

Consolidated Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Years ended May 31, 2025 and 2024



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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, 2025 and May 31, 2024
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material policy information

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at May 31, 2025 and May 31, 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended May 31, 2025. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Estimated costs to complete for contracts for heat recovery projects

Description of the matter

We draw attention to Notes 2(c), 3(l) and 22 to the financial statements. The Entity provides heat recovery projects specifically customized to each customer. In fiscal 2025, the Entity recognized \$14,274,308 in revenue from contracts for heat recovery projects. Revenue from contracts for heat recovery projects, which are fixed priced contracts, is recognized over time based on the stage of completion. The stage of completion for certain heat recovery projects is determined by reference to the costs incurred relative to estimated costs to complete. To determine the stage of completion, significant estimates are made about the estimated costs to complete which includes materials, subcontractors and labour costs.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

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



Other Information

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

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

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Alexandra Duret

Ottawa, Canada

September 22, 2025

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2025 and 2024

(Expressed in Canadian dollars)

	2025	2024
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	2,798,695	6,965,145
Trade and other receivables (note 6)	4,498,562	4,182,566
Current tax receivable	19,037	117,078
Prepaid expenses (note 7)	765,266	1,354,060
Inventory (note 8)	1,827,077	1,593,207
	9,908,637	14,212,056
Non-current assets:		
Property, plant and equipment (note 9)	388,837	530,424
Right-of-use assets (note 10)	939,653	1,279,626
Intangible assets (note 11)	491,835	626,622
Deferred tax assets (note 26)	217,271	142,074
	2,037,596	2,578,746
Total assets	11,946,233	16,790,802
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 13)	3,419,874	4,432,567
Current tax liabilities	84,023	55,347
Pensions and other employer obligations	226,149	257,350
Current portion of long-term debt (note 14)	327,757	921,018
Deferred revenue (note 15)	2,715,070	4,344,793
Provisions (note 16)	345,000	382,813
Current portion of lease obligations (note 17)	394,510	308,996
	7,512,383	10,702,884
Non-current liabilities:		
Long-term debt (note 14)	1,640	1,429,733
Lease obligations (note 17)	864,393	1,234,971
Deferred tax liabilities (note 26)	867	813
	866,900	2,665,517
Total liabilities	8,379,283	13,368,401
Equity		
Capital stock (note 18)	32,798,603	33,247,637
Contributed surplus	4,896,549	4,659,779
Accumulated other comprehensive income	536,000	288,798
Deficit	(34,660,733)	(34,733,899)
Equity attributable to owners of the parent	3,570,419	3,462,315
Non-controlling interest (note 20)	(3,469)	(39,914)
Total equity	3,566,950	3,422,401
Commitment (note 30)		
Subsequent event (note 31)		
Total liabilities and equity	11,946,233	16,790,802

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

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars)

	2025	2024
	\$	\$
Revenue (note 22)	29,780,476	25,880,197
Cost of sales	17,436,633	13,427,888
Gross profit	12,343,843	12,452,309
Expenses (note 24):		
Administration	6,463,729	6,262,756
Selling, marketing and business development	5,068,590	4,554,886
Research and development	405,113	268,042
	11,937,432	11,085,684
Operating income	406,411	1,366,625
Finance costs (note 25)	(289,562)	(416,816)
Finance revenue	63,267	49,340
Income before income tax	180,116	999,149
Income tax expense (note 26)	(21,634)	(16,981)
Net income for the year	158,482	982,168
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	256,371	124,656
Total comprehensive income for the year	414,853	1,106,824
Net income for the year attributable to:		
Owners of the parent	73,166	929,504
Non-controlling interest (note 19)	85,316	52,664
Net income for the year	158,482	982,168
Total comprehensive income for the year attributable to:		
Owners of the parent	320,368	1,049,798
Non-controlling interest (note 20)	94,485	57,026
Total comprehensive income for the year	414,853	1,106,824
Net income per share - basic (note 27)	-	0.006
Net income per share - diluted (note 27)	-	0.005

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, 2025 and 2024

(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, 2023	32,526,779	4,937,468	(35,663,403)	168,504	1,969,348	(46,358)	1,922,990
Share-based compensation (note 21)	-	237,251	-	-	237,251	-	237,251
Share options exercised (note 18)	720,858	(514,940)	-	-	205,918	-	205,918
Dividends paid (note 20)	-	-	-	-	-	(50,582)	(50,582)
Transactions with owners	720,858	(277,689)	-	-	443,169	(50,582)	392,587
Net income for the year	-	-	929,504	-	929,504	52,664	982,168
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	120,294	120,294	4,362	124,656
Total comprehensive income for the year	-	-	929,504	120,294	1,049,798	57,026	1,106,824
Balance at May 31, 2024	33,247,637	4,659,779	(34,733,899)	288,798	3,462,315	(39,914)	3,422,401
Balance at June 1, 2024	33,247,637	4,659,779	(34,733,899)	288,798	3,462,315	(39,914)	3,422,401
Share-based compensation (note 21)	-	253,886	-	-	253,886	-	253,886
Share options exercised (note 18)	50,966	(17,116)	-	-	33,850	-	33,850
Obligations related to share repurchases (note 18)	(500,000)	-	-	-	(500,000)	-	(500,000)
Dividends paid (note 20)	-	-	-	-	-	(58,040)	(58,040)
Transactions with owners	(449,034)	236,770	-	-	(212,264)	(58,040)	(270,304)
Net income for the year	-	-	73,166	-	73,166	85,316	158,482
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	247,202	247,202	9,169	256,371
Total comprehensive income for the year	-	-	73,166	247,202	320,368	94,485	414,853
Balance at May 31, 2025	32,798,603	4,896,549	(34,660,733)	536,000	3,570,419	(3,469)	3,566,950

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, 2025 and 2024

(Expressed in Canadian dollars)

	2025	2024
	\$	\$
Operating activities:		
Net income for the year	158,482	982,168
Add items not involving cash:		
Depreciation of property, plant and equipment (note 9)	237,439	158,940
Depreciation of right-of-use assets (note 10)	367,821	338,703
Loss on disposal of assets (note 9)	255	820
Amortization of intangible assets (note 11)	154,464	225,389
Finance costs (note 25)	289,562	416,816
Finance revenue	(63,267)	(49,340)
Share-based compensation (note 21)	253,886	237,251
Income tax expense (note 26)	21,634	16,981
Unrealized foreign exchange and translation adjustments	331,638	165,559
Changes in working capital:		
Trade and other receivables	(315,996)	1,856,057
Prepaid expenses (note 7)	588,794	(925,479)
Inventory	(233,870)	(121,334)
Trade payables and other liabilities	(1,574,505)	317,523
Deferred revenue (note 15)	(1,689,284)	2,204,733
Income tax refunded (paid)	31,502	(56,888)
Interest paid	(294,958)	(418,871)
Interest received	63,267	49,340
Net cash (used) provided by operating activities	(1,673,136)	5,398,368
Investing activities:		
Additions to property, plant and equipment (note 9)	(77,726)	(376,890)
Net cash used in investing activities	(77,726)	(376,890)
Financing activities:		
Repayment of long-term debt (note 14)	(2,067,525)	(921,281)
Repayment of lease obligations (note 17)	(317,292)	(290,483)
Stock options exercised (note 18)	33,850	205,918
Dividends paid (note 20)	(58,040)	(50,582)
Net cash used in financing activities	(2,409,007)	(1,056,428)
(Decrease) increase in cash and cash equivalents for the year	(4,159,869)	3,965,050
Cash and cash equivalents, beginning of year	6,965,145	3,000,607
Exchange differences on cash and cash equivalents	(6,581)	(512)
Cash and cash equivalents, end of year	2,798,695	6,965,145

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 22, 2025. 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, 2025 and 2024.

2. Basis of presentation:

(a) Statement of compliance:

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

The policies applied in these consolidated financial statements are based on IFRS Accounting Standards issued and effective as of September 22, 2025, the date the Board of Directors approved the consolidated financial statements.

(b) Measurement basis:

The financial statements have been prepared on a historical cost basis except as permitted by IFRS Accounting Standards and as otherwise indicated within these notes.

(c) Significant accounting judgements and estimates:

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

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

The critical estimates include:

- 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(l) 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 judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of the reversal of temporary differences, future taxable income and future tax planning strategies.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

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

The critical estimates include (continued):

- Impairment:

An impairment loss is recognized for the amount by which an asset or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset and determines a suitable discount rate to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future expected cash flows and determines an applicable royalty rate. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Further information on the estimates used in determining the recoverable amount of other intangible assets is provided in note 11.

- Assumptions used in the Black-Scholes fair value calculations:

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's share price and the risk-free interest rate are used. Further details of inputs used in the measurement of fair values at grant date are provided in note 21.

- Expected credit losses:

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.

(d) Functional currency and foreign currency translation:

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

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

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

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

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

3. Material accounting policies

(a) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the parent, which is the ultimate parent, and its subsidiaries. Subsidiaries are consolidated from the date on which the parent company obtains control and continue to be consolidated until control ceases. Control is established when the parent company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared using consistent accounting policies and all material inter-company transactions are eliminated in full upon consolidation.

Where the ownership of a subsidiary is less than 100% and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the owners of the parent and to the non-controlling interest even if that results in the non-controlling interest having a deficit balance.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(a) Basis of consolidation (continued):

Non-controlling interest presented as part of equity represents the portion of a subsidiary's net income or loss and net assets that are not held by the Company. The Company attributes total comprehensive income of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The following subsidiaries have been consolidated within the consolidated financial statements:

Name of subsidiary	Place of incorporation	Ownership interest	Functional currency	Principal activity
Thermal Energy International (UK) Ltd. ⁽¹⁾	United Kingdom	100%	GBP	Manufacture and sale of condensate return solutions and sale of heat recovery solutions
Thermal Energy International Corporation ⁽²⁾	Delaware, U.S.	100%	USD	Sale of heat recovery and condensate return solutions
Boilerroom Equipment Inc. ⁽²⁾	Pennsylvania, U.S.	100%	USD	Sale of indirect contact heat recovery units
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. ⁽³⁾	Ontario, Canada	100%	CAD	Holding company
GEMchem Ltd. ⁽¹⁾	United Kingdom	67%	GBP	Sale of water treatment products and services
Thermal Energy International (Guangzhou) Ltd. ⁽³⁾	Guangzhou, China	55%	CAD	Non-operating

⁽¹⁾ Thermal Energy International (UK) Ltd owns 67% of GEMchem Ltd., a company incorporated in the United Kingdom.

⁽²⁾ Thermal Energy International Corporation owns 100% of Boilerroom Equipment Inc., a company incorporated in the United States.

⁽³⁾ 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a fiscal year end of May 31.

Information relating to each of the Company's subsidiaries that have non-controlling interest can be found in note 20.

(b) Cash and cash equivalents:

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, and which are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in value.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(c) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method and includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

(d) Property, plant and equipment:

Property, plant and equipment are initially recognized at acquisition cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs of replacing components are recognized only if it is probable that future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of other replacement parts and general servicing of property, plant and equipment is recognized immediately in profit or loss.

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets less estimated residual value:

Asset	Method
Plant and equipment	5 years straight-line
Furniture and fixtures	5 years straight-line
Laboratory equipment	5 years straight-line
Computers	3 years straight-line
Leasehold improvements	3-10 years straight-line
Motor vehicles	4 years straight-line

Depreciation methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Depreciation and impairment charges are included within administrative expenses.

(e) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

THERMAL ENERGY INTERNATIONAL INC.

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(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(e) Leases (continued):

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 10 years for vehicles, equipment and offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense in profit and loss on a straight-line basis over the lease term.

(f) Intangible assets:

Intangible assets were either acquired in business combinations or through purchases. These intangible assets are recorded at their fair value at the acquisition date. The Company uses the income approach to value intangible assets acquired.

