

THERMAL ENERGY INTERNATIONAL INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

AND

MANAGEMENT INFORMATION CIRCULAR

October 15, 2009

THERMAL ENERGY INTERNATIONAL INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual meeting (the "Meeting") of the holders of common shares ("Common Shares") of Thermal Energy International Inc. (the "Corporation") will be held on Thursday, November 19, 2009 at 9:00 a.m. (Ottawa, Ontario time) at the Brookstreet Hotel in the Shakers Room, 525 Legget Drive, Kanata, Ontario, K2K 2W2 for the following purposes:

1. to receive the audited financial statements of the Corporation for the year ended May 31, 2009 and the report of the auditors of the Corporation thereon;
2. to elect the directors of the Corporation;
3. to appoint Raymond Chabot Grant Thornton, Chartered Accountants, as the auditors of the Corporation and to authorize the directors of the Corporation to fix the auditors' remuneration; and
4. to transact such other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

A copy of the Management Information Circular, a form of Proxy and a copy of the Corporation's Annual Report for the financial year ended May 31, 2009 containing the financial statements of the Corporation for such financial year together with the report of the Corporation's auditors thereon accompany this Notice. The Annual Report is also available on SEDAR at www.sedar.com and the Corporation's web-site at www.thermalenergy.com.

Proxies used at the Meeting or at any adjournment thereof must be deposited with the Corporation's transfer agent, Computershare Investor Services Inc. ("Computershare") at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department not later than 5:00 p.m. (Ottawa, Ontario time) on Tuesday, November 17, 2009 or at least 48 hours prior to any adjournment of the Meeting.

The board of directors of the Corporation have fixed October 15, 2009 as the record date. Holders of Common Shares at the close of business on October 15, 2009 are entitled to receive notice of and vote at the Meeting or any adjournment thereof.

Dated at the City of Ottawa, in the Province of Ontario, this 15th day of October, 2009.

BY ORDER OF THE BOARD OF DIRECTORS



William Crossland
President and Chief Executive Officer

THERMAL ENERGY INTERNATIONAL INC.
MANAGEMENT INFORMATION CIRCULAR

This Management Information Circular (this “Circular”) and the accompanying form of proxy (the “Proxy”) are being sent to you in advance of the annual meeting of shareholders (the “Meeting”) of Thermal Energy International Inc. (the “Corporation”) to be held on Thursday, November 19, 2009 (Ottawa, Ontario time) at the Brookstreet Hotel in the Shakers Room, 525 Legget Drive, Kanata, Ontario, K2K 2W2.

This Circular includes information about the Corporation that the Corporation is required to disclose to shareholders and also describes and explains the business to be transacted and the matters to be voted on at the Meeting. Except as otherwise stated, the information contained in this Circular is given as of October 15, 2009 (the “Record Date”). All dollar amounts in this Circular are in Canadian dollars unless otherwise stated.

THE PROXY

The Proxy is being solicited by management of the Corporation for use at the Meeting and at any adjournment of the Meeting. Although it is expected that solicitation will be primarily by mail, directors, officers, employees and agents of the Corporation may solicit proxies by telephone, in writing or in person. The cost of solicitation will be borne by the Corporation.

The persons named in the Proxy are directors and/or officers of the Corporation. **You have the right to appoint a person or company (who need not be a shareholder of the Corporation) to represent you at the Meeting other than the persons designated in the Proxy.** You may do so either by inserting the person’s name in the blank space provided in the Proxy, or by completing another proxy. A shareholder wishing to be represented by proxy at the Meeting or at any adjournment of the Meeting must, in all cases, deliver the completed Proxy to the Corporation’s transfer agent and registrar, Computershare Investor Services Inc. (“Computershare”) at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department, no later than 5:00 p.m. (Ottawa, Ontario time) on Tuesday, November 17, 2009 or at least 48 hours prior to any adjournment of the Meeting.

REVOKING YOUR PROXY

In addition to revoking your proxy in any other manner permitted by law, you may revoke your proxy under sub-section 110(4) of the *Business Corporations Act* (Ontario) (the “OBCA”) by stating clearly in writing that you want to revoke your proxy and by delivering the written statement to the Chief Executive Officer of the Corporation or to Computershare in the manner described above, in either case at any time up to 5:00 p.m. (Ottawa, Ontario time) on Wednesday, November 18, 2009 or the last business day preceding any adjournment of the Meeting, at which your proxy is to be used, or with the Chairperson of the Meeting on the day of the Meeting or any adjournment of the Meeting and, in either case, your original proxy will be revoked. If your written statement revoking your proxy is delivered to the Chairperson of the Meeting on the day of the Meeting or any adjournment of the Meeting, the revocation of your proxy will not be effective with respect to any matter on which a vote has already been cast pursuant to your original proxy.

VOTING YOUR PROXY

The directors and/or officers of the Corporation named in the Proxy or any other person properly appointed by you as a proxy will vote or withhold from voting any common shares in the capital of the Corporation (“Common Shares”) held by you and in respect of which they have been appointed proxy holders in accordance with your directions on the Proxy. In the absence of any direction from you, your Common Shares will be voted **FOR** the matters set out in the accompanying Notice of Meeting.

The accompanying Proxy confers discretionary authority upon the persons named therein with respect to any amendment to the matters referred to in the accompanying Notice of Meeting or any other business which may properly come before the Meeting. The management of the Corporation knows of no amendment to the matters referred to in the accompanying Notice of Meeting or of any other business that will be presented at the Meeting. If any amendment or other business should properly come before the Meeting, the persons designated in the Proxy will vote upon any amendment or such other business in accordance with their discretion.

ADVICE TO NON-REGISTERED HOLDERS OF COMMON SHARES

The Notice of Meeting, the Proxy and this Circular are being sent to both registered and non-registered owners of Common Shares.

