

This document is important and requires you to MAKE A DECISION PRIOR TO 4:00 P.M. TORONTO TIME ON March 27, 2002. IF YOU ARE IN DOUBT as to how to deal with it, you should consult your investment dealer, stockbroker, bank manager or other professional adviser.

The common shares issuable on the exercise of the rights will be listed on the Canadian Venture Exchange ("CDNX").

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. This offering is made in each of the provinces and territories of Canada. The securities to which this offering relates have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold within the United States of America or to any resident thereof.

Rights Offering

January 31, 2002



THERMAL ENERGY INTERNATIONAL INC.

Offering of Rights to Subscribe for Flow-Through Shares Subscription Price: \$0.40 per Flow-Through Share

Registered and Principal Office:	34 Bentley Avenue, 2 nd Floor, Ottawa, Ontario K2E 6T8
Record Date:	February 11, 2002.
Expiration Time:	4:00 p.m. (Toronto time) on March 27 , 2002.
Subscription Price:	\$0.40 per Flow-Through Share.
Entitlement to Rights and Basic Subscription Privilege:	Each Shareholder on the Record Date is entitled to receive one Right for each Common Share held. Four (4) Rights held by a holder of Rights will entitle such holder to subscribe for one Flow-Through Share at the Subscription Price.
Additional Subscription Privilege:	Holders of Rights who fully exercise their Rights under the Basic

Subscription Privilege may also subscribe *pro rata* for additional Flow-Through Shares not subscribed for initially, if any, on the basis set forth within.

Minimum Amount of Proceeds and Maximum Number of Shares Issuable: This rights offering is not conditional on receiving minimum proceeds. The maximum number of shares that the Company will issue under the Basic and Additional Subscription Privileges will be 4,100,000.

Net Proceeds to Issuer: Approximately \$1,540,000 after deduction of estimated expenses of \$100,000, assuming full subscription.

To the holders of Thermal Energy International Inc.:

Thermal Energy International Inc. (“TMG” or the “Company”) is issuing to the shareholders (“Shareholders”) of its common shares (the “Common Shares”) of record as at the close of business on February 11, 2002 (the “Record Date”), rights (the “Rights”) to subscribe for and purchase from TMG an aggregate of approximately 4,100,000 Common Shares issued on a flow-through basis (“Flow-Through Shares”) at a price (the “Subscription Price”) of \$0.40 per Flow-Through Share on the terms set forth herein. Each Shareholder on the Record Date will receive one Right for each Common Share held. Four (4) Rights entitle the holder to acquire one Flow-Through Share upon payment of the Subscription Price. The Flow-Through Shares issuable on the exercise of the Rights will be listed on the Canadian Venture Exchange (“CDNX”).

Holders of Rights who exercise their Rights in full are entitled to subscribe *pro rata* for additional Flow-Through Shares pursuant to the Additional Subscription Privilege described herein.

The purchasers of the Flow-Through Shares are expected to receive certain deductions for income tax purposes. Tax deductions for a tax year are dependant on the Corporation expending funds on certain Qualifying Expenditures as set forth in the *Income Tax Act* (Canada). The right to flow-through expenses is a contractual right between TMG and the initial purchaser of the Flow-Through Shares and can not be transferred to subsequent purchasers of Flow-Through Shares. See “Canadian Federal Income Tax Considerations”.

HOLDERS OF RIGHTS WHO EXERCISE THEM MUST FOLLOW THE PROCEDURES UNDER “FLOW-THROUGH SHARES – OBTAINING THE TAX BENEFIT” TO RECEIVE THE CANADIAN EXPLORATION EXPENSE TAX BENEFITS. QUESTIONS ABOUT HOW TO OBTAIN THE TAX BENEFIT SHOULD BE REFERRED TO THE COMPANY.

**THE RIGHTS WILL BE LISTED AND POSTED FOR TRADING ON THE CDNX AND THE FLOW-
THROUGH SHARES ISSUABLE ON THE EXERCISE OF THE RIGHTS WILL BE LISTED ON THE
CDNX.**

SUMMARY

The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this offering circular.

The Issue:	Rights to subscribe for Flow-Through Shares on the basis of one Flow-Through Share for every four (4) Rights.
Record Date:	February 11, 2002
Commencement Date:	February 11, 2002
Expiration Time:	4:00 p.m. (TORONTO TIME) on March 27, 2002.
Eligible Jurisdictions:	Ontario, Alberta, British Columbia and Manitoba
Entitlement to Rights:	Each Shareholder on the Record Date is entitled to receive one Right for each Common Share held.
Basic Subscription Privilege:	Four (4) Rights held by a holder of Rights will entitle such holder to subscribe for one Flow-Through Share at the Subscription Price.
Subscription Price:	\$0.40 per Flow-Through Share.
Additional Subscription Privilege	Holders of Rights who fully exercise their Rights are entitled to subscribe <i>pro rata</i> for additional Flow-Through Shares not otherwise purchased pursuant to the exercise of Rights. See "Additional Subscription Privilege".
Maximum Number of Flow-Through Shares Issuable:	4,100,000.
Maximum Net Proceeds:	Approximately \$1,540,000 after deduction of estimated expenses of \$100,000, inclusive of all fees and expenses.

