

Consolidated Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Years ended May 31, 2026 and 2025

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

THERMAL ENERGY INTERNATIONAL INC.

Opinion

We have audited the consolidated financial statements of Thermal Energy International Inc. (the Company), which comprise the consolidated statement of financial position as at May 31, 2026, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2026 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company for the year ended May 31, 2025 were audited by another auditor who expressed an unmodified opinion on those financial statements on September 22, 2025.

Key Audit Matter

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended May 31, 2026. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matter described below to be the key audit matter to be communicated in our auditor's report.

Revenue recognition and estimated costs to complete fixed price contracts

Description of matter

The Company recognizes a portion of its revenue over time based on the percentage of completion method related to its fixed price heat recovery projects that are of a custom nature. The percentage of completion method is measured by reference to costs incurred to date as a percentage of total estimated costs to complete the contract. The Company's policy for revenue recognition together with the related critical accounting estimates and judgements are described in notes 2(c), 3(l), 15 and 22. The Company recognized \$16,740,046 of revenue from fixed price contracts during the year-ended May 31, 2026.

Why the matter is a key audit matter

Auditing the Company's estimated costs to complete its fixed price contracts where the Company has not fulfilled all performance obligations of the contracts scope of work at year-end was complex due to the significant estimation uncertainty and judgement involved in evaluating the assumptions made by management in estimating costs to complete the contract. The total estimated costs to complete a contract can have a material impact on the amount and timing of revenue and profit recognized. The significant assumptions include those related to estimated future labour, subcontract costs and materials costs.

How the matter was addressed in the audit

The primary procedures performed to address the key audit matter included the following:

To audit the estimated costs to complete the related contracts applying the percentage of completion method, our audit procedures included, among others, selecting a sample of in progress projects and agreeing the key terms of the contractual arrangements and change orders to management's contract analysis and revenue calculations. We inquired and evaluated the consistency of responses obtained from operating personnel regarding risks and uncertainties related to the completion of the contract, as well as the nature of the work yet to be completed and estimated costs to complete such work. We evaluated the reasonableness of management's cost to complete assumptions for a sample of contracts by comparing estimated costs to supporting documentation or actual costs incurred. We evaluated the reasonableness of management's historical estimates of costs to complete by comparing previous cost estimation forecasts to actual results for historical contracts and comparing the profit margin for a sample of completed contracts to the estimate of the profit margin in prior periods. We also assessed the adequacy of disclosures that describe the areas of judgement and estimation uncertainties involving revenue recognition for fixed price contracts applying the percentage of completion method.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Bryan Haralovich.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
September 21, 2026.

Welch LLP[®]

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THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Financial Position

May 31, 2026 and 2025

(Expressed in Canadian dollars)

	2026	2025
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	3,271,065	2,798,695
Trade and other receivables (note 6)	4,338,013	4,498,562
Current tax receivable	10,294	19,037
Prepaid expenses (note 7)	834,317	765,266
Inventory (note 8)	2,118,725	1,827,077
	10,572,414	9,908,637
Non-current assets:		
Property, plant and equipment (note 9)	641,553	388,837
Right-of-use assets (note 10)	1,803,468	939,653
Intangible assets (note 11)	443,328	491,835
Deferred tax assets (note 26)	349,802	217,271
	3,238,151	2,037,596
Total assets	13,810,565	11,946,233
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 13)	3,400,433	3,419,874
Current tax liabilities	87,720	84,023
Pensions and other employer obligations	385,492	226,149
Current portion of long-term debt (note 14)	1,647	327,757
Deferred revenue (note 15)	2,395,227	2,715,070
Provisions (note 16)	324,796	345,000
Current portion of lease obligations (note 17)	265,362	394,510
	6,860,677	7,512,383
Non-current liabilities:		
Long-term debt (note 14)	-	1,640
Provisions (note 16)	232,528	-
Lease obligations (note 17)	1,541,182	864,393
Deferred tax liabilities (note 26)	241	867
	1,773,951	866,900
Total liabilities	8,634,628	8,379,283
Equity		
Capital stock (note 18)	32,836,005	32,798,603
Contributed surplus	5,186,831	4,896,549
Accumulated other comprehensive income	536,284	536,000
Deficit	(33,414,084)	(34,660,733)
Equity attributable to owners of the parent	5,145,036	3,570,419
Non-controlling interest (note 20)	30,901	(3,469)
Total equity	5,175,937	3,566,950
Commitments (note 30)		
Subsequent event (note 31)		
Total liabilities and equity	13,810,565	11,946,233

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Comprehensive Income

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars)

	2026	2025
	\$	\$
Revenue (note 22)	33,551,460	29,780,476
Cost of sales	19,401,905	17,436,633
Gross profit	14,149,555	12,343,843
Expenses (note 24):		
Administration	6,899,820	6,463,729
Selling, marketing and business development	5,595,857	5,068,590
Research and development	253,125	405,113
	12,748,802	11,937,432
Operating income	1,400,753	406,411
Finance costs (note 25)	(109,067)	(289,562)
Finance revenue	28,467	63,267
Income before income tax	1,320,153	180,116
Income tax recovery (expense) (note 26)	21,730	(21,634)
Net income for the year	1,341,883	158,482
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	856	256,371
Total comprehensive income for the year	1,342,739	414,853
Net income for the year attributable to:		
Owners of the parent	1,246,649	73,166
Non-controlling interest (note 20)	95,234	85,316
Net income for the year	1,341,883	158,482
Total comprehensive income for the year attributable to:		
Owners of the parent	1,246,933	320,368
Non-controlling interest (note 20)	95,806	94,485
Total comprehensive income for the year	1,342,739	414,853
Net income per share - basic and diluted (note 27)	0.007	-

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Changes in Equity

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars)

	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 21)	-	253,886	-	-	253,886	-	253,886
Share options exercised (note 18)	50,966	(17,116)	-	-	33,850	-	33,850
Obligations related to share repurchases (note 18)	(500,000)	-	-	-	(500,000)	-	(500,000)
Dividends paid (note 20)	-	-	-	-	-	(58,040)	(58,040)
Transactions with owners	(449,034)	236,770	-	-	(212,264)	(58,040)	(270,304)
Net income for the year	-	-	73,166	-	73,166	85,316	158,482
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	247,202	247,202	9,169	256,371
Total comprehensive income for the year	-	-	73,166	247,202	320,368	94,485	414,853
Balance at May 31, 2025	32,798,603	4,896,549	(34,660,733)	536,000	3,570,419	(3,469)	3,566,950
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 21)	-	260,089	-	-	260,089	-	260,089
Share options exercised (note 18)	222,266	(154,766)	-	-	67,500	-	67,500
Shares repurchased (note 18)	(684,864)	184,959	-	-	(499,905)	-	(499,905)
Obligations related to share repurchases (note 18)	500,000	-	-	-	500,000	-	500,000
Dividends paid (note 20)	-	-	-	-	-	(61,436)	(61,436)
Transactions with owners	37,402	290,282	-	-	327,684	(61,436)	266,248
Net income for the year	-	-	1,246,649	-	1,246,649	95,234	1,341,883
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	284	284	572	856
Total comprehensive income for the year	-	-	1,246,649	284	1,246,933	95,806	1,342,739
Balance at May 31, 2026	32,836,005	5,186,831	(33,414,084)	536,284	5,145,036	30,901	5,175,937

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

THERMAL ENERGY INTERNATIONAL INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2026 and 2025
(Expressed in Canadian dollars)