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. The discounted cash flow ("DCF") is the methodology used, which is a form of the income approach that begins with a forecast of the annual cash

THERMAL ENERGY INTERNATIONAL INC.

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3. Material accounting policies (continued):

(f) Intangible assets (continued):

flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The future cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows from a market participant perspective. The present value of the future cash flows is then added to the present value of the residual value of the intangible asset at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible asset.

After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization is computed using the following rates and methods which reflect the estimated useful life of the assets:

Asset	Method
Trade names and trademarks	indefinite life
Non-compete agreements	2 years straight-line
Industrial know-how	5 years straight-line
Designs and drawings	5 years straight-line
Customer relationships	6 years straight-line
Existing technology	7 years straight line
Proprietary software	4 years straight line
Brand portfolio	indefinite life
Licenses	3 years straight line

Amortization methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Amortization is included within administrative expenses.

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

(g) Impairment:

The carrying values of all property and equipment and intangible assets with a finite useful life are reviewed for impairment whenever there is an indication that the asset's carrying amount may not be recoverable. An impairment loss is recognized if the recoverable amount of the

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(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(g) Impairment (continued):

asset is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The intangible assets with an indefinite useful life are subject to annual impairment testing. Impairment testing is performed using the relief from royalty method, which requires management to estimate expected future revenue from sales of the product to which the indefinite-lived intangible assets relate and determine an appropriate royalty rate to apply to the future revenue. The royalty rate is subject to estimation uncertainty and reflects company and product specific factors as assessed by management.

(h) Provisions, contingent liabilities and contingent assets:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

(i) Warranties:

The Company warrants its heat recovery solutions products against defects for 1-2 years and condensate return solution product against defects for 10 years and does not offer extended warranties. A provision for warranty expense is recorded when the revenue for the related product is recognized. The provision is based upon the terms of the warranty, the Company's historical experience and management estimates of future expense for replacement or repairs. The provision is charged to cost of sales.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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3. Material accounting policies (continued):

(j) Equity:

Capital stock represents the amount received on the issue of shares, less share issue expenses, net of any underlying income tax benefit from the issuance costs.

Contributed surplus includes charges related to stock options and warrants. When stock options and warrants are exercised, the related compensation cost is transferred to capital stock.

Deficit includes all current and prior year retained losses.

Accumulated other comprehensive income represents foreign currency translation differences arising on the translation of the Company's foreign subsidiaries, net of income taxes. All transactions with owners of the parent are recorded separately in equity.

(k) Equity-settled share-based compensation:

The Company offers an equity-settled share-based compensation plan for its directors, employees and certain contractors. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based payments (except warrants to brokers) are ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. Equity-settled share-based payments to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus.

If vesting years or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of awards expected to vest. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current year. No adjustment is made to any expense recognized in prior years if awards ultimately exercised are different to that estimated on vesting.

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting year of the respective tranches.

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Notes to the Consolidated Financial Statements

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3. Material accounting policies (continued):

(k) Equity-settled share-based compensation (continued):

When stock options are exercised, any consideration paid by employees is credited to capital stock in addition to the amount previously recorded in contributed surplus relating to those options.

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

(l) Revenue recognition:

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

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

Nature of products and services

Sale of goods, equipment and services

Revenue is recognized upon transfer of control of promised goods, equipment and services to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods, equipment and services at a point in time. Services comprise of surveys, installation of goods, after-sale service, project development analysis, and engineering service delivered at a point in time. The Company's goods, equipment and services are generally distinct and accounted for as separate performance obligations. A good, equipment and service 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 or deliver the service 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 or services provided prior to agreed billing terms are included in unbilled product revenue.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

Rendering of services over time

Services rendered over time comprise of engineering service, maintenance service, 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. The stage of completion is determined by the expected level of service we will provide over the term of the contract to determine the extent of progress towards completion ("output" method).

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

Contracts for heat recovery projects

The Company provides heat recovery projects specifically customized to each customer. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance as the Company performs or when the Company creates or enhances an asset that the customer controls as the asset is created and enhanced, or when the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. 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.

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3. Material accounting policies (continued):

(l) Revenue recognition (continued):

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.

(m) Research costs and government assistance:

The Company carries on various research programs, and from time to time these are funded by the Government of Canada. Funding received is accounted for using the cost reduction approach and is netted against research costs. Research costs are expensed as incurred.

(n) Post employee benefits and short-term employee benefits:

Certain subsidiaries of the Company provide post-employment benefits through defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution.

The cost of the Company's pension benefits for defined contribution plans are expensed when employees have rendered services entitling them to contributions.

Short-term employee benefits, including vacation entitlement, are current liabilities included in "Pensions and other employer obligations", measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(o) Income taxes:

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

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

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3. Material accounting policies (continued):

(o) Income taxes (continued):

Deferred income taxes are calculated using the liability method on temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax liabilities are always recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income or loss, nor the income or loss for the year reported in the Company's statements of comprehensive income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, at the tax rates that have been enacted or substantively enacted by the end of the reporting year and applicable in the year in which the liability is expected to be settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(p) Earnings per share:

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated similar to basic earnings per share except the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares, which are comprised of additional shares from the assumed exercise of stock options or vesting of share units. Options and share units that have a dilutive impact are assumed to have been exercised or vested on the later of the beginning of the period or the date granted.

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3. Material accounting policies (continued):

(q) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

On initial recognition, trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and liabilities are initially measured at their fair value. Transaction costs that directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

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

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

The Company's financial assets are classified as follows:

Financial asset	Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

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3. Material accounting policies (continued):

(q) Financial instruments (continued):

Impairment of financial assets

The Company has elected a practical expedient whereby the Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlated with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification
Short-term borrowings	Amortized cost
Trade payables and other liabilities	Amortized cost
Long-term debt	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method. Interest expense is recognized by applying effective interest rate except for short-term payables where the interest expense would be immaterial.

Interest revenue and expenses

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

(r) Segment reporting:

In identifying its operating segments, management generally follows the Company's key geographical areas, which reflect the business of the Company's two main operating units in Ottawa, Canada and Bristol, UK. In determining its reportable segments, the Company considers qualitative factors, such as operations which are considered to be significant by management, as well as quantitative factors, so that material revenues and expenses are appropriately disclosed. Management considers assets and liabilities on a global basis and does not assess on a segment basis. The reportable segments' financial results are reviewed quarterly by senior management and the Board. Corporate and other costs which are not easily attributable to any particular operating segment are separately disclosed within reconciling items.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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3. Material accounting policies (continued):

(r) Segment reporting (continued):

The two main operating units are as follows:

- North America, managed from the Ottawa office.
- Europe and rest of world, managed from the Bristol office.

Reconciling items comprise corporate administration costs, share-based compensation, professional fees, depreciation of property, plant and equipment, amortization of intangible assets, acquisition costs, foreign exchange differences and finance costs. Corporate administration costs include employment costs of the Chief Executive Officer and Chief Finance Officer, directors' fees, directors' and officers' liability insurance, and shareholder and investor services expenses.

(s) New standards, amendments and interpretations to existing standards:

The Company has adopted the following amended accounting standard:

Amendments to IAS 1

Effective June 1, 2024, the Company adopted Amendments to IAS 1 *Presentation of Financial Statements*. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment requires a company to disclose information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Such disclosure includes information about covenants and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

The adoption of the amendments to IAS 1 did not have a material impact on the consolidated financial statements.

(t) New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

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

THERMAL ENERGY INTERNATIONAL INC.

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3. Material accounting policies (continued):

(t) New standards and amendments yet to be adopted (continued):

IFRS 18 introduces three new sets of requirements:

- Improved comparability in the statements of income which introduces three defined categories for income and expenses: operating, investing and financing. These 3 changes would require all companies to use the same structure of the statements of income and provide new defined subtotals, including operating profit.
- Enhanced transparency of management-defined performance measures which would require companies to disclose explanations of those company specific measures that are related to the income statement.
- More useful grouping of information in the financial statements which provides enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

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

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

4. Segment reporting:

In fiscal 2025 and 2024, 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 three technology lines - direct contact heat recovery solutions, condensate return system solutions, and indirect contact heat recovery solutions. Assets are mainly located in Canada, the US and the UK.

Management reporting comprises analysis of revenue and gross profit within two distinct geographical areas. All other items of revenue and expenses are considered on a geographical and/or global basis in making strategic decisions regarding the Company's future. The Company has two operational bases ("reporting units"), one in Ottawa, Canada covering North America and the other in Bristol, 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.

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4. Segment reporting (continued):

Segment information for the year ended May 31, 2025 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue from external customers	13,608,665	11,812,843	16,171,811	14,067,354	-	-	29,780,476	25,880,197
Cost of sales	(7,970,258)	(6,399,343)	(9,466,375)	(7,028,545)	-	-	(17,436,633)	(13,427,888)
Gross profit	5,638,407	5,413,500	6,705,436	7,038,809	-	-	12,343,843	12,452,309
Other expenses	(4,302,590)	(4,052,818)	(5,837,443)	(5,242,729)	(1,797,399)	(1,790,137)	(11,937,432)	(11,085,684)
Finance costs	(86,138)	(92,949)	(17,752)	(33,176)	(185,672)	(290,691)	(289,562)	(416,816)
Finance revenue	63,267	49,340	-	-	-	-	63,267	49,340
Income (loss) before taxation	1,312,946	1,317,073	850,241	1,762,904	(1,983,071)	(2,080,828)	180,116	999,149
Tax recovery (expense)	22,095	40,824	(43,729)	(57,805)	-	-	(21,634)	(16,981)
Profit (loss) after taxation	1,335,041	1,357,897	806,512	1,705,099	(1,983,071)	(2,080,828)	158,482	982,168
Attributable to:								
Owners of the parent	1,330,343	1,357,868	725,894	1,652,464	(1,983,071)	(2,080,828)	73,166	929,504
Non-controlling interest	4,698	29	80,618	52,635	-	-	85,316	52,664

Other expenses in Reconciling Items comprise the following:

	2025	2024
Corporate administration costs	\$ 761,272	\$ 769,274
Share-based compensation	253,886	237,251
Professional fees	265,750	175,982
Depreciation of property, plant and equipment	237,439	158,940
Amortization of intangible assets	154,464	225,389
Foreign exchange loss	124,588	223,301
Total	\$ 1,797,399	\$ 1,790,137

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, 2025, the Company had one customer in North America and one customer in Europe that accounted for 14.1% and 12.3% of total consolidated revenue for the year, respectively. During the year ended May 31, 2024, the Company had one customer in North America and one customer in Europe that accounted for 14.1% and 11.3% of total consolidated revenue for the year, respectively.

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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	
	2025	2024	2025	2024	2025	2024
	\$	\$	\$	\$	\$	\$
U.S.A.	10,989,285	10,117,471	74,001	105,304	111,947	222,453
Canada	2,571,114	1,534,343	113,401	110,704	122,703	163,192
U.K.	5,863,996	2,273,285	201,435	314,416	257,185	240,977
Ireland	3,199,550	3,798,719	—	—	—	—
Germany	3,287,842	1,367,391	—	—	—	—
Poland	618,614	1,181,967	—	—	—	—
Italy	605,174	537,270	—	—	—	—
Switzerland	591,700	—	—	—	—	—
Greece ⁽¹⁾	427,153	29,360	—	—	—	—
Romania	341,677	1,519,898	—	—	—	—
Spain	232,107	340,439	—	—	—	—
France	203,011	38,104	—	—	—	—
Netherlands	72,820	1,916,251	—	—	—	—
Belgium	4,662	47,337	—	—	—	—
Portugal	—	153,985	—	—	—	—
Bulgaria	—	46,283	—	—	—	—
Rest of Europe ⁽²⁾	—	9,375	—	—	—	—
Indonesia	195,767	—	—	—	—	—
Australia	166,594	77,137	—	—	—	—
Mauritius	110,732	357,844	—	—	—	—
UAE	110,635	—	—	—	—	—
India	90,540	42,063	—	—	—	—
South Africa	23,303	8,710	—	—	—	—
Brazil	—	252,795	—	—	—	—
Mexico	—	180,831	—	—	—	—
Rest of the World	74,200	49,339	—	—	—	—
Total	29,780,476	25,880,197	388,837	530,424	491,835	626,622

⁽¹⁾ The comparative information for Greece was reclassified from Rest of Europe to conform with the financial statement presentation adopted in the current year.

