THERMAL ENERGY INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended November 30, 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 second quarter of Fiscal Year 2026 ended November 30, 2025 (or "Q2 2026"), and compares the Q2 2026 financial results to the previous quarter ended November 30, 2025 (or "Q2 2025"). 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 2026 are against the second quarter of FY 2025. 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 47% of our operations, assets and liabilities are denominated in British Pounds and 15% 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 26, 2026. Disclosure contained in this document is current to January 26, 2026, 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:

	Three months ended		Six months ended	
	Nov 30, 2025 $	Nov 30, 2024 $	Nov 30, 2025 $	Nov 30, 2024 $
Total net income attributable to owners of the parent	**578,393**	12,978	**725,139**	291,268
Total net income attributable to non-controlling interest	**39,529**	14,694	**58,505**	45,876
Interest charge	**29,727**	78,151	**60,957**	165,446
Interest revenue	**(4,836)**	(12,739)	**(10,757)**	(43,938)
Income tax expense	**37,832**	16,669	**57,137**	35,011
Depreciation and amortization	**72,148**	94,687	**150,352**	198,112
EBITDA	**752,793**	204,440	**1,041,333**	691,775
Share based compensation	**61,638**	65,306	**123,276**	130,612
Adjusted EBITDA	**814,431**	269,746	**1,164,609**	822,387

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, 2025 was approximately $15 million. As at January 26, 2026, the Company had an order backlog of approximately $21.5 million.

	2025 $ million	2024 $ million	2023 $ million
Order backlog as at November 30	15.0	12.9	17.5
Order backlog as at January reporting date	21.5	17.9	23.6

3. Performance

3.1 Quarterly Financial Information (unaudited)

For the most recent eight quarters ended:

Quarter ended	28-Feb-25 $	31-May-25 $	31-Aug-25 $	30-Nov-25 $
Revenue	5,815,078	6,825,097	6,849,779	10,187,983
Gross profit	2,267,057	3,678,903	3,189,413	4,007,489
Gross profit percentage	39.0%	53.9%	46.6%	39.3%
Adjusted EBITDA(1)	(167,494)	397,307	350,178	814,431
Total net income	(402,636)	223,974	165,722	617,922
Income per share, basic and diluted	(0.002)	0.001	0.001	0.003

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%
Adjusted 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	-

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

3.2 Summary of Second Quarter Results

	Q2 2026	Q2 2025
	$	$
Revenue	**10,187,983**	8,670,911
Cost of sales	**6,180,494**	5,797,974
Gross profit	**4,007,489**	2,872,937
Expenses:		
Administration, selling, marketing and business development	**3,248,800**	2,643,311
Research and development	**78,044**	119,873
	3,326,844	2,763,184
Operating income	**680,645**	109,753
Finance costs	**(29,727)**	(78,151)
Finance revenue	**4,836**	12,739
Income before income tax	**655,754**	44,341
Income tax expense	**(37,832)**	(16,669)
Net income for the period	**617,922**	27,672
Exchange differences on translation of overseas operations	**(72,769)**	(109,121)
Total comprehensive income (loss) for the period	**545,153**	(81,449)
Adjusted EBITDA for the period[1 2]	**814,431**	269,746
Order backlog as at November 30 [3]	**15.0 million**	12.9 million
Order backlog as at reporting date [3]	**21.5 million**	17.9 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 $10,187,983 in the quarter ended November 30, 2025, representing an increase of $1,517,072, or 17.5%, compared to $8,670,911 in the quarter ended November 30, 2024. The increase of revenues in the second quarter of FY 2026 was mainly due to the increased revenues from heat recovery projects and GEM sales.

The gross profit of $4,007,489 achieved in the quarter ended November 30, 2025, represented an increase of $1,134,552, or 39.5%, from $2,872,937 achieved in the quarter ended November 30, 2024. The increase in gross profit was due to the increased revenues from heat recovery projects and GEM sales. The gross profit expressed as a percentage of revenue was 39.3% in the second quarter of FY 2026 compared to 33.1% in the same quarter of FY 2025. The increase of gross profit as a percentage of revenue was mainly due to the change in product mix and higher margins achieved from heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the quarter ended November 30, 2025, totaled $3,248,800, compared to $2,643,311 in the quarter ended November 30, 2024, an increase of $605,489, or 22.9%. The increase of Operating Expenses of $580,913 was mainly related to higher incentive expense due to higher net income achieved, and a one-time restoration cost recognized for a leased space. In addition, the Company continued to invest in its digital scoping tool and website development.

