

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

**CONSOLIDATED BALANCE SHEETS**

As at	(Unaudited) Nov 30 2006 \$	May 31 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	24,055	59,119
Accounts receivable (note 6)	41,367	626,495
Contracts in progress	-	89,000
Prepays and other assets	30,064	41,777
	<b>95,486</b>	816,391
Loan receivable (note 8)	37,000	55,500
Property, plant and equipment (note 9)	79,692	59,539
	<b>212,178</b>	931,430
<b>LIABILITIES, CAPITAL STOCK, CONTRIBUTED SURPLUS AND DEFICIT</b>		
<b>Current liabilities</b>		
Accounts payable	767,783	947,063
Accrued liabilities	172,176	166,728
Deferred revenue	44,000	99,000
Due to past President (note 7)	17,937	17,937
	<b>1,001,896</b>	1,230,728
<b>Capital stock, contributed surplus and deficit</b>		
Capital stock (note 10)	15,120,770	14,462,279
Contributed surplus (note 10)	1,561,482	1,509,232
Deficit	(17,471,970)	(16,270,809)
	<b>(789,718)</b>	(299,298)
	<b>212,178</b>	931,430

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

On behalf of the Board

Tim Angus  
 President and C.E.O.

Oliver Toffoli  
 Chief Financial Officer

**THERMAL ENERGY INTERNATIONAL INC.**

**CONSOLIDATED OPERATIONS AND DEFICIT**  
(Unaudited)

	Three months ended November 30		Six months ended November 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>REVENUE</b>				
Sales	127,987	807,364	230,646	1,189,544
Cost of sales	166,341	1,126,496	316,463	1,455,851
<b>Gross profit (loss)</b>	<b>(38,354)</b>	<b>(319,132)</b>	<b>(85,817)</b>	<b>(266,307)</b>
<b>Expenses</b>				
Administration	316,177	146,880	438,437	428,419
Selling, marketing and business development	259,696	193,198	502,129	507,054
Legal fees	(10,603)	39,950	2,067	57,044
Audit fees	15,000	20,147	30,000	31,397
Insurance	19,827	21,716	38,655	42,353
Amortization of property, plant and equipment	6,335	4,440	12,748	7,431
Patent and trademark maintenance	3,203	581	8,135	6,936
Research and development	22,705	22,658	47,364	32,511
Interest and bank charges	1,728	3,969	2,929	4,708
Foreign exchange loss (gain)	792	9,121	2,383	4,566
	<b>634,860</b>	<b>462,660</b>	<b>1,084,847</b>	<b>1,122,419</b>
	<b>(673,214)</b>	<b>(781,792)</b>	<b>(1,170,664)</b>	<b>(1,388,726)</b>
Other Revenue (note 13)	5,240	32,380	5,240	253,666
Interest revenue	141	4,527	264	9,564
Other Costs (note 14)	(21,317)	(263,784)	(36,001)	(263,784)
<b>Net loss</b>	<b>(689,150)</b>	<b>(1,008,669)</b>	<b>(1,201,161)</b>	<b>(1,389,280)</b>
Deficit, beginning of period	(16,782,820)	(14,434,687)	(16,270,809)	(14,054,076)
<b>Deficit, end of period</b>	<b>(17,471,970)</b>	<b>(15,443,356)</b>	<b>(17,471,970)</b>	<b>(15,443,356)</b>
Net loss per share - basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)
Weighted average number of common shares	76,515,443	66,106,122	75,589,120	65,260,203

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**THERMAL ENERGY INTERNATIONAL INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three months ended November 30		Six months ended November 30	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(689,150)	(1,008,669)	(1,201,161)	(1,389,280)
Add items not involving cash:				
Non-monetary compensation charge	167,691	61,213	176,241	349,402
Amortization of property, plant and equipment	6,335	4,440	12,748	7,431
Past President loan to acquire shares expensed	151,500	-	151,500	-
Changes in non-cash operating working capital				
Accounts receivable	167,040	164,174	585,128	(132,545)
Contracts in progress	-	(10,000)	89,000	(10,000)
Prepays and other assets	36,244	(35,305)	11,713	(27,694)
Accounts payable	(116,707)	480,193	(179,280)	628,353
Accrued liabilities	(71,772)	(69,115)	5,448	(156,039)
Deferred revenue	(72,000)	(283,000)	(55,000)	88,000
Changes in due to the past President (note 7)	-	-	-	(246,487)
Net cash used in operating activities	(420,819)	(696,069)	(403,663)	(888,859)
<b>INVESTING ACTIVITIES</b>				
Reduction in short term investments	-	299,064	-	294,064
Additions to property, plant and equipment	-	(28,526)	(32,901)	(32,208)
Net cash used in investing activities	-	270,538	(32,901)	261,856
<b>FINANCING ACTIVITIES</b>				
Common shares issued (note 10)	383,000	199,834	383,000	548,667
(Increase) decrease in loan receivable	-	(36,500)	18,500	(36,500)
Net cash provided by financing activities	383,000	163,334	401,500	512,167
Decrease in cash for the period	(37,819)	(262,197)	(35,064)	(114,836)
Cash beginning of period	61,874	321,579	59,119	174,218
Cash end of period	24,055	59,382	24,055	59,382
Interest paid	922	554	1,566	975

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