

Condensed Consolidated Interim Financial Statements of

**THERMAL ENERGY
INTERNATIONAL INC.**

Three months ended August 31, 2025 and 2024

(Unaudited)

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Financial Position

As at August 31 and May 31, 2025
(Expressed in Canadian dollars) (Unaudited)

	August 31, 2025	May 31, 2025
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents (note 5)	4,288,830	2,798,695
Trade and other receivables (note 6)	4,555,721	4,498,562
Current tax receivable	19,014	19,037
Prepaid expenses (note 7)	901,573	765,266
Inventory	1,852,509	1,827,077
	11,617,647	9,908,637
Non-current assets:		
Property, plant and equipment (note 8)	340,106	388,837
Right-of-use assets (note 9)	846,212	939,653
Intangible assets	472,914	491,835
Deferred tax assets	217,229	217,271
	1,876,461	2,037,596
Total assets	13,494,108	11,946,233
Liabilities		
Current liabilities:		
Trade payables and other liabilities (note 11)	3,627,642	3,419,874
Current tax liabilities	103,273	84,023
Pensions and other employer obligations	220,905	226,149
Current portion of long-term debt (note 12)	199,590	327,757
Deferred revenue (note 13)	4,023,275	2,715,070
Provisions	344,998	345,000
Current portion of lease obligations (note 14)	355,109	394,510
	8,874,792	7,512,383
Non-current liabilities:		
Long-term debt (note 12)	-	1,640
Lease obligations (note 14)	818,715	864,393
Deferred tax liabilities	951	867
	819,666	866,900
Total liabilities	9,694,458	8,379,283
Equity		
Capital stock (note 15)	32,707,235	32,798,603
Contributed surplus	5,049,555	4,896,549
Accumulated other comprehensive income	541,266	536,000
Deficit	(34,513,987)	(34,660,733)
Equity attributable to owners of the parent	3,784,069	3,570,419
Non-controlling interest	15,581	(3,469)
Total equity	3,799,650	3,566,950
Subsequent event (note 23)		
Total liabilities and equity	13,494,108	11,946,233

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

On behalf of the Board:

(signed) William Crossland
Director

(signed) William Ollerhead
Director

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended August 31, 2025 and 2024
(Expressed in Canadian dollars) (Unaudited)

	Three months ended August 31	
	2025	2024
	\$	\$
Revenue (note 18)	6,849,779	8,469,390
Cost of sales	3,660,366	4,944,444
Gross profit	3,189,413	3,524,946
Expenses (note 19):		
Administration	1,630,248	1,789,144
Selling, marketing and business development	1,241,512	1,289,998
Research and development	107,317	61,894
	2,979,077	3,141,036
Operating income	210,336	383,910
Finance costs (note 20)	(31,230)	(87,295)
Finance revenue	5,921	31,199
Income before income tax	185,027	327,814
Income tax expense	(19,305)	(18,342)
Net income for the period	165,722	309,472
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of overseas operations	5,340	129,138
Total comprehensive income for the period	171,062	438,610
Net income for the period attributable to:		
Owners of the parent	146,746	278,290
Non-controlling interest	18,976	31,182
Net income for the period	165,722	309,472
Total comprehensive income for the period attributable to:		
Owners of the parent	152,012	404,720
Non-controlling interest	19,050	33,890
Total comprehensive income for the period	171,062	438,610
Net income per share - basic and diluted	0.001	0.002

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars) (Unaudited)

	Capital stock \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total attributable to owners of the parent \$	Non- controlling interest \$	Total equity \$
Balance at June 1, 2024	33,247,637	4,659,779	(34,733,899)	288,798	3,462,315	(39,914)	3,422,401
Share-based compensation (note 17)	-	65,306	-	-	65,306	-	65,306
Dividends paid (note 16)	-	-	-	-	-	(58,040)	(58,040)
Transactions with owners	-	65,306	-	-	65,306	(58,040)	7,266
Net income for the period	-	-	278,290	-	278,290	31,182	309,472
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	126,430	126,430	2,708	129,138
Total comprehensive income for the period	-	-	278,290	126,430	404,720	33,890	438,610
Balance at August 31, 2024	33,247,637	4,725,085	(34,455,609)	415,228	3,932,341	(64,064)	3,868,277
Balance at June 1, 2025	32,798,603	4,896,549	(34,660,733)	536,000	3,570,419	(3,469)	3,566,950
Share-based compensation (note 17)	-	61,638	-	-	61,638	-	61,638
Shares repurchased (note 15)	(329,496)	91,368	-	-	(238,128)	-	(238,128)
Obligations related to share repurchases (note 15)	238,128	-	-	-	238,128	-	238,128
Transactions with owners	(91,368)	153,006	-	-	61,638	-	61,638
Net income for the period	-	-	146,746	-	146,746	18,976	165,722
Other comprehensive income: exchange differences arising on translation of overseas operations	-	-	-	5,266	5,266	74	5,340
Total comprehensive income for the period	-	-	146,746	5,266	152,012	19,050	171,062
Balance at August 31, 2025	32,707,235	5,049,555	(34,513,987)	541,266	3,784,069	15,581	3,799,650

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

THERMAL ENERGY INTERNATIONAL INC.