	2026	2025
	\$	\$
Operating activities:		
Net income for the year	1,341,883	158,482
Add items not involving cash:		
Depreciation of property, plant and equipment (note 9)	219,845	237,439
Depreciation of right-of-use assets (note 10)	332,569	367,821
Loss on disposal of assets (note 9)	187	255
Amortization of intangible assets (note 11)	49,226	154,464
Finance costs (note 25)	109,067	289,562
Finance revenue	(28,467)	(63,267)
Share-based compensation (note 21)	260,089	253,886
Income tax (recovery) expense (note 26)	(21,730)	21,634
Unrealized foreign exchange and translation adjustments	22,380	331,638
Changes in working capital:		
Trade and other receivables	160,549	(315,996)
Prepaid expenses (note 7)	(69,051)	588,794
Inventory	(291,648)	(233,870)
Trade payables and other liabilities	621,886	(1,574,505)
Deferred revenue (note 15)	(320,352)	(1,689,284)
Income tax (paid) refunded	(98,950)	31,502
Interest paid	(111,353)	(294,958)
Interest received	28,467	63,267
Net cash provided (used) by operating activities	2,204,597	(1,673,136)
Investing activities:		
Additions to property, plant and equipment (note 9)	(470,836)	(77,726)
Net cash used in investing activities	(470,836)	(77,726)
Financing activities:		
Repayment of long-term debt (note 14)	(327,754)	(2,067,525)
Repayment of lease obligations (note 17)	(416,322)	(317,292)
Stock options exercised (note 18)	67,500	33,850
Repurchase of shares (note 18)	(499,905)	-
Dividends paid (note 20)	(61,436)	(58,040)
Net cash used in financing activities	(1,237,917)	(2,409,007)
Increase (decrease) in cash and cash equivalents for the year	495,844	(4,159,869)
Cash and cash equivalents, beginning of year	2,798,695	6,965,145
Exchange differences on cash and cash equivalents	(23,474)	(6,581)
Cash and cash equivalents, end of year	3,271,065	2,798,695

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(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.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on September 21, 2026. The consolidated financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the years ended May 31, 2026 and 2025.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS Accounting Standards issued and effective as of September 21, 2026, the date the Board of Directors approved the consolidated financial statements.

(b) Measurement basis:

The financial statements have been prepared on a historical cost basis except as permitted by IFRS Accounting Standards and as otherwise indicated within these notes.

(c) Significant accounting judgements and estimates:

The preparation of these consolidated 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

The critical estimates include:

- 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 as detailed in note 3(l) 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 judgement 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 temporary differences, future taxable income and future tax planning strategies.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

(c) Significant accounting judgements and estimates (continued):

The critical estimates include (continued):

- Impairment:

An impairment loss is recognized for the amount by which an asset or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset and determines a suitable discount rate 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. Further information on the estimates used in determining the recoverable amount of other intangible assets is provided in note 11.

- Assumptions used in the Black-Scholes fair value calculations:

The estimation of share-based compensation 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 compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's share price and the risk-free interest rate are used. Further details of inputs used in the measurement of fair values at grant date are provided in note 21.

- Expected credit losses:

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.

(d) Functional currency and foreign currency translation:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the parent. The functional currency of each entity consolidated with the Company is determined by the currency of the primary economic environment in which it operates along with consideration of other relevant factors.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

2. Basis of presentation (continued):

(d) Functional currency and foreign currency translation (continued):

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date, and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from translation at year-end are recognized in profit or loss.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation by applying the exchange rates prevailing at the end of the reporting year for assets and liabilities and the average exchange rate for the year for consolidated statements of comprehensive income items. Such exchange differences, including differences that arise relating to long-term inter-company balances that form part of the net investment in the foreign operation, are recognized in other comprehensive income or loss. On disposal of a foreign entity, the related cumulative translation differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the end of each reporting year. These exchange differences are recognized in accumulated other comprehensive income.

3. Material accounting policies

(a) Basis of consolidation:

The consolidated financial statements incorporate the financial statements of the parent, which is the ultimate parent, and its subsidiaries. Subsidiaries are consolidated from the date on which the parent company obtains control and continue to be consolidated until control ceases. Control is established when the parent company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared using consistent accounting policies and all material inter-company transactions are eliminated in full upon consolidation.

Where the ownership of a subsidiary is less than 100% and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the owners of the parent and to the non-controlling interest even if that results in the non-controlling interest having a deficit balance.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(a) Basis of consolidation (continued):

Non-controlling interest presented as part of equity represents the portion of a subsidiary's net income or loss and net assets that are not held by the Company. The Company attributes total comprehensive income of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The following subsidiaries have been consolidated within the consolidated financial statements:

Name of subsidiary	Place of incorporation	Ownership interest	Functional currency	Principal activity
Thermal Energy International (UK) Ltd. ⁽¹⁾	United Kingdom	100%	GBP	Manufacture and sale of condensate return solutions and sale of heat recovery solutions
Thermal Energy International Corporation ⁽²⁾	Delaware, U.S.	100%	USD	Sale of heat recovery and condensate return solutions
Boilerroom Equipment Inc. ⁽²⁾	Pennsylvania, U.S.	100%	USD	Sale of indirect contact heat recovery units
2003356 Ontario Inc.	Ontario, Canada	100%	CAD	Non-operating
2153639 Ontario Inc. ⁽³⁾	Ontario, Canada	100%	CAD	Holding company
GEMchem Ltd. ⁽¹⁾	United Kingdom	67%	GBP	Sale of water treatment products and services
Thermal Energy International (Guangzhou) Ltd. ⁽³⁾	Guangzhou, China	55%	CAD	Non-operating

⁽¹⁾ Thermal Energy International (UK) Ltd owns 67% of GEMchem Ltd., a company incorporated in the United Kingdom.

⁽²⁾ Thermal Energy International Corporation owns 100% of Boilerroom Equipment Inc., a company incorporated in the United States.

⁽³⁾ 2153639 Ontario Inc. owns 55% of Thermal Energy International (Guangzhou) Ltd., a company incorporated in China.

All subsidiaries have a fiscal year end of May 31.

Information relating to each of the Company's subsidiaries that have non-controlling interest can be found in note 20.

(b) Cash and cash equivalents:

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand, and highly liquid investments with an original maturity of three months or less, and which are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in value.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(c) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method and includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed.

(d) Property, plant and equipment:

Property, plant and equipment are initially recognized at acquisition cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs of replacing components are recognized only if it is probable that future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of other replacement parts and general servicing of property, plant and equipment is recognized immediately in profit or loss.

Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets less estimated residual value:

Asset	Method
Plant and equipment	5-10 years straight-line
Furniture and fixtures	5 years straight-line
Laboratory equipment	5 years straight-line
Computers	3 years straight-line
Leasehold improvements	3-10 years straight-line
Motor vehicles	4 years straight-line

Depreciation methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Depreciation and impairment charges are included within administrative expenses.

(e) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(e) Leases (continued):

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 10 years for vehicles, equipment and offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense in profit and loss on a straight-line basis over the lease term.

(f) Intangible assets:

Intangible assets were either acquired in business combinations or through purchases. These intangible assets are recorded at their fair value at the acquisition date. The Company uses the income approach to value intangible assets acquired.

The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. The discounted cash flow ("DCF") is the methodology used, which is a form of the income approach that begins with a forecast of the annual cash

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(f) Intangible assets (continued):

flows a market participant would expect the subject intangible asset to generate over a discrete projection period. The future cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows from a market participant perspective. The present value of the future cash flows is then added to the present value of the residual value of the intangible asset at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible asset.

After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization is computed using the following rates and methods which reflect the estimated useful life of the assets:

Asset	Method
Trade names and trademarks	indefinite life
Non-compete agreements	2 years straight-line
Industrial know-how	5 years straight-line
Designs and drawings	5 years straight-line
Customer relationships	6 years straight-line
Existing technology	7 years straight line
Proprietary software	4 years straight line
Brand portfolio	indefinite life
Licenses	3 years straight line

Amortization methods, useful lives and residual values are reviewed at each reporting year and adjusted if appropriate. Amortization is included within administrative expenses.

The indefinite life intangible assets include the GEMTM trade name and trademark and the brand portfolio of Boilerroom Equipment Inc., which are used to set the product apart from those of competitors producing traditional mechanical steam traps or indirect contact heat recovery units. Management considers the reputation of the GEMTM product and the brand portfolio as continuing to strengthen and cannot be assigned a finite life after which it will have no value. Intangible assets with indefinite lives are subject to annual impairment testing. See note 3(g) for a description of impairment testing procedures.

