation (continued):

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

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.

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.

(Expressed in Canadian dollars except share amounts)

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

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

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

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

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

Sale of goods and equipment

Revenue is recognized upon transfer of control of promised goods or equipment to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or equipment. The Company's goods and equipment are generally distinct and accounted for as separate performance obligations. A good or equipment is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or equipment is separately identifiable from other promises in the contractual arrangement with the customer. Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Products shipped prior to agreed billing terms are included in unbilled product revenue.

Rendering of services

Services comprise surveys, installation of goods, project development, engineering design, after-sales maintenance, and professional water treatment service. Revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date.

Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Services rendered prior to agreed billing terms are included in unbilled product revenue.

Contracts for heat recovery projects

The Company provides heat recovery projects specifically customized to each customer. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance as the Company performs or when the

3. Significant accounting policies (continued):

(m) Revenue recognition (continued):

Contracts for heat recovery projects (continued)

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. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete to determine the extent of progress towards completion ("input" method). Only those contract costs that reflect work performed are included in costs incurred to date.

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

Multi-element arrangements

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

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.

3. Significant accounting policies (continued):

(m) Revenue recognition (continued):

Interest revenue and expenses

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

(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

3. Significant accounting policies (continued):

(r) Income taxes (continued):

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.

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.

3. Significant accounting policies (continued):

(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.

(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.

Financial assets

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

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

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

The Company’s financial assets are classified as follows:

Financial asset	**Classification 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 2023 and 2022, 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, 2023 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**10,497,750**	8,974,251	**10,593,820**	6,934,943	**-**	-	**21,091,570**	15,909,194
Cost of sales	**(5,890,301)**	(5,664,485)	**(5,632,050)**	(3,512,125)	**-**	-	**(11,522,351)**	(9,176,610)
Gross profit	**4,607,449**	3,309,766	**4,961,770**	3,422,818	**-**	-	**9,569,219**	6,732,584
Other expenses	**(3,272,673)**	(3,037,830)	**(4,114,705)**	(3,722,456)	**(1,038,565)**	(1,385,774)	**(8,425,943)**	(8,146,060)
Net finance costs	**(101,087)**	(79,425)	**(5,313)**	(7,393)	**(342,941)**	(249,121)	**(449,341)**	(335,939)
Income (loss) before taxation	**1,233,689**	192,511	**841,752**	(307,031)	**(1,381,506)**	(1,634,895)	**693,935**	(1,749,415)
Tax recovery (expense)	**20,582**	(7,938)	**5,484**	(139,202)	**448**	58,584	**26,514**	(88,556)
Profit (loss) after taxation	**1,254,271**	184,573	**847,236**	(446,233)	**(1,381,058)**	(1,576,311)	**720,449**	(1,837,971)
Attributable to:								
Owners of the parent	**1,254,752**	184,836	**844,265**	(529,349)	**(1,381,058)**	(1,576,311)	**717,959**	(1,920,824)
Non-controlling interest	**(481)**	(263)	**2,971**	83,116	**-**	-	**2,490**	82,853

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Reconciling items comprise the following:

	2023	2022
Corporate administration costs	**$ 678,080**	$ 679,520
Share-based compensation	**216,934**	217,980
Professional fees	**155,462**	158,938
Depreciation of property, plant and equipment	**137,381**	131,210
Amortization of intangible assets	**230,536**	305,904
Acquisition costs	**-**	188,357
Foreign exchange gain	**(379,828)**	(296,135)
Total	**$ 1,038,565**	$ 1,385,774

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, 2023, the Company had one customer in North America that accounted for 17.6% of total consolidated revenue for the year.

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.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Further geographical analysis:

	Revenue for the year ended May 31,		Property, plant and equipment as at May 31,		Intangibles assets as at May 31,	
	2023	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$
U.S.A.	**9,088,158**	7,150,924	**125,441**	147,719	**407,965**	560,250
Canada	**1,234,271**	1,062,989	**130,877**	158,029	**203,680**	244,169
U.K.	**2,316,567**	3,121,707	**47,868**	43,451	**233,971**	221,135
Ireland	**2,309,414**	303,208	–	–	–	–
Romania	**1,745,520**	–	–	–	–	–
Italy	**706,278**	395,173	–	–	–	–
Poland	**537,214**	669,113	–	–	–	–
Spain	**437,612**	21,884	–	–	–	–
Germany	**434,056**	1,479,630	–	–	–	–
Portugal	**239,627**	–	–	–	–	–
Netherlands	**140,701**	96,349	–	–	–	–
France	**69,809**	3,759	–	–	–	–
Belgium	**53,327**	–	–	–	–	–
Norway	**23,695**	122,740	–	–	–	–
Rest of Europe	**47,969**	1,716	–	–	–	–
UAE	**650,613**	205,594	–	–	–	–
Mauritius	**361,841**	83,005	–	–	–	–
Mexico	**322,858**	600,507	–	–	–	–
South Africa	**229,284**	–	–	–	–	–
India	**61,848**	40,817	–	–	–	–
Rest of world	**80,908**	550,079	–	–	–	–
Total	**21,091,570**	15,909,194	**304,186**	349,199	**845,616**	1,025,554

5. Cash and cash equivalents:

	2023	2022
Cash	**$ 2,796,986**	$ 2,447,989
Cash equivalents	**15,128**	15,000
Restricted cash	**188,493**	168,554
Balance, end of year	**$ 3,000,607**	$ 2,631,543

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

As at May 31, 2023, restricted cash of $188,493 (equivalent to EUR€127,000) consist of cash held in an escrow account as collateral for a performance guarantee issued by a financial institution in favour of a Company’s customer ($168,554 at May 31, 2022). The requirement of the bank guarantee has expired, and the restricted cash has been released to cash subsequent to the year end.

(Expressed in Canadian dollars except share amounts)

6. Trade and other receivables:

	2023	2022
Trade receivables, gross	**$ 5,370,162**	$ 2,280,991
Allowance for doubtful accounts	**(19,689)**	(121,849)
Trade receivables, net	**5,350,473**	2,159,142
Unbilled revenue	**144,458**	372,161
Work in progress	**221,884**	56,518
Prepayments	**428,581**	170,557
Sales tax and other miscellaneous receivables	**321,808**	375,901
Balance, end of year	**$ 6,467,204**	$ 3,134,279

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

At May 31, 2023, $723,843 (13.5%) of the Company's trade receivables balance was over 90 days past due ($137,584 (6%) at May 31, 2022). $19,689 of the past due balance was impaired at May 31, 2023 ($46,599 at May 31, 2022). At May 31, 2022, $75,250 of trade receivables that was not over 90 days past due was also impaired.

