MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended November 30, 2024

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 second quarter of Fiscal Year 2025 ended November 30, 2024 (or "Q2 2025"), and compares the Q2 2025 financial results to the previous quarter ended November 30, 2023 (or "Q2 2024"). The unaudited condensed consolidated interim 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 second quarter of FY 2025 are against the second 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 58% of our operations, assets and liabilities are denominated in British Pounds and 20% 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 January 27, 2025. Disclosure contained in this document is current to January 27, 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

Management believes that EBITDA (earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense) is a useful performance measure as it approximates cash generated from operations, before tax, capital expenditures and changes in working capital, and excludes impairment of intangible assets. EBITDA also assists comparison among companies as it eliminates the differences in earnings due to how a company is financed. EBITDA does not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS 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. A reconciliation of net income to EBITDA is shown below.

A reconciliation of net income (loss) to EBITDA is shown below.

	Three months ended		Six months ended	
	Nov 30, 2024 $	Nov 30, 2023 $	Nov 30, 2024 $	Nov 30, 2023 $
Total net income attributable to owners of the parent	**12,978**	462,777	**291,268**	622,020
Total net income attributable to non-controlling interest	**14,694**	22,762	**45,876**	25,349
Interest charge	**78,151**	114,639	**165,446**	227,903
Interest revenue	**(12,739)**	-	**(43,938)**	-
Income tax expense	**16,669**	93,209	**35,011**	94,992
Depreciation and amortization	**94,687**	83,124	**198,112**	167,257
Share based compensation	**65,306**	53,319	**130,612**	106,638
EBITDA	**269,746**	829,830	**822,387**	1,244,159

2.2 Order Backlog

Order backlog is a useful performance measure that Management uses as an indicator of the short-term future revenue of our Company resulting from already recognized orders. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue. Order backlog does not have a standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other companies.

The Company's order backlog as at November 30, 2024 was approximately $12.9 million. As at January 27, 2025, the Company had an order backlog of approximately $17.9 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at November 30	12.9	17.5	17.1
Order backlog as at January reporting date	17.9	23.6	19.5

3. Performance

3.1 Quarterly Financial Information (unaudited)

For the most recent eight quarters ended:

Quarter ended	29-Feb-24 $	31-May-24 $	31-Aug-24 $	30-Nov-24 $
Revenue	6,063,200	7,528,602	8,469,390	8,670,911
Gross profit	3,061,019	3,135,711	3,524,946	2,872,937
Gross profit percentage	50.5%	41.7%	41.6%	33.1%
EBITDA(1)	321,574	422,472	552,641	269,746
Total net income	44,451	290,348	309,472	27,672
Income per share, basic and diluted	-	0.002	0.002	-

Quarter ended	28-Feb-23 $	31-May-23 $	31-Aug-23 $	30-Nov-23 $
Revenue	5,602,752	8,207,116	5,183,123	7,105,272
Gross profit	2,619,232	3,832,141	2,766,908	3,488,671
Gross profit percentage	46.7%	46.7%	53.4%	49.1%
EBITDA(1)	816,361	1,170,154	414,329	829,830
Total net income	523,799	971,402	161,830	485,539
Income per share, basic and diluted	0.003	0.006	0.001	0.003

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

3.2 Summary of Second Quarter Results

	Q2 2025	Q2 2024
	$	$
Revenue	**8,670,911**	7,105,272
Cost of sales	**5,797,974**	3,616,601
Gross profit	**2,872,937**	3,488,671
Expenses:		
Administration, selling, marketing and business development	**2,643,311**	2,782,307
Research and development	**119,873**	12,977
	2,763,184	2,795,284
Operating income	**109,753**	693,387
Finance costs	**(78,151)**	(114,639)
Finance revenue	**12,739**	-
Income before income taxes	**44,341**	578,748
Income taxes expense	**(16,669)**	(93,209)
Net income for the period	**27,672**	485,539
Exchange differences on translation of overseas operations	**(109,121)**	14,130
Total comprehensive (loss) income for the period	**(81,449)**	499,669
EBITDA for the period[1 2]	**269,746**	829,830
Order backlog as at November 30 [3]	**12.9 million**	17.5 million
Order backlog as at reporting date [3]	**17.9 million**	23.6 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, 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 $8,670,911 in the quarter ended November 30, 2024, representing an increase of $1,565,639, or 22.0%, compared to $7,105,272 in the quarter ended November 30, 2023. The increase of revenue in the second quarter of FY 2025 was mainly due to the increased revenue from heat recovery projects because of the higher amount of orders received last year.

