

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Quarters ended November 30, 2025 and 2024

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at November 30 and May 31, 2025

(Expressed in Canadian dollars) (Unaudited)

	November 30, 2025	May 31, 2025
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	2,005,661	2,798,695
Trade and other receivables (note 6)	7,300,613	4,498,562
Current tax receivable	32,762	19,037
Prepaid expenses (note 7)	1,150,058	765,266
Inventory	1,761,334	1,827,077
	12,250,428	9,908,637
Non-current assets:		
Property, plant and equipment (note 8)	300,278	388,837
Right-of-use assets (note 9)	805,618	939,653
Intangible assets	463,986	491,835
Deferred tax assets	217,989	217,271
	1,787,871	2,037,596
Total assets	14,038,299	11,946,233
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 11)	5,567,209	3,419,874
Current tax liabilities	138,035	84,023
Pensions and other employer obligations	193,547	226,149
Current portion of long-term debt (note 12)	69,752	327,757
Deferred revenue (note 13)	2,168,784	2,715,070
Provisions	345,259	345,000
Current portion of lease obligations (note 14)	328,280	394,510
	8,810,866	7,512,383
Non-current liabilities:		
Long-term debt (note 12)	-	1,640
Lease obligations (note 14)	813,884	864,393
Deferred tax liabilities	949	867
	814,833	866,900
Total liabilities	9,625,699	8,379,283
Equity		
Capital stock (note 15)	32,774,990	32,798,603
Contributed surplus	5,111,033	4,896,549
Accumulated other comprehensive income	468,803	536,000
Deficit	(33,935,594)	(34,660,733)
Equity attributable to owners of the parent	4,419,232	3,570,419
Non-controlling interest	(6,632)	(3,469)
Total equity	4,412,600	3,566,950
Total liabilities and equity	14,038,299	11,946,233

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2025	2024	2025	2024
	\$	\$	\$	\$
Revenue (note 18)	10,187,983	8,670,911	17,037,762	17,140,301
Cost of sales	6,180,494	5,797,974	9,840,860	10,742,418
Gross profit	4,007,489	2,872,937	7,196,902	6,397,883
Expenses (note 19):				
Administration	1,894,058	1,361,291	3,524,306	3,150,435
Selling, marketing and business development	1,354,742	1,282,020	2,596,254	2,572,018
Research and development	78,044	119,873	185,361	181,767
	3,326,844	2,763,184	6,305,921	5,904,220
Operating income	680,645	109,753	890,981	493,663
Finance costs (note 20)	(29,727)	(78,151)	(60,957)	(165,446)
Finance revenue	4,836	12,739	10,757	43,938
Income before income tax	655,754	44,341	840,781	372,155
Income tax expense	(37,832)	(16,669)	(57,137)	(35,011)
Net income for the period	617,922	27,672	783,644	337,144
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of overseas operations	(72,769)	(109,121)	(67,429)	20,017
Total comprehensive income (loss) for the period	545,153	(81,449)	716,215	357,161
Net income for the period attributable to:				
Owners of the parent	578,393	12,978	725,139	291,268
Non-controlling interest	39,529	14,694	58,505	45,876
Net income for the period	617,922	27,672	783,644	337,144
Total comprehensive income (loss) for the period attributable to:				
Owners of the parent	505,930	(96,637)	657,942	308,083
Non-controlling interest	39,223	15,188	58,273	49,078
Total comprehensive income (loss) for the period	545,153	(81,449)	716,215	357,161
Net income per share - basic and diluted	0.003	-	0.004	0.002