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars) (Unaudited)

	Three months ended August 31	
	2025	2024
	\$	\$
Operating activities:		
Net income for the period	165,722	309,472
Add items not involving cash:		
Depreciation of property, plant and equipment (note 8)	59,344	59,852
Depreciation of right-of-use assets (note 9)	92,704	91,884
Amortization of intangible assets	18,860	43,573
Finance costs (note 20)	31,230	87,295
Finance revenue	(5,921)	(31,199)
Share-based compensation (note 17)	61,638	65,306
Income tax expense	19,305	18,342
Unrealized foreign exchange and translation adjustments	(18,559)	161,083
Changes in working capital:		
Trade and other receivables	(57,159)	(875,257)
Prepaid expenses	(136,307)	245,794
Inventory	(25,432)	(20,178)
Trade payables and other liabilities	442,479	(50,741)
Deferred revenue (note 13)	1,308,296	(1,649,985)
Income tax refunded	-	95,889
Interest paid	(33,057)	(87,672)
Interest received	5,921	31,199
Net cash provided by (used in) operating activities	1,929,064	(1,505,343)
Investing activities:		
Additions to property, plant and equipment (note 8)	(10,676)	(20,292)
Net cash used in investing activities	(10,676)	(20,292)
Financing activities:		
Repayment of long-term debt (note 12)	(129,811)	(232,288)
Repayment of lease obligations (note 14)	(84,216)	(77,203)
Repurchase of shares (note 15)	(238,128)	-
Dividends paid (note 16)	-	(58,040)
Net cash used in financing activities	(452,155)	(367,531)
Increase (decrease) in cash and cash equivalents for the period	1,466,233	(1,893,166)
Cash and cash equivalents, beginning of period	2,798,695	6,965,145
Exchange differences on cash and cash equivalents	23,902	(24,384)
Cash and cash equivalents, end of period	4,288,830	5,047,595

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

1. Nature of operations:

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

The unaudited condensed consolidated interim financial statements comprise the financial results of the parent and its subsidiaries (collectively known as the “Company”) for the three months ended August 31, 2025 and 2024.

2. Basis of presentation:

(a) Statement of compliance:

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

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS Accounting Standards issued and effective as of October 27, 2025, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

(b) Significant accounting judgments and estimates:

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

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

3. Material accounting policies:

New standards and amendments yet to be adopted:

IFRS 18, Presentation and Disclosures of Financial Statements

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

IFRS 18 introduces three new sets of requirements:

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

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, which will be June 1, 2027 for the Company, with early adoption permitted.

The Company is currently evaluating the impact of this new standard.

4. Segment reporting:

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

4. Segment reporting (continued):

Segment information for the three months ended August 31, 2025 and the comparative period are detailed in the table below.

	Thermal Energy Ottawa		Thermal Energy Bristol		Reconciling Items		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue from external customers	3,432,509	2,795,558	3,417,270	5,673,832	-	-	6,849,779	8,469,390
Cost of sales	(2,234,311)	(1,490,762)	(1,426,055)	(3,453,682)	-	-	(3,660,366)	(4,944,444)
Gross profit	1,198,198	1,304,796	1,991,215	2,220,150	-	-	3,189,413	3,524,946
Other expenses	(1,031,902)	(1,217,554)	(1,548,458)	(1,353,961)	(398,717)	(569,521)	(2,979,077)	(3,141,036)
Finance costs	(21,084)	(21,972)	(5,675)	(8,896)	(4,471)	(56,427)	(31,230)	(87,295)
Finance revenue	5,921	31,199	-	-	-	-	5,921	31,199
Income (loss) before taxation	151,133	96,469	437,082	857,293	(403,188)	(625,948)	185,027	327,814
Tax expense	-	-	(19,305)	(18,342)	-	-	(19,305)	(18,342)
Net income (loss) after taxation	151,133	96,469	417,777	838,951	(403,188)	(625,948)	165,722	309,472
Attributable to:								
Owners of the parent	151,126	90,029	398,808	814,209	(403,188)	(625,948)	146,746	278,290
Non-controlling interest	7	6,440	18,969	24,742	-	-	18,976	31,182