Only registered holders of Common Shares, or the persons that they appoint as proxies, are permitted to attend and vote at the Meeting. In many cases, however, Common Shares are beneficially owned by a shareholder (a "Non-Registered Holder") and are registered either:

1. in the name of an intermediary (an "Intermediary") that the Non-Registered Holder deals with in respect of the Common Shares, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
2. in the name of The Canadian Depository for Securities Limited ("CDS") of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer of the Canadian Securities Administrators, the Corporation has distributed copies of the Notice of Meeting, the Proxy and this Circular (collectively, the "Meeting Materials") to CDS and all of the Intermediaries for delivery to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will either:

- (a) be given a Proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted – this Proxy does not need to be signed by the Non-Registered Holder and, in this case, the Non-Registered Holder who wishes to submit a Proxy should properly complete the Proxy and deposit it with Computershare as described above; or
- (b) more typically, be given a voting instruction form which must be completed and signed by the Non-Registered Holder in accordance with the directions on the voting instruction form.

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares that they beneficially own. If a Non-Registered Holder who receives either a Proxy or a voting instruction form wishes to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the Proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on that form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.**

If you are a non-registered owner, and the issuer or its agent has sent these materials directly to you, your name and address and information about your holdings of Common Shares, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf.

SHARES OF THE CORPORATION

The Corporation is authorized to issue an unlimited number of Common Shares, and an unlimited number of preference shares issuable in series. At the Record Date, 167,783,922 Common Shares and no preference shares were issued and outstanding. The holders of the Common Shares are entitled to one (1) vote for each Common Share held. Only the holders of record of Common Shares at the close of business on the Record Date are entitled to receive notice of and vote at the Meeting. Pursuant to the OBCA, the Corporation is required to prepare no later than ten (10) days after the Record Date, an alphabetical list of shareholders entitled to vote as of the Record Date along with the number of Common Shares held by such shareholders. The list of shareholders of the Corporation as of the Record Date is available for inspection during normal business hours at the offices of the Corporation located at 36 Bentley Avenue, 1st Floor, Ottawa, Ontario, K2E 6T8.

The following table sets forth information regarding the beneficial ownership of the Common Shares as of the date hereof with respect to the only persons who, as of such date, are known to the directors or officers of the Corporation to be the beneficial owner of, directly or indirectly, or who exercises control or direction over more than 10% of the votes attached to the outstanding Common Shares.

<u>Name of Beneficial Owner</u>	<u>Number of Common Shares Held</u>	<u>Percentage of Voting Common Shares</u>
Anchorage Capital Master Offshore, Ltd.	22,727,273	13.5%

PRESENTATION OF FINANCIAL STATEMENTS

The audited financial statements of the Corporation for the year ended May 31, 2009 (the “Financial Statements”) and the auditor’s report on the Financial Statements will be presented to shareholders at the Meeting. The Financial Statements are included in the Corporation’s Annual Report which accompanies the Notice of Meeting and is available on SEDAR at www.sedar.com. In accordance with the provisions of the OBCA, the Financial Statements are merely presented at the Meeting and will not be voted on.

ELECTION OF DIRECTORS

The Board of Directors of the Corporation (the “Board”) currently consists of four (4) directors. The persons named in the Proxy intend to vote **FOR** the election of the four (4) nominees whose names are set forth below. Each director will hold office until the close of the next annual meeting of shareholders or until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Corporation.

The Nominees

The following table sets forth the name, province (or state) and country of residence of each person proposed to be nominated by management for election as a director, all other positions and offices of the Corporation now held by such nominee, such nominee’s principal occupation, period of service as a director of the Corporation and the number of Common Shares and options to purchase Common Shares that such nominee has advised the Corporation are beneficially owned, directly or indirectly, or over which control or discretion is exercised by such nominee as at the date of this Circular.

Name, Municipality of Residence and Position with the Corporation	Principal Occupation	Director Since	Number of Common Shares and Options to Purchase Common Shares Held
WILLIAM CROSSLAND Toronto, Ontario Canada President and Chief Executive Officer	President & Chief Executive Officer of the Corporation	May 29, 2007	1,262,500 Common Shares 250,000 Options
JOHN B. KELLY ⁽¹⁾⁽³⁾ Ottawa, Ontario Canada Chairman of the Board	Partner, Enable Business Advisors Inc.	April 19, 2005	262,500 Common Shares 250,000 Options
R. JAMES ANSELL ⁽¹⁾⁽³⁾⁽⁴⁾ Saddlebrooke, Arizona USA	Director, WindForce Holdings Inc.	September 12, 2005	270,000 Common Shares 250,000 Options
MICHAEL WILLIAMS ⁽¹⁾⁽²⁾ Waterloo, Ontario, Canada Interim Chief Financial Officer	Portfolio Manager, Independent Accountants' Investment Counsel Inc.	February 1, 2005	420,000 Common Shares 250,000 Options

Notes:

- (1) Denotes a member of the Corporation's Audit Committee.
- (2) Denotes the Chairman of the Corporation's Audit Committee.
- (3) Denotes a member of the Corporation's Ethics, Governance and Compliance Committee.
- (4) Denotes the Chairman of the Corporation's Ethics, Governance and Compliance Committee.

Management does not contemplate that any of the nominees listed above will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the Proxy shall have the right to vote for another nominee in their discretion unless the shareholder has specified in the Proxy that such shareholder's Common Shares are to be withheld from voting in the election of directors..

STATEMENT OF EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This compensation discussion and analysis describes and explains the Corporation's policies and practices with respect to the compensation of its named executive officers, being each of its Chief Executive Officer and Chief Financial Officer (together, the "Named Executive Officers"). No other executive officer of the Corporation earned total compensation in excess of \$150,000 during the year ended May 31, 2009.

Executive Compensation Principals

The Corporation does not employ any formal principals in determining executive compensation and implementing any compensation programs that may exist from time to time. When determining executive compensation, management and the Board rely on their concurrent and past experiences and collective knowledge of both public and private companies. With that background, the Board bases its ultimate determination on (i) informal discussion among Board members, (ii) negotiation with the executive in question and (iii) a view to what is in the

best interests of the Corporation and its various stakeholders. The Corporation does not employ any formal benchmarking procedures in determining executive compensation.