(g) Impairment:

The carrying values of all property and equipment and intangible assets with a finite useful life are reviewed for impairment whenever there is an indication that the asset's carrying amount may not be recoverable. An impairment loss is recognized if the recoverable amount of the asset is less than the carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(g) Impairment (continued):

The intangible assets with an indefinite useful life are subject to annual impairment testing. Impairment testing is performed using the relief from royalty method, which requires management to estimate expected future revenue from sales of the product to which the indefinite-lived intangible assets relate and determine an appropriate royalty rate to apply to the future revenue. The royalty rate is subject to estimation uncertainty and reflects company and product specific factors as assessed by management.

(h) Provisions, contingent liabilities and contingent assets:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

(i) Warranties:

The Company warrants its heat recovery solutions products against defects for 1-2 years and condensate return solution product against defects for 10 years and does not offer extended warranties. A provision for warranty expense is recorded when the revenue for the related product is recognized. The provision is based upon the terms of the warranty, the Company's historical experience and management estimates of future expense for replacement or repairs. The provision is charged to cost of sales.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(j) Equity:

Capital stock represents the amount received on the issue of shares, less share issue expenses, net of any underlying income tax benefit from the issuance costs.

Contributed surplus includes charges related to stock options and warrants. When stock options and warrants are exercised, the related compensation cost is transferred to capital stock.

Deficit includes all current and prior year retained losses.

Accumulated other comprehensive income represents foreign currency translation differences arising on the translation of the Company's foreign subsidiaries, net of income taxes. All transactions with owners of the parent are recorded separately in equity.

(k) Equity-settled share-based compensation:

The Company offers an equity-settled share-based compensation plan for its directors, employees and certain contractors. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based compensation are measured at their fair values, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.

All equity-settled share-based compensations (except warrants to brokers) are ultimately recognized as an expense in profit or loss with a corresponding credit to contributed surplus. Equity-settled share-based compensations to brokers, in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus.

If vesting years or other vesting conditions apply, the expense is allocated over the vesting year, based on the best available estimate of the number of awards expected to vest. Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current year. No adjustment is made to any expense recognized in prior years if awards ultimately exercised are different to that estimated on vesting.

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting year of the respective tranches.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(k) Equity-settled share-based compensation (continued):

When stock options are exercised, any consideration paid by employees is credited to capital stock in addition to the amount previously recorded in contributed surplus relating to those options.

Stock options may be exercised on a net exercise basis, whereby stock options are exercised without the optionee making any cash payment so that the Company does not receive any cash from the exercise of the subject options, and instead the optionee receives only the number of underlying shares that is calculated based on a formula defined in the Company's Stock Option Plan.

(l) Revenue recognition:

Revenue is recognized when the Company transfers control of goods, equipment or services to customers at an amount that reflects the consideration expected to be received in exchange for transferring those goods, equipment or services. Some of the Company's contracts include multiple products, equipment and services. Products, equipment and services that are generally capable of being distinct are accounted for as separate performance obligations. When a contract includes a series of goods, equipment and services that are substantially the same and have the same pattern of transfer to the customer, these are accounted for as a single performance obligation.

Revenue comprises revenue from the sale of goods, equipment, and from rendering of services, as described below.

Nature of products and services

Sale of goods, equipment and services

Revenue is recognized upon transfer of control of promised goods, equipment and services to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods, equipment and services at a point in time. Services comprise of surveys, installation of goods, after-sale service, project development analysis, and engineering service delivered at a point in time. The Company's goods, equipment and services are generally distinct and accounted for as separate performance obligations. A good, equipment and service is distinct if the customer can benefit from it on its own or together with other readily available resources, and the Company's promise to transfer the good or equipment or deliver the service is separately identifiable from other promises in the contractual arrangement with the customer.

Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Products shipped or services provided prior to agreed billing terms are included in unbilled revenue.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

Rendering of services over time

Services rendered over time comprise of engineering service, maintenance service, and professional water treatment service. Revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date. The stage of completion is determined by the expected level of service we will provide over the term of the contract to determine the extent of progress towards completion ("output" method).

Amounts received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated statements of financial position. Services rendered prior to agreed billing terms are included in unbilled revenue.

Contracts for heat recovery projects

The Company provides heat recovery projects specifically customized to each customer. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance as the Company performs or when the Company creates or enhances an asset that the customer controls as the asset is created and enhanced, or when the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. The stage of completion is determined by reference to the costs incurred relative to estimated costs to complete to determine the extent of progress towards completion ("input" method). Only those contract costs that reflect work performed are included in costs incurred to date.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled revenue. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Multi-element arrangements

The Company provides its direct contact heat recovery solutions (e.g. FLU-ACE® heat recovery projects), indirect contact heat recovery equipment (e.g. **HEATSPONGE** and **SIDEKICK**), GEM™ product, installation and servicing on a standalone basis or as part of a multiple element arrangement. Stand-alone sales include sales of FLU-ACE® heat recovery projects, sales of indirect contact heat recovery equipment, or GEM™ steam traps. When sold in a multiple element arrangement, heat recovery projects, indirect contact heat recovery equipment, or GEM™ steam traps are considered separate performance obligations as they are separately identifiable from other promises in the contract. The total consideration for the arrangement is allocated to the separate performance obligations based on their stand alone selling price ("SSP") and the revenue is recognized for each unit when the requirements for revenue recognition have been met.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

The Company determines the SSP of each performance obligation based on the specific parameters and model used in determining the contract price, price lists and historical pricing for stand-alone sales of the same goods, equipment, or services.

Practical expedients

The Company has applied the following practical expedients:

- The Company expenses sales commission costs when incurred if the amortization period is less than 12 months.
- The Company is not adjusting the transaction price for the effects of financing component when the period between customer payment and the transfer of goods and services to the customer is less than 12 months.

(m) Research costs and government assistance:

The Company carries on various research programs, and from time to time these are funded by the Government of Canada. Funding received is accounted for using the cost reduction approach and is netted against research costs. Research costs are expensed as incurred.

(n) Post employee benefits and short-term employee benefits:

Certain subsidiaries of the Company provide post-employment benefits through defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution.

The cost of the Company's pension benefits for defined contribution plans are expensed when employees have rendered services entitling them to contributions.

Short-term employee benefits, including vacation entitlement, are current liabilities included in "Pensions and other employer obligations", measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(o) Income taxes:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting years, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(o) Income taxes (continued):

Deferred income taxes are calculated using the liability method on temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax liabilities are always recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income or loss, nor the income or loss for the year reported in the Company's statements of comprehensive income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, at the tax rates that have been enacted or substantively enacted by the end of the reporting year and applicable in the year in which the liability is expected to be settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(p) Earnings per share:

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated similar to basic earnings per share except the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares, which are comprised of additional shares from the assumed exercise of stock options or vesting of share units. Options and share units that have a dilutive impact are assumed to have been exercised or vested on the later of the beginning of the period or the date granted.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(q) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

On initial recognition, trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and liabilities are initially measured at their fair value. Transaction costs that directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on the trade date.

The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are classified as follows:

Financial asset	Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(q) Financial instruments (continued):

Impairment of financial assets

The Company has elected a practical expedient whereby the Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlated with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification
Short-term borrowings	Amortized cost
Trade payables and other liabilities	Amortized cost
Long-term debt	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method. Interest expense is recognized by applying effective interest rate except for short-term payables where the interest expense would be immaterial.

Interest revenue and expenses

Interest revenue and expenses are reported on an accrual basis using the effective interest method.

(r) Segment reporting:

In identifying its operating segments, management generally follows the Company's key geographical areas, which reflect the business of the Company's two main operating units in Ottawa, Canada and Bristol, UK. In determining its reportable segments, the Company considers qualitative factors, such as operations which are considered to be significant by management, as well as quantitative factors, so that material revenues and expenses are appropriately disclosed. Management considers assets and liabilities on a global basis and does not assess on a segment basis. The reportable segments' financial results are reviewed quarterly by senior management and the Board. Corporate and other costs which are not easily attributable to any particular operating segment are separately disclosed within reconciling items.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies (continued):

(r) Segment reporting (continued):

The two main operating units are as follows:

- North America, managed from the Ottawa office.
- Europe and rest of world, managed from the Bristol office.

