



MANAGEMENT'S DISCUSSION & ANALYSIS

For the Quarter Ended February 28, 2026

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 third quarter of Fiscal Year 2026 ended February 28, 2026 (or "Q3 2026"), and compares the Q3 2026 financial results to the previous quarter ended February 28, 2025 (or "Q3 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 third quarter of FY 2026 are against the third 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 40% of our operations, assets and liabilities are denominated in British Pounds and 16% 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 April 27, 2026. Disclosure contained in this document is current to April 27, 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".

Table of Contents

	Page
1. Our Business	2
1.1 Company Overview	2
1.2 Core Businesses	2
1.3 Strategy	3
2. Performance Measures	4
2.1 EBITDA and Adjusted EBITDA	4
2.2 Order Backlog	4
3. Performance	5
3.1 Quarterly Financial Information (unaudited)	5
3.2 Summary of Third Quarter Results	6
3.3 Summary of Year-to-Date Results	8
3.4 Liquidity and Capital Resources	10
3.5 Segmentation Information	11
4. Related Party Transactions	15
5. Business Outlook	16
6. Summary of Outstanding Shares and Dilutive Instruments	17
7. Critical Accounting Estimates and Changes in Accounting Standards	18
8. Risk Factors and Risk Management	20
9. Forward-Looking Information	22
10. Management's Responsibility for Financial Reporting	22

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™**).

Management Discussion and Analysis for the Quarter Ended February 28, 2026

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. (“BEI”), 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		Nine months ended	
	Feb 28, 2026 \$	Feb 28, 2025 \$	Feb 28, 2026 \$	Feb 28, 2025 \$
Total net income (loss) attributable to owners of the parent	322,627	(416,630)	1,047,766	(125,362)
Total net income attributable to non-controlling interest	14,949	13,994	73,454	59,870
Interest charge	30,382	70,211	91,339	235,657
Interest revenue	(6,088)	(7,962)	(16,845)	(51,900)
Income tax expense	13,951	14,440	71,088	49,451
Depreciation and amortization	74,340	96,815	224,692	294,927
EBITDA	450,161	(229,132)	1,491,494	462,643
Share based compensation	68,407	61,638	191,683	192,250
Adjusted EBITDA	518,568	(167,494)	1,683,177	654,893

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 February 28, 2026 was approximately \$14.7 million. As at April 27, 2026, the Company had an order backlog of approximately \$16.3 million.

	2026 \$ million	2025 \$ million	2024 \$ million
Order backlog as at February 28/28/29	14.7	14.8	20.4
Order backlog as at April reporting date	16.3	17.1	22.9

3. Performance

3.1 Quarterly Financial Information (unaudited)

For the most recent eight quarters ended:

Quarter ended	31-May-25	31-Aug-25	30-Nov-25	28-Feb-26
	\$	\$	\$	\$
Revenue	6,825,097	6,849,779	10,187,983	9,423,521
Gross profit	3,678,903	3,189,413	4,007,489	3,499,980
Gross profit percentage	53.9%	46.6%	39.3%	37.1%
Adjusted EBITDA ⁽¹⁾	397,307	350,178	814,431	518,568
Total net income	223,974	165,722	617,922	337,576
Income per share, basic and diluted	0.001	0.001	0.003	0.002

Quarter ended	31-May-24	31-Aug-24	30-Nov-24	28-Feb-25
	\$	\$	\$	\$
Revenue	7,528,602	8,469,390	8,670,911	5,815,078
Gross profit	3,135,711	3,524,946	2,872,937	2,267,057
Gross profit percentage	41.7%	41.6%	33.1%	39.0%
Adjusted EBITDA ⁽¹⁾	422,472	552,641	269,746	(167,494)
Total net income (loss)	290,348	309,472	27,672	(402,636)
Income (loss) per share, basic and diluted	0.002	0.002	-	(0.002)