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2024	33,247,637	4,659,779	(34,733,899)	288,798	3,462,315	(39,914)	3,422,401
Share-based compensation (note 17)	-	130,612	-	-	130,612	-	130,612
Share options exercised (note 15)	50,966	(17,116)	-	-	33,850	-	33,850
Dividends paid (note 16)	-	-	-	-	-	(58,040)	(58,040)
Transactions with owners	50,966	113,496	-	-	164,462	(58,040)	106,422
Net income for the period	-	-	291,268	-	291,268	45,876	337,144
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	16,815	16,815	3,202	20,017
Total comprehensive income for the period	-	-	291,268	16,815	308,083	49,078	357,161
Balance at November 30, 2024	33,298,603	4,773,275	(34,442,631)	305,613	3,934,860	(48,876)	3,885,984
Balance at June 1, 2025	32,798,603	4,896,549	(34,660,733)	536,000	3,570,419	(3,469)	3,566,950
Share-based compensation (note 17)	-	123,276	-	-	123,276	-	123,276
Share options exercised (note 15)	161,251	(93,751)	-	-	67,500	-	67,500
Shares repurchased (note 15)	(684,864)	184,959	-	-	(499,905)	-	(499,905)
Obligations related to share repurchases (note 15)	500,000	-	-	-	500,000	-	500,000
Dividends paid (note 16)	-	-	-	-	-	(61,436)	(61,436)
Transactions with owners	(23,613)	214,484	-	-	190,871	(61,436)	129,435
Net income for the period	-	-	725,139	-	725,139	58,505	783,644
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	(67,197)	(67,197)	(232)	(67,429)
Total comprehensive income (loss) for the period	-	-	725,139	(67,197)	657,942	58,273	716,215
Balance at November 30, 2025	32,774,990	5,111,033	(33,935,594)	468,803	4,419,232	(6,632)	4,412,600

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars) (Unaudited)

	Three months ended November 30		Six months ended November 30	
	2025	2024	2025	2024
	\$	\$	\$	\$
Operating activities:				
Net income for the period	617,922	27,672	783,644	337,144
Add items not involving cash:				
Depreciation of property, plant and equipment (note 8)	62,026	58,270	121,370	118,122
Loss on disposal of assets (note 8)	-	178	-	178
Depreciation of right-of-use assets (note 9)	95,386	90,774	188,090	182,658
Amortization of intangible assets	10,122	36,417	28,982	79,990
Finance costs (note 20)	29,727	78,151	60,957	165,446
Finance revenue	(4,836)	(12,739)	(10,757)	(43,938)
Share-based compensation (note 17)	61,638	65,306	123,276	130,612
Income tax expense	37,832	16,669	57,137	35,011
Unrealized foreign exchange and translation adjustments	(89,864)	(22,262)	(108,423)	138,821
Changes in working capital:				
Trade and other receivables	(2,744,892)	(1,066,590)	(2,802,051)	(1,941,847)
Prepaid expenses	(248,485)	361,487	(384,792)	607,281
Inventory	91,175	11,169	65,743	(9,009)
Trade payables and other liabilities	2,174,413	153,393	2,616,892	102,652
Deferred revenue (note 13)	(1,856,773)	(1,619,512)	(548,477)	(3,269,497)
Income tax (paid) refunded	(16,194)	(7,982)	(16,194)	87,907
Interest paid	(30,059)	(78,850)	(63,116)	(166,522)
Interest received	4,836	12,739	10,757	43,938
Net cash (used in) provided by operating activities	(1,806,026)	(1,895,710)	123,038	(3,401,053)
Investing activities:				
Additions to property, plant and equipment (note 8)	(21,357)	(13,013)	(32,033)	(33,305)
Net cash used in investing activities	(21,357)	(13,013)	(32,033)	(33,305)
Financing activities:				
Repayment of long-term debt (note 12)	(129,831)	(231,823)	(259,642)	(464,111)
Repayment of lease obligations (note 14)	(88,639)	(77,132)	(172,855)	(154,335)
Stock options exercised (note 15)	67,500	33,850	67,500	33,850
Repurchase of shares (note 15)	(261,777)	-	(499,905)	-
Dividends paid (note 16)	(61,436)	-	(61,436)	(58,040)
Net cash used in financing activities	(474,183)	(275,105)	(926,338)	(642,636)
Decrease in cash and cash equivalents for the period	(2,301,566)	(2,183,828)	(835,333)	(4,076,994)
Cash and cash equivalents, beginning of period	4,288,830	5,047,595	2,798,695	6,965,145
Exchange differences on cash and cash equivalents	18,397	(40,599)	42,299	(64,983)
Cash and cash equivalents, end of period	2,005,661	2,823,168	2,005,661	2,823,168

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the six months ended November 30, 2025 and 2024.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Accounting Standards and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended May 31, 2025. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements for the year ended May 31, 2025.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS Accounting Standards issued and effective as of January 26, 2026, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

The accounting policies and the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended May 31, 2025.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies:

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.

