

## **THERMAL ENERGY INTERNATIONAL INC.**

### **NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS**

#### **TO THE SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that an annual general and special meeting (the “Meeting”) of the holders of common shares (“Common Shares”) of Thermal Energy International Inc. (the “Corporation”) will be held on Thursday, November 12, 2015 at 10:00 a.m. (Ottawa, Ontario time) at the Hilton Garden Inn Ottawa Airport - 2400 Alert Road, Ottawa, Ontario for the following purposes:

1. to receive the audited financial statements of the Corporation for the year ended May 31, 2015 and the report of the auditors of the Corporation thereon;
2. to elect the directors of the Corporation as more fully described in the section of the Corporation’s management information circular for the Meeting (the “Circular”) entitled “Election of Directors”;
3. to appoint auditors of the Corporation and to authorize the directors of the Corporation to fix the auditors’ remuneration as more fully described in the section of the Circular entitled “Appointment of Auditors”;
4. to consider, and if thought advisable, to approve a resolution authorizing, ratifying and confirming the Corporation’s Shareholder Rights Plan as more fully described in the section of the Circular entitled “Special Business – Approval of the Shareholder Rights Plan”; and
5. to transact such other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

The Corporation is sending proxy-related materials to non-registered shareholders using Notice and Access. Notice and Access is a set of rules that reduces the volume of materials that must be physically mailed to shareholders by posting the information circular and additional materials online.

The Circular, this Notice, a form of proxy, the audited annual financial statements of the Corporation for the year ended May 31, 2015 and the MD&A relating to such financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.thermalenergy.com](http://www.thermalenergy.com). Shareholders are reminded to review these online materials when voting. Non-registered shareholders may choose to receive paper copies of such materials or obtain further information about Notice and Access by contacting the Corporation, at the toll free number 1-888-433-6443 within North America and Outside North America 1-416-682-3860 or by emailing [fulfilment@canstockta.com](mailto:fulfilment@canstockta.com). In order for non-registered shareholders to receive paper copies of such materials in advance of any deadline for the submission of voting instructions and the date of the Meeting it is recommended to contact the Corporation, at the number above as soon as possible but not later than October 27, 2015.

Registered shareholders of the Corporation will receive paper copies of the meeting materials. If you are a registered shareholder a form of proxy is enclosed. A copy of the proxy is also available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.thermalenergy.com](http://www.thermalenergy.com).

If you are a non-registered shareholder a voting instruction form is enclosed.

Shareholders are requested to complete, sign and return such form of proxy or voting instruction form, as applicable.

In order for a registered shareholder to be represented by proxy at the Meeting, the shareholder must complete and submit the enclosed form of proxy or other appropriate form of proxy. Completed forms of proxy must be received by CST Trust Company at Proxy Department, PO Box 721, Agincourt, ON M1S 0A1, not later than 10:00 a.m. (Eastern time) on November 10, 2015 or may be accepted by the Chairman of the

Meeting prior to the commencement of the Meeting. The form of Proxy also provides details on how you may submit your proxy by telephone or internet.

Non-registered shareholders should use the enclosed voting instruction form to provide voting instructions. The voting instruction form contains instructions on how to complete the form, where to return it to and the deadline for returning it. It is important to read and follow the instructions on the voting instruction form in order to have your vote count.

Dated at the City of Ottawa, in the Province of Ontario, this 2<sup>nd</sup> day of October, 2015.

**BY ORDER OF THE BOARD OF DIRECTORS**

A handwritten signature in blue ink, appearing to read "W m c e l", positioned below the printed name.

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 general and special meeting of shareholders (the “Meeting”) of Thermal Energy International Inc. (the “Corporation”) to be held at 10:00 a.m. on Thursday, November 12, 2015 (Ottawa, Ontario time) at the Hilton Garden Inn Ottawa Airport - 2400 Alert Road, Ottawa, Ontario. 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 2, 2015 (the “Record Date”). All dollar amounts in this Circular are in Canadian dollars unless otherwise stated.

### **SOLICITATION OF PROXIES**

**The enclosed proxy is being solicited by the management of the Corporation and the expenses of this solicitation will be borne by the Corporation.** The solicitation will be conducted primarily by mail but proxies may also be solicited personally by officers, employees or agents of the Corporation, but without additional compensation. The Corporation shall, upon request, reimburse brokers and other persons holding common shares of the Corporation (the “Common Shares”) on their behalf or on behalf of nominees, for reasonable costs incurred in sending the proxy documents to shareholders.

### **REGISTERED SHAREHOLDERS – VOTING BY PROXY**

The persons named in the enclosed form of proxy for the Meeting are officers of the Corporation.

A registered holder of Common Shares has the right to appoint some other person, who need not be a shareholder, to represent the Shareholder at the Meeting by striking out the names of the persons designated in the accompanying form of proxy and by inserting such other person's name in the blank space provided or by executing another proper form of proxy.

Completed forms of proxy must be received by CST Trust Company, the transfer agent of the Corporation, at CST Trust Company, Proxy Department, PO Box 721, Agincourt, ON M1S 0A1 not later than 10:00 am (Eastern time) on November 10, 2015 or may be accepted by the Chairman of the Meeting prior to the commencement of the Meeting. The form of Proxy also provides details on how you may submit your proxy by telephone or internet.

The form of proxy affords the registered Shareholder an opportunity to specify that the shares registered in his or her name shall be voted for, against or withheld from voting in respect of the matters to come before the Meeting, as applicable.

On any ballot that may be called for, the shares represented by proxies in favour of management nominees will be voted for, against or withheld from voting in respect of the matters to come before the Meeting in accordance with the instructions given in such proxies.

In respect of proxies in which the Shareholders have not specified that the proxy nominees are required to vote for, against or withhold from voting in respect of the matters scheduled to come before the Meeting, the shares represented by the proxies in favour of management nominees will be voted for the matters described in the Notice of Meeting.

Management knows of no matters scheduled to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matters which are not now known to management should properly come before the Meeting, the shares represented by proxies in favour of management nominees will be voted on such matters in accordance with the best judgment of the proxy nominees.

A proxy given by a registered Shareholder for use at the Meeting may be revoked at any time prior to its use. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing

or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized. Any such instrument revoking a proxy must be deposited at the registered office of the Corporation Attention: Chief Executive Officer, any time up to and including the last business day preceding the day of the Meeting, or an adjournment thereof, or deposited with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof. If the instrument of revocation is deposited with the Chairman on the day of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such proxy.

## **NON-REGISTERED HOLDERS – VOTING INSTRUCTION FORM**

Only registered holders of Common Shares or the persons they appoint as their proxies are permitted to vote at the Meeting. Many Shareholders are not registered shareholders (“Beneficial Shareholders”) because the shares they own are not registered in their names but are instead either (i) registered in the name of an intermediary (the “Intermediary”) that the Beneficial Shareholder deals with in respect of the Common Shares, such as, among others, brokerage firms, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans, or (ii) in the name of a clearing agency (such as the Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the meeting materials to Intermediaries and clearing agencies for onward distribution to Beneficial Shareholders.

Intermediaries are required to forward the meeting materials to Beneficial Shareholders unless a Beneficial Shareholder has waived the right to receive them. Intermediaries often use service companies to forward the meeting materials to Beneficial Shareholders. If you are a Beneficial Shareholder, your name and address will appear on the voting instruction form sent to you by the Corporation’s transfer agent, CST Trust Company, or by an Intermediary (bank, broker or trust company). A Beneficial Shareholder may vote or appoint a proxy by mail, phone, fax or on the Internet, as applicable, in accordance with the voting instruction form. CST Trust Company or your Intermediary, as applicable, will submit the vote or proxy appointment to the Corporation on your behalf. You must submit your voting instruction form in accordance with the instructions and within the time limits set out in the voting instruction form.

**IF YOU HOLD YOUR COMMON SHARES THROUGH A BROKERAGE ACCOUNT OR OTHER INTERMEDIARY YOU ARE A BENEFICIAL SHAREHOLDER. BENEFICIAL SHAREHOLDERS SHOULD CAREFULLY FOLLOW THE INSTRUCTIONS IN THE VOTING INSTRUCTION FORM, INCLUDING THOSE REGARDING WHEN AND WHERE THE VOTING INSTRUCTIONS FORM IS TO BE DELIVERED. IF YOU OR A PERSON YOU DESIGNATE PLAN TO ATTEND THE MEETING AND VOTE YOU MUST APPOINT YOURSELF OR THAT PERSON AS PROXY USING THE VOTING INSTRUCTION FORM.**

A Beneficial Shareholder may revoke a form of proxy or voting instructions form given to CST Trust Company or an Intermediary by contacting CST Trust Company or your Intermediary following the instructions on the voting instruction form. In order to ensure that CST Trust Company or an Intermediary, as applicable, acts upon a revocation of a proxy form or voting instruction form, the written notice should be received well in advance of the Meeting.