The gross profit of $2,872,937 achieved in the quarter ended November 30, 2024, represented a decrease of $615,734, or 17.6%, from $3,488,671 achieved in the quarter ended November 30, 2023. The decrease in gross profit was mainly due to decreased revenue from the GEM traps offset by the increased revenue from heat recovery projects. The gross profit expressed as a percentage of revenue was 33.1% in the second quarter of FY 2025 compared to 49.1% in the same quarter of FY 2024. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended November 30, 2024, totaled $2,643,311, compared to $2,782,307 in the quarter ended November 30, 2023, a decrease of $138,996, or 5.0%. The decrease of Operating Expenses was mainly due to the increased foreign exchange gains compared to the same quarter of last 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 to research and development expenses when claims are earned. The research and development expenses increased by $106,896 in the second quarter of FY 2025 mainly due to a higher amount of R&D activities engaged 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 $78,151 in the second quarter of FY 2025, a decrease of $36,488. 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 made.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $12,739 in the second quarter of FY 2025. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the quarter ended November 30, 2024 was $44,341, compared to $578,748 in the same quarter of the previous year. Income before income taxes decreased by $534,407 mainly due to the decrease in gross profit of $615,734 as a result of change in product mix, offset by the decrease in operating expenses of $138,996 as a result of the increased foreign exchange gains.

Income taxes expense in the second quarter of FY 2025 was $16,669, as compared to $93,209 in the second quarter of FY 2024, a decrease of $76,540. The Company recorded a higher income tax expense due to the higher taxable profit earned in the second quarter of FY 2024.

Net Income for the second quarter of FY 2025 was $27,672, compared to $485,539 in the same quarter of the previous year, representing a decrease of $457,867. The decrease in net income was mainly due to the decrease in gross profit of $615,734 as a result of the change in product mix and increased R&D expense, offset by decreased Operating Expenses of $138,996 and income taxes expense of $76,540 as mentioned above.

Comprehensive loss was $81,449 for the second quarter of FY 2025, compared to comprehensive income of $499,669 for the second quarter of FY 2024. The decrease of $581,118 of comprehensive income was mainly due to the decrease of net income in the amount of $457,867 as mentioned above and the increase in exchange loss arising on translation of overseas operations of $123,251.

EBITDA was $269,746 for the second quarter of FY 2025, compared to $829,830 for the same quarter of the previous year, representing a decrease of $560,084. The decrease was mainly due to the decrease in income before taxes of $534,407 as mentioned above. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.3 Summary of Year-to-Date Results

	Six months ended Nov 30, 2024	Six months ended Nov 30, 2023
	$	$
Revenue	**17,140,301**	12,288,395
Cost of sales	**10,742,418**	6,032,816
Gross profit	**6,397,883**	6,255,579
Expenses:		
Administration, selling, marketing and business development	**5,722,453**	5,258,840
Research and development	**181,767**	26,475
	5,904,220	5,285,315
Operating income	**493,663**	970,264
Finance costs	**(165,446)**	(227,903)
Finance revenue	**43,938**	-
Income before income taxes	**372,155**	742,361
Income taxes expense	**(35,011)**	(94,992)
Net income for the period	**337,144**	647,369
Exchange differences on translation of overseas operations	**20,017**	85,014
Total comprehensive income for the period	**357,161**	732,383
EBITDA for the period[1 2]	**822,387**	1,244,159
Order backlog as at November 30 [3]	**12.9 million**	17.5 million
Order backlog as at reporting date [3]	**17.9 million**	23.6 million

1. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.
2. EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, 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 $17,140,301 in the six months ended November 30, 2024, representing an increase of $4,851,906, or 39.5%, from $12,288,395 recognized in the six months ended November 30, 2023. The increase in revenues was mainly due to increased revenues from heat recovery sales, offset by decreased revenues from GEM sales. In the previous year, the Company delivered a large GEM order to a repeat customer. There is no GEM order received in the current year in similar size.