Listing:	The Rights will be listed on the CDNX. The Flow-Through Shares will be listed on the CDNX.
Reasons for the Offering:	<p>To raise up to approximately \$1,540,000 to accelerate and fund the growth of Thermal Energy's FLU-ACE® Energy Recovery Solutions business, in order to meet growing demand. With the success of TMG's strategic alliance with Honeywell, combined with the proven superior performance of TMG's FLU-ACE® technology; the timing is right for expanding focused sales, marketing, and business development efforts to accelerate revenue growth.</p> <p>To provide TMG's shareholders with a unique investment opportunity to participate in directly supporting the acceleration of TMG's growth and success, while at the same time receiving a Canadian income tax credit equal to the amount invested in the Flow Through Shares offered by TMG.</p> <p>Specifically, TMG's shareholders who elect to take advantage of this rights offering will obtain the ability to deduct the entire amount of their investment from their Canadian gross annual taxable income - over the 2002 and 2003 combined two (2) year period. Furthermore, taxpayers in a loss position can carry the expenses forward indefinitely for deduction in later years. In addition to the tax benefit, the shareholders who exercise their Rights will maintain the potential for capital gains which may arise from the newly acquired common shares. See "Canadian Federal Income Tax Considerations".</p> <p>HOLDERS OF RIGHTS WHO EXERCISE THEM MUST FOLLOW THE PROCEDURES UNDER "FLOW-THROUGH SHARES – OBTAINING THE TAX BENEFIT" TO RECEIVE THE CANADIAN EXPLORATION EXPENSE TAX BENEFITS. QUESTIONS ABOUT HOW TO OBTAIN THE TAX BENEFIT SHOULD BE REFERRED TO THE COMPANY.</p>
Use of Proceeds:	<p>The net proceeds of the funds raised under this Flow-Through Share Rights Offering, must be utilized by TMG to pay for those costs or expenses which qualify under the Canadian Government's definition as "Canadian Renewable and Conservation Expense (or CRCE)".</p> <p>With respect to TMG's business operations, the specific qualifying CRCEs</p>

would include all Canadian FLU-ACE® project development costs, including focused: sales, marketing, business development, pre-feasibility and feasibility studies, engineering analysis, engineering design development, site permitting/approvals, site preparation, pre-start up training of O&M personnel, and commissioning and start-up of plant costs. See “Canadian Federal Income Tax Considerations”.

The use of the Flow-Through Share proceeds will depend upon the degree of subscription by the shareholders of this Flow-Through Share offering, by the Company. However, if this Flow-Through Share offering is **fully subscribed**, then in general terms, the Company expects to utilize the net proceeds as follows :

- 35% for Sales Activities (or Pre-Feasibility) (subject to full subscription)
- 15% for Marketing and Business Development (or Pre-Feasibility) (subject to full subscription)
- 25% for Detailed Feasibility Studies, and Engineering Design Development (subject to full subscription)
- 25% for Process Engineering Analysis, Start-up & Commissioning, and Other (subject to full subscription)

DEFINITIONS

“**CDNX**” means the Canadian Venture Exchange;

“**Tax Act**” means the Income Tax Act (Canada) as amended from time to time;

“**Regulation**” means a regulation promulgated pursuant to the *Tax Act*; and

“**Qualifying Expenditures**” means Canadian renewable and conservation expenses (“CRCE”) as described in paragraph (g.1) of the definition of Canadian exploration expense in subsection 66.1(6) of the Tax Act or which would be described in paragraph (h) thereof if the reference therein to “paragraphs (a) to (d) and (f) to (g.1)” were read on a reference to “paragraph (g.1)”.

THERMAL ENERGY INTERNATIONAL INC.

Thermal Energy International Inc. of Ottawa, Ontario (“TMG” or the “Company”) was incorporated in 1987 and has been a CDNX listed company since 1994. The Company has an established track record of delivering proprietary products for energy conservation and environmental compliance coupled with strong engineering services.

The Company has demonstrated its FLU-ACE® technology through numerous commercial and industrial installations. FLU-ACE® has proven to be a highly efficient and cost effective Heat Recovery (“HR”) and Air Pollution Control (“APC”) solution, which can be applied to a wide variety of target industries. Over the past few years, Thermal Energy has co-marketed and implemented its’ FLU-ACE® HR and APC technology solutions through a strategic alliance with Honeywell Limited. The Honeywell & Thermal Energy team have jointly offered and provided “Leading Edge Solutions to Mission Critical Activities for Environmental Compliance, Energy Conservation with Economic Payback, and Capital Infrastructure; resulting in Better Business Outcomes” for our industrial customers. The customer’s risk is fully mitigated through a performance guarantee and project capital financing provided by Honeywell Limited. The Company will target both the US and Canada with their FLU-ACE® product and over the long term the Company will also seek global opportunities for all product lines.

REASONS FOR THE RIGHTS OFFERING

TMG intends to raise up to approximately \$1,540,000 through the offering of Flow-Through Shares to accelerate and fund the growth of Thermal Energy’s FLU-ACE® Energy Recovery Solutions business, in

order to meet growing demand. With the success of TMG's strategic alliance with Honeywell, combined with the proven superior performance of TMG's FLU-ACE® technology; the timing is right for expanding focused sales, marketing, and business development efforts to accelerate revenue growth.

In addition the offering will provide TMG's shareholders with a unique investment opportunity to participate in directly supporting the acceleration of TMG's growth and success, while at the same time receiving a Canadian income tax credit equal to the amount invested in the Flow Through Shares offered by TMG.

