



An Innovative Technology Company Providing
Custom Energy and Emission Reduction Solutions

First Quarter Report – FY 2010

Period ending August 31, 2009



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THERMAL ENERGY INTERNATIONAL INC.
 Incorporated under the Ontario Business Corporations Act

CONSOLIDATED BALANCE SHEETS

As at	(Unaudited) Aug 31 2009 \$	May 31 2009 \$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	2,127,064	3,365,512
Accounts receivable (note 5)	1,965,585	1,404,924
Inventories (note 6)	517,928	554,577
Net investment in lease (note 9)	245,882	332,579
Prepays and other assets	169,939	166,970
	5,026,398	5,824,562
Property, plant and equipment (note 7)	108,468	97,742
Net investment in lease (note 9)	1,669,285	1,670,285
Intangible assets (note 8)	1,461,417	1,508,042
Goodwill	3,535,269	3,449,799
	11,800,837	12,550,430
LIABILITIES		
Current liabilities		
Bank loans (note 11)	536,818	669,087
Accounts payable	532,272	581,146
Accrued liabilities	616,124	762,005
Deferred revenue	170,291	20,992
	1,855,505	2,033,230
Non-controlling interest	(4,229)	(6,609)
SHAREHOLDERS' EQUITY		
Capital stock (note 13)	32,547,779	32,547,779
Contributed surplus	2,284,713	2,284,713
Deficit	(24,790,721)	(24,231,240)
Accumulated other comprehensive loss	(92,210)	(77,443)
	9,949,561	10,523,809
	11,800,837	12,550,430

Contingency (note 22)

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

On behalf of the Board



President and C.E.O.



Chief Financial Officer

THERMAL ENERGY INTERNATIONAL INC.

CONSOLIDATED OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

Three months ended August 31

	2009	2008
	\$	\$
REVENUE		
Sales	1,304,936	1,058,318
Cost of sales	289,959	530,215
Gross profit	1,014,977	528,103
Expenses		
Administration	453,284	527,579
Selling, marketing and business development	885,664	521,082
Legal fees	84,185	9,585
Audit fees	65,533	18,000
Insurance	37,817	34,248
Amortization of property, plant and equipment	11,613	11,691
Amortization of intangible assets	46,625	-
Patent and trademark maintenance	4,106	2,810
Research and development	19,517	71,643
Interest and bank charges	19,502	30,894
Foreign exchange loss	16,506	33,312
	1,644,352	1,260,844
Loss before the following:	(629,375)	(732,741)
Interest revenue	-	34,021
Finance revenue	61,291	85,052
Loss before non-controlling interest	(568,084)	(613,668)
Non-controlling interest	(2,446)	(2,418)
Net loss	(570,530)	(616,086)
Unrealized losses on translating financial statements of self-sustaining foreign operations (net of taxes)	(14,767)	(28,158)
Comprehensive loss	(585,297)	(644,244)
Net loss per share - basic and diluted	(0.003)	(0.004)
Weighted average number of common shares	167,533,922	152,578,635

The accompanying notes are an integral part of these consolidated financial statements and Note provides other information on earnings.

THERMAL ENERGY INTERNATIONAL INC.**CONSOLIDATED DEFICIT AND CONTRIBUTED SURPLUS
(Unaudited)**

Three months ended August 31

	2009	2008
	\$	\$
Deficit		
Balance, beginning of period	(24,231,240)	(21,086,582)
Interest on loans to acquire common shares (net of tax)	11,049	-
Net loss	(570,530)	(616,086)
Balance, end of period	(24,790,721)	(21,702,668)
Contributed Surplus		
Balance, beginning of period	2,284,713	1,528,414
Stock-based compensation	-	121,404
Issuance of warrants (note 13)	-	636,200
	2,284,713	2,286,018
Fair-value of stock options exercised and transferred to capital stock	-	34,000
Balance, end of period	2,284,713	2,252,018

**CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE LOSS
(Unaudited)**

Three months ended August 31

	2009	2008
	\$	\$
Balance, beginning of year	(77,443)	-
Unrealized losses on translating financial statements of self-sustaining foreign operations	(14,767)	(28,158)
Balance, end of year	(92,210)	(28,158)

The accompanying notes are an integral part of these consolidated financial statements and Note 15 provides other information on earnings.