The gross profit of $6,397,883 in the six months ended November 30, 2024, represented an increase of $142,304, or 2.3%, from $6,255,579, achieved in the six months ended November 30, 2023. The increase in gross profit was mainly due to revenue increase on heat recovery projects compared to the same period of prior year. Overall, gross profit expressed as a percentage of revenue was 37.3% compared with 50.9% achieved in the same period of the previous year. The decrease in gross profit as a percentage of revenue was mainly due to the change in product mix.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the six months ended November 30, 2024 totaled $5,722,453, compared to $5,258,840 in the six months ended November 30, 2023, representing an increase of $463,613, or 8.8%. Around $580 thousand of the increase was related to the growth of the teams, increased travelling and business development costs, and inflationary increases on regular operating costs and salaries. The increase was offset by $117 thousand increase in foreign exchange gains compared to the same period of last 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 $181,767 in the six months ended November 30, 2024, compared to $26,475 in the six months ended November 30, 2023, an increase of $155,292. 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 $62,457 from $227,903 to $165,446 for the six months ended November 30, 2024. 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 made.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $43,938 for the six months ended November 30, 2024. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income taxes for the six months ended November 30, 2024 was $372,155 compared to $742,361 in the same period of the previous year, representing a decrease of $370,206. The decrease in income before income taxes was mainly due to the increase in operating expenses of $463,613 and increase in R&D expense of $155,292, offset by the increase in gross profit of $142,304, the decrease in finance costs of $62,457 and the finance revenue earned of $43,938 as explained earlier.

Income taxes expense in the six months ended November 30, 2024 was $35,011, compared to $94,992 in the same period of previous year, a decrease of $59,981. 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. For the first two quarters of the previous year, the Company recorded higher income tax expense due to higher amount of taxable income earned.

Net income for the six months ended November 30, 2024 was $337,144, compared to $647,369 in the six months ended November 30, 2023, representing a decrease of $310,225. The decrease in net income was mainly due to the decrease of income before income taxes of $370,206 as mentioned earlier, offset by the decrease in income taxes expense of $59,981.

Comprehensive income was $357,161 for the six months ended November 30, 2024, compared to $732,383 for the six months ended November 30, 2023, representing a decrease of $375,222. The decrease in comprehensive income was mainly due to the decrease in net income of $310,225 as mentioned earlier, and the decrease in foreign exchange gains of $64,997 from translation of overseas operations. The Company recognized foreign exchange gains arising on translation of overseas operations of $20,017 in the six months ended November 30, 2024 as compared to $85,014 recognized in the same period of the previous year.

EBITDA was $822,387 for the six months ended November 30, 2024 compared to $1,244,159 for the same period of the previous year, representing an decrease of $421,772. The decrease was mainly due to the decrease in income before taxes of $370,206 as mentioned above. A reconciliation of net income to EBITDA is shown in section 2.1 Performance Measures - EBITDA.

3.4 Liquidity & Capital Resources

Current assets decreased by $2,888,236 to $11,323,820 at November 30, 2024, compared to $14,212,056 at May 31, 2024. This decrease was mainly due to the decrease in cash and cash equivalents of $4,141,977, prepaid expenses of $607,281, current tax receivable of $89,834, offset by the increase in trade and other receivables of $1,941,847. Current liabilities decreased by $3,066,696 to $7,636,188, mainly due to the decrease in deferred revenue of $3,232,695, offset by the increase in trade payables and other liabilities of $110,572.

Working capital increased by $178,460 to $3,687,632 at November 30, 2024, compared to $3,509,172 at May 31, 2024. During the six months ended November 30, 2024, the Company earned net income in the amount of $337,144, which led to the improved working capital position.