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

Management Discussion and Analysis for the Quarter Ended February 28, 2026

3.2 Summary of Third Quarter Results

	Q3 2026	Q3 2025
	\$	\$
Revenue	9,423,521	5,815,078
Cost of sales	5,923,541	3,548,021
Gross profit	3,499,980	2,267,057
Expenses:		
Administration, selling, marketing and business development	3,065,316	2,517,052
Research and development	58,843	75,952
	3,124,159	2,593,004
Operating income (loss)	375,821	(325,947)
Finance costs	(30,382)	(70,211)
Finance revenue	6,088	7,962
Income (loss) before income tax	351,527	(388,196)
Income tax expense	(13,951)	(14,440)
Net income (loss) for the period	337,576	(402,636)
Exchange differences on translation of overseas operations	55,644	(28,444)
Total comprehensive income (loss) for the period	393,220	(431,080)
Adjusted EBITDA for the period ^{1 2}	518,568	(167,494)
Order backlog as at February 28 ³	14.7 million	14.8 million
Order backlog as at reporting date ³	16.3 million	17.1 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 \$9,423,521 in the quarter ended February 28, 2026, representing an increase of \$3,608,443, or 62.1%, compared to \$5,815,078 in the quarter ended February 28, 2025. The increase in revenue in the third quarter of FY 2026 was mainly due to the increased revenue from both heat recovery projects and GEM.

The gross profit of \$3,499,980 achieved in the quarter ended February 28, 2026, represented an increase of \$1,232,923, or 54.4%, from \$2,267,057 achieved in the quarter ended February 28, 2025. The increase in gross profit was mainly due to increased revenues from both heat recovery projects and GEM, in addition to the improved margins on heat recovery projects. The gross profit expressed as a percentage of revenue was 37.1% in the third quarter of FY 2026 compared to 39% in the same quarter of FY 2025. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the quarter ended February 28, 2026, totaled \$3,065,316, compared to \$2,517,052 in the quarter ended February 28, 2025, an increase of \$548,264, or 21.8%. The increase of Operating Expenses was mainly due to the increase in foreign exchange loss of \$401,779 and inflationary increase on salaries and general operating costs of \$146,485 compared to the same quarter of last year.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses decreased by \$17,109 in the third quarter of FY 2026 mainly due to a lower amount of R&D activities engaged compared to the same quarter of the previous year.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of \$30,382 in the third quarter of FY 2026, a decrease of \$39,829. The decrease was mainly due to the reduced balance on long-term debts. As at February 28, 2026, the Company has paid off most debts with only a minimal debt balance of \$6,486 relating to a Covid loan for the UK subsidiary.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of \$6,088 in the third 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 February 28, 2026 was \$351,527, compared to a loss before income tax of \$388,196 in the same quarter of the previous year. Income before income tax increased by \$739,723 mainly due to the increase in gross profit of \$1,232,923 as a result of increased revenue and margin from heat recovery projects, in addition to the increased revenue from GEM, offset by the increase in Operating Expenses of \$548,264 as a result of the increased foreign exchange loss and inflationary increase in salary and general business costs. In addition, the decrease of \$39,829 in finance costs also partially contributed to the increase in income before income tax.

Income tax expense in the third quarter of FY 2026 was \$13,951, as compared to \$14,440 in the third quarter of FY 2025, a decrease of \$489.

Net income for the third quarter of FY 2026 was \$337,576, compared to net loss of \$402,636 in the same quarter of the previous year, representing an increase of \$740,212. The increase in net income was mainly due to the increase in gross profit of \$1,232,923, offset by the increase in Operating Expenses of \$548,264 as mentioned above.

Comprehensive income was \$393,220 for the third quarter of FY 2026, compared to comprehensive loss of \$431,080 for the third quarter of FY 2025. The increase of \$824,300 of comprehensive income was mainly due to the increase of net income in the amount of \$740,212 as mentioned above and the increase in exchange gains arising on translation of overseas operations of \$84,088.

Adjusted EBITDA was \$518,568 for the third quarter of FY 2026, compared to negative \$167,494 for the same quarter of the previous year, representing an increase of \$686,062. The increase was mainly due to the increase in income before tax of \$739,723 as mentioned above. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures – EBITDA and Adjusted EBITDA.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