These securityholder materials are being sent to both registered and non-registered owners of the securities. 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 securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf. By choosing to send these materials to you directly, the Corporation (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

## NOTICE AND ACCESS

The Corporation is sending proxy-related materials to Beneficial Shareholders using Notice and Access. Notice and Access is a set of rules that reduces the volume of materials that must be physically mailed to shareholders by posting the information circular and additional materials online. Beneficial Shareholders will still receive the Notice of Meeting, and may choose to receive a hard copy of the Circular and other materials. Details are included in the Notice of Meeting. This Circular, the Notice of Meeting, a form of proxy, the audited annual financial statements of the Corporation for the year ended May 31, 2015 and the MD&A relating to such financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.thermalenergy.com](http://www.thermalenergy.com). Shareholders are reminded to review these online materials when voting. Beneficial Shareholders may choose to receive paper copies of such materials or obtain further information about Notice and Access by contacting the Corporation at the toll free number 1-888-433-6443 within North America and Outside North America 1-416-682-3860 or by emailing [fulfilment@canstockta.com](mailto:fulfilment@canstockta.com).

Registered shareholders of the Corporation will receive hard copies of this Circular, the Notice of Meeting, the form of proxy, the audited annual financial statements of the Corporation for the year ended May 31, 2015 and the MD&A relating to such financial statements.

## 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, 159,264,616 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, 1<sup>st</sup> Floor, Ottawa, Ontario, K2E 6T8.

To the knowledge of the directors or officers of the Corporation there is no person who is the beneficial owner of, directly or indirectly, or who exercises control or direction over 10% or more of the votes attached to the outstanding Common Shares except for Anchorage Capital Master Offshore, Ltd., which, to the knowledge of the directors or officers of the Corporation, holds 22,727,273 Common Shares representing 14.27% of the issued and outstanding shares as of the Record Date.

## FINANCIAL STATEMENTS

The audited financial statements of the Corporation for the year ended May 31, 2015 (the “Financial Statements”) and the auditor’s report on the Financial Statements accompany the Notice of Meeting mailed to registered shareholders and are also available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.thermalenergy.com](http://www.thermalenergy.com).

## ELECTION OF DIRECTORS

The Board of Directors of the Corporation (the “Board”) currently consists of seven (7) directors. It is proposed that the Board size remain at seven (7) members and the seven (7) individuals named below are nominated for election to the Board. The persons named in the Proxy intend to vote **FOR** the election of the seven (7) 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 Securities Beneficially Owned, or Controlled or Directed, Directly or Indirectly
WILLIAM CROSSLAND Toronto, Ontario President and Chief Executive Officer Director	President & Chief Executive Officer of the Corporation	May 29, 2007	3,180,861 Common Shares 3,042,720 Options
JOHN B. KELLY <sup>(1)</sup> Ottawa, Ontario Chairman of the Board	Owner, Comfort Feeders, Ottawa	April 19, 2005	1,135,000 Common Shares 250,000 Options
WILLIAM OLLERHEAD <sup>(1)</sup> Toronto, Ontario Director	Managing Director, Ollerhead Capital	October 25, 2011	665,000 Common Shares 250,000 Options
MICHAEL WILLIAMS <sup>(1)(2)</sup> Waterloo, Ontario Director	Portfolio Manager, Independent Accountants' Investment Counsel Inc.	February 1, 2005	730,000 Common Shares 250,000 Options
BRUCE LINTON <sup>(3)(4)</sup> Ottawa, Ontario Director	Chief Executive Officer of HBAM Holding Ltd. Through HBAM Mr Linton has acted from Sept 2014 to present as Chief Executive Officer of Canopy Growth Corporation and from May 2013 to present as part-time CEO of Martello Technologies Corporation	October 25, 2012	500,000 Common Shares 250,000 Options
JACK SCHOENMAKERS <sup>(3)</sup> Kitchener, Ontario Director	President of Schoevest Investment Inc.	October 25, 2012	920,000 Common Shares 250,000 Options
DAVID SPAGNOLO <sup>(3)</sup> Calgary, Alberta Director	Senior Vice President, Oil & Gas of Ausenco	November 6, 2014	200,000 Common Shares 250,000 Options

Notes:

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

### Corporate Cease Trade Orders and Bankruptcies

Mr. William Ollerhead was a member of the board of directors of BioExx Specialty Proteins Ltd. until his resignation on July 30, 2013. In the months thereafter, new management was appointed (on August 29, 2013), and the company subsequently filed for and obtained an order from the Ontario Superior Court of Justice (Commercial Division) under the *Companies' Creditors Arrangement Act* (Canada), on October 1, 2013.

### APPOINTMENT OF AUDITORS

The Audit Committee and Board of Directors of the Corporation have nominated KPMG LLP for reappointment as auditors of the Corporation. The persons named in the Proxy intend to vote **FOR** the reappointment of KPMG LLP 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 KPMG LLP 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.

KPMG LLP was first appointed by shareholders at the annual general and special meeting of shareholders held on October 29, 2013.

## **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 (i) President & Chief Executive Officer, (ii) Chief Financial Officer, (iii) Chief Operating Officer, Americas, China and Global Heat Recovery Sales, (iv) , Director of GEM Technology and Europe and Rest of World GEM Sales and (v) Director of Heat Recovery Projects (together, the "Named Executive Officers" or "NEOs").

#### ***Executive Compensation Principles***

The Corporation does not employ any formal principles 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 in a general manner. The Board also relies in part on management for input and advice with respect to appropriate compensation levels. 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 Board also evaluates compensation of the NEOs, relative to a group of 20 clean tech companies traded on the TSX Venture Exchange (the "Peer Group") that have similar market capitalizations to the Corporation. This evaluation is used as a guidepost to ensure that total compensation of the NEOs, as well as each of the elements of the compensation package (base salary, short-term incentives and long-term incentives), are within a reasonable range when compared to the Peer Group. The 20 companies included in the Peer Group in 2014 were: CO2 Solutions Inc., Aqua-Pure Ventures Inc., West Mountain Capital Corp, Epicore BioNetworks Inc., Clean Seed Capital Group Ltd, Legend Power Systems Inc, CRS Electronics Inc, Eguana Technologies Inc., Innovente Inc, Vitreous Glass Inc., Wavefront Technology Solutions Inc, Formation Fluid Management Inc., Greenbriar Capital Corp, PyroGenesis Canada Inc., Viridis Energy Inc, Synodon Inc., ZENN Motor Company Inc., Nesscap Energy Inc, H2O Innovation Inc and Natcore Technology Inc. The Peer Group is reviewed from time to time to ensure that the inclusion criteria and companies on the list are still pertinent. Changes may be made, if necessary.

#### ***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 and from time to time thereafter. Historically, the Board has reviewed the compensation of the Named Executive Officers on an annual basis in light of opportunities for payments under the employee incentive plan as well as various performance parameters, such as operational improvements, cash flow, increases in sales and profitability, and share price improvements and considered any requested recommendations from the Ethics, Governance and Compliance Committee ("EGC Committee"). The EGC Committee is tasked with reviewing the compensation of the Named Executive Officers and other executives on an annual basis to determine if adjustments are necessary.

##### ***Employee Incentive Plan***

The Corporation has an employee incentive plan which allocated cash bonuses to employees of the Corporation based on a percentage of EBITDAS) for such fiscal year. EBITDAS is defined as earnings before

interest, taxation, depreciation, amortization, impairment of goodwill and other intangible assets, share based compensation expense and net write down of lease. Employees eligible for participation in the employee incentive plan were allocated among 5 different staff levels based on their job responsibilities. Payments under the employee incentive plan were dependent upon staff level and employee job performance.

In designing and approving the employee incentive plan, three main objectives were identified by the Corporation:

1. The amount that each employee could earn should be variable and correlated to the Corporation's success. Each employee's base salary plus incentives, should the Corporation meet its financial objectives, should be approximately equal to what the employee would earn outside of the Corporation given similar responsibilities.
2. The plan should be progressive, structured to motivate employees to exceed the established objectives and drive the creation of additional shareholder value.
3. The plan should be simple for employees to understand and fair to all stakeholders.

The Corporation also considered whether the incentive plan would encourage employee behavior or results that were not beneficial to the Corporation and attempted to ensure that the incentive plan was modeled in a way that is beneficial to both the employee and the Corporation. The process undertaken to develop and adopt the plan included a comprehensive review of the sales pipeline, a forecast of sales, profitability and cash flow, the establishment of financial objectives based upon the forecasted financials, and the alignment of the compensation plan with those established objectives. The Corporation set the established objectives at a level that reflected a significant improvement from the Corporation's past performance but still considered reasonable by the employees.

#### *Options*

In addition to the cash bonuses awarded pursuant to the incentive plan described above, 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. Previously granted options held by an individual are taken into account by the Board in considering new option grants.

#### **Summary Compensation Table**

The following table sets forth all compensation earned for each of the Corporation's three most recently completed financial years in respect of the individuals who were, at any time during the year ended May 31, 2015, Named Executive Officers of the Corporation. All dollar amounts are rounded to nearest dollar.

