

THERMAL ENERGY INTERNATIONAL INC.

**NOTICE OF ANNUAL AND SPECIAL MEETING OF
SHAREHOLDERS TO BE HELD ON NOVEMBER 25, 2008**

AND

MANAGEMENT INFORMATION CIRCULAR

October 16, 2008

THERMAL ENERGY INTERNATIONAL INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special meeting (the "Meeting") of the holders of common shares ("Common Shares") of Thermal Energy International Inc. (the "Corporation") will be held at the Brookstreet Hotel in the Mulligan Room, 525 Legget Drive, Kanata, Ontario, K2K 2W2 on Thursday, the 25th day of November, 2008 at 9:00 a.m. (Ottawa Time) for the following purposes:

1. to receive and consider the audited financial statements of the Corporation for the year ended May 31, 2008 and the Auditor's Report thereon;
2. to appoint Raymond Chabot Grant Thornton, Chartered Accountants, as Auditors for the Corporation for the ensuing year and to authorize the Directors to fix their remuneration;
3. to elect the Directors of the Corporation as described in the Management Information Circular dated October 16, 2008;
4. to consider and, if thought appropriate, to pass an ordinary resolution, authorizing an amendment to the Corporation's Stock Option Plan to increase the number of Common Shares reserved for issuance under the Corporations' Stock Option Plan to 33,661,584 Commons Shares, representing approximately 20% of the outstanding Common Shares as of October 16, 2008 .
5. to transact such other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

Shareholders are referred to the accompanying Management Information Circular dated October 16, 2008 for more detailed information with respect to the matters to be considered at the Meeting.

The Directors have fixed October 16, 2008 as the record date. Holders of Common Shares at the close of business on October 16, 2008 are entitled to notice of the Meeting and to vote thereat or at any adjournment thereof.

Dated at the City of Ottawa, in the Province of Ontario, this 16th day of October, 2008.

BY ORDER OF THE BOARD OF DIRECTORS

Tim K. Angus
President and Chief Executive Officer

Shareholders who are unable to attend the meeting in person are requested to date and sign the enclosed form of proxy and return it in the envelope provided. All proxies to be valid, must be received by the offices of Computershare Investor Services, Inc., 100 University Avenue, 9th floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department at least 48 hours prior to the meeting or any adjournment thereof.

THERMAL ENERGY INTERNATIONAL INC.
MANAGEMENT INFORMATION CIRCULAR
for the Annual and Special Meeting of Shareholders
to be held on November 25, 2008

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation by the management of Thermal Energy International Inc. (the “Corporation”) of proxies from holders of common shares of the Corporation (“Common Shares”) for use at the annual meeting of the shareholders of the Corporation (the “Meeting”) to be held on November 25, 2008 at 9:00 a.m. (Ottawa time) at the Brookstreet Hotel in the Mulligan Room, 525 Legget Drive, Kanata, Ontario, K2K 2W2, and at any adjournment thereof, for the purposes set out in the accompanying notice of the Meeting (the “Notice of Meeting”).

Although it is expected that solicitation will be primarily by mail, proxies may also be solicited by telephone or other means of communication, or in person by directors and officers of the Corporation (who will not be additionally compensated therefore). The cost of solicitation will be borne by the Corporation. The Corporation may also pay brokers or nominees holding Common Shares in their names or in the names of their principals for their reasonable expenses in sending solicitation material to Beneficial Holders.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the accompanying Form of Proxy are directors and/or officers of the Corporation. Shareholders desiring to appoint some other person (who is not required to be a shareholder of the Corporation) to represent him at the Meeting may do so either by inserting such person’s name in the blank space provided in the Form of Proxy and deleting the names printed thereon or by completing another proper Form of Proxy. Such shareholder should notify the nominee of his appointment, obtain his consent to act as proxy and should instruct him on how the shareholder’s shares are to be voted.

A Proxy will not be valid for the Meeting or any adjournment thereof unless it is signed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, it must be executed under corporate seal or by a duly authorized officer or attorney of the corporation and delivered to the offices of Computershare Investor Services, Inc., 100 University Avenue, 9th floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department at least 48 hours prior to the Meeting or any adjournment thereof.

A shareholder who has given a proxy may revoke it, in any manner permitted by law, including by instrument in writing, executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, executed by a duly authorized officer or attorney of such corporation and deposited with the Corporation, Attention: Tim K. Angus, President and CEO, 36 Bentley Avenue, 1st Floor, Ottawa, Ontario, K2E 6T8, any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof or with the chairman of the Meeting on the day of the Meeting or any adjournment thereof.

ADVICE TO BENEFICIAL HOLDERS OF COMMON SHARES

The information set forth in this section is of significant importance to many shareholders of the Corporation, as a substantial number of shareholders do not hold shares in their own name. Beneficial Shareholders should note that only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases, those Common Shares will not be registered in the shareholder’s name on the records of the Corporation. Such Common Shares will more likely be registered under the names of the shareholder’s broker or an agent of that broker. In Canada, the majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Shares

held by brokers or their agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting shares for the broker's clients. **Therefore, Beneficial Shareholders should ensure that instructions respecting the voting of their Common Shares are communicated to the appropriate person.**

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The voting instruction form supplied to a Beneficial Shareholder by his broker (or the agent of the broker) is similar to the form of proxy provided to registered shareholders by the Corporation. However, its purpose is limited to instructing the registered shareholder (the broker or agent of the broker) on how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge"). Broadridge typically asks Beneficial Shareholders to return the voting instruction forms to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Shareholder receiving a voting instruction form cannot use that form to vote Common Shares directly at the Meeting - the voting instruction form must be returned to Broadridge (or voting instruction communicated directly to Broadridge) well in advance of the Meeting in order to have the Common Shares voted.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for purposes of voting Common Shares registered in the name of his broker (or agent of the broker), a Beneficial Shareholder may attend the Meeting as proxyholder for the registered shareholder and vote the Common Shares in that capacity. **Beneficial Shareholders who desire to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered shareholder should enter their own names in the blank space on the instrument of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.**

VOTING OF PROXIES

All shares represented at the Meeting by a properly executed Form of Proxy will be voted on any ballot that may be called for and, where a choice with respect to any matter to be acted upon has been specified in the Form of Proxy, the shares represented by the Proxy will be voted in accordance with such instructions. **In the absence of any such specification or instruction, the persons whose names appear on the Form of Proxy, if named as proxies, will vote in favour of all of the matters set out in the Notice of Meeting.**

The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and any other matters which may properly come before the Meeting. As of the date hereof, Management is not aware of any amendments to, variations of or other matters to be presented for action at the Meeting. If, however, amendments, variations or other matters properly come before the Meeting, the persons designated in the Form of Proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by such Proxy with respect to such matters.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The record date for the purpose of determining holders of Common Shares is October 16, 2008. Shareholders on that date are entitled to receive notice of and attend the Meeting and vote thereat on the basis of one vote for each Common Share held. Pursuant to the Ontario *Business Corporation Act*, the Corporation is required to prepare no later than ten days after the Record Date, an alphabetical list of shareholders entitled to vote as of the Record Date that shows the number of Common Shares held by each shareholder. A shareholder whose name appears on the list is entitled to vote the Common Shares shown opposite his name at the Meeting. The list of Shareholders is available for inspection during usual business hours at the Corporation's office, 36 Bentley Avenue, 1st Floor, Ottawa, Ontario K2E 6T8.

