



MANAGEMENT'S DISCUSSION & ANALYSIS

For the Fiscal Year Ended May 31, 2026

Introduction

This Management Discussion and Analysis (MD&A) explains the material changes in Thermal Energy International Inc.'s ("Thermal Energy" or the "Company") financial position and financial performance for the fiscal year ended May 31, 2026 (or "FY 2026"), and compares the FY 2026 financial results to the previous year ended May 31, 2025 (or "FY 2025"). The consolidated financial statements and accompanying notes constitute an integral part of the discussion and should be read in conjunction with this MD&A. Unless otherwise indicated, all comparisons to the fourth quarter of FY 2026 are against the fourth quarter of FY 2025. Additional information relating to the Company is available on SEDAR+ at www.sedarplus.ca.

Currency

All financial information in this report is stated in Canadian Dollars, which is both the presentation and functional currency of the Company. Approximately 42% of our operations, assets and liabilities are denominated in British Pounds and 17% in US Dollars. As such, foreign currency fluctuations affect the reported values of individual lines on our statement of financial position and income statement. When the Canadian dollar strengthens, the reported values decrease, and the opposite occurs when the Canadian dollar weakens.

Review and Approval by the Board of Directors

The Board of Directors, on recommendation of the Audit Committee, approved the content of this MD&A on September 21, 2026. Disclosure contained in this document is current to September 21, 2026, unless otherwise stated.

Forward-Looking Statements

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

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1. Our Business

1.1 Company Overview

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

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

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

1.2 Core Businesses

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

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

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

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

1.3 Strategy

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

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

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

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

2. Performance Measures

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

2.1 EBITDA and Adjusted EBITDA

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

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

For the fourth quarters ended May 31:

	2026 \$	2025 \$
Total net income attributable to owners of the parent	198,883	198,528
Total net income attributable to non-controlling interest	21,780	25,446
Interest charge	17,728	53,905
Interest revenue	(11,622)	(11,367)
Income tax (recovery)	(92,818)	(27,817)
Depreciation and amortization	44,379	96,976
EBITDA	178,330	335,671
Share based compensation	68,406	61,636
Adjusted EBITDA	246,736	397,307

For the years ended May 31:

	2026 \$	2025 \$
Total net income attributable to owners of the parent	1,246,649	73,166
Total net income attributable to non-controlling interest	95,234	85,316
Interest charge	109,067	289,562
Interest revenue	(28,467)	(63,267)
Income tax (recovery) expense	(21,730)	21,634
Depreciation and amortization	269,071	391,903
EBITDA	1,669,824	798,314
Share based compensation	260,089	253,886
Adjusted EBITDA	1,929,913	1,052,200

2.2 Order Backlog

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

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The Company's order backlog as at May 31, 2026 was approximately \$11.8 million. As at September 21, 2026, the Company had an order backlog of approximately \$18.9 million.

	2026 \$ million	2025 \$ million	2024 \$ million
Order backlog as at May 31	11.8	12.9	18.7
Order backlog as at September reporting date	18.9	24.3	21.3

3. Performance

3.1 Selected Annual Information

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

Financial information for the years ended May 31, 2026 and 2025:

	2026 \$	2025 \$
Revenue	33,551,460	29,780,476
Gross profit	14,149,555	12,343,843
Gross profit percentage	42.2%	41.4%
Adjusted EBITDA ⁽¹⁾	1,929,913	1,052,200
Total net income attributable to owners of the parent	1,246,649	73,166
Income per share - basic and diluted	0.007	-

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

For the most recent eight quarters ended:

Quarter ended	31-Aug-25 \$	30-Nov-25 \$	28-Feb-26 \$	31-May-26 \$
Revenue	6,849,779	10,187,983	9,423,521	7,090,177
Gross profit	3,189,413	4,007,489	3,499,980	3,452,673
Gross profit percentage	46.6%	39.3%	37.1%	48.7%
Adjusted EBITDA ⁽¹⁾	350,178	814,431	518,568	246,736
Total net income (loss)	165,722	617,922	337,576	220,663
Income per share, basic and diluted	0.001	0.003	0.002	0.001

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

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

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3.2 Summary of Fourth Quarter Results

