Condensed Consolidated Interim Financial Statements of

THERMAL ENERGY INTERNATIONAL INC.

Quarters ended February 28, 2025 and February 29, 2024

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at February 28, 2025 and May 31, 2024
(Expressed in Canadian dollars) (Unaudited)

	February 28, 2025	May 31, 2024
	$	$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	**5,142,974**	6,965,145
Trade and other receivables (note 6)	**4,414,180**	4,182,566
Current tax receivable	**28,077**	117,078
Prepaid expenses (note 7)	**765,376**	1,354,060
Inventory	**1,906,646**	1,593,207
	12,257,253	14,212,056
Non-current assets:		
Property, plant and equipment (note 8)	**433,506**	530,424
Right-of-use assets (note 9)	**1,058,936**	1,279,626
Intangible assets	**530,109**	626,622
Deferred tax assets	**150,099**	142,074
	2,172,650	2,578,746
Total assets	**14,429,903**	16,790,802
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 10)	**3,688,828**	4,432,567
Current tax liabilities	**47,426**	55,347
Pensions and other employer obligations	**177,890**	257,350
Current portion of long-term debt (note 11)	**1,344,738**	921,018
Deferred revenue (note 12)	**3,801,339**	4,344,793
Provisions	**389,102**	382,813
Current portion of lease obligations (note 13)	**430,197**	308,996
	9,879,520	10,702,884
Non-current liabilities:		
Long-term debt (note 11)	**89,740**	1,429,733
Lease obligations (note 13)	**943,250**	1,234,971
Deferred tax liabilities	**851**	813
	1,033,841	2,665,517
Total liabilities	**10,913,361**	13,368,401
Equity		
Capital stock (note 14)	**33,298,603**	33,247,637
Contributed surplus	**4,834,913**	4,659,779
Accumulated other comprehensive income	**274,208**	288,798
Deficit	**(34,859,261)**	(34,733,899)
Equity attributable to owners of the parent	**3,548,463**	3,462,315
Non-controlling interest (note 15)	**(31,921)**	(39,914)
Total equity	**3,516,542**	3,422,401
Total liabilities and equity	**14,429,903**	16,790,802

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

On behalf of the Board:

(signed) William Ollerhead	*(signed) William Crossland*
Director	Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and nine months ended February 28, 2025 and February 29, 2024
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 28 **2025**	February 29 2024	February 28 **2025**	February 29 2024
	$	$	**$**	$
Revenue (note 17)	**5,815,078**	6,063,200	**22,955,379**	18,351,595
Cost of sales	**3,548,021**	3,002,181	**14,290,439**	9,034,997
Gross profit	**2,267,057**	3,061,019	**8,664,940**	9,316,598
Expenses (note 18):				
Administration	**1,293,849**	1,738,128	**4,444,284**	4,850,287
Selling, marketing and business development	**1,223,203**	1,158,027	**3,795,221**	3,304,708
Research and development	**75,952**	9,085	**257,719**	35,560
	2,593,004	2,905,240	**8,497,224**	8,190,555
Operating (loss) income	**(325,947)**	155,779	**167,716**	1,126,043
Finance costs (note 19)	**(70,211)**	(94,213)	**(235,657)**	(322,116)
Finance revenue	**7,962**	-	**51,900**	-
(Loss) income before income taxes	**(388,196)**	61,566	**(16,041)**	803,927
Income taxes expense	**(14,440)**	(17,115)	**(49,451)**	(112,107)
Net (loss) income for the period	**(402,636)**	44,451	**(65,492)**	691,820
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	**(28,444)**	1,465	**(8,427)**	86,479
Total comprehensive (loss) income for the period	**(431,080)**	45,916	**(73,919)**	778,299
Net (loss) income for the period attributable to:				
Owners of the parent	**(416,630)**	29,011	**(125,362)**	651,031
Non-controlling interest	**13,994**	15,440	**59,870**	40,789
Net (loss) income for the period	**(402,636)**	44,451	**(65,492)**	691,820
Total comprehensive (loss) income for the period attributable to:				
Owners of the parent	**(448,035)**	30,795	**(139,952)**	734,945
Non-controlling interest	**16,955**	15,121	**66,033**	43,354
Total comprehensive (loss) income for the period	**(431,080)**	45,916	**(73,919)**	778,299
Net (loss) income per share - basic and diluted	**(0.002)**	-	**(0.001)**	0.004

