

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Quarters ended February 29, 2024 and February 28, 2023

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at February 29, 2024 and May 31, 2023
(Expressed in Canadian dollars) (Unaudited)

	February 29, 2024	May 31, 2023
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 4)	7,535,932	3,000,607
Trade and other receivables (note 5)	5,167,108	6,467,204
Current tax receivable	128,549	89,174
Inventory	1,560,892	1,471,873
	14,392,481	11,028,858
Non-current assets:		
Property, plant and equipment (note 6)	553,957	304,186
Right-of-use assets (note 7)	1,364,701	1,247,881
Intangible assets	679,022	845,616
Deferred tax assets	60,223	85,080
	2,657,903	2,482,763
Total assets	17,050,384	13,511,621
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 8)	3,169,653	4,243,911
Current tax liabilities	29,292	9,465
Pensions and other employer obligations	276,293	195,433
Current portion of long-term debt (note 9)	918,676	919,057
Deferred revenue (note 10)	5,991,844	2,088,876
Provisions	323,107	322,486
Current portion of lease obligations (note 11)	305,402	214,684
	11,014,267	7,993,912
Non-current liabilities:		
Long-term debt (note 9)	1,654,532	2,346,260
Lease obligations (note 11)	1,306,816	1,248,295
Deferred tax liabilities	61,449	164
	3,022,797	3,594,719
Total liabilities	14,037,064	11,588,631
Equity		
Capital stock (note 12)	33,225,149	32,526,779
Contributed surplus	4,601,711	4,937,468
Accumulated other comprehensive income	252,418	168,504
Deficit	(35,012,372)	(35,663,403)
Equity attributable to owners of the parent	3,066,906	1,969,348
Non-controlling interest	(53,586)	(46,358)
Total equity	3,013,320	1,922,990
Total liabilities and equity	17,050,384	13,511,621

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and nine months ended February 29, 2024 and February 28, 2023
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 29 2024	February 28 2023	February 29 2024	February 28 2023
	\$	\$	\$	\$
Revenue (note 14)	6,063,200	5,602,752	18,351,595	12,884,454
Cost of sales	3,002,181	2,983,520	9,034,997	7,147,376
Gross profit	3,061,019	2,619,232	9,316,598	5,737,078
Expenses (note 15):				
Administration	1,738,128	1,060,672	4,850,287	2,960,878
Selling, marketing and business development	1,158,027	877,582	3,304,708	2,604,270
Research and development	9,085	9,384	35,560	52,350
	2,905,240	1,947,638	8,190,555	5,617,498
Operating income	155,779	671,594	1,126,043	119,580
Finance costs	(94,213)	(152,646)	(322,116)	(369,042)
Income (loss) before income taxes	61,566	518,948	803,927	(249,462)
Income taxes (expense) recovery	(17,115)	4,851	(112,107)	(1,491)
Net income (loss) for the period	44,451	523,799	691,820	(250,953)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	1,465	10,784	86,479	(146,441)
Total comprehensive income (loss) for the period	45,916	534,583	778,299	(397,394)
Net income (loss) for the period attributable to:				
Owners of the parent	29,011	530,596	651,031	(247,586)
Non-controlling interest	15,440	(6,797)	40,789	(3,367)
Net income (loss) for the period	44,451	523,799	691,820	(250,953)
Total comprehensive income (loss) for the period attributable to:				
Owners of the parent	30,795	538,810	734,945	(399,184)
Non-controlling interest	15,121	(4,227)	43,354	1,790
Total comprehensive income (loss) for the period	45,916	534,583	778,299	(397,394)
Net income (loss) per share - basic and diluted	-	0.003	0.004	(0.002)