	Q4 2026	Q4 2025
	\$	\$
Revenue	7,090,177	6,825,097
Cost of sales	3,637,504	3,146,194
Gross profit	3,452,673	3,678,903
Expenses:		
Administration, selling, marketing and business development	3,309,801	3,292,814
Research and development	8,921	147,394
	3,318,722	3,440,208
Operating income	133,951	238,695
Finance costs	(17,728)	(53,905)
Finance revenue	11,622	11,367
Income before income tax	127,845	196,157
Income tax recovery	92,818	27,817
Net income for the period	220,663	223,974
Exchange differences on translation of overseas operations	12,641	264,798
Total comprehensive income for the period	233,304	488,772
Adjusted EBITDA for the period ^{1 2}	246,736	397,307
Order backlog as at May 31 ³	11.8 million	12.9 million
Order backlog as at reporting date ³	18.9 million	24.3 million

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

Revenue and Gross Profit

Revenues were \$7,090,177 in the quarter ended May 31, 2026, representing an increase of \$265,080, or 3.9%, compared to \$6,825,097 in the quarter ended May 31, 2025. The increase was primarily driven by higher GEM revenue compared to the same quarter of prior year.

The gross profit of \$3,452,673 achieved in the quarter ended May 31, 2026, represented a decrease of \$226,230, or 6.1%, from \$3,678,903 achieved in the quarter ended May 31, 2025. The decrease in gross profit was mainly due to lower margins on GEM and heat recovery projects compared to the same quarter of last year, offset by the increased gross profit from HeatSponge as a result of improved margin. The gross profit expressed as a percentage of revenue was 48.7% in the fourth quarter of FY 2026 compared to 53.9% in the same quarter of FY 2025. The decrease of gross profit as a percentage of revenue was mainly due to decreased margins on GEM and heat recovery projects. In the same quarter of prior year, the Company achieved exceptionally high margins on GEM and heat recovery projects.

Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the quarter ended May 31, 2026, were \$3,309,801, an increase of \$16,987, or 0.5%, compared to \$3,292,814 in the quarter ended May 31, 2025. In the fourth quarter of FY 2026, the Company recognized a group incentive in the amount of \$293,012 and a one-time employer obligation adjustment of \$149,325, but no such expenses were recognized in the fourth quarter of prior year. The increase in Operating Expense from these two adjustments were offset by the increase in foreign exchange gains in the amount of \$385,758.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction to research and development expenses when claims are earned. The research and development expenses decreased by \$138,473 in the fourth quarter of FY 2026 mainly due to lower amount of R&D cost incurred compared to the same quarter of the previous year.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. The Company incurred finance costs of \$17,728 in the fourth quarter of FY 2026, a decrease of \$36,177 from \$53,905 for the fourth quarter of FY 2025. The decrease was mainly due to the reduced balance on long-term debts. As at May 31, 2026, the Company has paid off most debts with only a minimal debt balance of \$1,647 relating to a Covid loan for the UK subsidiary.

Finance revenue includes interest revenue from the short-term deposit in the bank that generated finance revenue of \$11,622 in the fourth quarter of FY 2026, compared to \$11,367 in the fourth quarter of FY 2025. The Company allocated funds to the interest-earning short-term deposit account at the bank to benefit from the excess liquidity.

Income before income tax for the quarter ended May 31, 2026 was \$127,845, compared to \$196,157 in the same quarter of the previous year, a decrease of \$68,312 or 34.8%. The decrease was mainly due to the decrease in gross profit of \$226,230, offset by the decrease in R&D expense of \$138,473 and finance costs of \$36,177.

Income tax recovery in the fourth quarter of FY 2026 was \$92,818, as compared to \$27,817 in the fourth quarter of FY 2025, an increase of \$65,001. In the fourth quarter of FY 2026, the Company recognized deferred tax assets and income tax recovery in the amount of \$92,818 mainly because the Canadian parent company earned taxable profits for the past two years and was expected to utilize tax loss in the future periods.

Net income for the fourth quarter of FY 2026 was \$220,663, compared to net income of \$223,974 in the same quarter of the previous year, representing a decrease of \$3,311. The decrease in net income was mainly due to the decrease in income before tax of \$68,312, offset by the increase in tax recovery of \$65,001 as mentioned above.

