THERMAL ENERGY INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2025

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the fiscal year ended May 31, 2025 (or "FY 2025"), and compares the FY 2025 financial results to the previous year ended May 31, 2024 (or "FY 2024"). The consolidated financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the fourth quarter of FY 2025 are against the fourth quarter of FY 2024. Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca.

Currency

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

Review and Approval by the Board of Directors

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

Forward-Looking Statements

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

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1. Our Business

1.1 Company Overview

Thermal Energy, established in 1991, is a global provider of proprietary and proven energy and water efficiency and emission reduction products and solutions to the industrial, commercial, and institutional markets. The Company is headquartered in Ottawa, Canada, with offices in the U.K., Italy, Germany, and the U.S.

Thermal Energy engages clients through a unique mix of process, energy, environmental and financial expertise to save our customers money and improve their bottom lines by reducing their fuel use and carbon emissions. The Company's award-winning products have an excellent track record of longevity, proven reliability and performance and have been shown to provide: significant energy savings; improved water efficiency; reduced greenhouse gas emissions; lowered maintenance costs; improved product quality; and increased production efficiency. Thermal Energy's products are effective in a wide range of industries and applications.

More information on Thermal Energy can be found at www.thermalenergy.com. **GEM™, FLU-ACE®, THERMALONOx™** and **DRY-REX™** are trademarks of Thermal Energy.

1.2 Core Businesses

The Company operates primarily in North America and Europe but also sells its products and services through representative agents throughout the rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports two technology lines – heat recovery solutions, including direct contact heat recovery solutions (e.g. **FLU-ACE®**), indirect contact heat recovery solutions (**HEATSPONGE** and **SIDEKICK**), and condensate return system solutions (**GEM™** steam traps). The Company is also developing several other technology lines, including low temperature biomass drying systems (**DRY-REX™**).

In 2008, the Company acquired Gardner Energy Management Limited, which owned, manufactured and sold the GEM™ steam traps throughout the world. As part of this transaction, the Company also acquired the 67% share of GEMchem Ltd, a UK-based water treatment company providing services within the UK only. In 2018, the Company acquired Boilerroom Equipment Inc., a company based in the U.S., which owned, manufactured and sold HEATSPONGE and SIDEKICK indirect contact heat recovery units. In 2021, the Company acquired technology from Sofame Technologies Inc., a company based in Montreal, Quebec. The acquisition of Sofame technology has provided Thermal Energy with an expanded portfolio of complementary energy efficiency and carbon emission reduction solutions.

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

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

1.3 Strategy

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

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

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

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

2. Performance Measures

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

2.1 EBITDA and Adjusted EBITDA

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

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

For the fourth quarters ended May 31:

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

For the years ended May 31:

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

2.2 Order Backlog

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

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

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

3. Performance

3.1 Selected Annual Information

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

Financial information for the years ended May 31, 2025 and 2024:

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

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

For the most recent eight quarters ended:

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

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

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

3.2 Summary of Fourth Quarter Results

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

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

Revenue and Gross Profit

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

The gross profit of $3,678,903 achieved in the quarter ended May 31, 2025, represented an increase of $543,192, or 17.3%, from $3,135,711 achieved in the quarter ended May 31, 2024. The increase in gross profit was mainly due to higher revenue from GEM products as compared to the same period of the previous year. In addition, the margins on heat recovery projects improved, which resulted in higher gross profit despite lower revenue. The increase in gross profits from GEM and heat recovery projects were offset by the decreased gross profit from indirect heat recovery equipment due to lower revenue and lower margin as compared to the fourth quarter of the prior year. The gross profit expressed as a percentage of revenue was 53.9% in the fourth quarter of FY 2025 compared to 41.7% in the same quarter of FY 2024. The increase of gross profit as a percentage of revenue was mainly due to the change in product mix and the improved margins on GEM and heat recovery projects.

Expenses

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

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

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

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

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

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

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

Comprehensive income was $488,772 for the fourth quarter of FY 2025, compared to comprehensive income of $328,525 for the fourth quarter of FY 2024. The increase of $160,247 of comprehensive income was mainly due to the increase in exchange gains arising on translation of overseas operations of $264,798 and the decrease of net income in the amount of $66,374 as mentioned above.

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

3.3 Summary of Year End Results

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

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

Revenue and Gross Profit

Revenues were $29,780,476 in the year ended May 31, 2025, an increase of $3,900,279, or 15.1%, compared to $25,880,197 recognized in the prior year. The increase was mainly due to increased revenues from heat recovery projects, partially offset by a decline in GEM trap revenue. In FY2024, the Company secured several large heat recovery orders, which increased the project backlog by year-end of that year. These projects were delivered during FY2025, resulting in higher revenue. In contrast, GEM trap revenue decreased compared to the prior year. In FY2024, the Company fulfilled a portion of an exceptionally large one-time GEM order received in FY2023 from a repeat customer. No comparable order was received in FY2025.