The Corporation's authorized share capital consists of an unlimited number of Common Shares, and an unlimited number of preference shares issuable in series. There are presently no preference shares issued and outstanding and 168,307,922 Common Shares issued and outstanding as fully paid and non-assessable.

To the knowledge of the directors and senior officers of the Corporation, there are no persons, firms or corporations that own of record, beneficially, directly or indirectly, or that exercise control or direction over 10% or more of the issued and outstanding Common Shares.

REMUNERATION OF DIRECTORS AND OFFICERS

Summary Compensation Table

The table below sets out the compensation earned during the last three fiscal years by the Chief Executive Officer, the Chief Financial Officer and the other executive officer whose salary and bonus exceeded \$150,000. The Named Executive Officers received an aggregate of \$346,400 as salary during the fiscal year ending May 31, 2008.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus/Commission (\$)	Other Non Cash Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTP Payouts (\$)	
Tim K. Angus President & CEO	2008	169,400	19,278	Nil	Nil	Nil	Nil	11,800 ⁽³⁾
	2007	118,800	83,554	20,000	2,000,000	Nil	Nil	14,518 ⁽³⁾
	2006	104,000	Nil	69,900 ⁽¹⁾	Nil	Nil	Nil	9,600 ⁽³⁾
Denis Forget Chief Operating Officer ⁽⁴⁾	2008	70,000	77,022	Nil	Nil	Nil	Nil	3,812 ⁽³⁾
	2007	96,000	22,950	25,815 ⁽¹⁾	500,000	Nil	Nil	5,400 ⁽³⁾
	2006	96,000	9,315	82,270 ⁽¹⁾	Nil	Nil	Nil	5,400 ⁽³⁾
Oliver Toffoli Chief Operating Officer & CFO, Treasurer	2008	107,000	23,068	Nil	Nil	Nil	Nil	Nil
	2007	96,480	16,564	Nil	500,000	Nil	Nil	Nil
	2006	86,980	5,098	8,000 ⁽²⁾	Nil	Nil	Nil	Nil

Notes:

- (1) The amounts relate to compensation bonuses paid in Common Shares of the Company to new incoming managers.
- (2) The amounts relate to compensation in Common Shares of the Company in lieu of cash payment of debt owing.
- (3) The amounts relate to annual cash compensation for automobile usage (and repair costs associated with CEO)
- (4) Mr. Forget ceased to be an officer of the Corporation on February 20, 2008 when he vacated the position of Chief Operating Officer to assume the position of Director of Project Development and Vice President of Strategic Business Development. The salary and bonus shown in the Summary Compensation Table for Mr. Forget for 2008 relates only to the amounts paid to Mr. Forget for the period from June 1, 2007 to February 20, 2008 while he was an officer of the Company.

Mr. Angus entered into a three year employment agreement with the Corporation on December 24, 2004 to commence work on February 1, 2005 that provided for initially a monthly remuneration of \$8,000 for salary and \$800 for automobile allowance. The contract automatically renewed for another two years after the first year of services unless the Corporation wished to modify the terms of the contract. In addition to base salary, automobile allowance and sales commissions, the remuneration package consisted of the following:

- a) 1,500,000 common shares at a deemed price of \$0.10 per share as a signing bonus to be earned over a 1.5 year period, with 300,000 shares due upon commencement of duties, then at a subsequent rate of 200,000 shares for every 3 months of service to the Corporation.
- b) Additionally, 1,000,000 options to purchase common shares at a price of \$0.10 per share with an earn out of 500,000 options upon commencement of duties and then the remaining earned out at a rate of 100,000 options per \$1,000,000 in secured sales of the Corporation. After earning the initial options, another 1,000,000 options was granted at a price of \$0.16 per share and earned at the rate of 100,000 options per \$1,000,000 in secured sales of the Corporation. Additionally, 1,000,000 options were granted as a bonus at a price of \$0.16 per share.
- c) Mr. Angus' monthly remuneration was increased to \$9,900 for salary and \$900 in automobile allowance in April, 2006 and subsequently to \$14,500 in salary and \$1,000 in automobile allowance in July, 2007.

Mr. Forget ceased to be an officer of the Company on February 20, 2008 and is now employed as the Director of Project Development and Vice-President of Strategic Business Development.

Mr. Forget entered into a three year employment agreement with the Corporation on 2005 to commence work on February 15, 2005 that provided for initially a monthly remuneration of \$7,000 for salary and \$450 for automobile allowance. The contract automatically renewed for another year after the first year of service unless the Corporation wished to modify the terms of the contract. In addition to base salary, automobile allowance and sales commission, the remuneration package consisted of the following:

- a) 750,000 common shares at a deemed price of \$0.22 per share as a signing bonus to be earned over a 1.5 year period, with 300,000 shares due upon commencement of duties, then at a subsequent rate of 75,000 shares for every 3 months of service to the Corporation.
- b) Additionally, 500,000 options to purchase common shares at a price of \$0.10 per share with an earn out of 250,000 options upon commencement of duties and then the remaining to be earned out at a rate of 50,000 options per \$1,000,000 on secured sales of the Corporation. After earning the initial options, another 500,000 options was granted on December 20, 2006 at the price of \$0.16 per share and earned at the rate of 50,000 options per \$1,000,000 in secured sales of the Corporation.
- c) Subsequently, Mr. Forget's monthly remuneration was increased to \$8,000 for salary in July, 2005.

Mr. Forget ceased to be an officer of the Company on February 20, 2008 and is now employed as the Director of Project Development and Vice-President of Strategic Business Development.

Mr. Toffoli's monthly remuneration was increased to \$8,600 for salary and \$400 for automobile allowance in July, 2007. Additionally, 500,000 options were granted to him on December 20, 2006 to purchase common shares at a price of \$0.16 per share.

STOCK OPTIONS

The following table sets out the options granted to the Named Executive Officers during the most recently completed Financial Year.

OPTION GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

NAME	Securities Under Options Granted	Percentage of Total Options Granted to Employees [%]	Exercise Price [\$/share]	Market Value of Securities Underlying Options on the Date of Grant [\$/share]	Expiration Date
Tim K. Angus	—	—	—	—	—
Denis Forget	—	—	—	—	—
Oliver Toffoli	—	—	—	—	—

The following table sets forth information concerning each exercise of options during the most recently completed financial year by each of the Named Executive Officers and the financial year-end value of unexercised options, on an aggregated basis.