⁽²⁾ The comparative information for Norway was reclassified to Rest of Europe to conform with the financial statement presentation adopted in the current year.

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5. Cash and cash equivalents:

	2025	2024
Cash	\$ 2,782,956	\$ 6,949,752
Cash equivalents	15,739	15,393
Balance, end of year	\$ 2,798,695	\$ 6,965,145

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

6. Trade and other receivables:

	2025	2024
Trade receivables, gross	\$ 3,495,104	\$ 3,300,990
Allowance for expected credit losses	(5,208)	(12,263)
Trade receivables, net	3,489,896	3,288,727
Unbilled revenue	452,754	246,802
Contract assets	431,423	257,989
Sales tax and other miscellaneous receivables	124,489	389,048
Balance, end of year	\$ 4,498,562	\$ 4,182,566

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

At May 31, 2025, \$65,783 (1.9%) of the Company's trade receivables balance was over 90 days past due (\$194,435 (5.9%) at May 31, 2024). \$787 of the past due balance was impaired at May 31, 2025 (\$12,263 at May 31, 2024).

The change in allowance for expected credit losses was as follows:

	2025	2024
Balance, beginning of year	\$ 12,263	\$ 19,689
Provisions	9,839	10,789
Release of provisions due to collection	(6,089)	(8,359)
Amounts written off	(11,450)	(10,083)
Foreign exchange adjustments	645	227
Balance, end of year	\$ 5,208	\$ 12,263

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2025, provisions of \$9,839 were made as expected credit losses and recorded under administrative expenses. \$6,089 of the provisions were released due to the collection on the doubtful account.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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6. Trade and other receivables (continued):

For the year ended May 31, 2024, provisions of \$10,789 were made as expected credit losses and recorded under administrative expenses. \$8,359 of the provisions were released due to the collection on the doubtful account.

7. Prepaid expenses:

	2025	2024
Prepayments for goods, equipment and projects	\$ 268,452	\$ 738,838
Foreign government regulatory fees ⁽¹⁾	140,553	127,701
Insurance ⁽¹⁾	133,301	310,340
Rent ⁽¹⁾	58,293	103,918
Other prepaid expenses ⁽¹⁾	164,667	73,263
Balance, end of year	\$ 765,266	\$ 1,354,060

⁽¹⁾ The comparative information was reclassified from other prepaid expenses to conform with the financial statement presentation adopted in the current year.

8. Inventory:

	2025	2024
Raw materials	\$ 1,235,696	\$ 1,072,685
Work in progress	364,622	336,046
Finished goods	226,759	184,476
Balance, end of year	\$ 1,827,077	\$ 1,593,207

For the year ended May 31, 2025, a total of \$1,859,471 of inventory was expensed to cost of sales (\$1,960,826 at May 31, 2024). Provisions of \$10,231 (\$2,739 at May 31, 2024) were made for slow-moving inventories under cost of sales.

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9. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve- ments	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost, May 31, 2023	568,572	173,939	52,857	481,539	204,006	11,341	1,492,254
Additions	67,987	24,267	-	51,917	232,719	-	376,890
Disposals	(8,400)	-	-	(29,144)	-	-	(37,544)
Translation adjustments	6,952	637	-	3,853	7,370	28	18,840
Cost, May 31, 2024	635,111	198,843	52,857	508,165	444,095	11,369	1,850,440
Additions	24,568	5,624	10,663	36,871	-	-	77,726
Disposals	-	-	-	(5,209)	-	-	(5,209)
Translation adjustments	17,748	2,473	-	9,443	16,252	102	46,018
Cost, May 31, 2025	677,427	206,940	63,520	549,270	460,347	11,471	1,968,975
Accumulated depreciation, May 31, 2023	450,693	142,113	52,857	447,683	88,579	6,143	1,188,068
Depreciation for the year	50,133	14,708	-	27,607	63,807	2,685	158,940
Disposals	(7,580)	-	-	(29,144)	-	-	(36,724)
Translation adjustments	5,084	575	-	3,393	507	173	9,732
Accumulated depreciation, May 31, 2024	498,330	157,396	52,857	449,539	152,893	9,001	1,320,016
Depreciation for the year	50,558	14,066	1,066	36,690	132,641	2,418	237,439
Disposals	-	-	-	(4,954)	-	-	(4,954)
Translation adjustments	12,833	769	-	7,220	6,763	52	27,637
Accumulated depreciation, May 31, 2025	561,721	172,231	53,923	488,495	292,297	11,471	1,580,138
Net book value, May 31, 2024	136,781	41,447	-	58,626	291,202	2,368	530,424
Net book value, May 31, 2025	115,706	34,709	9,597	60,775	168,050	-	388,837

During the year ended May 31, 2025, the Company disposed of depreciated assets with a net book value of \$255 for \$nil proceeds.

During the year ended May 31, 2024, the Company disposed of depreciated assets with a net book value of \$820 for \$nil proceeds.

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10. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2024	1,180,389	95,079	4,158	1,279,626
Depreciation	(326,713)	(38,336)	(2,772)	(367,821)
Translation adjustments	22,721	5,127	-	27,848
Balance, May 31, 2025	876,397	61,870	1,386	939,653

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2023	1,184,520	56,430	6,931	1,247,881
Additions	274,044	86,828	-	360,872
Depreciation	(285,177)	(50,753)	(2,773)	(338,703)
Translation adjustments	7,002	2,574	-	9,576
Balance, May 31, 2024	1,180,389	95,079	4,158	1,279,626

During the year ended May 31, 2024, the Company leased a new facility in the U.K. for 2.5 years and recognized a right-of-use asset for \$274,044.

11. Intangible assets:

	Cost, May 31, 2024	Disposals	Translation adjustments	Cost, May 31, 2025
	\$	\$	\$	\$
Trade names and trademarks (a)	798,882	-	53,728	852,610
Non-compete agreement	104,202	-	7,008	111,210
Industrial know-how	121,569	-	8,176	129,745
Designs and drawings	133,726	-	8,994	142,720
Customer relationships	758,397	-	23,458	781,855
Existing technology	1,013,002	-	6,473	1,019,475
Proprietary software	410,473	-	3,643	414,116
Brand portfolio (b)	203,191	-	1,803	204,994
Licences	10,980	(911)	70	10,139
Total	3,554,422	(911)	113,353	3,666,864

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11. Intangible assets (continued):

	Accumulated amortization and impairment, May 31, 2024	Amortization	Disposals	Translation adjustments	Accumulated amortization and impairment, May 31, 2025
	\$	\$	\$	\$	\$
Trade names and trademarks (a)	557,905	-	-	37,521	595,426
Non-compete agreement	104,202	-	-	7,008	111,210
Industrial know-how	121,569	-	-	8,176	129,745
Designs and drawings	133,726	-	-	8,994	142,720
Customer relationships	751,841	6,579	-	23,435	781,855
Existing technology	736,899	147,171	-	3,939	888,009
Proprietary software	410,474	-	-	3,642	414,116
Brand portfolio (b)	100,914	-	-	895	101,809
Licences	10,270	714	(911)	66	10,139
Total	2,927,800	154,464	(911)	93,676	3,175,029
Net book value	626,622				491,835

	Cost, May 31, 2023	Translation adjustments	Cost, May 31, 2024
	\$	\$	\$
Trade names and trademarks (a)	775,652	23,230	798,882
Non-compete agreement	101,172	3,030	104,202
Industrial know-how	118,034	3,535	121,569
Designs and drawings	129,837	3,889	133,726
Customer relationships	748,888	9,509	758,397
Existing technology	1,011,182	1,820	1,013,002
Proprietary software	409,450	1,023	410,473
Brand portfolio (b)	202,684	507	203,191
Licences	10,950	30	10,980
Total	3,507,849	46,573	3,554,422

	Accumulated amortization and impairment, May 31, 2023	Amortization	Translation adjustments	Accumulated amortization and impairment, May 31, 2024
	\$	\$	\$	\$
Trade names and trademarks (a)	541,682	-	16,223	557,905
Non-compete agreement	101,172	-	3,030	104,202
Industrial know-how	118,034	-	3,535	121,569
Designs and drawings	129,837	-	3,889	133,726
Customer relationships	663,905	77,952	9,984	751,841
Existing technology	590,905	143,803	2,191	736,899
Proprietary software	409,451	-	1,023	410,474
Brand portfolio (b)	100,662	-	252	100,914
Licences	6,585	3,634	51	10,270
Total	2,662,233	225,389	40,178	2,927,800
Net book value	845,616			626,622

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11. Intangible assets (continued):

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

(a) Trade names and trademarks:

Trade names and trademarks relate specifically to the GEM™ product. The calculation of the expected future revenues from the GEM™ product covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 33% (2024 - 32%). The growth rates attributed by Management to the GEM™ product line are 2% in 2026, followed by 7% in each of the subsequent four years. The Company is expecting a 2% growth in revenues in 2026 compared to 2025 based on forecasted sales and a higher growth in the subsequent four years from 2027 to 2030. The Company will continue to expand its presence in Europe, North America and the rest of the international markets. In addition, the Company has invested and will continue to invest in its digitalization tools to streamline and accelerate the GEM sales process, ultimately enhancing future sales order intake. 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, 2025 and 2024.

(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 24% (2024 - 23%). The growth rates attributed by Management to the brand portfolio are 10% in 2026, followed by 5% growth rate in each of the subsequent four years. The sales and revenue are expected to grow in the next five years 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. In addition, the Company plans to further expand its sales channels and network in the coming year to establish market presence in new territories. 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, 2025 and 2024.

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12. Short-term borrowings:

During the year ended May 31, 2025, the Company entered into a line of credit agreement with a lending institution for a total amount of \$2,000,000. \$Nil was utilized as at May 31, 2025. The line of credit bears interest at the institution's floating base rate plus a premium of 3.51%. The line of credit is expected to support internal working capital needs related to operations.

The Company granted to the lending institution a general security agreement as collateral for the fulfilment of all present and future obligations under this agreement. This security agreement shall rank in first position with respect to all personal property of the Company except intellectual property.

The Company has a covenant in accordance with this line of credit, namely Debt Service Coverage ratio. The Company was in compliance with the covenant at May 31, 2025.

13. Trade payables and other liabilities:

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

	2025	2024
Trade payables	\$ 1,510,899	\$ 2,429,063
Accruals	1,074,716	1,813,981
Obligations related to share purchases (note 18)	500,000	-
Other government remittances payable	334,259	189,523
	\$ 3,419,874	\$ 4,432,567

Included in accruals is \$26,107 due to Directors (\$13,500 at May 31, 2024).