Elements of our Executive Compensation Program

Base Salaries

The base salary component is intended to provide a fixed level of pay that is established at the time when an officer or employee joins the Corporation. Historically, the Board has reviewed the compensation of the Chief Executive Officer and Chief Financial Officer on an annual basis in light of various performance parameters, such as profitability, share price and increase in sales and considered any requested recommendations from the Ethics, Governance and Compliance Committee (EGC Committee). The EGC Committee has recently been tasked with reviewing the compensation of the Chief Executive Officer and Chief Financial Officer on an annual basis and will submit any recommendations to the Board for their approval. Historically, the Chief Executive Officer and Chief Financial Officer have reviewed compensation levels of other executives on an annual basis to determine if adjustments are necessary. From this point forward, the Chief Executive Officer and Chief Financial Officer will discuss such compensation matters with the EGC Committee.

Short-Term Incentive Compensation – Management Incentive Plan

On March 4, 2008 the Board approved the establishment of a management incentive plan (the “Management Incentive Plan”) for the year ending May 31, 2009. The purpose of the Management Incentive Plan is to align the amount of any cash bonuses awarded to members of the Corporation’s executive management team with annual gross profits. Upon the achievement of a predetermined gross profit target, certain executives of the Corporation may be entitled to cash bonuses representing predetermined percentages of the Corporation’s gross profits. The bonus entitlements under the Management Incentive Plan vary from year to year and are different for each executive. Mr. Toffoli was the only Named Executive Officer to be awarded a bonus under the Management Incentive Plan in the year ended May 31, 2009. Mr. Toffoli received a bonus in the amount of \$4,218 which represented 3.04% of the total compensation he received from the Corporation during such period.

Long Term Incentive Compensation – Stock Options

Options to purchase Common Shares are awarded to directors, officers, employees and consultants, from time to time, at the discretion of the Board pursuant to the terms of the Corporation’s stock option plan. No other formal long term incentive compensation plan is in place with respect to executive officers of the Corporation.

Summary Compensation Table

(all dollar amounts rounded to nearest dollar)

The following table sets forth all compensation earned in respect of the individuals who were, at any time during the year ended May 31, 2009, Named Executive Officers of the Corporation.

Name and Principal Position	Year	Salary	Share-based awards	Option-based awards	Non-Equity Incentive Plan Compensation		Pension Value	Other Annual Compensation	Total Compensation
					Annual Incentive Plans	Long-Term Incentive Plans			
Tim K. Angus ⁽¹⁾ Former President and Chief Executive Officer	2009	\$174,000	Nil	Nil	Nil	Nil	Nil	\$12,000 ⁽³⁾	\$186,000
Oliver Toffoli ⁽²⁾ Former Chief Financial Officer	2009	\$132,000	Nil	Nil	\$4,218	Nil	Nil	\$6,600 ⁽⁴⁾	\$142,818

Notes:

- (1) Mr. Angus ceased to act as President and Chief Executive Officer of the Corporation on August 7, 2009.
- (2) Mr. Toffoli ceased to act as Chief Financial Officer of the Corporation on September 15, 2009.
- (3) Amount represents annual cash compensation for automobile usage and associated repair costs.
- (4) Amount represents annual cash compensation for automobile usage and associated repair costs.

Pursuant to the terms of an employment agreement between Mr. Angus and the Corporation dated December 24, 2004 (the "Angus Agreement"), Mr. Angus was initially entitled to monthly remuneration of \$8,000 for salary and \$800 for automobile allowance. Mr. Angus' monthly remuneration was increased to \$9,900 for salary and \$900 for automobile allowance in April, 2006 and subsequently increased to \$14,500 for salary and \$1,000 for automobile allowance in July, 2007.

Pursuant to the terms of a verbal agreement made between Mr. Toffoli and the Corporation in June, 2006, Mr. Toffoli was initially entitled to monthly remuneration of \$8,000 for salary and \$800 for automobile allowance. Mr. Toffoli's monthly remuneration was increased to \$8,600 for salary and \$400 for automobile allowance with approval of the Board in August, 2007 and subsequently increased to \$11,000 for salary and \$550 for automobile allowance in June, 2008. During the year ended May 31, 2009, Mr. Toffoli received a cash bonus in the amount of \$4,218 pursuant to the terms of the Management Incentive Plan.

Incentive Plan Awards

Outstanding Option Based Awards and Share Based Awards

The following table sets out all of the options that had been granted and are outstanding to any of the Named Executive Officers as at May 31, 2009.

Name	Options Based awards				Share Based awards	
	Number of securities underlying unexercised options (#)	Option Exercise price (\$)	Option expiration date	Value of unexercised in the money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
Tim K. Angus	2,000,000 ⁽¹⁾	0.16	Dec. 20, 2009	\$0	NIL	NIL
Oliver Toffoli	NIL	NIL	NIL	NIL	NIL	NIL

Notes:

- (1) Of the total options held by M. Angus, options to purchase 1,460,898 Common Shares have vested, and options to purchase the remaining 539,102 Common Shares will vest at a rate of 100,000 for every \$1,000,000 in defined revenues.

Incentive Plan Awards – value vested or earned during the year

The following table sets out the value of incentives earned by the Named Executive Officer's or vested in their favor during the year ended May 31, 2009.

Name	Option based awards – value vested during the year (\$)	Share based awards – value vested during the year (\$)	Non-equity incentive plan compensation – value earned during the year (\$)
Tim K. Angus	NIL	NIL	NIL
Oliver Toffoli	NIL	NIL	\$4,218

Termination and Change of Control Benefits

Pursuant to the terms of the Angus Agreement, Mr. Angus was entitled to certain payments if the Corporation terminated his employment. The Angus Agreement did not provide for any payments following or in connection with any resignation, retirement, a change in control of the Corporation or a change in Mr. Angus's responsibilities. The Angus Agreement was terminated upon Mr. Angus's resignation as President and Chief Executive Officer on August 7, 2009.

During Mr. Toffoli's engagement as Chief Financial Officer, no contract, agreement, plan or arrangement provided for payments to Mr. Toffoli at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Corporation or a change in his responsibilities.