Name and Principal Position	Fiscal Year	Salary	Share-based Awards	Option-based Awards <sup>(1)(2)</sup>	Non-Equity Incentive Plan Compensation		Pension Value	Other Annual Compensation	Total Compensation
					Annual Incentive Plans	Long-Term Incentive Plans			
William Crossland President & Chief Executive Officer	2015	\$240,000	Nil	\$15,237	Nil	Nil	Nil	Nil	\$255,237
	2014	\$240,000	Nil	\$45,106	\$51,917	Nil	Nil	Nil	\$337,023
	2013	\$240,000	Nil	\$14,489	Nil	Nil	Nil	Nil	\$254,489
Julia Flynn Chief Financial Officer	2015	\$156,488 <sup>(4)</sup>	Nil	\$7,735	Nil	Nil	\$4,695 <sup>(3)</sup>	Nil	\$168,918
	2014	\$142,661 <sup>(4)</sup>	Nil	\$24,529	\$32,599	Nil	\$4,280 <sup>(3)</sup>	Nil	\$204,069
	2013	\$126,556 <sup>(4)</sup>	Nil	\$9,151	Nil	Nil	\$3,797 <sup>(3)</sup>	Nil	\$139,504
Rob Triebe Chief Operating Officer, Americas, China and Global Heat Recovery Sales	2015	\$153,699	Nil	\$7,735	Nil	Nil	Nil	Nil	\$161,434
	2014	\$149,222	Nil	\$24,529	\$32,599	Nil	Nil	Nil	\$206,350
	2013	\$139,501	Nil	\$9,151	Nil	Nil	Nil	Nil	\$148,652



Name and Principal Position	Fiscal Year	Salary	Share-based Awards	Option-based Awards <sup>(1)(2)</sup>	Non-Equity Incentive Plan Compensation		Pension Value	Other Annual Compensation	Total Compensation
					Annual Incentive Plans	Long-Term Incentive Plans			
Sam Mawby	2015	\$153,650 <sup>(4)</sup>	Nil	\$7,735	Nil	Nil	\$4,609 <sup>(3)</sup>	Nil	\$165,994
Director of GEM	2014	\$140,075 <sup>(4)</sup>	Nil	\$24,529	\$32,599	Nil	\$4,202 <sup>(3)</sup>	Nil	\$201,045
Technology and Europe and Rest of World GEM Sales	2013	\$118,144 <sup>(4)</sup>	Nil	\$9,151	Nil	Nil	\$3,544 <sup>(3)</sup>	Nil	\$130,839

Notes to table:

- (1) Based on the grant date fair value calculated using the Black-Scholes-Merton model. The Corporation chose the Black-Scholes-Merton model because it is a commonly used and accepted method of calculating grant date fair value. The assumptions underlying the model in Fiscal Year 2015 included: expected dividend of 0%, expected volatility of 87.7%, risk-free interest rate of 0.88% and expected option life of 4 years. There were two grants issued in Fiscal Year 2014. The assumptions underlying the model for the first grant in November 2013 included expected dividend of 0%, expected volatility of 91.7%, risk-free interest rate of 1.74% and expected option life of 4 years. The assumptions underlying the model for the second grant in May 2014 included expected dividend of 0%, expected volatility of 90.99%, risk-free interest rate of 1.5% and expected option life of 4 years. The assumptions underlying the model in Fiscal Year 2013 included: expected dividend of 0%, expected volatility of 90%, risk-free interest rate of 1.36% and expected option life of 4 years.
- (2) The Corporation made two stock options grants to employees in Fiscal Year 2014, one on November 18, 2013 that related to Fiscal 2013 and one on May 28, 2014 that related to Fiscal 2014. Historically, the Corporation has granted options in May of each fiscal year. However, during Fiscal 2012 and Fiscal 2013, the Corporation was unable to grant options in May due to expected pending news, and as a result the options related to those fiscal years were granted in November of the following fiscal year. In May 2014, the Corporation was able to grant the options related to Fiscal 2014 and as a result the options relating to both Fiscal 2013 and Fiscal 2014 were awarded in Fiscal 2014.
- (3) The Corporation matches a certain portion of Ms. Flynn's and Mr. Mawby's contributions to their personal pension plans. The Corporation does not maintain any pension plan.
- (4) Ms. Flynn and Mr. Mawby are compensated in UK Pound sterling. Average exchange rate to Canadian dollar was 1.836, 1.724 and 1.575 in Fiscal 2015, 2014 and 2013, respectively. In each of Fiscal 2015, 2014 and 2013, respectively, Ms. Flynn's salary in UK Pound sterling was £85,233, £82,750 and £80,340, and Mr. Mawby's salary in UK Pound sterling was £83,688, £81,250 and £75,000.

## 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, 2015.

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 <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
William Crossland	500,000	0.10	May 10, 2016	Nil	N/A	N/A	N/A
	570,000	0.10	Dec 1, 2016	Nil			
	570,000	0.10	Nov 22, 2017	Nil			
	402,000	0.05	Nov 18, 2018	\$4,020			
	500,360	0.105	May 28, 2019	Nil			
	500,360	0.0750	May 29, 2020	Nil			
Julia Flynn	250,000	0.10	May 10, 2016	Nil	N/A	N/A	N/A
	360,000	0.10	Dec 1, 2016	Nil			
	360,000	0.10	Nov 22, 2017	Nil			
	254,000	0.05	Nov 18, 2018	\$2,540			
	254,000	0.105	May 28, 2019	Nil			
	254,000	0.0750	May 29, 2020	Nil			

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 <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Rob Triebe	250,000	0.10	May 10, 2016	Nil	N/A	N/A	N/A
	360,000	0.10	Dec 1, 2016	Nil			
	360,000	0.10	Nov 22, 2017	Nil			
	254,000	0.05	Nov 18, 2018	\$2,540			
	254,000	0.105	May 28, 2019	Nil			
254,000	0.0750	May 29, 2020	Nil				
Sam Mawby	250,000	0.10	May 10, 2016	Nil	N/A	N/A	N/A
	360,000	0.10	Dec 1, 2016	Nil			
	360,000	0.10	Nov 22, 2017	Nil			
	254,000	0.05	Nov 18, 2018	\$2,540			
	254,000	0.105	May 28, 2019	Nil			
254,000	0.0750	May 29, 2020	Nil				

(1) Calculated based on the difference between the market value of the shares underlying the options at the end of the financial year ended May 31, 2015 and the exercise price of such option.

### ***Incentive Plan Awards – value vested or earned during the year***

The following incentive plan awards vested in favour of Named Executive Officers during the year ended May 31, 2015:

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-Based Awards – Value vested during the year (\$)	Non-equity incentive plan compensation – value earned during the year (\$)
William Crossland	\$3,350	Nil	See Summary Compensation Table Above
Julia Flynn	\$2,117	Nil	See Summary Compensation Table Above
Rob Triebe	\$2,117	Nil	See Summary Compensation Table Above
Sam Mawby	\$2,117	Nil	See Summary Compensation Table Above

Notes to table:

(1) Calculated as the difference between the market price of the underlying securities at the date of vesting and the exercise or base price of the options.

### **Termination and Change of Control Benefits**

#### ***William Crossland***

The Corporation is party to an employment agreement with William Crossland in respect of his appointment to the President and Chief Executive Officer role. In the event of a termination of Mr. Crossland's employment by the Corporation without cause, the Corporation shall provide Mr. Crossland with payment in lieu of notice equal to the base salary Mr. Crossland would have earned during the period ending on the date that is six months following the giving of such notice plus one additional month for each year or part thereof between July 31, 2010 and the date of giving such notice to a maximum of twelve (12) months. Mr. Crossland will also be entitled to benefit continuance for an equivalent period to the extent that continuance is permissible under the applicable benefit plan. All options held by Mr. Crossland shall vest on the last day of the notice period referred to above and he shall be entitled to exercise them for a period of ninety days thereafter. If Mr. Crossland's employment had been terminated without cause on May 31, 2015 the payment in lieu of notice pursuant to his employment contract would have amounted to \$220,000.

In addition to the foregoing, Mr. Crossland is entitled to resignation within six (6) months following a change of control of the Corporation and in such case he shall be entitled to the same payment in lieu of notice and benefit continuance to which he would have been entitled under a termination without cause as described above. For the purposes of Mr. Crossland's employment agreement a change of control is defined as either (i) a transaction or series of related transactions in which any party acquires more than 50% of the outstanding voting shares of the Corporation; or (ii) the closing of an amalgamation, reorganisation, plan of arrangement or similar transaction or series of related transactions (any of the foregoing, a "Combination Transaction") as a result of which the individuals and entities who were the respective beneficial owners of the voting securities of the Corporation prior to such Combination Transaction do not own immediately after such Combination Transaction, directly or indirectly, more than 50% of the voting securities of the entity resulting from the Combination Transaction.