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

	Feb 28, 2023 $	May 31, 2023 $	Aug 31, 2023 $	Nov 30, 2023 $	Feb 29, 2024 $	May 31, 2024 $	Aug 31, 2024 $	Nov 30, 2024 $
Current Assets	9,501,012	11,028,858	9,741,660	11,414,589	14,392,481	14,212,056	12,845,479	11,323,820
Current Liabilities	7,321,170	7,993,912	6,678,212	7,923,055	11,014,267	10,702,884	9,046,946	7,636,188
Working Capital[1]	2,179,842	3,034,946	3,063,448	3,491,534	3,378,214	3,509,172	3,798,533	3,687,632

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

The Company's cash position was $2,823,168 as at November 30, 2024, compared to $6,965,145 at May 31, 2024, representing a decrease of $4,141,977. The decrease was mainly due to net cash used in operating activities of $3,401,053, financing activities of $642,636, and investing activities of $33,305.

The net cash used in the operating activities for the six months ended November 30, 2024 was $3,401,053, which included the net income of $337,144, the addbacks of non-cash items of $806,900, the negative change in working capital of $4,510,420, the income tax refund received in the amount of $87,907, the interest paid on long-term debt and lease obligations of $166,522, and the interest received of $43,938. 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 first six months ended November 30, 2024, the change in deferred revenue was negative $3,269,497 as a result of the progression of heat recovery projects that started in the previous years. The change in trade and other receivables was negative $1,941,847 due to work invoiced but not yet collected from customers.

The net cash used in investing activities was $33,305 for the six months ended November 30, 2024, which related to purchase of property, plant and equipment.

The net cash paid in financing activities was $642,636, which included repayments of long-term debt of $464,111, repayments on lease obligations of $154,335 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 November 30, 2024, $177,342 (4.1%) of the Company's trade receivables balance was over 90 days past due. $16,134 of the past due balance was impaired at November 30, 2024. 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 six months ended November 30, 2024, provisions of $5,045 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($854 – November 30, 2023). For the six months ended November 30, 2024, $1,416 of the provisions was released due to the collection on the doubtful account ($1,846 – November 30, 2023). The company wrote off allowance for doubtful accounts in the amount of $nil for the six months ended November 30, 2024 by removing the amount from trade receivables ($10,083 – November 30, 2023). Translation loss of $242 (loss of $65 – November 30, 2023) was recognized under exchange differences arising on translation of overseas operations.

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

	November 30, 2024	May 31, 2024
Less than one year	**$ 431,387**	$ 422,806
One to five years	**1,089,848**	1,163,437
Six to ten years	**210,145**	320,224
Total undiscounted lease obligations	**1,731,380**	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 two main technology lines - heat recovery solutions and condensate return system solutions. The Company is also developing a third technology line - low temperature biomass drying systems. Assets are 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.

Segment information for the quarter ended November 30, 2024 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**3,874,796**	2,780,632	**4,796,115**	4,324,640	**-**	-	**8,670,911**	7,105,272
Cost of sales	**(2,824,054)**	(1,591,198)	**(2,973,920)**	(2,025,403)	**-**	-	**(5,797,974)**	(3,616,601)
Gross profit	**1,050,742**	1,189,434	**1,822,195**	2,299,237	**-**	-	**2,872,937**	3,488,671
Other expenses	**(1,063,972)**	(1,163,120)	**(1,458,252)**	(1,243,548)	**(240,960)**	(388,616)	**(2,763,184)**	(2,795,284)
Finance costs	**(21,427)**	(23,710)	**(8,168)**	(10,197)	**(48,556)**	(80,732)	**(78,151)**	(114,639)
Finance revenue	**12,739**	-	**-**	-	**-**	-	**12,739**	-
(Loss) income before taxation	**(21,918)**	2,604	**355,775**	1,045,492	**(289,516)**	(469,348)	**44,341**	578,748
Tax expense	**-**	-	**(16,669)**	(93,209)	**-**	-	**(16,669)**	(93,209)
Net (loss) income	**(21,918)**	2,604	**339,106**	952,283	**(289,516)**	(469,348)	**27,672**	485,539
Attributable to:								
Owners of the parent	**(20,061)**	2,627	**322,555**	929,498	**(289,516)**	(469,348)	**12,978**	462,777
Non-controlling interest	**(1,857)**	(23)	**16,551**	22,785	**-**	-	**14,694**	22,762