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2022	32,484,814	4,735,299	(36,381,362)	237,583	1,076,334	(32,803)	1,043,531
Share-based compensation (note 13)	-	163,615	-	-	163,615	-	163,615
Share options exercised (note 12)	41,965	(14,765)	-	-	27,200	-	27,200
Transactions with owners	41,965	148,850	-	-	190,815	-	190,815
Net loss for the period	-	-	(247,586)	-	(247,586)	(3,367)	(250,953)
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	-	-	-	(151,598)	(151,598)	5,157	(146,441)
Total comprehensive (loss) income for the period	-	-	(247,586)	(151,598)	(399,184)	1,790	(397,394)
Balance at February 28, 2023	32,526,779	4,884,149	(36,628,948)	85,985	867,965	(31,013)	836,952
Balance at June 1, 2023	32,526,779	4,937,468	(35,663,403)	168,504	1,969,348	(46,358)	1,922,990
Share-based compensation (note 13)	-	171,945	-	-	171,945	-	171,945
Share options exercised (note 12)	698,370	(507,702)	-	-	190,668	-	190,668
Dividends paid	-	-	-	-	-	(50,582)	(50,582)
Transactions with owners	698,370	(335,757)	-	-	362,613	(50,582)	312,031
Net income for the period	-	-	651,031	-	651,031	40,789	691,820
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	83,914	83,914	2,565	86,479
Total comprehensive income for the period	-	-	651,031	83,914	734,945	43,354	778,299
Balance at February 29, 2024	33,225,149	4,601,711	(35,012,372)	252,418	3,066,906	(53,586)	3,013,320

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended February 29, 2024 and February 28, 2023
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 29 2024	February 28 2023	February 29 2024	February 28 2023
	\$	\$	\$	\$
Operating activities:				
Net income (loss) for the period	44,451	523,799	691,820	(250,953)
Add items not involving cash:				
Depreciation of property, plant and equipment (note 6)	44,370	35,220	99,095	100,766
loss (Gain) on disposal of assets (note 6)	820	-	820	(1,289)
Depreciation of right-of-use assets (note 7)	90,632	61,814	244,726	183,972
Amortization of intangible assets	56,118	56,228	168,650	174,012
Finance costs	94,213	152,646	322,116	369,042
Share-based compensation (note 13)	65,307	53,319	171,945	163,615
Income taxes expense (recovery)	17,115	(4,851)	112,107	1,491
Unrealized foreign exchange and translation adjustments	24,930	21,956	116,894	(42,617)
Changes in working capital:				
Trade and other receivables	1,282,856	(360,157)	1,300,096	(819,699)
Inventory	(148,305)	170,519	(89,019)	(120,760)
Trade payables and other liabilities	(545,033)	(140,916)	(984,823)	583,271
Deferred revenue (note 10)	3,602,648	1,407,447	3,875,737	2,301,434
Income taxes (paid) refund	(5,403)	(50,455)	(47,447)	36,238
Interest paid	(97,481)	(115,654)	(325,679)	(323,146)
Net cash provided by operating activities	4,527,238	1,810,915	5,657,038	2,355,377
Investing activities:				
Proceeds from disposal of property, plant and equipment (note 6)	-	-	-	1,933
Additions to property, plant and equipment (note 6)	(48,077)	(37,257)	(344,440)	(71,718)
Net cash used in investing activities	(48,077)	(37,257)	(344,440)	(69,785)
Financing activities:				
Repayment of long-term debt (note 9)	(229,773)	(225,009)	(689,786)	(597,955)
Repayment of lease obligations (note 11)	(73,498)	(55,026)	(212,411)	(161,167)
Stock options exercised (note 12)	-	27,200	190,668	27,200
Dividends paid	(50,582)	-	(50,582)	-
Net cash used in financing activities	(353,853)	(252,835)	(762,111)	(731,922)
Increase in cash and cash equivalents for the period	4,125,308	1,520,823	4,550,487	1,553,670
Cash and cash equivalents, beginning of period	3,423,696	2,724,064	3,000,607	2,631,543
Exchange differences on cash and cash equivalents	(13,072)	14,060	(15,162)	73,734
Cash and cash equivalents, end of period	7,535,932	4,258,947	7,535,932	4,258,947

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the nine months ended February 29, 2024 and February 28, 2023.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2023. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2023.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and effective as of April 24, 2024, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2023.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian dollars except share amounts)