THERMAL ENERGY INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three months ended August 31

	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net loss	(570,530)	(616,086)
Add items not involving cash:		
Stock-based compensation charge	-	121,404
Amortization of property, plant and equipment	11,253	11,691
Amortization of intangible assets	46,625	-
Non-monetary compensation charge	-	6,692
Non-controlling interest	2,446	2,955
Changes in non-cash operating working capital		
Accounts receivable	(429,938)	529,385
Contracts in progress	-	(38,000)
Inventories	(24,070)	22,509
Prepays and other assets	(25,556)	(10,798)
Accounts payable	(88,608)	(1,570,813)
Accrued liabilities	(162,965)	(244,670)
Deferred revenue	157,445	(384,908)
Net cash used in operating activities	(1,083,898)	(2,170,639)
INVESTING ACTIVITIES		
Acquisition of Gardner Energy Management Limited	(85,470)	(5,411,245)
Additions to property, plant and equipment	(22,339)	(16,444)
Net cash used in investing activities	(107,809)	(5,427,689)
FINANCING ACTIVITIES		
Decrease in bank loan	(132,269)	(291,537)
Investment in lease (note 9)	-	63,671
Lease payments received	87,697	
Common shares issued (note 13)	-	14,900,400
Financing fees	-	(1,223,226)
Net cash provided by (used in) financing activities	(44,572)	13,449,308
Effect of exchange rate fluctuations on cash and cash equivalents	(2,169)	(1,058)
Increase (decrease) in cash and cash equivalents for the period	(1,238,448)	5,849,922
Cash and cash equivalents, beginning of period	3,365,512	637,490
Cash and cash equivalents, end of period	2,127,064	6,487,412
Interest paid	4,850	19,965
Shareholder loans to acquire shares	-	147,600
Fair value of options exercised transferred to capital stock	-	34,000
Fair value of warrants issued for financing fees	-	636,200

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

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

August 31, 2009

1 GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company 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.

2 GOING CONCERN

The Company incurred losses from operations in the quarters ended August 31, 2009 and 2008 and has significant accumulated deficits as at those dates.

There is significant doubt about the Company's ability to continue as a going concern. The Company's ability to realize its assets and discharge its liabilities depends on any combination of the following: the continued financial support of its shareholders, its ability to arrange long-term financing and its ability to generate sufficient cash from operations.

The financial statements have been prepared on the going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments to the carrying value or classification of assets and liabilities, nor to the results of operations, should the Company not continue to operate as a going concern.

3 BASIS OF PRESENTATION AND ACCOUNTING CHANGES

The accompanying interim unaudited consolidated financial statements of Thermal Energy International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and do not include all the information required for complete financial statements. The interim unaudited consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended May 31, 2009. These interim consolidated financial statements are also prepared in accordance with the accounting policies described in the Company's audited consolidated financial statements for the year ended May 31, 2009 except for the changes in accounting policies, and new accounting policies adopted and described below.

Goodwill and intangible assets

In February 2008, the CICA published Section 3064, "Goodwill and Intangible Assets" establishing standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented companies. It clarifies the recognition of intangible assets and deals with the recognition of internally generated intangible assets.

The Company implemented this new standard in its first quarter of fiscal year 2010 but it had no effect on the financial statements for the quarter ended August 31, 2009.

4 CASH AND CASH EQUIVALENTS

Cash equivalents consist of excess cash invested in money market funds.