### **Julia Flynn**

Julia Flynn has an employment agreement with the Corporation's wholly owned subsidiary, Thermal Energy International (UK) Limited. As Ms. Flynn has currently been employed for more than 2 years, in the event the Corporation terminates her employment in cases other than gross misconduct her employment agreement entitles her to one week notice per year of service to a maximum of 12 weeks of notice after twelve years of service. The Corporation has the right to make a payment in lieu of notice or to require Ms. Flynn to remain away from work during her notice period whichever may in the Corporation's discretion be appropriate. If Ms. Flynn's employment had been terminated without cause on May 31, 2015 the payment in lieu of notice pursuant to her employment contract would have amounted to \$24,928.

### **Sam Mawby**

Sam Mawby has an employment agreement with the Corporation's wholly owned subsidiary, Thermal Energy International (UK) Limited. As Mr. Mawby has currently been employed for more than 2 years, in the event the Corporation terminates his employment in cases other than gross misconduct his employment agreement entitles him to one week notice per year of service to a maximum of 12 weeks of notice after twelve years of service. The Corporation has the right to make a payment in lieu of notice or to require Mr. Mawby to remain away from work during his notice period whichever may in the Corporation's discretion be appropriate. If Mr. Mawby's employment had been terminated without cause on May 31, 2015 the payment in lieu of notice pursuant to his employment contract would have amounted to \$33,655.

Mr. Triebe does not currently have an employment agreement with the Corporation.

## **DIRECTOR COMPENSATION**

The following table provides information regarding compensation paid to the Corporation's non-executive directors during the financial year ended May 31, 2015.

<b>Name</b>	<b>Fees earned (\$)</b>	<b>Share based Awards (\$)</b>	<b>Option based Awards (\$)<sup>(1)</sup></b>	<b>Non-equity incentive plan compensation (\$)</b>	<b>Pension value (\$)</b>	<b>All other compensation (\$)</b>	<b>Total (\$)</b>
John B. Kelly	28,000	Nil	Nil	Nil	Nil	Nil	28,000
William Ollerhead	19,000	Nil	Nil	Nil	Nil	Nil	19,000
Michael Williams	25,000	Nil	Nil	Nil	Nil	Nil	25,000
Bruce Linton	21,417	Nil	Nil	Nil	Nil	Nil	21,417
Jack Schoenmakers	19,000	Nil	Nil	Nil	Nil	Nil	19,000
David Spagnolo	11,541	Nil	\$12,600	Nil	Nil	Nil	24,141
Donald R. Gibbs <sup>(2)</sup>	6,500	Nil	Nil	Nil	Nil	Nil	6,500

Notes to table:

- (1) Based on the grant date fair value calculated using the Black-Scholes-Merton model. The Corporation chose the Black-Scholes-Merton model because it is a commonly used and accepted method of calculating grant date fair value. The assumptions underlying the model in Fiscal Year 2015 included: expected dividend of 0%, expected volatility of 87.7%, risk-free interest rate of 0.88% and expected option life of 4 years.

- (2) Mr. Gibbs ceased to be a director of the Corporation following the annual general meeting of shareholders of the Corporation held on November 6, 2014.

The Corporation pays its non-executive directors \$15,000 annually as compensation for their service on the board plus an additional \$9,000 per annum payable to the chairman of the board, \$6,000 per annum payable to individual committee chairpersons and \$1,000 payable for attendance at each in-person meeting. All miscellaneous out-of-pocket expenses incurred by directors in carrying out their duties as directors of the Corporation are reimbursed by the Corporation.

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**”) vesting as to 1/3 on each of the first, second and third anniversaries of the date of grant. After the third anniversary of a director’s service on the Board, such director may be granted additional options to purchase 250,000 Common Shares.

***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, 2015.

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 (\$) <sup>(1)</sup>	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
John B. Kelly	250,000	0.10	Dec 1, 2016	Nil	N/A	N/A	N/A
William Ollerhead	250,000	0.10	Dec 1, 2016	Nil	N/A	N/A	N/A
Michael Williams	250,000	0.10	July 12, 2016	Nil	N/A	N/A	N/A
Bruce Linton	250,000	0.10	Nov 22, 2017	Nil	N/A	N/A	N/A
Jack Schoenmakers	250,000	0.10	Nov 22, 2017	Nil	N/A	N/A	N/A
David Spagnolo	250,000	0.0850	Nov 28, 2019	Nil	N/A	N/A	N/A

<sup>(1)</sup> Calculated based on the difference between the market value of the shares underlying the options at the end of the financial year ended May 31, 2015 and the exercise price of such option.

The following incentive plan awards vested in favour of non-executive directors during the year ended May 31, 2015:

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-Based Awards – Value vested during the year (\$)	Non-equity incentive plan compensation – value earned during the year (\$)
John B. Kelly	Nil	Nil	Nil
William Ollerhead	Nil	Nil	Nil
Michael Williams	Nil	Nil	Nil
Bruce Linton	Nil	Nil	Nil
Jack Schoenmakers	Nil	Nil	Nil
David Spagnolo	Nil	Nil	Nil

Notes to table:

(1) Calculated as the difference between the market price of the underlying securities at the date of vesting and the exercise or

base price of the options.

## 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, 2015.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by shareholders	23,690,720	\$0.10	9,970,864

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 on April 5, 2006 and September 5, 2014 with shareholder approval.

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 for 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.

## 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 \$17,100 per year, which is paid by the Corporation.

## **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS**

No executive officers, directors, employees and former executive officers, directors and employees of the Corporation or any of its subsidiaries were indebted to the Corporation or its subsidiaries as of the date hereof.

## **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.

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

### **Board of Directors of the Corporation**

Six out of seven members of the Board as of the date hereof and all of the members of the Audit Committee are considered independent. The Corporation's Board has determined that all directors except for William Crossland are independent within the meaning of National Instrument 58-101.

The Board has appointed an independent Chairman and separated the roles of Chairman and Chief Executive Officer.

### **Stock Ownership Policy**

On July 10, 2012, the Board approved formal stock ownership requirements for each member of the Board. At all times Board members are required to hold shares with a cost base to the Board member equal to one times the then current Annual Fixed Retainer. The "Annual Fixed Retainer" is the fixed annual cash compensation paid by the Corporation for serving on the Board plus any fixed annual cash compensation paid by the Corporation to such Board member for holding the position of Chair of the Board or Chair of a committee of the Board. The Annual Fixed Retainer does not include the amount of any per meeting fees or other variable amounts paid or payable to Board members. Each Board member has until the date that is the later of July 10, 2013 and 12 months from being appointed to the Board and, thereafter, 12 months from any change in the Annual Fixed Retainer to acquire sufficient shares to bring such Board member into compliance with the policy. If the Corporation is subject to special or prolonged blackout periods such that a Board member is effectively prevented from acquiring sufficient shares within the period, the period for compliance shall be automatically extended until, in the opinion of the EGC Committee, the Board member has had enough time out of blackout to acquire sufficient shares. To the Corporation's knowledge, all directors are in compliance with the stock ownership policy.

### **Directorships**

Other than as set out below none of the directors of the Corporation currently serve on the boards of directors of other reporting issuers (or the equivalent):

- Bruce Linton is the chairman and a director of Canopy Growth Corporation (TSX Venture Exchange)
- Jack Schoenmakers is a director of Tribute Resources Ltd. (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.

Several of the Corporation's board members have taken educational courses relating to the management of a public company recently. William Crossland, the Corporation's Chief Executive Officer, completed the Canadian Institute of Corporate Directors' Directors education program, a highly regarded program jointly developed by the Institute of Corporate Directors and the Rotman School of Management, University of Toronto, to help directors clarify their corporate governance mission and fully exercise their leadership potential as board members. Mr. Crossland also completed the following TSX Venture Exchange workshops: Venture Filing Fundamentals Workshop, Timely Disclosure Fundamentals Workshop and Managing a Public Company Workshop. John Kelly also completed the same TSX Venture Exchange workshops as Mr. Crossland, while William Ollerhead has also completed the Institute of Corporate Directors' Directors education program with the Rotman School of Management. Michael Williams has completed the TSX Venture Exchange's Managing a Public Company Workshop. David Spagnolo has completed the Institute of Corporate Directors' Directors Education Program from the Rotman School of Management.

### **Ethical Business Conduct**

The Board of Directors has established the EGC Committee to carry out the goals and objectives set out in the Corporate Disclosure Policy and to carry out Governance, Nomination and Compensation matters.

The Board has also established a Code of Conduct. The Code of Conduct establishes the principles that the Corporation is committed to conducting its business affairs in compliance with all applicable laws, statutes, rules, regulations and stock exchange policies and expects directors, officers and employees acting on its behalf to do likewise. In addition, business dealings among directors, officers and employees, and by directors, officers and employees, with shareholders, customers, suppliers, licensors, licensees, community organizations and governmental and regulatory authorities must be based on principles of honesty, integrity and the ethical standards outlined in the Code of Conduct.

### **Nominations of Directors**

The EGC Committee is tasked with (i) formally reviewing and making recommendations on an annual basis with respect to the composition of the Board and its committees, including a review of what competencies and skills the Board, as a whole, should possess and currently possesses and a review of the appropriate size of the Board in order to facilitate effective decision-making; (ii) identifying individuals qualified to become new Board and/or committee members, taking into consideration the competencies and skills that each such nominee will bring to the Board or committee and whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board member; and (iii) make recommendations of appropriate nominees to the Board and members of its committees.