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

Expenses

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

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

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

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

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

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

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

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

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

3.4 Liquidity & Capital Resources

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

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

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

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

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

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

The net cash used in the operating activities for the year ended May 31, 2025 was $1,673,136, which included the net income of $158,482, the addbacks of non-cash items of $1,593,432, the negative change in working capital of $3,224,861, the income tax refund received in the amount of $31,502, the interest paid on long-term debt and lease obligations of $294,958, and the interest income received of $63,267. The negative change in working capital was mainly due to the timing difference between cash collections from customers and cash payments to vendors on long-term heat recovery projects. The Company first collects upfront deposit from a customer at the start of a project. The amount collected is recognized as a deferred revenue first. When the project progresses, the Company uses the cash collected to make purchases and pay vendors. Revenue is then recognized while the deferred revenue decreases. For the year ended May 31, 2025, cash from deferred revenue was reduced by $1,689,284 (before foreign exchange loss of $59,561) as a result of the progression of heat recovery projects that started in the previous years. Cash from trade payables and other liabilities were reduced by $1,574,505 (before foreign exchange loss of $61,812 and $500,000 commitment on shares to be purchased in the blackout period subsequent to the year end under NCIB) as a result of payments made to vendors as several heat recovery projects were about to finish near the year-end. In addition, cash from trade and other receivables decreased by $315,996 due to work invoiced but not yet collected from customers. As a result, cash from changes in working capital was a negative $3,224,861 in FY 2025.

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

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

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

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

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

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

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

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

3.5 Segmentation Information

In FY 2025 and FY 2024, the Company operated in the energy efficiency industry in North America, Europe and rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports three main technology lines – direct contact heat recovery solutions, condensate return system solutions, and indirect contact heat recovery solutions. Assets are mainly located in Canada, the US and the UK.

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

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

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

Other expenses in Reconciling Items comprise the following:

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

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

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

Material Segmentation Variances

Thermal Energy Ottawa:

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

Gross profit for the year ended May 31, 2025 increased by $224,907, or 4.2%, over last year. The increase in gross profit was mainly due to the increased gross profit from heat recovery projects and indirect contact heat recovery equipment as a result of increased revenues from these two product lines, offset by the decreased gross profit from GEM due to reduced revenue. The Company fulfilled a large GEM order in the previous year resulting in higher GEM revenue. The Company did not receive any GEM order in similar size in FY 2025 leading to declined GEM revenue. The gross profit as a percentage of revenue for the year ended May 31, 2025 was 41.4% compared to 45.8% for the previous year. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

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

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

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

Thermal Energy Bristol:

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

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

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

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

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

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items increased from $1,790,137 to $1,797,399, a slight increase of $7,262, compared to the previous year. During FY 2025, a few items had lower amount of costs including foreign exchange loss and amortization of intangible assets. Foreign exchange loss was $124,588, compared to $223,301 from FY 2024, a decrease of $98,713. Amortization of intangible assets also decreased by $70,925 compared to prior year because a few of the intangible assets were fully amortized between FY 2024 and FY 2025. In contrast, a few items increased in costs in FY 2025 including depreciation of property, plant and equipment as well as professional fees. In FY 2024, the Company recognized additions to property, plant and equipment due to the leasehold improvement work performed at a new facility in FY 2024. As a result, the depreciation expense increased in FY 2025. Increase in professional fees were mainly driven by general inflationary increase and a non-reoccurring service fees incurred in FY 2025.

4. Related Party Transactions

Directors and Senior Management Compensation

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

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

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

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

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

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

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

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

Options outstanding for Senior Management (including the CEO) as at May 31, 2025 were 5,429,000, of which 3,349,664 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

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

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

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

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

- On July 15, 2025, the Company announced that it had received an order from leading multinational building materials company. The turnkey project is valued at $1 million and will include the installation of three HeatSponge multi-pass two-stage boiler economizers proprietary to and developed by the Company's wholly owned subsidiary, Boilerroom Equipment Inc. The project is expected to provide annual natural gas savings of 41,545 mmBTU while reducing greenhouse gas emissions by up to 2,202 metric tons CO_2 per year, or 10% reduction of the site's total CO_2 emissions. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On July 10, 2025, the Company announced that it had received an order from a European customer for a turn-key heat recovery project valued at approximately $1.4 million. The turnkey heat recovery project is expected to deliver a one tonne reduction of annual NOx emissions (through reduced fuel consumption), as well as a 50% to 90% reduction in particulate matter (contributors to asthma and other respiratory diseases) and acid gases (SO2). The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On July 3, 2025, the Company announced that it had received an additional order from one of the world's largest multinational pharmaceutical companies for a previously announced heat recovery project. This turn-key heat recovery expansion project is valued at approximately $4.1 million. This latest order calls for Thermal Energy to design, fully implement, and commission the project on a turn-key basis, bringing the total value to Thermal Energy for this project to $5.6 million. The project is expected to reduce the site's natural gas consumption and associated CO_2 emissions by 12.5%, resulting in up to 2,038 metric tons of CO_2 emissions eliminated annually. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On June 26, 2025, the Company announced that it had received the second order from one of the world's largest pharmaceutical companies. This second order stems from a Project Development Agreement order, which led to Thermal Energy's largest engineering contract to date in the amount of $500 thousand, announced on February 11, 2025. This second order is for custom equipment valued at approximately $1 million. The equipment ordered includes the Company's proprietary FLU-ACE® Heat Recovery System. On July 3, 2025, the Company announced that it had received the third order valued at $4.1 million. The third order calls for Thermal Energy to design, fully implement, and commission the project on a turn-key basis, bringing the total value to Thermal Energy for this project to $5.6 million. The project is expected to reduce the site's natural gas consumption and associated CO_2 emissions by 12.5%, resulting in up to 2,038 metric tons of CO_2 emissions eliminated annually. The project is expected to be completed and revenue earned within 12 months from the receipt of the last purchase order received.