Aggregated Option Exercises During the Most Recently Completed Financial Year and Financial Year-End Option Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at FY-06 Exercisable / Unexercisable	Value of Unexercised in-the-Money Options at FY-End (\$) Exercisable / Unexercisable
Tim K. Angus	1,000,000	100,000	2,000,000 / 0	320,000 / 0
Denis Forget	500,000	65,000	500,000 / 0	80,000 / 0
Oliver Toffoli	993,000	165,300	0 / 0	0 / 0

Compensation of Directors

The Corporation initiated compensation of \$7,500 annually (and paid out quarterly) to each Independent Director (those who are not also officers of the Corporation) in January, 2007. Previously, Independent Directors were entitled to an honorarium by the Corporation of \$200 per day for each meeting of the Board of Directors which

is attended in person, and a \$100 honorarium for each teleconference meeting of the Board of Directors but decided to waive this entitlement. They may also receive additional compensation for duties on the audit and compensation committees and have waived this compensation in this past fiscal year. All miscellaneous out-of-pocket expenses incurred in carrying out their duties as Directors of the Corporation are paid for by the Corporation. The Chairman of the Board of Directors was paid an annual fee of \$18,000. One other Director was paid \$50,000 for consulting services pertaining to the GEM acquisition. Non-independent Directors are not entitled to compensation for Board activities.

During the fiscal year ended May 31, 2008 the Company granted the following options to purchase Common Shares to directors:

Name of Director	Common Shares Under Options Granted	Exercise Price \$/share	Expiry Date
John Kelly	250,000	0.27	May 16, 2011
John Parker	250,000	0.285	April 29, 2011
Clint Sharples	250,000	0.20	January 25, 2011
Michael Williams	250,000	0.20	January 25, 2011

In addition, on September 9, 2008, the Company granted an option to R.James Ansell to acquire 250,000 Common Shares at \$0.25 per share until September 9, 2011.

STOCK OPTION PLAN

On February 1, 2005, the Directors of the Corporation adopted a new form of Stock Option Plan known as the 20% Fixed Plan (the "Plan") which was approved by the shareholders on March 15, 2005 and was amended and approved at the shareholder's meeting held on April 5, 2006.

All options granted under the Plan will be non-assignable and non-transferable and may only be issued to directors, employees, or consultants (as those terms are defined in Policy 1.1 of the TSX-V Corporate Finance Manual). Options granted to a director, employee or consultant will expire within ninety (90) days after the optionee ceases to qualify in at least one of those categories, unless he is terminated for cause, in which case the options terminate immediately. Options granted to an optionee who is engaged in investor relations activities must expire within thirty (30) days after such optionee ceases to provide investor relations activities. In the event of death of an optionee, any option then held may be exercised by the optionee's personal representatives for a maximum period of one (1) year.

The number of Common Shares reserved for issuance under the Plan, together with all of the Corporation's previously established and outstanding stock option plans or grants is 14,133,472 Common Shares which represented 20% of the Corporation's outstanding Common Shares at the date the amendment to the Plan was approved on April 5, 2006.

The aggregate number of Common Shares so reserved for issuance to any one optionee in a twelve (12) month period, shall not exceed 5% of the issued Common Shares (on a non-diluted basis).

Consultants and persons providing investor relations activities may be granted options to acquire up to a maximum of 2% of the number of issued and outstanding Common Shares. Options currently granted and outstanding shall remain valid and outstanding until expiration or exercise in accordance with the applicable option agreements and shall not be subject to a vesting schedule.

Once granted, options do not become available for re-issuance pursuant to the Plan upon exercise, but do become available for re-issuance upon expiry, termination or lapse, as the case may be.

Based on a total of 19,530,714 options issued and 4,302,143 options cancelled and a total of 2,467,714 options expired as at the date hereof, a maximum of 1,372,615 non-granted options to acquire additional Common Shares are available under the Plan.

Since the inception of the Plan, options to acquire an aggregate of 19,530,714 Common Shares were granted under the Plan as provided below:

OPTIONS GRANTED UNDER THE PLAN

Options to Acquire an Aggregate of Common Shares [Quantity]	Exercise Price [\$/share]	Date of Expiry
529,000	0.30	1-Oct-04
210,000	0.18	1-Oct-04
410,000	0.30	19-Oct-04
280,000	0.30	2-Apr-05
33,000	0.30	16-Apr-05
1,475,000	0.18	6-Jun-05
100,000	0.18	5-Aug-05
2,425,000	0.15	16-Jan-07
775,714	0.18	16-Jan-07
275,000	0.15	7-May-07
318,000	0.10	12-Jan-08
100,000	0.13	20-Jan-08
200,000	0.12	20-Jan-08
250,000	0.20	24-Jan-08
200,000	0.10	1-Jan-08
1,000,000	0.10	1-Feb-08
1,800,000	0.12	1-Feb-08
150,000	0.24	1-Mar-08
950,000	0.22	29-Apr-08
250,000	0.24	19-May-08
100,000	0.24	2-Jun-08
150,000	0.24	10-Jun-08
150,000	0.24	15-Aug-08
250,000	0.26	9-Sep-08
200,000	0.18	3-Jan-09

350,000	0.21	7-Sep-09
3,500,000	0.16	20-Dec-09
350,000	0.37	11-Jun-10
300,000	0.35	15-Jun-10
100,000	0.43	20-Jul-10
625,000	0.20	15-Mar-10
100,000	0.34	5-Oct-10
500,000	0.20	25-Jun-11
250,000	0.29	29-Apr-11
250,000	0.27	16-May-11
375,000	0.33	15-Aug-11
250,000	0.25	09-Sept-11
19,530,714	TOTAL	

During the previous fiscal years up to FY 2008 ending May 31, 2008, the following options as shown in the table below were cancelled:

Number Cancelled	Exercise Price [\$/share]
1,500,000	0.15
170,000	0.30
850,000	0.18
1,300,000	0.12
125,000	0.10
50,000	0.22
100,000	0.34
150,000	0.21
57,143	0.21
4,302,143	

During the previous fiscal years up to FY 2008 ending May 31, 2008, the following options as shown in the table below were exercised:

	Number of Exercised Options	
	Number of Exercised Options	Exercise Price [\$/share]
	375,000	0.20
	142,857	0.21
	500,000	0.16
	700,000	0.24
	1,393,000	0.10
	900,000	0.22
	950,000	0.15
	875,000	0.18
	200,000	0.12
	600,000	0.13
	250,000	0.26
TOTAL:	6,885,857	

During the previous fiscal years up to FY 2008 ending May 31, 2008, the following options to acquire an aggregate number of Common Shares expired:

- Options to acquire an aggregate of 1,082,000 Common Shares at a price of \$0.30 per Common Share and options to acquire an aggregate of 1,035,714 Common Shares at a price of \$0.18 per Common Share and options to acquire an aggregate of 350,000 Common Shares at a price of \$0.15 per Common Share.