3.3 Summary of Year-to-Date Results

	Nine months ended Feb 28, 2026	Nine months ended Feb 28, 2025
	\$	\$
Revenue	26,461,283	22,955,379
Cost of sales	15,764,401	14,290,439
Gross profit	10,696,882	8,664,940
Expenses:		
Administration, selling, marketing and business development	9,185,876	8,239,505
Research and development	244,204	257,719
	9,430,080	8,497,224
Operating income	1,266,802	167,716
Finance costs	(91,339)	(235,657)
Finance revenue	16,845	51,900
Income (loss) before income tax	1,192,308	(16,041)
Income tax expense	(71,088)	(49,451)
Net income (loss) for the period	1,121,220	(65,492)
Exchange differences on translation of overseas operations	(11,785)	(8,427)
Total comprehensive income (loss) for the period	1,109,435	(73,919)
Adjusted EBITDA for the period ^{1 2}	1,683,177	654,893
Order backlog as at February 28 ³	14.7 million	14.8 million
Order backlog as at reporting date ³	16.3 million	17.1 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 \$26,461,283 in the nine months ended February 28, 2026, representing an increase of \$3,505,904, or 15.3%, from \$22,955,379 recognized in the nine months ended February 28, 2025. The increase in revenues was mainly due to increased revenues from heat recovery projects, GEM traps, HEATSPONGE, and heat recovery equipment sales.

The gross profit of \$10,696,882 in the nine months ended February 28, 2026, represented an increase of \$2,031,942, or 23.5%, from \$8,664,940 achieved in the nine months ended February 28, 2025. The increase in gross profit was mainly due to the increased revenues from GEM sales and heat recovery projects. In addition, the margins on heat recovery projects increased compared to the same period of the previous year. Overall, gross profit expressed as a percentage of revenue was 40.4% compared with 37.7% achieved in the same period of the previous year. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix and the increased gross margins from heat recovery projects.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the nine months ended February 28, 2026 totaled \$9,185,876, compared to \$8,239,505 in the nine months ended February 28, 2025, representing an increase of \$946,371, or 11.5%. The increase of Operating Expenses was partially due to the decrease in foreign exchange gains of \$193,198 compared to the previous year. \$753,173 of the increase 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 during the first three quarters.

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 \$244,204 in the nine months ended February 28, 2026, compared to \$257,719 in the nine months ended February 28, 2025, a decrease of \$13,515. The decrease was due to a lower amount of R&D activities conducted.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by \$144,318 from \$235,657 to \$91,339 for the nine months ended February 28, 2026. The decrease was mainly due to the fact that the Company repaid most of its debts during the nine months ended February 28, 2026.

Finance revenue includes interest revenue from the short-term deposit that generated finance revenue of \$16,845 for the nine months ended February 28, 2026. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income tax for the nine months ended February 28, 2026 was \$1,192,308 compared to a net loss of \$16,041 in the same period of the previous year, representing an increase of \$1,208,349. The increase in income before income tax was mainly due to the increase in gross profit of \$2,031,942 as a result of increased revenues from both equipment sales and heat recovery projects in addition to the improved margins on heat recovery projects, and the decrease in finance costs of \$144,318 as a result of the reduced debt balance, offset by the increase in Operating Expenses of \$946,371.

Income tax expense in the nine months ended February 28, 2026 was \$71,088, compared to \$49,451 in the same period of previous year, an increase of \$21,637. 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 three quarters of the current year, the Company recorded higher income tax expense due to higher amount of taxable income earned by one of the Company’s U.K. entities.

Net income for the nine months ended February 28, 2026 was \$1,121,220, compared to net loss of \$65,492 in the nine months ended February 28, 2025, representing an increase of \$1,186,712. The increase in net income was mainly due to the increase of income before income tax of \$1,208,349 as mentioned earlier, offset by the increase in income tax expense of \$21,637.

Comprehensive income was \$1,109,435 for the nine months ended February 28, 2026, compared to comprehensive loss of \$73,919 for the nine months ended February 28, 2025, representing an increase of \$1,183,354. The increase in comprehensive income was mainly due to the increase in net income of \$1,186,712 as mentioned earlier.

Adjusted EBITDA was \$1,683,177 for the nine months ended February 28, 2026 compared to \$654,893 for the same period of the previous year, representing an increase of \$1,028,284. The increase was mainly due to the increase in income before tax of \$1,208,349 as mentioned above, offset by the decrease in finance costs of \$144,318 and the decrease in amortization of intangibles of \$78,356. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures - EBITDA and Adjusted EBITDA.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

3.4 Liquidity & Capital Resources

Current assets increased by \$1,594,720 to \$11,503,357 at February 28, 2026, compared to \$9,908,637 at May 31, 2025. This increase was mainly due to the increase in cash and cash equivalents of \$1,157,993, trade and other receivables of \$617,267, inventory of \$115,508, offset by the decrease in prepaid expenses of \$308,921.