Segment information for the six months ended November 30, 2024 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
	$	$	**$**	$	**$**	$	**$**	$
Total revenue	**6,670,354**	5,894,917	**10,469,947**	6,393,478	**-**	-	**17,140,301**	12,288,395
Cost of sales	**(4,314,816)**	(3,171,678)	**(6,427,602)**	(2,861,138)	**-**	-	**(10,742,418)**	(6,032,816)
Gross profit	**2,355,538**	2,723,239	**4,042,345**	3,532,340	**-**	-	**6,397,883**	6,255,579
Other expenses	**(2,281,526)**	(2,019,829)	**(2,812,213)**	(2,409,722)	**(810,481)**	(855,764)	**(5,904,220)**	(5,285,315)
Finance costs	**(43,399)**	(47,548)	**(17,064)**	(13,530)	**(104,983)**	(166,825)	**(165,446)**	(227,903)
Finance revenue	**43,938**	-	**-**	-	**-**	-	**43,938**	-
Income (loss) before taxation	**74,551**	655,862	**1,213,068**	1,109,088	**(915,464)**	(1,022,589)	**372,155**	742,361
Tax expense	**-**	-	**(35,011)**	(94,992)	**-**	-	**(35,011)**	(94,992)
Net income (loss)	**74,551**	655,862	**1,178,057**	1,014,096	**(915,464)**	(1,022,589)	**337,144**	647,369
Attributable to:								
Owners of the parent	**69,968**	655,807	**1,136,764**	988,802	**(915,464)**	(1,022,589)	**291,268**	622,020
Non-controlling interest	**4,583**	55	**41,293**	25,294	**-**	-	**45,876**	25,349

Other expenses in Reconciling Items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2024	2023	**2024**	2023
	$	$	**$**	$
Corporate admin costs	**207,857**	208,733	**382,098**	376,001
Stock-based compensation	**65,306**	53,319	**130,612**	106,638
Professional fees	**76,052**	122,957	**148,869**	137,940
Depreciation of property, plant and equipment	**58,270**	26,312	**118,122**	54,725
Amortization of intangible assets	**36,417**	56,812	**79,990**	112,532
Foreign exchange (gain) loss	**(202,942)**	(79,517)	**(49,210)**	67,928
Total	**240,960**	388,616	**810,481**	855,764

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 quarter ended November 30, 2024, revenue was $3,874,796, representing an increase of $1,094,164, or 39%, from the revenue of $2,780,632 achieved in the same quarter of the previous year. The increase was mainly due to increased revenue from heat recovery projects, offset by decreased revenue from GEM. The Company received a large GEM order in fiscal year 2023 from a leading snack manufacturer which resulted in higher revenues from GEM in the same quarter of the previous year. The Company did not receive any similar-sized GEM orders recently.

Revenue for the six months ended November 30, 2024 of $6,670,354, represented an increase of $775,437, or 13%, from $5,894,917 achieved in the first half of the previous year. The increase was mainly due to the increased revenues from heat recovery projects.

Gross profit decreased by $138,692, or 12%, compared to the same quarter of the previous year. Gross profit for the six months ended November 30, 2024 decreased by $367,701, or 14%, over the same period of last year. The decrease in gross profit was mainly due to the decreased revenues from GEM, offset by the increased revenues from heat recovery projects. The gross profit as a percentage of revenue for the quarter and six months ended November 30, 2024 was 27% and 35%, respectively, as compared to 43% and 46% achieved in the same period of the previous year. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

During the quarter ended November 30, 2024, other operating expenses decreased by $99,148, or 9%, mainly due to the lower incentive expense recognized based on the quarterly financial results as compared to prior year. During the first six months ended November 30, 2024, other operating expenses increased by $261,697 mainly due to the increase in salary expense resulting from increased headcount and salary raises.