	Aug 31, 2009	May 31, 2009
	\$	\$
Cash	306,149	224,597
Money market funds	1,820,915	3,140,915
	<u>2,127,064</u>	<u>3,365,512</u>

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

August 31, 2009

5 ACCOUNTS RECEIVABLE

	Aug 31, 2009	May 31, 2009
	\$	\$
Trade	1,596,260	1,046,272
Commodity taxes	17,299	17,994
Directors and Officers	74,159	125,078
Other	277,867	215,580
	1,965,585	1,404,924

6 INVENTORIES

	Aug 31, 2009	May 31, 2009
	\$	\$
Work in process	517,928	554,577

Partly finished product is purchased from suppliers and held in inventory pending finishing to the customers requirements.

7 PROPERTY, PLANT AND EQUIPMENT

	Aug 31, 2009		May 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Plant and equipment	70,283	57,417	70,283	56,537
Furniture and fixtures	108,623	95,948	108,623	95,147
Laboratory equipment	52,857	28,155	52,857	26,878
Computers	282,214	230,244	259,875	223,979
Software	33,213	26,958	33,213	24,568
Leasehold improvements	21,401	21,401	21,401	21,401
	568,591	460,123	546,252	448,510
Accumulated amortization	(460,123)		(448,510)	
Net book value	108,468		97,742	

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

August 31, 2009

8 INTANGIBLE ASSETS

	Aug 31, 2009		May 31, 2009	
	Cost	Accumulated	Cost	Accumulated
		Amortization		Amortization
	\$	\$	\$	\$
Trade names and trademarks	928,000	-	928,000	-
Non compete agreement	121,000	70,583	121,000	55,458
Industrial know-how	141,000	32,900	141,000	25,850
Designs and drawings	156,000	77,700	156,000	28,600
Customer relationships	333,000	36,400	333,000	68,383
	1,679,000	217,583	1,679,000	170,958
Accumulated amortization	(217,583)		(170,958)	
Net book value	1,461,417		1,058,042	

9 NET INVESTMENT IN LEASE

The Company's net investment in lease includes the following:

	Aug 31, 2009	May 31, 2009
	\$	\$
Total estimated minimum lease payments receivable	2,581,009	2,729,998
Less: unearned income	(665,842)	(727,134)
	1,915,167	2,002,864
Less: current portion	(245,882)	(332,579)
	1,669,285	1,670,285

The estimated minimum lease payments receivable represent the estimated monthly energy outputs of the leased asset and are based on assumptions regarding the efficiency of the asset, the operations of the plant in which it is located and penalty payments resulting from temporary plant shut-downs. The lease expires April 2014, at which time the customer has the option to purchase the asset for \$1.

Future estimated minimum lease payments receivable under the sales-type lease are as follows:

	\$
2010	432,809
2011	560,400
2012	560,400
2013	560,400
2014	467,000
	2,581,009

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10 INVESTMENT IN JOINT VENTURE

The Company has entered into a partnership agreement on November 7, 2007 with two partners established under the laws of the Peoples Republic of China with the name of Thermal Energy International (Guangzhou) Ltd. in which the Company owns a 55% interest. The Joint Venture has been established to market, sell and install Thermal Energy International Inc.'s suite of products in China. The start-up capital required was \$200,000 CDN and each partner has contributed their respective share in 2009.

The consolidated financial statements include the Company's proportionate share of the revenue, expenses, assets and liabilities of the joint venture as follows:

	Aug 31, 2009	Aug 31, 2009
	\$	
Current assets	98,653	-
Current liabilities	45,729	-
Sales	-	-
Cost of sales	-	-
Other expenses	14,071	-
Net loss	(14,071)	-

11 BANK LOANS

At August 31, 2009, the Company had two bank loans aggregating to \$536,818. The first loan has an authorized amount of \$2,500,000. At August 31, 2009 this loan, secured by accounts receivable and a general security agreement, with interest rate at prime plus 0.25%, amounted to \$283,667 (May 31, 2009 - \$408,667) is guaranteed by the Export Development Corporation in an amount of USD \$215,540. Prime rate at August 31, 2009 was 2.25% (May 31, 2009 - 2.25%).