3. Segment reporting:

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

Segment information for the quarter ended February 29, 2024 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	2,670,616	2,138,905	3,392,584	3,463,847	-	-	6,063,200	5,602,752
Cost of sales	(1,356,590)	(1,203,950)	(1,645,591)	(1,779,570)	-	-	(3,002,181)	(2,983,520)
Gross profit	1,314,026	934,955	1,746,993	1,684,277	-	-	3,061,019	2,619,232
Other expenses	(1,049,205)	(791,054)	(1,344,307)	(926,601)	(511,728)	(229,983)	(2,905,240)	(1,947,638)
Net finance costs	(22,885)	(25,184)	(10,069)	(538)	(61,259)	(126,924)	(94,213)	(152,646)
Income (loss) before taxation	241,936	118,717	392,617	757,138	(572,987)	(356,907)	61,566	518,948
Tax (expense) recovery	-	-	(17,115)	4,851	-	-	(17,115)	4,851
Net income (loss)	241,936	118,717	375,502	761,989	(572,987)	(356,907)	44,451	523,799
Attributable to:								
Owners of the parent	241,931	118,763	360,067	768,740	(572,987)	(356,907)	29,011	530,596
Non-controlling interest	5	(46)	15,435	(6,751)	-	-	15,440	(6,797)

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

3. Segment reporting (continued):

Segment information for the nine months ended February 29, 2024 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	8,565,533	5,825,161	9,786,062	7,059,293	-	-	18,351,595	12,884,454
Cost of sales	(4,528,268)	(3,551,791)	(4,506,729)	(3,595,585)	-	-	(9,034,997)	(7,147,376)
Gross profit	4,037,265	2,273,370	5,279,333	3,463,708	-	-	9,316,598	5,737,078
Other expenses	(3,069,034)	(2,252,493)	(3,754,029)	(2,718,644)	(1,367,492)	(646,361)	(8,190,555)	(5,617,498)
Net finance costs	(70,433)	(76,375)	(23,599)	(2,602)	(228,084)	(290,065)	(322,116)	(369,042)
Income (loss) before taxation	897,798	(55,498)	1,501,705	742,462	(1,595,576)	(936,426)	803,927	(249,462)
Tax (expense) recovery	-	(6,342)	(112,107)	4,851	-	-	(112,107)	(1,491)
Net income (loss)	897,798	(61,840)	1,389,598	747,313	(1,595,576)	(936,426)	691,820	(250,953)
Attributable to:								
Owners of the parent	897,738	(61,401)	1,348,869	750,241	(1,595,576)	(936,426)	651,031	(247,586)
Non-controlling interest	60	(439)	40,729	(2,928)	-	-	40,789	(3,367)

Reconciling items comprise the following:

	Three months ended February 29 (28)		Nine months ended February 29 (28)	
	2024	2023	2024	2023
	\$	\$	\$	\$
Corporate admin costs	188,309	148,749	564,310	463,199
Stock-based compensation	65,307	53,319	171,945	163,615
Professional fees	18,712	13,952	156,652	133,957
Depreciation of property, plant and equipment	44,370	35,220	99,095	100,766
Amortization of intangible assets	56,118	56,228	168,650	174,012
Foreign exchange loss (gain)	138,912	(77,485)	206,840	(389,188)
Total	511,728	229,983	1,367,492	646,361

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

4. Cash and cash equivalents:

	February 29, 2024	May 31, 2023
Cash	\$ 7,520,804	\$ 2,796,986
Cash equivalents	15,128	15,128
Restricted cash	-	188,493
Balance, end of period	\$ 7,535,932	\$ 3,000,607

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

5. Trade and other receivables:

	February 29, 2024	May 31, 2023
Trade receivables, gross	\$ 3,522,205	\$ 5,370,162
Allowance for doubtful accounts	(17,246)	(19,689)
Trade receivables, net	3,504,959	5,350,473
Unbilled revenue	282,516	144,458
Work in progress	247,473	221,884
Prepayments	705,850	428,581
Sales tax and other miscellaneous receivables	426,310	321,808
Balance, end of period	\$ 5,167,108	\$ 6,467,204

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

At February 29, 2024, \$246,453 (7.0%) of the Company's trade receivables balance was over 90 days past due. \$17,246 of the past due balance was impaired at February 29, 2024.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 29, 2024, provisions of \$9,429 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$3,725 – February 28, 2023). For the nine months ended February 29, 2024, \$1,846 (\$77,706 – February 28, 2023) of previously provided credit losses was released due to the collection on the doubtful accounts. The company wrote off allowance for doubtful accounts in the amount of \$10,083 for the nine months ended February 29, 2024 by removing the amount from trade receivables (\$44,685 – February 28, 2023).