Current liabilities increased by \$336,676 to \$7,849,059, compared to \$7,512,383 at May 31, 2025. This increase was mainly due to the increase in trade payables and other liabilities of \$648,411 and deferred revenue of \$148,438, offset by the decrease in current portion of long-term debt of \$321,271 and current portion of lease obligations of \$100,555.

Working capital increased by \$1,258,044 to \$3,654,298 at February 28, 2026, compared to \$2,396,254 at May 31, 2025. The increase in working capital was primarily due to the decrease in current portion of long-term debt as a result of debt repayment, and the growth of the company's revenue which led to the improved net income and working capital during the nine-month period ended February 28, 2026.

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

	May 31, 2024 \$	Aug 31, 2024 \$	Nov 30, 2024 \$	Feb 28, 2025 \$	May 31, 2025 \$	Aug 31, 2025 \$	Nov 30, 2025 \$	Feb 28, 2026 \$
Current Assets	14,212,056	12,845,479	11,323,820	12,257,253	9,908,637	11,617,647	12,250,428	11,503,357
Current Liabilities	10,702,884	9,046,946	7,636,188	9,879,520	7,512,383	8,874,792	8,810,866	7,849,059
Working Capital ¹	3,509,172	3,798,533	3,687,632	2,377,733	2,396,254	2,742,855	3,439,562	3,654,298

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

The Company's cash position was \$3,956,688 as at February 28, 2026, compared to \$2,798,695 at May 31, 2025, representing an increase of \$1,157,993. The increase was mainly due to net cash provided by operating activities of \$2,612,549, offset by net cash used in financing activities of \$1,081,727 and investing activities of \$378,951.

The net cash provided by the operating activities for the nine months ended February 28, 2026 was \$2,612,549, which included the net income of \$1,121,220, the addbacks of non-cash items of \$801,282, the changes in cashflow from working capital of \$865,658, the income tax paid in the amount of \$98,828, the interest paid on long-term debt and lease obligations of \$93,628, and the interest received of \$16,845. The changes in cashflow from working capital were mainly due to the timing difference between cash collections from customers and cash payments to vendors on long-term heat recovery projects. The Company first collects upfront deposit from a customer at the start of a project. The amount collected is recognized as a deferred revenue first. When the project progresses, the Company uses the cash collected to make purchases and pay vendors. Revenue is then recognized based on percentage of completion while the deferred revenue decreases. For the nine months ended February 28, 2026, cash from trade payables and other liabilities increased by \$1,128,584 due to work delivered and invoiced by the vendors but not yet paid by the Company. Cash from trade and other receivables decreased by \$614,267 due to work invoiced by the Company to customers but not yet collected from customers. Cash from prepaid expenses increased by \$308,921 due to reduction in down payments made to vendors for projects. In addition, cash from deferred revenue increased by \$157,928 as a result of the cash collected from customers before work was delivered.

The net cash used in investing activities was \$378,951 for the nine months ended February 28, 2026, which related to purchase of property, plant and equipment. During the quarter ended February 28, 2026, the Company purchased equipment in the amount of \$283,838 for the US production team at BEI. The equipment was delivered but not in use because it was not set up yet by the quarter end. Therefore, no amortization was recognized in the quarter ended February 28, 2026 for this equipment.

The net cash paid in financing activities was \$1,081,727, which included repayments of long-term debt of \$322,875, repayments on lease obligations of \$265,011, shares repurchased of \$499,905 under the Normal

Management Discussion and Analysis for the Quarter Ended February 28, 2026

Course Issuer Bid and the dividends paid to a minority interest of \$61,436, offset by cash collected as a result of stock options exercised for \$67,500.

At February 28, 2026, \$208,088 (4.9%) of the Company's trade receivables balance was over 90 days past due. \$4,381 of the past due balance was impaired at February 28, 2026. 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 nine months ended February 28, 2026, provisions of \$4,381 were made as expected credit losses and recorded under administrative expense on the condensed consolidated interim statements of comprehensive income (\$5,248 – February 28, 2025). For the nine months ended February 28, 2026, \$nil (\$6,047 – February 28, 2025) of previously provided credit losses was released due to the collection on the expected credit losses. The Company wrote off allowance for expected credit losses in the amount of \$788 for the nine months ended February 28, 2026 by removing the amount from trade receivables (\$11,450 – February 28, 2025). Translation gain of \$39 (loss of \$618 – February 28, 2025) was recognized under exchange differences arising on translation of overseas operations.