DIRECTOR COMPENSATION

The following table provides information regarding compensation paid to the Corporation's non-executive directors during the financial year ended May 31, 2009.

Name	Fees earned (\$)	Share based awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Pension Value (\$)	All other compensation (\$)	Total (\$)
R. James Ansell	\$7,500	Nil	\$29,100	Nil	Nil	Nil	\$36,600
William Crossland ⁽¹⁾	\$7,500	Nil	Nil	Nil	Nil	\$50,000	\$57,500
John B. Kelly	\$7,500	Nil	Nil	Nil	Nil	Nil	\$7,500
Michael Williams ⁽¹⁾	\$7,500	Nil	Nil	Nil	Nil	Nil	\$7,500
John R. Parker ⁽²⁾	\$25,500	Nil	Nil	Nil	Nil	Nil	\$25,500
Clint Sharples	\$7,500	Nil	Nil	Nil	Nil	Nil	\$7,500

Notes to Table:

- (1) Messrs. Crossland and Williams are included in this chart as they did not become executive officers of the Corporation until August 7, 2009 and September 15, 2009, respectively.
- (2) John R. Parker served as Chair of the Board until September 15, 2009.

The Corporation initiated compensation of \$7,500 annually (and paid out quarterly) to each non-executive director of the Corporation in January, 2007. Previously, non-executive directors were entitled to an honorarium by the Corporation of \$200 per day for each meeting of the Board attended in person, and a \$100 honorarium for each meeting of the Board attended by teleconference. The Corporation no longer provides compensation in connection with attendance at meetings of the Board. Non-executive directors are entitled to additional compensation for serving on the Audit Committee and Ethics, Governance and Compliance Committee. All members of both committees have waived such compensation for the year ended May 31, 2009. All miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation are reimbursed by the Corporation. John Parker, former Chairman of the Board received an annual fee of \$18,000. William Crossland, received \$50,000 for consulting services pertaining to the GEM acquisition. Directors who also serve as officers of the Corporation are not entitled to compensation for Board activities.

It is a policy of the Board to grant options to purchase 250,000 Common Shares to each new director upon their initial election to the Board (the “**Initial Options**”). After the third anniversary of a director’s service on the Board, such director will be granted additional options to purchase 250,000 Common Shares once they have exercised all of their Initial Options. During the year ended May 31, 2009, Mr. Ansell, having served on the Board for more than three years and having exercised his Initial Options, was granted additional options to purchase 250,000 Common Shares. The foregoing option grants are made under the Corporation’s existing stock option plan (discussed below).

Outstanding Option Based Awards and Share Based Awards

The following table sets out all of the options that had been granted and are outstanding to any of the non-executive directors as at May 31, 2009.

Name	Options Based awards				Share Based awards	
	Number of securities underlying unexercised options (#)	Option Exercise price (\$)	Option expiration date	Value of unexercised in the money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)
R. James Ansell	250,000	\$0.25	September 9, 2011	NIL	NIL	NIL
William Crossland	250,000	\$0.20	March 15, 2010	NIL	NIL	NIL
John B. Kelly	250,000	\$0.27	May 16, 2011	NIL	NIL	NIL
Michael Williams	250,000	\$0.20	January 25, 2011	NIL	NIL	NIL
John R. Parker	250,000	\$0.285	April 29, 2011	NIL	NIL	NIL
Clint Sharples	250,000	\$0.20	January 25, 2011	NIL	NIL	NIL

Incentive Plan Awards – value vested or earned during the year

The following table sets out the value of incentives earned by the non-executive directors or vested in their favor during the year ended May 31, 2009.

Name	Option based awards – value vested during the year (\$)	Share based awards – value vested during the year (\$)	Non-equity incentive plan compensation – value earned during the year (\$)
R. James Ansell	\$29,100	NIL	NIL
William Crossland	NIL	NIL	NIL
John B. Kelly	\$29,151	NIL	NIL
Michael Williams	NIL	NIL	NIL
John R. Parker	\$26,708	NIL	NIL
Clint Sharples	NIL	NIL	NIL

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes the number of Common Shares authorized for issuance from treasury under the Corporation’s equity compensation plans as at May 31, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	5,075,000	\$0.208	21,700,727

On February 1, 2005, the Board approved the establishment of a Stock Option Plan known as the 20% Fixed Plan (the “Plan”), which was approved by the Corporation’s shareholders on March 15, 2005 and amended with shareholder approval on April 5, 2006. The purpose of the Plan is to develop the interest of and provide an incentive to eligible directors, officers, employees and consultants of the Corporation in the Corporation’s growth and development by granting to eligible directors, officers, employees and consultants, from time to time, options to purchase Common Shares of the Corporation, thereby advancing the interest of the Corporation and its shareholders. The extent to which any director, officer, employee or consultant shall be entitled to be granted options pursuant to the Plan shall be determined in the discretion of the Board.

Options granted under the Plan are not assignable or transferable. Unless otherwise determined by the Board, options granted under the Plan expire five (5) years from the date of grant and terminate one (1) year after the death of a participant, ninety (90) days after the termination of a participant’s employment other than or cause (except in the cause of a consultant providing investor relations services, in which case the options shall expire thirty (30) days after such participant’s termination) and immediately upon termination of a participant’s employment for cause.

No individual may hold options to purchase Common Shares exceeding 5% of the then outstanding Common Shares. The maximum number of options granted under the Plan to any one consultant in a twelve (12) month period shall not exceed 2% of the then outstanding Common Shares. The maximum number of options granted to participants providing investor relations activities shall not exceed 2% of the then outstanding Common Shares in any twelve (12) month period. Unless otherwise determined by the Board, options granted under the Plan shall not be subject to a vesting schedule except options granted to consultants performing investor relations activities, which shall vest in stages over a twelve (12) month period with no more than 25% of the options vesting in any three (3) month period.

The aggregate number of Common Shares which may be reserved for issuance under the Plan was restricted to 14,133,472, which number was increased to 33,661,584 as approved by the shareholders of the Corporation at its annual and special meeting on November 25, 2008. To date, options to purchase up to an aggregate of 19,530,714 Common Shares have been granted under the Plan, of which options to purchase up to an aggregate of 11,960,857 Common Shares are outstanding on the date hereof.

DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

The Corporation maintains directors’ and officers’ liability insurance in the aggregate principal amount of \$2,000,000 subject to a \$75,000 deductible per loss for security claims and a \$50,000 deductible per loss for all other claims payable by the Corporation. The premium payable for such insurance is currently \$18,000 per year, which is paid by the Corporation.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

Aggregate Indebtedness

The following table sets out the aggregate indebtedness of all executive officers, directors, employees and former executive officers, directors and employees of the Corporation or any of its subsidiaries as at October 15, 2009.

AGGREGATE INDEBTEDNESS (\$)		
Purpose	To the Corporation or its Subsidiaries	To Another Entity
Share Purchases	\$761,609	Nil
Other	\$39,007	Nil

Indebtedness of Directors and Executive Officers under Securities Purchase Programs and Other Programs

The following table sets out the indebtedness of each director, executive officer, proposed nominee for election as director and their associates who is, or at any time during the most recently completed financial year was, indebted to the Corporation or any of its subsidiaries.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS UNDER (1) SECURITIES PURCHASE PROGRAMS AND (2) OTHER PROGRAMS						
Name and Principal Position	Involvement of Corporation or Subsidiary	Largest Amount Outstanding During Fiscal Year Ended May 31, 2009 (\$)	Amount Outstanding as at October 15, 2009 (\$)	Financially Assisted Securities Purchases During Fiscal Year ended May 31, 2009 (#)	Security for Indebtedness	Amount Forgiven During Fiscal Year Ended May 31, 2009 (\$)
Security Purchase Programs						
JOHN PARKER Sylvania, Ohio Former Director	Lender	\$58,011	\$59,095	–	–	–
MICHAEL WILLIAMS Waterloo, Ontario Director	Lender	\$53,413	\$54,452	–	–	–
JAMES ANSELL Saddlebrooke, Arizona Director	Lender	\$67,369	\$68,587	250,000	–	–
JOHN KELLY Ottawa, Ontario Director	Lender	\$63,112	\$64,295	–	–	–
TIM ANGUS Ottawa, Ontario Former Director & Executive Officer	Lender	\$139,234	\$141,809	–	–	–
OLIVER TOFFOLI Ottawa, Ontario Former Executive Officer	Lender	\$184,960	\$188,506	–	–	–
Other Programs						
TIM ANGUS Ottawa, Ontario Former Director & Executive Officer	Lender	\$60,786	\$29,968	–	–	–
OLIVER TOFFOLI Ottawa, Ontario Former Executive Officer	Lender	\$9,039	\$9,039	–	–	–

Mr. Angus had outstanding loans, including accrued interest, of \$139,234 at May 31, 2009 in connection with the exercise of stock options and warrants to purchase Common Shares. Accrued interest brought these loans to \$141,809 at October 15, 2009. In addition, Mr. Angus received net advances of \$26,336 in the year ended May 31, 2009 for personal expenses which increased Other Programs indebtedness to the Corporation to \$60,786 at May 31, 2009. This was reduced to \$29,668 by October 15, 2009. These advances are due on demand, bear no interest and have no fixed repayment terms.

Mr. Toffoli had outstanding loans, including accrued interest, of \$184,960 at May 31, 2009 to exercise stock options and warrants to purchase Common Shares. Accrued interest brought these loans to \$188,506 at October 15, 2009. In addition, Mr. Toffoli received net advances of \$1,039 in the year ended May 31, 2009 for personal expenses which increased Other Programs indebtedness to \$9,039 at May 31, 2009. No repayment has been made as at October 15, 2009. These advances are due on demand, bear no interest and have no fixed repayment terms.

Messrs. Parker, Williams, Ansell and Kelly, each a director of the Corporation, had outstanding loans, including accrued interest, of \$58,011, \$53,413, \$67,369 and \$63,112, respectively, at May 31, 2009 in connection with the exercise of options to purchase Common Shares. Accrued interest brought these loans to \$59,095, \$54,452, \$68,587 and \$64,295 respectively at October 15, 2009.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Circular, none of the Corporation's directors, executive officers, shareholders owning more than 10% of the voting shares of the Corporation, or associates or affiliates of any of them, had a material interest, direct or indirect, in any material transaction since the commencement of the Corporation's last financial year which has materially affected or will materially affect the Corporation.

APPOINTMENT OF AUDITORS

It is intended to vote the Proxy solicited hereby (unless the shareholder directs its Common Shares to be withheld from voting in the appointment of auditors) to re-appoint Raymond Chabot Grant Thornton, Chartered Accountants, General Partnership as auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors to fix the auditors' remuneration.

The reappointment of Raymond Chabot Grant Thornton, Chartered Accountants, General Partnership as auditor of the Corporation will be authorized if it is approved by a majority of the votes cast by shareholders represented in person or by proxy at the Meeting and entitled to vote thereon.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Board of Directors of the Corporation

Historically, the Board has facilitated its exercise of independent supervision of management by ensuring that a majority of the members of the Board are independent and that all of the members of the Audit Committee and the Ethics, Governance and Compliance Committee are independent. However, as a result of Michael Williams' assuming the role as interim Chief Financial Officer of the Corporation, only half of the members of the Board and two-thirds of the members of the Audit Committee are considered independent. The Board has appointed an independent Chairman and separated the roles of Chairman and Chief Executive Officer. Additionally, once every quarter the independent directors meet alone to discuss the performance of the Chief Executive Officer and Chief Financial Officer.

The Corporation's Board has determined that R. James Ansell and John B. Kelly are independent within the meaning of National Instrument 58-101. William Crossland and Michael Williams are not considered by the Corporation's Board to be independent due to the fact that they are officers of the Corporation. Mr. Williams' role as interim Chief Financial Officer is intended to be temporary until a permanent Chief Financial Officer is found.