Reconciling items comprise corporate administration costs, share-based compensation, professional fees, depreciation of property, plant and equipment, amortization of intangible assets, acquisition costs, foreign exchange differences and finance costs. Corporate administration costs include employment costs of the Chief Executive Officer and Chief Finance Officer, directors' fees, directors' and officers' liability insurance, and shareholder and investor services expenses.

(s) 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.

- Improved comparability in the statements of income which introduces three defined categories for income and expenses: operating, investing and financing. These 3 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

4. Segment reporting:

In fiscal 2026 and 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 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, 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.

Segment information for the year ended May 31, 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	21,911,930	13,608,665	11,639,530	16,171,811	-	-	33,551,460	29,780,476
Cost of sales	(14,133,234)	(7,970,258)	(5,268,671)	(9,466,375)	-	-	(19,401,905)	(17,436,633)
Gross profit	7,778,696	5,638,407	6,370,859	6,705,436	-	-	14,149,555	12,343,843
Other expenses	(4,813,353)	(4,302,590)	(6,478,489)	(5,837,443)	(1,456,960)	(1,797,399)	(12,748,802)	(11,937,432)
Finance costs	(78,169)	(86,138)	(18,590)	(17,752)	(12,308)	(185,672)	(109,067)	(289,562)
Finance revenue	24,038	63,267	4,429	-	-	-	28,467	63,267
Income (loss) before income tax	2,911,212	1,312,946	(121,791)	850,241	(1,469,268)	(1,983,071)	1,320,153	180,116
Income tax recovery (expense)	90,383	22,095	(68,653)	(43,729)	-	-	21,730	(21,634)
Net income (loss)	3,001,595	1,335,041	(190,444)	806,512	(1,469,268)	(1,983,071)	1,341,883	158,482
Attributable to:								
Owners of the parent	3,001,613	1,330,343	(285,696)	725,894	(1,469,268)	(1,983,071)	1,246,649	73,166
Non-controlling interest	(18)	4,698	95,252	80,618	-	-	95,234	85,316

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Other expenses in Reconciling Items comprise the following:

	2026	2025
Corporate administration costs	\$ 799,903	\$ 761,272
Share-based compensation	260,089	253,886
Professional fees	195,869	265,750
Depreciation of property, plant and equipment	219,845	237,439
Amortization of intangible assets	49,226	154,464
Foreign exchange (gain) loss	(67,972)	124,588
Total	\$ 1,456,960	\$ 1,797,399

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.

During the year ended May 31, 2026, the Company had two customers in North America that accounted for 15.5% and 13.7% of total consolidated revenue for the year, respectively. During the year ended May 31, 2025, the Company had one customer in North America and one customer in Europe that accounted for 14.1% and 12.3% of total consolidated revenue for the year, respectively.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Further geographical analysis:

	Revenue for the year ended May 31		Property, plant and equipment as at May 31		Intangible assets as at May 31	
	2026	2025	2026	2025	2026	2025
	\$	\$	\$	\$	\$	\$
U.S.A.	18,548,742	10,989,285	420,771	74,001	103,485	111,947
Canada	3,331,947	2,571,114	121,809	113,401	82,215	122,703
U.K.	2,954,875	5,863,996	98,973	201,435	257,628	257,185
Germany	1,801,865	3,287,842	—	—	—	—
Ireland	1,762,943	3,199,550	—	—	—	—
Italy	1,520,959	605,174	—	—	—	—
Romania	941,258	341,677	—	—	—	—
Poland	747,311	618,614	—	—	—	—
Spain	427,749	232,107	—	—	—	—
France	185,150	203,011	—	—	—	—
Netherlands	147,383	72,820	—	—	—	—
Slovenia	114,987	—	—	—	—	—
Belgium	47,433	4,662	—	—	—	—
Switzerland	34,483	591,700	—	—	—	—
Bulgaria	20,099	—	—	—	—	—
Greece	7,000	427,153	—	—	—	—
Rest of Europe	11,159	—	—	—	—	—
Indonesia	540,181	195,767	—	—	—	—
UAE	119,104	110,635	—	—	—	—
Mauritius	79,025	110,732	—	—	—	—
Uruguay ⁽¹⁾	56,746	19,669	—	—	—	—
Kuwait	41,755	—	—	—	—	—
South Africa	30,739	23,303	—	—	—	—
Australia	28,146	166,594	—	—	—	—
India	12,725	90,540	—	—	—	—
Rest of the World	37,696	54,531	—	—	—	—
Total	33,551,460	29,780,476	641,553	388,837	443,328	491,835

⁽¹⁾ The comparative information for Uruguay was reclassified from Rest of the World to conform with the financial statement presentation adopted in the current year.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

5. Cash and cash equivalents:

	2026	2025
Cash	\$ 3,271,065	\$ 2,782,956
Cash equivalents	-	15,739
Balance, end of year	\$ 3,271,065	\$ 2,798,695

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

6. Trade and other receivables:

	2026	2025
Trade receivables, gross	\$ 2,724,912	\$ 3,495,104
Allowance for expected credit losses	(4,428)	(5,208)
Trade receivables, net	2,720,484	3,489,896
Unbilled revenue	1,213,173	452,754
Contract assets	202,647	431,423
Sales tax and other miscellaneous receivables	201,709	124,489
Balance, end of year	\$ 4,338,013	\$ 4,498,562

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

At May 31, 2026, \$415,856 (15.3%) of the Company's trade receivables balance was over 90 days past due (\$65,783 (1.9%) at May 31, 2025). \$4,428 of the past due balance was impaired at May 31, 2026 (\$787 at May 31, 2025).

The change in allowance for expected credit losses was as follows:

	2026	2025
Balance, beginning of year	\$ 5,208	\$ 12,263
Provisions	-	9,839
Release of provisions due to collection	-	(6,089)
Amounts written off	(788)	(11,450)
Foreign exchange adjustments	8	645
Balance, end of year	\$ 4,428	\$ 5,208

The Company's trade and other receivables have been reviewed for indicators of impairment. For the year ended May 31, 2026, provisions of \$nil (\$9,839 at May 31, 2025) were made as expected credit losses and recorded under administrative expenses. \$Nil (\$6,089 at May 31, 2025) of the provisions were released due to the collection on the doubtful account.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

7. Prepaid expenses:

	2026	2025
Insurance	\$ 226,184	\$ 133,301
Prepayments for goods, equipment and projects	192,715	268,452
Foreign government regulatory fees	145,092	140,553
Marketing events ⁽¹⁾	72,770	36,210
Rent	48,901	58,293
Other prepaid expenses	148,655	128,457
Balance, end of year	\$ 834,317	\$ 765,266

⁽¹⁾ The comparative information for marketing events was reclassified from other prepaid expenses to conform with the financial statement presentation adopted in the current year.