During the three month period ended August 31, 2008, the following options to acquire an aggregate number of Common Shares were exercised:

- Options to acquire an aggregate of 100,000 Common Shares at a price of \$0.24 per Common Share.

During the three month period ended August 31, 2008, the following options to acquire an aggregate number of Common Shares expired:

- Options to acquire an aggregate of 50,000 Common Shares at a price of \$0.24 per Common Share.

During the Second Quarter of FY 2009, the following options to acquire an aggregate number of Common Shares were exercised:

- Options to acquire an aggregate of 250,000 Common Shares at a price of \$0.26 per Common Share.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth as of May 31, 2008, information concerning securities for issuance under equity compensation.

Plan Category	Number of Securities to be issued upon exercise of outstanding options (a)	Weighted Average Exercise Price Outstanding Options (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 security holders	5,657,143	\$0.211	1,890,472
Equity Compensation plans not approved by security holders	n/a	n/a	n/a

WARRANTS

Warrants to acquire an aggregate of 30,102,618 Common Shares were granted as provided in the Table below:

WARRANTS GRANTED

Warrants to Acquire an Aggregate of Common Shares [Quantity]	Exercise Price [\$/share]	Date of Expiry 1st year	Exercise Price [\$/share]	Date of Expiry 2nd year
433,000	0.14	30-Dec-05		
695,000	0.14	12-Jan-06		
1,665,000	0.16	18-Jan-06		
3,783,335	0.10	4-Nov-05		
2,292,030	0.15 (1)	18-Jan-06	0.60 (1)	18-Jan-07
3,333,666	0.35	3-Jun-07		
3,867,895	0.30	22-Apr-08		
760,000	0.30	10-Oct-08		
260,000	0.30	2-Nov-08		
236,912	0.30	30-Nov-08		
324,000	0.30	6-Dec-08		
281,250	0.30	29-Dec-08		
4,166,667	0.40	23-May-09		
1,250,000	0.40	29-May-09		
1,517,500	0.50	7-Dec-09		
5,236,363	0.22	20-Jun-10		
30,102,618				

Note:

- (1) Warrants were exercisable at a price of \$0.15 per share in the first year and at a price of \$0.60 per share in the second year.

During the First Quarter of the fiscal year ended May 31, 2008, the following warrants to acquire an aggregate number of Common Shares expired:

- Warrants to acquire an aggregate of 3,153,666 Common Shares at a price of \$0.35 per Common Share

During the First Quarter of the fiscal year ended May 31, 2008, the following warrants to acquire an aggregate number of Common Shares were exercised:

- Warrants to acquire an aggregate of 180,000 Common Shares at a price of \$0.35 per Common Share.
- Warrants to acquire an aggregate of 125,000 Common Shares at a price of \$0.30 per Common Share

During the second quarter of FY 2008, the following warrants to acquire an aggregate number of Common Shares were exercised:

- Warrants to acquire an aggregate of 7,828 Common Shares at a price of \$0.30 per Common Share.

During the Fourth Quarter of FY 2008, the following warrants to acquire an aggregate number of Common Shares expired:

- Warrants to acquire an aggregate of 3,662,895 Common Shares at a price of \$0.30 per Common Share.

During the fourth quarter of FY 2008, the following warrants to acquire an aggregate number of Common Shares were exercised:

- Warrants to acquire an aggregate of 80,000 Common Shares at a price of \$0.30 per Common Share.

During the Second Quarter of FY 2009, the following warrants to acquire an aggregate number of Common Shares expired:

- Warrants to acquire an aggregate of 760,000 Common Shares at a price of \$0.30 per Common Share.

INDEBTEDNESS OF DIRECTORS 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 16, 2008.

AGGREGATE INDEBTEDNESS (\$)		
Purpose	To the Corporation or its Subsidiaries	To Another Entity
(a)	(b)	(c)
Share Purchases	609,447	nil
Other	42,450	nil

Indebtedness of Directors and Executive Officers under (1) Securities Purchase Programs and (2) Other Programs

The following table sets out the indebtedness of each director, executive officer, nominee for election as director and each associate of any such director, executive officer or proposed nominee, 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 and Executive 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, 2008	Amount Outstanding as at October 16, 2008	Financially Assisted Securities Purchases During Fiscal Year Ended May 31, 2008	Security for Indebtedness	Amount Forgiven During Fiscal Year Ended May 31, 2008
(a)	(b)	\$ (c)	\$ (d)	(#) (e)	(f)	\$ (g)
Securities Purchase Programs						
Tim Angus President and CEO	Lender	124,647	124,647	1,000,000	nil	nil
Oliver Toffoli Chief Operating Officer's CFO	Lender	172,800	172,800	993,000	nil	nil
Other Programs						
Tim Angus	Lender	37,000	34,450	-	-	nil
Oliver Toffoli	Lender	8,000	8,000			

Mr. Angus received a loan of \$124,647 to purchase shares of the Corporation in fiscal year 2008. In addition Mr. Angus received cash loans amounting to \$37,000 in fiscal year 2008. These loans were for a combination of reasons which include to facilitate the purchasing of shares of the Corporation, advances for traveling, and the net effect of a reversal of commissions. These loans are due upon demand and bear no interest and have no fixed repayment terms. Mr. Angus repaid a portion of the cash loan in the amount of \$2,550 in fiscal 2007. Mr. Toffoli received a loan of \$172,800 to purchase shares of the Corporation in fiscal year 2008. In addition, Mr. Toffoli received a cash loan amounting to \$8,000 in fiscal year 2008. These loans are due upon demand and bear no interest and have no fixed repayment terms. The fair value of loans receivable, all of which have been granted to officers, has not been

determined because such transactions have been conducted to maintain business relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Circular, no informed person (as such person is defined in National Instrument 51-102), proposed nominee for election as a director, or any of their associates or affiliates have or have 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 would materially affect the Corporation.

INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED ON

There is no material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, by any director or senior officer of the Corporation or proposed nominee for election as a director of the Corporation, or any associate or affiliate of such persons, in any matter to be acted on other than the election of directors at the Meeting.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Additional financial information is contained in the Corporation's financial statements and MD&A for the most recently completed financial year ended May 31, 2008. Copies of additional information and the corporation's financial statements and 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 tim.angus@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.

BUSINESS OF THE MEETING

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The consolidated financial statements of the Corporation for the year ended May 31, 2008 and the Report of the Auditors thereon will be placed before the Meeting. Additional copies may be obtained from the Corporation upon request or from www.sedar.com and will also be made available at the Meeting.

