



An Innovative Technology Company Providing
Custom Energy and Emission Reduction Solutions

▶ Third Quarter Report – FY 2009

Period ending February 28, 2009



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

CONSOLIDATED BALANCE SHEETS

As at	(Unaudited) Feb 28 2009 \$	May 31 2008 \$
ASSETS		
Current assets		
Cash	137,959	84,717
Short term investments (note 5)	4,137,530	552,773
Accounts receivable (note 6)	1,118,648	627,571
Contracts in progress	12,300	156,000
Inventories	513,918	-
Net investment in lease (note 8)	261,015	227,034
Prepays and other assets	109,268	31,934
	6,290,638	1,680,029
Property, plant and equipment (note 7)	109,026	65,066
Net investment in lease (note 8)	1,758,664	1,948,906
Goodwill (note 4)	5,049,610	-
	13,207,938	3,694,001
LIABILITIES, CAPITAL STOCK, CONTRIBUTED SURPLUS AND DEFICIT		
Current liabilities		
Bank loan (note 9)	730,539	908,667
Accounts payable	610,436	2,001,801
Accrued liabilities	681,522	459,777
Deferred revenue	70,000	384,908
Due to past President (note 10)	17,937	17,937
	2,110,434	3,773,090
Non-controlling interest (note 4)	(4,911)	-
Capital stock, contributed surplus and deficit		
Capital stock (note 11)	32,606,553	19,479,079
Contributed surplus (note 11)	2,284,713	1,528,414
Deficit	(23,718,734)	(21,086,582)
Accumulated other comprehensive loss	(70,117)	-
	11,102,415	(79,089)
	13,207,938	3,694,001

Contingency (note 12)

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, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three months ended		Nine months ended	
	Feb 28 2009 \$	Feb 29 2008 \$	Feb 28 2009 \$	Feb 29 2008 \$
REVENUE				
Sales	682,341	509,074	2,881,222	2,175,721
Cost of sales	386,668	492,655	1,234,583	1,915,974
Gross profit	295,673	16,419	1,646,639	259,747
Expenses				
Administration	581,964	309,258	1,754,095	844,425
Selling, marketing and business development	868,420	316,738	2,220,339	1,098,055
Legal fees	15,034	58,683	84,416	69,092
Audit fees	21,661	15,000	86,129	45,744
Insurance	33,415	57,853	101,818	129,592
Amortization of property, plant and equipment	11,857	7,948	38,747	23,559
Patent and trademark maintenance	630	6,521	18,170	12,816
Research and development	30,019	9,373	185,069	62,527
Interest and bank charges	17,844	1,100	83,606	5,250
Foreign exchange loss (gain)	(33,244)	9,174	(11,980)	49,117
	1,547,600	791,648	4,560,409	2,340,177
	(1,251,927)	(775,229)	(2,913,770)	(2,080,430)
Interest revenue	11,569	5,435	76,896	29,310
Finance revenue	63,865	-	213,382	-
Loss before income taxes	(1,176,493)	(769,794)	(2,623,492)	(2,051,120)
Future income tax recovery (note 11)		(200,000)		(200,000)
Loss before non-controlling interest	(1,176,493)	(569,794)	(2,623,492)	(1,851,120)
Non-controlling interest	(5,242)	-	(8,660)	-
Net loss	(1,181,735)	(569,794)	(2,632,152)	(1,851,120)
Exchange translation adjustment of net investment in self-sustaining foreign operation	(1,813)	-	(70,117)	-
Net loss and Other comprehensive loss	(1,183,548)	(569,794)	(2,702,269)	(1,851,120)
Deficit, beginning of period	(22,605,303)	(19,995,400)	(21,086,582)	(18,714,074)
Deficit, end of period	(23,788,851)	(20,565,194)	(23,788,851)	(20,565,194)
Net loss per share - basic and diluted	(0.007)	(0.006)	(0.016)	(0.020)
Weighted average number of common shares	167,733,922	95,782,476	161,912,331	93,001,532