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 $41,829 in the second quarter of FY 2026 mainly due to less 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 $29,727 in the second quarter of FY 2026, a decrease of $48,424. The decrease was mainly due to the significantly reduced balance on long-term debts. In FY 2025, the Company repaid $2,067,525 on long-term debts.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $4,836 in the second quarter of FY 2026. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income tax for the quarter ended November 30, 2025 was $655,754, compared to $44,341 in the same quarter of the previous year. Income before income taxes increased by $611,413 mainly due to the increase in gross profit of $1,134,552 as a result of higher revenues from both heat recovery projects and GEM, decrease of finance costs of $48,424 and decrease of R&D expenses of $41,829, offset by the increase in operating expenses of $605,489.

Income tax expense in the second quarter of FY 2026 was $37,832, as compared to $16,669 in the second quarter of FY 2025, an increase of $21,163. The Company recorded a higher income tax expense due to higher taxable profit earned in the second quarter of FY 2026 .

Net Income for the second quarter of FY 2026 was $617,922, compared to $27,672 in the same quarter of the previous year, representing an increase of $590,250. The increase in net income was mainly due to the increase in income before income tax of $611,413 as mentioned above, offset by the increase in income tax expense of $21,163.

Comprehensive income was $545,153 for the second quarter of FY 2026, compared to comprehensive loss of $81,449 for the second quarter of FY 2025. The increase of $626,602 of comprehensive income was mainly due to the increase of net income in the amount of $590,250 as mentioned above and the decrease in exchange loss arising on translation of overseas operations of $36,352.

Adjusted EBITDA was $814,431 for the second quarter of FY 2026, compared to $269,746 for the same quarter of the previous year, representing an increase of $544,685. The increase was mainly due to the increase in income before tax of $611,413 as mentioned above. 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-to-Date Results

	Six months ended Nov 30, 2025	Six months ended Nov 30, 2024
	$	$
Revenue	**17,037,762**	17,140,301
Cost of sales	**9,840,860**	10,742,418
Gross profit	**7,196,902**	6,397,883
Expenses:		
Administration, selling, marketing and business development	**6,120,560**	5,722,453
Research and development	**185,361**	181,767
	6,305,921	5,904,220
Operating income	**890,981**	493,663
Finance costs	**(60,957)**	(165,446)
Finance revenue	**10,757**	43,938
Income before income tax	**840,781**	372,155
Income tax expense	**(57,137)**	(35,011)
Net income for the period	**783,644**	337,144
Exchange differences on translation of overseas operations	**(67,429)**	20,017
Total comprehensive income for the period	**716,215**	357,161
Adjusted EBITDA for the period[1 2]	**1,164,609**	822,387
Order backlog as at November 30 [3]	**15.0 million**	12.9 million
Order backlog as at reporting date [3]	**21.5 million**	17.9 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 $17,037,762 in the six months ended November 30, 2025, representing a decrease of $102,539, or 0.6%, from $17,140,301 recognized in the six months ended November 30, 2024. The decrease in revenues was mainly due to decreased revenues from heat recovery projects, offset by increased revenues from GEM sales. The Company received less heat recovery orders from the European market which resulted in lower heat recovery revenues, however, it received higher order intake from GEM sales in Europe and higher heat recovery sales in North America.

The gross profit of $7,196,902 in the six months ended November 30, 2025, represented an increase of $799,019, or 12.5%, from $6,397,883, achieved in the six months ended November 30, 2024. The gross profit was higher from both heat recovery projects and GEM sales compared to the same period of prior year. The increase in GEM's gross profit was due to increased revenues and the increase in heat recovery projects was due to improved margins. Overall, gross profit expressed as a percentage of revenue was 42.2% in the six months ended November 30, 2025 compared to 37.3% in the same period of previous year. The increase of gross profit as a percentage of revenue was mainly due to the change in product mix and improved margins on heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses ("Operating Expenses") in the six months ended November 30, 2025 totaled $6,120,560, compared to $5,722,453 in the six months ended November 30, 2024, representing an increase of $398,107, or 7.0%. The increase of Operating Expenses of $606,688 was related to higher incentive expense due to higher profit achieved, a one-time restoration cost recognized for a leased space, and inflationary increases on regular operating costs and salaries. In addition, the Company invested in its digital scoping tool and website design. The increase was offset by $208,581 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 $185,361 in the six months ended November 30, 2025, compared to $181,767 in the six months ended November 30, 2024, a slight increase of $3,594.