APPOINTMENT OF AUDITORS

Pursuant to National Instrument 52-110, the Corporation's audit committee has recommended to the Board that Raymond Chabot Grant Thornton, Chartered Accountants, General Partnership be nominated as the Corporation's auditor and the amount of compensation to be paid to the Corporation's auditor.

Shareholders passed a resolution at the Corporation's last annual meeting held on November 29, 2007 to appoint Raymond Chabot Grant Thornton, Chartered Accountants, General Partnership, as the Auditors of the Corporation. It is proposed that Raymond Chabot Grant Thornton, Chartered Accountants, General Partnership be reappointed as the Auditors of the Corporation for the ensuing year at a remuneration to be fixed by the Directors. **The persons designated in the enclosed form of Proxy intend to vote FOR the appointment of Raymond**

Chabot Grant Thornton, Chartered Accountants, as Auditors of the Corporation, unless instructed otherwise.

ELECTION OF DIRECTORS

Management proposes that the number of directors for the ensuing year be fixed at seven (7). The seven (7) persons listed in the following table are nominated for election at the Meeting. Each Director elected shall hold office until the close of the next annual meeting of shareholders or until his successor is duly elected or appointed.

The following table provides information about each of the nominees for election as Directors, including the number of voting shares and options of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised.

Name, Municipality of Residence and Position with the Corporation	Principal Occupation	Director Since	Number of Common Shares and Stock Options
Tim K. Angus Ottawa, Ontario President and CEO and Director	President and CEO of the Corporation.	February 1, 2005	2,254,659 Common Shares 2,000,000 options
John B. Kelly Ottawa, Ontario Director	CEO of Clearford Industries.	April 19, 2005	262,500 Common Shares 250,000 options
R. James Ansell ⁽¹⁾ Saddlebrooke, Arizona Director	Director WindForce Holdings Inc.	September 12, 2005	270,000 Common Shares 250,000 options
John R. Parker ⁽¹⁾⁽²⁾ Sylvania, Ohio Chairman	Vice President of ADP Consulting	December 15, 2003	257,500 Common Shares 250,000 options
Clint Sharples ⁽¹⁾⁽²⁾ Kelowna, B.C. Director	President & CEO of Paramount Pallet, Inc.	December 15, 2003	20,000 Common Shares 250,000 options
Michael Williams, CFA ⁽¹⁾ Waterloo, Ontario Director	Associate Portfolio Manager with Independent Accountants' Investment Counsel Inc.	February 1, 2005	420,000 Common Shares 250,000 options
Bill Crossland ⁽²⁾ Toronto, Ontario Director	Consultant	May 29, 2007	1,262,500 Common Shares 250,000 options

Notes:

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

Unless authority to do so is expressly withheld, it is the intention of the persons named in the enclosed form of proxy to vote such proxy for the election as Directors of the proposed nominees listed above. Management does not contemplate that any of the nominees will be unable to serve as Directors, but if that should

occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy shall have the right to vote for another nominee in their discretion.

Form of Resolution

“BE IT RESOLVED THAT:

1. Tim K. Angus, Michael Williams, John B. Kelly, John R. Parker, Clint Sharples, R. James Ansell and Bill Crossland, all be elected as the seven (7) directors of the Corporation to hold office until the close of the next annual meeting of shareholders or until their successors are duly elected or appointed”.

The foregoing ordinary resolution must be approved by a majority of the votes cast by all shareholders entitled to vote at the meeting. The persons designated in the enclosed Form of Proxy, unless instructed otherwise, intend to vote FOR the foregoing resolution.

APPROVAL OF AMENDMENT TO STOCK OPTION PLAN

The Plan was adopted in 2005 and amended in 2006. Initially, 11,141,879 Common Shares were reserved for issuance under the Plan. This was increased to 14,133,472 Common Shares in 2006. In each case, the number of Common Shares reserved for issuance under the Plan represented 20% of the outstanding Common Shares at the time that the Plan was approved or amended.

Since 2006, the number of outstanding Common Shares has increased. In particular, in June 2008, the Company issued 68,181,818 Common Shares at \$0.22 per share for gross proceeds of \$15,000,000. There are currently 168,307,922 Common Shares outstanding.

There are currently options to acquire 6,075,000 Common Shares outstanding and 1,372,615 Common Shares remain available for the grant of options under the Plan. The 14,133,472 Common Shares reserved for issuance under the Plan represent approximately 8.4% of the outstanding Common Shares and the 1,372,615 Common Shares currently available for the grant of options under the Plan represent approximately 0.8% of the outstanding Common Shares.

The purpose of the Plan is to provide an incentive to the Company’s directors, officers, employees and consultants to contribute to the growth and success of the Company. Management believes that for the Plan to continue to fulfill this role, it is necessary to increase the number of Common Shares reserved under the Plan to 33,661,584 Common Shares, representing approximately 20% of the outstanding Common Shares as of the date of this Circular.

To become effective, the proposed amendment to the Plan must be approved by a majority of the votes cast at the meeting by “disinterested shareholders”. The policies of the TSX Venture Exchange define “disinterested shareholders” as all shareholders other than “insiders” to whom options may be granted under the Plan and “associates” of insiders. An “insider” is defined as:

- (i) a director or senior of the Company or its subsidiaries; or
- (ii) a director or senior officer of a company that beneficially owns or controls, directly or indirectly, more than 10% of the outstanding Common Shares.

An “associate” is defined as:

- (i) a company of which the insider beneficially owns or controls, directly or indirectly, more than 10 percent of the voting rights attached to all outstanding voting securities of that company;
- (ii) any partner of the insider;

- (iii) any trust or estate in which the insider has a substantial beneficial interest or in respect of which the insider serves as trustee or in a similar capacity; and
- (iv) the insider's spouse or child or any relative of the insider or of his spouse who has the same residence as the insider.

Pursuant to the policies of the TSX Venture Exchange, 7,436,813 Common Shares are deemed to be held by interested shareholders and shall not be included for the purpose of determining whether the amendment to the Plan has been approved by a majority of the Company's disinterested shareholders. A copy of the amended Plan is attached to this Circular as Appendix 3.

Form of Resolution

"BE IT RESOLVED THAT:

1. Section 3 of the Corporation's Stock Option Plan ("Plan") is amended to increase the number of common shares reserved for issuance under the Plan by deleting in such section the amount of "14,133,472" and inserting in its place the amount of "33,661,584"; and
2. The Plan shall otherwise remain in full force and effect.

To become effective, the foregoing resolution must be approved by a majority of the votes cast by disinterested shareholders (as described above) entitled to vote at the Meeting. The persons designated in the enclosed Form of Proxy, unless instructed otherwise, intend to vote FOR the foregoing resolution.

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 matter properly comes before the Meeting, the accompanying Form of Proxy confers discretionary authority to vote with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters that properly may come before the Meeting.