Comprehensive income was \$233,304 for the fourth quarter of FY 2026, compared to comprehensive income of \$488,772 for the fourth quarter of FY 2025. The decrease of \$255,468 of comprehensive income was mainly due to the decrease in exchange gains arising on translation of overseas operations of \$252,157.

Adjusted EBITDA was \$246,736 for the fourth quarter of FY 2026, compared to \$397,307 for the same quarter of the previous year, representing a decrease of \$150,571. The decrease in Adjusted EBITDA was mainly due to the decrease in income before income tax of \$68,312 and the decrease in finance costs of \$36,177 as mentioned above, as well as the decrease in amortization of intangible assets of \$26,882 as intangible assets with definite lives became fully amortized over time resulting in lower amount in amortization year after year. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures – EBITDA and Adjusted EBITDA.

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3.3 Summary of Year End Results

	2026	2025
	\$	\$
Revenue	33,551,460	29,780,476
Cost of sales	19,401,905	17,436,633
Gross profit	14,149,555	12,343,843
Expenses:		
Administration, selling, marketing and business development	12,495,677	11,532,319
Research and development	253,125	405,113
	12,748,802	11,937,432
Operating income	1,400,753	406,411
Finance costs	(109,067)	(289,562)
Finance revenue	28,467	63,267
Income before income tax	1,320,153	180,116
Income tax recovery (expense)	21,730	(21,634)
Net income for the year	1,341,883	158,482
Exchange differences on translation of overseas operations	856	256,371
Total comprehensive income for the year	1,342,739	414,853
Adjusted EBITDA for the year ^{1 2}	1,929,913	1,052,200
Order backlog as at May 31 ³	11.8 million	12.9 million
Order backlog as at reporting date ³	18.9 million	24.3 million

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

Revenue and Gross Profit

Revenues were \$33,551,460 in the year ended May 31, 2026, an increase of \$3,770,984, or 12.7%, compared to \$29,780,476 recognized in the prior year. The increase was mainly due to increased order intake compared to prior year on both heat recovery projects and equipment sales including GEM and HeatSponge.

Gross profit for the year ended May 31, 2026 increased by \$1,805,712 or 14.6% to \$14,149,555, compared to \$12,343,843 achieved in the prior year. The increase in gross profit was mainly due to higher gross profit from GEM due to higher revenues, and higher gross profit from heat recovery projects due to higher revenue and higher gross margin. Overall, gross profit expressed as a percentage of revenue was 42.2% compared with 41.4% achieved in the previous year. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix and improved margins on heat recovery projects.

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Expenses

Administration, selling, marketing and business development expenses (“Operating Expenses”) in the year ended May 31, 2026 were \$12,495,677, compared to \$11,532,319 in the year ended May 31, 2025, representing an increase of \$963,358, or 8.4%. The increase of Operating Expenses was partially due to the fact that the Company recognized \$493,012 of group incentive in FY 2026 and there was no incentive recognized in prior year. The Company also incurred a one-time restoration cost of \$114,000 for a leased space, and a one-time employer obligation expense of \$149,325, in addition to inflationary increase on general operating expenses and salaries. The Company also invested in its digital scoping tool and website design during the year. The increases were offset by the increase in foreign exchange gains of \$192,560 compared to the previous year.

Research and development (“R&D”) related to expenditures on various research and development programs. The Company receives tax credits and government funding on various research programs related to product development. The tax credits and government funding are accounted as a reduction of research and development expenses. The Company’s R&D expense was \$253,125 in the year ended May 31, 2026, compared to \$405,113 in the year ended May 31, 2025, a decrease of \$151,988. The decrease was due to a lower amount of R&D activities conducted.

Finance costs include interest expense on the long-term debt, amortization of deferred financing cost, and interest accretion on lease obligations. Finance costs decreased by \$180,495 from \$289,562 to \$109,067 for the year ended May 31, 2026. The decrease was mainly due to the fact that the Company repaid most of its debts by the year end of FY 2026.