Directorships

The following directors of the Corporation currently serve on the boards of directors of other reporting issuers (or the equivalent):

- (1) John B. Kelly is also a director of Burntsand Inc. and Clearford Industries Inc. (both listed on the TSX Venture Exchange).

Orientation and Continuing Education

It has been a policy of the Chairman of the Board that every director is given written material describing directors' duties and obligations in respect of corporate governance in order to upgrade their knowledge of the requirements and obligations of managing a public company. In addition, a policy binder from the TSX Venture Exchange is also given to directors as part of their continuing education process.

The Corporation's former Chief Financial Officer and Secretary attended a two day workshop offered by the TSX Venture Exchange on how to "Manage A Public Company".

Ethical Business Conduct

The Board of Directors established an Ethics, Governance and Compliance Committee (EGC Committee) which meets quarterly to review the ethical conduct of management, monitor proper reporting on SEDI and monitor any violations of imposed "blackouts" during the time of news releases. The EGC Committee comprises R. James Ansell and John B. Kelly.

The Board also established a Corporate Governance Policy and has provided a handbook describing its policies to all employees.

Nominations of Directors

All members of the Board are invited to identify potential new candidates for nomination to the EGC Committee for their review. The EGC Committee refers to a list of core competency domains in determining suitability of a potential candidate for a directorship on the Board. The list is comprised of the following core competency domains:

- (1) Accounting, finance and taxation;
- (2) Banking, lending and insurance;
- (3) Governance and Compliance;
- (4) Business judgment;
- (5) Management experience;
- (6) Crisis response;
- (7) Industry knowledge;
- (8) International markets;
- (9) Leadership qualifications;
- (10) Strategic planning and vision;
- (11) OSC and TSX Regulatory Issues; and
- (12) Investor relations.

Compensation

The EGC Committee meets with the Chief Executive Officer and Chief Financial Officer to discuss compensation matters on an annual basis. Annual compensation for directors is proposed by the Chief Executive Officer and Chief Financial Officer to the EGC Committee who then make their recommendations to the Board for their approval. The EGC Committee reviews the compensation of the Chief Executive Officer and Chief Financial Officer on an annual basis in light of various performance parameters, such as profitability, share price and increase in sales, and submits any recommendations for increases to the Board for their approval.

Other Board Committees

The Board has no committees other than the Audit Committee and EGC Committee.

Assessments

The Corporation has not adopted any formal process to regularly assess the Board, its committees and individual directors. However, the Board conducts an annual self-assessment to ensure that the committees' charters, and the Corporation's articles and by-laws are being followed by the committees and the Board as a whole. Additionally, the EGC Committee monitors the composition of the Board to ensure that the directors have the necessary educational background and work experience to provide the required guidance to the Corporation's senior management.

AUDIT COMMITTEE

The Audit Committee comprises Michael Williams, R. James Ansell and John B. Kelly. All members are considered financially literate for purposes of NI 52-110. The responsibilities, power and operation of the Audit Committee are set out in the Audit Committee Charter, a copy of which is attached as Appendix "A" to this Circular.

Education and Experience

The following is a description of the education and experience that make each member of the audit committee financially literate.

Michael Williams - B.A.Sc., P.Eng., MBA, Post Graduate MBA (PCAM), Master of Taxation, CFA

Experience: Mr. Williams has worked 9 years in energy retrofit sales with Honeywell; 2 years risk management energy conservation with Johnson Controls; and 5 years as Portfolio Manager. Mr. Williams has gained on the job experience from sitting on the Board of Directors of the Corporation since 2005 and through meetings with the Corporation's auditors to inform himself of the accounting principles used in the preparation of the financial statements and of the internal controls and procedures required for financial reporting. Additionally, as a Portfolio Manager, Mr. Williams is required to review several business plans with accompanying financial proforma statements and it is this knowledge that serves him well to chair this important committee.

R. James Ansell – BS Mechanical Engineering, MBA

Experience: Mr. Ansell has more than 35 years of business leadership experience in major utilities, power generation systems/equipment manufacturing, energy consulting/services and energy project development. He has a proven track record in business development, joint ventures and strategic alliances in the US and international markets. Mr. Ansell brings his other public company experience by sitting on the Board of Wind Force Holdings Inc. to assist him in the performance of his duties on the Audit Committee of this Corporation.

John Kelly – Honors B.B.A. (Finance), Honors Law Degree, Honorary Doctorate from the University of Ottawa

Experience: Mr. Kelly has over 35 years of entrepreneurial and executive experience in the technology sector. Mr. Kelly is currently Vice President of Enable Business Advisors Inc. Previously he was President and CEO of Clearford Industries Inc. from 2008 until 2009 and CEO of JetForm Corporation from 1995 until joining Reid Eddison in 1999, where he was a principal until 2008. From 2001 until 2007, Mr. Kelly was Chairman of NexInnovations Inc. Prior to that, he founded Why Interactive, was a founder of Computer Innovations Distribution Inc. and Nabu Network Corporation, and was also a founder of SHL Systemhouse Ltd. (since acquired by EDS). He is currently Co-Chair of Canadian Advanced Technology Alliance (CATA), Canada's largest association representing the Canadian advanced technology industry to Government and the public.

Pre-Approval Policies

Annually, the Audit Committee is provided with a list of the audit-related and non-audit services that management anticipates will be provided by the external auditor during the year for pre-approval. The Audit Committee reviews the services with the external auditor and management to determine whether the provision of the services is compatible with the auditor's independence. The Audit Committee completes an annual review of all audit and non-audit services and fees rendered to the Corporation and its subsidiaries by the external auditor.