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 16th day of October, 2008.



Signed: "*Tim K. Angus*"

TIM K. ANGUS

President & Chief Executive Officer



Signed: "*Oliver Toffoli*"

OLIVER TOFFOLI

Chief Operating Officer & Chief Financial Officer
Treasurer



Signed: "*Gustav Pliva*"

GUSTAV PLIVA

Manager of Corporate Development and Human
Resources and Corporate Secretary

APPENDIX “1”

FORM 52-110F2

DISCLOSURE BY VENTURE ISSUERS

1. Audit Committee of the Board of Directors of Thermal Energy International Inc.

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 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 other any 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.*

2. Composition of the Audit Committee

In the most recently completed financial year, the Audit Committee consisted of: Mike Williams, John R.Parker , Clint Sharples and R. James Ansell. All members are "independent" and all members are "financially literate" (as such terms are defined in Multilateral Instrument 52-110 - *Audit Committees* ("MI 52-110")).

John R. Parker – B.A.Sc. Geological Engineering & M.A.Sc Geological Engineering.

Experience: Mr. Parker worked for 25 years in the fields of environmental engineering, pollution control, environmental risk management and energy conservation. Currently is employed as a VP of ADP Consulting, which focuses on “green” and sustainable facility programs that promote energy conservation and savings. Mr. Parker has gained on the job experience from sitting on the Board of Directors of the Corporation for the last three years 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.

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; 4 years as Portfolio Manager. Mr. Williams has gained on the job experience from sitting on the Board of Directors of the Corporation for the last three years 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’s 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.

Clint Sharples – Business Administration

Experience: Mr. Sharples is the President and Chief Executive Officer of Paramount Pallet Inc. Prior to purchasing Paramount Pallet Inc. from IFCO Systems, Mr. Sharples served as President for IFCO Systems Canada since January, 2002. Before becoming President, Mr. Sharples served as Vice President in various departments beginning in 1995. Prior to working at IFCO Systems, Mr. Sharples worked in various roles in finance in the Transportation Industry after first obtaining a diploma in Business Administration. In addition to his role as President & CEO of Paramount Pallet Inc., Mr. Sharples is a partner and co-founder of a private venture capital company. Mr. Sharples sits on various boards including the Canadian Pallet Council, Thermal Energy International Inc., Journey Resources, Infinity Alliance Ventures, The Kelowna Food Bank, Alma Resources and Modu-Loc Fence Rentals which together have enhanced his financial literacy to competently serve on the Audit Committee of this Corporation.

3. Audit Committee Oversight

Since the commencement of the Corporation's most recently completed financial year, no recommendation of the Audit Committee to nominate or compensate an external auditor was not adopted by the Board of Directors of the Corporation.

4. Reliance on Certain Exemptions

Since the commencement of the Corporation's most recently completed financial year, it has not relied on the exemptions in section 2.4 (*De Minimum Non-audit Services*) or an exemption granted under Part 8 (*Exemptions*).

5. Pre-Approval Policies and Procedures

The following is the pre-approval process:

- (a) Annually, the Audit Committee will be 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 service is compatible with the auditor's independence; and
- (b) A review of all audit and non-audit services and fees rendered to the Corporation and its subsidiaries by the external auditor will be reviewed annually by the Audit Committee.

6. External Auditor Service Fees

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

<u>Year Ended May 31st</u>	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>All Other Fees</u>
2008	\$50,500	\$15,750	\$4,845	-
2007	\$46,500	\$15,000	\$8,500	\$7,500

7. External Auditor Services Fees (By Category)

- (a) Audit Fees:
 - To prepare and present the audit plan to the Audit Committee;
 - To perform audit work on year-end account;
 - To deliver a final report, corporate tax returns and advisory service and management letter.
- (b) Audit-Related Fees:
 - Additional time spent at the request of the Audit Committee on Flow-Through Shares and Part XII Tax.
 - Additional time spent to review minutes of the Board of Directors meetings;
 - Discussion of tax treatment of stock option and T4 slip preparation.
- (c) Tax Fees:
 - To give advice on tax compliance, tax advice and tax planning.
- (d) All Other Fees:
 - Quarterly Financial Statement review.

8. Exemption

The Corporation is a “venture issuer” as defined in MI 52-110 and is relying upon the exemption contained in Section 6.1 of MI 52-110 which exempts from the requirements of Part 3 (Composition of Audit Committee) and Part 5 (Reporting Obligations) of MI 52-110.

APPENDIX “2”

FORM 58-101F2

CORPORATE GOVERNANCE DISCLOSURE BY VENTURE ISSUERS

1. Board of Directors of Thermal Energy International Inc.

The Board of Directors facilitates its exercise of independent supervision of management by ensuring that a majority of the members of the Board of Directors are independent and that all of the members of the Audit Committee and the Ethics, Governance and Compliance Committee are independent. The Board has appointed an independent Chairman and separated the roles of Chairman and Chief Executive Officer. In addition, in every quarter the independent Directors meet alone to discuss the performance of the CEO and CFO.

Each of the following directors is independent within the meaning of National Instrument 58-101, John R. Parker, John B. Kelly, Clint Sharples, Michael Williams, R. James Ansell and Bill Crossland.

Tim K. Angus is not an independent director because he is the President and Chief Executive Officer of the Corporation.

2. Directorships

The following directors of the Corporation are directors of other reporting issuers in other jurisdiction:

- Tim K. Angus is also a director of Canadian Windfields, Solar & Renewable Energy Corp.
- R. James Ansell is also a director of Wind Force Holdings Inc. (an Arizona Business Corporation);
- Clint Sharples is also a director of Journey Resources, Infinity Alliance Ventures and Alma Resources., all which are presently on the TSX Venture Exchange.
- John B. Kelly is also a director of Burntsand Inc. a company on the TSX Venture Exchange.

3. Orientation and Continuing Education

The directors approved two officers of the Corporation in the persons of the Chief Financial Officer and the Corporate Secretary to undertake a two day workshop course in November, 2005 provided by the TSX Venture Exchange on how to “Manage A Public Company” and to provide information of any TSX Venture Exchange policy updates to the directors.

It has been a policy of the Chairman of the Board that every director is given a 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.

4. Ethical Business Conduct

The Board of Directors established an Ethics, Governance and Compliance Committee (EGC) and meets monthly to:

- review the ethical conduct of management;

- monitor proper reporting on SEDI;
- monitor any violations of imposed “blackouts” during the time of news releases

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

5. Nominations of Directors

Any member of the Board of Directors of the Corporation can identify potential new candidates for nomination to the Ethics, Governance & Compliance Committee (EGC) for their review. The EGC has a list of core competency domains that it refers to in determining suitability of a potential candidate for a directorship to the Board. The list is as follows:

- Accounting, finance and taxation;
- Banking, lending and insurance;
- Governance and Compliance;
- Business judgment;
- Management experience;
- Crisis response;
- Industry knowledge;
- International markets;
- Leadership qualifications;
- Strategic planning and vision;
- OSC and TSX Regulatory Issues;
- Investor relations.