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

5. Trade and other receivables (continued):

Translation loss of \$57 (loss of \$2,506 – February 28, 2023) was recognized under exchange differences arising on translation of overseas operations.

6. Property, plant and equipment:

During the nine months ended February 29, 2024, the Company acquired property, plant and equipment of \$344,440 (\$71,718 – February 28, 2023) and the Company disposed of depreciated assets with a net book value of \$820 for \$nil proceeds (net book value of \$644 for \$1,933 proceeds – February 28, 2023). Depreciation expense of \$99,095 (\$100,766 – February 28, 2023) was recognized under administration expense. Translation gain of \$5,246 (gain of \$12,327 – February 28, 2023) was recognized under exchange differences arising on translation of overseas operations.

7. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2023	1,184,520	56,430	6,931	1,247,881
Additions	274,044	86,828	-	360,872
Depreciation	(206,145)	(36,501)	(2,080)	(244,726)
Translation adjustments	(657)	1,331	-	674
Balance, February 29, 2024	1,251,762	108,088	4,851	1,364,701

	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	-	-	192,906
Depreciation	(155,101)	(25,360)	(3,511)	(183,972)
Translation adjustments	62,820	562	(37)	63,345
Balance, February 28, 2023	1,232,188	24,069	7,625	1,263,882

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

8. Trade payables and other liabilities:

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

	February 29, 2024	May 31, 2023
Trade payables	\$ 1,503,842	\$ 2,237,603
Accruals	1,505,293	1,834,429
Other government remittances payable	160,518	171,879
	\$ 3,169,653	\$ 4,243,911

Included in accruals is \$15,542 due to directors (\$13,500 at May 31, 2023).

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

9. Long-term debt:

	February 29, 2024	May 31, 2023
(a) Term loan (equivalent to USD\$1,067,452), net of deferred financing costs of \$10,244 (equivalent to USD\$7,548), currently bearing interest at 11.3% (13.05% on May 31, 2023), repayable in monthly principal instalments of \$33,925 (equivalent to USD\$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of \$746,350 (equivalent to USD\$550,000) payable on the maturity date, December 1, 2025	\$ 1,448,532	\$ 1,753,755
(b) Term loan currently bearing interest at 8.2% (7.7% on May 31, 2023), repayable in monthly principal instalments of \$40,000 until April 15, 2023 and in monthly principal installments of \$41,667 starting May 15, 2023 and continuing up to the maturity date, with a balloon payment of \$41,655 payable on the maturity date, April 15, 2026	1,083,330	1,458,333
(c) Term loan (equivalent to GBP£34,022), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of \$1,432 (equivalent to GBP£835) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	41,346	53,229
Total long-term debt	2,573,208	3,265,317
Less: current portion	(918,676)	(919,057)
Long term portion	1,654,532	2,346,260

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Nine months ended February 29, 2024 and February 28, 2023

(Expressed in Canadian dollars except share amounts)

9. Long-term debt (continued):

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

This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 9.80% on February 29, 2024 (9.55% on May 31, 2023). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at February 29, 2024, the variance was at 1.50% (3.50% at May 31, 2023). Interest is payable monthly in arrears on the 1st day of the month commencing on August 1st, 2018.

As collateral security for the fulfilment of all present and future obligations under this loan, the Company granted to the lender a general and continuing security interest in all of the Company's present and after acquired tangible assets and on all present and future assets of the Company related to intellectual property. This security interest shall rank in first position with respect to intellectual property but subordinated in rank to any other security granted.