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended February 28, 2025 and February 29, 2024
(Expressed in Canadian dollars) (Unaudited)

	Capital stock $	Contributed surplus $	Deficit $	Accumulated other comprehensive income $	Total attributable to owners of the parent $	Non-controlling interest $	Total equity $
Balance at June 1, 2023	32,526,779	4,937,468	(35,663,403)	168,504	1,969,348	(46,358)	1,922,990
Share-based compensation (note 16)	-	171,945	-	-	171,945	-	171,945
Share options excercised (note 14)	698,370	(507,702)	-	-	190,668	-	190,668
Dividends paid (note 15)	-	-	-	-	-	(50,582)	(50,582)
Transactions with owners	698,370	(335,757)	-	-	362,613	(50,582)	312,031
Net income for the period	-	-	651,031	-	651,031	40,789	691,820
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	83,914	83,914	2,565	86,479
Total comprehensive income for the period	-	-	651,031	83,914	734,945	43,354	778,299
Balance at February 29, 2024	33,225,149	4,601,711	(35,012,372)	252,418	3,066,906	(53,586)	3,013,320
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 16)	**-**	**192,250**	**-**	**-**	**192,250**	**-**	**192,250**
Share options excercised (note 14)	**50,966**	**(17,116)**	**-**	**-**	**33,850**	**-**	**33,850**
Dividends paid (note 15)	**-**	**-**	**-**	**-**	**-**	**(58,040)**	**(58,040)**
Transactions with owners	**50,966**	**175,134**	**-**	**-**	**226,100**	**(58,040)**	**168,060**
Net (loss) income for the period	**-**	**-**	**(125,362)**	**-**	**(125,362)**	**59,870**	**(65,492)**
Other comprehensive (loss) income: exchange differences arising on translation of overseas operations	**-**	**-**	**-**	**(14,590)**	**(14,590)**	**6,163**	**(8,427)**
Total comprehensive (loss) income for the period	**-**	**-**	**(125,362)**	**(14,590)**	**(139,952)**	**66,033**	**(73,919)**
Balance at February 28, 2025	**33,298,603**	**4,834,913**	**(34,859,261)**	**274,208**	**3,548,463**	**(31,921)**	**3,516,542**

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three and nine months ended February 28, 2025 and February 29, 2024
(Expressed in Canadian dollars) (Unaudited)