### **Compensation**

Compensation for directors is determined by the Board as a whole in light of recommendations received from the EGC Committee. 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, William Ollerhead 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 12 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.

*William Ollerhead – B.A. (Statistics), MBA*

Experience: Mr. Ollerhead manages a private investment, management services, and corporate finance consulting Company. He was the founder, in 1997, of Ollerhead Capital Corporation which, until its sale in December of 2009, provided corporate finance advisory services in respect of the structuring and arranging of over \$600 million of private debt transactions. Mr. Ollerhead has gained on the job experience while serving on the boards of directors and audit committees of two public companies, one of which was listed on the TSX-Venture exchange and the other on the Toronto Stock Exchange. He spent seven years as an institutional investor, latterly co-administering a portfolio exceeding \$2 billion in assets, where a significant part of his role included the analysis of financial statements of a wide variety of companies and entities.

*John B. Kelly – B.B.A. (Finance), honors law degree, honorary Doctorate*

Experience: Mr. Kelly is recognized as a pioneer in Canadian technology with over 35 years of entrepreneurial and executive experience in this sector. Mr. Kelly is currently a Director of Murphy Business Services and the owner of Comfort Feeders. 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. Mr. Kelly has received many honors and awards including Master Entrepreneur of the Year, Ontario (1997), Most Respected CEO, Ottawa (1998), Civic Entrepreneur of the Year, Ottawa (1999) and Ottawa’s Business Man of the Year (2001).

### 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 auditors in each of the last two (2) fiscal years are as follows:

	Fiscal 2015	Fiscal 2014
Audit Fees <sup>(1)</sup>	\$115,436	\$112,177
Audit Related Fees <sup>(2)</sup>	\$Nil	\$7,500
Tax Fees <sup>(3)</sup>	\$26,910	\$47,712
All Other Fees <sup>(4)</sup>	\$503	\$Nil

Notes to Table:

- (1) "Audit Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton LLP, the Corporation's previous independent auditors, for professional services rendered by it for the audit of the Corporation's annual financial statements or services that were normally provided by Raymond Chabot Grant Thornton LLP in connection with statutory and regulatory filings or engagements. "Audit Fees" also include the fees billed by BDO LLP, independent auditors of Thermal Energy International (UK) Limited and GEMChem Limited, in the UK.
- (2) "Audit Related Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton LLP for assurance and related services rendered by them that were reasonably related to the performance of the audit or review of the Corporation's financial statements and were not reported as Audit Fees.
- (3) "Tax Fees" consist of the aggregate fees billed by Raymond Chabot Grant Thornton LLP, the Corporation's previous independent auditors, and KPMG LLP, the Corporation's current independent auditors, for professional services rendered by them for tax compliance, tax advice and tax planning. Tax services included tax compliance, tax advice and tax planning. "Tax Fees" also include the fees billed by BDO LLP, independent auditors of Thermal Energy International (UK) Limited and GEMChem Limited, in the UK.
- (4) "All Other Fees" consist of fees 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.

## SPECIAL BUSINESS – APPROVAL OF THE SHAREHOLDER RIGHTS PLAN

### Introduction

On September 28, 2012, the Board of Directors implemented a shareholder rights plan (the "**Original Plan**") with immediate effect, which was approved by shareholders on October 25, 2012. The Original Plan will expire in accordance with its terms on the date of the Meeting, unless reapproved by the shareholders at the Meeting. The Corporation is proposing to adopt a new shareholder rights plan (the "**Rights Plan**") substantially the same as the Original Plan, with the exception of changing the rights agent thereunder consistent with that certain Successor Rights Plan Agreement made as of September 8, 2014 between the Corporation, the predecessor rights agent and the successor rights agent. Approval of the Rights Plan will allow the Corporation to have a shareholder rights plan beyond the termination of the Meeting. A summary of the terms and conditions of the Rights Plan is contained in Appendix "B" to this Circular. In order for the Corporation to continue to have a shareholder rights plan in effect beyond the termination of the Meeting, the Rights Plan must be ratified by shareholders at the Meeting. Accordingly, shareholders will be asked at the Meeting to vote on a resolution, the text of which is contained below (the "**Rights Plan Resolution**"), to ratify, confirm and approve the adoption of the Rights Plan.

As described in greater detail below, the objective of the Rights Plan is to ensure, to the extent possible, that all shareholders of the Corporation are treated equally and fairly in connection with any initiative to acquire control of the Corporation. The Rights Plan discourages discriminatory, coercive or unfair take-overs of the Corporation and gives the Board time if, in the circumstances, it determines it is appropriate to take such time, to pursue alternatives to maximize shareholder value in the event an unsolicited take-over bid is made. Upon a bid which has not been approved by the Board, instead of providing the Board with 30 days to find an alternative bidder, which is what the *Securities Act* (Ontario) provides, the Rights Plan provides the Board with up to 45 days to find an alternative bidder. In connection with the Rights Plan, each shareholder receives rights that would allow the shareholder to buy additional Common Shares at a discount in the event of certain take-over bids (referred to as flip-in events). Prior to there being a take-over bid, the exercise price of each right is three times the market price of the Common Shares.

Upon a flip-in event, which, subject to certain exceptions, occurs when any person becomes the beneficial owner of 20% or more of the outstanding Common Shares, the exercise price of each right permits the holder thereof to purchase Common Shares at a 50% discount to their market price. This in turn would cause substantial dilution to the bidder. The Rights Plan was not adopted in response to or in anticipation of any pending or threatened take-over bid. It is not intended to and will not prevent a take-over of the Corporation. The Rights Plan does not reduce the duty of the Board to act honestly, in good faith and in the best interests of the Corporation, and to act on that basis if any offer is made, nor does the Rights Plan alter the proxy mechanisms to change the Board, create dilution on the initial issue of the rights or change the way in which Common Shares trade.

The summary is qualified in its entirety by, and is subject to, the full text of the Rights Plan. A complete copy of the Rights Plan is available upon request. Shareholders wishing to receive a copy of the Rights Plan should make their request 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](mailto: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. A copy of the Rights Plan will also be publicly available for free on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Purpose of the Rights Plan**

The objectives of the Rights Plan are to ensure, to the extent possible, that all shareholders of the Corporation are treated equally and fairly in connection with any initiative to acquire control of the Corporation. The Rights Plan is intended: (i) to prevent, to the extent possible, a creeping take-over of the Corporation (i.e. the acquisition of effective control through a number of purchases over time) by requiring that any take-over offer is made to all shareholders and cannot be completed unless shareholders holding a majority of the outstanding shares (other than those held by the offeror and related parties) accept the offer; (ii) to provide the Corporation with additional time to consider or pursue alternatives including those to maximize shareholder value in the event an unsolicited take-over bid is made for all or a portion of the outstanding shares of the Corporation; and (iii) to discourage certain discriminatory and coercive aspects of take-overs.

Take-over acquisitions may be structured to be discriminatory or coercive and may be initiated at a time when the Board of Directors will have a difficult time preparing an adequate response to the take-over initiative. Accordingly, take-overs do not always result in shareholders receiving equal or fair treatment or full or maximum value for their investment.

The purpose of the Rights Plan is to address the following concerns that are widely held to be inherent in the provisions of current legislation governing take-over bids in Canada:

#### ***(a) Time***

Canadian securities laws permit a take-over bid to remain open for a minimum of only 35 days, a period of time which the Board of Directors believes is insufficient for the directors to evaluate a take-over bid, explore, develop and pursue alternatives which it believes are preferable to the take-over bid or which could maximize shareholder value, and make reasoned recommendations to the shareholders. The Rights Plan provides that a Permitted Bid (as defined in the Rights Plan) must be open for a period which ends no less than 60 days (or such shorter period of time as may be permitted by the Board of Directors) after the offer date of the take-over bid and, additionally, for a further period of 10 business days after the Offeror publicly announces that outstanding Voting Shares and Convertible Securities (each as defined in the Rights Plan) held by Independent Shareholders (as defined in the Rights Plan) representing more than 50% of the aggregate of (A) then outstanding Voting Shares and (B) Voting Shares issuable upon the exercise of Convertible Securities have been deposited or tendered and not withdrawn and have previously been taken up or are taken up at the same time. Accordingly, the Rights Plan discourages discriminatory, coercive or unfair take-overs of the Corporation and gives the Board of Directors time if, in the circumstances, the Board of Directors determines it is appropriate to take such time, to consider and pursue alternatives in the event an unsolicited take-over bid is made.