The change in allowance for doubtful accounts was as follows:

	2023	2022
Balance, beginning of year	**$ 121,849**	$ 40,308
Provisions	**18,306**	138,098
Release of provisions due to collection	**(77,706)**	(48,800)
Amounts written off	**(45,405)**	(4,935)
Foreign exchange adjustments	**2,645**	(2,822)
Balance, end of year	**$ 19,689**	$ 121,849

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2023, provisions of $18,306 were made as expected credit losses and recorded under administrative expenses. $77,706 of the provisions was released due to the collection on the doubtful account.

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.

(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, 2023, a total of $2,030,381 of inventories was expensed to cost of sales ($1,151,098 at May 31, 2022). Provisions of $3,705 ($3,230 at May 31, 2022) were made for slow-moving inventories under cost of sales, of which $nil ($3,230 at May 31, 2022) were written off as obsolete. For the year ended May 31, 2023, no reversal of previous write-downs were released under cost of sales ($5,005 at May 31, 2022).

8. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve-ments	Motor Vehicles	Total
	$	$	$	$	$	$	$
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
Additions	46,613	11,147	-	21,877	-	-	79,637
Disposals	(8,259)	-	-	(1,366)	-	-	(9,625)
Translation adjustments	29,444	2,059	-	9,340	843	796	42,482
Cost, May 31, 2023	**568,572**	**173,939**	**52,857**	**481,539**	**204,006**	**11,341**	**1,492,254**
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
Depreciation for the year	80,241	12,833	-	23,406	18,117	2,784	137,381
Disposals	(8,259)	-	-	(722)	-	-	(8,981)
Translation adjustments	20,834	741	-	7,132	117	283	29,107
Accumulated depreciation, May 31, 2023	**450,693**	**142,113**	**52,857**	**447,683**	**88,579**	**6,143**	**1,188,068**
Net book value, May 31, 2022	142,897	32,194	-	33,821	132,818	7,469	349,199
Net book value, May 31, 2023	**117,879**	**31,826**	**-**	**33,856**	**115,427**	**5,198**	**304,186**

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

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.

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

	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

10. Intangible assets:

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

(Expressed in Canadian dollars except share amounts)

10. Intangible assets (continued):

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

	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

	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

10. Intangible assets (continued):

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

(a) Trade names and trademarks:

Trade names and trademarks relate specifically to the GEM^{TM} product. The calculation of the expected future revenues from the GEM^{TM} 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 27% (2022 - 25%). The growth rates attributed by Management to the GEM^{TM} product line are 35% in 2024, followed by 7% in each of the subsequent four years. The Company is expecting continued growth in revenues from GEM^{TM} 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 years ended May 31, 2023 and 2022.

(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% (2022 - 21%). The growth rates attributed by Management to the brand portfolio are negative 1% in 2024, followed by positive 5% growth rate in each of the subsequent four years. The sales and revenue are expected to grow in the subsequent four years from 2025 to 2028 because the Company will continue to expand its sales territories by utilizing the existing sales channels and network that have been established by the group of companies. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the years ended May 31, 2023 and 2022.

(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:

	2023	2022
Trade payables	**$ 2,237,603**	$ 663,682
Accruals	**1,834,429**	847,926
Other government remittances payable	**171,879**	168,032
	$ 4,243,911	$ 1,679,640

Included in accruals is $13,500 due to Directors ($21,600 at May 31, 2022).

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

12. Long-term debt:

	2023	2022
(a) Term loan (equivalent to USD$1,289,241), net of deferred financing costs of $14,635 (equivalent to USD$10,759), currently bearing interest at 13.05% (8.8% on May 31, 2022), repayable in monthly principal instalments of $34,008 (equivalent to USD$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of $748,165 (equivalent to USD$550,000) payable on the maturity date, December 1, 2025	**$1,753,755**	$1,971,572
(b) Term loan, currently bearing interest at 7.7% (4.2% on May 31, 2022), repayable in monthly principal instalments of $40,000 until April 15, 2023 and in monthly principal installments of $41,667 starting May 15, 2023 and continuing up to the maturity date, with a balloon payment of $41,655 payable on the maturity date, April 15, 2026	**1,458,333**	1,898,971
(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 $1,405 (equivalent to GBP£833) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	**53,229**	65,811
Total long-term debt	**3,265,317**	3,936,354
Less: current portion	**(919,057)**	(796,440)
Long term portion	**2,346,260**	3,139,914

(Expressed in Canadian dollars except share amounts)

12. Long-term debt (continued):

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was at 9.55% on May 31, 2023 (5.30% on May 31, 2022). 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, 2023, the variance was 3.50% (3.50% at May 31, 2022). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio:

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

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

The Company has certain covenants in accordance with this term loan, namely Total Funded Debt to EBITDA ratio and Debt Service Coverage ratio, which were in compliance on May 31, 2023.

(b) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of $2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10%. The institution's floating base rate was 8.80% on May 31, 2023 (5.30% on May 31, 2022). Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of $1,000,000 was received by the Company on July 23, 2020. The second tranche of proceeds in the amount of $1,300,000 was received by the Company on March 30, 2022. A financing cost of $3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

(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.

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

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

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, 2022	**$ 721,589**	**$ 341,906**	**$ 1,063,495**
Increase from payments received	**11,004,202**	**1,142,240**	**12,146,442**
Decrease from revenue recognized	**(10,297,119)**	**(940,714)**	**(11,237,833)**
Translation adjustments	**101,087**	**15,685**	**116,772**
Balance, May 31, 2023	**$ 1,529,759**	**$ 559,117**	**$ 2,088,876**
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

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**	**$ 117,213**	**$ 307,213**
Additions	**-**	**11,727**	**11,727**
Translation adjustments	**-**	**3,546**	**3,546**
Balance, end of year	**$ 190,000**	**$ 132,486**	**$ 322,486**

On October 25, 2005, the Company was served with a statement of claim from its past President. Among other things, the lawsuit alleges that the former President was wrongfully dismissed from his employment. In November 2009, the Company recorded a provision of $190,000 in its financial statements. In May, 2010, the plaintiff brought a motion for summary judgment. On October 18, 2011, a decision was rendered. In its decision on the motion for summary judgment the court: i) Allowed the plaintiff's claim for wrongful dismissal assessing the damages for the plaintiff's wrongful dismissal at the equivalent of 18 months of pay in lieu of notice of termination; ii) Dismissed the plaintiff's claim for alleged unpaid loans and advances in the amount of $618,810; iii) Permitted the remainder of the parties' claims and counterclaims to proceed to trial. As such, the remainder of the parties' claims and counterclaims will proceed to trial. In the event the past President and the Company cannot agree on the damages for his wrongful dismissal claim, the matter will be determined by the court. However, there has been no progress since October 18, 2011. Until the remaining issues are determined, it is unclear what the net balance payable will be. While the Company is confident in the merits of its own case, there is much that is still unknown about the past President's case and the basis for his damages claim. This provision remains unchanged as at May 31, 2023 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 $132,486 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, 2023:

Less than one year	**$ 318,925**
One to five years	**1,025,020**
Six to ten years	**547,953**
Total undiscounted lease obligations	**1,891,898**
Less: impact of present value	**(428,919)**
Less: current portion	**(214,684)**
Long term portion	**$ 1,248,295**

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, 2023, interest expense on lease obligations was $106,401; total cash outflow for leases was $352,954, including $32,466 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, 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.