	Three months ended		Nine months ended	
	February 28 **2025**	February 29 2024	February 28 **2025**	February 29 2024
	$	$	**$**	$
Operating activities:				
Net (loss) income for the period	**(402,636)**	44,451	**(65,492)**	691,820
Add items not involving cash:				
Depreciation of property, plant and equipment (note 8)	**59,345**	44,370	**177,467**	99,095
Loss on disposal of assets (note 8)	**77**	820	**255**	820
Depreciation of right-of-use assets (note 9)	**91,906**	90,632	**274,564**	244,726
Amortization of intangible assets	**37,470**	56,118	**117,460**	168,650
Finance costs (note 19)	**70,211**	94,213	**235,657**	322,116
Finance revenue	**(7,962)**	-	**(51,900)**	-
Share-based compensation (note 16)	**61,638**	65,307	**192,250**	171,945
Income taxes expense	**14,440**	17,115	**49,451**	112,107
Unrealized foreign exchange and translation adjustments	**157,940**	24,930	**296,761**	116,894
Changes in working capital:				
Trade and other receivables[1]	**1,710,233**	1,351,729	**(231,614)**	1,577,365
Prepaid expenses[1]	**(18,597)**	(68,873)	**588,684**	(277,269)
Inventory	**(304,430)**	(148,305)	**(313,439)**	(89,019)
Trade payables and other liabilities	**(913,299)**	(545,033)	**(810,647)**	(984,823)
Deferred revenue (note 12)	**2,614,264**	3,602,648	**(655,233)**	3,875,737
Income taxes (paid) refund	**(57,096)**	(5,403)	**30,811**	(47,447)
Interest paid	**(71,008)**	(97,481)	**(237,530)**	(325,679)
Interest received	**7,962**	-	**51,900**	-
Net cash provided by (used in) operating activities	**3,050,458**	4,527,238	**(350,595)**	5,657,038
Investing activities:				
Additions to property, plant and equipment (note 8)	**(29,607)**	(48,077)	**(62,912)**	(344,440)
Net cash used in investing activities	**(29,607)**	(48,077)	**(62,912)**	(344,440)
Financing activities:				
Repayment of long-term debt (note 11)	**(526,478)**	(229,773)	**(990,589)**	(689,786)
Repayment of lease obligations (note 13)	**(79,874)**	(73,498)	**(234,209)**	(212,411)
Stock options exercised (note 14)	**-**	-	**33,850**	190,668
Dividends paid (note 15)	**-**	(50,582)	**(58,040)**	(50,582)
Net cash used in financing activities	**(606,352)**	(353,853)	**(1,248,988)**	(762,111)
Increase (decrease) in cash and cash equivalents for the period	**2,414,499**	4,125,308	**(1,662,495)**	4,550,487
Cash and cash equivalents, beginning of period	**2,823,168**	3,423,696	**6,965,145**	3,000,607
Exchange differences on cash and cash equivalents	**(94,693)**	(13,072)	**(159,676)**	(15,162)
Cash and cash equivalents, end of period	**5,142,974**	7,535,932	**5,142,974**	7,535,932

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

(1) Changes in prepayments for the amount of $68,873 for the three months ended February 29, 2024 and $277,269 for the nine months ended February 29, 2024 which were previously reported under trade and other receivables, were reclassified to prepaid expenses to conform with the financial statement presentation adopted in the current period.

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the nine months ended February 28, 2025 and February 29, 2024.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2024. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2024.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS Accounting Standards issued and effective as of April 28, 2025, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2024.

3. Material accounting policies:

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 condensed consolidated interim 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.

(Expressed in Canadian dollars except share amounts)

4. Segment reporting:

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

Segment information for the quarter ended February 28, 2025 and the comparative period 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	**3,296,225**	2,670,616	**2,518,853**	3,392,584	**-**	-	**5,815,078**	6,063,200
Cost of sales	**(1,785,180)**	(1,356,590)	**(1,762,841)**	(1,645,591)	**-**	-	**(3,548,021)**	(3,002,181)
Gross profit	**1,511,045**	1,314,026	**756,012**	1,746,993	**-**	-	**2,267,057**	3,061,019
Other expenses	**(949,609)**	(1,049,205)	**(1,439,034)**	(1,344,307)	**(204,361)**	(511,728)	**(2,593,004)**	(2,905,240)
Finance costs	**(21,413)**	(22,885)	**(7,297)**	(10,069)	**(41,501)**	(61,259)	**(70,211)**	(94,213)
Finance revenue	**7,962**	-	**-**	-	**-**	-	**7,962**	-
Income (loss) before taxation	**547,985**	241,936	**(690,319)**	392,617	**(245,862)**	(572,987)	**(388,196)**	61,566
Tax expense	**-**	-	**(14,440)**	(17,115)	**-**	-	**(14,440)**	(17,115)
Net income (loss)	**547,985**	241,936	**(704,759)**	375,502	**(245,862)**	(572,987)	**(402,636)**	44,451
Attributable to:								
Owners of the parent	**548,181**	241,931	**(718,949)**	360,067	**(245,862)**	(572,987)	**(416,630)**	29,011
Non-controlling interest	**(196)**	5	**14,190**	15,435	**-**	-	**13,994**	15,440