#### ***(b) Pressure to Tender***

A shareholder may feel compelled to tender to a take-over bid which the shareholder considers to be inadequate because, if it fails to tender, the shareholder may be left with illiquid or minority discounted shares. The Rights Plan contains a shareholder approval mechanism in the Permitted Bid definition, which is that no Voting Shares may be taken up and paid for under the bid unless outstanding Voting Shares and Convertible Securities held by Independent Shareholders representing more than 50% of the aggregate of (A) then outstanding Voting Shares and (B) Voting Shares issuable upon the exercise of Convertible Securities have been deposited or tendered and not withdrawn and have previously been or are taken up at the same time. By requiring a Permitted Bid to remain open for acceptance for a further period of 10 business days following public announcement that outstanding Voting Shares and Convertible Securities held by Independent Shareholders have been taken up as aforesaid, a shareholder's decision to accept a bid is separated from the decision to tender, lessening concern about undue pressure to tender to the bid.

### ***(c) Unequal Treatment of Shareholders***

Under current Canadian securities legislation, an offeror may obtain control or effective control of the Corporation without paying full value, without obtaining shareholder approval and without treating all of the shareholders equally. For example, an offeror could acquire blocks of shares by private agreement from one or a small group of shareholders at a premium to market price which is not shared with the other shareholders. In addition, a person could slowly accumulate shares through stock exchange acquisitions which may result, over time, in an acquisition of control or effective control without paying a control premium or without sharing of any control premium among all shareholders fairly. Under the Rights Plan, if a take-over bid is to qualify as a Permitted Bid, all offers to acquire the Corporation's outstanding Voting Shares or Convertible Securities that would result in the offeror owning 20% or more of the Voting Shares beneficially must be made to all shareholders on the books of the Corporation for all of the Voting Shares held by them.

### **Effect of the Rights Plan**

It is not the intention of the Board members to entrench themselves or avoid a bid for control that is fair and in the best interests of shareholders. For example, shareholders may tender to a bid which meets the Permitted Bid criteria without triggering the Rights Plan, regardless of the acceptability of the bid to the Board. Furthermore, even in the context of a bid that does not meet the Permitted Bid criteria, the Board must act honestly and in good faith with a view to the best interests of the Corporation. Additionally, Canadian securities regulators recognize that shareholder rights plans serve a legitimate purpose. The Board believes that the dominant effect of the Rights Plan will be to enhance shareholder value, ensure equal treatment of all Independent Shareholders in the context of an acquisition of control and lessen the pressure upon a shareholder to tender to a bid.

### **Confirmation by Shareholders**

If the Rights Plan Resolution is approved at the Meeting, the Rights Plan will enter into effect and will expire at the time and on the date that the annual meeting of shareholders to be held in 2018 terminates, subject to earlier termination or expiration of the rights as set out in the Rights Plan. If the Rights Plan Resolution is not approved at the Meeting, the rights and the Original Plan will terminate. The Corporation reserves the right to alter any terms of the Rights Plan at any time prior to the Meeting in the event that the Board determines, in light of subsequent developments, that to do so is in the best interests of the Corporation and its shareholders.

Under the terms of the Rights Plan, the Rights Plan Resolution must be passed by a majority of the votes cast thereon by all shareholders. In addition, under TSX Venture Exchange requirements, the Rights Plan Resolution must be passed by a majority of the votes cast thereon by (a) all shareholders, and (b) all shareholders, without giving effect to any votes cast by (i) any shareholder that, directly or indirectly, on its own or in concert with others, holds or exercises control over more than 20% of the outstanding Voting Shares, if any, and (ii) the associates, affiliates and insiders of any person referred to in (i) above. At the date of this Circular, the Corporation believes that all shareholders are entitled to vote in respect of the Rights Plan Resolution.

**“BE IT RESOLVED THAT:**

1. the shareholder rights plan of the Corporation created by the Shareholder Rights Plan Agreement to be dated as of November 12, 2015 between the Corporation and CST Trust Company, as rights agent, as rights agent, (the “**Rights Plan**”), substantially on the terms described in Appendix “B” to this Circular, be continued, and the Rights Plan, which issues shareholder protection rights to holders of Common Shares that are outstanding at the Record Time (as defined in the Rights Plan) on the terms set out in the Rights Plan, and continues the issuance of rights thereafter to holders of newly issued Common Shares until the termination or expiration of the Rights Plan, be and is hereby ratified, confirmed and approved; and
2. any director or officer of the Corporation be and is hereby authorized, instructed and empowered, acting for, in the name of and on behalf of the Corporation, to do or to cause to be done all such other acts and things in the opinion of such director or officer as may be necessary or desirable in order to fulfill the intent of this resolution, such determination to be conclusively evidenced by the taking of any such actions.”

**Recommendation of the Board**

The Board has concluded that the Rights Plan is in the best interests of the Corporation and its shareholders. Accordingly, the Board unanimously recommends that the shareholders ratify, confirm and approve the Rights Plan by voting FOR the Rights Plan Resolution at the Meeting.

**Unless otherwise directed, the persons named in the enclosed form of proxy intend to vote for the approval of the Rights Plan Resolution.**

**ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://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, 2015. 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](mailto: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 2016 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 2<sup>nd</sup> day of October, 2015.

A handwritten signature in blue ink, appearing to read 'w m c e l', is positioned above the printed name of the signatory.

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.

## APPENDIX “B”

### SUMMARY OF SHAREHOLDER RIGHT PLAN

The summary is qualified in its entirety by, and is subject to, the full text of the Shareholder Rights Plan Agreement to be effective as of November 12, 2015 between Thermal Energy International Inc. (the “**Company**”) and CST Trust Company (the “**Rights Plan**”). A complete copy of the Rights Plan is available upon request. Shareholders wishing to receive a copy of the Rights Plan should make their request to the Company at its principal office at 36 Bentley Avenue, First Floor, Ottawa, Ontario, K2E 6T8, by facsimile to the Company at (613) 723-7286 or by e-mail to [bill.crossland@thermalenergy.com](mailto:bill.crossland@thermalenergy.com). A copy of the Rights Plan will also be filed on SEDAR at [www.sedar.com](http://www.sedar.com). The Company 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 Company.

The following is a summary of the terms and conditions of the Rights Plan. All capitalized terms where used in this summary without definition have the meanings attributed to them in the Rights Plan.

#### (a) Issuance of Rights

Under the Rights Plan, the Rights were issued as at the “**Record Time**” of 5:00 p.m. (Ottawa time) on November 12, 2015 (the “**Effective Date**”) on the terms set out in the Rights Plan to holders of each Common Share outstanding as at the Record Time and to holders of each “**Voting Share**” (which includes the Common Shares and any other shares in or interests of the Company entitled to vote generally in the election of directors) issued thereafter and prior to the Separation Time (as defined below), subject to the earlier termination or expiration of the Rights as set out in the Rights Plan.

#### (b) Exercise Price

Until the Separation Time, the exercise price (the “**Exercise Price**”) of each Right is three times the market price, from time to time, of the Common Shares. From and after the Separation Time, the Exercise Price is three times the market price, as at the Separation Time, per Common Share. The Exercise Price is subject to adjustment as set out in the Rights Plan.

On a Flip-In Event (as defined below) occurring, the Exercise Price will be applicable to the purchase of such number of Common Shares as have an aggregate market price equal to twice the Exercise Price, subject to any anti-dilution adjustments.

#### (c) Term

The Rights Plan took effect on the Effective Date, and will expire at the time and on the date that the annual meeting of shareholders to be held in 2018 terminates, subject to earlier termination or expiration of the Rights as set out in the Rights Plan.

Notwithstanding the foregoing, if the Rights Plan is not ratified, confirmed and approved at the Meeting, the Rights and the Rights Plan will terminate.

#### (d) Trading of Rights

Until the Separation Time, the Rights will be evidenced by the certificates representing the associated Voting Shares and will be transferable only together with the associated Voting Shares. After the Separation Time, separate certificates evidencing the Rights will be mailed to holders of record of Voting Shares as of the Separation Time and Voting Shares issued on conversion of Convertible Securities after the Separation Time and prior to the Expiration Time, promptly after such conversion (other than to any shareholder or group of shareholders making a take-over bid) as of the Separation Time and such separate Rights certificates alone will evidence the Rights. Subject to the Company complying with the requirements of the TSX Venture Exchange, the Rights Plan will be listed on the TSX Venture Exchange.

### (e) Separation Time

The Rights are not exercisable and do not trade separately from their associated Voting Shares until the Separation Time. The “**Separation Time**” is the close of business on the tenth trading day after the earliest of (i) the Stock Acquisition Date, which is the first date of public announcement of facts indicating that a person has become an Acquiring Person (as defined below); (ii) the date of the commencement of, or first public announcement of the current intention of any person (other than the Company or any subsidiary of the Company) to commence, a take-over bid (other than a Permitted Bid or a Competing Permitted Bid, each as defined below); and (iii) the date upon which a Permitted Bid or a Competing Permitted Bid ceases to be one. The Separation Time can also be such later date as may from time to time be determined by the Board of Directors.