Finance revenue includes interest revenue from the short-term deposit. For the year ended May 31, 2026, interest revenue was \$28,467, representing a decrease of \$34,800 from \$63,267 achieved in the year ended May 31, 2025. The Company allocated funds to the short-term deposit to benefit from the excess liquidity.

Income before income tax for the year ended May 31, 2026 was \$1,320,153 compared to \$180,116 of the previous year, representing an increase of \$1,140,037. The increase in income before income tax was mainly due to the increase in gross profit of \$1,805,712 as a result of increased revenues, the decrease in R&D expense of \$151,988, and the decrease in finance costs of \$180,495, offset by the increase in Operating Expenses of \$963,358.

Income tax recovery in the year ended May 31, 2026 was \$21,730, compared to income tax expense of \$21,634 of the previous year, an increase of tax recovery of \$43,364. The Company’s U.K. and U.S. entities are subject to tax charges. Fluctuations in the tax charges are the result of changing profitability in those entities. The Company’s Canadian parent company has tax loss carried forward from prior years. The parent company recognized some of the tax loss as deferred tax assets in FY 2026.

Net income for the year ended May 31, 2026 was \$1,341,883, compared to net income of \$158,482 in the year ended May 31, 2025, representing an increase of \$1,183,401. The increase in net income was mainly due to the increase in income before income tax of \$1,140,037 as mentioned earlier.

Comprehensive income was \$1,342,739 for the year ended May 31, 2026, compared to \$414,853 for the year ended May 31, 2025, representing an increase of \$927,886. The increase in comprehensive income was mainly due to the increase in net income of \$1,183,401 as mentioned earlier, offset by the decrease in foreign exchange gains of \$255,515 from the translation of overseas operations. The Company recognized foreign exchange gains arising on translation of overseas operations of \$856 in the year ended May 31, 2026 as compared to \$256,371 recognized in the previous year.

Adjusted EBITDA was \$1,929,913 for the year ended May 31, 2026 compared to \$1,052,200 of the previous year, representing an increase of \$877,713. The increase was mainly due to the increase in income before tax of \$1,140,037 as mentioned above, offset by the decrease of \$180,495 on finance costs and the decrease of \$105,238 in amortization of intangibles. A reconciliation of net income to Adjusted EBITDA is shown in section 2.1 Performance Measures – EBITDA and Adjusted EBITDA.

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3.4 Liquidity & Capital Resources

Current assets increased by \$663,777 to \$10,572,414 at May 31, 2026, compared to \$9,908,637 at May 31, 2025. This increase was mainly due to the increase in cash and cash equivalents of \$472,370, prepaid expenses of \$69,051, inventory of \$291,648, offset by the decrease in trade and other receivables of \$160,549. Current liabilities decreased by \$651,519 to \$6,860,864, mainly due to the decrease in current portion of long-term debt of \$326,110, deferred revenue of \$319,843, current portion of lease obligations of \$128,963, offset by the increase in pensions and other employer obligations of \$159,343.

Working capital increased by \$1,315,296 to \$3,711,550 at May 31, 2026, compared to \$2,396,254 at May 31, 2025. The Company achieved net income of \$1,341,883 for the year ended May 31, 2026. The increase in working capital was mainly due to increase in net income. In addition, the Company repaid most of its debt by May 31, 2026 which resulted in decrease in current portion of long-term debt of \$326,110.

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

	Aug 31, 2024 \$	Nov 30, 2024 \$	Feb 28, 2025 \$	May 31, 2025\$	Aug 31, 2025 \$	Nov 30, 2025 \$	Feb 28, 2026 \$	May 31, 2026\$
Current Assets	12,845,479	11,323,820	12,257,253	9,908,637	11,617,647	12,250,428	11,503,357	10,572,414
Current Liabilities	9,046,946	7,636,188	9,879,520	7,512,383	8,874,792	8,810,866	7,849,059	6,860,864
Working Capital ¹	3,798,533	3,687,632	2,377,733	2,396,254	2,742,855	3,439,562	3,654,298	3,711,550

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

The Company's cash position was \$3,271,065 as at May 31, 2026, compared to \$2,798,695 at May 31, 2025, representing an increase of \$472,370. The increase was mainly due to net cash generated from operating activities of \$2,204,597, offset by net cash used in financing activities of \$1,237,917, and investing activities of \$470,836 and exchange loss on cash of \$23,474.