(Expressed in Canadian dollars except share amounts)

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.

Outstanding:

	Year ended May 31, 2023		Year ended May 31, 2022	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of year	**164,137,606**	**32,484,814**	163,887,606	32,439,914
Stock options exercised[1]	**340,000**	**41,965**	250,000	44,900
Balance, end of year	**164,477,606**	**32,526,779**	164,137,606	32,484,814

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

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, 2023 totalled $1,800,844 ($838,751 at May 31, 2022). 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, 2023			Year ended May 31, 2022		
	GEMchem Ltd.	**TEI (Guangzhou) Ltd.**	**Total**	GEMchem Ltd.	TEI (Guangzhou) Ltd.	Total
	$	**$**	**$**	$	$	$
NCI percentage	**33%**	**45%**		33%	45%	
Non-current assets	**4,157**	**-**	**4,157**	617	-	617
Current assets	**624,122**	**8,084**	**632,206**	655,717	8,084	663,801
Non-current liabilities	**164**	**-**	**164**	339	-	339
Current liabilities	**206,605**	**420,208**	**626,813**	194,868	419,139	614,007
Net assets (liabilities)	**421,510**	**(412,124)**	**9,386**	461,127	(411,055)	50,072
Carrying amount of NCI	**139,098**	**(185,456)**	**(46,358)**	152,172	(184,975)	(32,803)
Revenue	**1,107,735**	**-**	**1,107,735**	1,128,054	-	1,128,054
Profit (loss) after tax	**9,004**	**(1,069)**	**7,935**	251,867	(585)	251,282
Total comprehensive income (loss)	**35,768**	**(1,069)**	**34,699**	218,946	(585)	218,361
Profit (loss) allocated to NCI	**2,971**	**(481)**	**2,490**	83,116	(263)	82,853
Comprehensive income (loss) allocated to NCI	**11,803**	**(481)**	**11,322**	72,252	(263)	71,989
Cash flows from operating activities	**(29,128)**	**-**	**(29,128)**	236,061	-	236,061
Cash flows from investing activities	**(4,549)**	**-**	**(4,549)**	-	-	-
Cash flows from financing activities	**(75,384)**	**-**	**(75,384)**	(77,027)	-	(77,027)
Net (decrease) increase in cash and cash equivalents	**(109,061)**	**-**	**(109,061)**	159,034	-	159,034

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, 2023		Year ended May 31, 2022	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**18,289,339**	**0.10**	14,674,675	0.08
Granted	**4,207,750**	**0.12**	4,328,000	0.14
Forfeited	**(565,000)**	**0.10**	(463,336)	0.09
Exercised	**(340,000)**	**0.08**	(250,000)	0.12
Outstanding, end of year	**21,592,089**	**0.10**	18,289,339	0.10
Options exercisable, end of year	**13,302,983**	**0.09**	9,942,651	0.08

The following tables summarize information about stock options outstanding:

At May 31, 2023:

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

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):

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, 2023, there was $212,150 ($224,237 at May 31, 2022) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Plan, which are expected to be recognized over a term of three years.

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

	30-Nov-22	26-Nov-21
Grant date share price ($)(1)	0.12	0.13
Exercise price ($)	0.12	0.14
Expected volatility (%)(2)	64.48	66.07
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	3.18	1.39
Forfeiture rate (%)	21.00	15.00

(1) The closing market price of the shares on the TSX Venture Exchange on the day immediately preceding the date of grant or the last day of trading preceding the date of grant if no shares traded on the day immediately preceding the date of grant.
(2) The expected volatility was based on historical volatility of the Company over a period of time that is commensurate with the expected life of the options.

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

	2023	2022
Administration	**$ 175,890**	$ 176,760
Selling, marketing and business development	**41,044**	41,220
	$ 216,934	$ 217,980

(Expressed in Canadian dollars except share amounts)

20. Revenue:

	2023	2022
Sales of goods and equipment	**$ 13,445,925**	$ 9,230,968
Services	**1,334,356**	1,129,380
Contracts for heat recovery projects	**6,311,289**	5,548,846
	$ 21,091,570	$ 15,909,194

The Company changed the description and classification of the revenue from sales of goods, rendering of services and contracts for heat recovery solutions, to sales of goods and equipment, services and contracts for heat recovery projects during the year ended May 31, 2023. For the year ended May 31, 2022, $4,118,511 of heat recovery equipment sales, that was previously reported as contracts for heat recovery solutions, was reclassified to sales of goods and equipment as shown above as a result of the change.

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

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

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

21. Employee benefits expense:

	2023	2022
Salaries and benefits	**$ 7,981,686**	$ 7,464,355
Share-based compensation (note 19)	**216,934**	217,980
Pension charge	**171,600**	131,282
	$ 8,370,220	$ 7,813,617

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:

	2023	2022
Depreciation of property, plant and equipment (note 8)	**$ 137,381**	$ 131,210
Depreciation of right-of-use assets (note 9)	**245,008**	259,902
Amortization of intangible assets (note 10)	**230,536**	305,904
Foreign exchange gain	**(379,828)**	(296,135)

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

For the 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.

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

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.