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 $104,489 from $165,446 to $60,957 for the six months ended November 30, 2025. The decrease was mainly due to the significantly reduced balance on long-term debts. In FY 2025, the Company repaid $2,067,525 on long-term debts. During the six months ended November 30, 2025, the Company repaid $259,642 on long-term debts.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of $10,757 for the six months ended November 30, 2025. The Company allocated funds to the short-term deposit to benefit from the excess liquidity. The finance revenue decreased from $43,938 for the six months ended November 30, 2024 to $10,757 due to the lower cash balance compared to the same period of last year.

Income before income tax for the six months ended November 30, 2025 was $840,781 compared to $372,155 in the same period of the previous year, representing an increase of $468,626. The increase in income before income tax was mainly due to the increase in gross profit of $799,019 and the decrease of finance costs of $104,489, offset by the increase in operating expenses of $398,107 and decrease in finance revenue of $33,181.

Income tax expense in the six months ended November 30, 2025 was $57,137, compared to $35,011 in the same period of previous year, an increase of $22,126. 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 FY 2026, the Company recorded higher income tax expense due to higher amount of taxable income earned.

Net income for the six months ended November 30, 2025 was $783,644, compared to $337,144 in the six months ended November 30, 2024, representing an increase of $446,500. The increase in net income was mainly due to the increase of income before income tax of $468,626 as mentioned earlier, offset by the increase in income tax expense of $22,126.

Comprehensive income was $716,215 for the six months ended November 30, 2025, compared to $357,161 for the six months ended November 30, 2024, representing an increase of $359,054. The increase in comprehensive income was mainly due to the increase in net income of $446,500 as mentioned earlier, offset by the increase in foreign exchange losses of $87,446 from translation of overseas operations. The Company recognized foreign exchange losses arising on translation of overseas operations of $67,429 in the six months ended November 30, 2025 as compared to foreign exchange gains of $20,017 recognized in the same period of the previous year.

Adjusted EBITDA was $1,164,609 for the six months ended November 30, 2025 compared to $822,387 for the same period of the previous year, representing an increase of $342,222. The increase was mainly due to the increase in income before tax of $468,626 as mentioned above, offset by the decrease in the amortization of intangible assets of $51,008 and in the finance costs of $104,489. 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 increased by $2,341,791 to $12,250,428 at November 30, 2025, compared to $9,908,637 at May 31, 2025. This increase was mainly due to the increase in trade and other receivables of $2,802,051, prepaid expenses of $384,792, current tax receivable of $13,725, offset by the decrease in cash and cash equivalents of $793,034 and inventory of $65,743.

Current liabilities increased by $1,298,483 to $8,810,866, from $7,512,383 at May 31, 2025, mainly due to the increase in trade payables and other liabilities of $2,147,335, current tax liabilities of $54,012, offset by the decrease in deferred revenue of $546,286, current portion of long-term debt of $258,005, current portion of lease obligations of $66,230 and pensions and other employer obligations of $32,602.

Working capital increased by $1,043,308 to $3,439,562 at November 30, 2025, compared to $2,396,254 at May 31, 2025. The increase in working capital was mainly due to net income earned of $783,644 and reduction of current portion of long-term debt of $258,005.

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

	Feb 29, 2024 $	May 31, 2024 $	Aug 31, 2024 $	Nov 30, 2024 $	Feb 28, 2025 $	May 31, 2025 $	Aug 31, 2025 $	Nov 30, 2025 $
Current Assets	14,392,481	14,212,056	12,845,479	11,323,820	12,257,253	9,908,637	11,617,647	12,250,428
Current Liabilities	11,014,267	10,702,884	9,046,946	7,636,188	9,879,520	7,512,383	8,874,792	8,810,866
Working Capital[1]	3,378,214	3,509,172	3,798,533	3,687,632	2,377,733	2,396,254	2,742,855	3,439,562

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

The Company's cash position was $2,005,661 as at November 30, 2025, compared to $2,798,695 at May 31, 2025, representing a decrease of $793,034. The decrease was mainly due to net cash used in financing activities of $926,338 and investing activities of $32,033, offset by net cash generated from operating activities of $123,038 and the exchange gain on cash of $42,299.