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Segment information for the nine months ended February 28, 2025 and the comparative period 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	**9,966,579**	8,565,533	**12,988,800**	9,786,062	**-**	-	**22,955,379**	18,351,595
Cost of sales	**(6,099,996)**	(4,528,268)	**(8,190,443)**	(4,506,729)	**-**	-	**(14,290,439)**	(9,034,997)
Gross profit	**3,866,583**	4,037,265	**4,798,357**	5,279,333	**-**	-	**8,664,940**	9,316,598
Other expenses	**(3,231,135)**	(3,069,034)	**(4,251,247)**	(3,754,029)	**(1,014,842)**	(1,367,492)	**(8,497,224)**	(8,190,555)
Finance costs	**(64,812)**	(70,433)	**(24,361)**	(23,599)	**(146,484)**	(228,084)	**(235,657)**	(322,116)
Finance revenue	**51,900**	-	**-**	-	**-**	-	**51,900**	-
Income (loss) before taxation	**622,536**	897,798	**522,749**	1,501,705	**(1,161,326)**	(1,595,576)	**(16,041)**	803,927
Tax expense	**-**	-	**(49,451)**	(112,107)	**-**	-	**(49,451)**	(112,107)
Net income (loss)	**622,536**	897,798	**473,298**	1,389,598	**(1,161,326)**	(1,595,576)	**(65,492)**	691,820
Attributable to:								
Owners of the parent	**618,149**	897,738	**417,815**	1,348,869	**(1,161,326)**	(1,595,576)	**(125,362)**	651,031
Non-controlling interest	**4,387**	60	**55,483**	40,729	**-**	-	**59,870**	40,789

Other expenses in reconciling items comprise the following:

	Three months ended February 28 (29)		Nine months ended February 28 (29)	
	2025	2024	**2025**	2024
	$	$	**$**	$
Corporate admin costs	**193,549**	188,309	**575,647**	564,310
Stock-based compensation	**61,638**	65,307	**192,250**	171,945
Professional fees	**40,018**	18,712	**188,887**	156,652
Depreciation of property, plant and equipment	**59,345**	44,370	**177,467**	99,095
Amortization of intangible assets	**37,470**	56,118	**117,460**	168,650
Foreign exchange (gain) loss	**(187,659)**	138,912	**(236,869)**	206,840
Total	**204,361**	511,728	**1,014,842**	1,367,492

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.

(Expressed in Canadian dollars except share amounts)

5. Cash and cash equivalents:

	February 28, 2025	May 31, 2024
Cash	**$ 5,127,581**	$ 6,949,752
Cash equivalents	**15,393**	15,393
Balance, end of period	**$ 5,142,974**	$ 6,965,145

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

6. Trade and other receivables:

	February 28, 2025	May 31, 2024
Trade receivables, gross	**$ 2,852,959**	$ 3,300,990
Allowance for doubtful accounts	**(632)**	(12,263)
Trade receivables, net	**2,852,327**	3,288,727
Unbilled revenue	**1,118,750**	246,802
Contract assets	**261,506**	257,989
Sales tax and other miscellaneous receivables	**181,597**	389,048
Balance, end of period	**$ 4,414,180**	$ 4,182,566

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

At February 28, 2025, $109,356 (3.8%) of the Company's trade receivables balance was over 90 days past due. $466 of the past due balance was impaired at February 28, 2025.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the nine months ended February 28, 2025, provisions of $5,248 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($9,429 – February 29, 2024). For the nine months ended February 28, 2025, $6,047 ($1,846 – February 29, 2024) of previously provided credit losses was released due to the collection on the doubtful accounts. The Company wrote off allowance for doubtful accounts in the amount of $11,450 for the nine months ended February 28, 2025 by removing the amount from trade receivables ($10,083 – February 29, 2024). Translation loss of $618 (loss of $57 – February 29, 2024) was recognized under exchange differences arising on translation of overseas operations.