The finance costs, mainly the interest accretion on lease obligations, decreased by $2,283 and $4,149 as a result of decreased lease obligation balance for this segment for the three months and six months ended November 30, 2024, respectively. The Company earned finance revenue of $12,739 and $43,938 from this segment for the quarter and six months ended November 30, 2024, respectively. As a result, the net finance costs decreased by $15,022 and $48,087 for the three months and six months ended November 30, 2024, respectively, compared to the same period of the previous year.

Loss before taxation for the quarter was $21,918, compared to the income earned of $2,604 in the same quarter of the previous year, a decrease of $24,522. Income before taxation for the six months ended November 30, 2024 was $74,551 as compared to $655,862 earned in the same period of the previous year, a decrease of $581,311. The decrease of income before taxation was mainly due to the decreased gross profit despite the increased revenue from this segment as a result of the change in product mix. Meanwhile, the other expenses increased due to increased headcounts and salary raises.

Thermal Energy Bristol:

Revenue was $4,796,115, representing an increase of $471,475, or 11%, from $4,324,640 achieved in the same quarter of the previous year. The increase was mainly driven by higher revenues from heat recovery projects, offset by the decreased revenue from GEM. In the previous year, this segment received large GEM orders from a repeat customer which resulted in the higher GEM revenue in the previous year.

Revenue was $10,469,947, representing an increase of $4,076,469, or 64%, from $6,393,478 achieved in the six months ended November 30, 2024. The increase was mainly driven by higher revenues from heat recovery projects.

Gross profit decreased by $477,042, or 21%, from $2,299,237 to $1,822,195, despite the increased revenue for the quarter ended November 30, 2024. The decrease in gross profit was mainly due to decreased revenues from GEM. The gross profit as a percentage of revenue was 38% for Q2 2025, as compared to 53% for Q2 2024. The decrease in gross profit as a percentage of revenue was mainly due to the change in product mix.

For the six months ended November 30, 2024, gross profit increased by $510,005, or 14%, from $3,532,340 to $4,042,345. The increase in gross profit was mainly due to increased revenues from heat recovery projects. The gross profit as a percentage of revenue was 39% for the first two quarters of 2025 as compared to 55% for the first two quarters of 2024. The decrease in gross profit as a percentage of revenue was mainly due to the change in product mix.

Other expenses for the three months ended November 30, 2024 were $1,458,252, an increase of $214,704 or 17%, compared to $1,243,548 of prior year. Other expenses for the six months ended November 30, 2024 were $2,812,213, an increase of $402,491, or 17%, compared to $2,409,722 of 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 as compared to the same period of the previous year.

Finance costs were $8,168, a decrease of $2,029, from $10,197 of the same quarter from the previous year. Finance costs increased by 3,534 for the six months ended November 30, 2024 as compared to the same period of the previous year. Finance costs related to interest accretion on lease obligations.

Income before taxes for the three months ended November 30, 2024 was $355,775 as compared to $1,045,492 for the same quarter of the previous year, a decrease of $689,717. The decrease was mainly due to the decrease in gross profit of $477,042 as a result of the change in product mix, and the increase in other operating expenses of $214,704 due to increased headcount.

Income before taxes for the six months ended November 30, 2024 was $1,213,068 as compared to $1,109,088 for the same period of the previous year, an increase of $103,980. The increase was mainly due to the increase in gross profit of $510,005 as a result of increased revenues, offset by the increase in other operating expenses of $402,491 due to increased headcount.

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 decreased from $388,616 to $240,960, a decrease of $147,656, compared to the second quarter of the previous year. This decrease was mainly driven by the increase of $123,425 in foreign exchange gains.

For the six months ended November 30, 2024, the other expense within Reconciling Items decreased from $855,764 to $810,481, a decrease of $45,283. The decrease was mainly due to the increase in foreign exchange gain of $117,138, offset by the increase in depreciation of property, plant and equipment of $63,397. The Company recognized additions to property, plant and equipment due to the leasehold improvement work performed at a new facility near the end of the second quarter of FY 2024. As a result, the depreciation expense increased for the first two quarters of FY 2025 compared to the same period of prior year as the depreciation started in the third quarter of FY 2024.