The net cash generated from the operating activities for the six months ended November 30, 2025 was $123,038, which included the net income of $783,644, the addbacks of non-cash items of $460,632, the negative change in working capital of $1,052,685, the income tax paid in the amount of $16,194, the interest paid on long-term debt and lease obligations of $63,116, and the interest received of $10,757. The negative change in cash from working capital was mainly due to the timing difference between cash collections from customers and cash payments to vendors. 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 six months ended November 30, 2025, cash from trade payables and other liabilities increased by $2,616,892 due to work done and invoiced by the vendors but not yet paid by the Company. Cash from trade and other receivables decreased by $2,802,051 due to work invoiced but not yet collected from customers. Cash from deferred revenue decreased by $548,477 as a result of the progression of heat recovery projects. In addition, cash from prepaid expenses decreased by $384,792 due to down payments made to vendors for projects. As a result, overall net cash from working capital was a negative change of $1,052,685.

The net cash used in investing activities was $32,033 for the six months ended November 30, 2025, which related to purchase of property, plant and equipment.

The net cash paid in financing activities was $926,338, which included repayments of long-term debt of $259,642, repayments on lease obligations of $172,855, shares repurchased of $499,905 under the Normal Course Issuer Bid and the dividends paid to a minority interest of $61,436 offset by cash collected from stock options exercised of $67,500.

At November 30, 2025, $73,308 (1.1%) of the Company's trade receivables balance was over 90 days past due. $5,029 of the past due balance was impaired at November 30, 2025. At May 31, 2025, $65,783 (1.9%) of the Company's trade receivables balance was over 90 days past due. $787 of the past due balance was impaired at May 31, 2025.

The Company's trade and other receivables have been reviewed for indicators of impairment. For the six months ended November 30, 2025, provisions of $5,197 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income ($5,045 – November 30, 2024). For the six months ended November 30, 2025, $nil of the provisions was released due to the collection on the expected credit losses ($1,416 – November 30, 2024). The company did not write off the allowance for expected credit losses for the six months ended November 30, 2025 and November 30, 2024. Translation gain of $11 (loss of $242 – November 30, 2024) 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, 2025	May 31, 2025
Less than one year	**$ 404,705**	$482,158
One to five years	**919,112**	912,783
Six to ten years	**30,085**	115,300
Total undiscounted lease obligations	**1,353,902**	1,510,241

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 2026 and FY 2025, 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 quarter ended November 30, 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
	$	$	**$**	$	**$**	$	**$**	$
Revenue	**6,449,937**	3,874,796	**3,738,046**	4,796,115	**-**	-	**10,187,983**	8,670,911
Cost of sales	**(4,363,227)**	(2,824,054)	**(1,817,267)**	(2,973,920)	**-**	-	**(6,180,494)**	(5,797,974)
Gross profit	**2,086,710**	1,050,742	**1,920,779**	1,822,195	**-**	-	**4,007,489**	2,872,937
Other expenses	**(1,426,637)**	(1,063,972)	**(1,702,818)**	(1,458,252)	**(197,389)**	(240,960)	**(3,326,844)**	(2,763,184)
Finance costs	**(20,674)**	(21,427)	**(5,239)**	(8,168)	**(3,814)**	(48,556)	**(29,727)**	(78,151)
Finance revenue	**4,836**	12,739	**-**	-	**-**	-	**4,836**	12,739
Income (loss) before income tax	**644,235**	(21,918)	**212,722**	355,775	**(201,203)**	(289,516)	**655,754**	44,341
Income tax expense	**-**	-	**(37,832)**	(16,669)	**-**	-	**(37,832)**	(16,669)
Net income (loss) for the period	**644,235**	(21,918)	**174,890**	339,106	**(201,203)**	(289,516)	**617,922**	27,672
Attributable to:								
Owners of the parent	**644,343**	(20,061)	**135,253**	322,555	**(201,203)**	(289,516)	**578,393**	12,978
Non-controlling interest	**(108)**	(1,857)	**39,637**	16,551	**-**	-	**39,529**	14,694