8. Inventory:

	2026	2025
Raw materials	\$ 1,236,390	\$ 1,235,696
Work in progress	604,102	364,622
Finished goods	278,233	226,759
Balance, end of year	\$ 2,118,725	\$ 1,827,077

For the year ended May 31, 2026, a total of \$2,657,932 of inventory was expensed to cost of sales (\$1,859,471 at May 31, 2025). Provisions of \$519 (\$10,231 at May 31, 2025) were made for slow-moving inventories under cost of sales.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

9. Property, plant and equipment:

	Plant and Equipment	Furniture and Fixtures	Laboratory Equipment	Computers	Leasehold Improve- ments	Motor Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost, May 31, 2024	635,111	198,843	52,857	508,165	444,095	11,369	1,850,440
Additions	24,568	5,624	10,663	36,871	-	-	77,726
Disposals	-	-	-	(5,209)	-	-	(5,209)
Translation adjustments	17,748	2,473	-	9,443	16,252	102	46,018
Cost, May 31, 2025	677,427	206,940	63,520	549,270	460,347	11,471	1,968,975
Additions	426,679	10,294	-	33,863	-	-	470,836
Disposals	-	(779)	-	-	-	-	(779)
Translation adjustments	2,848	196	-	434	478	33	3,989
Cost, May 31, 2026	1,106,954	216,651	63,520	583,567	460,825	11,504	2,443,021
Accumulated depreciation, May 31, 2024	498,330	157,396	52,857	449,539	152,893	9,001	1,320,016
Depreciation for the year	50,558	14,066	1,066	36,690	132,641	2,418	237,439
Disposals	-	-	-	(4,954)	-	-	(4,954)
Translation adjustments	12,833	769	-	7,220	6,763	52	27,637
Accumulated depreciation, May 31, 2025	561,721	172,231	53,923	488,495	292,297	11,471	1,580,138
Depreciation for the year	57,522	13,001	2,133	40,214	106,975	-	219,845
Disposals	-	(592)	-	-	-	-	(592)
Translation adjustments	1,240	106	-	373	325	33	2,077
Accumulated depreciation, May 31, 2026	620,483	184,746	56,056	529,082	399,597	11,504	1,801,468
Net book value, May 31, 2025	115,706	34,709	9,597	60,775	168,050	-	388,837
Net book value, May 31, 2026	486,471	31,905	7,464	54,485	61,228	-	641,553

During the year ended May 31, 2026, the Company disposed of depreciated assets with a net book value of \$187 for \$nil proceeds.

During the year ended May 31, 2025, the Company disposed of depreciated assets with a net book value of \$255 for \$nil proceeds.

Significant additions for the year ended May 31, 2026, include the acquisition of a plasma table for the US production team, for which the Company paid \$325,735. The acquisition was funded through a loan subsequent to the year ended May 31, 2026, see note 31.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

10. 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	1,149,700	29,767	15,296	1,194,763
Depreciation	(286,486)	(43,074)	(3,009)	(332,569)
Translation adjustments	1,806	(185)	-	1,621
Balance, May 31, 2026	1,741,417	48,378	13,673	1,803,468

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2024	1,180,389	95,079	4,158	1,279,626
Depreciation	(326,713)	(38,336)	(2,772)	(367,821)
Translation adjustments	22,721	5,127	-	27,848
Balance, May 31, 2025	876,397	61,870	1,386	939,653

Significant additions for the year ended May 31, 2026, include a leased property in the U.K. for a period of 10 years and recognized a right-of-use asset for \$1,135,745.

11. Intangible assets:

	Cost, May 31, 2025	Disposals	Translation adjustments	Cost, May 31, 2026
	\$	\$	\$	\$
Trade names and trademarks (a)	852,610	-	1,472	854,082
Non-compete agreement	111,210	-	192	111,402
Industrial know-how	129,745	-	224	129,969
Designs and drawings	142,720	-	306	143,026
Customer relationships	781,855	-	1,912	783,767
Existing technology	1,019,475	-	2,140	1,021,615
Proprietary software	414,116	-	1,204	415,320
Brand portfolio (b)	204,994	-	596	205,590
Licences	10,139	(1,629)	24	8,534
Total	3,666,864	(1,629)	8,070	3,673,305

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

11. Intangible assets (continued):

	Accumulated amortization and impairment, May 31, 2025	Amortization	Disposals	Translation adjustments	Accumulated amortization and impairment, May 31, 2026
	\$	\$	\$	\$	\$
Trade names and trademarks (a)	595,426	-	-	1,028	596,454
Non-compete agreement	111,210	-	-	192	111,402
Industrial know-how	129,745	-	-	224	129,969
Designs and drawings	142,720	-	-	306	143,026
Customer relationships	781,855	-	-	1,912	783,767
Existing technology	888,009	49,226	-	2,165	939,400
Proprietary software	414,116	-	-	1204	415,320
Brand portfolio (b)	101,809	-	-	296	102,105
Licences	10,139	-	(1,629)	24	8,534
Total	3,175,029	49,226	(1,629)	7,351	3,229,977
Net book value	491,835				443,328

	Cost, May 31, 2024	Disposals	Translation adjustments	Cost, May 31, 2025
	\$	\$	\$	\$
Trade names and trademarks (a)	798,882	-	53,728	852,610
Non-compete agreement	104,202	-	7,008	111,210
Industrial know-how	121,569	-	8,176	129,745
Designs and drawings	133,726	-	8,994	142,720
Customer relationships	758,397	-	23,458	781,855
Existing technology	1,013,002	-	6,473	1,019,475
Proprietary software	410,473	-	3,643	414,116
Brand portfolio (b)	203,191	-	1,803	204,994
Licences	10,980	(911)	70	10,139
Total	3,554,422	(911)	113,353	3,666,864

	Accumulated amortization and impairment, May 31, 2024	Amortization	Disposals	Translation adjustments	Accumulated amortization and impairment, May 31, 2025
	\$	\$	\$	\$	\$
Trade names and trademarks (a)	557,905	-	-	37,521	595,426
Non-compete agreement	104,202	-	-	7,008	111,210
Industrial know-how	121,569	-	-	8,176	129,745
Designs and drawings	133,726	-	-	8,994	142,720
Customer relationships	751,841	6,579	-	23,435	781,855
Existing technology	736,899	147,171	-	3,939	888,009
Proprietary software	410,474	-	-	3,642	414,116
Brand portfolio (b)	100,914	-	-	895	101,809
Licences	10,270	714	(911)	66	10,139
Total	2,927,800	154,464	(911)	93,676	3,175,029
Net book value	626,622				491,835

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

11. Intangible assets (continued):

Trade names and trademarks, and brand portfolio are intangible assets with indefinite lives and are not subject to amortization. They are tested for impairment at each year-end. The recoverable amount of trade names and trademarks, and brand portfolio were determined using the relief from royalty method.

(a) Trade names and trademarks:

Trade names and trademarks relate specifically to the GEM™ product. The calculation of the expected future revenues from the GEM™ product covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 33% (2025 - 33%). The growth rates attributed by Management to the GEM™ product line are -7% in 2027, followed by 7% in each of the subsequent four years. The Company is expecting a 7% decrease in revenues in 2027 compared to 2026 based on forecasted sales with a higher growth in the subsequent four years from 2028 to 2031. The Company will continue to expand its presence in Europe, North America and the rest of the international markets. In addition, the Company has invested and will continue to invest in its digitalization tools to streamline and accelerate the GEM sales process, ultimately enhancing future sales order intake. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the years ended May 31, 2026 and 2025.

(b) Brand portfolio:

Brand portfolio relates specifically to Boilerroom Equipment Inc's products. The calculation of the expected future revenues from the brand portfolio covered a one-year forecast, followed by an extrapolation over four further years of expected revenues with assumed growth rates applying a pre-tax discount rate of 22% (2025 - 24%). The growth rates attributed by Management to the brand portfolio are 21% in 2027, followed by 5% growth rate in each of the subsequent four years. The sales and revenue are expected to grow in the next five years because the Company will continue to expand its sales territories by utilizing the existing sales channels and network that have been established by the group of companies. In addition, the Company plans to further expand its sales channels and network in the coming year to establish market presence in new territories. The royalty rate applied to the revenues for the purposes of impairment testing is 1%.

No impairment charge was recognized for the years ended May 31, 2026 and 2025.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

12. Short-term borrowings:

- (a) On April 14, 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 of May 31, 2026 (\$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.

The Company granted to the lending institution a general security agreement as collateral for the fulfilment of all present and future obligations under this agreement. This security agreement shall rank in first position with respect to all personal property of the Company except intellectual property.

The Company has a covenant in accordance with this line of credit, namely Debt Service Coverage ratio. The Company was in compliance with the covenant at May 31, 2026.