6. Compensation

The EGC meets with the CEO and CFO to discuss compensation matters on an annual basis. Annual compensation for directors is proposed by the CEO and CFO to the EGC who then make their recommendations known to the full Board for their approval. The EGC alone determines increases to the annual compensation of the CEO based on various performance parameters such as profitability, share price, increase in sales, etc. and then submits to the full Board for their approval.

7. Other Board Committees

Other than the Ethics, Governance & Compliance Committee and the Audit Committee, the Board has also created the Shareholder Value Task Force.

The members of the Shareholder Value Task Force are R. James Ansell, John B. Kelly, Clint Sharples, Tim Angus, Stuart McCarthy, and Denis Forget.. The Shareholder Value Task Force is chaired by James R. Ansell and works directly and indirectly with shareholders of the Corporation to deal with any issues that may arise and is responsible for raising shareholder awareness to maintain proper share holder value.

8. Assessments

The following steps, procedures and processes are conducted by the Thermal Energy Board on a routine and scheduled basis in order to ensure that the Board of Directors, its Committees and individual members are performing effectively:

- a) conduct formal monthly Board of Directors meetings/calls; preparation for each call includes detailed agendas, minutes and other documentation needed by the Board of Directors to make informed decisions;
- b) Each of the two (2) committees have charters and meet once quarterly; each Committee Chairman reports to the Board of Directors monthly; each member of the Board of Directors is required to participate on at least one (1) committee.
- c) The Board of Directors hosts an "in camera" session quarterly, whereby only Independent Directors are invited to openly discuss the activities of the CEO and CFO;
- d) Through additional communications (phone calls, email) the Board of Directors actively manage all types of risks through review of financial reports, IR reports, etc.
- e) The Board of Director also conducts a yearly self-assessment to ensure that the Charters, Bylaws and Articles are being followed by the Board of Directors as well as each of the Committees. The EGC Committee also monitors the make-up of the Board of Directors to ensure that the members have the necessary educational background and work experience to provide the required guidance to Thermal senior management.
- f) The Board of Directors has appointed a TEI Shareholder representative to participate on the EGC Committee.

APPENDIX “3”

Thermal Energy International Inc. (20% Fixed Plan)

STOCK OPTION PLAN

Thermal Energy International Inc. (the “Corporation”) hereby adopts, as at February 1, 2005, an incentive stock option plan (the “Plan”) for officers, directors, employees and consultants (including the personal holding companies of such individuals) of the Corporation and its affiliates, as follows:

1. **Definitions** In this Plan, the following words and expressions shall have the respective meanings ascribed to them below:
 - (a) “**Affiliate**” shall have the meaning ascribed thereto in the applicable securities legislation;
 - (b) “**Board**” shall mean the board of directors of the Corporation;
 - (c) “**Consultant**” shall mean an individual or corporation other than an employee, officer or director, that: (i) is engaged under a written contract, to provide on an ongoing *bona fide* basis, consulting, technical, management or other services to the Corporation or an Affiliate of the Corporation (other than services provided in relation to a distribution of securities of the Corporation); (ii) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an Affiliate of the Corporation; and (iii) has a relationship with the Corporation or an Affiliate of the Corporation that enables the individual to be knowledgeable about the affairs and business of the Corporation;
 - (d) “**Eligible Person**” shall mean any *bona fide* officer, director, employee, Management Company Employee or Consultant of the Corporation or its Affiliates, a company wholly owned by individuals who are Eligible Persons, and in respect of an individual Consultant, a company or partnership of which the individual is an employee, shareholder or partner;
 - (e) “**Exercise Price**” of an Option shall mean, in respect of options issued after the Corporation is listed on any Stock Exchange, the price payable for a Share upon the exercise of the Option determined by the Board, provided that such price shall in no event be lower than the Market Price of one Share on the last trading day immediately preceding the day on which the Option is granted, less the maximum applicable discount permitted by such Stock Exchange and the minimum Exercise Price per Share must be at least \$0.10;
 - (f) “**Management Company Employee**” means an individual employed by an individual, corporation or other entity providing management services to the Corporation, which are required for the ongoing successful operation of the business enterprise of the Corporation, but excluding any individual, corporation or other entity engaged to provide investor relations activities to the Corporation;
 - (g) “**Market Price**” of a Share on a particular day shall mean the last closing price of the Shares on such day on the principal Stock Exchange on which the Common Shares traded, provided that the Market Price shall be determined in Canadian dollars and shall be rounded to the nearest whole cent;
 - (h) “**Option**” shall mean an option, granted to an Eligible Person in accordance with the terms of this Plan, to acquire a Share from the Corporation upon the exercise of the Option and upon payment of the Exercise Price;
 - (i) “**Optionee**” in respect of an Option, shall mean the Eligible Person to whom the Option was granted;
 - (j) “**Share**” shall mean a Common Share in the capital of the Corporation as constituted at the date hereof and any shares of the Corporation into which such a common share is changed, classified, reclassified,

subdivided, consolidated or converted whether by reason of an amalgamation or other form of reorganization; and

- (k) “**Stock Exchange**” shall mean TSX Venture Exchange, its successors, and such other stock exchange as may be prescribed by the Board on which the Shares are listed for trading.
2. **Purpose** The purpose of the Plan is to secure for the Corporation and its shareholders the incentive inherent in share ownership by officers, directors, employees and Consultants of the Corporation who, in the opinion of the Board, will be largely responsible for its future growth and success.
3. **Number of Shares and Lapsed Options** From time to time, Shares may be reserved by the Board, in its discretion, for grants of Options under the Plan to Eligible Persons, provided that the total number of Shares so reserved for issuance by the Board shall not exceed 33,661,584 (*twenty (20%) of the Corporation’s issued Shares at the date of Shareholder approval of the Plan*) Shares and at the time of the grant:
- (a) the aggregate number of Shares so reserved for issuance to any one Optionee in a 12 month period shall not exceed five (5%) percent of the issued Shares (on a non-diluted basis);
 - (b) the aggregate number of options granted to any one Consultant in a 12 month period shall not exceed 2% of the issued Shares;
 - (c) the aggregate number of options granted to Eligible Persons employed to provide investor relations activities must not exceed 2% of the issued Shares in any 12 month period; and
 - (d) options issued to Consultants performing investor relations services must vest in stages over 12 months with no more than ¼ of the options vesting in any 3 month period.

The Shares so reserved by the Board under the Plan shall be authorized but unissued Shares.

Nothing contained herein shall restrict or limit or be deemed to restrict or limit the rights or powers of the Board in connection with any allotment and issuance of any options, rights or shares which were not allotted and issued hereunder. This Plan shall not restrict, limit or preclude the Board from granting options outside of this Plan to officers, directors, employees or Consultants of the Corporation or to any other person or entity.