4. Related Party Transactions

Directors and Senior Management Compensation

During the quarter ended November 30, 2024 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 quarter ended November 30, 2024, Directors fees paid were $13,500. Fees to the Chair of the Audit Committee were $1,350; fees to the Chair of the Ethics, Governance and Compliance Committee were $1,350; fees paid to the Chair of the Board were $2,025. No in-person meetings were held during the quarter.

Compensation paid to Directors and Officers during the quarter ended November 30, 2024 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2024 $	2023 $	**2024 $**	2023 $	**2024 $**	2023 $	**2024 $**	2023 $
Directors								
W. White	**5,400**	5,400	**-**	-	**-**	-	**5,400**	5,400
W. Ollerhead	**4,725**	4,725	**-**	-	**-**	-	**4,725**	4,725
D. Spagnolo	**4,725**	4,725	**-**	-	**-**	-	**4,725**	4,725
M. Williams	**3,375**	3,375	**-**	-	**-**	-	**3,375**	3,375
Total	**18,225**	18,225	**-**	-	**-**	-	**18,225**	18,225
Senior Management								
W. Crossland	**70,112**	66,144	**-**	-	**2,805**	-	**72,917**	66,144
R. Triebe	**55,521**	49,884	**-**	-	**3,336**	1,017	**58,857**	50,901
S. Mawby(1)	**57,330**	42,432	**-**	-	**7,710**	6,411	**65,040**	48,843
J. Zhang	**40,169**	34,450	**-**	-	**2,722**	1,017	**42,891**	35,467
Total	**223,132**	192,910	**-**	-	**16,573**	8,445	**239,705**	201,355
Total Related Party Transactions	**241,357**	211,135	**-**	-	**16,573**	8,445	**257,930**	219,580

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.7883 and 1.6836 in Q2 2025 and Q2 2024, respectively.

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

Options outstanding for Directors (excluding the CEO) as at November 30, 2024 were 1,000,000, of which 666,665 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at November 30, 2024 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 November 30, 2024 was approximately $12.9 million. As at January 27, 2025, the Company had an order backlog of approximately $17.9 million.

	2024 $ million	2023 $ million	2022 $ million
Order backlog as at November 30	12.9	17.5	17.1
Order backlog as at January reporting date	17.9	23.6	19.5

- 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 is expected to be completed and revenue earned within 12 months.

- On November 11, 2024, the Company announced that 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. All three orders are expected to be fulfilled and revenue earned within 12 months.

- 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 CO_2 emissions by 16%. The project was about 1% complete at the quarter end.

- 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 CO_2 emissions by 1,199 tons per year, representing an estimated 14% reduction in site CO_2 emissions. The project was about 2% complete at the quarter end.

- On May 6, 2024, the Company announced that it had received an order valued at approximately $1.9 million from a global materials company. This $1.9 million turn-key project is expected to save the customer over $980,000 annually on its energy bill, reduce CO_2 emissions by 977 tonnes per year and improve pollution prevention and control. The project was about 75% complete at the quarter end.

- On December 7, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $3.7 million from one of Europe's largest food and drink producers. The project is expected to provide annual natural gas savings of approximately $1.3 million while reducing CO_2 emissions by 3,078 tonnes, resulting in additional financial savings of about $313 thousand per year based on approximately $102 tonnes per year. The project is expected to provide a payback of approximately 2.3 years, or 1.6 years after receipt of IETF grant funding. The project is expected to be completed and revenue earned within 12 months from the quarter-end. The project was about 82% complete at the quarter end.

- On October 17, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $2.6 million from a multinational dairy and nutrition company. The project is expected to result in estimated annual savings of $1.2 million on fuel while reducing CO_2 emissions by 4,231 tonnes, as well as a 50% - 90% reduction in annual emissions of particulate matter (which are contributors to asthma and other respiratory diseases) and acid gases such as SO_2. The project is expected to provide a payback of approximately 2.1 years. The project was about 91% complete at the quarter end.