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

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14. Long-term debt:

	2025	2024
(a) Term loan, bearing interest at 10.4%, was fully paid at May 28, 2025 (11.4% on May 31, 2024), repayable in monthly principal installments of \$34,395 (equivalent to USD\$25,000).	-	\$1,354,919
(b) Term loan, bearing interest at 5.95% (8.20% on May 31, 2024), repayable in monthly principal installments of \$41,667, with a final payment of \$16,656 payable on the maturity date, January 15, 2026.	308,325	958,329
(c) Term loan (equivalent to GBP£11,369.21), bearing interest at 2.50%, repayable in monthly principal installments of \$1,598 (equivalent to GBP£862) up to the maturity date, June 10, 2026.	21,072	37,503
Total long-term debt	329,397	2,350,751
Less: current portion	(327,757)	(921,018)
Long term portion	\$ 1,640	\$ 1,429,733

- (a) The loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 8.90% on May 31, 2025 (9.90% on May 31, 2024). The variance is reset annually based on the Company's consolidated total funded debt to EBITDA ratio. As at May 31, 2025, the variance was at 1.50% (1.50% at May 31, 2024). Interest is payable monthly in arrears on the 1st day of the month commencing on August 1st, 2018.

On February 24, 2025, the Company repaid a portion of its outstanding debt in the amount of \$288,760 (equivalent to USD\$200,000). On May 8, 2025, the Company repaid an additional portion of \$481,530 (equivalent to USD\$350,000). On May 28, 2025, the Company made the final payment in the amount of \$206,370 (equivalent to USD\$150,000).

- (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 7.05% on May 31, 2025 (9.30% on May 31, 2024). Interest is payable monthly in arrears on the 15th day of the month. 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.

On May 28, 2025, the Company repaid a portion of its outstanding debt in the amount of \$150,000, effectively reducing the maturity date to January 15, 2026, and amending the final loan payment to \$16,656.

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14. Long-term debt (continued):

- (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.

15. Deferred revenue:

The change in deferred revenue was as follows:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment, and services	Total deferred revenue
Balance, June 1, 2024	\$ 3,318,084	\$ 1,026,709	\$ 4,344,793
Increase from payments received	12,929,226	3,798,925	16,728,151
Decrease from revenue recognized	(14,289,145)	(4,128,290)	(18,417,435)
Translation adjustments	44,533	15,028	59,561
Balance, May 31, 2025	\$ 2,002,698	\$ 712,372	\$ 2,715,070

	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	\$ 1,051,743	\$ 1,037,133	\$ 2,088,876
Increase from payments received	11,401,173	4,607,657	16,008,830
Decrease from revenue recognized	(9,171,472)	(4,632,625)	(13,804,097)
Translation adjustments	36,640	14,544	51,184
Balance, May 31, 2024	\$ 3,318,084	\$ 1,026,709	\$ 4,344,793

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

The Company changed the description and categorization of revenue during the year ended May 31, 2025. Heat recovery related services that were delivered at a point in time, that were previously reported under revenue from contracts for heat recovery projects, were reclassified to revenue from sales of goods, equipment and services (see note 22).

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15. Deferred revenue (continued):

As a result of the change:

- Deferred revenue relating to point-in-time services in the amount of \$317,796 that was previously reported under deferred revenue relating to contracts for heat recovery projects as at June 1, 2023, was reclassified to deferred revenue relating to sales of goods, equipment, and services.
- For the year ended May 31, 2024, increase from payments received in the amount of \$699,941 and decrease from revenue recognized in the amount of \$765,195 relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue related to sales of goods, equipment, and services.
- For the year ended May 31, 2024, \$2,340 translation adjustments relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue relating to sales of goods, equipment, and services.
- At May 31, 2024, \$254,882 of deferred revenue relating to point-in-time services, that was previously reported as deferred revenue relating to contracts for heat recovery projects, was reclassified to deferred revenue relating to sales of goods, equipment, and services.

16. Provisions:

The change in provisions was as follows:

	Legal provision	Warranty provision	Total provisions
Balance, June 1, 2024	\$ 190,000	\$ 192,813	\$ 382,813
Reductions	-	(44,787)	(44,787)
Translation adjustments	-	6,974	6,974
Balance, May 31, 2025	\$ 190,000	\$ 155,000	\$ 345,000
Balance, June 1, 2023	\$ 190,000	\$ 132,486	\$ 322,486
Additions	-	59,048	59,048
Translation adjustments	-	1,279	1,279
Balance, May 31, 2024	\$ 190,000	\$ 192,813	\$ 382,813

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16. Provisions (continued):

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, 2025 and is intended to account for future liabilities resulting from the claim.

17. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2025 and May 31, 2024:

	2025	2024
Less than one year	\$482,158	\$422,806
One to five years	912,783	1,163,437
Six to ten years	115,300	320,224
Total undiscounted lease obligations	1,510,241	1,906,467
Less: impact of present value	(251,338)	(362,500)
Less: current portion	(394,510)	(308,996)
Long term portion	\$864,393	\$1,234,971

For the year ended May 31, 2025, interest expense on lease obligations (see note 25) was \$116,239 (\$126,131 at May 31, 2024); total cash outflow for leases was \$486,919 (\$442,499 at May 31, 2024), including \$53,388 (\$25,885 at May 31, 2024) 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.

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18. 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, 2025		Year ended May 31, 2024	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of year	172,734,305	33,247,637	164,477,606	32,526,779
Stock options exercised (note 21)	380,000	50,966	8,256,699	720,858
Obligations related to share purchases	-	(500,000)	-	-
Balance, end of year	173,114,305	32,798,603	172,734,305	33,247,637

For the year ended May 31, 2025, the Company issued total 380,000 shares following the exercise of 380,000 stock options for cash proceeds of \$33,850, resulting in an increase to capital stock of \$50,966 and a reduction in contributed surplus of \$17,116.

For the year ended May 31, 2024, the Company issued total 8,256,699 shares for cash proceeds of \$205,918 following the exercise of 11,582,587 stock options. Out of 8,256,699 shares issued, 2,538,339 shares were issued upon the exercise of 2,538,339 options for cash proceeds of \$205,918, resulting in an increase to capital stock of \$316,592 and a reduction in contributed surplus of \$110,674. In addition, 5,718,360 shares were issued upon the exercise of 9,044,248 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of \$404,266 and a reduction in contributed surplus of the same amount.

Normal Course Issuer Bid:

On May 16, 2025, the Company announced its intent to re-launch the Normal Course Issuer Bid ("NCIB") for a further period of twelve months. The NCIB was approved by the TSX Venture Exchange on May 22, 2025. During the 12-month period commencing May 22, 2025 and ending May 21, 2026, the Company could purchase on the TSX up to 8,655,715 common shares, representing approximately 5% of the then issued and outstanding common shares.

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(Expressed in Canadian dollars except share amounts)

18. Capital stock (continued):

Normal Course Issuer Bid (continued):

The Company has entered into an automatic share purchase plan ("ASPP") to provide the option to instruct its broker to make purchases under the NCIB during any applicable blackout periods. As of May 31, 2025, an obligation for the repurchase of shares of \$500,000 (\$nil at May 31, 2024) was captured under trade payables and other liabilities (see note 13), as instructions were provided to the Company's broker to make purchases during the current blackout period in accordance with ASPP. For the year ended May 31, 2025, no Class A common shares were purchased and cancelled directly under the NCIB. See note 31 for the shares purchased and cancelled subsequent to the year end.

19. 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, 2025 totaled \$3,034,419 (\$3,173,517 at May 31, 2024). 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 a debt covenant on its short-term borrowings (see note 12). The Company monitors the ratios on a quarterly basis. The Company's share capital is not subject to external restrictions.

THERMAL ENERGY INTERNATIONAL INC.

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20. 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, 2025			Year ended May 31, 2024		
	GEMchem	TEI	Total	GEMchem	TEI	Total
	Ltd.	(Guangzhou)		Ltd.	(Guangzhou)	
	\$	\$	\$	\$	\$	\$
NCI percentage	33%	45%		33%	45%	
Non-current assets	1,787	-	1,787	2,935	-	2,935
Current assets	858,895	2,091	860,986	707,525	8,084	715,609
Non-current liabilities	867	-	867	813	-	813
Current liabilities	322,665	403,711	726,376	268,697	420,143	688,840
Net assets (liabilities)	537,150	(401,620)	135,530	440,950	(412,059)	28,891
Carrying amount of NCI	177,260	(180,729)	(3,469)	145,513	(185,427)	(39,914)
Revenue	1,498,912	-	1,498,912	1,258,718	-	1,258,718
Profit after tax	244,296	10,440	254,736	159,499	65	159,564
Total comprehensive income	272,082	10,440	282,522	172,718	65	172,783
Profit allocated to NCI	80,618	4,698	85,316	52,635	29	52,664
Comprehensive income allocated to NCI	89,787	4,698	94,485	56,997	29	57,026
Cash flows from operating activities	284,407	(1,302)	283,105	280,528	-	280,528
Cash flows from investing activities	-	-	-	-	-	-
Cash flows from financing activities ⁽¹⁾	(175,880)	-	(175,880)	(153,279)	-	(153,279)
Net increase (decrease) in cash and cash equivalents	108,527	(1,302)	107,225	127,249	-	127,249

⁽¹⁾ The portion of the dividend attributable to the non-controlling interests (33%) amounted to \$58,040 (2024: \$50,582). This amount has been recorded as a reduction in the non-controlling interest's equity.

21. Share-based payments:

The Company established the Company's Share Option Plan applicable to directors, officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date.

The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. The vesting term for options granted is at the discretion of the Board of Directors.

THERMAL ENERGY INTERNATIONAL INC.

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Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

21. Share-based payments (continued):

Activity in stock options was as follows:

	Year ended May 31, 2025		Year ended May 31, 2024	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	12,985,902	0.14	21,592,089	0.10
Granted	2,930,400	0.20	3,560,400	0.20
Forfeited	(93,500)	0.18	(584,000)	0.11
Exercised (note 18)	(380,000)	0.09	(11,582,587)	0.09
Outstanding, end of year	15,442,802	0.15	12,985,902	0.14
Options exercisable, end of year	8,932,707	0.13	5,536,648	0.11

The following tables summarize information about stock options outstanding:

At May 31, 2025:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding May 31, 2025	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2025	Weighted average exercise price
0.08-0.10	2,065,000	0.49	0.09	2,065,000	0.09
0.11-0.15	7,005,502	2.01	0.13	5,709,908	0.13
0.16-0.20	6,372,300	3.96	0.20	1,157,799	0.20
	15,442,802	2.61	0.15	8,932,707	0.13

At May 31, 2024:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding May 31, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2024	Weighted average exercise price
0.08-0.10	2,400,000	1.40	0.09	2,400,000	0.09
0.11-0.15	7,070,502	3.01	0.13	3,136,648	0.13
0.16-0.20	3,515,400	4.50	0.20	-	-
	12,985,902	3.12	0.14	5,536,648	0.11

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

21. 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, 2025, there was \$233,454 (\$266,946 at May 31, 2024) 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-24	30-Nov-23
Grant date share price (\$) ⁽¹⁾	0.20	0.20
Exercise price (\$)	0.20	0.20
Expected volatility (%) ⁽²⁾	64.42	66.19
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	2.93	3.64
Forfeiture rate (%)	22.00	22.39

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

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

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:

	2025	2024
Administration	\$ 206,370	\$ 189,483
Selling, marketing and business development	47,516	47,768
	\$ 253,886	\$ 237,251

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Years ended May 31, 2025 and 2024

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22. Revenue:

	2025	2024
Sale of goods, equipment and services	\$ 13,173,314	\$ 14,726,746
Services over time	2,332,854	1,866,719
Contracts for heat recovery projects	14,274,308	9,286,732
	\$ 29,780,476	\$ 25,880,197

The Company now describes the categories of disaggregation of revenue as sale of goods, equipment and services where previously it was described as sale of goods and equipment. Services delivered at a point in time that were previously classified as contracts for heat recovery projects, were reclassified to sale of goods, equipment and services. As a result of the change, for the year ended May 31, 2024, \$776,373 of services delivered at a point in time, that were previously reported as contracts for heat recovery projects, was reclassified to sale of goods, equipment and services (see note 15).