- (b) On January 16, 2026, the Company's US subsidiary entered into a line of credit agreement with a lending institution for a total amount of \$689,900 (equivalent to USD\$500,000). \$Nil was utilized as at May 31, 2026. The line of credit bears interest at daily SOFR plus a premium of 2.5%. The line of credit is expected to support internal working capital needs related to the subsidiary company's operations.
- (c) On January 16, 2026, the US subsidiary also entered into a convertible equipment line of credit agreement with the same lending institution for a total amount of \$689,900 (equivalent to USD\$500,000). \$Nil was utilized as at May 31, 2026. The convertible equipment line of credit bears interest at daily SOFR plus a premium of 2.5%. The convertible equipment line of credit is expected to support fixed asset acquisitions. Subsequent to the year ended May 31, 2026, the Company utilized the convertible equipment line of credit and converted it to a 4-year, fixed interest loan, see note 31.

13. Trade payables and other liabilities:

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

	2026	2025
Trade payables	\$ 1,566,059	\$ 1,510,899
Accruals	1,558,067	1,074,716
Obligations related to share purchases (note 18)	-	500,000
Other government remittances payable	276,307	334,259
	\$ 3,400,433	\$ 3,419,874

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

13. Trade payables and other liabilities (continued):

Included in accruals is \$20,725 due to Directors (\$26,107 at May 31, 2025).

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

14. Long-term debt:

	2026	2025
(a) Term loan, bearing interest at 5.45%, was fully paid on January 15, 2026 (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.	\$ -	\$ 308,325
(b) Term loan (equivalent to GBP£887), bearing interest at 2.50%, repayable in monthly principal installments of \$1,647 (equivalent to GBP£887) up to the maturity date, June 10, 2026.	1,647	21,072
Total long-term debt	1,647	329,397
Less: current portion	(1,647)	(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 January 15, 2026 (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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

15. 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	\$ 2,002,698	\$ 712,372	\$ 2,715,070
Increase from payments received	16,468,283	4,331,698	20,799,981
Decrease from revenue recognized	(16,726,998)	(4,393,335)	(21,120,333)
Translation adjustments	950	(441)	509
Balance, May 31, 2026	\$ 1,744,933	\$ 650,294	\$ 2,395,227

	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	12,929,226	3,798,925	16,728,151
Decrease from revenue recognized	(14,289,145)	(4,128,290)	(18,417,435)
Translation adjustments	44,533	15,028	59,561
Balance, May 31, 2025	\$ 2,002,698	\$ 712,372	\$ 2,715,070

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

16. Provisions:

The change in provisions was as follows:

	June 1, 2025 \$	Additions \$	Reductions \$	Translation adjustments \$	May 31, 2026 \$
Restoration provision	-	232,528	-	-	232,528
Legal provision	190,000	-	-	-	190,000
Warranty provision	155,000	-	(20,305)	101	134,796
	345,000	232,528	(20,305)	101	557,324
Recognized as current liability					324,796
Recognized as non-current liability					232,528
					557,324

	June 1, 2024 \$	Additions \$	Reductions \$	Translation adjustments \$	May 31, 2025 \$
Legal provision	190,000	-	-	-	190,000
Warranty provision	192,813	-	(44,787)	6,974	155,000
	382,813	-	(44,787)	6,974	345,000
Recognized as current liability					345,000
Recognized as non-current liability					-
					345,000

During the year ended May 31, 2026, the company leased a property in the U.K. for a period of 10 years, recognized a restoration provision for \$232,528 (equivalent to GBP£125,237) and a lease obligation for \$903,217, see note 17.

On October 25, 2005, the Company was served with a statement of claim from its past President. Among other things, the lawsuit alleges that the former President was wrongfully dismissed from his employment. In November 2009, the Company recorded a provision of \$190,000 in its financial statements. In May, 2010, the plaintiff brought a motion for summary judgment. On October 18, 2011, a decision was rendered. In its decision on the motion for summary judgment the court: i) Allowed the plaintiff's claim for wrongful dismissal assessing the damages for the plaintiff's wrongful dismissal at the equivalent of 18 months of pay in lieu of notice of termination; ii) Dismissed the plaintiff's claim for alleged unpaid loans and advances in the amount of \$618,810; iii) Permitted the remainder of the parties' claims and counterclaims to proceed to trial. As such, the remainder of the parties' claims and counterclaims will proceed to trial. In the event the past President and the Company cannot agree on the damages for his wrongful dismissal claim, the matter will be determined by the court. However, there has been no progress since October 18, 2011. Until the remaining issues are determined, it is unclear what the net balance payable will be. While the Company is confident in the merits of its own case, there is much that is still unknown about the past President's case and the basis for his damages claim. This provision remains unchanged as of May 31, 2026 and is intended to account for future liabilities resulting from the claim.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

17. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of May 31, 2026 and May 31, 2025:

	2026	2025
Less than one year	\$ 394,457	\$ 482,158
One to five years	1,321,580	912,783
Six to ten years	620,342	115,300
Total undiscounted lease obligations	2,336,379	1,510,241
Less: impact of present value	(529,835)	(251,338)
Less: current portion	(265,362)	(394,510)
Long term portion	\$ 1,541,182	\$ 864,393

For the year ended May 31, 2026, interest expense on lease obligations (see note 25) was \$92,695 (\$116,239 at May 31, 2025); total cash outflow for leases was \$555,368 (\$486,919 at May 31, 2025), including \$46,351 (\$53,388 at May 31, 2025) for short-term leases. 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.

During the year ended May 31, 2026, the company leased a property in the U.K. for a period of 10 years, recognized a lease obligation for \$903,217 and a restoration provision for \$232,528, see note 16.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

18. 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:

	Year ended May 31, 2026		Year ended May 31, 2025	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of year	173,114,305	32,798,603	172,734,305	33,247,637
Stock options exercised (note 21) ⁽¹⁾	1,416,424	222,266	380,000	50,966
Shares repurchased ⁽²⁾	(3,560,500)	(684,864)	-	-
Reduction (increase) of obligations related to share purchases ⁽²⁾	-	500,000	-	(500,000)
Balance, end of year	170,970,229	32,836,005	173,114,305	32,798,603

- (1) For the year ended May 31, 2026, the Company issued 1,416,424 shares following the exercise of 3,201,000 stock options. Out of 1,416,424 shares issued 750,000 shares were issued upon the exercise of 750,000 options for cash proceeds of \$67,500, resulting in an increase to capital stock of \$101,550 and a reduction in contributed surplus of \$34,050. In addition, 666,424 shares were issued upon the exercise of 2,451,000 options using the net exercise method with no cash proceeds, resulting in an increase of capital stock of \$120,716 and a reduction in contributed surplus of the same amount.

For the year ended May 31, 2025, 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 year ended May 31, 2026, 3,560,500 shares were purchased for cancellation by the company under Normal Course Issuer Bid 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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

18. Capital stock (continued):

Normal Course Issuer Bid (continued):

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 May 31, 2025, an obligation for the repurchase of shares of \$500,000 was captured under trade payables and other liabilities (see note 13), as instructions were provided to the Company's broker to make purchases during the blackout period in accordance with ASPP.

As of May 31, 2026, there was no obligation for the repurchase of shares under ASPP.

19. Capital management:

The Company's objectives when managing capital is to ensure financial stability and sufficient liquidity to increase shareholder value through strategic acquisitions and organic growth by investing in sales, marketing and production development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process.

The capital structure of the Company consists of long-term debt and components of equity including capital stock, contributed surplus and deficit, which at May 31, 2026, totaled \$4,608,752 (\$3,034,419 at May 31, 2025). The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, repurchase shares, or issue debt. Management reviews the capital structure on a regular basis to ensure that objectives are met. The Company is subject to a debt covenant on its short-term borrowings (see note 12). The Company monitors the ratios on an annual basis. The Company's share capital is not subject to external restrictions.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

20. Non-controlling interest:

The following table summarizes the information relating to each of the Company's subsidiaries that has non-controlling interests (NCI), before any intra-group eliminations.