(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:

		2023		2022
Income (loss) before income taxes	$	**693,935**	$	(1,749,415)
Income taxes expense (recovery) calculated using combined federal and provincial income tax rates in Canada of 26.50% (2022 – 26.50%)	$	**183,893**	$	(463,595)
Share-based compensation		**57,488**		57,765
Research and development expenditure		**(86,629)**		(53,295)
Difference in tax rate of foreign subsidiaries		**(7,300)**		(4,941)
Utilization of previously unrecognized tax losses		**(319,735)**		-
Tax effect of temporary difference for which no deferred tax asset is recorded		**130,732**		503,976
Difference in future tax rates		**(9,214)**		(44,498)
Permanent differences and other items		**24,251**		93,144
Current and deferred income tax (recovery) expense	**$**	**(26,514)**	$	88,556
Current	**$**	**39,293**	$	66,713
Deferred		**(65,807)**		21,843
	$	**(26,514)**	$	88,556

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

		2023		2022
Statutory income tax of the year	**$**	**42,614**	$	66,573
Adjustment for prior years		**(3,321)**		140
	$	**39,293**	$	66,713

(Expressed in Canadian dollars except share amounts)

23. Income taxes (continued):

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

	2023	2022
Origination of timing differences	**$ (56,593)**	$ 66,341
Difference in future tax rates	**(9,214)**	(44,498)
	$ (65,807)	$ 21,843

Change in deferred tax balances in 2023:

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

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

(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:

	2023	2022
Property, plant and equipment	**$ 1,197,316**	$ 1,163,252
Intangible assets	**3,007,252**	2,764,237
Provisions	**358,280**	363,164
Non-capital losses	**7,828,720**	8,879,310
Research and development pool	**3,476,000**	3,605,000
	$ 15,867,568	$ 16,774,963

As at May 31, 2023, 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	1,151,873
2030	3,032,173
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
2042	4,306
2043	38,115
Total	$ 6,784,810

As at May 31, 2023, the Company had non-capital losses in foreign subsidiaries in the amount of $2,026,987 ($3,344,462 at May 31, 2022). Losses in the amount of $113,442 expire between 2024 and 2025 and losses of $1,913,545 could be carried forward indefinitely (as at May 31, 2022, 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, 2023, the Company had a pool balance in the amount of $3,476,000 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely ($3,605,000 at May 31, 2022).

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, 2023 was $3,265,594 ($1,791,612 at May 31, 2022).

(Expressed in Canadian dollars except share amounts)

24. Earnings (loss) per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2023 was based on the net income attributable to owners of the parent of $717,959 (2022 – net loss of $1,920,824) and a weighted average number of basic common shares outstanding of 164,228,894 (2022 – 164,015,688) and a weighted average number of dilutive common shares outstanding of 166,212,865 (2022 – 164,015,688).

For the year ended May 31, 2023, 1,983,971 stock options out of 21,592,089 outstanding options were included in the calculation of diluted earnings per share. 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:

	2023	2022
Issued common shares at beginning of year	**164,137,606**	163,887,606
Effect of shares issued	**91,288**	128,082
Weighted average number of basic common shares at end of year	**164,228,894**	164,015,688
Effect of stock options on issue	**1,983,971**	-
Weighted average number of diluted common shares at end of year	**166,212,865**	164,015,688

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.

25. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk is the risk that changes in market prices, such as interest rates and foreign exchange, will affect the Company's net earnings or loss or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Foreign currency risk:

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

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

	Net financial assets/(liabilities) in CAD$			
	US $	EUR	NOK	Total CAD $
Functional currency of Company entity				
May 31, 2023				
Canadian Dollar	**2,258,550**	**–**	**–**	**2,258,550**
British Pound	**414,908**	**2,481,819**	**1,081**	**2,897,808**
	2,673,458	**2,481,819**	**1,081**	**5,156,358**
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

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

	May 31, 2023				May 31, 2022			
	US$	**EUR**	**NOK**	**Total**	US$	EUR	NOK	Total
Net income (loss)	**267,346**	**248,182**	**108**	**515,636**	61,066	65,074	205	126,345
Equity	**267,346**	**248,182**	**108**	**515,636**	61,066	65,074	205	126,345

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, 2023, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in an decrease/increase in income before tax of $32,800.

(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	4,243,911	4,243,911	4,243,911	-	-
Long-term debt	3,265,317	3,838,713	1,218,663	2,618,554	1,496
	7,509,228	8,082,624	5,462,574	2,618,554	1,496

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).

(Expressed in Canadian dollars except share amounts)

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.

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, 2023 and 2022.

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.

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:

	2023	2022
Salaries and other short-term employee benefits	**$ 930,221**	$ 861,380
Share-based payments	**80,721**	84,655
	$ 1,010,942	$ 946,035

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, 2023

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, 2023 (or "FY 2023"), and compares the FY 2023 financial results to the previous year ended May 31, 2022 (or "FY 2022"). 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 2023 are against the fourth quarter of FY 2022. 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 47% our operations, assets and liabilities are denominated in British Pound Sterling and 24% 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 26, 2023. Disclosure contained in this document is current to September 26, 2023, unless otherwise stated.

Forward-Looking Statements

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

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 GEMTM 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. On June 11, 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

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

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

1.3 Strategy

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

The Company has representation in 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:

	2023 $	2022 $
Total net income (loss) attributable to owners of the parent	965,545	(165,554)
Total net income attributable to non-controlling interest	5,857	16,092
Interest charge	80,299	89,651
Income tax (recovery) expense	(28,005)	97,523
Depreciation and amortization	93,139	110,620
Share based compensation	53,319	55,148
EBITDA	1,170,154	203,480

For the years ended May 31:

	2023 $	2022 $
Total net income (loss) attributable to owners of the parent	717,959	(1,920,824)
Total net income attributable to non-controlling interest	2,490	82,853
Interest charge	449,341	335,939
Income tax (recovery) expense	(26,514)	88,556
Depreciation and amortization	367,917	437,114
Share based compensation	216,934	217,980
EBITDA	1,728,127	(758,382)

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, 2023 was approximately $13 million. As at September 26, 2023, the Company had an order backlog of approximately $21.4 million.