In accordance with the loan agreement, the Company is subject to certain loan covenants and must meet certain financial ratios. At August 31, 2009 not all financial covenants were met.

At August 31, 2009, the second loan amounted to \$253,151 (May 31, 2008 - \$260,420). It is secured by certain trade accounts receivable of a subsidiary and carries a service charge of 0.805% of the gross loan subject to a minimum annual charge of approximately \$30,000 and an interest rate of 1.95% over the LIBOR rate. At August 31, 2009 the LIBOR rate was 0.5% (May 31, 2009 0.5%).

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

August 31, 2009

12 RELATED PARTY TRANSACTIONS

Related party transactions, in the normal course of operations, are measured at the exchange value which represents the amounts established and agreed upon by both parties.

	August 31, 2009	August 31, 2008
Balances owing to/from directors		
Accounts receivable	\$26,468	\$34,450
Loans receivable, including accrued interest	\$385,849	\$289,647
Accrued liabilities	\$22,813	\$9,375
Directors share options and warrants outstanding at August 31		
Issued	3,500,000	3,500,000
Exercisable	2,961,000	2,711,000
Warrants outstanding	37,500	37,500
Balances owing from officers		
Accounts receivable	\$9,039	\$8,000
Loans receivable, including accrued interest	\$187,255	\$172,800
Balance owing from shareholders		
Loans receivable including accrued interest	\$326,017	\$314,900

Transactions with directors and officers were as follows:

	2009	2008
Three months ended August 31		
Directors fees for services	\$15,750	\$15,750
Officers fees for services	\$33,000	\$33,000
Shares issued to Directors	-	550,000
Shares issued to Officers	-	-

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

August 31, 2009

13 CAPITAL STOCK

	Quarter ended Aug 31, 2009		Year ended May 31, 2009	
	# Shares	\$	# Shares	\$
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.				
Class A Common shares issued				
Balance, beginning of year	167,533,922	35,278,330	99,052,104	20,122,830
Issued in settlement of liabilities	-	-	50,000	17,500
Issued for loans (i)	-	-	430,000	94,600
Issued for cash	-	-	67,720,000	14,896,560
Issued as a result of the exercise of options for loans (ii)	-	-	350,000	146,840
	167,533,922	35,278,330	167,533,922	35,278,330
Less: loans outstanding to assist shareholders in purchasing capital stock (iii)		(827,351)		(827,351)
Share issue costs		(1,903,200)		(1,903,200)
Balance, end of year	167,533,922	32,547,779	167,533,922	32,547,779

(i) In fiscal 2009, shares were issued to shareholders for loans which resulted in a stock-based compensation charge of \$56,100.

(ii)	Quarter ended Aug 31, 2009	Quarter ended Aug 31, 2008
	\$	\$
Loans to exercise options granted during the period		
Directors and officers	-	24,000

Shares issued as a result of the exercise of options for loans has resulted in stock-based compensation expense in the following amounts:

	Quarter ended Aug 31, 2009	Quarter ended Aug 31, 2008
	\$	\$
Directors and officers	-	6,000

(iii) Repayments made on these loans in the quarter ended August 31, 2009 were \$nil (2008 - \$nil)

	Loans to acquire shares	
	Aug 31, 2009	May 31, 2009
	\$	\$
President	124,647	124,647
Directors and Officers	402,800	402,800
Other shareholders	299,904	299,904
	827,351	827,351

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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August 31, 2009

Loans were extended to employees, shareholders, directors and officers to acquire shares of the Company through the exercise of options. These loans bear interest at a rate of 5% and mature at dates which range from 2 to 5 years from the date of issue. In certain instances, the borrower's liability in respect of these loans shall at all times be limited to the value of the underlying shares for which the loan was granted. They can be repaid in part or in full at any time before maturity, at which time the shares with an equivalent value to the repayment will be released to the borrower by the Company. The loans are secured by the share certificates.