The net cash generated from the operating activities for the year ended May 31, 2026 was \$2,204,597, which included the net income of \$1,341,883, the addbacks of non-cash items of \$943,166, the positive change in working capital of \$101,384, the income tax paid in the amount of \$98,950, the interest paid on long-term debt and lease obligations of \$111,353, and the interest income received of \$28,467. The positive change in working capital was mainly due to the timing difference between cash collections from customers and cash payments to vendors on long-term heat recovery projects.

The net cash used in investing activities was \$470,836 for the year ended May 31, 2026, which related to purchase of property, plant and equipment. During the year ended May 31, 2026, the Company purchased a plasma table of the US production team in the amount of \$325,735.

The net cash used in financing activities was \$1,237,917, which included repayments of long-term debt of \$327,754, repayments of lease obligations of \$416,322, repurchase of shares of \$499,905 and the dividends paid to a minority interest of \$61,436, offset by cash collected as a result of stock options exercised in the amount of \$67,500.

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 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 - 2025) were made as expected credit losses and recorded under administrative expenses. \$nil (\$6,089 - 2025) of the provisions were released due to the collection on the doubtful account.

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

	May 31, 2026	May 31, 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

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

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

3.5 Segmentation Information

In FY 2026 and FY 2025, the Company operated in the energy efficiency industry in North America, Europe and rest of the world. The Company markets, sells, engineers, fabricates, constructs, installs and supports three main technology lines – direct contact heat recovery solutions, condensate return system solutions, and indirect contact heat recovery solutions. Assets are mainly located in Canada, the US and the UK.

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

Segment information for the 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) for the year	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

Other expenses in Reconciling Items comprise the following:

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2026

	2026	2025
Corporate admin costs	\$799,903	\$ 761,272
Stock-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.

Material Segmentation Variances

Thermal Energy Ottawa:

For the year ended May 31, 2026, revenue was \$21,911,930, representing an increase of \$8,303,265, or 61%, from the revenue of \$13,608,665 achieved in the previous year. The increase was mainly due to increased revenues from heat recovery projects.

Gross profit for the year ended May 31, 2026 increased by \$2,140,289, or 38%, over last year. The increase in gross profit was mainly due to the increased revenues from heat recovery projects and heat recovery equipment as a result of increased order intake in FY 2026. The gross profit as a percentage of revenue for the year ended May 31, 2026 was 35.5% compared to 41.4% for the previous year. The decrease of gross profit as a percentage of revenue was mainly due to the change in product mix and lower gross margins on heat recovery projects.

During the year ended May 31, 2026, other operating expenses increased by \$510,763, or 11.9%, mainly due to the recognition of group incentive in the amount of \$284,595 and the inflationary increase in salary and general operating expenses. No group incentive was recognized in prior year.

The finance costs, mainly the interest accretion on lease obligations, decreased by \$7,969 as a result of decreased lease obligation balance for this segment for the year ended May 31, 2026. This segment earned interest revenue of \$24,038 for the year ended May 31, 2026, a decrease of \$39,229 compared to prior year. As a result, the net finance costs increased by \$31,260 for the year ended May 31, 2026 compared to the previous year.

Income before income tax for the year ended May 31, 2026 was \$2,911,212 as compared to \$1,312,946 earned in the previous year, an increase of \$1,598,266 or 121.7%. The increase of income before income tax was mainly due to the increase in gross profit of \$2,140,289 as a result of increased heat recovery project revenues, offset by the increase in other expenses of \$510,763.

Thermal Energy Bristol:

For the year ended May 31, 2026, revenue was \$11,639,530, representing a decrease of \$4,532,281, or 28%, from \$16,171,811 achieved in the previous year. The decrease was mainly driven by lower revenues from heat recovery projects as a result of lower order intake received in FY 2026, offset by the increased revenues from GEM.

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For the year ended May 31, 2026, gross profit decreased by \$334,577, or 5%, from \$6,705,436 to \$6,370,859. The decrease in gross profit was mainly due to decreased gross profit from heat recovery projects as a result of lower revenues, offset by increased gross profit from GEM. The gross profit as a percentage of revenue was 54.7% for FY 2026 as compared to 41.5% for FY 2025. The increase in gross profit as a percentage of revenue was mainly due to the change in product mix.