	2023 $ million	2022 $ million	2021 $ million
Order backlog as at May 31	13.0	4.9	7.8
Order backlog as at September reporting date	21.4	10.3	11.0

3. Performance

3.1 Selected Annual Information

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

Financial information for the years ended May 31, 2023 and 2022:

	2023 $	2022 $
Revenue	21,091,570	15,909,194
Gross profit	9,569,219	6,732,584
Gross profit percentage	45.4%	42.3%
EBITDA(1)	1,728,127	(758,382)
Total net income (loss) attributable to owners of the parent	717,959	(1,920,824)
Net profit (loss) per share – basic and diluted	0.004	(0.012)

(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, 2023:

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

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)

(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 2023	Q4 2022
	$	$
Revenue	**8,207,116**	4,461,701
Cost of sales	**4,374,975**	2,554,166
Gross profit	**3,832,141**	1,907,535
Expenses:		
Administration, selling, marketing and business development	**2,759,399**	1,914,665
Research and development	**49,046**	(44,842)
	2,808,445	1,869,823
Operating income	**1,023,696**	37,712
Finance costs	**(80,299)**	(89,651)
Income (loss) before income taxes	**943,397**	(51,939)
Income taxes recovery (expense)	**28,005**	(97,523)
Net income (loss) for the period	**971,402**	(149,462)
Exchange differences on translation of overseas operations	**86,194**	(159,339)
Total comprehensive income (loss) for the period	**1,057,596**	(308,801)
EBITDA for the quarter[1]	**1,170,154**	203,480
Order backlog as at May 31	**13 million**	4.9 million
Order backlog as at reporting date	**21.4 million**	10.3 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 $8,207,116 in the quarter ended May 31, 2023, representing an increase of $3,745,415, or 83.9%, compared to $4,461,701 in the quarter ended May 31, 2022. The increase of revenue in the fourth quarter of FY 2023 was mainly due to the increased revenues from GEM and heat recovery sales due to higher sales orders received.

The gross profit of $3,832,141 in the quarter ended May 31, 2023, represented an increase of $1,924,606, or 100.9%, from $1,907,535 in the quarter ended May 31, 2022. The increase in gross profit was mainly due to increased revenues from both GEM and heat recovery projects compared to the same quarter of prior year. The gross profit expressed as a percentage of sales was 46.7% in the fourth quarter of FY 2023 compared with 42.8% in the same quarter of FY 2022. The increase was due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended May 31, 2023, totaled $2,759,399, compared to $1,914,665 in the quarter ended May 31, 2022, an increase of $844,734, or 44.1%. $606,437 of Operating Expenses increased because the staff's salary increased in FY 2023 in order to catch up with the increased inflation rate; the Company also hired more technical staff to support the higher levels of production and project management demand; as the Company achieved a net income of $720,449 in FY 2023, the Company recorded a group incentive per the Company's group incentive plan during the last quarter of FY 2023; in addition, the Company also invested in digitalization of production and data collection process in the fourth quarter of FY 2023. The increase in Operating Expenses was also due to decrease in foreign exchange gains of $85,577 compared to the same quarter of the previous year. In addition, during the fourth quarter of FY 2023, the Company did not receive any COVID related government subsidies, however, the Company received COVID related government subsidies of $152,720 in the same quarter of the previous year. As the government subsidies were recorded as a reduction to the Operating Expenses, the decrease in the subsidies received also contributed to the higher Operating Expenses in FY 2023.

Research and development ("R&D") related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The tax credits and government funding are accounted as an increase to research and development expenses when the credits and funding received subsequently are less than the amount claimed. The research and development expense increased by $93,888 in the fourth quarter of FY 2023 compared to the same quarter of the previous year mainly due to lower amount of R&D tax credits claimed, plus an adjustment recorded relating to prior years' funding claims which increased R&D expense in the fourth quarter of FY 2023.

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 $80,299 in the fourth quarter of FY 2023. The costs were lower than the fourth quarter of FY 2022 by $9,352. The decrease was mainly due to an adjustment recorded that relates to the third quarter of FY 2023 when the estimated finance costs recorded were higher than the actual amount charged. The adjustment recorded in the fourth quarter reduced the finance costs.

Income before income taxes for the quarter ended May 31, 2023 was $943,397, compared to a loss of $51,939 in the same quarter of the previous year. Income before income taxes increased by $995,336 mainly due to increased gross profit of $1,924,606 as a result of increased revenue, offset by the increased Operating Expenses of $844,734 as mentioned above and the increase of research and development expenses of $93,888.

Income taxes recovery in the fourth quarter of FY 2023 was $28,005, as compared to income taxes expense of $97,523 in the fourth quarter of FY 2022, a decrease of income taxes expense by $125,528. For the quarter ended May 31, 2023, the Company recognized total current income tax expense of $33,128 payable to various tax authorities. Taxes are payable on profits made in subsidiaries in both the U.S. and the U.K. During the fourth quarter of FY 2023, the Company also recognized future income tax recovery of $61,133 due to the temporary timing differences. In the fourth quarter of FY 2022, one of the Company's subsidiaries recognized future income tax expense of $76,821 due to write-down of deferred tax assets given the loss position, and other subsidiary companies recognized current income tax expense on profits made.

Net income for the fourth quarter of FY 2023 was $971,402, compared to a net loss of $149,462 in the same quarter of the previous year, representing an increase of $1,120,864. The increase in net income was mainly due to the increased gross profit of $1,924,606 as a result of increased revenue, plus the decrease in income tax expense of $125,528, offset by the increased Operating Expenses of $844,734 as mentioned above and the increase of research and development expenses of $93,888.

Comprehensive income was $1,057,596 for the fourth quarter of FY 2023, compared to a comprehensive loss of $308,801 for the fourth quarter of FY 2022. The increase of $1,366,397 of comprehensive income was mainly due to the increase of net income in the amount of $1,120,864 as mentioned above in addition to the increase in income on exchange differences arising on translation of overseas operations by $245,533.

EBITDA was $1,170,154 for the fourth quarter of FY 2023, compared to $203,480 for the same quarter of the previous year, representing an increase of $966,674. The improvement was mainly due to the increase in net income of $1,120,864, which resulted from increased revenue offset by increased Operating Expense and R&D expense as mentioned earlier, compared to the same quarter of the previous year. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year End Results

	2023	2022
	$	$
Revenue	**21,091,570**	15,909,194
Cost of sales	**11,522,351**	9,176,610
Gross profit	**9,569,219**	6,732,584
Expenses:		
Administration, selling, marketing and business development	**8,324,547**	8,184,111
Research and development	**101,396**	(38,051)
	8,425,943	8,146,060
Operating income (loss)	**1,143,276**	(1,413,476)
Finance costs	**(449,341)**	(335,939)
Income (loss) before income taxes	**693,935**	(1,749,415)
Income taxes recovery (expense)	**26,514**	(88,556)
Net income (loss) for the year	**720,449**	(1,837,971)
Exchange differences on translation of overseas operations	**(60,247)**	(302,729)
Total comprehensive income (loss) for the year	**660,202**	(2,140,700)
EBITDA[1]	**1,728,127**	(758,382)
Order backlog as at May 31	**13 million**	4.9 million
Order backlog as at September reporting date	**21.4 million**	10.3 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 $21,091,570 in the year ended May 31, 2023, representing an increase of $5,182,376, or 32.6%, over the $15,909,194 recognized in the year ended May 31, 2022. During FY 2023, both GEM trap and heat recovery sales orders increased compared to the amount received from prior year. As a result, both GEM trap and heat recovery revenues increased in FY 2023.