Specifically, TMG's shareholders who elect to take advantage of this rights offering will obtain the ability to deduct the entire amount of their investment from their Canadian Gross Annual Taxable Income - over the 2002 and 2003 combined two (2) year period. Furthermore, taxpayers in a loss position can carry the expenses forward indefinitely for deduction in later years. In addition to the tax benefit, the shareholders who exercise their Rights will maintain the potential for capital gains which may arise from the newly acquired common shares. See "Canadian Federal Income Tax Considerations" and "Flow-Through Shares – Obtaining the Tax Benefit".

DETAILS OF THE OFFERING

The Rights

Shareholders of TMG at the close of business on February 11, 2002 (the "Record Date"), are entitled to receive rights (the "Rights") on the basis of one Right for each Common Share held on the Record Date. The Rights permit the holders thereof to subscribe for and purchase from TMG an aggregate of approximately 4,100,000 Common Shares, each Common Share subject to an agreement to flow through certain tax deductible expenses from TMG to purchasers ("Flow-Through Shares").

The Rights are offered in reliance upon exemptions from the prospectus requirements under the securities legislation of the Provinces of British Columbia, Alberta, Manitoba and Ontario.

The Rights will be listed on the CDNX until noon (Toronto time) on March 27, 2002. The Flow-Through Shares will be listed on CDNX as Common Shares of TMG. The right to flow-through expenses is a contractual right between TMG and the initial purchaser of the Flow-Through Shares and can not be transferred to subsequent purchasers of Flow-Through Shares. See "Canadian Federal Income Tax Considerations" and "Flow-Through Shares – Obtaining the Tax Benefit".

Flow-Through Shares

TMG has agreed to expend an amount equal to the aggregate proceeds received from subscribers for Flow-Through Shares on Canadian Renewable and Conservation Expenses (“CRCE”) and renounce such expenditures in favour of the subscribers for Flow-Through Shares. The renunciation will entitle the subscribers to claim deductions for income tax purposes. An investor who purchases Flow-Through Shares must execute and deliver to TMG a subscription agreement in respect of the Flow-Through Shares in order for the investor to receive the deductions in respect of CRCE incurred by TMG. See “Canadian Federal Income Tax Considerations” and “Flow-Through Shares – Obtaining the Tax Benefit”.

The subscription agreement to be entered into between TMG and each purchaser of Flow-Through Shares will provide an indemnity to such purchaser in the event that TMG fails to incur sufficient CRCE or otherwise fails to renounce to such purchaser amounts equal to the proceeds received from the distribution of Flow-Through Shares. Reference should be made to the terms and conditions of subscription for the Flow-Through Shares for the full particulars relating to the issuance of Flow-Through Shares. See “Flow-Through Shares – Obtaining the Tax Benefit”.

Subscription Basis

Four (4) Rights entitle the holder to subscribe for one Flow-Through Share at a price (the “Subscription Price”) of \$0.40. See below, under “Basic Subscription Privilege”.

Commencement Date and Expiration Time

The Rights will be eligible for exercise following February 11, 2002 (the “Commencement Date”). The Rights will expire at 4:00 p.m. (Toronto time) (the “Expiration Time”) on March 27, 2002 (the “Expiration Date”). **RIGHTS NOT EXERCISED BY THE EXPIRATION TIME WILL BE VOID.**

CERTIFICATES

Common Shares Held in Registered Form

The Rights under the offering will be issued in registered form to those Shareholders whose Common Shares are held in registered form and a certificate (“Rights Certificate”) evidencing the total number of Rights to which each registered Shareholder is entitled has been delivered together with this circular.

In order to exercise subscription rights conferred by Rights, a holder of Rights will be required to deposit at the principal office of Computershare Trust Company of Canada (“Subscription Agent”) in the City of Toronto, the Rights Certificate representing the Rights to be exercised, having duly completed Form 1. The Rights are exercisable at any time between the Commencement Date and the Expiration Time. The Rights Certificate and subscription form must be accompanied by payment of the Subscription Price. The date on which the Rights are deemed to be exercised is the date on which the Rights Certificate and subscription form relative thereto and the Subscription Price are lodged with the Subscription Agent at its offices specified above.

For those Shareholders whose Common Shares are held in registered form, Flow-Through Shares acquired through the exercise of Rights will be registered in the name of the person to whom the Right Certificate was issued. Certificates evidencing such Flow-Through Shares will be mailed as soon as practicable after the Expiration Date.

Beneficial Shareholders

Beneficial shareholders should contact their stockbroker or investment dealer to subscribe for Flow-Through Shares.

BASIC SUBSCRIPTION PRIVILEGE

A subscriber may subscribe for the number of Flow-Through Shares determined by dividing the number of Rights held by the subscriber four, or any lesser number of Flow-Through Shares by delivering the Rights Certificate that accompanies this circular to the Subscription Agent along with payment of the Subscription Price.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of Computershare Trust Company of Canada. All payments must be forwarded to the offices of the Subscription Agent. The entire Subscription Price for Flow-Through Shares subscribed for must be paid at the time of subscription and must be received by the Subscription Agent prior to the Expiration Time.

Payment of the Subscription Price will constitute a representation to the Subscription Agent that the subscriber is not a citizen or resident of the United States of America, its territories or possessions or the custodian of any such person and is not purchasing the Flow-Through Shares for resale to any such person.

Subscriptions for Flow-Through Shares made in connection with this offering are irrevocable and subscribers will be unable to withdraw their subscriptions for Flow-Through Shares once submitted.