Other expenses for the year ended May 31, 2026 were \$6,478,489, an increase of \$641,046, or 11%, compared to \$5,837,443 of the prior year. Increase in other expenses included a one-off restoration expense incurred in the amount of \$114,000 for a leased space, expenses relating to website development and data scoping tool of \$90,000, a one-time employer obligation adjustment recognized in the amount of \$149,325, group incentive recognition of \$208,417, and general inflationary increase in operating expenses.

Finance costs was \$18,590, compared to \$17,752 of the previous year. Finance costs related to interest accretion on lease obligations. The increase was due to increased lease obligations for this segment.

Loss before income tax for the year ended May 31, 2026 was \$121,791 as compared to income before income tax of \$850,241 for the previous year, a decrease of income by \$972,032 or 114.3%. The decrease was mainly due to the decrease in gross profit of \$334,577 as a result of decreased revenues from heat recovery projects, and the increase in other operating expenses of \$641,046 as mentioned above.

Other expenses in Reconciling Items:

Other expenses within Reconciling Items, which incorporates all costs not specifically attributable to either regional operational center. The other expenses within reconciling items decreased from \$1,797,399 to \$1,456,960, a decrease of \$340,439, compared to the previous year. In FY 2026, Foreign exchange gain was \$67,972, compared to foreign exchange loss of \$124,588 from FY 2025, an increase in foreign exchange gain of \$192,560. Amortization of intangible assets also decreased by \$105,238 compared to prior year because a few of the intangible assets were fully amortized between FY 2025 and FY 2026. Professional fees decreased by \$69,881 because there was a one-time service fee recognized in prior year but no such fees incurred in FY 2026.

4. Related Party Transactions

Directors and Senior Management Compensation

During the year ended May 31, 2026 compensation arrangements for Directors were as follows:

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

During the year ended May 31, 2026, Directors fees paid were \$54,000. Fees to the Chair of the Audit Committee were \$5,400; fees to the Chair of the Ethics, Governance and Compliance Committee were \$5,400; fees paid to the Chair of the Board were \$8,100. One in-person meeting was held during the year, a total cost of \$4,000.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2026

Compensation paid to Directors and Officers during the year ended May 31, 2026 (inclusive of the amounts described above but excluding share-based compensation) was as follows:

	Salaries and fees		Incentives		Other short-term benefits		Total	
	2026	2025	2026	2025	2026	2025	2026	2025
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
W. White	22,600	23,600	-	-	-	-	22,600	23,600
W. Ollerhead	19,900	20,900	-	-	-	-	19,900	20,900
D. Spagnolo	19,900	20,900	-	-	-	-	19,900	20,900
M. Williams	14,500	15,500	-	-	-	-	14,500	15,500
Total	76,900	80,900	-	-	-	-	76,900	80,900
Senior Management								
W. Crossland	272,513	272,513	50,607	-	11,427	11,243	334,547	283,756
R. Triebe	224,429	215,797	48,346	-	14,141	13,429	286,916	229,226
S. Mawby ⁽¹⁾	237,859	223,865	43,660	-	36,005	31,217	317,524	255,082
J. Zhang	160,811	156,127	43,660	-	11,509	11,009	215,980	167,136
Total	895,612	868,302	186,273	-	73,082	66,898	1,154,967	935,200
Total Related Party Transactions	972,512	949,202	186,273	-	73,082	66,898	1,231,867	1,016,100

(1) Mr. Mawby is compensated in UK Pound Sterling. Average exchange rate to Canadian dollar was 1.8533 and 1.8484 in FY 2026 and FY 2025, respectively.

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

Options outstanding for Directors (excluding the CEO) as at May 31, 2026 were 1,000,000, of which 583,332 were exercisable. There were no warrants outstanding for Directors.

Options outstanding for Senior Management (including the CEO) as at May 31, 2026 were 6,971,000, of which 3,576,000 were exercisable. There were no warrants outstanding for Senior Management.