Stock-based compensation on loans granted to Directors, officers and other shareholders was estimated using the Black-Scholes option pricing model with the following assumptions:

	Loans to exercise options		Loans to acquire shares	
	Quarter ended August 31		Quarter ended August 31	
	2009	2008	2009	2008
Weighted average assumptions:				
Expected dividend	-	0%	-	0%
Expected volatility	-	87%	-	82%
Risk-free interest rate	-	2.50%	-	2.50%
Expected option life in years	-	2.0	-	1.0

The Company has a five-year licensing and purchasing agreement with Mabarex for their Dry-Rex™ system ending September 8, 2011. Under the terms of this agreement, the Company is required to issue 125,000 common shares at \$0.16 each to Mabarex for each of the first two contracts to use the Dry-Rex™ system.

In addition, the Company is committed to issue 578,000 options to directors and shareholders to purchase common shares at \$0.16 per share, based on Company performance and which will expire on December 20, 2009.

Warrants

(a) In fiscal 2009, the Company completed a private placement and as a result, the agent was issued 5,236,363 transferable warrants, which have been valued at \$636,200. Activity in share purchase warrants was as follows:

	Quarter ended August 31, 2009		Quarter ended August 31, 2008	
	# Warrants	Weighted Average Exercise Price	# Warrants	Weighted Average Exercise Price
		\$		\$
Balance, beginning of period	6,753,863	0.28	8,788,501	0.40
Issued	-	-	5,236,363	0.22
Exercised	-	-	-	-
Expired	-	-	-	-
Balance, end of period	6,753,863	0.28	14,024,864	0.33

(b) The following table summarizes the status of warrants outstanding at August 31, 2009:

Warrants Outstanding	Exercise Price \$	Expiry Date
1,517,500	0.50	To December 7, 2009
5,236,363	0.22	To June 20, 2010
<u>6,753,863</u>		

THERMAL ENERGY INTERNATIONAL INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

August 31, 2009

14 SHARE OPTION PLAN

The Company established the Company's Share Option Plan applicable to Directors, Officers and full-time and part-time employees of the Company. In the plan, the aggregate number of options may not exceed 20% of the outstanding shares and the total number of shares to be optioned to any optionee may not exceed 5% of the number of issued and outstanding shares as at the option granting date. The options are granted with an exercise price equal to the market value of the common shares of the Company at the date of grant, less any permissible discounts, and may be exercised at any time after the vesting date, not to exceed five years from the date of granting. Vesting period for options granted is at the discretion of the Board of Directors. Options granted in the quarter ended August 31, 2008 2009 had a vesting period of four months.

(a) Activity in stock options was as follows:

	Quarter ended Aug 31, 2009		Quarter ended August 31, 2008	
	# Options	Weighted Average \$	# Options	Weighted Average \$
Outstanding, beginning of period	5,325,000	0.20	5,857,143	0.21
Granted	-	-	375,000	0.33
Exercised	-	-	(200,000)	0.24
Forfeited	-	-	(57,143)	0.21
Expired	-	-	(100,000)	0.24
Outstanding, end of period	5,325,000	0.20	5,875,000	0.22
Number of options exercisable as at August 31	4,747,000	0.21	4,672,000	0.21

Options exercised during the period were as follows:

	Quarter ended Aug 31, 2009		Quarter ended Aug 31, 2008	
	# shares	\$	# shares	\$
Employees	-	-	200,000	48,000
Directors and Officers	-	-	-	-
Consultants	-	-	-	-
	-	-	200,000	48,000

In the quarter ended August 31, 2008, 100,000 options were exercised in consideration of loans receivable of \$24,000 and 100,000 options were exercised for cash of \$24,000.