ADDITIONAL SUBSCRIPTION PRIVILEGE

Each holder of Rights who has initially subscribed for all of the Flow-Through Shares to which such holder is entitled may make application for additional Flow-Through Shares, if available, at a price equal to the Subscription Price for each additional Flow-Through Share.

The number of Flow-Through Shares available for all additional subscriptions (the “Additional Flow-Through Shares”) will be the difference, if any, between the total number of Flow-Through Shares issuable upon exercise of Rights and the total number of Flow-Through Shares subscribed and paid for pursuant to the Basic Subscription Privilege at the Expiration Date. The maximum number of Flow-Through Shares issuable has been set at 4,100,000. Applications for Additional Flow-Through Shares will be received subject to allotment only and the number of Additional Flow-Through Shares, if any, which may be allotted to each applicant will be equal to the lesser of (a) the number of Additional Flow-Through Shares which that applicant has subscribed for under the Additional Subscription Privilege and (b) the product (disregarding fractions) obtained by multiplying the number of Additional Flow-Through Shares available to be issued by a fraction, the numerator of which is the number of Rights exercised by that applicant under the Basic Subscription Privilege and the denominator of which is the aggregate number of Rights exercised under the Basic Subscription Privilege by all applicants under the Additional Subscription Privilege. If any holder of Rights has subscribed for fewer Additional Flow-Through Shares

than such holder's pro rata allotment of Additional Flow-Through Shares, the excess Additional Flow-Through Shares will be allotted in a similar manner among the holders who were allotted fewer Additional Flow-Through Shares than they subscribed for.

To apply for Additional Flow-Through Shares under the Additional Subscription Privilege, any holder of a Rights Certificate who completes Form 1 on the Rights Certificate for the maximum number of Flow-Through Shares that can be subscribed for pursuant to the Basic Subscription Right must also complete Form 2 on the Rights Certificate and specify the number of Additional Flow-Through Shares desired to be subscribed for. Payment for Additional Flow-Through Shares, in the same manner as for the Basic Subscription Privilege, must accompany the Rights Certificate or the request when it is delivered to the Subscription Agent. Any excess funds will be returned by mail without interest or deduction. Payment of such price must be received by the Subscription Agent prior to the Expiration Time, failing which the subscriber's entitlement to such Flow-Through Shares shall terminate.

FLOW-THROUGH SHARES – OBTAINING THE TAX BENEFIT

THE INCOME TAX DEDUCTION FOR CANADIAN EXPLORATION EXPENSE (CEE) IN CONNECTION WITH THE FLOW-THROUGH SHARES IS AVAILABLE ONLY TO THE BENEFICIAL HOLDER WHO EXERCISES THE RIGHTS TO PURCHASE THE FLOW-THROUGH SHARES.

TO BE ABLE TO RENOUNCE CEE TO THE HOLDERS WHO EXERCISE THE RIGHTS, THE COMPANY MUST HAVE THE NAME, ADDRESS AMOUNTS SUBSCRIBED AND SOCIAL INSURANCE NUMBER (OR CORPORATION OR PARTNERSHIP NUMBER) OF SUCH HOLDERS.

IF YOU ARE:

- (A) THE REGISTERED HOLDER OF COMMON SHARES AND EXERCISING YOUR RIGHTS; OR,
- (B) A TRANSFEREE OF THE RIGHTS AND ARE EXERCISING THEM; OR,

- (C) EXERCISING YOUR RIGHTS THROUGH A REGISTERED DEALER OR BROKER, THEN,

YOU MUST SEND THE COMPANY YOUR NAME, ADDRESS, AMOUNT SUBSCRIBED, AND YOUR SOCIAL INSURANCE NUMBER (OR CORPORATION OR PARTNERSHIP NUMBER).

REGISTERED DEALERS OR BROKERS WHO ACT ON BEHALF OF THEIR CLIENTS TO EXERCISE RIGHTS MUST PROVIDE THE ABOVE INFORMATION ON BEHALF OF THEIR CLIENTS TO THE COMPANY.

THE SUBSCRIBER MAY NOT BE ENTITLED TO THE TAXABLE BENEFIT IF THE INFORMATION REQUESTED IS NOT RECEIVED. THE COMPANY WILL NOT BE RESPONSIBLE TO THOSE HOLDERS WHO DO NOT PROVIDE SUCH INFORMATION. QUESTIONS ABOUT HOW TO OBTAIN THE TAX BENEFIT SHOULD BE REFERED TO THE COMPANY.

SALE OR TRANSFER OF RIGHTS

Holders of Rights may, instead of exercising their Rights to purchase Flow-Through Shares, sell or transfer their Rights.

Holders of Rights in registered form may transfer all or some of such Rights to others by delivery of the Rights Certificate, providing that the transfer form (Form 3) has been duly completed.

Rights will be listed on the Canadian Venture Exchange (CDNX) and may be bought or sold through normal investment channels.