23. Employee benefits expense:

	2025	2024
Salaries and benefits	\$ 10,531,737	\$ 9,970,860
Share-based compensation (note 21)	253,886	237,251
Pension expense	354,745	271,810
	\$ 11,140,368	\$ 10,479,921

The Company contributes to defined contribution pension plans for permanent employees. The Company matches employee contributions. The plans and their assets are held by independent managers. The pension charge represents contributions paid by the Company.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

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24. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	2025	2024
Depreciation of property, plant and equipment (note 9)	\$ 237,439	\$ 158,940
Depreciation of right-of-use assets (note 10)	367,821	338,703
Amortization of intangible assets (note 11)	154,464	225,389
Foreign exchange loss	124,588	223,301

The Company received funding on various research programs. For the year ended May 31, 2025, a total amount of \$37,798 (\$2,990 May 31, 2024) related to various research funding was recognized as a reduction to research and development expenses.

25. Finance costs:

	2025	2024
Interest on indebtedness	\$ 172,453	\$ 290,685
Interest on leases (note 17)	116,239	126,131
Other	870	-
	\$ 289,562	\$ 416,816

THERMAL ENERGY INTERNATIONAL INC.

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Years ended May 31, 2025 and 2024

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26. Income tax:

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:

	2025	2024
Income before income taxes	\$ 180,116	\$ 999,149
Income tax expense calculated using combined federal and provincial income tax rates in Canada of 26.50% (2025 – 26.50%)	47,731	264,775
Share-based compensation	67,281	62,872
Research and development expenditure	-	(101,869)
Difference in tax rate of foreign subsidiaries	(10,891)	(11,726)
Utilization of previously unrecognized tax losses	(300,325)	(261,813)
Tax effect of temporary difference for which no deferred tax asset is recorded (used)	217,876	(5,454)
Difference in future tax rates	(991)	(5,051)
Permanent differences and other items	953	75,247
Current and deferred income tax expense	\$ 21,634	\$ 16,981
Current	\$ 92,476	\$ 72,413
Deferred	(70,842)	(55,432)
	\$ 21,634	\$ 16,981

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

	2025	2024
Statutory income tax of the year	\$ 92,476	\$ 72,782
Adjustment for prior years	-	(369)
	\$ 92,476	\$ 72,413

Major components of the deferred tax expense are as follows:

	2025	2024
Origination of timing differences	\$ (69,851)	\$ (50,381)
Difference in future tax rates	(991)	(5,051)
	\$ (70,842)	\$ (55,432)

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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26. Income tax (continued):

Change in deferred tax balances in 2025:

	June 1, 2024 \$	Recognized in income \$	Recognized in other comprehensive income \$	May 31, 2025 \$
Provisions	141,031	(63,096)	3,467	81,402
Property, plant and equipment	(72,599)	27,929	(3,957)	(48,627)
Non-capital losses	131,261	106,000	8,827	246,088
Intangible assets	(58,432)	9	(4,036)	(62,459)
	141,261	70,842	4,301	216,404
Recognized as deferred tax assets				217,271
Recognized as deferred tax liabilities				(867)
				216,404

Change in deferred tax balances in 2024:

	June 1, 2023 \$	Recognized in income \$	Recognized in other comprehensive income \$	May 31, 2024 \$
Provisions	90,474	50,079	478	141,031
Property, plant and equipment	(32,890)	(38,930)	(779)	(72,599)
Non-capital losses	84,970	43,328	2,963	131,261
Intangible assets	(57,638)	955	(1,749)	(58,432)
	84,916	55,432	913	141,261
Recognized as deferred tax assets				142,074
Recognized as deferred tax liabilities				(813)
				141,261

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Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

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26. Income tax (continued):

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

	2025	2024
Property, plant and equipment	\$ 1,264,191	\$ 1,230,336
Intangible assets	3,088,230	3,047,741
Provisions	494,987	358,908
Non-capital losses	5,774,117	6,748,639
Research and development pool	3,860,312	3,555,000
	\$ 14,481,837	\$ 14,940,624

As at May 31, 2025, the Company had available non-capital income tax loss carry forwards in the following amounts for which no deferred tax asset was recognized. The tax loss carry forwards may be used to reduce federal and provincial taxable income:

Year of expiry	Amount
2030	\$ 2,411,159
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
2042	9,843
2043	93,386
Total	\$ 5,072,731

As of May 31, 2025, the Company had non-capital losses in foreign subsidiaries in the amount of \$701,386 (\$712,118 at May 31, 2024), which could be carried forward indefinitely (as of May 31, 2024, losses in the amount of \$44,570 expire between 2025 and 2026 and losses of \$667,548 could be carried forward indefinitely).

As of May 31, 2025, the Company had a pool balance in the amount of \$3,860,312 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely (\$3,555,000 at May 31, 2024).

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, 2025 was \$5,156,520 (\$4,542,407 at May 31, 2024).

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

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26. Income tax (continued):

On July 4, 2025, the U.S. government enacted The One Big Beautiful Bill Act of 2025 which includes, among other provisions, changes to the U.S. corporate income tax system including the allowance of immediate expensing of qualifying research and development expenses and permanent extensions of certain provisions within the Tax Cuts and Jobs Act. Certain provisions are effective for the Company beginning fiscal 2026. The Company is evaluating the future impact of these tax law changes on its consolidated financial statements.

27. Earnings per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2025 was based on the net income attributable to owners of the parent of \$73,166 (2024 – net income of \$929,504) and a weighted average number of basic common shares outstanding of 172,926,908 (2024 – 168,028,651) and a weighted average number of dilutive common shares outstanding of 176,097,976 (2024 – 171,702,387).

For the year ended May 31, 2025, 3,171,068 stock options out of 15,442,802 outstanding options were included in the calculation of diluted earnings per share. For the year ended May 31, 2024, 3,673,736 stock options out of 12,985,902 outstanding options were included in the calculation of diluted earnings per share.

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:

	2025	2024
Issued common shares at beginning of year	172,734,305	164,477,606
Effect of shares issued	192,603	3,551,045
Weighted average number of basic common shares at end of year	172,926,908	168,028,651
Effect of stock options on issue	3,171,068	3,673,736
Weighted average number of diluted common shares at end of year	176,097,976	171,702,387

THERMAL ENERGY INTERNATIONAL INC.

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28. Financial instruments:

Financial risk management:

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company does not use derivative financial instruments to manage these risks, as management believes the risks arising from the Company's financial instruments to be at an already acceptably low level. The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. These risks are discussed in more detail below.

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

(i) Foreign currency risk:

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

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

	Net financial assets/(liabilities) in CAD\$				Total CAD \$
	US \$	EUR	PLN	RON	
Functional currency of Company entity					
<u>May 31, 2025</u>					
Canadian Dollar	452,123	–	–	–	452,123
British Pound	393,825	2,382,164	–	–	2,775,989
	845,948	2,382,164	–	–	3,228,112
<u>May 31, 2024</u>					
Canadian Dollar	2,368,103	–	–	–	2,368,103
British Pound	319,863	1,729,169	(61,132)	(28,003)	1,959,897
	2,687,966	1,729,169	(61,132)	(28,003)	4,328,000

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

THERMAL ENERGY INTERNATIONAL INC.

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(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

	May 31, 2025					May 31, 2024				
	US\$	EUR	PLN	RON	Total	US\$	EUR	PLN	RON	Total
Net income (loss)	84,595	238,216	-	-	322,811	268,797	172,917	(6,113)	(2,800)	432,801
Equity	84,595	238,216	-	-	322,811	268,797	172,917	(6,113)	(2,800)	432,801

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 mainly in U.S. dollars and Euros, which constitute the majority of its foreign denominated transactions.

The Company does not enter into arrangements to hedge its foreign exchange risk. The Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk:

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates.

The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The Company is exposed to interest rate risk on its long-term debt. For the year ended May 31, 2025, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in a decrease/increase in income before tax of \$3,294.

(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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk (continued):

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.

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 losses. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (see note 5), trade and other receivables (see note 6).

The credit risk for cash and cash equivalents is considered negligible, since the counter-parties are reputable banks with high quality external credit ratings.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations of its financial liabilities that are settled by cash or another financial asset. The Company manages liquidity risk by maintaining a sufficient amount of cash and cash equivalents and by ensuring 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 17, 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	3,419,874	3,419,874	3,419,874	-	-
Long-term debt	329,397	337,268	335,623	1,645	-
	3,749,271	3,757,142	3,755,497	1,645	-

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

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

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).

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, 2025 and 2024.

Fair value of financial instrument assets and liabilities that are not measured at fair value but fair value disclosures are required:

The carrying value of cash and cash equivalents, trade and other receivables, trade payables and other liabilities approximate their fair values due to their short-term to maturity. Long-term debt is subject to changes in market interest rates.

29. 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:

	2025	2024
Salaries and other short-term employee benefits	\$ 1,016,100	\$ 1,016,994
Share-based payments	94,246	86,526
	\$ 1,110,346	\$ 1,103,520

THERMAL ENERGY INTERNATIONAL INC.

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Years ended May 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

29. Related party transactions (continued):

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.

30. Commitment:

On May 9, 2025, an advanced performance guarantee of \$220,127 (equivalent to EUR£140,990), 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, 2027.

31. Subsequent event:

Subsequent to May 31, 2025, the Company purchased 2,259,500 shares at a weighted average purchase price of \$0.14 per share, for a total cost including transaction costs of \$318,682 under the NCIB (see note 18). The shares purchased under the NCIB are cancelled at each month end. 1,713,000 shares were cancelled up to August 31, 2025.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2025

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, 2025 (or "FY 2025"), and compares the FY 2025 financial results to the previous year ended May 31, 2024 (or "FY 2024"). 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 2025 are against the fourth quarter of FY 2024. Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 53% of our operations, assets and liabilities are denominated in British Pounds and 21% in US Dollars. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease, and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on September 22, 2025. Disclosure contained in this document is current to September 22, 2025, unless otherwise stated.

Forward-Looking Statements

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

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial, and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, and the 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 owned, manufactured and sold the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. In 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owned, manufactured and sold HEATSPONGE and SIDEKICK indirect contact heat recovery units. In 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

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

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

1.3 Strategy

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

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

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

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

2. Performance Measures

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

2.1 EBITDA and Adjusted EBITDA

Management believes that EBITDA (earnings before interest, taxation, depreciation and amortization) and Adjusted EBITDA (EBITDA plus share-based compensation expense) are useful performance measures. The adjusted EBITDA approximates cash generated from operations, before tax, capital expenditures and changes in working capital. Adjusted EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA and Adjusted EBITDA do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS Accounting Standards" or "IFRS") and therefore may not be comparable to similar measures presented by other companies. There is no direct comparable IFRS measure for EBITDA or Adjusted EBITDA.

A reconciliation of net income to EBITDA and Adjusted EBITDA is shown below:

For the fourth quarters ended May 31:

	2025 \$	2024 \$
Total net income attributable to owners of the parent	198,528	278,473
Total net income attributable to non-controlling interest	25,446	11,875
Interest charge	53,905	94,700
Interest revenue	(11,367)	(49,340)
Income tax (recovery)	(27,817)	(95,126)
Depreciation and amortization	96,976	116,584
EBITDA	335,671	357,166
Share based compensation	61,636	65,306
Adjusted EBITDA	397,307	422,472

For the years ended May 31:

	2025 \$	2024 \$
Total net income attributable to owners of the parent	73,166	929,504
Total net income attributable to non-controlling interest	85,316	52,664
Interest charge	289,562	416,816
Interest revenue	(63,267)	(49,340)
Income tax expense	21,634	16,981
Depreciation and amortization	391,903	384,329
EBITDA	798,314	1,750,954
Share based compensation	253,886	237,251
Adjusted EBITDA	1,052,200	1,988,205

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 received customer orders. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other companies.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

The Company's order backlog as at May 31, 2025 was approximately \$12.9 million. As at September 22, 2025, the Company had an order backlog of approximately \$24.3 million.