Segment information for the six months ended November 30, 2025 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2025	2024	**2025**	2024	**2025**	2024	**2025**	2024
	$	$	**$**	$	**$**	$	**$**	$
Revenue	**9,882,446**	6,670,354	**7,155,316**	10,469,947	**-**	-	**17,037,762**	17,140,301
Cost of sales	**(6,597,538)**	(4,314,816)	**(3,243,322)**	(6,427,602)	**-**	-	**(9,840,860)**	(10,742,418)
Gross profit	**3,284,908**	2,355,538	**3,911,994**	4,042,345	**-**	-	**7,196,902**	6,397,883
Other expenses	**(2,458,539)**	(2,281,526)	**(3,251,276)**	(2,812,213)	**(596,106)**	(810,481)	**(6,305,921)**	(5,904,220)
Finance costs	**(41,758)**	(43,399)	**(10,914)**	(17,064)	**(8,285)**	(104,983)	**(60,957)**	(165,446)
Finance revenue	**10,757**	43,938	**-**	-	**-**	-	**10,757**	43,938
Income (loss) before income tax	**795,368**	74,551	**649,804**	1,213,068	**(604,391)**	(915,464)	**840,781**	372,155
Income tax expense	**-**	-	**(57,137)**	(35,011)	**-**	-	**(57,137)**	(35,011)
Net income (loss) for the period	**795,368**	74,551	**592,667**	1,178,057	**(604,391)**	(915,464)	**783,644**	337,144
Attributable to:								
Owners of the parent	**795,469**	69,968	**534,061**	1,136,764	**(604,391)**	(915,464)	**725,139**	291,268
Non-controlling interest	**(101)**	4,583	**58,606**	41,293	**-**	-	**58,505**	45,876

Other expenses in Reconciling Items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2025	2024	**2025**	2024
	$	$	**$**	$
Corporate admin costs	**206,930**	207,857	**408,178**	382,098
Stock-based compensation	**61,638**	65,306	**123,276**	130,612
Professional fees	**35,039**	76,052	**172,091**	148,869
Depreciation of property, plant and equipment	**62,026**	58,270	**121,370**	118,122
Amortization of intangible assets	**10,122**	36,417	**28,982**	79,990
Foreign exchange gain	**(178,366)**	(202,942)	**(257,791)**	(49,210)
Total	**197,389**	240,960	**596,106**	810,481

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, 2025, revenue was $6,449,937, representing an increase of $2,575,141, or 66.5%, from the revenue of $3,874,796 achieved in the same quarter of the previous year. The increase was mainly due to increased revenues from heat recovery projects as a result of higher amount of orders received. In addition, revenues from GEM also increased compared to the same quarter of last year.

Revenue for the six months ended November 30, 2025 of $9,882,446, represented an increase of $3,212,092, or 48.2%, from $6,670,354 achieved in the first half of the previous year. The increase was mainly due to the increased revenues from heat recovery projects.

Gross profit for the quarter increased by $1,035,968, or 98.6%, due to higher revenues achieved compared to the same quarter of the previous year. Gross profit for the six months ended November 30, 2025 increased by $929,370, or 39.5%, over the same period of last year. The increase in gross profit was mainly due to the increased revenues from heat recovery projects. The gross profit as a percentage of revenue for the quarter and six months ended November 30, 2025 was 32.4% and 33.2%, respectively, as compared to 27.1% and 35.3% achieved in the same period of the previous year. The slight change of gross profit as a percentage of revenue was mainly due to the change in product mix.

During the quarter ended November 30, 2025, other operating expenses increased by $362,665, or 34.1%, mainly due to the higher incentive expense recognized based on the quarterly financial results, and inflationary increases on regular operating costs and salaries as compared to prior year. During the six months ended November 30, 2025, other operating expenses increased by $177,013, or 7.8%, mainly due to the higher incentive expense recognized based on the quarterly financial results.