- On May 14, 2025, the Company announced that it had received an order from a multinational consumer products company for one of its European sites. This GEM order is valued at approximately $930 thousand. This project/order is expected to save fuel from GEM steam traps of approximately 10%. The project was about 5% complete at the year end.

- On April 16, 2025, the Company announced that it had received an order from one of its largest customers to expand the existing heat recovery system installed by the Company in 2019. This turn-key heat recovery expansion project is valued at approximately $1 million. This project includes the design, construction, startup commissioning and training for the complete system including all mechanical, electrical and controls required for a fully functional heat recovery and distribution system. The expansion project is expected to result in a further 14,500 MMBtu reduction in natural gas consumption and an estimated reduction of 767 tons of CO2 emissions per year. The project was about 1% complete at the year end.

- On December 16, 2024, the Company announced that it had received an order for a heat recovery and heat pump project valued at approximately $2.8 million from a leading multinational pharmaceutical company, the third heat recovery project under global master services agreement within the last 15 months. The turn-key project includes both indirect contact HeatSponge®, a direct contact FLU-ACE® heat recovery system, as well as an integrated heat pump. The project is expected to deliver approximately 93% boiler efficiency. Additionally, the anticipated reduction in natural gas consumption is estimated to cut CO2 emissions by 728 tons per year, representing an estimated 11% reduction in site CO2 emissions. The project was about 10% complete at the year end.

- On November 11, 2024, the Company announced that that its subsidiary, Boilerroom Equipment Inc. ("BEI") had received three orders totaling just over $1 million. Among the orders was an order from one of the world's largest multinational beverage companies for three identical two-stage boiler economizers, representing BEI's second largest purchase order and largest two-stage economizer order to date. In addition, BEI's representative in Colombia purchased nine single stage economizers for an animal feedlot operation, and its Quebec representative purchased two boiler economizers, one single stage and one two-stage, for the Canadian government. The orders were about 79% complete at the year end.

- On October 28, 2024, the Company announced that it had received an order for a heat recovery project valued at approximately $1.5 million from a multinational confectionary company. This turn-key project includes installing a Flu-Ace® heat recovery system and replacing two OEM economizers with two of our HeatSponge® economizers. This project is expected to reduce the site's natural gas consumption and related CO_2 emissions by 16%. The project was about 54% complete at the year 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 15% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

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

Shares:

173,114,305 class A common shares.

Options:

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

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

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

Revenue recognition

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

Revenue from contracts for heat recovery projects

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

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

Deferred tax assets

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

Valuation of intangible assets and asset impairment

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

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

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

Assumptions used in the Black-Scholes fair value calculations

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

Expected credit loss

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

Changes in Accounting Standards

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

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

The Company has adopted the following amended accounting standard:

Amendments to IAS 1

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

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

New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

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

IFRS 18 introduces three new sets of requirements:

- Improved comparability in the statements of income which introduces three defined categories for income and expenses: operating, investing and financing. These changes would require all companies to use the same structure of the statements of income and provide new defined subtotals, including operating profit.

- Enhanced transparency of management-defined performance measures which would require companies to disclose explanations of those company specific measures that are related to the income statement.

- More useful grouping of information in the financial statements which provides enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

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

8. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

- The Company's history of operating losses and uncertainty of future profitability;
- The ability to achieve profitable operations through increased sales;
- The ability to secure and maintain the required outside working capital financing;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The ongoing litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of a continuing prolonged recession in Canada, U.S. and Europe to the financial markets in securing project financing and in particular to industrial and commercial customers in committing capital to projects;
- The effect of new tariffs and duties;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars and conflicts;
- The impact of inflation; and
- The impact of major global pandemics.

Management's addressing of the risks:

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

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

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

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

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

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

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

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

Management continues to focus on strengthening relationships with key customers, as well as securing new relationships with multi-site organizations, which is anticipated to provide repeat business into the foreseeable future. Management continually monitors costs and cash flow to ensure that the Company has sufficient funds for operations while providing for future growth.

9. Forward-Looking Information

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

10. Management’s Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company’s internal control over financial reporting during the year ended May 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Board of Directors is responsible for ensuring that management fulfills its responsibility principally through its Audit Committee.