	2025 \$ million	2024 \$ million	2023 \$ million
Order backlog as at May 31, 2025	12.9	18.7	13.0
Order backlog as at September reporting date	24.3	21.3	21.4

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, 2025 and 2024:

	2025 \$	2024 \$
Revenue	29,780,476	25,880,197
Gross profit	12,343,843	12,452,309
Gross profit percentage	41.4%	48.1%
Adjusted EBITDA ⁽¹⁾	1,052,200	1,988,205
Total net income attributable to owners of the parent	73,166	929,504
Net profit per share - basic	-	0.006
Net profit per share - diluted	-	0.005

(1) Adjusted EBITDA represents earnings before interest, taxation, depreciation, amortization, and share-based compensation expense.

For the most recent eight quarters ended:

Quarter ended	31-Aug-24 \$	30-Nov-24 \$	28-Feb-25 \$	31-May-25 \$
Revenue	8,469,390	8,670,911	5,815,078	6,825,097
Gross profit	3,524,946	2,872,937	2,267,057	3,678,903
Gross profit percentage	41.6%	33.1%	39.0%	53.9%
Adjusted EBITDA ⁽¹⁾	552,641	269,746	(167,494)	397,307
Total net income (loss)	309,472	27,672	(402,636)	223,974
Income (loss) per share, basic and diluted	0.002	-	(0.002)	0.001

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

(1) Adjusted EBITDA represents earnings before interest, taxation, depreciation, amortization, and share-based compensation expense.

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3.2 Summary of Fourth Quarter Results

	Q4 2025	Q4 2024
	\$	\$
Revenue	6,825,097	7,528,602
Cost of sales	3,146,194	4,392,891
Gross profit	3,678,903	3,135,711
Expenses:		
Administration, selling, marketing and business development	3,292,814	2,662,647
Research and development	147,394	232,482
	3,440,208	2,895,129
Operating income	238,695	240,582
Finance costs	(53,905)	(94,700)
Finance revenue	11,367	49,340
Income before income tax	196,157	195,222
Income tax recovery	27,817	95,126
Net income for the period	223,974	290,384
Exchange differences on translation of overseas operations	264,798	38,177
Total comprehensive income for the period	488,772	328,525
Adjusted EBITDA for the period ^{1 2}	397,307	422,472
Order backlog as at May 31 ³	12.9 million	18.7 million
Order backlog as at reporting date ³	24.3 million	21.3 million

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

Revenue and Gross Profit

Revenues were \$6,825,097 in the quarter ended May 31, 2025, representing a decrease of \$703,505, or 9.3%, compared to \$7,528,602 in the quarter ended May 31, 2024. The decrease was primarily driven by lower revenue from heat recovery projects due to project timing difference. At the end of the quarter ended May 31, 2025, several ongoing heat recovery projects were near completion while new projects remained in the mobilization phase. In addition, the timing differences on scheduled deliveries for the indirect contact heat recovery equipment, i.e. economizers, fabricated by Boilerroom Equipment Inc. also contributed to the decrease. In contrast, the fourth quarter of FY 2024 benefited from a higher volume of equipment shipments based on that year's delivery schedule. The decrease in revenue from heat recovery projects and economizers was partially offset by the increase in revenue from GEM.

The gross profit of \$3,678,903 achieved in the quarter ended May 31, 2025, represented an increase of \$543,192, or 17.3%, from \$3,135,711 achieved in the quarter ended May 31, 2024. The increase in gross profit was mainly due to higher revenue from GEM products as compared to the same period of the previous year. In addition, the margins on heat recovery projects improved, which resulted in higher gross profit despite lower revenue. The increase in gross profits from GEM and heat recovery projects were offset by the decreased gross profit from indirect heat recovery equipment due to lower revenue and lower margin as

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compared to the fourth quarter of the prior year. The gross profit expressed as a percentage of revenue was 53.9% in the fourth quarter of FY 2025 compared to 41.7% in the same quarter of FY 2024. The increase of gross profit as a percentage of revenue was mainly due to the change in product mix and the improved margins on GEM and heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the quarter ended May 31, 2025, were \$3,292,814, an increase of \$630,167, or 23.7%, compared to \$2,662,647 in the quarter ended May 31, 2024. The increase of Operating Expenses was mainly due to the increased foreign exchange loss of \$344,996 and the increased general operating expense of \$285,170 compared to the same quarter of last year. Majority of the increased general operating expense was related to increased staff salaries and benefits as a result of team expansion.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses decreased by \$85,088 in the fourth quarter of FY 2025 mainly due to lower amount of R&D activities compared to the same quarter of the previous year.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of \$53,905 in the fourth quarter of FY 2025, a decrease of \$40,795 from \$94,700 for the fourth quarter of FY 2024. The decrease was mainly due to the lower interest rate on long-term debts which are based on floating interest rate, and the reduced balance on long-term debts resulting from monthly repayments and prepayments made. In FY 2025, the Company prepaid \$1,126,660 on long-term debts in addition to the monthly payments made in the amount of \$940,865.

Finance revenue includes interest revenue from the short-term deposit in the bank that generated finance revenue of \$11,367 in the fourth quarter of FY 2025, a decrease of \$37,973. The Company allocated funds to the interest-earning short-term deposit account at the bank to benefit from the excess liquidity. In the fourth quarter of the prior year, the Company had a higher amount of excess liquidity and deposited a higher amount in the interest-earning bank account which generated higher interest as compared to the fourth quarter of current year.

Income before income tax for the quarter ended May 31, 2025 was \$196,157, compared to \$195,222 in the same quarter of the previous year. The amounts are comparable, as the increase in gross profit of \$543,192 and the decrease in R&D cost of \$85,088 were largely offset by the increase in Operating Expenses of \$630,167.

Income tax recovery in the fourth quarter of FY 2025 was \$27,817, as compared to \$95,126 in the fourth quarter of FY 2024, a decrease of \$67,309. In the fourth quarter of the prior year, one of the Company's foreign subsidiaries recognized deferred tax assets and income tax recovery in the amount of \$86,679 because the subsidiary earned taxable profits and was expected to utilize tax loss in the future periods. In the fourth quarter of FY 2025, for the same reason, the Company recognized deferred tax assets and income tax recovery in the amount of \$106,000 for its parent company. However, the Company also recognized deferred income tax expense in the amount of \$71,230 for one of its foreign subsidiaries due to change in temporary difference. As a result, the Company recognized a lower amount of income tax recovery in the fourth quarter of FY 2025.

Net income for the fourth quarter of FY 2025 was \$223,974, compared to net income of \$290,348 in the same quarter of the previous year, representing a decrease of \$66,374. The decrease in net income was mainly due to the decrease in income tax recovery of \$67,309 as mentioned above.

Comprehensive income was \$488,772 for the fourth quarter of FY 2025, compared to comprehensive income of \$328,525 for the fourth quarter of FY 2024. The increase of \$160,247 of comprehensive income

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was mainly due to the increase in exchange gains arising on translation of overseas operations of \$264,798 and the decrease of net income in the amount of \$66,374 as mentioned above.

Adjusted EBITDA was \$397,307 for the fourth quarter of FY 2025, compared to \$422,472 for the same quarter of the previous year, representing a decrease of \$25,164. The decrease in Adjusted EBITDA was mainly due to the decrease of \$19,735 in amortization of intangible assets as intangible assets with definite lives became fully amortized over time resulting in lower amount in amortization year after year. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures – EBITDA and Adjusted EBITDA.

3.3 Summary of Year End Results

	2025	2024
	\$	\$
Revenue	29,780,476	25,880,197
Cost of sales	17,436,633	13,427,888
Gross profit	12,343,843	12,452,309
Expenses:		
Administration, selling, marketing and business development	11,532,319	10,817,642
Research and development	405,113	268,042
	11,937,432	11,085,684
Operating income	406,411	1,366,625
Finance costs	(289,562)	(416,816)
Finance revenue	63,267	49,340
Income before income tax	180,116	999,149
Income tax expense	(21,634)	(16,981)
Net income for the year	158,482	982,168
Exchange differences on translation of overseas operations	256,371	124,656
Total comprehensive income for the year	414,853	1,106,824
Adjusted EBITDA for the year ^{1 2}	1,052,200	1,988,205
Order backlog as at May 31 ³	12.9 million	18.7 million
Order backlog as at reporting date ³	24.3 million	21.3 million

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

Revenue and Gross Profit

Revenues were \$29,780,476 in the year ended May 31, 2025, an increase of \$3,900,279, or 15.1%, compared to \$25,880,197 recognized in the prior year. The increase was mainly due to increased revenues from heat recovery projects, partially offset by a decline in GEM trap revenue. In FY2024, the Company secured several large heat recovery orders, which increased the project backlog by year-end of that year. These projects were delivered during FY2025, resulting in higher revenue. In contrast, GEM trap revenue decreased compared to

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the prior year. In FY2024, the Company fulfilled a portion of an exceptionally large one-time GEM order received in FY2023 from a repeat customer. No comparable order was received in FY2025.

Despite a revenue increase of \$3.9 million or 15.1%, gross profit for the year ended May 31, 2025 decreased by \$108,466 or 0.9% to \$12,343,843, compared to \$12,452,309 achieved in the prior year. The decrease in gross profit was mainly due to lower gross profit from GEM due to reduced sales and revenue, partially offset by higher gross profit from heat recovery projects. However, the additional gross profit earned from heat recovery projects was not sufficient to fully offset the declined gross profit from GEM as the margins on heat recovery projects decreased year-over-year. Several of the heat recovery projects delivered in FY2025 were for new clients leading to higher than anticipated costs due to client specific learning curves and unfamiliar requirements. Overall, gross profit expressed as a percentage of revenue was 41.4% compared with 48.1% achieved in the previous year. The decrease in gross profit as a percentage of revenue was mainly due to the less favorable change in product mix and the decreased margins on heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the year ended May 31, 2025 were \$11,532,319, compared to \$10,817,642 in the year ended May 31, 2024, representing an increase of \$714,677, or 6.6%. Around \$813,390 of the increase was attributable to the growth in headcount, plus inflationary increases on regular operating costs and salaries. The increase was partially offset by decrease in foreign exchange loss of \$98,713, compared to the previous year.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company’s R&D expense was \$405,113 in the year ended May 31, 2025, compared to \$268,042 in the year ended May 31, 2024, an increase of \$137,071. The increase was due to a higher amount of R&D activities conducted.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by \$127,254 from \$416,816 to \$289,562 for the year ended May 31, 2025. The decrease was mainly due to the decreased interest rate on long-term debts which are based on floating interest rate and the reduced balance on long-term debts resulting from monthly repayments and prepayments made. As mentioned earlier, in FY 2025, the Company prepaid \$1,126,660 on long-term debt in addition to the monthly payments made in the amount of \$940,865. At May 31, 2025, the Company’s long-term debt balance was reduced to \$329,397 as compared to \$2,350,751 at May 31, 2024.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of \$63,267 for the year ended May 31, 2025, represented an increase of \$13,927 from \$49,340 achieved in the year ended May 31, 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income tax for the year ended May 31, 2025 was \$180,116 compared to \$999,149 of the previous year, representing a decrease of \$819,033. The decrease in income before income tax was mainly due to the decrease in gross profit of \$108,466, the increase in Operating Expenses of \$714,677 and in R&D expense of \$137,071, offset by the decrease in finance costs of \$127,254.

Income tax expense in the year ended May 31, 2025 was \$21,634, compared to \$16,981 of the previous year, an increase of \$4,653. The Company’s U.K. and U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities.