The gross profit of $9,569,219 in the year ended May 31, 2023 represented an increase of $2,836,635, or 42.1%, from $6,732,584 achieved in the year ended May 31, 2022. The increase in gross profit was mainly due to the increased revenue from GEM compared to the previous year. Overall, gross profit expressed as a percentage of revenue was 45.4% in FY 2023 compared with 42.3% in FY 2022. The increase was mainly due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the year ended May 31, 2023 totaled $8,324,547, compared to $8,184,111 in FY 2022, representing an increase of $140,436, or 1.7%. During FY 2023, Operating Expenses increased by $171,572 because the Company recorded a group incentive per the Company's group incentive plan as the Company achieved a net income of $720,449 in FY 2023 and no such expense was incurred in the previous year; in addition, the Company also invested in digitalization of production and data collection process in FY 2023. In addition, the Company received $316,282 less government subsidies as compared to prior year which increased the Operating Expenses. The increase in these Operating Expenses was partially offset by the increase in foreign exchange gains of $83,693, the decrease in acquisition costs of $188,357, and the decrease in amortization of intangible assets of $75,368. In FY 2022, the Company incurred $188,357 acquisition costs due to the purchase of the technology from Sofame Technologies Inc. and no acquisition costs were incurred in FY 2023. Amortization of intangible assets decreased as some of the intangible assets purchased upon the acquisition of Boilerroom Equipment Inc. in FY 2019 had been fully amortized during FY 2023.

Research and development ("R&D") expenses related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The tax credits and government funding are accounted as an increase to research and development expenses when the credits and funding received subsequently are less than the amount claimed. The research and development expenses increased by $139,447 in FY 2023 compared to the previous year mainly due to higher costs incurred in R&D activities, lower amount of R&D tax credits claimed, plus an adjustment recorded relating to prior years' funding claims which increased R&D expense in FY 2023. The Company's R&D activities are sometimes conducted within an existing paid project in order to solve specific technical issues and to create new solutions, hence, the costs incurred within projects are recognized as project costs and recorded under cost of sales as opposed to R&D expenses. When the Company claims R&D tax credits or government funding related to R&D activities, all R&D costs, whether reported under cost of sales or under R&D expenses are qualified for the claims. Therefore, the tax credits and funding received each year may not be proportional to the R&D expenses recorded during the year.

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 $113,402 to $449,341 from $335,939. The increase was mainly due to increase of interest rates.

Income before income taxes for the year ended May 31, 2023 was $693,935 compared to a loss of $1,749,415 in the previous year, representing an increase in income before income taxes by $2,443,350. The increase was mainly due to the increase in revenue by $5,182,376 due to the higher amount of sales orders received in FY 2023. As a result, gross profit increased by $2,836,635. Although Operating Expenses increased by $140,436, the R&D expenses increased by $139,447, and the finance costs increased by $113,402, the Company still achieved income before income taxes of $693,935, an increase of $2,443,350 compared to the previous year.

Income taxes recovery in FY 2023 was $26,514, compared to income taxes expense $88,556 in FY 2022, a decrease of income taxes expense by $115,070. In FY 2023, the Company recognized future income taxes recovery of $65,807 due to temporary timing differences; the Company also recognized current income taxes expense of $39,293 relating to current tax payable to various tax authorities given the Company's profitable tax position. In FY 2022, one of the Company's UK subsidiaries recognized an income tax expense in the amount of $76,821 relating to deferred tax expense in order to reduce deferred tax assets after incurring tax losses for two consecutive years.

Net income for the year ended May 31, 2023 was $720,449, compared to a net loss of $1,837,971 in the year ended May 31, 2022, representing an increase of $2,558,420. The increase in net income was mainly due to increase in income before income taxes by $2,443,350 as mentioned above.

Comprehensive income was $660,202 for the year ended May 31, 2023, compared to a loss of $2,140,700 for the year ended May 31, 2022, representing an increase of comprehensive income in the amount of $2,800,902. The increase in comprehensive income was mainly due to the increase in net income of $2,558,420 as mentioned earlier plus the decrease in exchange loss from translation of overseas operations in the amount of $242,482. The Company recognized an exchange loss arising on translation of overseas operations of $60,247 in FY 2023 as compared to $302,729 recognized in FY 2022.

EBITDA was $1,728,127 for the year ended May 31, 2023 compared to negative $758,382 for the previous year, representing an increase of $2,486,509. The increase was mainly due to the increase in net income by $2,558,420. In FY 2023, the Company received higher amount of order intake and recognized more revenue from both heat recovery projects and GEM traps. As a result, the Company achieved a net income of $720,449 as compared to a net loss of $1,837,971 for the previous year. A reconciliation of net income (loss) to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Due to higher amount of sales orders received in FY 2023, both current assets and current liabilities increased significantly in FY 2023. Current assets increased by $4,014,899 to $11,028,858 at May 31, 2023, compared to $7,013,959 at May 31, 2022. This increase was mainly due to increase in cash and cash equivalents of $369,064, increase in trade and other receivables of $3,332,925, and increase in inventory of $417,314. Current liabilities increased by $3,756,772 to $7,993,912, mainly due to increase in trade payables and other liabilities of $2,564,271 and increase in deferred revenue of $1,025,381.

Working capital increased by $258,127 to $3,034,946 at May 31, 2023, compared to $2,776,819 at May 31, 2022. During FY 2023, the Company earned net income in the amount of $720,449, which led to the improved working capital position.

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

	Aug 31, 2021 $	Nov 30, 2021 $	Feb 28, 2022 $	May 31, 2022 $	Aug 31, 2022 $	Nov 30, 2022 $	Feb 28, 2023 $	May 31, 2023 $
Current Assets	8,441,508	7,080,511	6,991,631	7,013,959	6,284,671	7,775,570	9,501,012	11,028,858
Current Liabilities	5,186,143	4,634,580	5,499,794	4,237,140	4,211,907	6,009,454	7,321,170	7,993,912
Working Capital	3,255,365	2,445,931	1,491,837	2,776,819	2,072,764	1,766,116	2,179,842	3,034,946

The Company's cash position was $3,000,607 as at May 31, 2023, compared to $2,631,543 at May 31, 2022, representing an increase of $369,064. The increase was mainly due to net cash generated in operating activities of $1,405,768, offset by the net cash used in financing activities of $1,037,298 and investing activities of $77,704.