Other expenses in reconciling Items comprise the following:

	Three months ended August 31	
	2025	2024
	\$	\$
Corporate administration costs	201,248	174,241
Share-based compensation	61,638	65,306
Professional fees	137,052	72,817
Depreciation of property, plant and equipment	59,344	59,852
Amortization of intangible assets	18,860	43,573
Foreign exchange (gain) loss	(79,425)	153,732
Total	398,717	569,521

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.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

5. Cash and cash equivalents:

	August 31, 2025	May 31, 2025
Cash	\$ 4,288,830	\$ 2,782,956
Cash equivalents	-	15,739
Balance, end of period	\$ 4,288,830	\$ 2,798,695

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

6. Trade and other receivables:

	August 31, 2025	May 31, 2025
Trade receivables, gross	\$ 3,598,589	\$ 3,495,104
Allowance for expected credit losses	(5,209)	(5,208)
Trade receivables, net	3,593,380	3,489,896
Unbilled revenue	367,555	452,754
Contract assets	148,522	431,423
Sales tax and other miscellaneous receivables	446,264	124,489
Balance, end of period	\$ 4,555,721	\$ 4,498,562

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

At August 31, 2025, \$66,746 (1.9%) of the Company's trade receivables balance was over 90 days past due. \$5,209 of the past due balance was impaired at August 31, 2025.

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

The Company's trade and other receivables have been reviewed for indicators of impairment. For the three months ended August 31, 2025, provisions of \$nil were made as expected credit losses and recorded under administrative expenses on the condensed interim statements of comprehensive income (\$nil – August 31, 2024). For the three months ended August 31, 2025, \$nil of the provisions was released due to the collection on the expected credit losses (\$1,416 – August 31, 2024). The company wrote off allowance for expected credit losses in the amount of \$nil for the three months ended August 31, 2025 by removing the amount from trade receivables (\$nil – August 31, 2024). Translation loss of \$1 (gain of \$148 – August 31, 2024) was recognized under exchange differences arising on translation of overseas operations.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

7. Prepaid expenses:

	August 31, 2025	May 31, 2025
Prepayments for goods, equipment and projects	\$ 408,226	\$ 268,452
Foreign government regulatory fees ⁽¹⁾	102,868	140,553
Insurance ⁽¹⁾	111,916	133,301
Rent ⁽¹⁾	58,261	58,293
Other prepaid expenses ⁽¹⁾	220,302	164,667
Balance, end of period	\$ 901,573	\$ 765,266

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

8. Property, plant and equipment:

During the three months ended August 31, 2025, the Company acquired property, plant and equipment of \$10,676 (\$20,292 - August 31, 2024) and the Company disposed of depreciated assets with a net book value of \$nil for \$nil proceeds (no disposals - August 31, 2024). Depreciation expense of \$59,344 (\$59,852 - August 31, 2024) was recognized under administration expense. Translation loss of \$63 (gain of \$5,150 - August 31, 2024) was recognized under exchange differences arising on translation of overseas operations.

9. Right-of-use assets:

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2025	876,397	61,870	1,386	939,653
Depreciation	(82,688)	(9,323)	(693)	(92,704)
Translation adjustments	(749)	12	-	(737)
Balance, August 31, 2025	792,960	52,559	693	846,212

	Offices	Vehicles	Equipment	Total right-of-use assets
	\$	\$	\$	\$
Balance, June 1, 2024	1,180,389	95,079	4,158	1,279,626
Depreciation	(80,166)	(11,025)	(693)	(91,884)
Translation adjustments	(1,254)	1,850	-	596
Balance, August 31, 2024	1,098,969	85,904	3,465	1,188,338

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

10. Short-term borrowings:

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

11. Trade payables and other liabilities:

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

	August 31, 2025	May 31, 2025
Trade payables	\$ 2,102,970	\$ 1,510,899
Accruals	918,274	1,074,716
Obligations related to share purchases (note 15)	261,872	500,000
Other government remittances payable	344,526	334,259
	\$ 3,627,642	\$ 3,419,874

Included in accruals is \$22,225 due to directors (\$26,107 at May 31, 2025).

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

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

12. Long-term debt:

	August 31, 2025	May 31, 2025
(a) Term loan, bearing interest at 5.95% (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.	183,324	308,325
(b) Term loan (equivalent to GBP£8,773), bearing interest at 2.50%, repayable in monthly principal installments of \$1,608 (equivalent to GBP£867) up to the maturity date, June 10, 2026.	16,266	21,072
Total long-term debt	199,590	329,397
Less: current portion	(199,590)	(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 7.05% on August 31, 2025 (7.05% on May 31, 2025). Interest is payable monthly in arrears on the 15th day of the month. A financing cost of \$3,000 was charged by the lending institution. The amount advanced under the financing was expected to support internal working capital needs related to operations.