Net income for the year ended May 31, 2025 was \$158,482, compared to net income of \$982,168 in the year ended May 31, 2024, representing a decrease of \$823,686. The decrease in net income was mainly due to the decrease in income before income tax of \$819,033 as mentioned earlier.

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Comprehensive income was \$414,853 for the year ended May 31, 2025, compared to \$1,106,824 for the year ended May 31, 2024, representing a decrease of \$691,971. The decrease in comprehensive income was mainly due to the decrease in net income of \$823,686 as mentioned earlier, offset by the increase in foreign exchange gains of \$131,715 from translation of overseas operations. The Company recognized foreign exchange gain arising on translation of overseas operations of \$256,371 in the year ended May 31, 2025 as compared to \$124,656 recognized in the previous year.

Adjusted EBITDA was \$1,052,200 for the year ended May 31, 2025 compared to \$1,988,205 of the previous year, representing a decrease of \$936,005. The decrease was mainly due to the decrease in income before tax of \$819,033 as mentioned above, plus the decrease of \$127,254 on finance costs. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures – EBITDA and Adjusted EBITDA.

3.4 Liquidity & Capital Resources

Current assets decreased by \$4,303,419 to \$9,908,637 at May 31, 2025, compared to \$14,212,056 at May 31, 2024. This decrease was mainly due to the decrease in cash and cash equivalents of \$4,166,450, prepaid expenses of \$588,794, current tax receivable of \$98,041, offset by the increase in inventory of \$233,870 and trade and other receivables of \$315,996. Current liabilities decreased by \$3,190,501 to \$7,512,383, mainly due to the decrease in trade payables and other liabilities of \$1,012,693, deferred revenue of \$1,629,723, current portion of long-term debt of \$593,261, offset by the increase in current portion of lease obligations of \$85,514.

Working capital decreased by \$1,112,918 to \$2,396,254 at May 31, 2025, compared to \$3,509,172 at May 31, 2024. The decrease in working capital was partially due to additional repayments made on long-term debt during the year, which reduced the Company's current portion of long-term debt by \$593,261; and \$500,000 commitment recognized in trade payable and other liabilities on shares to be repurchased during the blackout period subsequent to the year end under Normal Course Issuer Bid ("NCIB").

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

	Aug 31, 2023 \$	Nov 30, 2023 \$	Feb 29, 2024 \$	May 31, 2024 \$	Aug 31, 2024 \$	Nov 30, 2024 \$	Feb 28, 2025 \$	May 31, 2025\$
Current Assets	9,741,660	11,414,589	14,392,481	14,212,056	12,845,479	11,323,820	12,257,253	9,908,637
Current Liabilities	6,678,212	7,923,055	11,014,267	10,702,884	9,046,946	7,636,188	9,879,520	7,512,383
Working Capital ¹	3,063,448	3,491,534	3,378,214	3,509,172	3,798,533	3,687,632	2,377,733	2,396,254

¹ Working capital represents the difference between the Company's current assets and current liabilities.

The Company's cash position was \$2,798,695 as at May 31, 2025, compared to \$6,965,145 at May 31, 2024, representing a decrease of \$4,166,450. The decrease was mainly due to net cash used in operating activities of \$1,673,136, financing activities of \$2,409,007, investing activities of \$77,726 and exchange loss on cash of \$6,581.

The net cash used in the operating activities for the year ended May 31, 2025 was \$1,673,136, which included the net income of \$158,482, the addbacks of non-cash items of \$1,593,432, the negative change in working capital of \$3,224,861, the income tax refund received in the amount of \$31,502, the interest paid on long-term debt and lease obligations of \$294,958, and the interest income received of \$63,267. The negative change in working capital was mainly due to the timing difference between cash collections from customers and cash payments to vendors on long-term heat recovery projects. The Company first collects upfront deposit from a customer at the start of a project. The amount collected is recognized as a deferred revenue first. When the project progresses, the Company uses the cash collected to make purchases and pay vendors. Revenue is then recognized while the deferred revenue decreases. For the year ended May 31, 2025, cash from deferred revenue was reduced by \$1,689,284 (before foreign exchange loss of \$59,561) as a result of the progression of heat recovery projects that started in the previous years. Cash from trade payables and other liabilities were reduced by \$1,574,505 (before foreign exchange loss of \$61,812 and \$500,000 commitment on shares to be purchased in the blackout period subsequent to the year end under NCIB) as a result of payments made to

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vendors as several heat recovery projects were about to finish near the year-end. In addition, cash from trade and other receivables decreased by \$315,996 due to work invoiced but not yet collected from customers. As a result, cash from changes in working capital was a negative \$3,224,861 in FY 2025.

The net cash used in investing activities was \$77,726 for the year ended May 31, 2025, which related to purchase of property, plant and equipment.

The net cash paid in financing activities was \$2,409,007, which included repayments of long-term debt of \$2,067,525 (before foreign exchange loss of \$46,171), repayments on lease obligations of \$317,292 (before foreign exchange loss of \$32,228) and the dividends paid to a minority interest of \$58,040 offset by cash collected as a result of stock options exercised of \$33,850.

At May 31, 2025, \$65,783 (1.9%) of the Company's trade receivables balance was over 90 days past due (\$194,435 (5.9%) at May 31, 2024). \$787 of the past due balance was impaired at May 31, 2025 (\$12,263 at May 31, 2024).

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2025, provisions of \$9,839 were made as expected credit losses and recorded under administrative expenses. \$6,089 of the provisions were released due to the collection on the doubtful account. For the year ended May 31, 2024, provisions of \$10,789 were made as expected credit losses and recorded under administrative expenses. \$8,359 of the provisions were released due to the collection on the doubtful account.

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

	May 31, 2025	May 31, 2024
Less than one year	\$ 482,158	\$ 422,806
One to five years	912,783	1,163,437
Six to ten years	115,300	320,224
Total undiscounted lease obligations	1,510,241	1,906,467

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 2025 and FY 2024, 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 three main technology lines – direct contact heat recovery solutions, condensate return system solutions, and indirect contact heat recovery solutions. Assets are mainly located in Canada, the US and the UK.

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

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

Segment information for the year ended May 31, 2025 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue from external customers	13,608,665	11,812,843	16,171,811	14,067,354	-	-	29,780,476	25,880,197
Cost of sales	(7,970,258)	(6,399,343)	(9,466,375)	(7,028,545)	-	-	(17,436,633)	(13,427,888)
Gross profit	5,638,407	5,413,500	6,705,436	7,038,809	-	-	12,343,843	12,452,309
Other expenses	(4,302,590)	(4,052,818)	(5,837,443)	(5,242,729)	(1,797,399)	(1,790,137)	(11,937,432)	(11,085,684)
Finance costs	(86,138)	(92,949)	(17,752)	(33,176)	(185,672)	(290,691)	(289,562)	(416,816)
Finance revenue	63,267	49,340	-	-	-	-	63,267	49,340
Income (loss) before taxation	1,312,946	1,317,073	850,241	1,762,904	(1,983,071)	(2,080,828)	180,116	999,149
Tax recovery (expense)	22,095	40,824	(43,729)	(57,805)	-	-	(21,634)	(16,981)
Profit (loss) after taxation	1,335,041	1,357,897	806,512	1,705,099	(1,983,071)	(2,080,828)	158,482	982,168
Attributable to:								
Owners of the parent	1,330,343	1,357,868	725,894	1,652,464	(1,983,071)	(2,080,828)	73,166	929,504
Non-controlling interest	4,698	29	80,618	52,635	-	-	85,316	52,664

Other expenses in Reconciling Items comprise the following:

	2025	2024
Corporate administration costs	\$ 761,272	\$ 769,274
Share-based compensation	253,886	237,251
Professional fees	265,750	175,982
Depreciation of property, plant and equipment	237,439	158,940
Amortization of intangible assets	154,464	225,389
Foreign exchange loss	124,588	223,301
Total	\$ 1,797,399	\$ 1,790,137

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

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

Material Segmentation Variances

Thermal Energy Ottawa:

For the year ended May 31, 2025, revenue was \$13,608,665, representing an increase of \$1,795,822, or 15.2%, from the revenue of \$11,812,843 achieved in the previous year. The increase was mainly due to increased revenues from heat recovery projects and indirect contact heat recovery equipment delivered, offset by decreased revenue from GEM.

Gross profit for the year ended May 31, 2025 increased by \$224,907, or 4.2%, over last year. The increase in gross profit was mainly due to the increased gross profit from heat recovery projects and indirect contact heat recovery equipment as a result of increased revenues from these two product lines, offset by the decreased gross profit from GEM due to reduced revenue. The Company fulfilled a large GEM order in the previous year resulting in higher GEM revenue. The Company did not receive any GEM order in similar size in FY 2025 leading to declined GEM revenue. The gross profit as a percentage of revenue for the year ended May 31,

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

2025 was 41.4% compared to 45.8% for the previous year. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

During the year ended May 31, 2025, other operating expenses increased by \$249,772, or 6.2%, mainly due to the inflationary increase in salary and other operating expenses.

The finance costs, mainly the interest accretion on lease obligations, decreased by \$6,811 as a result of decreased lease obligation balance for this segment for the year ended May 31, 2025. This segment earned interest revenue of \$63,267 for the year ended May 31, 2025, an increase of \$13,927 compared to prior year. As a result, the net finance costs decreased by \$20,738 for the year ended May 31, 2025 compared to the previous year.

Income before taxation for the year ended May 31, 2025 was \$1,312,946 as compared to \$1,317,073 earned in the previous year, a decrease of \$4,127. The decrease of income before taxation was mainly due to the increase in other expenses of \$249,772 as a result of increased headcount and salary expense, offset by the increase in gross profit of \$224,907 as a result of increase revenue and the decrease in net finance cost of \$20,783.

Thermal Energy Bristol:

For the year ended May 31, 2025, revenue was \$16,171,811, representing an increase of \$2,104,457, or 15%, from \$14,067,354 achieved in the previous year. The increase was mainly driven by higher revenues from heat recovery projects and GEM traps. Since the revenue from heat recovery projects is recognized based on percentage of completion, the timing of major deliverables, such as delivery of equipment, completion of installation, commissioning, sign-off on completion certificate, etc., affects the timing of revenue recognition. During FY 2025, this segment delivered several heat recovery projects resulting in higher heat recovery revenues. GEM sales and revenues from this segment continued to grow in FY 2025.

For the year ended May 31, 2025, gross profit decreased by \$333,373, or 4.7%, from \$7,038,809 to \$6,705,436. The decrease in gross profit was mainly due to decreased margins on heat recovery projects. Several of the heat recovery projects delivered in FY2025 were for new clients leading to higher than anticipated costs due to client specific learning curves and unfamiliar requirements. The additional gross profit from GEM was not sufficient to cover the declined profit from heat recovery projects. The gross profit as a percentage of revenue was 41.5% for FY 2025 as compared to 50% for FY 2024. The decrease in gross profit as a percentage of revenue was mainly due to the decrease in heat recovery project margins.

Other expenses for the year ended May 31, 2025 were \$5,837,443, an increase of \$594,714, or 11.3%, compared to \$5,242,729 of the prior year. The Company hired more technical and sales staff in this segment in order to support and to develop more businesses in the European market. As a result of the increased headcount, salary expense increased compared to the previous year. In addition, this segment incurred higher R&D costs in the current year as compared to the previous year.

Finance costs were \$17,752, a decrease of \$15,424, from \$33,176 of the previous year. Finance costs related to interest accretion on lease obligations. The decrease was due to reduced lease obligations for this segment.