4. Segment reporting:

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Segment information for the three 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	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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Other expenses in Reconciling Items comprise the following:

	Three months ended November 30		Six months ended November 30	
	2025	2024	2025	2024
	\$	\$	\$	\$
Corporate administration costs	206,930	207,857	408,178	382,098
Share-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.

5. Cash and cash equivalents:

	November 30, 2025	May 31, 2025
Cash	\$ 2,005,661	\$ 2,782,956
Cash equivalents	-	15,739
Balance, end of period	\$ 2,005,661	\$ 2,798,695

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

6. Trade and other receivables:

	November 30, 2025	May 31, 2025
Trade receivables, gross	\$ 6,894,950	\$ 3,495,104
Allowance for expected credit losses	(5,197)	(5,208)
Trade receivables, net	6,889,753	3,489,896
Unbilled revenue	123,513	452,754
Contract assets	116,989	431,423
Sales tax and other miscellaneous receivables	170,358	124,489
Balance, end of period	\$ 7,300,613	\$ 4,498,562

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

6. Trade and other receivables (continued):

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

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.

7. Prepaid expenses:

	November 30, 2025	May 31, 2025
Prepayments for goods, equipment and projects	\$ 704,826	\$ 268,452
Foreign government regulatory fees	113,549	140,553
Insurance	73,422	133,301
Rent	58,785	58,293
Other prepaid expenses	199,476	164,667
Balance, end of period	\$ 1,150,058	\$ 765,266

8. Property, plant and equipment:

During the six months ended November 30, 2025, the Company acquired property, plant and equipment of \$32,033 (\$33,305 – November 30, 2024) and the Company disposed of depreciated assets with a net book value of \$nil for \$nil proceeds, (\$178 for \$nil – November 30, 2024). Depreciation expense of \$121,370 (\$118,122 – November 30, 2024) was recognized under administration expense. Translation gain of \$778 (gain of \$9,538 – November 30, 2024) was recognized under exchange differences arising on translation of overseas operations.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

9. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2025	876,397	61,870	1,386	939,653
Additions	-	29,767	15,296	45,063
Depreciation	(166,087)	(20,385)	(1,618)	(188,090)
Translation adjustments	9,351	(359)	-	8,992
Balance, November 30, 2025	719,661	70,893	15,064	805,618

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2024	1,180,389	95,079	4,158	1,279,626
Depreciation	(161,247)	(20,025)	(1,386)	(182,658)
Translation adjustments	25,793	2,310	-	28,103
Balance, November 30, 2024	1,044,935	77,364	2,772	1,125,071

10. Short-term borrowings:

During the year ended May 31, 2025, the Company entered into a line of credit agreement with a lending institution for a total amount of \$2,000,000. \$Nil was utilized as at November 30, 2025 (\$nil - May 31, 2025). The line of credit bears interest at the institution's floating base rate plus a premium of 3.51%. The line of credit is expected to support internal working capital needs related to operations.

11. Trade payables and other liabilities:

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

	November 30, 2025	May 31, 2025
Trade payables	\$ 3,321,069	\$ 1,510,899
Accruals	1,813,781	1,074,716
Obligations related to share purchases (note 15)	-	500,000
Other government remittances payable	432,359	334,259
	\$ 5,567,209	\$ 3,419,874

Included in accruals is \$25,690 due to directors (\$26,107 at May 31, 2025).