5. Business Outlook

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

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

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2026

The Company's order backlog as at May 31, 2026 was approximately \$11.8 million. As at September 21, 2026, the Company had an order backlog of approximately \$18.9 million.

	2026 \$ million	2025 \$ million	2024 \$ million
Order backlog as at May 31, 2026	11.8	12.9	18.7
Order backlog as at September reporting date	18.9	24.3	21.3

- On August 25, 2026, the Company announced that it had received an order at approximately \$2.1 million in the form of three orders from a global nutrition company. This company has provided repeat business and is a provider of innovative energy efficiency and carbon emission reduction solutions to major corporations around the world. The orders include two turnkey projects in the United States and a Major Equipment Package ("MEP") for a site in Indonesia, representing the Company's first heat recovery order in that country. The revenues expected from these three orders is expected to be earned within the next 12 months.
- On July 14, 2026, the Company announced that it had received an order valued at approximately \$1.8 million from an international premium beer and beverage company. This FLU-ACE system to be installed will recover waste heat from the exhausts of two boilers at one of the customer's breweries and is expected to provide the brewery annual fuel savings of approximately \$406 thousand, while reducing its CO₂ emissions by approximately 975 tonnes. This is the second turnkey project with this client and it is supported by GEM Trap deployments across several of their European sites. This turnkey project is expected to be completed and revenue earned within 7-8 months.
- On February 18, 2026, the Company announced that it had received an order valued at approximately \$1.0 million from a global nutrition company. This turnkey heat recovery project includes adding one two-stage HeatSponge economizer to each of three natural gas-fired boilers on site to recover waste heat from their exhausts. This is the ninth turnkey project with this global client, and the third consecutive HeatSponge turnkey project with them. The project was about 6% complete at the year end.
- On December 17, 2025, the Company announced that it had received an order valued at approximately \$1.5 million from a leading multinational building materials company. This is a turnkey heat recovery project for four two-stage HeatSponge boiler economizers to be installed at second customer site. The project is expected to reduce up to 3,700 metric tons of CO₂ emissions annually. The project was about 55% complete at the year end.
- On December 15, 2025, the Company announced that it had received a \$3.2 million turnkey heat recovery order from a leading multinational frozen food company. This is the second heat recovery project with this multinational customer, which has over 40 manufacturing sites around the world. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order. The project was about 2% complete at the year end.
- On November 20, 2025, the Company announced that it had received a \$1.6 million order to supply eight custom-engineered HeatSponge heat recovery units to a remote mining operation in the Arctic. All units were engineered to withstand the demands of reciprocating engine environments, which unlike traditional boiler systems, are characterized by much hotter temperatures, higher pressure, and relentless vibration. The project is expected to be completed and revenue earned within 12 months from the receipt of the purchase order. The project was about 40% complete at the year end.
- On November 5, 2025, the Company announced that it had received orders for two turnkey heat recovery projects worth a combined total of \$1.5 million from a global nutrition company. It was the seventh and eight turnkey projects with this customer. The projects were about 71% complete at the year end.

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2026

- On December 16, 2024, the Company announced that it had received an order for a heat recovery and heat pump project valued at approximately \$2.8 million from a leading multinational pharmaceutical company, the third heat recovery project under global master services agreement within the last 15 months. The turn-key project includes both indirect contact HeatSponge®, a direct contact FLU-ACE® heat recovery system, as well as an integrated heat pump. The project is expected to deliver approximately 93% boiler efficiency. Additionally, the anticipated reduction in natural gas consumption is estimated to cut CO2 emissions by 728 tons per year, representing an estimated 11% reduction in site CO2 emissions. The project was about 95% complete at the year end.

6. Summary of Outstanding Shares and Dilutive Instruments

As at May 31, 2026, the Company had the following shares and dilutive instruments outstanding:

Shares:

170,970,229 class A common shares.

Options:

Range of exercise prices	Options outstanding			Options exercisable	
	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

7. Critical Accounting Estimates and Changes in Accounting Standards

Critical Accounting Estimates

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

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

Revenue recognition

Contracts with customers often include promises to deliver multiple goods and services. Judgement is applied in determining whether the goods and services are distinct, and should be accounted for as separate

Management Discussion and Analysis for the Fiscal Year Ended May 31, 2026

performance obligations, or together as a combined performance obligation. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates in determining the standalone selling prices ("SSP") for distinct performance obligations. The Company uses specific parameters to estimate SSP for distinct sales of goods and rendering of services.