There are no significant restrictions on the ability to access or use assets and settle liabilities of the group. There are no contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity.

	Year ended May 31, 2026			Year ended May 31, 2025		
	GEMchem Ltd. \$	TEI (Guangzhou) Ltd. \$	Total \$	GEMchem Ltd. \$	TEI (Guangzhou) Ltd. \$	Total \$
NCI percentage	33%	45%		33%	45%	
Non-current assets	967	-	967	1,787	-	1,787
Current assets	912,330	2,091	914,421	858,895	2,091	860,986
Non-current liabilities	241	-	241	867	-	867
Current liabilities	271,698	403,751	675,449	322,665	403,711	726,376
Net assets (liabilities)	641,358	(401,660)	239,698	537,150	(401,620)	135,530
Carrying amount of NCI	211,648	(180,747)	30,901	177,260	(180,729)	(3,469)
Revenue	1,916,665	-	1,916,665	1,498,912	-	1,498,912
Profit (loss) after tax	288,643	(41)	288,602	244,296	10,440	254,736
Total comprehensive income (loss)	290,375	(41)	290,334	272,082	10,440	282,522
Profit (loss) allocated to NCI	95,252	(18)	95,234	80,618	4,698	85,316
Comprehensive income (loss) allocated to NCI	95,824	(18)	95,806	89,787	4,698	94,485
Cash flows from operating activities	202,580	-	202,580	284,407	(1,302)	283,105
Cash flows from investing activities	-	-	-	-	-	-
Cash flows from financing activities ⁽¹⁾	(186,170)	-	(186,170)	(175,880)	-	(175,880)
Net increase (decrease) in cash and cash equivalents	16,410	-	16,410	108,527	(1,302)	107,225

⁽¹⁾ The portion of the dividend attributable to the non-controlling interests (33%) amounted to \$61,436 (2025: \$58,040). This amount has been recorded as a reduction in the non-controlling interest's equity.

21. Share-based compensation:

The Company established the Company's Share Option Plan applicable to directors, officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date.

The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. The vesting term for options granted is at the discretion of the Board of Directors.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

21. Share-based compensation (continued):

Activity in stock options was as follows:

	Year ended May 31, 2026		Year ended May 31, 2025	
	# Options	Weighted Average Exercise Price \$	# Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	15,442,802	0.15	12,985,902	0.14
Granted	5,014,900	0.13	2,930,400	0.20
Forfeited	(179,500)	0.16	(93,500)	0.18
Exercised (note 18)	(3,201,000)	0.11	(380,000)	0.09
Outstanding, end of year	17,077,202	0.15	15,442,802	0.15
Options exercisable, end of year	9,088,900	0.15	8,932,707	0.13

The following tables summarize information about stock options outstanding at May 31, 2026:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding May 31, 2026	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at May 31, 2026	Weighted average exercise price
0.11-0.15	10,801,902	2.85	0.13	5,847,002	0.13
0.16-0.20	6,275,300	2.96	0.20	3,241,898	0.20
	17,077,202	2.89	0.15	9,088,900	0.15

The following tables summarize information about stock options outstanding at May 31, 2025:

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

21. Share-based compensation (continued):

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. As at May 31, 2026, there was \$293,023 (\$233,454 at May 31, 2025) of total unrecognized share-based compensation costs related to unvested stock option awards granted under the Plan, which are expected to be recognized over a term of three years.

The following inputs were used in the measurement of the fair values at grant date of the share-based compensation 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.

Share-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:

	2026	2025
Administration	\$ 225,359	\$ 206,370
Selling, marketing and business development	34,730	47,516
	\$ 260,089	\$ 253,886

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

22. Revenue:

	2026	2025
Sale of goods, equipment and services	\$ 14,663,742	\$ 13,173,314
Services over time	2,147,672	2,332,854
Contracts for heat recovery projects	16,740,046	14,274,308
	\$ 33,551,460	\$ 29,780,476

23. Employee benefits expense:

	2026	2025
Salaries and benefits	\$ 12,239,065	\$ 10,531,737
Share-based compensation (note 21)	260,089	253,886
Pension expense	290,573	354,745
	\$ 12,789,727	\$ 11,140,368

The Company contributes to defined contribution pension plans for permanent employees. The Company matches employee contributions. The plans and their assets are held by independent managers. The pension charge represents contributions paid by the Company.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

24. Other significant expenses:

Other significant expenses included in administration expense are as follows:

	2026	2025
Depreciation of property, plant and equipment (note 9)	\$ 219,845	\$ 237,439
Depreciation of right-of-use assets (note 10)	332,569	367,821
Amortization of intangible assets (note 11)	49,226	154,464
Foreign exchange (gain) loss	(67,972)	124,588

The Company received funding on various research programs. For the year ended May 31, 2026, a total amount of \$51,266 (\$37,798 at May 31, 2025) related to various research funding was recognized as a reduction to research and development expenses.

25. Finance costs:

	2026	2025
Interest on indebtedness	\$ 11,846	\$ 172,453
Interest on leases (note 17)	92,695	116,239
Other	4,526	870
	\$ 109,067	\$ 289,562

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

26. Income tax:

The Company's effective tax rate differs from the combined federal and provincial income tax rate in Canada. This difference comes from the following items:

	2026	2025
Income before income taxes	\$ 1,320,153	\$ 180,116
Income tax expense calculated using combined federal and provincial income tax rates in Canada of 26.50% (2025 – 26.50%)	349,841	47,731
Share-based compensation	68,924	67,281
Difference in tax rate of foreign subsidiaries	(10,476)	(10,891)
Utilization of previously unrecognized tax losses	(496,052)	(300,325)
Tax effect of temporary difference for which no deferred tax asset is recorded (used)	60,252	217,876
Difference in future tax rates	127	(991)
Permanent differences and other items	5,654	953
Current and deferred income tax (recovery) expense	\$ (21,730)	\$ 21,634
Current	\$ 110,995	\$ 92,476
Deferred	(132,725)	(70,842)
	\$ (21,730)	\$ 21,634

Major components of the current tax expense are as follows:

	2026	2025
Statutory income tax of the year	\$ 104,651	\$ 92,476
Adjustment for prior years	6,344	-
	\$ 110,995	\$ 92,476

Major components of the deferred tax (recovery) expense are as follows:

	2026	2025
Origination of timing differences	\$ (132,852)	\$ (69,851)
Difference in future tax rates	127	(991)
	\$ (132,725)	\$ (70,842)

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

26. Income tax (continued):

Change in deferred tax balances in 2026:

	June 1, 2025 \$	Recognized in income \$	Recognized in other comprehensive income \$	May 31, 2026 \$
Provisions	81,402	9,897	266	91,565
Property, plant and equipment	(48,627)	17,040	31	(31,556)
Non-capital losses	246,088	106,000	242	352,330
Intangible assets	(62,459)	(212)	(107)	(62,778)
	216,404	132,725	432	349,561
Recognized as deferred tax assets				349,802
Recognized as deferred tax liabilities				(241)
				349,561

Change in deferred tax balances in 2025:

	June 1, 2024 \$	Recognized in income \$	Recognized in other comprehensive income \$	May 31, 2025 \$
Provisions	141,031	(63,096)	3,467	81,402
Property, plant and equipment	(72,599)	27,929	(3,957)	(48,627)
Non-capital losses	131,261	106,000	8,827	246,088
Intangible assets	(58,432)	9	(4,036)	(62,459)
	141,261	70,842	4,301	216,404
Recognized as deferred tax assets				217,271
Recognized as deferred tax liabilities				(867)
				216,404

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

26. Income tax (continued):

At May 31, the Company had the following temporary differences for which no deferred tax asset was recorded:

	2026	2025
Property, plant and equipment	\$ 1,303,322	\$ 1,264,191
Intangible assets	3,128,718	3,088,230
Provisions	414,376	494,987
Non-capital losses	4,619,703	5,774,117
Research and development pool	3,860,312	3,860,312
	\$ 13,326,431	\$ 14,481,837

As at May 31, 2026, the Company had available non-capital income tax loss carry forwards in the following amounts for which no deferred tax asset was recognized. The tax loss carry forwards may be used to reduce federal and provincial taxable income:

Year of expiry	Amount
2030	\$ 431,610
2031	714,141
2032	43,753
2033	1,537,989
2035	171,250
2037	91,210
2042	9,843
2043	93,386
Total	\$ 3,093,182

As of May 31, 2026, the Company had non-capital losses in foreign subsidiaries in the amount of \$1,526,521 (\$701,386 at May 31, 2025), which could be carried forward indefinitely.