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Six months ended November 30, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

12. Long-term debt:

	November 30, 2025	May 31, 2025
(a) Term loan, bearing interest at 5.45% (5.95% on May 31, 2025), repayable in monthly principal installments of \$41,667, with a final payment of \$16,656 payable on the maturity date, January 15, 2026.	58,323	308,325
(b) Term loan (equivalent to GBP£6,178), bearing interest at 2.50%, repayable in monthly principal installments of \$1,615 (equivalent to GBP£873) up to the maturity date, June 10, 2026.	11,429	21,072
Total long-term debt	69,752	329,397
Less: current portion	(69,752)	(327,757)
Long term portion	-	\$ 1,640

- (a) On June 9, 2020, the Company entered into a Working Capital – COVID-19 loan with a lending institution for a total amount of \$2,300,000. This loan bears interest at the institution's floating base rate less a variance of 1.10%. The institution's floating base rate was 6.55% on November 30, 2025 (7.05% on May 31, 2025). Interest is payable monthly in arrears on the 15th day of the month. A financing cost of \$3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations.

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

- (b) On June 10, 2020, the Company entered into a COVID-19 bounce back fixed rate loan with a UK lending institution for a total amount of GBP£50,000 (equivalent to \$85,760 on June 10, 2020). This loan bears zero interest for the first 12 months and 2.50% thereafter and is repayable over 6 years.

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13. Deferred revenue:

The change in deferred revenue was as follows:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2025	\$ 2,002,697	\$ 712,373	\$ 2,715,070
Increase from payments received	7,490,303	1,832,628	9,322,931
Decrease from revenue recognized	(7,776,640)	(2,094,768)	(9,871,408)
Translation adjustments	275	1,916	2,191
Balance, November 30, 2025	\$ 1,716,635	\$ 452,149	\$ 2,168,784

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment and services	Total deferred revenue
Balance, June 1, 2024	\$ 3,318,084	\$ 1,026,709	\$ 4,344,793
Increase from payments received	5,784,804	1,317,286	7,102,090
Decrease from revenue recognized	(8,675,757)	(1,695,830)	(10,371,587)
Translation adjustments	24,436	12,366	36,802
Balance, November 30, 2024	\$ 451,567	\$ 660,531	\$ 1,112,098

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

The Company changed the description and categorization of revenue during the year ended May 31, 2025. Heat recovery related services that were delivered at a point in time, that were previously reported under revenue from contracts for heat recovery projects, were reclassified to revenue from sales of goods, equipment and services (see note 18).

As a result of the change:

- Deferred revenue relating to point-in-time services in the amount of \$254,882 that was previously reported under deferred revenue relating to contracts for heat recovery projects as at June 1, 2024, was reclassified to deferred revenue relating to sales of goods, equipment, and services.
- For the six months ended November 30, 2024, increase from payments received in the amount of \$383,150 and decrease from revenue recognized in the amount of \$415,360 relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue related to sales of goods, equipment, and services.

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13. Deferred revenue (continued):

- For the six months ended November 30, 2024, \$2,530 translation adjustments relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue relating to sales of goods, equipment, and services.
- At November 30, 2024, \$225,200 of deferred revenue relating to point-in-time services, that was previously reported as deferred revenue relating to contracts for heat recovery projects, was reclassified to deferred revenue relating to sales of goods, equipment, and services.

14. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of November 30, 2025 and May 31, 2025:

	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
Less: impact of present value	(211,738)	(251,338)
Less: current portion	(328,280)	(394,510)
Long term portion	\$ 813,884	\$864,393

During the six months ended November 30, 2025, the interest expense on lease obligations (see note 20) was \$49,423 (\$60,462 - November 30, 2024) and total cash outflow for leases was \$251,871 (\$233,543 - November 30, 2024), including \$29,593 (\$18,746 - November 30, 2024) for short-term leases.