On May 28, 2025, the Company repaid a portion of its outstanding debt in the amount of \$150,000, effectively 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 Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

13. Deferred revenue:

The change in deferred revenue was as follows:

	Deferred revenue relating to contracts for heat recovery projects	Deferred revenue relating to sales of goods, equipment, and services	Total deferred revenue
Balance, June 1, 2025	\$ 2,002,697	\$ 712,373	\$ 2,715,070
Increase from payments received	3,276,617	1,095,335	4,371,952
Decrease from revenue recognized	(1,764,328)	(1,299,328)	(3,063,656)
Translation adjustments	235	(326)	(91)
Balance, August 31, 2025	\$ 3,515,221	\$ 508,054	\$ 4,023,275
	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	2,970,437	826,344	3,796,781
Decrease from revenue recognized	(4,366,341)	(1,080,425)	(5,446,766)
Translation adjustments	22,225	2,860	25,085
Balance, August 31, 2024	\$ 1,944,405	\$ 775,488	\$ 2,719,893

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

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

As a result of the change:

- Deferred revenue relating to point-in-time services in the amount of \$254,882 that was previously reported under deferred revenue relating to contracts for heat recovery projects as at June 1, 2024, was reclassified to deferred revenue relating to sales of goods, equipment, and services.
- For the three months ended August 31, 2024, increase from payments received in the amount of \$362,533 and decrease from revenue recognized in the amount of \$353,723 relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue related to sales of goods, equipment, and services.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended August 31, 2025 and 2024

(Expressed in Canadian dollars except share amounts)

13. Deferred revenue (continued):

- For the three months ended August 31, 2024, \$1,991 translation adjustments relating to point-in-time services, that were previously reported under deferred revenue relating to contracts for heat recovery projects, were reclassified to deferred revenue relating to sales of goods, equipment, and services.
- At August 31, 2024, \$265,683 of deferred revenue relating to point-in-time services, that was previously reported as deferred revenue relating to contracts for heat recovery projects, was reclassified to deferred revenue relating to sales of goods, equipment, and services.

14. Lease obligations:

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

	August 31, 2025	May 31, 2025
Less than one year	\$ 434,729	\$482,158
One to five years	893,152	912,783
Six to ten years	71,979	115,300
Total undiscounted lease obligations	1,399,860	1,510,241
Less: impact of present value	(226,036)	(251,338)
Less: current portion	(355,109)	(394,510)
Long term portion	\$ 818,715	\$864,393

During the three months ended August 31, 2025, the interest expense on lease obligations (see note 20) was \$25,060 (\$30,867 - August 31, 2024) and total cash outflow for leases was \$121,751 (\$114,914 - August 31, 2024), including \$12,475 (\$6,844 - August 31, 2024) for short-term leases.

For the three months ended August 31, 2025 and 2024, expenses for leases of low-dollar value items are not material. Extension options are included in the measurement of lease obligations when the Company is reasonably certain to exercise that option.

THERMAL ENERGY INTERNATIONAL INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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15. Capital stock:

Authorized:

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

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

Outstanding:

	Three months ended August 31, 2025		Year ended May 31, 2025	
	# Shares	\$	# Shares	\$
Class A common shares issued				
Balance, beginning of period	173,114,305	32,798,603	172,734,305	33,247,637
Stock options exercised (note 17) ⁽¹⁾	-	-	380,000	50,966
Shares repurchased ⁽²⁾	(1,713,000)	(329,496)	-	-
Reduction (increase) of obligations related to share repurchases ⁽²⁾	-	238,128	-	(500,000)
Balance, end of period	171,401,305	32,707,235	173,114,305	32,798,603

(1) For the three months ended August 31, 2025 and 2024, no stock options were exercised.

(2) For the three months ended August 31, 2025, 1,713,000 shares were purchased for cancellation by the company under NCIB for a total purchase price of \$238,128, resulting in a reduction to capital stock of \$329,496 and an increase in contributed surplus of \$91,368. 1,017,500 shares were cancelled by August 31, 2025 and 695,500 shares were cancelled on September 5, 2025.

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.

The Company has entered into an automatic share purchase plan ("ASPP") to provide the option to instruct its broker to make purchases under the NCIB during any applicable blackout periods. As of August 31, 2025, an obligation for the repurchase of shares of \$261,872 (\$500,000 – May 31, 2025) was captured under trade payables and other liabilities (see note 11), as instructions were provided to the Company's broker to make purchases during the current blackout period in accordance with ASPP.