As of May 31, 2026, the Company had a pool balance in the amount of \$3,860,312 in respect of deductible scientific research and experimental development expenditures that could be carried forward to offset Canadian taxable income in future years indefinitely (\$3,860,312 at May 31, 2025).

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the parent is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of the temporary differences at May 31, 2026 was \$4,612,023 (\$5,156,520 at May 31, 2025).

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

27. Earnings per share:

The calculation of basic and diluted earnings per share for the year ended May 31, 2026 was based on the net income attributable to owners of the parent of \$1,246,649 (2025 – net income of \$73,166) and a weighted average number of basic common shares outstanding of 171,029,822 (2025 – 172,926,908) and a weighted average number of dilutive common shares outstanding of 171,802,336 (2025 – 176,097,976).

For the year ended May 31, 2026, 772,514 stock options out of 17,077,202 outstanding options were included in the calculation of diluted earnings per share. For the year ended May 31, 2025, 3,171,068 stock options out of 15,442,802 outstanding options were included in the calculation of diluted earnings per share.

The average market value of the Company's shares for purposes of calculating the dilutive effect of stock options was based on quoted market prices for the year during which options were outstanding.

The following tables summarize the calculation of the weighted average number of basic and diluted common shares:

	2026	2025
Issued common shares at beginning of year	173,114,305	172,734,305
Effect of shares (repurchased) issued	(2,084,483)	192,603
Weighted average number of basic common shares at end of year	171,029,822	172,926,908
Effect of stock options on issue	772,514	3,171,068
Weighted average number of diluted common shares at end of year	171,802,336	176,097,976

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

28. Financial instruments:

Financial risk management:

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company does not use derivative financial instruments to manage these risks, as management believes the risks arising from the Company's financial instruments to be at an already acceptably low level. The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, and liquidity risk. These risks are discussed in more detail below.

(a) Market risk is the risk that changes in market prices, such as interest rates and foreign exchange, will affect the Company's net earnings or loss or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Foreign currency risk:

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table shows the foreign currency exchange risk on the financial assets and liabilities of the Company's operations denominated in currencies other than the functional currency of the different Company entities.

	Net financial assets in CAD\$		Total CAD \$
	US \$	EUR	
Functional currency of Company entity			
May 31, 2026			
Canadian Dollar	93,849	–	93,849
British Pound	1,010,644	406,517	1,417,161
	1,104,493	406,517	1,511,010
May 31, 2025			
Canadian Dollar	452,123	–	452,123
British Pound	393,825	2,382,164	2,775,989
	845,948	2,382,164	3,228,112

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

Financial risk management (continued):

(a) Market risk (continued):

(i) Foreign currency risk (continued):

A 10% strengthening of the following currencies against the Canadian dollar would have had the following effect on operations and equity:

	May 31, 2026			May 31, 2025		
	US\$	EUR	Total	US\$	EUR	Total
Net income	110,449	40,652	151,101	84,595	238,216	322,811
Equity	110,449	46,652	151,101	84,595	238,216	322,811

The Company operates internationally with subsidiaries in the United Kingdom and the United States. The Company earns revenues and incurs cost of sales, administration, selling, marketing and business development expenses mainly in U.S. dollars and Euros, which constitute the majority of its foreign denominated transactions.

The Company does not enter into arrangements to hedge its foreign exchange risk. The Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk:

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates.

The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The Company is exposed to interest rate risk on its long-term debt. For the year ended May 31, 2026, a 1% increase or decrease in interest rate applied to the Company's long-term debt would result in a decrease/increase in income before tax of \$16.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instruments that potentially expose the Company to credit risk are trade and other receivables.

The Company's management considers that all of the above financial assets that are not impaired or past due at each of the reporting dates under review are of good credit quality.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

Financial risk management (continued):

(b) Credit risk (continued):

Trade and other receivables

Each new customer is assessed individually for creditworthiness before standard payment and delivery terms and conditions are offered. Consideration is given to the country and industry in which the customer operates, as well as maturity of the customer, existence of previous financial difficulties and general reputation. For GEM and Boilerroom Equipment Inc. products, a significant percentage of revenue is attributable to a small number of country-wide distributors with whom the Company has a trading history of at least two years. Goods are sold subject to retention of title clauses, so that in the event of non-payment, the Company may have a secured claim.

Contracts for heat recovery solutions are planned to help achieve positive cash flows throughout the life of the project. A project may be halted pending payment by a customer, thus preventing further commitments under the contract.

The amounts reported for trade and other receivables in the statement of financial position are net of expected credit losses. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (see note 5), trade and other receivables (see note 6).

The credit risk for cash and cash equivalents is considered negligible, since the counter-parties are reputable banks with high quality external credit ratings.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations of its financial liabilities that are settled by cash or another financial asset. The Company manages liquidity risk by maintaining a sufficient amount of cash and cash equivalents and by ensuring that the Company has financing sources such as bank loans for an authorized amount. The Company continues to actively seek external financing to ensure it has the necessary funds to fulfill its obligations.

In addition to the lease obligations disclosed in note 17, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount \$	Contractual cash flows \$	Year 1 \$	Year 2-3 \$	Year 4 and onwards \$
Trade payables and other liabilities	3,400,433	3,400,433	3,400,433	-	-
Long-term debt	1,647	1,647	1,647	-	-
	3,402,080	3,402,080	3,402,080	-	-

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

28. Financial instruments (continued):

Fair value of financial instrument assets and liabilities that are measured at fair value on a recurring basis (continued):

Financial instruments measured at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial assets or financial liabilities measured at fair value after initial recognition.

There were no transfers of fair value measurement between level 1, 2 and 3 of the fair value hierarchy in the year ended May 31, 2026 and 2025.

Fair value of financial instrument assets and liabilities that are not measured at fair value but fair value disclosures are required:

The carrying value 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. Long-term debt is subject to changes in market interest rates.

29. 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:

	2026	2025
Salaries and other short-term employee benefits	\$ 1,231,867	\$ 1,016,100
Share-based compensations	108,902	94,246
	\$ 1,340,769	\$ 1,110,346

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Consolidated Financial Statements

Years ended May 31, 2026 and 2025

(Expressed in Canadian dollars except share amounts)

29. Related party transactions (continued):

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 year 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 compensations include the fair value of equity settled share-based compensation arrangements expensed during the year.

30. Commitments:

On January 26, 2026, an advanced performance guarantee of \$20,210 (equivalent to USD\$14,647) with no collateral was issued by a financial institution in favour of a customer of the Company. The bank guarantee had an expiry date of September 6, 2026. The guarantee was extended on September 4, 2026, moving the expiry date from September 6, 2026 to October 4, 2026.

On May 9, 2025, an advanced performance guarantee of \$226,853 (equivalent to EUR€140,990), with no collateral, was issued by a financial institution in favour of a customer of the Company. The bank guarantee has an expiry date of August 31, 2027.

31. Subsequent event:

On July 1, 2026, a US subsidiary entered into a 4-year loan agreement with a lending institution for a total amount of \$331,152 (equivalent to USD\$240,000). The loan bears an annual interest of 6.39%. Repayable in monthly principal installments of \$7,852 (equivalent to USD\$5,691) up to the maturity date, July 1, 2030. The loan is to support the acquisition of a plasma table for the US production team. The US subsidiary granted to the lending institution a general security agreement as collateral for the fulfilment of all present and future obligations under this agreement. This security agreement shall rank in first position with respect to all personal property of the US subsidiary.