External Auditor Service Fees

The fees paid to the Corporation's external auditor in each of the last two (2) fiscal years are as follows:

	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Audit Fees ⁽¹⁾	\$56,000	\$50,500
Audit Related Fees ⁽²⁾	\$43,750	\$15,750
Tax Fees ⁽³⁾	\$2,450	\$4,845
All Other Fees ⁽⁴⁾	\$0	\$0

- (1) "Audit Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton, General Partnership, the Corporation's independent auditors, for professional services rendered by it for the audit of the Corporation's annual financial statements or services that are normally provided by Raymond Chabot Grant Thornton, General Partnership in connection with statutory and regulatory filings or engagements.
- (2) "Audit Related Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton, General Partnership for assurance and related services rendered by them that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported as Audit Fees. Professional services provided include consultations and discussions regarding the accounting treatment and financial presentation of commercial contracts, assurance services rendered in connection with the Corporation's acquisition of GEM Ltd. and specified procedures on quarterly financial statements.
- (3) "Tax Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton, General Partnership for professional services rendered by them for tax compliance, tax advice and tax planning. Tax services included tax compliance, tax advice and tax planning.
- (4) "All Other Fees" consist of fees billed by Raymond Chabot Grant Thornton, General Partnership for products and services other than Audit Fees, Audit Related Fees and Tax Fees.

The Corporation is relying on the exemption provided by Section 6.1 of NI 52-110 as being exempt from the requirements of Parts 3 and 5 of NI 52-110 because the Corporation is a "venture issuer" as that term is defined in NI 52-110.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Further financial information is contained in the Corporation's financial statements and management discussion and analysis ("MD&A") for the year ended May 31, 2009. Copies of the Corporation's financial statements and related MD&A may be obtained upon written request made to the Corporation at its principal office at 36 Bentley Avenue, First Floor, Ottawa, Ontario, K2E 6T8, by facsimile to the Corporation at (613) 723-7286 or by e-mail to bill.crossland@thermalenergy.com. The Corporation may require payment of a reasonable charge if the request for information is made by a person or company that is not a security holder of the Corporation.

OTHER BUSINESS

Management is not aware of any other business to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matters should properly come before the Meeting, the Proxy will be voted upon such matters in accordance with the best judgement of the person voting the Proxy.

SHAREHOLDER PROPOSALS FOR NEXT MEETING

Proposals of shareholders to be presented at the 2010 annual meeting of shareholders of the Corporation must be received by the Corporation before the date that is 90 days before the anniversary date of this Meeting to be considered for inclusion in the Management Proxy Circular and Form of Proxy relating thereto.

APPROVAL BY THE BOARD OF DIRECTORS

The contents of this Management Information Circular and the mailing thereof have been approved by the Board of Directors of the Corporation. Where information contained in this Management Information Circular is not within the knowledge of the Corporation, the Corporation has relied upon information furnished by the person who has such knowledge.

DATED at Ottawa, Ontario, this 15th day of October, 2009.



William Crossland
President & Chief Executive Officer
Thermal Energy International Inc.

APPENDIX “A”

THERMAL ENERGY INTERNATIONAL INC. AUDIT COMMITTEE CHARTER

(AS AMENDED ON JANUARY 29, 2006)

PURPOSE

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Thermal Energy International, Inc. (the “Corporation” or the “Company”). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities, primarily through:

1. overseeing management’s conduct of the Corporation’s financial reporting process and systems of internal accounting and financial controls;
2. monitoring the independence and performance of the Corporation’s outside auditors; and
3. providing an avenue of communication among the outside auditors, management and the Board.

COMPOSITION

1. The Committee shall have at least three (3) members at all times, the majority (2 or more) of whom must be independent of management, as well as the Corporation. A member of the Committee shall be considered independent if:
 - a. In the sole discretion of the Board, it is determined that he or she has no relationship that may interfere with the exercise of his or her independent judgment; and
 - b. He or she meets the applicable stock exchange or other regulatory requirements regarding the independence of audit committee members.
2. If any member of the Committee develops a “conflict of interest” (as that term is defined in an applicable stock exchange or other regulatory requirement), that member shall have an affirmative obligation to promptly disclose such relationship to the Board.
3. All members of the Committee shall have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee.
4. At least one member of the Committee shall have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.
5. Each member of the Committee shall be appointed by the Board and shall serve until the earlier to occur of the date on which he or she shall be replaced by the Board, resigns from the Committee or resigns from the Board.

MEETINGS

1. The Committee shall meet as frequently as circumstances dictate, but no less than one time annually for review of audited statements with the auditor, and three times via teleconference to review the un-audited quarterly financial statements with the Chief Financial Officer (CFO). The Board of Directors shall name a chairperson of the Committee, who shall prepare and/or approve an agenda with the assistance of the Chairman of the Board of Directors in advance of each meeting. A majority of the members of the

Committee shall constitute a quorum. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

2. The Committee shall, through its chairperson, report regularly to the Board following the meetings of the Committee, addressing such matters as the quality of the Company's financial statements, the performance and independence of the outside auditors, or other matters related to the Committee's functions and responsibilities.

RESPONSIBILITIES AND DUTIES

The Committee's principal responsibility is one of oversight. The Company's management is responsible for preparing the Company's financial statements and the outside auditors are responsible for auditing and/or reviewing those financial statements.

While the Committee has the powers and responsibilities set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements present fairly the financial position, the results of operations and the cash flows of the Company, in conformity with Canadian generally accepted accounting standard. This is the responsibility of the management and the outside auditors. In carrying out these oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the outside auditors' work.

The Committee's specific responsibilities are as follows:

General

1. The Committee shall, with the assistance of management, the outside auditors and legal counsel, as the Committee deems appropriate, review and evaluate at least annually, the Committee's:
 - a. Charter;
 - b. Powers and responsibilities; and
 - c. Performance
2. The Committee shall report and make recommendations to the Board with respect to the foregoing, as appropriate.
3. The Committee shall ensure inclusion of its then-current charter in the proxy statement for the Company's annual meetings of shareholders, in accordance with the regulations of the applicable stock exchange or other regulatory requirements.
4. The Committee shall prepare annual Committee reports for inclusion in the proxy statements for the Company's annual meetings, as required by the applicable stock exchange or other regulatory requirements.
5. The Committee shall, in addition to the performance of the duties described in this charter, undertake such additional duties as from time to time may be:
 - a. delegated to it by the Board;
 - b. required by law, a stock exchange or other regulatory authority; or
 - c. deemed desirable, as is recommended by the Committee's and approved by the board, in connection with its functions described in this charter.