(Expressed in Canadian dollars except share amounts)

7. Prepaid expenses:

	February 28, 2025	May 31, 2024
Prepayments for goods, equipment and projects	**$ 249,190**	$ 738,838
Other prepaid expenses	**516,186**	615,222
Balance, end of period	**$ 765,376**	$ 1,354,060

8. Property, plant and equipment:

During the nine months ended February 28, 2025, the Company acquired property, plant and equipment of $62,912 ($344,440– February 29, 2024) and the Company the Company disposed of depreciated assets with a net book value of $255 for $nil proceeds (net book value of $820 for $nil proceeds – February 29, 2024). Depreciation expense of $177,467 ($99,095 – February 29, 2024) was recognized under administration expense. Translation gain of $17,892 (gain of $5,246 – February 29, 2024) was recognized under exchange differences arising on translation of overseas operations.

9. 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	**(243,451)**	**(29,034)**	**(2,079)**	**(274,564)**
Translation adjustments	**50,095**	**3,779**	**-**	**53,874**
Balance, February 28, 2025	**987,033**	**69,824**	**2,079**	**1,058,936**

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

During the nine months ended February 29, 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.

(Expressed in Canadian dollars except share amounts)

10. Trade payables and other liabilities:

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

	February 28, 2025	May 31, 2024
Trade payables	**$ 2,114,920**	$ 2,429,063
Accruals	**1,136,651**	1,813,981
Other government remittances payable	**437,257**	189,523
Balance, end of period	**$ 3,688,828**	$ 4,432,567

Included in accruals is $18,225 due to directors ($13,500 at May 31, 2024).

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

11. Long-term debt:

	February 28, 2025	May 31, 2024
(a) Term loan (equivalent to USD$571,960), net of deferred financing costs of $4,390 (equivalent to USD$3,040), currently bearing interest at 10.30% (11.40% on May 31, 2024), repayable in monthly principal instalments of $36,095 (equivalent to USD$25,000) starting July 1, 2019 and continuing up to the maturity date, with a balloon payment of $505,330 (equivalent to USD$350,000) payable on the maturity date, December 1, 2025	**$ 825,796**	$ 1,354,919
(b) Term loan currently bearing interest at 6.20% (8.20% on May 31, 2024), repayable in monthly principal instalments of $40,000 until April 15, 2023 and in monthly principal installments of $41,667 starting May 15, 2023 and continuing up to the maturity date, with a balloon payment of $41,655 payable on the maturity date, April 15, 2026	**583,326**	958,329
(c) Term loan (equivalent to GBP£13,950), bearing zero interest for the first 12 months and 2.50% thereafter, repayable in monthly principal instalments of $1,558 (equivalent to GBP£857) starting July 10, 2021 and continuing up to the maturity date, June 10, 2026	**25,356**	37,503
Total long-term debt	**1,434,478**	2,350,751
Less: current portion	**(1,344,738)**	(921,018)
Long term portion	**89,740**	1,429,733

11. Long-term debt (continued):

a) This loan bears interest at the institution's US dollar floating base rate, plus a variance. The US dollar floating base rate was 8.80% on February 28, 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 February 28, 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 an additional portion of its outstanding debt in the amount of $288,760 (equivalent to USD$200,000), effectively reducing the balloon payment at December 1, 2025 from $794,090 (equivalent to USD$550,000) to $505,330 (equivalent to USD$350,000).

   As collateral security for the fulfilment of all present and future obligations under this loan, the Company granted to the lender a general and continuing security interest in all of the Company's present and after acquired tangible assets and on all present and future assets of the Company related to intellectual property. This security interest shall rank in first position with respect to intellectual property but subordinated in rank to any other security granted. Subsequent to the quarter-end (see note 22), the Company entered a line of credit agreement with another lending institution. As a result, the security interest for this lending institution in all of the Company's present and after acquired tangible assets will rank in second position except intellectual property.

   The Company has certain covenants in accordance with this term loan, namely Total Funded Debt to EBITDA ratio and Debt Service Coverage ratio. As at February 28, 2025, the lender waived the covenants for all periods up to June 1, 2025.

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 7.30% on February 28, 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.

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.

