



WaterFurnace Renewable Energy, Inc.

## **Annual Information Form**

For

Fiscal Year Ended December 31, 2008

All figures in U.S. dollars unless otherwise noted

Date of Annual Information Form: March 12, 2009

# Table of Contents

Annual Information Form.....	1
Caution Regarding Forward-Looking Information .....	4
1. Incorporation.....	4
History .....	4
Subsidiaries .....	4
2. General Development of the Business .....	5
Highlights and Activities.....	5
2006 .....	5
2007 .....	5
2008 .....	5
2009 .....	5
History of Dividend Payments.....	6
3. Narrative Description of the Business.....	6
Products and Services.....	6
Research and Development .....	6
Raw Materials.....	7
Competition .....	7
Number of Employees.....	7
Intangible Properties.....	7
4. Risk Factors.....	7
Rising Costs of Raw Materials and Component Parts .....	7
Competition .....	8
Warranty Claims .....	8
Product Development and Technological Changes.....	8
5. Dividends .....	8
6. Capital Structure.....	8
7. Management’s Discussion and Analysis.....	9
8. Market for Securities.....	9
9. Directors and Officers .....	10
Board of Directors.....	10
Officers Who Are Not Directors .....	11
Cease Trade Orders, Bankruptcies, Penalties or Sanctions.....	12
Board Committees.....	13
10. Audit Committee .....	13
Audit Committee Charter .....	13
Composition of Audit Committee .....	13
Relevant Education and Experience.....	14
Audit Committee Oversight.....	14
Pre-Approval Policies and Procedures.....	14
External Auditor Service Fees .....	15
11. Legal Proceedings.....	15
12. Interest of Management and Others in Material Transactions .....	15
13. Transfer Agent and Registrar.....	15
14. Interests of Experts.....	16
15. Additional Information .....	16
Schedule A – Audit Committee Charter .....	17
1. Purpose .....	17
2. Composition and Membership .....	17
3. Meetings.....	17
4. Duties and Responsibilities.....	18
Financial Reporting and Disclosure .....	18
Internal Controls and Audit .....	18
External Audit.....	19
Associated Responsibilities .....	20
Non-Audit Services.....	20
Oversight Function .....	20

5. Reporting.....	20
6. Access to Information and Authority .....	21
7. Review of Charter.....	21

## Caution Regarding Forward-Looking Information

Certain statements in this Annual Information Form may constitute forward-looking statements and forward looking information, within the meaning of applicable securities laws, based on the WaterFurnace Renewable Energy, Inc.'s current internal expectations, estimates, projections, assumptions and beliefs. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "should," "believe" or "continue" or the negative thereof or variations thereon or similar terminology concerning matters that are not historical facts. Particularly, statements regarding the Company's operating results and economic performance, objectives and strategies are forward-looking statements.

By their very nature, forward-looking statements involve numerous factors, assumptions and estimates. A variety of factors, many of which are beyond the control of WaterFurnace Renewable Energy, Inc., may cause actual results to differ materially from the expectations expressed in the forward-looking statement. See "Risk Factors" for a description of the principal risks to WaterFurnace Renewable Energy, Inc. These and other factors should be considered carefully, and readers are cautioned not to place undue reliance on these forward-looking statements. Although management reviews the reasonableness of its assumptions and estimates, unusual and unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from those expressed or implied by the forward-looking statements. WaterFurnace Renewable Energy, Inc., does not undertake to update or alter any forward-looking information at any particular time.

## 1. Incorporation

### History

WaterFurnace Renewable Energy, Inc. (the "Company") was incorporated under the *Company Act* of British Columbia on March 27, 1987 under the name of "Torrez Resources Ltd.". Subsequently, by Certificate of Amendment dated April 19, 1990, the Company changed the corporate name to "WFI Industries Ltd." and modified its share capital. On August 28, 1997, the Company was continued under the *Business Corporations Act* (Ontario) and transferred its registry to the province of Ontario. On June 30, 2000, the Company amalgamated with its Canadian subsidiary, WaterFurnace, Inc., with "WFI Industries Ltd." being the successor company. The Company was continued from Ontario into the Canadian federal jurisdiction under the *Canada Business Corporations Act* on September 13, 2004. Subsequently, by Certificate of Amendment dated May 30, 2008 the Company changed its corporate name to "WaterFurnace Renewable Energy, Inc."