For the six months ended November 30, 2025 and 2024, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

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15. Capital stock:

Authorized:

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

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

Outstanding:

	Six months ended November 30, 2025		Year ended May 31, 2025	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of period	173,114,305	32,798,603	172,734,305	33,247,637
Stock options exercised (note 17) ⁽¹⁾	1,161,262	161,251	380,000	50,966
Shares repurchased ⁽²⁾	(3,560,500)	(684,864)	-	-
Reduction (increase) of obligations related to share repurchases ⁽²⁾	-	500,000	-	(500,000)
Balance, end of period	170,715,067	32,774,990	173,114,305	32,798,603

(1) For the six months ended November 30, 2025, the Company issued 1,161,262 shares following the exercise of 2,065,000 stock options. Out of 1,161,262 shares issued 750,000 shares were issued upon the exercise of 750,000 options for cash proceeds of \$67,000, resulting in an increase to capital stock of \$101,550 and a reduction in contributed surplus of \$34,050. In addition, 411,262 shares were issued upon the exercise of 1,315,000 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of \$59,701 and a reduction in contributed surplus of the same amount. For the six months ended November 30, 2024, the Company issued total 380,000 shares following the exercise of 380,000 stock options for cash proceeds of \$33,850, resulting in an increase to capital stock of \$50,966 and a reduction in contributed surplus of \$17,116.

(2) For the six months ended November 30, 2025, 3,560,500 shares were purchased for cancellation by the company under NCIB for a total purchase price of \$499,905, resulting in a reduction to capital stock of \$684,864 and an increase in contributed surplus of \$184,959.

Normal Course Issuer Bid:

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

Prior to the year end of May 31, 2025, the Company entered into an automatic share purchase plan ("ASPP") to provide the option to instruct its broker to make purchases under the NCIB during the blackout period between June 1, 2025 and October 30, 2025. As of November 30, 2025, an obligation for the repurchase of shares of \$nil (\$500,000 – May 31, 2025) was captured under trade payables and other liabilities (see note 11), as instructions were provided to the Company's broker to make purchases during the blackout period in accordance with ASPP.

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16. Non-controlling interest in subsidiaries:

During the six months ended November 30, 2025, a subsidiary of the Company, which has a non-controlling interest of 33%, distributed dividends to its shareholders. The portion of the dividends attributable to the non-controlling interests (33%) amounted to \$61,436 (\$58,040 - November 30, 2024). This amount has been recorded as a reduction in the non-controlling interest's equity.

17. Share based compensation:

Activity in stock options was as follows:

	Three months ended November 30, 2025		Three months ended November 30, 2024	
	#	Weighted Average Exercise Price	#	Weighted Average Exercise Price
	Options	\$	Options	\$
Outstanding, beginning of period	15,442,802	0.15	12,985,902	0.14
Granted	5,014,900	0.13	2,930,400	0.20
Forfeited	-	-	(41,000)	0.16
Exercised (note 15)	(2,065,000)	0.09	(380,000)	0.09
Outstanding, end of period	18,392,702	0.15	15,495,302	0.15
Options exercisable, end of period	10,287,400	0.15	8,939,707	0.13

	Six months ended November 30, 2025		Six months ended November 30, 2024	
	#	Weighted Average Exercise Price	#	Weighted Average Exercise Price
	Options	\$	Options	\$
Outstanding, beginning of period	15,442,802	0.15	12,985,902	0.14
Granted	5,014,900	0.13	2,930,400	0.20
Forfeited	-	-	(41,000)	0.16
Exercised (note 15)	(2,065,000)	0.09	(380,000)	0.09
Outstanding, end of period	18,392,702	0.15	15,495,302	0.15
Options exercisable, end of period	10,287,400	0.15	8,939,707	0.13

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17. Share based compensation (continued):

The following tables summarize information about stock options outstanding at November 30, 2025:

Range of exercise prices	Options outstanding			Options exercisable	
	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

The following tables summarize information about stock options outstanding at November 30, 2024:

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

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model.