NON-PARTICIPATING SHAREHOLDERS

The Rights are not qualified for sale under the securities laws of any jurisdiction other than British Columbia, Alberta, Manitoba, Ontario and those jurisdictions where it is not unlawful to do so. Further, the Rights may not be exercised by or on behalf of a holder resident in a non-qualifying jurisdiction. Rights Certificates will not be sent to Common Shareholders with record addresses in any such non-qualifying jurisdiction. Instead, Non-Participating Shareholders will be sent a letter advising them that

their Rights Certificates will be issued to and held by Computershare Trust Company of Canada (the “Subscription Custodian”), who will hold such Rights as custodian for the benefit of all Non-Participating Shareholders. The Subscription Custodian will, prior to the Expiry Time, attempt to sell the Rights on a best efforts basis at such price or prices as the Subscription Custodian determines in its sole discretion. The Subscription Custodian’s ability to sell such Rights, and the price for which such Rights may be sold, are dependent on market conditions. The Subscription Custodian shall not be subject to any liability for failure to sell any Rights of Non-Participating Shareholders at a particular price or at all.

The net proceeds, if any, received by the Subscription Custodian from the sale of such Rights will be divided among the Non-Participating Shareholders *pro rata* according to the number of Common Shares held by them on the Record Date. The Subscription Custodian will mail cheques in an amount equal to the proceeds of the sale (net of reasonable expenses and any amount withheld in respect of Canadian taxes) to Non-Participating Shareholders at their addresses appearing on the records of the Company on the Record Date; provided that the Subscription Custodian will not be required to make any such payment to any Non-Participating Shareholder in the event that the amount owing to the Non-Participating Shareholder is less than \$10.00. Such amount will be used by the Company to offset a portion of the remuneration of the Subscription Custodian for its services. There is a risk that the proceeds received from the sale of the Rights will not exceed the brokerage commission, if any, incurred by the Subscription Custodian, and charges of the Subscription Custodian in respect the sale of such Rights. In that event, no proceeds will be credited to such Non-Participating Shareholders.

A registered Common Shareholder whose address appears on the records of the Company as other than in a qualifying jurisdiction, but who holds Rights on behalf of a holder who is eligible to participate in this Rights Offering, must notify the Subscription Custodian, in writing, on or before the seventh day prior to the Expiry Time that the beneficial holder, on behalf of whom such Common Shares are held, wishes to participate in this Rights Offering; in that case, the registered Common Shareholder giving notification must provide evidence, satisfactory to the Subscription Custodian and the Company, as to the eligibility of the beneficial holder. Otherwise, the Subscription Custodian will sell the Rights held on such beneficial holder’s behalf as described above. **Accordingly, the Subscription Custodian will not commence to attempt to sell Rights of Non-Participating Shareholders until after the seventh day prior to the Expiry Time.**

SHAREHOLDERS OUTSIDE CANADA

All Shareholders whose registered address is outside Canada will be advised by letter that their Rights will be held by the Subscription Custodian for the account of such Shareholders.

United States Shareholders

The Common Shares of TMG are not registered under the *Securities Act of 1933*, as amended, of the United States of America. This offering is made in Canada and not in the United States of America or any territory or possession thereof. This offering is not, and under no circumstances is to be construed as, an offering of any Common Shares for sale in the United States of America or any territory or possession thereof or an offering to any citizen or resident of the United States of America or any territory or possession thereof or a solicitation therein of an offer to buy any securities. Accordingly, neither a subscription nor an application for Additional Flow-Through Shares will be accepted from any person, or his custodian, who appears to be, or who TMG has reason to believe is, a citizen or resident of the United States of America or its territories or possessions (a “United States Shareholder”).

Certain Foreign Shareholders

Shareholders whose recorded addresses are outside of Canada, other than United States Shareholders, will be permitted to subscribe for Flow-Through Shares and to apply to purchase Additional Flow-Through Shares pursuant to the Additional Subscription Privilege.

Subscription Agent and Subscription Office

Computershare Trust Company of Canada has been appointed as the Company’s Subscription Agent to receive subscriptions and payments from holders of Rights Certificates and to perform certain services in respect of the exercise of the Rights. The Company will pay for the services of the Subscription Agent. Subscriptions and payments of Rights under this offering can be sent by courier to the office of the Subscription Agent at:

Computershare Trust Company of Canada

100 University Avenue, 9th Floor

Toronto, Ontario M5J 2Y1

Attention: Corporate Actions

(Hand Delivery may be made to the 9th Floor)

or by mail at:

PO Box 7021

31 Adelaide Street East

Toronto, Ontario M5C 3H2

Attention: Corporate Actions

Undeliverable Rights

Rights Certificates returned to the Subscription Agent as undeliverable and accounts coded as suppressed mail will not be sold by the Subscription Agent and no proceeds of sale will be credited to such holders.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Borden Ladner Gervais LLP, counsel to the Corporation (“Counsel”), the following is a fair and adequate summary of the principal Canadian federal income tax considerations generally applicable to holders of the Flow-through Shares who are, or are deemed to be, resident in Canada, who deal at arm's length with the Corporation and who hold such securities as capital property, all within the meaning of the Tax Act. The Common Shares, including the Flow-Through Shares, will generally be considered capital property to the holder thereof unless either the holder holds such securities in the course of carrying on a business or the holder has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. This summary is not applicable to a holder which is a “principal business corporation” for purposes of the Tax Act nor to a holder whose business includes trading in petroleum, natural gas or mineral rights. Furthermore, this summary is not applicable to corporations which are “financial institutions” for purposes of the mark-to market provisions of the Tax

Act nor to any person an investment in which would constitute a “tax shelter” for purposes of the Tax Act.