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16. Non-controlling interest in subsidiaries:

During the three months ended August 31, 2024, a subsidiary of the Company, which has a non-controlling interest of 33%, distributed dividends to its shareholders. The portion of the dividends attributable to the non-controlling interests (33%) amounted to \$58,040. This amount has been recorded as a reduction in the non-controlling interest's equity. During the three months ended August 31, 2025, no dividends were distributed.

17. Share-based compensation:

Activity in stock options was as follows:

	Three months ended August 31, 2025		Three months ended August 31, 2024	
	#	Weighted Average Exercise Price	#	Weighted Average Exercise Price
	Options	\$	Options	\$
Outstanding, beginning of period	15,442,802	0.15	12,985,902	0.14
Outstanding, end of period	15,442,802	0.15	12,985,902	0.14
Options exercisable, end of period	8,932,707	0.13	5,536,648	0.11

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

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding August 31, 2025	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at August 31, 2025	Weighted average exercise price
0.08-0.10	2,065,000	0.24	0.09	2,065,000	0.09
0.11-0.15	7,005,502	1.76	0.13	5,709,908	0.13
0.16-0.20	6,372,300	3.71	0.20	1,157,799	0.20
	15,442,802	2.36	0.15	8,932,707	0.13

The following tables summarize information about stock options outstanding at August 31, 2024:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding August 31, 2024	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at August 31, 2024	Weighted average exercise price
0.08-0.10	2,400,000	1.14	0.09	2,400,000	0.09
0.11-0.15	7,070,502	2.76	0.13	3,136,648	0.13
0.16-0.20	3,515,400	4.25	0.20	-	-
	12,985,902	2.86	0.14	5,536,648	0.11

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17. Share-based compensation (continued):

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:

	Three months ended August 31, 2025	Three months ended August 31, 2024
Administration	\$ 51,699	\$ 51,486
Selling, marketing and business development	9,939	13,820
	\$ 61,638	\$ 65,306

18. Revenue:

	Three months ended August 31, 2025	Three months ended August 31, 2024
Sale of goods, equipment and services	\$ 4,584,026	\$ 3,494,460
Services over time	501,425	468,220
Contracts for heat recovery projects	1,764,328	4,506,710
	\$ 6,849,779	\$ 8,469,390

The Company now describes the categories of disaggregation of revenue as sale of goods, equipment and services where previously it was described as sale of goods and equipment. Services delivered at a point in time that were previously classified as contracts for heat recovery projects, were reclassified to sale of goods, equipment and services (see note 13). As a result of the change, for the three months ended August 31, 2024, \$235,850 of services delivered at a point in time, that were previously reported as contracts for heat recovery projects, and \$26,319 of services delivered at a point in time that were previously reported as services, were reclassified to sale of goods, equipment and services.

19. Other significant expenses:

Other significant expenses included in administration expenses are as follows:

	Three months ended August 31, 2025	Three months ended August 31, 2024
Depreciation of property, plant and equipment (note 8)	\$ 59,344	\$ 59,852
Depreciation of right-of-use assets (note 9)	92,704	91,884
Amortization of intangible assets	18,860	43,573
Foreign exchange (gain) loss	(79,425)	153,732

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20. Finance costs:

	Three months ended August 31, 2025	Three months ended August 31, 2024
Interest on indebtedness	\$ 4,472	\$ 56,428
Interest on leases (note 14)	25,060	30,867
Other	1,698	-
	\$ 31,230	\$ 87,295

21. Financial instruments:

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

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

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

22. Related party transactions:

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

Transactions with key management personnel

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

	Three months ended August 31, 2025	Three months ended August 31, 2024
Salaries and other short-term employee benefits	\$ 258,974	\$ 247,754
Share-based payments	22,203	24,921
	\$ 281,177	\$ 272,675

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22. 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 period as due to key management personnel under the Company's employee incentive plan, and Directors' fees including meeting fees, committee chairman fees and retainers. Share-based payments include the fair value of equity settled share-based payment arrangements expensed during the period.

23. Subsequent event:

Subsequent to August 31, 2025, the quarter end, the Company purchased 1,520,500 shares at a weighted average purchase price of \$0.14 per share, for a total cost including transaction costs of \$216,856 under the NCIB (see note 15). The shares purchased under the NCIB are cancelled at each month end. As at October 27, 2025, the date the Board of Directors approved the financial statements, 1,112,500 shares of 1,520,500 shares purchased subsequent to the quarter end were cancelled.