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

	February 28, 2026	May 31, 2025
Less than one year	\$ 364,607	\$482,158
One to five years	866,172	912,783
Six to ten years	-	115,300
Total undiscounted lease obligations	1,230,779	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.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

Segment information for the quarter ended February 28, 2026 and the comparative year are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2026 \$	2025 \$	2026 \$	2025 \$	2026 \$	2025 \$	2026 \$	2025 \$
Revenue	6,973,332	3,296,225	2,450,189	2,518,853	-	-	9,423,521	5,815,078
Cost of sales	(4,684,184)	(1,785,180)	(1,239,357)	(1,762,841)	-	-	(5,923,541)	(3,548,021)
Gross profit	2,289,148	1,511,045	1,210,832	756,012	-	-	3,499,980	2,267,057
Other expenses	(1,127,790)	(949,609)	(1,435,077)	(1,439,034)	(561,292)	(204,361)	(3,124,159)	(2,593,004)
Finance costs	(19,373)	(21,413)	(7,483)	(7,297)	(3,526)	(41,501)	(30,382)	(70,211)
Finance revenue	6,088	7,962	-	-	-	-	6,088	7,962
Income (loss) before income tax	1,148,073	547,985	(231,728)	(690,319)	(564,818)	(245,862)	351,527	(388,196)
Income tax recovery (expense)	-	-	(13,951)	(14,440)	-	-	(13,951)	(14,440)
Net income (loss) for the period	1,148,073	547,985	(245,679)	(704,759)	(564,818)	(245,862)	337,576	(402,636)
Attributable to:								
Owners of the parent	1,147,919	548,181	(260,474)	(718,949)	(564,818)	(245,862)	322,627	(416,630)
Non-controlling interest	154	(196)	14,795	14,190	-	-	14,949	13,994

Segment information for the nine months ended February 28, 2026 and the comparative period are detailed in the table below:

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2026 \$	2025 \$	2026 \$	2025 \$	2026 \$	2025 \$	2026 \$	2025 \$
Revenue	16,855,778	9,966,579	9,605,505	12,988,800	-	-	26,461,283	22,955,379
Cost of sales	(11,281,722)	(6,099,996)	(4,482,679)	(8,190,443)	-	-	(15,764,401)	(14,290,439)
Gross profit	5,574,056	3,866,583	5,122,826	4,798,357	-	-	10,696,882	8,664,940
Other expenses	(3,586,329)	(3,231,135)	(4,686,353)	(4,251,247)	(1,157,398)	(1,014,842)	(9,430,080)	(8,497,224)
Finance costs	(61,131)	(64,812)	(18,397)	(24,361)	(11,811)	(146,484)	(91,339)	(235,657)
Finance revenue	16,845	51,900	-	-	-	-	16,845	51,900
Income (loss) before income tax	1,943,441	622,536	418,076	522,749	(1,169,209)	(1,161,326)	1,192,308	(16,041)
Income tax recovery (expense)	-	-	(71,088)	(49,451)	-	-	(71,088)	(49,451)
Net income (loss) for the period	1,943,441	622,536	346,988	473,298	(1,169,209)	(1,161,326)	1,121,220	(65,492)
Attributable to:								
Owners of the parent	1,943,388	618,149	273,587	417,815	(1,169,209)	(1,161,326)	1,047,766	(125,362)
Non-controlling interest	53	4,387	73,401	55,483	-	-	73,454	59,870

Other expenses in Reconciling Items comprise the following:

	Three months ended February 28		Nine months ended February 28	
	2026 \$	2025 \$	2026 \$	2025 \$
Corporate admin costs	203,955	193,549	612,133	575,647
Stock-based compensation	68,407	61,638	191,683	192,250
Professional fees	470	40,018	172,561	188,887
Depreciation of property, plant and equipment	64,218	59,345	185,588	177,467
Amortization of intangible assets	10,122	37,470	39,104	117,460
Foreign exchange loss (gain)	214,120	(187,659)	(43,671)	(236,869)
Total	561,292	204,361	1,157,398	1,014,842

Management Discussion and Analysis for the Quarter Ended February 28, 2026

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 February 28, 2026, revenue was \$6,973,332, representing an increase of \$3,677,107, or 112%, from the revenue of \$3,296,225 achieved in the same quarter of the previous year. The increase was mainly due to increased revenue from heat recovery projects and GEM.