This summary is based upon the current provisions of the Tax Act, the Regulations, Counsel's understanding of the current published administrative practices of the Canada Customs and Revenue Agency (“CCRA”) and proposed amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance prior to the date hereof (the “Proposals”). This summary assumes that any such Proposals will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation considerations. No assurances can be given that the Proposals will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary assumes that (i) the Corporation will make all necessary tax filings in respect of the issue of the Flow-Through Shares and the renunciation of Qualifying Expenditures in the manner and within the time required by the Tax Act and the Regulations; (ii) the Corporation will incur sufficient Qualifying Expenditures to enable it to renounce to subscribers all of the Qualifying Expenditures covenanted to be renounced by the Corporation; (iii) the Flow-Through Shares will not be “prescribed shares” within the meaning of the Regulations; (iv) all expenses herein discussed will be reasonable in amount; and (v) the Corporation has been, and will at all material times continue to be, a “principal-business corporation” for the purposes for the Tax Act.

The following discussion of the income tax consequences is of a general nature only and is not exhaustive of all the income tax consequences and is not intended to constitute income tax advice to any particular subscriber. Accordingly, subscribers should consult their own income tax advisors with respect to the Canadian federal income tax consequences which will result from an investment in the Flow-Through Shares having regard to their own circumstances.

Qualifying Expenditures

Subject to certain limitations and restrictions, a principal-business corporation that incurs Qualifying Expenditures having received funds from a subscriber pursuant to an agreement for the issue of Flow-Through Shares of the Corporation (other than prescribed shares) will be entitled to renounce the Qualifying Expenditures to such subscriber and the Qualifying Expenditures so renounced will be deemed to have been Qualifying Expenditures incurred by such subscriber on the effective date of the renunciation.

The Corporation will be entitled to renounce Qualifying Expenditures incurred by it following the subscription for Flow-Through Shares and for up to 24 months after the end of the month in which the subscription agreements are accepted by the Corporation less (i) any previous renunciations with respect to such Qualifying Expenditures and (ii) any assistance that the Corporation has received, is entitled to receive, or may reasonably be expected to receive at any time which is reasonably related to such Qualifying Expenditures. The Corporation may not renounce to subscribers an amount in excess of the total amount of money received by TMG from purchasers of the Flow-Through Shares.

Qualifying Expenditures incurred within a particular calendar year and renounced to subscribers effective on or before December 31 of that calendar year will be deemed to have been Qualifying Expenditures incurred by such subscribers on the effective date in that particular calendar year.

The Corporation has agreed to incur Qualifying Expenditures in an amount equal to the Flow-Through Funds received by it pursuant to the Rights Offering on or before December 31, 2003 and has agreed to renounce up to 40% of such Qualifying Expenditures effective no later than December 31, 2002, and as to the remaining 60% of such Qualifying Expenditures, effective no later than December 31, 2003. In the event that the Corporation is unable to incur Qualifying Expenditures in an amount equal to the Flow-Through Funds received by it pursuant to the Rights Offering on or before December 31, 2003, the Corporation will indemnify the subscribers from the amount of the tax payable made under the *Tax Act* and under any corresponding provincial legislation as a result.

Qualifying Expenditures will be deemed to have been incurred by a subscriber as Canadian Exploration Expense ("CEE") and will be added to the accumulative CEE account ("CCEE") of such subscriber. A subscriber may deduct in computing income from all sources for a taxation year, such amount as may be claimed not exceeding 100% of the subscriber's CCEE account at the end of a taxation year. To the extent that a subscriber does not deduct the balance of the subscriber's CCEE account, at the end of a taxation year, the balance will be carried forward and the subscriber will be entitled to claim deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate subscriber. A subscriber who disposes of Flow-Through Shares will retain the entitlement to receive renunciations of CEE from the Corporation as described above as well as the ability to deduct any CEE previously deemed to have been incurred by the subscriber, and a subsequent purchaser of such Flow-Through Shares will not be entitled to any renunciation of any CEE or related deductions.

Minimum Tax

Under the Tax Act, a minimum tax is payable by an individual (other than certain trusts) equal to the amount by which the minimum tax exceeds the tax otherwise payable. Minimum tax under the Tax Act is calculated by applying a flat rate of 16% to adjusted taxable income. Adjusted taxable income is taxable income as otherwise determined plus certain additional amounts which were deducted in arriving at taxable income and certain amounts not otherwise included are included. Such additions include 30% of any capital gain and any deduction for CEE to the extent that the deduction exceeds the individual's resource income before deducting CEE and carrying charges which relate to an investment in Flow-Through Shares, to the extent that the deduction for such carrying charges exceeds the individual's resource income after deductions for resource expenses, including CEE. To the extent that minimum tax exceeds tax otherwise payable in a particular year, such excess may be applied in any of the seven following years to reduce ordinary tax otherwise payable. Whether and to what extent the tax liability of a particular subscriber will be increased by the alternative minimum tax will depend on the amount of such subscriber's income, the sources from which it is derived and the nature of any deductions such subscriber claims.