Internal Controls and Risk Assessment

1. The Committee shall review annually, with management and the outside auditors, if deemed appropriate by the Committee, the effectiveness of or weaknesses in the Company's internal controls, including computerized information system controls and security, the overall control environment and accounting and financial records.
2. The Committee shall obtain from the outside auditors their recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the Company.
3. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
 - b. The confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
4. An audit committee must review and approve the issuer's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer.

Outside Auditors: Their Performance and Independence

1. The outside auditors are ultimately accountable to the Board and the Committee, as the representatives of the shareholders of the Company. The Committee shall evaluate and recommend to the Board the selection and, where appropriate, the replacement of the outside auditors. The Committee shall recommend to the Board the outside auditors to be proposed for shareholder approval in any proxy statement.
2. The Committee shall:
 - a. Confer with the outside auditors concerning the scope of their examinations of the books and records of the Company and its subsidiaries;
 - b. Review the scope, plan and procedures to be used on the annual audit, as recommended by the outside auditors;
 - c. Review the results of the annual audits including:
 - i. The outside auditors' audit of the Company's annual financial statements, accompanying footnotes and its report thereon;
 - ii. Any significant changes required in the outside auditors' audit plans or scope;
 - iii. Any material differences or disputes with management encountered during the course of the audit (the Committee to be responsible for overseeing the resolution of such differences and disputes);
 - iv. Any material management letter comments and management's responses to recommendations made by the outside auditors in connection with the audit;
 - v. Matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees) relating to the conduct of the audit;
 - d. Authorize the outside auditors to perform such supplemental reviews or audits as the Committee may deem desirable; and

- e. Obtain from the outside auditors assurance that they have complied with any applicable stock exchange or other regulatory requirements.
3. The Committee shall inquire into any accounting adjustments that were noted or proposed by the outside auditors but were “passed” as immaterial or otherwise.
4. The Committee shall inquire as to any matters that were referred to the outside auditors’ national office relating to accounting policies and/or financial statement disclosure within the Company’s financial statements and to the extent deemed appropriate, requires an opportunity to address such issues directly with a representative of such national office.
5. Pre-approval by the Committee shall be required with respect to the fees for all audit and other services performed by the outside auditors as negotiated by management.
6. The Committee’s approval of any non-audit services exceeding one thousand dollars (\$1,000) to be rendered by the outside auditors must be obtained in advance of engaging the outside auditors to render such services. The Committee shall not approve the engagement of the outside auditors to render non-audit services prohibited by law or rules and regulations promulgated by an applicable stock exchange or other regulatory authority. The Committee shall consider whether the provision of non-audit services is compatible with maintaining the outside auditors’ independence, including, but not limited to, the nature and scope of the specific non-audit services to be performed and whether the audit process would require the outside auditors to review any advice rendered by the outside auditors in connection with the provision of non-audit services.
7. The Committee shall receive from the outside auditors on a periodic basis a formal written statement delineating all relationships between the outside auditors and the Company, regarding relationships and services, which may impact the objectivity and independence of the outside auditors, and other applicable standards. The statement shall include a description of all services provided by the outside auditors and the related fees. The Committee shall actively engage in a dialogue with the outside auditors regarding any disclosed relationships or services that may impact the objectivity and independence of the outside auditors and shall evaluate, after gathering information from management, and other Board members, the performance of the outside auditors and recommend that the Board take action to satisfy itself of the independence of the outside auditors.

Financial Reporting

1. The Committee shall review and discuss with the outside auditors and management the Company’s audited annual financial statements that are to be included in the Company’s annual report and the outside auditors’ opinion with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application of such accounting principles; and determining whether to recommend to the Board that the financial statements be included in the Company’s annual report for filing with an applicable stock exchange or other regulatory authority.
2. The Committee shall review and discuss with the auditors and management, and require the outside auditors to review, the Company’s annual financial statements to be included in the Company’s reports prior to filing such reports with an applicable stock exchange or other regulatory authority. The Committee shall review and discuss:
 - a. The existence of significant estimates and judgments underlying the financial statements, including the rationale behind those estimates as well as the details on material accruals and reserves and the Company’s accounting principles;
 - b. All critical accounting policies identified to the Committee by the outside auditors;

- c. Major changes to the Company's accounting principles and practices, including those required by professional or regulatory pronouncements and actions, as brought to its attention by management and/or the outside auditors; and
 - d. Material questions of choice with respect to the appropriate accounting principles and practices to be used in the preparation of the Company's financial statements, as brought to its attention by management and/or the outside auditors.
3. The Committee shall review and discuss the Company's disclosure under "Management's Discussion and Analysis" included in any annual or quarterly report, or other report or filing filed with an applicable stock exchange or other regulatory authority.
4. The Committee shall discuss with the outside auditors any item not reported as contingent liability or loss in the Company's financial statements as a result of a determination that such item does not satisfy a materiality threshold. The Committee shall review with the outside auditors the quantitative and qualitative analysis applied in connection with such assessment of materiality, including, without limitation, the consistency of such assessment with the requirements.
5. The Committee shall review and consider other matters in relation to the financial affairs of the Company and its accounts, and in relation to the internal and external audit of the Company as the Committee may, in its discretion, determine to be advisable.
6. The Committee shall meet at least annually with management, and the outside auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

Compliance with Laws, Regulations and Policies

1. The Committee shall review with management actions taken to ensure compliance with any code or standards of conduct for the Corporation, which may be established by the Board.
2. The Committee shall review with the Corporation's legal counsel any legal compliance matters, including securities trading practices and any other legal matters that could have a significant, adverse impact on the Company's financial statements.
3. The Committee shall review with the Corporation's counsel and any other federal, tax or regulatory matters that may have a material impact on the Corporation's operations and the financial statements, related Corporation compliance programs and policies and programs and reports received from regulators, and shall monitor the results of the Corporation's compliance efforts.
4. The Committee shall periodically review the rules promulgated by the applicable stock exchange or other regulatory authority relating to the qualifications, activities, responsibilities and duties of audit Committees and shall take, or recommend that the Board take, appropriate action to comply with such rules.