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

	30-Nov-25	30-Nov-24
Grant date share price (\$) ⁽¹⁾	0.125	0.20
Exercise price (\$)	0.125	0.20
Expected volatility (%) ⁽²⁾	79.54	64.42
Expected life (years)	4.00	4.00
Expected dividend yield (%)	0.00	0.00
Risk-free interest rate (%)	2.72	2.93
Forfeiture rate (%)	18.00	22.00

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

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

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17. Share based compensation (continued):

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

	Three months ended November 30, 2025	Three months ended November 30, 2024
Administration	\$ 51,699	\$ 51,487
Selling, marketing and business development	9,939	13,819
	\$ 61,638	\$ 65,306
	Six months ended November 30, 2025	Six months ended November 30, 2024
Administration	\$ 103,398	\$ 102,973
Selling, marketing and business development	19,878	27,639
	\$ 123,276	\$ 130,612

18. Revenue:

	Three months ended November 30, 2025	Three months ended November 30, 2024
Sale of goods, equipment and services	\$ 3,557,957	\$ 3,047,518
Services over time	626,194	535,465
Contracts for heat recovery projects	6,003,832	5,087,928
	\$ 10,187,983	\$ 8,670,911
	Six months ended November 30, 2025	Six months ended November 30, 2024
Sale of goods, equipment and services	\$ 8,141,983	\$ 6,541,978
Services over time	1,127,619	1,003,685
Contracts for heat recovery projects	7,768,160	9,594,638
	\$ 17,037,762	\$ 17,140,301

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18. Revenue (continued):

The Company now describes the categories of disaggregation of revenue as sale of goods, equipment and services where previously it was described as sale of goods and equipment. Services delivered at a point in time that were previously classified as contracts for heat recovery projects, were reclassified to sale of goods, equipment and services (see note 13). As a result of the change, for the three months ended November 30, 2024, \$229,262 of services delivered at a point in time, that were previously reported as contracts for heat recovery projects, and \$12,427 of services delivered at a point in time that were previously reported as services, were reclassified to sale of goods, equipment and services, for the six months ended November 30, 2024, \$465,112 of services delivered at a point in time, that were previously reported as contracts for heat recovery projects, and \$38,746 of services delivered at a point in time that were previously reported as services, were reclassified to sale of goods, equipment and services.

19. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	Three months ended November 30, 2025	Three months ended November 30, 2024
Depreciation of property, plant and equipment (note 8)	\$ 62,026	\$ 58,270
Depreciation of right-of-use assets (note 9)	95,386	90,774
Amortization of intangible assets	10,122	36,417
Foreign exchange gain	(178,366)	(202,942)

	Six months ended November 30, 2025	Six months ended November 30, 2024
Depreciation of property, plant and equipment (note 8)	\$ 121,370	\$ 118,122
Depreciation of right-of-use assets (note 9)	188,090	182,658
Amortization of intangible assets	28,982	79,990
Foreign exchange gain	(257,791)	(49,210)

20. Finance costs:

	Three months ended November 30, 2025	Three months ended November 30, 2024
Interest on indebtedness	\$ 3,813	\$ 48,556
Interest on leases (note 14)	24,363	29,595
Other	1,551	-
	\$ 29,727	\$ 78,151

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20. Finance costs (continued):

	Six months ended November 30, 2025	Six months ended November 30, 2024
Interest on indebtedness	\$ 8,285	\$ 104,984
Interest on leases (note 14)	49,423	60,462
Other	3,249	-
	\$ 60,957	\$ 165,446

21. Financial instruments:

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

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

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

22. Related party transactions:

Related parties include the members of the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals and shareholders.

Transactions with key management personnel

Key management personnel of the Company include members of the Company's Board of Directors as well as members of the Company's senior management team. Key management personnel remuneration includes the following expenses:

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22. Related party transactions (continued):

	Three months ended November 30, 2025	Three months ended November 30, 2024
Salaries and other short-term employee benefits	\$ 266,326	\$ 257,930
Share-based payments	22,203	24,921
	\$ 288,529	\$ 282,851

	Six months ended November 30, 2025	Six months ended November 30, 2024
Salaries and other short-term employee benefits	\$ 525,300	\$ 505,684
Share-based payments	44,406	49,842
	\$ 569,706	\$ 555,526

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