Tax Treatment of Capital Gains and Capital Losses

An actual or deemed disposition of Common Shares, including Flow-Through Shares, will give rise to a capital gain, or capital loss, in an amount equal to the amount by which the proceeds of disposition thereof, net of any reasonable costs of disposition, exceed, or are exceeded by, as the case may be, the adjusted cost base of the Common Shares, including Flow-Through Shares, so disposed of. One-half of any such capital gain (the "taxable capital gain") must be included in income while one-half of any capital loss (the "allowable capital loss") may be used to offset taxable capital gains in the year of disposition subject to and in accordance with the terms and conditions of the Tax Act. To the extent that any allowable capital loss may not be so used, it may be carried back three years and carried forward indefinitely to offset taxable capital gains, subject to restriction in the event that there is an acquisition of control of a corporate holder. Additionally, the amount of capital loss otherwise determined on a disposition of Common Shares, including Flow-Through Shares, may be reduced by the amount of tax-free dividends, if any, received on such securities. The adjusted cost base of a Common Share, including a Flow-Through Share, is determined at any time by averaging the cost of each Common Share and Flow-Through Share then owned by the subscriber. The cost of Flow-Through Shares is deemed to be nil under the Tax Act subject to the averaging rules discussed in the preceding sentence.

Additional Refundable Tax

A holder that is a “Canadian controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on certain investment income, including amounts in respect of interest and taxable capital gains.

Interest on Amounts Borrowed to Purchase the Flow-Through Shares

A purchaser will generally be entitled to deduct a reasonable amount of interest expense on funds borrowed to acquire Flow-Through Shares provided that the purchaser continues to own the Flow-Through Shares or, subject to certain restrictions, property substituted therefor.

DESCRIPTION OF FLOW-THROUGH SHARES

The Corporation has agreed to expend an amount equal to the aggregate proceeds received from subscribers for Flow-Through Shares as CRCE and renounce such expenditures in favour of the subscribers for Flow-Through Shares. The renunciation will entitle the subscribers to claim deductions for income tax purposes. An investor who purchases Flow-Through Shares must execute and deliver (or authorize the Custodian, on his behalf, to execute and deliver) to the Corporation a subscription agreement in respect of the Flow-Through Shares in order for the investor to receive the deductions in respect of such CRCE incurred by the Corporation. See “Canadian Federal Income Tax Consequences”.

The subscription agreement to be entered into between the Corporation and each purchaser of Flow-Through Shares will provide an indemnity to such purchaser in the event the Corporation fails to incur sufficient CRCE or otherwise fails to renounce to such purchaser amounts equal to the Flow-Through Funds. Reference should be made to the terms and conditions of subscription for the Flow-Through Shares for the full particulars relating to the issuance of the Flow-Through Shares. See “Flow-Through Shares – Obtaining the Tax Benefit”.

STOCK EXCHANGE LISTING

The Rights will be listed on the CDNX. The Common Shares are listed on the CDNX under the symbol TMG. The Common Shares issuable upon the exercise of the Rights (i.e. the Flow-Through Shares) will be listed on the CDNX.

RESALE RESTRICTIONS

Securities legislation restricts the ability of a holder to trade the Rights and Common Shares issued on exercise of the Rights, without certain conditions having been fulfilled or applicable prospectus requirements having been complied with. Set out below is a general summary of the restrictions governing first trades in Rights and underlying Common Shares. Additional restrictions apply to “insiders” of the Corporation and holders of Rights or Common Shares who are “control persons” or the equivalent or who are deemed to be part of what is commonly referred to as a “control block” in respect of the company for purposes of securities legislation.

Each holder is urged to consult his or her professional advisers to determine the conditions and restrictions applicable to trades in the Rights and the underlying Common Shares.

Generally, the first trade in Rights and underlying Common Shares will be exempt from the prospectus requirements of securities legislation in the Qualifying Jurisdictions if:

- (a) the Company is and has been a reporting issuer in any one of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, or Nova Scotia for 12 months immediately preceding the trade;
- (b) the trade is not a distribution from the holdings of a “control person” of the Company as defined in the applicable securities legislation;
- (c) no unusual effort is made to prepare the market or create a demand for the Rights or Common Shares;
- (d) no extraordinary commission or other consideration is paid in respect of such trade; and
- (e) if the seller is an insider or officer of the Corporation, the seller has no reasonable grounds to believe that the Company is in default of applicable securities legislation.

If such conditions are not met then the Rights and Common Shares may not be resold except pursuant to a prospectus or prospectus exemption, which may only be available in limited circumstances.

The Company is and has been a reporting issuer for more than 12 months in the provinces of Alberta, British Columbia, Manitoba and Ontario. The Company is not currently a reporting issuer in any other jurisdiction and has no plans to become a reporting issuer in any other jurisdiction.

The Common Shares underlying the Rights have not been and will not be registered under the U.S. Securities Act, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in transactions exempt from the registration requirement of the U.S. Securities Act. The foregoing is a summary only and is not intended to be exhaustive. Holders should consult with their advisors concerning restrictions on resale, and should not resell their Underlying Securities until they have determined that any such resale is in compliance with the requirements of applicable legislation.

PRICE RANGE AND TRADING VOLUME

The following table sets forth the price range and trading volume of the Common Shares on the CDNX for the periods indicated.

		Price (\$)		Volume
		<u>High</u>	<u>Low</u>	
2000 (Calendar Year)	First Quarter.....	3.50	0.38	6,679,198
	Second Quarter..	3.00	0.95	3,138,643
	Third Quarter	2.24	1.50	1,300,769
	Fourth Quarter...	3.25	1.15	1,830,603
2001	First Quarter.....	2.28	1.45	1,252,457
	Second Quarter..	1.93	1.36	1,488,186
	Third Quarter	1.79	0.15	1,402,775
	Fourth Quarter...	0.58	0.22	2,554,978

On January 30, 2002, the closing price of the Common Shares on the CDNX was 0.28.