The Company has certain covenants in accordance with this term loan, namely Total Funded Debt to EBITDA ratio and Debt Service Coverage ratio, which were in compliance on February 29, 2024 and 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 9.30% on February 29, 2024 (8.80% on May 31, 2023). Interest is payable monthly in arrears on the 15th day of the month. The first tranche of proceeds in the amount of \$1,000,000 was received by the Company on July 23, 2020. The second tranche of proceeds in the amount of \$1,300,000 was received by the Company on March 30, 2022. A financing cost of \$3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations and to assist with a degree of continuity of operations of the Company during the current economic environment.

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.

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10. Deferred revenue:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2023	\$ 1,369,539	\$ 719,337	\$ 2,088,876
Increase from payments received	9,652,697	2,661,975	12,314,672
Decrease from revenue recognized	(6,110,751)	(2,328,184)	(8,438,935)
Translation adjustments	20,324	6,907	27,231
Balance, February 29, 2024	\$ 4,931,809	\$ 1,060,035	\$ 5,991,844

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2022	\$ 434,481	\$ 629,014	\$ 1,063,495
Increase from payments received	5,365,697	3,977,330	9,343,027
Decrease from revenue recognized	(3,316,182)	(3,725,411)	(7,041,593)
Translation adjustments	70,153	25,213	95,366
Balance, February 28, 2023	\$ 2,554,149	906,146	\$ 3,460,295

All amounts are short-term and will be settled within the next reporting year.

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, equipment and services, and contracts for heat recovery projects during the year ended May 31, 2023. For the 9 months ended February 28, 2023, \$223,962 of deferred revenue relating to sales of heat recovery equipment, that was previously reported as deferred revenue relating to heat recovery solutions, was reclassified to deferred revenue relating to sales of goods, equipment and services as shown above as a result of the change.

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11. Lease obligations:

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

	February 29, 2024	May 31, 2023
Less than one year	\$ 424,476	\$ 318,925
One to five years	1,204,045	1,025,020
Six to ten years	376,392	547,953
Total undiscounted lease obligations	2,004,913	1,891,898
Less: impact of present value	(392,695)	(428,919)
Less: current portion	(305,402)	(214,684)
Long term portion	\$ 1,306,816	\$ 1,248,295

During the nine months ended February 29, 2024, the interest expense on lease obligations was \$94,031 and total cash outflow for leases was \$327,981, including \$21,539 for short-term leases.

During the nine months ended February 28, 2023, the interest expense on lease obligations was \$78,980 and total cash outflow for leases was \$264,946, including \$24,799 for short-term leases.

For the nine months ended February 29, 2024 and February 28, 2023, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

12. 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:

	Nine months ended February 29, 2024		Year ended May 31, 2023	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of period	164,477,606	32,526,779	164,137,606	32,484,814
Shares issued on exercise of stock options	8,101,699	698,370	340,000	41,965
Balance, end of period	172,579,305	33,225,149	164,477,606	32,526,779

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12. Capital stock (continued):

On November 21, 2023, the Company amended its Stock Option Plan to bring it in line with current TSX Venture Exchange policies and market norms.

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

For the nine months ended February 29, 2024, the Company issued total 8,101,699 shares following the exercise of 11,427,587 stock options. Out of 8,101,699 shares issued, 2,383,339 shares were issued upon the exercise of 2,383,339 options for cash proceeds of \$190,668, resulting in an increase to capital stock of \$294,104 and a reduction in contributed surplus of \$103,436. In addition, 5,718,360 shares were issued upon the exercise of 9,044,248 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of \$404,266 and a reduction in contributed surplus of the same amount.

For the nine months ended February 28, 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.