Income before taxation for the year ended May 31, 2025 was \$850,241 as compared to \$1,762,904 for the previous year, a decrease of \$912,663 or 51.8%. The decrease was mainly due to the decrease in gross profit of \$333,373 as a result of decreased margins and profits from heat recovery projects, and the increase in other operating expenses of \$594,714 due to increased headcount and higher amount of R&D costs incurred in the year.

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items increased from \$1,790,137 to \$1,797,399, a slight increase of \$7,262, compared to the previous year. During FY 2025, a few items had

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

lower amount of costs including foreign exchange loss and amortization of intangible assets. Foreign exchange loss was \$124,588, compared to \$223,301 from FY 2024, a decrease of \$98,713. Amortization of intangible assets also decreased by \$70,925 compared to prior year because a few of the intangible assets were fully amortized between FY 2024 and FY 2025. In contrast, a few items increased in costs in FY 2025 including depreciation of property, plant and equipment as well as professional fees. In FY 2024, the Company recognized additions to property, plant and equipment due to the leasehold improvement work performed at a new facility in FY 2024. As a result, the depreciation expense increased in FY 2025. Increase in professional fees were mainly driven by general inflationary increase and a non-reoccurring service fees incurred in FY 2025.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2025 compensation arrangements for Directors were as follows:

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

During the year ended May 31, 2025, Directors fees paid were \$54,000. Fees to the Chair of the Audit Committee were \$5,400; fees to the Chair of the Ethics, Governance and Compliance Committee were \$5,400; fees paid to the Chair of the Board were \$8,100. Two in-person meetings were held during the year, a total cost of \$8,000.

Compensation paid to Directors and Officers during the year ended May 31, 2025 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
W. White	23,600	22,600	-	-	-	-	23,600	22,600
W. Ollerhead	20,900	19,900	-	-	-	-	20,900	19,900
D. Spagnolo	20,900	19,900	-	-	-	-	20,900	19,900
M. Williams	15,500	14,500	-	-	-	-	15,500	14,500
Total	80,900	76,900	-	-	-	-	80,900	76,900
Senior Management								
W. Crossland	272,513	264,576	-	22,798	11,243	-	283,756	287,374
R. Triebe	215,797	209,511	-	18,053	13,429	4,266	229,226	231,830
S. Mawby ⁽¹⁾	223,865	205,928	-	15,665	31,217	27,786	255,082	249,379
J. Zhang	156,127	151,580	-	15,665	11,009	4,266	167,136	171,511
Total	868,302	831,595	-	72,181	66,898	36,318	935,200	940,094
Total Related Party Transactions	949,202	908,495	-	72,181	66,898	36,318	1,016,100	1,016,994

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.8484 and 1.701 in FY 2025 and FY 2024, respectively.

Other short-term benefits include cash payments for social security costs, employee benefits, and payments made into defined contribution pension plans.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

Options outstanding for Directors (excluding the CEO) as at May 31, 2025 were 1,000,000, of which 666,664 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2025 were 5,429,000, of which 3,349,664 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, 2025 was approximately \$12.9 million. As at September 22, 2025, the Company had an order backlog of approximately \$24.3 million.

	2025 \$ million	2024 \$ million	2023 \$ million
Order backlog as at May 31, 2025	12.9	18.7	13.0
Order backlog as at September reporting date	24.3	21.3	21.4

- On July 15, 2025, the Company announced that it had received an order from leading multinational building materials company. The turnkey project is valued at \$1 million and will include the installation of three HeatSponge multi-pass two-stage boiler economizers proprietary to and developed by the Company's wholly owned subsidiary, Boilerroom Equipment Inc. The project is expected to provide annual natural gas savings of 41,545 mmBTU while reducing greenhouse gas emissions by up to 2,202 metric tons CO₂ per year, or 10% reduction of the site's total CO₂ emissions. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.
- On July 10, 2025, the Company announced that it had received an order from a European customer for a turn-key heat recovery project valued at approximately \$1.4 million. The turnkey heat recovery project is expected to deliver a one tonne reduction of annual NOx emissions (through reduced fuel consumption), as well as a 50% to 90% reduction in particulate matter (contributors to asthma and other respiratory diseases) and acid gases (SO₂). The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.
- On July 3, 2025, the Company announced that it had received an additional order from one of the world's largest multinational pharmaceutical companies for a previously announced heat recovery project. This turn-key heat recovery expansion project is valued at approximately \$4.1 million. This latest order calls for Thermal Energy to design, fully implement, and commission the project on a turn-key basis, bringing the total value to Thermal Energy for this project to \$5.6 million. The project is expected to reduce the site's natural gas consumption and associated CO₂ emissions by 12.5%, resulting in up to 2,038 metric tons of CO₂ emissions eliminated annually. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

- On June 26, 2025, the Company announced that it had received the second order from one of the world's largest pharmaceutical companies. This second order stems from a Project Development Agreement order, which led to Thermal Energy's largest engineering contract to date in the amount of \$500 thousand, announced on February 11, 2025. This second order is for custom equipment valued at approximately \$1 million. The equipment ordered includes the Company's proprietary FLU-ACE® Heat Recovery System. On July 3, 2025, the Company announced that it had received the third order valued at \$4.1 million. The third order calls for Thermal Energy to design, fully implement, and commission the project on a turn-key basis, bringing the total value to Thermal Energy for this project to \$5.6 million. The project is expected to reduce the site's natural gas consumption and associated CO₂ emissions by 12.5%, resulting in up to 2,038 metric tons of CO₂ emissions eliminated annually. The project is expected to be completed and revenue earned within 12 months from the receipt of the last purchase order received.
- On May 14, 2025, the Company announced that it had received an order from a multinational consumer products company for one of its European sites. This GEM order is valued at approximately \$930 thousand. This project/order is expected to save fuel from GEM steam traps of approximately 10%. The project was about 5% complete at the year end.
- On April 16, 2025, the Company announced that it had received an order from one of its largest customers to expand the existing heat recovery system installed by the Company in 2019. This turn-key heat recovery expansion project is valued at approximately \$1 million. This project includes the design, construction, startup commissioning and training for the complete system including all mechanical, electrical and controls required for a fully functional heat recovery and distribution system. The expansion project is expected to result in a further 14,500 MMBtu reduction in natural gas consumption and an estimated reduction of 767 tons of CO₂ emissions per year. The project was about 1% complete at the year end.
- On December 16, 2024, the Company announced that it had received an order for a heat recovery and heat pump project valued at approximately \$2.8 million from a leading multinational pharmaceutical company, the third heat recovery project under global master services agreement within the last 15 months. The turn-key project includes both indirect contact HeatSponge®, a direct contact FLU-ACE® heat recovery system, as well as an integrated heat pump. The project is expected to deliver approximately 93% boiler efficiency. Additionally, the anticipated reduction in natural gas consumption is estimated to cut CO₂ emissions by 728 tons per year, representing an estimated 11% reduction in site CO₂ emissions. The project was about 10% complete at the year end.
- On November 11, 2024, the Company announced that its subsidiary, Boilerroom Equipment Inc. ("BEI") had received three orders totaling just over \$1 million. Among the orders was an order from one of the world's largest multinational beverage companies for three identical two-stage boiler economizers, representing BEI's second largest purchase order and largest two-stage economizer order to date. In addition, BEI's representative in Colombia purchased nine single stage economizers for an animal feedlot operation, and its Quebec representative purchased two boiler economizers, one single stage and one two-stage, for the Canadian government. The orders were about 79% complete at the year end.
- On October 28, 2024, the Company announced that it had received an order for a heat recovery project valued at approximately \$1.5 million from a multinational confectionary company. This turn-key project includes installing a Flu-Ace® heat recovery system and replacing two OEM economizers with two of our HeatSponge® economizers. This project is expected to reduce the site's natural gas consumption and related CO₂ emissions by 16%. The project was about 54% complete at the year end.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

- On September 23, 2024, the Company announced that it had received an order valued at approximately \$2.2 million from a leading multinational pharmaceutical company. This \$2.2 million turn-key project is expected to deliver close to \$1 million in annual fuel savings, while the expected reduction in natural gas consumption would reduce CO₂ emissions by 1,199 tons per year, representing an estimated 14% reduction in site CO₂ emissions. The project was about 15% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at May 31, 2025, the Company had the following shares and dilutive instruments outstanding:

Shares:

173,114,305 class A common shares.

Options:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding May 31, 2025	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2025	Weighted average exercise price
0.08-0.10	2,065,000	0.49	0.09	2,065,000	0.09
0.11-0.15	7,005,502	2.01	0.13	5,709,908	0.13
0.16-0.20	6,372,300	3.96	0.20	1,157,799	0.20
	15,442,802	2.61	0.15	8,932,707	0.13

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.

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

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.

Changes in Accounting Standards

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

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

The Company has adopted the following amended accounting standard:

Amendments to IAS 1

Effective June 1, 2024, the Company adopted Amendments to IAS 1 *Presentation of Financial Statements*. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. The amendment requires a company to disclose information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period. Such disclosure includes information about covenants and facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

The adoption of the amendments to IAS 1 did not have a material impact on the consolidated financial statements.

New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

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

IFRS 18 introduces three new sets of requirements:

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

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, which will be June 1, 2027 for the Company, with early adoption permitted. The Company is currently evaluating the impact of this new standard.

8. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

- The Company's history of operating losses and uncertainty of future profitability;
- The ability to achieve profitable operations through increased sales;
- The ability to secure and maintain the required outside working capital financing;
- 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;
- 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 effect of new tariffs and duties;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars and conflicts;
- The impact of inflation; and
- The impact of major global pandemics.

Management's addressing of the risks:

The Company incurred losses from FY 2019 to FY 2022 with the exception of FY 2021 in which the Company recorded a small profit because of government subsidies received in the amount of \$1.2 million relating to Covid. In FY 2023, the Company achieved profitability following a total order intake of \$27.3 million resulting in \$21 million in revenue and a net income of \$720,449. This positive momentum continued into FY 2024, with increased order intake driving revenue to \$25.9 million with net income of \$982,168. In FY 2025, the Company sustained its growth trajectory, recognizing revenue of \$29.8 million and generating a net income of \$158,482. During FY 2024 and FY 2025, the Company expanded its team across key European markets, positioning itself for long-term growth. Management expects these strategic investments to yield returns in the coming years.

In FY 2025, the Company obtained an operating line of credit for a total amount of \$2 million from a financial institution to support the Company's working capital needs. The Company did not draw any balance from the line of credit at May 31, 2025 and the Company was in compliance with the covenant required by this line of credit at the year-end.

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

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2025

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.

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

In January 2025, the U.S. government announced plans to implement significant tariffs affecting key U.S. trading partners including Canada, Mexico, the UK, and the member states of the European Union. The Company has been actively assessing the potential impacts of these tariffs on its operations, supply chains, and financial performance since. The Company's supply chain is both diverse and adaptable. With most of its manufacturing outsourced, the Company is able to partner with manufacturers located in multiple jurisdictions and usually within the same country as its projects. While the tariff landscape continues to evolve, the Company will continue monitoring developments closely and adapting its strategies as necessary to mitigate any potential impacts to its business. For the year ended May 31, 2025, the tariffs did not have a material impact on Thermal Energy.

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

Inflation rates increased since the start of the global pandemic in 2020, and the wave of inflation was driven by a range of factors including supply chain issues and shortages of intermediate goods and labour. The surge in inflation in 2021 and 2022 had resulted in higher costs of sales for the Company's product lines. The Company had been coping with the inflation impact by implementing new measures, including implementing price increases where warranted, making bulk purchases to increase its purchasing power and to lock in on purchase prices for raw materials, securing supplies by increasing inventory level to avoid ordering sporadically, and negotiating with customers to cover additional costs caused by inflation on long-term projects. Inflation rates started to drop in 2023 and the Company saw continuous decline in inflation rates. As a result, the inflation risk decreased for the Company in FY 2025.

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, 2025 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.