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

THERMAL ENERGY INTERNATIONAL INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Three months ended		Nine months ended	
	Feb 28 2009	Feb 29 2008	Feb 28 2009	Feb 29 2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(1,181,735)	(569,794)	(2,632,152)	(1,851,120)
Add items not involving cash:				
Stock-based compensation	11,591	105,211	189,099	391,045
Amortization of property, plant and equipment	11,857	7,948	38,747	23,559
Non-monetary compensation charge	-	61,249	17,500	152,170
Future income taxes (note 11)	-	(200,000)	-	(200,000)
Changes in non-cash operating working capital				
Accounts receivable	314,153	9,808	403,580	(166,929)
Contracts in progress	(12,300)	38,300	143,700	(183,000)
Inventories	31,348		31,348	
Prepays and other assets	(19,707)	(8,861)	(25,492)	14,615
Accounts payable	(245,880)	80,177	(1,752,281)	531,287
Accrued liabilities	203,989	(583,511)	(14,353)	5,287
Deferred revenue	-	(44,611)	(314,908)	(436,611)
Net cash used in operating activities	(886,684)	(1,104,084)	(3,915,212)	(1,719,697)
INVESTING ACTIVITIES				
(Acquisition) reduction in short term investments	1,240,668	146,652	(3,582,451)	698,291
Additions to construction in progress	-	(389,441)	-	(723,417)
Acquisition of subsidiary	(245,397)	-	(5,656,791)	-
Additions to property, plant and equipment	-	(2,519)	(37,535)	(28,767)
Net cash (used) provided in investing activities	995,547	(245,308)	(9,276,777)	(53,893)
FINANCING ACTIVITIES				
Increase (decrease) in bank loan	(189,514)	300,000	(595,020)	300,000
Net investment in lease (note 8)	48,016	-	156,261	-
Common shares issued (note 11)	-	974,000	14,900,400	1,150,500
Financing fees	-	-	(1,223,226)	-
Net cash (used) provided by financing activities	(141,498)	1,274,000	13,238,415	1,450,500
Effect of exchange rate fluctuations on cash and cash equivalent	4,828	-	6,816	-
Increase (decrease) in cash for the period	(28,083)	(75,392)	53,242	(323,090)
Cash beginning of period	166,042	301,498	84,717	549,196
Cash end of period	137,959	226,106	137,959	226,106
Interest paid	8,943	696	67,736	3,783
Tax impact of renounced expenditures	-	200,000	-	200,000
Shareholder loans to acquire shares	-	380,300	212,600	380,300
Fair value of options exercised transferred to capital stock	-	524,301	69,000	657,359
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

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 and heat recovery systems.

2 GOING CONCERN

The Company incurred losses from operations in the quarters and nine months ended February 28, 2009 and 2008.

The Company's ability to meet its obligations as they fall due is dependent upon any combination of the following: the continued financial support of its shareholders, its ability to arrange long-term financing, its ability to generate sufficient cash from operations and its ability to operate with a gross margin.

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, 2008. 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, 2008 except for the changes in accounting policies, and new accounting policies adopted and described below.

Inventories

Inventories are valued at the lower of cost and net realizable value after making due allowance for obsolete and slow-moving items. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads where applicable.

Amortization

Property, plant and equipment is recorded at cost. Amortization is computed using the following annual rates and methods:

Plant and equipment	25% declining balance
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THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 BUSINESS ACQUISITION

On July 1, 2008 the Company acquired the net assets 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 sterling may be made in cash and shares over a three-year period based on Gardner Energy Management Limited meeting certain performance targets. In the quarter ended February 28, 2009 a provision of \$245,397 was made in the accounts towards this additional payment, was recorded as goodwill and brought the year to date February 28, 2008 acquisition cost to \$5,656,642.

This transaction was accounted for using the purchase method and the results of operations are included in the financial statements from the acquisition date. The purchase price allocation is as follows:

	July 1, 2008	Quarter ended Feb 28, 2009	Year to Date Feb 28, 2009
	\$	\$	\$
Net assets acquired			
Current assets	1,649,363	-	1,649,363
Property, plant and equipment	50,202	-	50,202
Goodwill	4,804,213	245,397	5,049,610
	6,503,778	245,397	6,749,175
Current liabilities assumed	1,107,210	-	1,107,210
Non-controlling interest	(14,677)	-	(14,677)
Net assets acquired	5,411,245	245,397	5,656,642

5 SHORT-TERM INVESTMENTS

Short-term investments consist of excess cash invested in money market funds.

6 ACCOUNTS RECEIVABLE

	Feb 28, 2009	May 31, 2008
	\$	\$
Trade	1,003,402	438,592
Commodity taxes	13,134	145,928
Directors and Officers	50,900	34,500
Other	51,212	8,551
	1,118,648	627,571

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT

	Feb 28, 2009		May 31, 2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Plant and equipment	71,108	56,409		
Furniture and fixtures	108,940	94,025	81,671	66,330
Laboratory equipment	52,857	25,551	52,857	21,073
Computers	259,247	218,429	157,861	144,787
Software	33,214	21,926	16,971	14,525
Leasehold improvements	21,401	21,401	21,401	18,980
	546,767	437,741	330,761	265,695
Accumulated amortization	(437,741)		(265,695)	
Net book value	109,026		65,066	