CAPITALIZATION

The following table sets forth the capitalization of TMG before and after giving effect to the proceeds of this offering:

Designation	Authorized	Outstanding as at December 31, 2001	Outstanding as at March 28, 2002 after giving effect to the issue⁽¹⁾
Common Shares	Unlimited	30,343,281	34,443,281

Notes:

- (1) Assuming full subscription under this offering at a Subscription Price of \$0.40 per Flow-Through Share, ignoring rounding due to fractions.

USE OF PROCEEDS

The approximate net proceeds to be derived by TMG from the subscription by the holders of Flow-Through Shares, if all Flow-Through Shares offered are subscribed for and taken up, are estimated to be approximately \$1,540,000 after deduction of estimated expenses of this offering of \$100,000.

The net proceeds of the funds raised under this Flow-Through Share Rights Offering, must be utilized by TMG to pay for those costs or expenses which qualify under the Canadian Government's definition as "Canadian Renewable and Conservation Expense (or CRCE)".

With respect to TMG's business operations, the specific qualifying CRCEs would include all Canadian FLU-ACE® project development costs, including focused: sales, marketing, business development, pre-feasibility and feasibility studies, engineering analysis, engineering design development, site permitting/approvals, site preparation, pre-start up training of O&M personnel, and commissioning and start-up of plant costs. See "Canadian Federal Income Tax Considerations".

In addition, the use of the Flow-Through Shares proceeds will depend upon the degree of subscription by the shareholders of this offering by the Company. However, if this Flow-through Share Rights Offering **is fully subscribed**, then in general terms, the Company expects to utilize the net proceeds as follows :

- 35% for Sales Activities (or Pre-Feasibility) (subject to full subscription)
- 15% for Marketing and Business Development (or Pre-Feasibility) (subject to full subscription)
- 25% for Detailed Feasibility Studies, and Engineering Design Development (subject to full subscription)
- 25% for Process Engineering Analysis, Start-up & Commissioning, and Other (subject to full subscription).

DIRECTORS AND OFFICERS

The names, municipalities of residence, offices held with TMG and principal occupations for the past five years of the directors and officers of TMG are as follows:

Name and Municipality of Residence	Office or Position	Principal Occupation
Thomas V. Hinke	President and CEO and Chairman of the Board of Directors	President, Thermal Energy
Oliver V. Toffoli	CFO, EVP Finance and Administration, Director	CFO, EVP Finance and Administration, Thermal Energy
George D. Corluka	Vice President, Engineering and Director of Energy	Vice President, Engineering and Director of Energy, Thermal Energy
Dr. Joseph E. Hinke	Vice President, Research and Development	Vice President, Research and Development, Thermal Energy
James Cavagnaro	Director	President, Telecom Consulting Group N.E., Principal. Applied Recycling Technologies Inc.

Name and Municipality of Residence	Office or Position	Principal Occupation
John J. Kehoe	Director	Lawyer
Martin L. Mearhoff	Director	Vice President Renewable Technologies and Advanced Technologies, American Electric Power Company

INTENTION OF INSIDERS TO EXERCISE RIGHTS

To the knowledge of TMG, insiders of TMG who own Common Shares and receive Rights pursuant to this Rights offering do not intend to exercise the Rights. Insiders own approximately 46% of the outstanding Common Shares of TMG.

OWNERSHIP OF SECURITIES

To the knowledge of TMG, other than CDS, as at December 31, 2001, no person owns, beneficially or of record, either directly or indirectly, or exercises control or direction, over more than 10% of the outstanding Common Shares except Thomas Hinke who owns 10,592,397 common shares or 34.9% of the total outstanding number of shares. The directors and officers of TMG, as a group, beneficially owned, directly or indirectly, less than 40% of the outstanding Common Shares as of December 31, 2001.

MATERIAL CHANGES

To the knowledge of the directors of TMG, there have been no transfers of Common Shares since the last meeting of Shareholders held on June 28, 2001, which have materially affected the control of TMG. There have been no undisclosed material changes in the affairs of TMG since May 31, 2001, the date of the last audited financial statements delivered to the Shareholders of TMG.

AUDITORS, TRANSFER AGENT, REGISTRAR

The auditors of TMG are Ernst & Young, Ottawa, Ontario.

Computershare Trust Company of Canada is the registrar and transfer agent for the TMG Common Shares at its principal office at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1.

STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides security holders of the offeree issuer with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular or notice that is required to be delivered to those security holders. However, such rights must be exercised within the prescribed times limits. Security holders should refer to the applicable provisions of the securities legislation of the province or territory of residence for particulars of those rights, or consult with a lawyer.

FURTHER INFORMATION

For further information with respect to Thermal Energy International Inc., reference is made to the disclosure documents filed by the Company with Canadian securities regulatory authorities (including the Company's 2001 Annual Report dated May 31, 2001, the Management Information Circular of the Company dated May 24, 2001 in connection with the annual meeting of the shareholders held on June 28, 2001 and the Company's interim financial statements for the three months ended August 31, 2001) which may be reviewed at www.sedar.com. Continuous disclosure for the Company can be obtained from the SEDAR website located at www.sedar.com.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

Dated: January 31, 2002

THERMAL ENERGY
INTERNATIONAL INC.

(signed) "Thomas Hinke"
President and Chief Executive
Officer

On behalf of the Board of
Directors

(signed) "George Corluka"
Director

(signed) "Oliver Toffoli"
Director