- On October 10, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $1.9 million from a global nutrition company. The project is expected to reduce natural gas use by the site's steam boilers by 75%, CO_2 emissions by 1,587 tonnes annually, and the emission of particulate matter and acid gases such as SO_2 by 50% - 90%. The project is expected to result in a payback of approximately 1.2 years. The project was about 74% complete at the quarter end.

- On September 13, 2023, the Company announced that it had received an order for a turn-key heat recovery project valued at approximately $4 million from a leading multinational pharmaceutical company. The expected reduction in natural gas consumption would reduce CO_2 emissions by 1,280 tons per year, representing a 13.5% reduction in site thermal CO_2 emissions. Based on the client's expected natural gas prices, the project is expected to deliver approximately $1 million in annual fuel savings, resulting in a payback for a turn-key implementation in 4.1 years before application of any available utility. The project was about 85% complete at the quarter end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at November 30, 2024, the Company had the following shares and dilutive instruments outstanding:

Shares:

173,114,305 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding November 30, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2024	Weighted average exercise price
0.08-0.10	2,065,000	0.99	0.09	2,065,000	0.09
0.11-0.15	7,005,502	2.51	0.13	5,709,908	0.13
0.16-0.20	6,424,800	4.46	0.20	1,164,799	0.20
	15,495,302	3.11	0.15	8,939,707	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.

Valuation of intangible assets and asset impairment

Intangible assets are tested annually for impairment, or earlier if circumstances indicate an impairment.

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

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Assumptions used in the Black-Scholes fair value calculations

The estimation of share-based payment expense requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. In calculating the share-based payment expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, and the risk-free interest rate are used.

Expected credit loss

The valuation of allowances for uncollectable trade receivables requires assumptions including estimated credit losses based on the Company's knowledge of the financial conditions of its customers, historical experience, and general economic conditions.

Revenue recognition

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

Revenue from contracts for heat recovery projects

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

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

In other instances, 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).

Deferred tax assets

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

Changes in Accounting Standards

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 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.

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 grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- The ability to secure and maintain the required outside working capital financing;
- The ability to achieve profitable operations through increased sales;
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects;
- The 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:

In FY 2022, the Company incurred a loss of $1,837,971. Cash balance decreased by $1,609,312. The loss was mainly caused by the decreased revenues from heat recovery projects as customers were delaying their purchase decisions on these projects in the light of uncertainties resulting from COVID. The loss was also caused by the increased Operating Expenses. Despite the loss, the Company maintained its staff levels and its full production and project development capabilities anticipating order intake to return to pre-pandemic levels in the following fiscal year. The Company applied for subsidies from government agencies and received $340,566 in FY 2022. The Company also applied for and received the second tranche of COVID loan in the amount of $1,300,000 in FY 2022 to support the Company's operations. In FY 2023, the order intake levels returned and exceeded pre-pandemic levels. The Company received $27.3 million of orders in total in FY 2023. As a result, the Company's revenue returned to the pre-pandemic level and achieved a net income of $720,449. In FY2024, the Company continued to see increase in total order intake. As a result, the Company recognized revenue of $25,880,197 and net income of $982,168 in FY2024. In addition, the Company generated cash from operating activities in the amount of $5,398,368 and paid back long-term debt of $921,281.

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

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

Management still believes that competition against its core technologies is limited at this time and believes that the marketplace is sufficiently large enough to mitigate the risk of stronger competition in the future.

In January 2025, the U.S. government announced plans to implement significant tariffs affecting key U.S. trading partners, including a 25% tariff on all imports from Canada and Mexico to the U.S., set to take effect on February 1, 2025. These measures have raised concerns about potential future tariffs affecting other countries, including the U.K. The Company is currently evaluating the potential impacts of these tariffs on its operations, supply chains, and financial performance.

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 had been rising since the start of the global pandemic, 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 had resulted in higher costs of sales for the Company's product lines. The Company has 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.

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 quarter ended November 30, 2024 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.