The finance costs of $20,674 for the three months and $41,758 for the six months ended November 30, 2025 relating to the interest accretion on lease obligations, were comparable to the same period of the previous year. Finance revenue decreased by $7,903 for the three months and $33,181 for the six months ended November 30, 2025, respectively. The Company earns finance revenue by depositing excess cash into interest-earning bank account. In prior year, this segment had higher amount of excess liquidity and therefore earned higher amount of interest/finance revenue.

Income before taxation for the quarter was $644,235, compared to the loss of $21,918 in the same quarter of the previous year, an increase of $666,153. Income before taxation for the six months ended November 30, 2025 was $795,368 as compared to $74,551 earned in the same period of the previous year, an increase of $720,817. The increase was mainly due to the increased gross profit as a result of increased revenues from heat recovery projects, offset by the increase of other operating expenses as explained above.

Thermal Energy Bristol:

Revenue was $3,738,046, representing a decrease of $1,058,069, or 22.1%, from $4,796,115 achieved in the same quarter of the previous year. The decrease was mainly driven by lower revenues from heat recovery projects, offset by increased revenues from GEM and the services delivered by GEMchem, the Company's UK subsidiary. This segment had lower order intake on heat recovery projects in the twelve months preceding Q2 of FY 2026. As a result, the revenue from heat recovery projects decreased in Q2 of FY 2026 compared to Q2 of FY 2025.
Revenue was $7,155,316, representing a decrease of $3,314,631, or 31.7%, from $10,469,947 achieved in the six months ended November 30, 2025. The decrease was mainly driven by lower revenues from heat recovery projects, offset by increased revenues from GEM and the services delivered by GEMchem, the Company's UK subsidiary.

Gross profit increased by $98,584, or 5.4%, from $1,822,195 to $1,920,779, despite the decreased revenue for the quarter ended November 30, 2025. The increase in gross profit was mainly due to increased revenues from GEM and service contracts delivered by GEMchem, offset by decreased revenue from heat recovery projects. The gross profit as a percentage of revenue was 51.4% for Q2 2026, as compared to 38% for Q2 2025. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix. GEM carries a higher margin and the increase in GEM revenues improved the overall gross profit as a percentage of revenue.

For the six months ended November 30, 2025, gross profit decreased by $130,351, or 3.2%, from $4,042,345 to $3,911,994. The decrease in gross profit was mainly due to decreased gross profit from heat recovery projects as a result of the decreased revenues, offset by additional gross profit from GEM and the services delivered by GEMchem. The gross profit as a percentage of revenue was 54.7% for the first two quarters of 2026 as compared to 38.6% for the first two quarters of 2025. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix.

Other operating expenses for the three months ended November 30, 2025 were $1,702,818, an increase of $244,566 or 16.8%, compared to $1,458,252 of prior year. Other expenses for the six months ended November 30, 2025 were $3,251,276, an increase of $439,063, or 15.6%, compared to $2,812,213 of prior year. The operating expenses for three months and six months ended November 30, 2025, included a one-off leasehold restoration expense of $150,000. This segment also invested in website development and data scoping tool of $90,000. The remaining increase was mostly due to inflationary increase on salary and operating costs, and the increase in foreign exchange rate which resulted in higher cost reported in Canadian dollars.

Finance costs were $5,239 and $10,914, a decrease of $2,929 and $6,150, from $8,168 and $17,064 of the same period of the previous year for the three months and six months ended November 30, 2025, respectively. Finance costs related to interest accretion on lease obligations. The decrease was due to reduced lease obligations on office leases for this segment. The office leases for this segment will end in March 2026.

Income before taxation for the three months ended November 30, 2025 was $212,722 as compared to $355,775 for the same quarter of the previous year, a decrease of $143,053. The decrease was mainly due to the increase in other operating expenses of $244,566 as explained above, offset by the increase in gross profit of $98,584 as a result of higher revenues from GEM despite the overall decrease of revenue by $1,058,069.

Income before taxation for the six months ended November 30, 2025 was $649,804 as compared to $1,213,068 for the same period of the previous year, a decrease of $563,264. The decrease was mainly due to the decrease in gross profit of $130,351 as a result of decreased revenues, and the increase in other operating expenses of $439,063 as explained above.