The net cash provided in the operating activities was $1,405,768, which included the net income of $720,449, the addbacks of non-cash items of $1,308,629, the income tax refund received of $30,811, the negative change in working capital of $217,585, and the interest paid on long-term debt and lease obligations of $436,536.

The net cash used in investing activities was $77,704 for FY 2023, including the purchase of property, plant and equipment of $79,637, offset by the proceeds from disposal of property, plant and equipment of $1,933.

The Company used cash from financing activities in the amount of $1,037,298, which included repayments of long-term debt of $825,534, repayments on lease obligations of $214,087, the receipt from stock option exercise of $27,200, and dividend paid to a non-controlling interest of $24,877.

At May 31, 2023, $723,843 (13.5%) of the Company's trade receivables balance was over 90 days past due ($137,584 (6%) at May 31, 2022). $19,689 of the past due balance was impaired at May 31, 2023 ($46,599 at May 31, 2022). At May 31, 2022, $75,250 of trade receivables that was not over 90 days past due was also impaired.

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

Less than one year	$ 318,925
One to five years	1,025,020
Six to ten years	547,953
Total undiscounted lease obligations	1,891,898
Less: impact of present value	(428,919)
Total discounted lease obligations	1,462,979
Less: current portion	(214,684)
Long term portion	$ 1,248,295

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

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

3.5 Segmentation Information

In FY 2023 and FY 2022, 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, 2023 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
	$	$	**$**	$	**$**	$	**$**	$
Total revenue from external customers	**10,497,750**	8,974,251	**10,593,820**	6,934,943	**-**	-	**21,091,570**	15,909,194
Cost of sales	**(5,890,301)**	(5,664,485)	**(5,632,050)**	(3,512,125)	**-**	-	**(11,522,351)**	(9,176,610)
Gross profit	**4,607,449**	3,309,766	**4,961,770**	3,422,818	**-**	-	**9,569,219**	6,732,584
Other expenses	**(3,272,673)**	(3,037,830)	**(4,114,705)**	(3,722,456)	**(1,038,565)**	(1,385,774)	**(8,425,943)**	(8,146,060)
Net finance costs	**(101,087)**	(79,425)	**(5,313)**	(7,393)	**(342,941)**	(249,121)	**(449,341)**	(335,939)
Income (loss) before taxation	**1,233,689**	192,511	**841,752**	(307,031)	**(1,381,506)**	(1,634,895)	**693,935**	(1,749,415)
Tax recovery (expense)	**20,582**	(7,938)	**5,484**	(139,202)	**448**	58,584	**26,514**	(88,556)
Profit (loss) after taxation	**1,254,271**	184,573	**847,236**	(446,233)	**(1,381,058)**	(1,576,311)	**720,449**	(1,837,971)
Attributable to:								
Owners of the parent	**1,254,752**	184,836	**844,265**	(529,349)	**(1,381,058)**	(1,576,311)	**717,959**	(1,920,824)
Non-controlling interest	**(481)**	(263)	**2,971**	83,116	**-**	-	**2,490**	82,853

Reconciling items comprise the following:

	2023	2022
Corporate administration costs	**$ 678,080**	$ 679,520
Share-based compensation	**216,934**	217,980
Professional fees	**155,462**	158,938
Depreciation of property, plant and equipment	**137,381**	131,210
Amortization of intangible assets	**230,536**	305,904
Acquisition costs	**-**	188,357
Foreign exchange gain	**(379,828)**	(296,135)
Total	**$ 1,038,565**	$ 1,385,774

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, 2023 of $10,497,750, represented an increase of $1,523,499, or 17%, over $8,974,251 achieved in the previous year. The increase was mainly due to increased revenue from GEM traps offset by the reduced revenues from heat recovery systems. In November 2022, the Company received large multi-site GEM orders from a leading snack manufacturer with a total value of $ 4 million. As a result, GEM revenue increased in FY2023. However, the Company received less heat recovery project orders in the North America markets which resulted in decreased revenue from heat recovery projects.

Gross profit for the year ended May 31, 2023 increased by $1,297,683 or 39.2%. The increase in gross profit was mainly due to increased gross profit from GEM traps. As a percentage of revenue, gross profit was 43.9% for the year ended May 31, 2023, compared to 36.9% achieved in prior year. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix. GEM products carry a higher gross margin than heat recovery systems. The revenues from GEM steam traps as a percentage of total revenue were higher in FY 2023 than FY 2022.

Other expenses in this segment increased by $234,843, or 7.7%, for the year ended May 31, 2023 compared to prior year. The North American segment received government wage subsidies in the past two years and the wage subsidies were recognized as a reduction to operating expenses. During FY 2022, Thermal Energy Ottawa recognized government wage subsidies in the amount of $340,566, but only $24,284 was recognized in FY 2023, representing a decrease of $316,282. This segment's R&D expense also increased by $84,154 during FY 2023 due to lower amount of R&D tax credits claimed and an adjustment recorded relating to prior years' funding claims which increased R&D expense in FY 2023. The rest of the operating expenses decreased by $165,593 despite the increased salary levels because the Company had less headcount in this segment in FY 2023.

Income before tax of $1,233,689 was achieved in FY 2023, represented an increase of $1,041,178, or 540.8%, from the previous year. The increase was mainly due to the increase in gross profit of $1,297,683, resulting from increased GEM trap revenues, offset by the increase of $234,843 in other expenses.

Thermal Energy Bristol:

Revenue for the year ended May 31, 2023 was $10,593,820, representing an increase of $3,658,877, or 52.8%, over $6,934,943 achieved in the previous year. The increase in revenue was due to increased revenues in both heat recovery systems and GEM traps due to the higher amount of orders received in FY 2023 in this segment.

Gross profit increased in the year ended May 31, 2023 by $1,538,952, compared to the previous year. The increase in gross profit was mainly due to the increased revenues from both heat recovery systems and GEM traps. As a percentage of revenue, gross profit was 46.8% in FY 2023, compared to 49.4% achieved in the FY 2022. The decrease was mainly due to the change in product mix.

Other expenses increased by $392,249 or 10.5% for the year ended May 31, 2023, compared to prior year. The staff's salary expense increased in FY 2023 in order to catch up with the increased annual inflation rate. the Company also hired more technical staff to support the higher levels of production and project management demand due to the higher amount of orders received by this segment in FY 2023. In addition, this segment also invested in digitalization of production and data collection process in FY 2023.

Income before taxes was $841,752 for the year ended May 31, 2023, as compared to a loss of $307,031 for the previous year, an increase of $1,148,783. The increase in pre-tax income was mainly due to the increase in gross profit of $1,538,952 as a result of increased revenues from both GEM traps and heat recovery projects, offset by the increase in other operating expenses of $392,249.