(Expressed in Canadian dollars except share amounts)

12. Deferred revenue:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2024	**$ 3,572,966**	**$ 771,827**	**$ 4,344,793**
Increase from payments received	**11,741,330**	**1,444,558**	**13,185,888**
Decrease from revenue recognized	**(12,400,356)**	**(1,440,765)**	**(13,841,121)**
Translation adjustments	**38,521**	**73,258**	**111,779**
Balance, February 28, 2025	**$ 2,952,461**	**$ 848,878**	**$ 3,801,339**

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

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

13. Lease obligations:

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

	February 28, 2025	May 31, 2024
Less than one year	**$ 528,984**	$ 422,806
One to five years	**965,809**	1,163,437
Six to ten years	**166,371**	320,224
Total undiscounted lease obligations	**1,661,164**	1,906,467
Less: impact of present value	**(287,717)**	(362,500)
Less: current portion	**(430,197)**	(308,996)
Long term portion	**$ 943,250**	$ 1,234,971

(Expressed in Canadian dollars except share amounts)

13. Lease obligations (continued):

During the nine months ended February 28, 2025, the interest expense on lease obligations was $89,174 and total cash outflow for leases was $361,715, including $38,332 for short-term leases.

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

For the nine months ended February 28, 2025 and February 29, 2024, 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.

14. Capital stock:

Authorized:

Unlimited number of Class A common shares, no par value.

Unlimited number of Series 1 preferred shares, voting only in the case of dissolution of the Company, redeemable at the option of the Company, at $0.01 per share and convertible to common shares on a 1 to 1 basis at the rate of 20% of the number originally issued per year.

Outstanding:

	Nine months ended February 28, 2025		Year ended May 31, 2024	
	# Shares	**$**	# Shares	$
Class A Common shares issued				
Balance, beginning of period	**172,734,305**	**33,247,637**	164,477,606	32,526,779
Stock options exercised (note 16)[(1)]	**380,000**	**50,966**	8,256,699	720,858
Balance, end of period	**173,114,305**	**33,298,603**	172,734,305	33,247,637

(1) For the nine months ended February 28, 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 nine months ended February 29, 2024, the Company issued total 8,101,699 shares following the exercise of 11,427,587 stock options. Out of 8,101,699 shares issued, 2,383,339 shares were issued upon the exercise of 2,383,339 options for cash proceeds of $190,668, resulting in an increase to capital stock of $294,104 and a reduction in contributed surplus of $103,436. In addition, 5,718,360 shares were issued upon the exercise of 9,044,248 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of $404,266 and a reduction in contributed surplus of the same amount.

(Expressed in Canadian dollars except share amounts)

15. Non-controlling interest in subsidiaries:

During the nine months ended February 28, 2025, a subsidiary of the Company, which has a non-controlling interest of 33%, distributed dividends to its shareholders. The portion of the dividends attributable to the non-controlling interests (33%) amounted to $58,040 (February 29, 2024: $50,582). This amount has been recorded as a reduction in the non-controlling interest's equity.

16. Share-based compensation:

Activity in stock options was as follows:

	Three months ended February 28, 2025		Three months ended February 29, 2024	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of period	**15,495,302**	**0.15**	18,514,150	0.13
Forfeited	**(35,000)**	**0.20**	(85,000)	0.13
Exercised	**-**	**-**	(5,189,248)	0.09
Outstanding, end of period	**15,460,302**	**0.15**	13,239,902	0.14
Options exercisable, end of period	**8,939,707**	**0.13**	5,691,648	0.11

	Nine months ended February 28, 2025		Nine months ended February 29, 2024	
	# Options	**Weighted Average Exercise Price $**	# Options	Weighted Average Exercise Price $
Outstanding, beginning of period	**12,985,902**	**0.14**	21,592,089	0.10
Granted	**2,930,400**	**0.20**	3,560,400	0.20
Forfeited	**(76,000)**	**0.18**	(485,000)	0.10
Exercised	**(380,000)**	**0.09**	(11,427,587)	0.09
Outstanding, end of period	**15,460,302**	**0.15**	13,239,902	0.14
Options exercisable, end of period	**8,939,707**	**0.13**	5,691,648	0.11

(Expressed in Canadian dollars except share amounts)