THERMAL ENERGY INTERNATIONAL INC.

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August 31, 2009

(b) The following options are outstanding and/or exercisable at August 31, 2009:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price Per Share \$	Expiry Date
3,000,000	2,422,000	0.16	December 20, 2009
500,000	500,000	0.20	March 15, 2010
250,000	250,000	0.37	June 11, 2010
100,000	100,000	0.43	July 20, 2010
500,000	500,000	0.20	January 25, 2011
250,000	250,000	0.29	April 29, 2011
250,000	250,000	0.27	May 16, 2011
225,000	225,000	0.33	August 15, 2011
250,000	250,000	0.25	September 9, 2011
5,325,000	4,747,000		

c) Stock-based compensation

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Quarter ended	
	Aug 31, 2009	Aug 31, 2008
Expected dividend	-	0.00%
Expected volatility	-	79%
Risk-free interest rate	-	2.50%
Expected option life in years	-	2.4

The weighted average fair value of options granted in the quarter ended August 31, 2008 was \$0.20

Stock-based compensation expense related to the issuance of stock option is included in administration expense and is broken down as follows:

	Quarter ended	
	Aug 31, 2009	Aug 31, 2008
	\$	\$
Employees	-	18,620
Consultants	-	5,320
Directors and Officers	-	15,960
	-	39,900

THERMAL ENERGY INTERNATIONAL INC.

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15 INFORMATION INCLUDED IN CONSOLIDATED OPERATIONS

	Quarter ended Aug 31, 2009 \$	Aug 31, 2008 \$
Interest expense	4,850	16,252

Research and development expense and selling, marketing and business development expense are presented net of government assistance of \$8,946 (2008 - \$Nil).

16 PENSION PLAN

The Company contributes to a defined contribution pension plan for permanent employees of one of its subsidiaries. The Company matches employee contributions. The plan and its assets are held by independent managers. The pension charge represents contributions paid by the company and amounted to \$4,254 for the quarter ended August 31, 2009 (\$11,599 in the quarter ended August 31, 2008).

17 SEGMENTED INFORMATION

In the quarters ended August 31, 2009 and 2008 the Company operated in the energy conservation and environmental compliance (air) industry in North America and Europe and was also engaged in the start-up phase of similar operations in China. Within this business segment, the Corporation markets, sells, engineers, fabricates, constructs, installs and supports three retrofit technology lines – waste energy recovery solutions, air emission control solutions and condensate return system solutions. Assets are located in Canada and Europe.

The Company operates in three reportable segments. In the waste energy recovery and air emission control business, customers finance these projects entirely from their own resources or through the Company's Thermal-AUD™ system whereby the Company finances the project and leases back the facility to the customer. This gives rise to two reportable segments. The third segment is in the condensate return system solutions business through its subsidiary Gardner Energy Management Limited (GEM™). These three reportable segments are detailed below:

	Customer financed contracts and other		Thermal-AUD™ contract		GEM™	
	Quarter ended Aug 31 2009 \$	2008 \$	Quarter ended Aug 31 2009 \$	2008 \$	Quarter ended Aug 31 2009 \$	2008 \$
Revenue from external customers	4,057	501,824	-	-	1,300,880	556,494
Inter-segment revenues	28,667	28,667	-	-	83,447	2,400
Segment loss (profit)	636,429	650,368	(33,427)	(42,626)	(55,606)	8,344
Total assets	4,789,505	7,791,800	2,065,291	2,182,011	6,741,575	6,874,013
Reconciliation of loss to financial statements			Quarter ended Aug 31, 2009 \$		Quarter ended August 31, 2008 \$	
Total loss for reported segments			570,530		616,086	
Net loss			570,530		616,086	

18 CAPITAL MANAGEMENT

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity, excluding accumulated other comprehensive loss. The

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Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Management reviews the capital structure on a regular basis to ensure that objectives are met.