Reconciling Items:

Other expenses within reconciling items, which incorporates all costs not specifically attributable to either regional operational center, decreased by $347,209 to $1,038,565, compared to $1,385,774 for the previous year. The decrease was mainly due to the increase of the foreign exchange gain of $83,693, the decrease in acquisition cost of $188,357 and the decrease in amortization of intangible assets of $75,368 as some of the intangible assets had been fully amortized during FY 2023.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2023 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, Governance and Compliance Committee, and $1,000 payable for each in-person meeting.

During the year ended May 31, 2023, Directors fees paid were $55,125. 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, 2023 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2023 $	2022 $	**2023 $**	2022 $	**2023 $**	2022 $	**2023 $**	2022 $
Directors								
W. White[(1)]	**21,600**	17,707	**-**	-	**-**	-	**21,600**	17,707
W. Ollerhead	**18,900**	18,900	**-**	-	**-**	-	**18,900**	18,900
D. Spagnolo	**18,900**	18,900	**-**	-	**-**	-	**18,900**	18,900
M. Williams	**13,500**	13,500	**-**	-	**-**	-	**13,500**	13,500
J. Kelly[(2)]	**1,125**	17,393	**-**	-	**-**	-	**1,125**	17,393
Total	**74,025**	86,400	**-**	-	**-**	-	**74,025**	86,400
Senior Management								
W. Crossland	**264,576**	254,400	**19,500**	-	**-**	-	**284,076**	254,400
R. Triebe	**199,535**	191,864	**14,700**	-	**3,877**	3,591	**218,112**	195,455
S. Mawby[(3)]	**161,851**	161,847	**12,100**	-	**26,280**	27,187	**200,231**	189,034
J. Zhang	**137,800**	132,500	**12,100**	-	**3,877**	3,591	**153,777**	136,091
Total	**763,762**	740,611	**58,400**	-	**34,034**	34,369	**856,196**	774,980
Total Related Party Transactions	**837,787**	827,011	**58,400**	-	**34,034**	34,369	**930,221**	861,380

(1) Mr. White was appointed Chairman of the Board effective November 23, 2021.

(2) Mr. Kelly stepped down as Chairman of the Board effective November 23, 2021. Mr. Kelly passed away on June 28, 2022. He remained as a member of the Board till June 28, 2022.

(3) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.605 and 1.695 in FY 2023 and FY 2022, respectively.

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

Options outstanding for Directors (excluding the CEO) as at May 31, 2023 were 1,250,000, of which 999,998 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2023 were 7,875,000, of which 5,124,994 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

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

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

The Company's order backlog as at May 31, 2023 was approximately $13 million. As at September 26, 2023, the Company had an order backlog of approximately $21.4 million.

	2023 $ million	2022 $ million	2021 $ million
Order backlog as at May 31	13.0	4.9	7.8
Order backlog as at September reporting date	21.4	10.3	11.0

- On September 13, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $4 million from a leading multinational pharmaceutical company. The expected reduction in natural gas consumption would reduce CO2 emissions by 1,280 tons per year, representing a 13.5% reduction in site thermal CO2 emissions. Based on the client's expected natural gas prices, the project is expected to deliver approximately $1 million in annual fuel savings, resulting in a payback for a turn-key implementation in 4.1 years before application of any available utility. This project is expected to be completed within twelve months.

- On May 16, 2023, the Company announced that it had received a $1.8 million multisite GEM™ project order from a multinational consumer goods company. This order covers a combination of partial and full site GEM conversions for five of its sites across Europe, North America, and South America. This project is expected to be completed within nine months.

- On May 9, 2023, the Company announced that it had been commissioned by a leading global nutrition manufacturer to deliver the fifth turn-key energy efficiency and carbon emission reduction solution. This project is expected to deliver a 17% reduction in fuel use and greenhouse gas emissions. Valued at approximately $1,100,000, this project can save the customer $490,000 annually. The project was about 4% complete at the year end.

- On December 12, 2022, The Company announced that it had received a $330,000 order to deliver a second RBT® wastewater heat recovery system at a newbuild facility for a leading textile manufacturer. With this order, the Company will have delivered approximately $1.3 million in energy efficiency and carbon emission reduction solutions for this industry leader across multiple sites in Africa and South Asia. This order covers the engineering, manufacturing, installation and training of the wastewater heat recovery system. The project was about 70% complete at the year end.

- On November 22, 2022, the Company announced that it had received order for multi-site from a leading snack manufacturer. Valued at $2.5 million, this order covers the engineering, supply and installation of GEM™ steam traps at 16 sites. On November 29, 2022, the Company announced, in addition to the $2.5 million announced on November 22, 2022, it has received additional GEM™ orders of approximately $1.5 million from the same customer. The customer has now extended its multi-site GEM™ project to an additional 9 sites bringing the total project up to a combined 25 sites and $4 million. This project will deliver combined annual utility and water savings of over $1.4 million, annual CO_2e reduction of 8,066 tonnes and save more than 17 million gallons of water per year. The project was about 43% complete at the year end.

- On October 31, 2022, the Company announced that it had been commissioned by a Leading Cereal Manufacturer to deliver annual boiler natural gas savings and carbon emission reductions of almost 20%. Valued at $1.4 million, this order covers all engineering, manufacturing, installation, and training. The project was about 37% complete at the year end.

- On September 30, 2022, the Company announced that it had been commissioned by a Premium Beer Company to reduce the site's annual gas load by at least 27% offsetting more than 1,300 tonnes of CO_2 per year, the equivalent of permanently removing more than 400 cars from the road. Valued at $2.8 million, this order covers all engineering, manufacturing, installation and training. The project was about 41% complete at the year end.

- On September 29, 2022, the Company announced that it had been commissioned by a Global Nutrition Company to deliver approximately $630,000 of annual fuel savings and offset in excess of 1,530 Tonnes of CO_2 per year - the equivalent of permanently removing more than 300 cars from the road. Valued at $1.4 million, this order covers all engineering, manufacturing, installation, and training for the system. The project was about 90% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

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

Shares:

164,477,606 class A common shares.

Options:

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

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

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

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.

Revenue recognition

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

Revenue from contracts for heat recovery projects

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

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

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, 2023.

8. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

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

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.

Inflation rates have been rising since the start of the global pandemic, and the current wave of inflation is driven by a range of factors including supply chain issues 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.

9. Forward-Looking Information

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

10. Management’s Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company’s internal control over financial reporting during the year ended May 31, 2023 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.