Revenue for the nine months ended February 28, 2026 of \$16,855,778, represented an increase of \$6,889,199, or 69.1%, from \$9,966,579 achieved in the same period of the previous year. The increase was mainly due to the increased revenues from heat recovery projects.

Gross profit increased by \$778,103, or 51.5%, compared to the same quarter of the previous year. Gross profit for the nine months ended February 28, 2026 increased by \$1,707,473, or 44.2%, 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 nine months ended February 28, 2026 was 32.8% and 33.1%, respectively, as compared to 45.8% and 38.8% achieved in the same period of the previous year. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix.

During the quarter ended February 28, 2026, other operating expenses increased by \$178,181, or 18.8%, mainly due to general inflationary increase in salary and benefits as well as general operating costs. During the nine months ended February 28, 2026, other operating expenses increased by \$355,194, or 11%, mainly due to the incentive of \$200,000 recognized for the group of companies, the general inflationary increase of \$155,194 on salaries, benefits and business operating costs.

The finance costs, mainly the interest accretion on lease obligations, decreased by \$2,040 and \$3,681 as a result of decreased lease obligation balance for this segment for the three months and nine months ended February 28, 2026, respectively. The Company earned finance revenue of \$6,088 and \$16,845 from this segment for the quarter and nine months ended February 28, 2026, respectively.

Income before taxation for the quarter was \$1,148,073, compared to \$547,985 in the same quarter of the previous year, an increase of \$600,088. The increase was mainly due to the increased revenue from heat recovery projects, which resulted in the increase of \$778,103 on gross profit, offset by the increase in other expense of \$178,181.

Income before taxation for the nine months ended February 28, 2026 was \$1,943,441 as compared to \$622,536 earned in the same period of the previous year, an increase of \$1,320,905. The increase of income before taxation for nine months was mainly due to increase in gross profit of \$1,707,473 as a result of the increased revenue from heat recovery projects, offset by the increase of other expenses of \$355,194.

Thermal Energy Bristol:

Revenue was \$2,450,189, representing a decrease of \$68,664, or 3%, from \$2,518,853 achieved in the same quarter of the previous year. The decrease was mainly due to lower revenues recorded from heat recovery projects, offset by the increased revenues from GEM. For the nine months ended February 28, 2026, revenue was \$9,605,505, representing a decrease of \$3,383,295, or 26%, from \$12,988,800 achieved in the same period of the previous year. The decrease was mainly due to decreased revenues from heat recovery projects, offset by the increased revenues from GEM.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

Gross profit increased by \$454,820, or 60.2%, from \$756,012 to \$1,210,832 for the quarter ended February 28, 2026. The increase in gross profit was mainly due to increased gross profit on GEM as a result of increased GEM revenues, and the increased gross profit on heat recovery projects as a result of improved margins despite the decreased revenue. The gross profit as a percentage of revenue was 49.4% for Q3 2026, as compared to 30% for Q3 2025. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix and the increased margins on heat recovery projects.

For the nine months ended February 28, 2026, gross profit increased by \$324,469, or 6.8%, from \$4,798,357 to \$5,122,826. The increase in gross profit was mainly due to increased margins from heat recovery projects despite the revenue decrease. In addition, the increase in GEM revenue also contributed to the increased gross profit. The gross profit as a percentage of revenue was 53.3% for the first three quarters of 2026 as compared to 36.9% for the first three quarters of 2025. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix and the increase in heat recovery project margins.

Other expenses for the three months ended February 28, 2026 were \$1,435,077, a decrease of \$3,957 or 0.3%, compared to \$1,439,034 of prior year. Other expenses for the nine months ended February 28, 2026 were \$4,686,353, an increase of \$435,106, or 10.2%, compared to \$4,251,247 of prior year. The operating expenses for nine months ended February 28, 2026 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.

Finance costs were \$7,483, an increase of \$186, from \$7,297 of the same quarter from the previous year. Finance costs decreased by \$5,964 for the nine months ended February 28, 2026 as compared to the same period of the previous year. Finance costs related to interest accretion on lease obligations.

Loss before tax for the three months ended February 28, 2026 was \$231,728 as compared to loss of \$690,319 for the same quarter of the previous year, a decrease in loss of \$458,591. The decrease in loss was mainly due to the increase in gross profit of \$454,820 as a result of increased revenues from GEM and improved margins from heat recovery projects.