The Company's common shares ("Common Shares") are traded in Canadian dollars on the Toronto Stock Exchange ("TSX") under the symbol "WFI." The Company's common shares are also traded on the TSX in U.S. dollars under the symbol "WFI.U."

The Company's head office is at 9000 Conservation Way, Fort Wayne, Indiana 46809-9794 U.S.A.

The Company's registered office is at Scotia Plaza, 40 King Street West, Suite 5800, P.O. Box 1011, Toronto, Ontario, Canada, M5H 3S1.

### Subsidiaries

The Company has two wholly-owned subsidiaries: WaterFurnace International, Inc. and LoopMaster International, Inc. WaterFurnace International, Inc. is a U.S. company located in Fort Wayne, Indiana and was incorporated on December 13, 1992 in the State of Indiana. LoopMaster International, Inc. is also a U.S. company located in Indianapolis, Indiana and was incorporated on January 17, 1992 in the State of Indiana.

## 2. General Development of the Business

### Highlights and Activities

The major events that have influenced the general development of the Company over the past years are as follows:

#### **2006**

The Company introduced the Envision product line, the second generation of non-ozone depleting refrigerant products. Net sales increased by 38% and net income increased by 33% over 2005.

The Company paid regular dividends as scheduled on a quarterly basis during the year. On June 1, the dividend was increased from \$0.09 to \$0.10 per Common Share. On September 1, the dividend was increased from \$0.10 to \$0.15.

#### **2007**

The Company expanded the Envision product line of non-ozone depleting products to cover commercial products and niche residential products. Net sales increased by 13.7% and net income increased by 15.5% over 2006.

The Company paid regular dividends as scheduled during the year. On June 1, the dividend was increased from \$0.15 to \$0.16 per Common Share. On December 3, the dividend was increased from \$0.16 to \$0.17.

#### **2008**

The Company continued to introduce new products for all markets. Sales of the Company increased 35% driven by high fossil fuel prices through the first 10 months of the year.

In May 2008, the shareholders approved a change in the name of the Company to WaterFurnace Renewable Energy, Inc.

In May 2008, the President/CEO Bruce Ritchey announced his intention to retire within the coming year.

The Company paid regular dividends as scheduled during the year. On June 2, the dividend was increased from \$0.17 to \$0.18 per Common Share.

The Board approved dual listing in November 2008, effective January 1, 2009, so that Company shares are quoted and traded in both U.S. and Canadian currency.

#### **2009**

Bruce Ritchey, the current CEO and President is scheduled to retire by May 29, 2009. The Board of Directors has appointed a Search Committee and retained an executive search firm to help identify qualified candidates and select Mr. Ritchey's replacement.

The U.S. federal government recently passed a new stimulus package that included removing the \$2,000 cap on the current geothermal heat pump tax credit passed late last year by Congress. The current credit calls for a tax credit of 30% of the installed cost of any qualified system installed until 2016. It is expected to have a favorable impact on Company sales in 2009. The Company plans to leverage the new legislation to drive additional heat pump sales. There are also numerous provisions in the Stimulus Package that will incent Federal, State, Municipal and commercial building owners to install geothermal heat pumps.