### (f) Acquiring Person

An “**Acquiring Person**” is a person who is the Beneficial Owner (as defined below) of 20% or more of the then outstanding Voting Shares. Excluded from the definition of Acquiring Person are the Company and its subsidiaries and any person who becomes the Beneficial Owner of 20% or more of the then outstanding Voting Shares as a result of one or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Convertible Security Acquisition or a Pro Rata Acquisition. In general:

- (i) a “**Voting Share Reduction**” means an acquisition or a redemption by the Company of Voting Shares and/or Convertible Securities which, by reducing the number of Voting Shares and/or Convertible Securities outstanding, increases the percentage of Voting Shares Beneficially Owned by any person;
- (ii) a “**Permitted Bid Acquisition**” means an acquisition by a person of Voting Shares and/or Convertible Securities made pursuant to a Permitted Bid or a Competing Permitted Bid;
- (iii) an “**Exempt Acquisition**” means an “**Exempt Acquisition**” means an acquisition by a Person of Voting Shares and/or Convertible Securities (i) in respect of which the Board of Directors has waived the application of the Rights Plan, (ii) pursuant to a dividend reinvestment acquisition, (iii) pursuant to a distribution of Voting Shares and/or Convertible Securities made by the Company (A) to the public pursuant to a prospectus; or (B) by way of a private placement, provided that all necessary stock exchange approvals to such private placement have been obtained and such private placement complies with the terms and conditions of such approvals, or (iv) pursuant to an amalgamation, merger, arrangement or other statutory procedure requiring shareholder approval;
- (iv) a “**Convertible Security Acquisition**” means an acquisition of Voting Shares by a person upon the purchase, exercise, conversion or exchange of Convertible Securities acquired or received by such person pursuant to a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition; and
- (v) a “**Pro Rata Acquisition**” means an acquisition by a person of Voting Shares and/or Convertible Securities as a result of a stock dividend, a stock split or a rights offering issued on the same pro rata basis to all the holders of Voting Shares and/or Convertible Securities of the same class or series.

Also excluded from the definition of Acquiring Person are underwriters or banking or selling group members acting in connection with a distribution of securities and any “**Grandfathered Person**” (generally, any person who is the Beneficial Owner of 20% or more of the then outstanding Voting Shares at the Record Time). To the Company's knowledge, there are no Grandfathered Persons.

### (g) Beneficial Ownership

In general, a person is deemed to “**Beneficially Own**” securities actually held by others in circumstances where those holdings are or should be grouped together for purposes of the Rights Plan. Included are holdings by the

person's "**Affiliates**" (generally, a person that controls, is controlled by, or is under common control with a specified person) and "**Associates**" (generally, relatives sharing the same residence). Also included are securities that the person or any of the person's Affiliates or Associates has the right to acquire within 60 days (other than customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities and other than pursuant to pledges of securities in the ordinary course of business).

A person is also deemed to Beneficially Own any securities that are Beneficially Owned (as described above) by any other person with which, and in respect of which security, such person is acting jointly or in concert. A person is acting jointly or in concert with any other person who is a party to an agreement, commitment, arrangement or understanding with the first person for the purpose of acquiring or offering to acquire Voting Shares and/or Convertible Securities.

#### **(h) Exclusions from the Definition of Beneficial Ownership**

The definition of "**Beneficial Ownership**" contains several exclusions whereby a person is not considered to Beneficially Own a security. There are exemptions from the deemed Beneficial Ownership provisions for institutional shareholders acting in the ordinary course of business and the performance of their duties. These exemptions apply to: (i) an investment manager ("**Manager**") which holds securities in the performance of the Manager's duties for the account of any other person (a "**Client**"); (ii) a licensed trust company ("**Trust Company**") acting as trustee or administrator or in a similar capacity for the estates of deceased or incompetent persons (each an "**Estate Account**") or in relation to other accounts (each an "**Other Account**"); (iii) a person established by statute (a "**Statutory Body**"), the ordinary business or activity of which includes the management of investment funds for employee benefit plans, retirement plans and insurance plans (other than insurance plans administered by insurance companies) of various public bodies; and (iv) the administrator ("**Administrator**") of one or more pension funds or plans (a "**Plan**") registered under applicable law. The foregoing exemptions apply only so long as the Manager, Trust Company, Administrator or Plan is not then making or has not then publicly announced an intention to make a take-over bid, other than pursuant to a distribution by the Company or by means of ordinary market transactions. Also, a person will not be deemed to "**Beneficially Own**" a security because such person: (i) is a Client of the same Manager, an Estate Account or an Other Account of the same Trust Company, or a Plan with the same Administrator as another person or Plan on whose account the Manager, Trust Company or Administrator, as the case may be, holds such security; or (ii) is a Client of a Manager, Estate Account, Other Account or Plan, and the security is owned at law or in equity by the Manager, Trust Company, Administrator or Plan, as the case may be.

A person will not be deemed to "**Beneficially Own**" any securities that are the subject of a Permitted Lock-Up Agreement. A "**Permitted Lock-Up Agreement**" is an agreement (the "**Lock-Up Agreement**") between a person and one or more holders of Voting Shares and/or Convertible Securities (each a "**Locked-Up Person**") pursuant to which such Locked-Up Person agrees to deposit or tender Voting Shares and/or Convertible Securities to a take-over bid (the "**Lock-Up Bid**") made or to be made by the person or any of such person's Affiliates or Associates or any other person with which, and in respect of which security, such person is acting jointly or in concert, provided that:

- (i) the terms of such Lock-Up Agreement are publicly disclosed and a copy is made available to the public (including the Company) not later than the date of the Lock-Up Bid or, if the Lock-Up Bid has been made prior to the date on which such Lock-Up Agreement is entered into, not later than the date of such Lock-Up Agreement (or, if such date is not a business day, on the business day next following such date);
- (ii) the Lock-Up Agreement permits such Locked-Up Person to terminate its obligation to deposit or tender to or not to withdraw Voting Shares and/or Convertible Securities from the Lock-Up Bid, and to terminate any obligation with respect to the voting of such securities, in order to deposit or tender such securities to another take-over bid or to support another transaction:
  - (1) where the price or value of the consideration per Voting Share or Convertible Security offered under such other take-over bid or transaction:
    - (A) exceeds the price or value of the consideration per Voting Share and/or Convertible Security offered under the Lock-Up Bid; or

(B) exceeds by as much as or more than a specified amount (the “**Specified Amount**”) the price or value of the consideration per Voting Share or Convertible Security at which the Locked-Up Person has agreed to deposit or tender Voting Shares and/or Convertible Securities to the Lock-Up Bid, provided that such Specified Amount is not greater than 7% of the price or value of the consideration per Voting Share or Convertible Security offered under the Lock-Up Bid; and

(2) if the number of Voting Shares or Convertible Securities offered to be purchased under the Lock-Up Bid is less than 100% of the Voting Shares or Convertible Securities held by Independent Shareholders, where the price or value of the consideration per Voting Share or Convertible Security offered under such other take-over bid or transaction is not less than the price or value of the consideration per Voting Share or Convertible Security offered under the Lock-Up Bid and the number of Voting Shares and/or Convertible Securities to be purchased under such other take-over bid or transaction:

(A) exceeds the number of Voting Shares and/or Convertible Securities that the Offeror has offered to purchase under the Lock-Up Bid; or

(B) exceeds by as much as or more than a specified number (the “**Specified Number**”) the number of Voting Shares or Convertible Securities that the Offeror has offered to purchase under the Lock-Up Bid, provided that the Specified Number is not greater than 7% of the number of Voting Shares or Convertible Securities offered to be purchased under the Lock-Up Bid;

and for greater certainty, such Lock-Up Agreement may contain a right of first refusal or require a period of delay to give the Offeror under the Lock-Up Bid an opportunity to match the higher price, value or number in such other take-over bid or transaction, or other similar limitation on a Locked-Up Person's right to withdraw Voting Shares from the Lock-Up Agreement, so long as the limitation does not preclude the exercise by the Locked-Up Person of the right to withdraw Voting Shares and/or Convertible Securities in sufficient time to deposit or tender to the other take-over bid or support the other transaction; and

(iii) no “break-up” fees, “top-up” fees, penalties, expenses or other amounts that exceed in the aggregate the greater of:

(1) the cash equivalent of 2.5% of the price or value of the consideration payable under the Lock-Up Bid to a Locked-Up Person; and

(2) 50% of the amount by which the price or value of the consideration payable under another take-over bid or other transaction to a Locked-Up Person exceeds the price or value of the consideration that such Locked-Up Person would have received under the Lock-Up Bid,

shall be payable by a Locked-Up Person pursuant to the Lock-Up Agreement in the event that the Locked-Up Bid is not successfully concluded or if any Locked-Up Person fails to deposit or tender Voting Shares and/or Convertible Securities to the Lock-Up Bid or withdraws Voting Shares and/or Convertible Securities previously deposited or tendered thereto in order to deposit or tender to another take-over bid or support another transaction.