Income before tax for the nine months ended February 28, 2026 was \$418,076 as compared to \$522,749 for the same period of the previous year, a decrease of \$104,673. The decrease was mainly due to the increase in other operating expenses of \$435,106, offset by the increase in gross profit of \$324,469 as a result of increased revenues from GEM and improved margins on heat recovery projects.

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items increased from \$204,361 to \$561,292, an increase of \$356,931, compared to the same quarter of the previous year. This increase was mainly driven by the increase of \$401,779 in foreign exchange loss, offset by the decrease in professional fees of \$39,548 and amortization on intangible assets of 27,348.

For the nine months ended February 28, 2026, the other expense within Reconciling Items increased from \$1,014,842 to \$1,157,398, an increase of \$142,556. The increase was mainly due to the decrease in foreign exchange gain of \$193,198 and increase in corporate admin costs of \$36,486, offset by the decrease in amortization of intangible assets of \$78,356.

4. Related Party Transactions

Directors and Senior Management Compensation

During the quarter ended February 28, 2026 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 February 28, 2026, 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 February 28, 2026 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2026	2025	2026	2025	2026	2025	2026	2025
	\$	\$	\$	\$	\$	\$	\$	\$
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	68,128	-	-	2,767	2,725	70,853	70,853
R. Triebe	56,107	53,949	-	-	3,539	3,473	59,646	57,422
S. Mawby ⁽¹⁾	59,506	55,763	-	-	8,980	7,657	68,486	63,420
J. Zhang	40,203	39,032	-	-	2,884	2,868	43,087	41,900
Total	223,944	216,872	-	-	18,170	16,723	242,114	233,595
Total Related Party Transactions	242,169	235,097	-	-	18,170	16,723	260,339	251,820

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.8546 and 1.7901 in Q3 2026 and Q3 2025, respectively.

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

Options outstanding for Directors (excluding the CEO) as at February 28, 2026 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 February 28, 2026 were 6,971,000, of which 3,576,000 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 February 28, 2026 was approximately \$14.7 million. As at April 27, 2026, the Company had an order backlog of approximately \$16.3 million.

	2026 \$ million	2025 \$ million	2024 \$ million
Order backlog as at February 28/28/29	14.7	14.8	20.4
Order backlog as at April reporting date	16.3	17.1	22.9

- On February 18, 2026, the Company announced that it had received an order valued at approximately \$1.0 million from a global nutrition company. This turnkey heat recovery project includes adding one two-stage HeatSponge economizer to each of three natural gas-fired boilers on site to recover waste heat from their exhausts. This is the ninth turnkey project with this global client, and the third consecutive HeatSponge turnkey project with them. This turnkey project is expected to be completed and revenue earned within 6 months from the receipt of the purchase order.
- 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 CO₂ emissions annually. The project was about 41% complete at the quarter end.
- 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. The project was about 1% complete at the quarter end.
- 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 54% complete at the quarter end.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

- 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 93% 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 CO₂ emissions by 12.5%, resulting in up to 2,038 metric tons of CO₂ emissions eliminated annually. The project was about 87% 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 68% 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 CO₂ emissions by 1,199 tons per year, representing an estimated 14% reduction in site CO₂ emissions. The project was about 65% complete at the quarter end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at February 28, 2026, the Company had the following shares and dilutive instruments outstanding:

Shares:

170,962,990 class A common shares.

Options:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding February 28, 2026	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at February 28, 2026	Weighted average exercise price
0.11 - 0.15	10,891,402	3.09	0.13	5,915,502	0.13
0.16 - 0.20	6,322,300	3.21	0.20	3,281,898	0.20
	17,213,702	3.13	0.15	9,197,400	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

Management Discussion and Analysis for the Quarter Ended February 28, 2026

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.

Management Discussion and Analysis for the Quarter Ended February 28, 2026

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. In the nine months ended February 28, 2026, the Company's US subsidiary obtained an operating line of credit in the amount of \$687,350 (equivalent to USD\$500,000) to support its working capital needs and another equipment line of credit in the amount of

Management Discussion and Analysis for the Quarter Ended February 28, 2026

\$687,350 (equivalent to USD\$500,000) to support their acquisitions of equipment. The Company did not draw any balance from any of the lines of credit at February 28, 2026.

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 February 28, 2026, 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 February 28, 2026 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.