8 NET INVESTMENT IN LEASE

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

	Feb 28, 2009	May 31, 2008
	\$	\$
Total minimum lease payments receivable	3,236,104	3,605,747
Less: unearned income	(1,216,425)	(1,429,807)
	2,019,679	2,175,940
Less: current portion	(261,015)	(227,034)
	1,758,664	1,948,906

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

	\$
2009	246,329
2010	615,972
2011	615,972
2012	615,972
2013	615,972
2014	525,887
	3,236,104

9 BANK LOAN

At February 28, 2009, the Company had two bank loans aggregating \$730,539. The first loan has an authorized amount of \$2,500,000. At February 28, 2009 this loan, secured by term deposits, accounts receivable and a general security agreement, with interest rate at prime plus 0.25%, amounted to \$533,667 (May 31, 2008 - \$908,667). Prime rate at February 28, 2009 was 3.00%.

In accordance with the loan agreement, the Company is subject to certain loan covenants and must meet certain financial ratios. At February 28, 2009 not all financial covenants were met.

At February 28, 2009, the second loan amounted to \$196,872 (May 31, 2008 - \$Nil). It is secured by certain trade debts of a subsidiary and carries a service charge of 0.805% of gross debts subject to a minimum annual charge of approximately \$30,000 and an interest rate of 1.95% over the United Kingdom bank base rate. At February 28, 2009 the United Kingdom bank rate was 1.0%.

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 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.

	February 28, 2009	February 29, 2008
Balances owing to/from directors		
Accounts receivable	\$42,900	-
Loans receivable	\$354,647	\$219,647
Accrued liabilities	\$18,750	\$11,250
Directors share options and warrants outstanding at February 28, 2009		
Issued	3,500,000	3,500,000
Exercisable	2,711,000	2,461,000
Warrants outstanding	37,500	37,500
Balances owing from officers		
Accounts receivable	\$8,000	-
Loans receivable	\$254,800	230,300
Officers share options and warrants outstanding at February 28, 2009		
Issued	-	500,000
Exercisable	-	500,000
Warrants outstanding		100,000

Transactions with directors and officers were as follows:

	Quarter Ended February 28		Year to Date February 28	
	2009	2008	2009	2008
	\$	\$	\$	\$
Directors fees for services	15,750	15,750	97,250	51,750
Officers fees for services	33,000	51,000	99,000	153,000
	#	#	#	#
Shares issued to Directors	-	1,579,167	800,000	1,866,667
Shares issued to Officers	-	1,493,000	-	1,493,000

Amounts due to the past President have no fixed repayment terms and are non-interest bearing.

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Quarter Ended Feb 28, 2009	
	# 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 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 quarter	167,733,922	35,322,330
Issued in settlement of liabilities	-	-
Issued for cash, net of flow through share tax benefit (i)	-	-
Issued for cash	-	-
Issued as a result of the exercise of options for loans (ii)	-	-
	167,733,922	35,322,330
Less: loans outstanding to assist a shareholder in purchasing capital stock (ii)		(856,353)
Share issue costs		(1,859,424)
Balance, end of quarter	167,733,922	32,606,553

	Year to Date Feb 28, 2009		Year Ended May 31, 2008	
	# Shares	\$	# Shares	\$
Class A Common shares issued				
Balance, beginning of period	99,052,104	20,122,830	90,918,419	17,573,323
Issued in settlement of liabilities	50,000	17,500	350,685	104,848
Issued for cash, net of flow through share tax benefit (i)	-	-	1,750,000	525,000
Issued for cash	68,281,818	15,093,000	2,440,000	1,342,359
Issued as a result of the exercise of options for loans (ii)	350,000	89,000	3,593,000	577,300
	167,733,922	35,322,330	99,052,104	20,122,830
Less: loans outstanding to assist shareholders in purchasing capital stock (ii)		(856,353)		(643,751)
Share issue costs		(1,859,424)		-
Balance, end of period	167,733,922	32,606,553	99,052,104	19,479,079

(i) In fiscal 2008, the Company renounced expenditures of \$615,000 from 4,190,000 flow-through common shares issued during the respective fiscal years. The resulting future income tax recovery of \$200,000 was charged against capital stock as share expenses.

	Quarter ended February 28		Year to date February 28	
	2009	2008	2009	2008
(ii)				
Loans to exercise options				
Directors and officers	-	380,300	89,000	380,300

Loans were extended to directors and officers to acquire shares of the Company through the exercise of options. These loans are for a two-year period with an interest rate of 5%. 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 within the two year period at which time the shares with an equivalent value to the repayment will be released to the borrower by the Company.