13. Share-based compensation:

Activity in stock options was as follows:

	Three months ended February 29, 2024		Three months ended February 28, 2023	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	18,514,150	0.13	22,317,089	0.10
Forfeited	(85,000)	0.13	(320,000)	0.08
Exercised	(5,189,248)	0.09	(340,000)	0.08
Outstanding, end of period	13,239,902	0.14	21,657,089	0.10
Options exercisable, end of period	5,691,648	0.11	13,302,983	0.09

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13. Share-based compensation (continued):

	Nine months ended February 29, 2024		Nine months ended February 28, 2023	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of period	21,592,089	0.10	18,289,339	0.10
Granted	3,560,400	0.20	4,207,750	0.12
Forfeited	(485,000)	0.10	(500,000)	0.10
Exercised	(11,427,587)	0.09	(340,000)	0.08
Outstanding, end of period	13,239,902	0.14	21,657,089	0.10
Options exercisable, end of period	5,691,648	0.11	13,302,983	0.09

The following tables summarize information about stock options outstanding:

At February 29, 2024:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding February 29, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 29, 2024	Weighted average exercise price
0.08 - 0.10	2,525,000	1.65	0.09	2,525,000	0.09
0.11 - 0.15	7,154,502	3.26	0.13	3,166,648	0.13
0.16 - 0.20	3,560,400	4.76	0.20	-	-
	13,239,902	3.36	0.14	5,691,648	0.11

At February 28, 2023:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding February 28, 2023	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2023	Weighted average exercise price
0.08 - 0.10	13,316,339	1.64	0.08	11,915,327	0.08
0.11 - 0.14	8,340,750	4.25	0.13	1,387,656	0.14
	21,657,089	2.64	0.10	13,302,983	0.09

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.

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13. Share-based compensation (continued):

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

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

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

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

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

	Three months ended February 29, 2024	Three months ended February 28, 2023
Administration	\$ 51,487	\$ 43,255
Selling, marketing and business development	13,820	10,064
	\$ 65,307	\$ 53,319

	Nine months ended February 29, 2024	Nine months ended February 28, 2023
Administration	\$ 137,996	\$ 132,635
Selling, marketing and business development	33,949	30,980
	\$ 171,945	\$ 163,615

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14. Revenue:

	Three months ended February 29, 2024	Three months ended February 28, 2023
Sale of goods and equipment	\$ 2,600,249	\$ 3,426,287
Services	456,576	279,318
Contracts for heat recovery projects	3,006,375	1,897,147
	\$ 6,063,200	\$ 5,602,752

	Nine months ended February 29, 2024	Nine months ended February 28, 2023
Sale of goods and equipment	\$ 10,592,919	\$ 8,649,907
Services	1,511,413	796,633
Contracts for heat recovery projects	6,247,263	3,437,914
	\$ 18,351,595	\$ 12,884,454

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 quarter ended February 28, 2023, \$1,078,474 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.

For the nine months ended February 28, 2023, \$3,122,886 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.

15. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended February 29, 2024	Three months ended February 28, 2023
Depreciation of property, plant and equipment	\$ 44,370	\$ 35,220
Depreciation of right-of-use assets	90,632	61,814
Amortization of intangible assets	56,118	56,228
Foreign exchange loss (gain)	138,912	(77,485)

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15. Other significant expenses (continued):

	Nine months ended February 29, 2024	Nine months ended February 28, 2023
Depreciation of property, plant and equipment	\$ 99,095	\$ 100,766
Depreciation of right-of-use assets	244,726	183,972
Amortization of intangible assets	168,650	174,012
Foreign exchange loss (gain)	206,840	(389,188)

For the nine months ended February 28, 2023, the Company received funding from various government bodies as COVID-19 wage subsidies.

For the nine months ended February 28, 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.

16. Financial instruments:

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

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

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

17. 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:

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17. Related party transactions (Continued):

	Three months ended February 29, 2024	Three months ended February 28, 2023
Salaries and other short-term employee benefits	\$ 269,069	\$ 218,434
Share-based payments	24,921	18,875
	\$ 293,990	\$ 237,309

	Nine months ended February 29, 2024	Nine months ended February 28, 2023
Salaries and other short-term employee benefits	\$ 708,650	\$ 652,579
Share-based payments	61,605	61,703
	\$ 770,255	\$ 714,282

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

18. Subsequent event:

On March 26, 2024, subsequent to the nine months ended February 29, 2024, an advanced payment guarantee of \$1,129,034 (equivalent to GBP£658,406), with no collateral, was issued by a financial institution in favour of a customer of the Company. The bank guarantee has an expiry date of August 31, 2024.