The Company's share capital is not subject to external restrictions; however the Company's bank loans include certain loan covenant and certain financial ratios. The Company was not in compliance with these covenant and ratios at August 31, 2009.

19 FINANCIAL RISK OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

Market risk

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

Interest rate risk

The Company has contracted short-term bank loans bearing floating rates of interest. These financial instruments expose the Company to risk in the event market interest rates fluctuate. These loans aggregated \$536,818 at August 31, 2009. Under the terms of the first loan agreement in the amount of \$283,667, it is expected that this loan will be fully retired within fiscal 2010. Any significant fluctuation in the interest rate during this period which would adversely affect the company is considered minimal. Any fluctuation in the interest rate on the second loan held by a subsidiary in the amount of \$215,540 is considered manageable.

Foreign exchange risk

The Company is exposed to foreign exchange risk as follows:

	August 31, 2009			May 31, 2009		
	US\$	£	Euros	US\$	£	Euros
Cash and cash equivalents	57,822	50,657	13,090	26,093	34,039	17,160
Accounts receivable	370,849	413,279	148,875	279,688	246,698	174,631
Inventories	-	264,158	12,703	-	300,254	11,337
Bank loans	-	77,157	70,791	-	69,967	86,563
Accounts payable	136,558	49,306	15,003	196,935	93,373	3,720
Accrued liabilities	-	166,804	21,047	-	144,964	19,042

The Company does not enter into arrangements to hedge its foreign exchange risk.

The Company operates internationally with a subsidiary in the United Kingdom, a joint venture in China and operations in the United States. The Company incurs expenses and earns revenues in U.S. dollars, Euros and Chinese renminbi. The majority of the transactions are in U.S. dollars, GBP and Euros.

Credit risk

The financial instruments that potentially expose the Company to credit risk are accounts receivable and money market funds.

The continuity of the allowance for doubtful accounts is as follows:

	August 31, 2009	May 31, 2009
	\$	\$
Opening balance	60,000	30,000
Increase during the period	-	30,000
Closing balance	60,000	60,000

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Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources such as bank loans for a sufficient authorized amount. The Company continues to actively seek external financing to ensure it has the necessary funds to fulfill its obligations.

Fair value of financial instruments

The fair value of accounts receivable, accounts payables, accrued liabilities and bank loans approximate the carrying amounts given that they will mature shortly.

The fair value of money market fund is equivalent to the market value determined using the last bid price.

20 COMPARATIVE AMOUNTS

Certain fiscal 2009 amounts have been reclassified to conform with the current year's presentation.

21 COMMITMENTS

The Company is committed under the terms of operating leases for premises and office equipment contracts with various expiry dates in the following amounts:

	\$
2010	148,800
2011	86,000
2012	79,600
2013	70,300
2014	6,100
Total	390,800

Additionally, on July 1, 2008 the Company acquired all of the issued and outstanding shares of Gardner Energy Management Limited of Bristol, England, a company engaged in the condensate return solutions business, for a total cash consideration of \$5,411,245, including acquisition costs. An additional payment of up to £1,300,000 may be made in cash and shares over a three-year period based on Gardner Energy Management Limited meeting certain performance targets. At August 31, 2009 a provision of \$54,436 (2008 - \$nil) was made in the accounts towards this additional payment, which was recorded as goodwill and at August 31, 2009 brought the acquisition cost to \$5,821,450.

22 CONTINGENCY

On October 20, 2005 the Company announced that the voluntary mediation between the Company and its past President had ended without resolution. On October 25, 2005 the Company had been served with a statement of claim for \$2.3 million from its past President. On December 2, 2005 the Company filed its statement of defence and filed a counterclaim seeking damages from the past President in the amount of \$5.4 million. The Company is confident in the merits of its own case and that the claim by the past President is frivolous and without merit and probability of loss is very low. Accordingly, no provision for any potential loss has been recorded in connection with this claim.