Revenue from contracts for heat recovery projects

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

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

Deferred tax assets

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

Valuation of intangible assets and asset impairment

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

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

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

Assumptions used in the Black-Scholes fair value calculations

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

Expected credit loss

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

Changes in Accounting Standards

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

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

New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

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

IFRS 18 introduces three new sets of requirements:

- Improved comparability in the statements of income which introduces three defined categories for income and expenses: operating, investing and financing. These changes would require all companies to use the same structure of the statements of income and provide new defined subtotals, including operating profit.
- Enhanced transparency of management-defined performance measures which would require companies to disclose explanations of those company specific measures that are related to the income statement.
- More useful grouping of information in the financial statements which provides enhanced guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

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

8. Risk Factors and Risk Management

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

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

Financial risks and uncertainties of the Company include:

- The ability to maintain profitable operations and increase sales;
- The ability to grow sales through the establishment of new cooperative partnerships and strategic alliances;
- The ability to grow sales through the licensing of the corporation's technologies;
- Reliance on third party collaborations and license arrangements;
- Reliance on proprietary technology;
- Competition in the energy conservation and environmental compliance solutions;
- Product liability claims and insurance;
- Reliance on key personnel;
- The prospect of further litigation with its former President & CEO;
- The ability to control costs and achieve a positive gross margin on projects;
- The effect of an economic downturn or recession in any or all of Canada, US, or Europe, and the resultant impact on industrial and commercial customers and their ability to commit capital to projects, or secure project financing;
- The effect of new tariffs and duties;
- Financial impact due to exchange rate fluctuations, or foreign exchange risk;
- The impact of wars, conflicts and geopolitical unrest;
- The impact of inflation; and
- The impact of major global pandemics.

Management's addressing of the risks:

In FY 2023, the Company achieved profitability following a total order intake of \$27.3 million resulting in \$21 million in revenue and a net income of \$720,449. This positive momentum continued into FY 2024, with increased order intake driving revenue to \$25.9 million with net income of \$982,168. In FY 2025, the Company sustained its growth trajectory, recognizing revenue of \$29.8 million and generating a net income of \$158,482. During FY 2024 and FY 2025, the Company expanded its team across key European markets, positioning itself for long-term growth. In FY 2026, the Company achieved revenue growth again recognizing revenue of \$33.6 million and generated net income of \$1.3 million.

To support the Company's global growth strategy, the Company obtained an operating line of credit for a total amount of \$2 million from a financial institution. In FY 2026, the Company's US subsidiary obtained another operating line of credit in the amount of \$687,350 (equivalent to USD\$500,000) to support its working capital needs and a separate equipment line of credit in the amount of \$687,350 (equivalent to USD\$500,000) to support their acquisitions of equipment. The Company did not draw any balance from any of the lines of credit at May 31, 2026. The Company was in compliance with bank covenant at the year-end.

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

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

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

In January 2025, the U.S. government announced plans to implement significant tariffs affecting key U.S. trading partners including Canada, Mexico, the UK, and the member states of the European Union. The Company has been actively assessing the potential impacts of these tariffs on its operations, supply chains, and financial performance since. The Company's supply chain is both diverse and adaptable. With most of its manufacturing outsourced, the Company is able to partner with manufacturers located in multiple jurisdictions and usually within the same country as its projects. While the tariff landscape continues to evolve, the Company will continue monitoring developments closely and adapting its strategies as necessary to mitigate any potential impacts to its business. For the year ended May 31, 2026, the tariffs did not have a material impact on Thermal Energy.

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

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

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

9. Forward-Looking Information

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

10. Management's Responsibility for Financial Reporting

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

Under the supervision of the CEO and CFO, the Company maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate, and that transactions are authorized, assets are safeguarded, and proper records are maintained. Internal controls over financial reporting, no matter how well designed, have inherent limitations, and may not prevent or detect all misstatements. There were no changes to the Company's internal control over financial reporting during the year ended May 31, 2026 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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