16. Share-based compensation (continued):

The following tables summarize information about stock options outstanding at February 28, 2025:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number outstanding February 28, 2025**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at February 28, 2025**	**Weighted average exercise price**
0.08 - 0.10	**2,065,000**	**0.74**	**0.09**	**2,065,000**	**0.09**
0.11 - 0.15	**7,005,502**	**2.26**	**0.13**	**5,709,908**	**0.13**
0.16 - 0.20	**6,389,800**	**4.21**	**0.20**	**1,164,799**	**0.20**
	15,460,302	**2.86**	**0.15**	**8,939,707**	**0.13**

The following tables summarize information about stock options outstanding at February 29, 2024:

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

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.

(Expressed in Canadian dollars except share amounts)

16. Share-based compensation (continued):

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

	30-Nov-24	26-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.

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

	Three months ended February 28, 2025	Three months ended February 29, 2024
Administration	**$ 51,699**	$ 51,487
Selling, marketing and business development	**9,939**	13,820
	$ 61,638	$ 65,307

	Nine months ended February 28, 2025	Nine months ended February 29, 2024
Administration	**$ 154,672**	$ 137,996
Selling, marketing and business development	**37,578**	33,949
	$ 192,250	$ 171,945

(Expressed in Canadian dollars except share amounts)

17. Revenue:

	Three months ended February 28, 2025	Three months ended February 29, 2024
Sale of goods and equipment	**$ 2,900,702**	$ 2,600,249
Services	**553,056**	456,576
Contracts for heat recovery projects	**2,361,320**	3,006,375
	$ 5,815,078	$ 6,063,200

	Nine months ended February 28, 2025	Nine months ended February 29, 2024
Sale of goods and equipment	**$ 8,938,822**	$ 10,592,919
Services	**1,595,487**	1,511,413
Contracts for heat recovery projects	**12,421,070**	6,247,263
	$ 22,955,379	$ 18,351,595

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

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

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

18. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended February 28, 2025	Three months ended February 29, 2024
Depreciation of property, plant and equipment (note 8)	**$ 59,345**	$ 44,370
Depreciation of right-of-use assets (note 9)	**91,906**	90,632
Amortization of intangible assets	**37,470**	56,118
Foreign exchange (gain) loss	**(187,659)**	138,912

	Nine months ended February 28, 2025	Nine months ended February 29, 2024
Depreciation of property, plant and equipment (note 8)	**$ 177,467**	$ 99,095
Depreciation of right-of-use assets (note 9)	**274,564**	244,726
Amortization of intangible assets	**117,460**	168,650
Foreign exchange (gain) loss	**(236,869)**	206,840

(Expressed in Canadian dollars except share amounts)

19. Finance costs:

	Three months ended February 28, 2025	Three months ended February 29, 2024
Interest on indebtedness	**$ 41,499**	$ 61,260
Interest on leases (note 13)	**28,712**	32,953
	$ 70,211	$ 94,213

	Nine months ended February 28, 2025	Nine months ended February 29, 2024
Interest on indebtedness	**$ 146,483**	$ 228,085
Interest on leases (note 13)	**89,174**	94,031
	$ 235,657	$ 322,116

20. Financial instruments:

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

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

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

21. 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:

(Expressed in Canadian dollars except share amounts)

21. Related party transactions (Continued):

	Three months ended February 28, 2025	Three months ended February 29, 2024
Salaries and other short-term employee benefits	**$ 251,820**	$ 269,069
Share-based payments	**22,203**	24,921
	$ 274,023	$ 293,990

	Nine months ended February 28, 2025	Nine months ended February 29, 2024
Salaries and other short-term employee benefits	**$ 757,504**	$ 708,650
Share-based payments	**72,045**	61,605
	$ 829,549	$ 770,255

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

22. Subsequent event:

In April 2025, subsequent to the quarter-end, the Company entered into a line of credit agreement with a lending institution for a total amount of $2,000,000. The line of credit bears interest at the institution's floating base rate plus a variance 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 will have a covenant in accordance with this line of credit, namely Debt Service Coverage ratio.