(iii) Repayments made on these loans during the quarter and nine months ended February 28, 2009 and 2008 were \$nil.

	Loans to acquire shares	
	Feb 28, 2009	May 31, 2008
	\$	\$
President	124,647	124,647
Directors and Officers	484,800	361,800

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other shareholders	246,906	157,304
	856,353	643,751

Stock-based compensation on these loans was estimated using the Black-Scholes option pricing model with the following assumptions:

	Loans to exercise options		Loans to acquire shares	
	Quarter ended Feb 28		Quarter ended Feb 28	
	2009	2008	2009	2008
Weighted average assumptions:				
Expected dividend	-	0%	-	-
Expected volatility	-	80%	-	-
Risk-free interest rate	-	4.50%	-	-
Expected option life in years	-	2.0	-	-

	Loans to exercise options		Loans to acquire shares	
	Year to date Feb 28		Year to date Feb 28	
	2009	2008	2009	2008
Weighted average assumptions:				
Expected dividend	0%	0%	0%	0%
Expected volatility	81%	80%	82%	93%
Risk-free interest rate	2.50%	4.50%	2.50%	4.50%
Expected option life in years	2.0	2.4	2.0	2.4

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 539,000 options to directors to purchase common shares at \$0.16 per share, based on Company performance and which will expire on December 20, 2009.

Warrants

(a) In June 2008 the Company completed a private placement. Part of the share issue cost was the issue of non-transferable warrants to the lead broker. Activity in share purchase warrants was as follows:

	Year to date Feb 28, 2009		Year to date Feb 29, 2008	
	# Warrants	Weighted Average Exercise Price	# Warrants	Weighted Average Exercise Price
		\$		\$
Balance, beginning of period	8,788,501	0.40	14,480,390	0.35
Issued	5,236,363	0.22	1,517,500	0.50
Exercised	-	-	(312,828)	0.33
Expired	(1,854,334)	0.30	(3,153,666)	0.35
Balance, end of period	12,170,530	0.34	12,531,396	0.37

(b) The following table summarizes the status of warrants outstanding at February 28, 2009:

Warrants Outstanding	Exercise Price \$	Expiry Date
4,166,667	0.40	To May 23, 2009
1,250,000	0.40	To May 29, 2009
1,517,500	0.50	To December 7, 2009
5,236,363	0.22	To June 20, 2010
12,170,530		

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contributed surplus

	Quarter Ended Feb 28, 2009 \$	Year to Date Feb 28, 2009 \$	Year Ended May 31, 2008 \$
Balance, beginning of period	2,273,122	1,528,414	1,881,487
Stock-based compensation	11,591	189,099	495,786
Share issue costs	-	636,200	-
	2,284,713	2,353,713	2,377,273
Fair-value of options exercised and transferred to capital stock	-	69,000	848,859
Balance, end of period	2,284,713	2,284,713	1,528,414

12 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:

	\$
2009	62,900
2010	210,500
2011	85,500
2012	79,000
2013	69,600
Total	507,500

13 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 quarters and nine months ended February 28, 2009 and 2008 had vesting periods ranging from four to twelve months.

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) The following options are outstanding and/or exercisable at February 28, 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
350,000	350,000	0.37	June 11, 2010
300,000	300,000	0.35	June 15, 2010
100,000	100,000	0.43	July 20, 2010
500,000	500,000	0.20	January 25, 2011
250,000	250,000	0.285	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
5,725,000	5,147,000		

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 February 28		Year to date February 28	
	2009	2008	2009	2008
Expected dividend	-	0.00%	0.00%	0.00%
Expected volatility	-	80%	76%	93%
Risk-free interest rate	-	4.50%	2.50%	4.50%
Expected option life in years	-	2.4	2.4	2.4

Stock-based compensation expense included the following amounts:

	Quarter ended February 28		Year to date February 28	
	2009	2008	2009	2008
Employees	11,591	93,740	127,679	338,443
Consultants	-	11,471	5,320	52,602
Shareholders	-	-	56,100	-

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Quarter ended Feb 28		Year to date Feb 28	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest expense	18,200	696	76,953	3,783

15 SEGMENTED INFORMATION

In the quarter and nine months ended February 28, 2009 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 operated in three reportable segments in the quarter and nine months ended February 28, 2009 (one in 2008). 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 acquisition of Gardner Energy Management Limited (GEM™) on July 1, 2008. These three reportable segments are detailed below:

	Quarter Ended February 28, 2009		
	Customer financed contracts and other	Thermal-AUD™ contract	GEM™
	\$	\$	\$
Revenue from external customers	44,531	-	637,810
Inter-segment revenues	28,667	-	7,086
Interest and finance revenue	11,562	63,865	7
Interest and bank charges	1,794	7,006	9,044
Stock-based compensation charge	11,591	-	-
Amortization of property, plant and equipment	6,876	-	4,981
Segment loss (profit)	1,107,281	(27,424)	101,878
Expenditures for property, plant and equipment	-	-	405

	Year to date February 28, 2009		
	Customer financed contracts and other	Thermal-AUD™ contract	GEM™
	\$	\$	\$
Revenue from external customers	579,553	-	2,301,669
Inter-segment revenues	98,401	-	22,031
Interest and finance revenue	76,871	213,382	25
Interest and bank charges	5,502	27,336	50,768
Stock-based compensation charge	189,099	-	-
Amortization of property, plant and equipment	23,007	-	15,740

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment loss (profit)	2,746,197	(84,377)	(29,668)
Segment assets	12,047,098	2,074,024	1,282,964
Expenditures for property, plant and equipment	25,318	-	12,217

Reconciliation to financial statements	Quarter ended Feb 28, 2009 \$	Year to date Feb 28, 2009 \$
Revenues		
Total revenues for reporting segments	718,094	3,001,654
Elimination of inter-segment revenues	(35,753)	(120,432)
Total company revenues	682,341	2,881,222
Loss		
Total loss for reported segments	1,181,735	2,632,152
Exchange translation adjustment of net Investment in self-sustaining foreign operation	1,813	70,117
Net loss and Other comprehensive loss	1,183,548	2,702,269
Assets		
Total assets for reported segments		14,754,438
Elimination of inter-segment receivables		(1,546,500)
Total assets		13,207,938

Other significant items	Quarter ended February 28, 2009		Company totals \$
	Segment totals \$	Adjustments \$	
Interest revenue	11,569	-	11,569
Interest and bank charges	17,844	-	17,844
Finance revenue	63,865	-	63,865
Stock-based compensation charge	11,591	-	11,591
Amortization of property, plant and equipment	11,857	-	11,857
Expenditures for property, plant and equipment	-	-	-
Other significant items	Year to date February 28, 2009		Company totals \$
	Segment totals \$	Adjustments \$	
Interest revenue	76,896	-	76,896
Interest and bank charges	83,606	-	83,606
Finance revenue	213,382	-	213,382
Stock-based compensation charge	189,099	-	189,099
Amortization of property, plant and equipment	38,747	-	38,747
Expenditures for property, plant and equipment	37,535	-	37,535
Goodwill	5,049,610	-	5,049,610

Geographic Segments	Quarter ended Feb 28, 2009	Year to date Feb 28, 2009	As at Feb 28, 2009
	Revenues \$	Revenues \$	Property, plant and equipment \$

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Canada	46,919	78,548	67,377
United States	6,710	544,606	-
Europe	628,712	2,258,068	41,649
Total	682,341	2,881,222	109,026

Revenues from outside customers are attributed to the geographic segments based on the location of the project.

16 FINANCIAL RISKS

Interest rate risk

The Company has contracted a short-term bank loans bearing floating rates of interest. These financial instruments expose the Company to risk in the event market interest rates fluctuate.

Foreign exchange risk

The Company is exposed to foreign exchange risk as follows:

	February 28, 2009			May 31, 2008
	US\$	£	Euros	US\$
Cash	11,305	38,656	957	7,115
Short-term investments	200	-	-	200
Accounts receivable	351,274	244,725	111,806	394,798
Inventories	-	278,088	6,721	-
Bank loans	-	77,824	34,720	-
Accounts payable	180,701	46,004	6,880	824,252
Accrued liabilities	-	129,672	25,998	-

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

Credit risk

The financial instruments that potentially expose the Company to credit risk are accounts receivable and loans outstanding to assist directors, officers and shareholders in purchasing capital stock.

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

Given that they will mature shortly, the fair value of short-term financial assets and liabilities are equivalent to their carrying amount.

17 COMPARATIVE AMOUNTS

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

18 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 had filed its statement of defence and had filed a counterclaim seeking damages from the past President in the amount of \$5.4 million. As the ultimate resolution of the lawsuits cannot be reasonably estimated, no provision has been recorded in the accounts.

THERMAL ENERGY INTERNATIONAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Goodwill

Section 3064 establishes 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 will implement these new standards in its first quarter of fiscal year 2010 and is currently evaluating the impact of their adoption on its consolidated financial statements.