#### (i) Flip-In Event

A “**Flip-In Event**” occurs when any person becomes an Acquiring Person. If a Flip-In Event occurs prior to the Expiration Time that has not been waived by the Board of Directors (see “**Waiver**”, below), each Right (except for

Rights Beneficially Owned or which may thereafter be Beneficially Owned by an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, or any person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of such other person, or a transferee of any such person, which Rights will become null and void) shall constitute the right to purchase from the Company, on payment of the Exercise Price, Voting Shares having an aggregate market price equal to twice the Exercise Price, for an amount in cash equal to the Exercise Price, subject to anti-dilution adjustments.

#### **(j) Permitted Bid and Competing Permitted Bid**

A take-over bid will not trigger a Flip-In Event if it is a Permitted Bid or Competing Permitted Bid. A **“Permitted Bid”** is a take-over bid made by an Offeror by way of a take-over bid circular to all holders of Voting Shares on the books of the Company (other than the Offeror) for all Voting Shares held by them, and which complies with the following additional provisions:

- (i) no Voting Shares and/or Convertible Securities shall be taken up or paid for pursuant to the take-over bid prior to the close of business on a date which is no earlier than 60 days (or such shorter period of time as may be permitted by the Board of Directors) following the offer date of the take-over bid;
- (ii) outstanding Voting Shares and Convertible Securities held by Independent Shareholders representing more than 50% of the aggregate of (A) then outstanding Voting Shares and (B) Voting Shares issuable upon the exercise of Convertible Securities, have been deposited or tendered and not withdrawn, and have previously been or are taken up at the same time;
- (iii) unless the take-over bid is withdrawn, Voting Shares and/or Convertible Securities may be deposited or tendered pursuant to the take-over bid at any time prior to the close of business on the date of first take-up or payment for Voting Shares and/or Convertible Securities and all Voting Shares and/or Convertible Securities deposited or tendered pursuant to the take-over bid may be withdrawn at any time prior to the close of business on such date; and
- (iv) in the event that (ii) is satisfied as at the date of first take-up or payment for Voting Shares and/or Convertible Securities under the take-over bid, the Offeror will make a public announcement of that fact and the take-over bid will remain open for deposits and tenders of Voting Shares and/or Convertible Securities for not less than 10 business days from the date of such public announcement.

provided, however, that a take-over bid shall not be a Permitted Bid if, at the commencement of the take-over bid, the Offeror or any of its Affiliates or Associates or their respective advisors or other representatives (including directors, officers, employees and agents) or any person acting jointly or in concert with any of them in connection with the take-over bid, possessed Confidential Information, unless such Persons shall have entered into a Confidentiality Agreement with the Company within three months prior to the commencement of the take-over bid and the standstill provision contained in such Confidentiality Agreement has no force and effect as at the commencement of the take-over bid.

A Competing Permitted Bid is a take-over bid that is made after a Permitted Bid or another Competing Bid has been made but prior to its expiry, termination or withdrawal and that satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is required to remain open until a date that is no earlier than the later of (i) 35 days following the date of the takeover bid constituting the Competing Permitted Bid, and (ii) 60 days (or such shorter period of time as may be permitted by the Board of Directors) after the date on which the earliest Permitted Bid or Competing Permitted Bid which preceded the Competing Permitted Bid was made.

#### **(k) Redemption**

The Rights may be redeemed in certain circumstances:

- (i) *Redemption of Rights on Approval of Holders of Voting Shares and Rights.* The Board of Directors acting in good faith may, with the prior approval of the holders of Voting Shares or Rights, at any time prior to the occurrence of a Flip-In Event that has not been waived, elect to redeem all but not less than all of the outstanding Rights at a redemption price of \$0.00001 per Right (the “**Redemption Price**”), subject to adjustment for anti-dilution as provided in the Rights Plan.

If such redemption of Rights is proposed at any time prior to the Separation Time, such redemption or waiver shall be submitted for approval to the holders of Voting Shares. Such approval shall be deemed to have been given if the redemption or waiver is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders.

If such redemption of Rights is proposed at any time after the Separation Time, such redemption shall be submitted for approval to the holders of Rights. Such approval shall be deemed to have been given if the redemption is approved by holders of Rights by a majority of the votes cast by the holders of Rights (other than Rights which are Beneficially Owned by any Person who would not qualify as an Independent Shareholder).

- (ii) *Deemed Redemption.* If a person who has made a Permitted Bid, a Competing Permitted Bid or an Exempt Acquisition in respect of which the Board of Directors has waived or has been deemed to have waived the application of the Rights Plan consummates the acquisition of the Voting Shares and/or Convertible Securities, the Board of Directors shall be deemed to have elected to redeem the Rights for the Redemption Price.
- (iii) *Redemption of Rights on Withdrawal or Termination of Bid.* Where a take-over bid that is not a Permitted Bid Acquisition expires, is withdrawn or otherwise terminates after the Separation Time and prior to the occurrence of a Flip-In Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price. Upon the Rights being so redeemed, all the provisions of the Rights Plan shall continue to apply as if the Separation Time had not occurred and Rights Certificates had not been mailed, and the Separation Time shall be deemed not to have occurred and Rights shall remain attached to the outstanding Voting Shares.

#### **(l) Waiver**

The Board of Directors may waive the application of the Rights Plan in certain circumstances:

- (i) *Discretionary Waiver respecting Acquisition not by Take-over Bid Circular.* The Board of Directors acting in good faith may, with the prior approval of the holders of Voting Shares, at any time prior to the occurrence of a Flip-In Event that would occur by reason of an acquisition of Voting Shares and/or Convertible Securities otherwise than pursuant to a take-over bid made by means of a take-over bid circular sent to all holders of Voting Shares or by inadvertence when such inadvertent Acquiring Person has then reduced its holdings to below 20%, waive the application of the Rights Plan to such Flip-In Event. If the Board of Directors proposes such a waiver it shall extend the Separation Time to a date subsequent to the meeting of shareholders but not more than 10 business days thereafter.

If such waiver of Rights is proposed at any time prior to the Separation Time, such waiver shall be submitted for approval to the holders of Voting Shares. Such approval shall be deemed to have been given if the waiver is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders.

If such waiver of Rights is proposed at any time after the Separation Time, such waiver shall be submitted for approval to the holders of Rights. Such approval shall be deemed to have been given if the waiver is approved by holders of Rights by a majority of the votes cast by the holders of



Rights (other than Rights which are Beneficially Owned by any Person who would not qualify as an Independent Shareholder).

- (ii) *Discretionary Waiver respecting Acquisition by Take-over Circular and Mandatory Waiver of Concurrent Bids.* The Board of Directors may, prior to the occurrence of a Flip-In Event that would occur by reason of an acquisition of Voting Shares pursuant to a take-over bid made by means of a take-over bid circular sent to all holders of Voting Shares, waive the application of the Rights Plan to such a Flip-In Event, provided that if the Board of Directors waives the application of the Rights Plan to such a Flip-In Event, the Board of Directors shall be deemed to have waived the application of the Rights Plan in respect of any other Flip-In Event occurring by reason of any such take-over bid made by means of a take-over bid circular sent to all holders of Voting Shares prior to the expiry of the take-over bid for which a waiver is, or is deemed to have been, granted.
- (iii) *Waiver of Inadvertent Acquisition.* The Board of Directors may waive the application of the Rights Plan in respect of the occurrence of any Flip-In Event if (i) the Board of Directors has determined that a person became an Acquiring Person under the Rights Plan by inadvertence and without any intent or knowledge that it would become an Acquiring Person; and (ii) the Acquiring Person has reduced its Beneficial Ownership of Voting Shares such that at the time of waiver the person is no longer an Acquiring Person.

#### **(m) Anti-Dilution Adjustments**

The Exercise Price of a Right, the number and kind of shares subject to purchase upon exercise of a Right, and the number of Rights outstanding, will be adjusted in certain events, including:

- (i) if the Company issues stock dividends, or if there is a subdivision or consolidation of the Common Shares, or an issuance of Common Shares or Convertible Securities in respect of, in lieu of, or in exchange for existing Common Shares; or
- (ii) if the Company fixes a record date for the distribution to all holders of Common Shares of certain rights, options or warrants to acquire Voting Shares or Convertible Securities, or for the making of a distribution to all holders of Voting Shares of evidences of indebtedness or assets (other than regular periodic cash dividends or stock dividends payable in Voting Shares) or rights or warrants.

#### **(n) Supplements and Amendments**

The Company may make changes to the Rights Plan prior to or after the Separation Time to correct any clerical or typographical error or to maintain the validity of the Rights Plan as a result of any change in any applicable legislation, rules or regulation without the approval of the holders of the Voting Shares or Rights. The Company may also make changes to the Rights Plan that the Board of Directors, acting in good faith, may deem necessary or desirable, at any time prior to the date on which shareholders of the Company convene a meeting of shareholders to consider and, if thought fit, confirm the Plan, without the approval of the holders of the Voting Shares or the Rights. The Company may, with the approval of the holders of Voting Shares, at any time prior to the Separation Time, make changes to amend, supplement, restate or rescind any of the provisions of the Rights Plan and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally). The Company may, with the approval of the holders of Rights, at any time after the Separation Time, make changes to amend, supplement, restate or rescind any of the provisions of the Rights Plan and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally).