The foregoing restrictions may be waived, modified or varied with the consent of the shareholders of the Corporation at a meeting called for such purpose, or by approval of the Stock Exchange.

4. **Eligibility and Participation** Options shall not be granted under this Plan to any person other than an Eligible Person. No Eligible Person shall have any claim or right to be granted Options under this Plan.
5. **Grant of Options** The Board shall, from time to time and in its sole discretion, determine the Eligible Persons to whom Options are to be granted under this Plan and may take into consideration the current and potential contributions of a particular Eligible Person to the success of the Corporation and such other factors which the Board deems proper and relevant.

Options shall be granted by the Board in accordance with this Plan to Eligible Persons in its sole discretion and shall be subject to such approvals as may be required by applicable law or any Stock Exchange upon which any securities of the Corporation are listed.

The grant of every Option hereunder and the terms thereof, including vesting provisions, if any, shall be made by written agreement between the Corporation and the Optionee, the provisions of which shall conform to the provisions of this Plan and shall be otherwise satisfactory to the Board in its sole discretion. If the Corporation is a Tier 2 Issuer on the TSX Venture Exchange and has more than 10% of its issued

Shares reserved for issuance under this Plan, the Directors shall require that any Options granted be subject to vesting over a period of not less than 18 months, equally on a quarterly basis.

A grant of Options under the Plan shall not be construed as giving an Optionee any right to continue in the employment of the Corporation, nor shall it affect the right of the Corporation to terminate the employment or services of any Optionee.

6. **Exercise of Options** Unless the Board specifically determines otherwise, the Options granted to an Optionee may be exercised by the Optionee, in whole or in part, from time to time at the Optionee's discretion.

Provided however, that all Options that have not been exercised by the Optionee shall cease to be exercisable and shall expire upon the earliest of:

- (a) the termination of employment, the termination of services or the services agreement in respect of a Consultant, or removal of the Optionee as a director or officer of the Corporation or its Affiliates for cause;
- (b) ninety (90) days after the termination of employment, the termination of services or the services agreement in respect of a Consultant (except in the case of a Consultant providing investor relations services, in which case, the Options cease to be exercisable thirty (30) days after the termination of such services), or an Optionee ceasing to be an officer or director for reasons other than termination or removal for cause, unless the Optionee remains an Eligible Person;
- (c) the first anniversary of the death of the Optionee, by the heirs and administrators of an Optionee's estate; and
- (d) the fifth anniversary of the date on which the Option was granted;

or such earlier date as the Board of Directors may deem appropriate in its sole discretion at the time the Option was granted.

The exercise of an Option will be contingent upon receipt by the Corporation of payment of the full exercise price of such Option. No Optionee or legal representative, legatee or distributee in respect of an Optionee shall be considered to be a holder of any Share subject to an Option, unless and until such Share has been fully paid for and issued upon the exercise of the Option.

7. **Taxes** The Corporation may require an Optionee, as a condition of exercise of an Option, to pay to or reimburse the Corporation for any taxes which are required to be withheld and remitted by it in respect of the exercise of such Option under any applicable laws.
8. **Effect of Take-over Bid** If a *bona fide* offer for Shares is made to an Optionee or to shareholders generally or to a class of shareholders which includes an Optionee, and the offer, if accepted in whole or in part by any person or persons, would result in the offeror exercising control over the Corporation within the meaning of applicable securities legislation, then the Corporation shall, immediately upon receipt of notice of the offer, notify each Optionee currently holding an Option of the offer, with full particulars thereof; whereupon such Option may be exercised by the Optionee so as to permit the Optionee to tender the Share received upon such exercise pursuant to the offer.
9. **Legends** Certificates for Shares issued upon exercise of Options shall bear such legend as may be required by applicable law or any Stock Exchange on which the Shares are listed for trading.
10. **Changes to Shares** Notwithstanding any other provision of this Plan, in the event of any change in the outstanding Shares of the Corporation by reason of any stock dividend, split, recapitalization, reclassification, amalgamation, merger, consolidation, combination or exchange of Shares or distribution of

rights to holders of Shares or any other form of corporate reorganization whatsoever, an equitable adjustment shall be made to any Options then outstanding and the Exercise Price (or Prices) in respect of such Options. Such adjustments shall be made by the Board in its sole discretion and, subject to applicable law, shall be conclusive and binding for all purposes of the Plan.

11. **Necessary Approvals** The grant of Options, the obligation of the Corporation to sell and deliver Shares on the exercise of Options, and any amendments to the Plan or to the terms of an Option granted under this Plan, shall be subject to any approvals required by applicable law or any Stock Exchanges on which the Shares are listed for trading being obtained.
12. **Administration of the Plan** The Board may interpret the Plan and make all other determinations that it considers in its sole discretion to be necessary or advisable for the administration of the Plan. The Board may, in its sole discretion, prescribe, adopt, amend and rescind rules and regulations for carrying out and administering the Plan. The interpretation and construction of any provision of the Plan by the Board shall be final and conclusive. The administration of the Plan shall be the responsibility of the appropriate officers of the Corporation duly designated for the purposes thereof by the Board and all costs in respect thereof shall be paid by the Corporation.
13. **Amendments to Plan** Subject to obtaining the consent of applicable securities regulatory authorities in those circumstances where such consent is required, and shareholder approval in those circumstances where such approval is required to be obtained by any regulatory authority, the Board may amend, modify or terminate the Plan at any time if and when it considers it to be advisable to do so in its sole discretion, except with respect to any Option then outstanding under the Plan.
14. **Amendments to Options** An Option may be amended by written agreement of the Corporation and the Optionee, provided that any reduction in the Exercise Price must be approved by a majority of disinterested shareholders of the Corporation if the Optionee is an Insider of the Corporation at the time of the proposed amendment.
15. **No Undertaking or Representation** The Corporation makes no undertaking or representation as to the future value or price, or as to the listing on any Stock Exchange, of any Shares issued in accordance with the Plan.
16. **Assignability and Transferability** Options (and any rights thereunder) shall not be assignable or transferable otherwise than by will or pursuant to the laws of succession or descent and distribution, and, during the lifetime of an Optionee, shall only be exercisable by the Optionee.
17. **Compliance with Applicable Law** If any provision of the Plan or any Option contravenes any law or any order, policy, by-law or regulation of any regulatory body or Stock Exchange having jurisdiction or authority over securities of the Corporation or the Plan, then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.
18. **Enurement** The Plan shall enure to the benefit of, and be binding upon, the Corporation, its Affiliates and their respective successors and assigns. The Plan shall enure to the benefit of, and be binding upon, an Optionee and the personal representative of a deceased Optionee.
19. **Governing Law and Interpretation** The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

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