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 $240,960 to $197,389, a decrease of $43,571, compared to the second quarter of the previous year. This decrease was mainly driven by the decrease of $41,013 in professional fees and decrease of $26,295 in amortization of intangible assets, offset by a decrease in foreign exchange gain of $24,576. The decrease in professional fees was due to timing difference on invoices received from the auditors.

For the six months ended November 30, 2025, the other expense within Reconciling Items decreased from $810,481 to $596,106, a decrease of $214,375. The decrease was mainly due to the increase in foreign exchange gain of $208,581 and the decrease of $51,008 in amortization of intangible assets, offset by the increase in corporate admin costs of $26,080 and professional fees of $23,222.

4. Related Party Transactions

Directors and Senior Management Compensation

During the quarter ended November 30, 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 quarter ended November 30, 2025, 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, 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	**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	**68,128**	70,112	**-**	-	**2,910**	2,805	**71,038**	72,917
R. Triebe	**58,265**	55,521	**-**	-	**3,625**	3,336	**61,890**	58,857
S. Mawby(1)	**61,473**	57,330	**-**	-	**9,401**	7,710	**70,874**	65,040
J. Zhang	**41,374**	40,169	**-**	-	**2,925**	2,722	**44,299**	42,891
Total	**229,240**	223,132	**-**	-	**18,861**	16,573	**248,101**	239,705
Total Related Party Transactions	**247,465**	241,357	**-**	-	**18,861**	16,573	**266,326**	257,930

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.8617 and 1.7883 in Q2 2026 and Q2 2025, 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 November 30, 2025 were 1,000,000, of which 583,332 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at November 30, 2025 were 7,096,000, of which 3,701,000 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, 2025 was approximately $15 million. As at January 26, 2026, the Company had an order backlog of approximately $21.5 million.

	2025 $ million	2024 $ million	2023 $ million
Order backlog as at November 30	15.0	12.9	17.5
Order backlog as at January reporting date	21.5	17.9	23.6

- On December 17, 2025, the Company announced that it had received an order valued at approximately $1.5 million from a leading multinational building materials company. This is a turnkey heat recovery project for four two-stage HeatSponge boiler economizers to be installed at second customer site. The project is expected to reduce up to 3,700 metric tons of CO_2 emissions annually. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On December 15, 2025, the Company announced that it had received a $3.2 million turnkey heat recovery order from a leading multinational frozen food company. This is the second heat recovery project with this multinational customer, which has over 40 manufacturing sites around the world. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On November 20, 2025, the Company announced that it had received a $1.6 million order to supply eight custom-engineered HeatSponge heat recovery units to a remote mining operation in the Arctic. All units were engineered to withstand the demands of reciprocating engine environments, which unlike traditional boiler systems, are characterized by much hotter temperatures, higher pressure, and relentless vibration. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order.

- On November 5, 2025, the Company announced that it had received orders for two turnkey heat recovery projects worth a combined total of $1.5 million from a global nutrition company. It was the seventh and eight turnkey projects with this customer. The projects were about 17% complete at the quarter end.

- On July 15, 2025, the Company announced that it had received an order from a 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 was about 52% complete at the quarter end.

- 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 was about 58% complete at the quarter end.

- On June 26, 2025, the Company announced that it had received the second order from one of the world's largest pharmaceutical companies 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 from this same customer. 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 was about 52% complete at the quarter 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 15% complete at the quarter 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 53% 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 40%complete at the quarter end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at November 30, 2025, the Company had the following shares and dilutive instruments outstanding:

Shares:

170,715,067 class A common shares.

Options:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding November 30, 2025	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at November 30, 2025	Weighted average exercise price
0.11 - 0.15	12,020,402	3.13	0.13	7,005,502	0.13
0.16 - 0.20	6,372,300	3.46	0.20	3,281,898	0.20
	18,392,702	3.24	0.15	10,287,400	0.15

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.

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 ability to maintain profitable operations and increase sales;
- 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 prospect of further litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of an economic downturn or recession in any or all of Canada, US, or Europe, and the resultant impact on industrial and commercial customers and their ability to commit capital to projects, or secure project financing;
- The effect of new tariffs and duties;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars, conflicts and geopolitical unrest;
- 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 November 30, 2025.

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.

Since January 2025, the U.S. government has implemented 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 quarter ended November 30, 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 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.

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, 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.