## History of Dividend Payments

The Company began paying cash dividends in October 2003. The dividends the past three years are as follows:

### Dividends paid per share (in U.S.\$)

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March 1, 2006	Regular dividend	\$ 0.10
June 1, 2006	Regular dividend	0.10
September 1, 2006	Regular dividend	0.15
December 1, 2006	Regular dividend	0.15
2006 Total		0.50
<hr/>		
March 1, 2007	Regular dividend	0.15
June 1, 2007	Regular dividend	0.16
September 1, 2007	Regular dividend	0.16
December 3, 2007	Regular dividend	0.17
2007 Total		0.64
<hr/>		
March 3, 2008	Regular dividend	0.17
June 2, 2008	Regular dividend	0.18
September 2, 2008	Regular dividend	0.18
December 2, 2008	Regular dividend	0.18
2008 Total		0.71

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## 3. Narrative Description of the Business

### Products and Services

The Company specializes in the design, manufacture and distribution of geothermal and water-source HVAC systems for residential, commercial and institutional applications. HVAC units are manufactured on an assembly line by trained employees installing purchased components and fabricated materials according to engineered specifications. Marketed under the WaterFurnace brand name, these products are sold, installed and serviced to customers throughout North America and increasingly in other markets by a network of independent heating and cooling contractors, commercial representatives and distributors. Revenues from HVAC systems were 93.1%, 90.4% and 89.9% of consolidated revenues for 2008, 2007 and 2006, respectively. The Company also provides loop installation services through its LoopMaster International, Inc. subsidiary. LoopMaster installs geothermal loops across the U.S.

The WaterFurnace International, Inc. subsidiary is the leading manufacturer of geothermal heat pumps for residential, single-family homes in the U.S. The LoopMaster International, Inc. subsidiary is one of the largest geothermal loop contractors in the U.S.

### Research and Development

The Company has an ongoing research and development (R&D) process in place. R&D activities are directed at identifying improvements to existing products and at developing new products for existing and potential markets. R&D activities are conducted at the Fort Wayne facility using in-house personnel and equipment supplemented by the limited use of subcontractors as needed. Due to the nature and scope of the Company's product research and development activities, multiple new product development projects may be in process at the same time. The commercial introduction, if any, of products currently under development is influenced by various factors such as the results of laboratory and field testing, the introduction of new technology, ease of manufacturing and raw material cost. In 2008 the Company expanded the new Envision product line in the commercial market as a result of its product research and

development process. Other new products are expected to be launched annually in 2009 and following years. The R&D expenses, net of research tax credits, for 2008 were \$1,997,000.

## **Raw Materials**

The Company's products are assembled using components and materials purchased from outside suppliers. The components include compressors, electric motors, fin and tube heat exchangers, coaxial and flat plate heat exchangers, blower assemblies, sheet metal panels and electronic control boards. Copper tubing needed to complete the assembly of the product is fabricated on site. The Company has more than one supplier for each of the components used in its product. The prices of components and raw materials are negotiated with various suppliers on a regular basis to ensure competitive pricing from suppliers and to manage margins on product sales. Pricing from some suppliers is subject to surcharges for cost increases related to commodity materials used in purchased components and for higher than expected cost of fuel.

## **Competition**

The Company operates in a very specialized niche market of the total worldwide market for HVAC equipment. It has five main competitors for its line of residential products in the U.S. and Canada (Climate Master, Florida Heat Pump, Econar, Hydro Delta and Hydron Module) and five main competitors for its line of commercial products (Climate Master, Florida Heat Pump, Trane, McQuay and Mammoth).

## **Number of Employees**

On December 31, 2008, the Company employed 287 persons working in the following departments: administration, accounting, MIS, product engineering, production, production support, technical service, customer service, sales and loop installation. This number may fluctuate somewhat depending on the needs of the Company. The Company anticipates that future growth of the business will require the hiring of additional employees for all positions.

## **Intangible Properties**

The Company has registered trademarks in the U.S. for the WaterFurnace brand name and for several of the names used in the marketing of its geothermal and water-sourced HVAC systems. Those names are Synergy, Premier, Premier-E and Versatec. The Company considers the WaterFurnace brand name and various product names to be beneficial in differentiating its products from those offered by competitors. Each trademark is expected to be renewed at the end of the current term for each name. The Company also holds several patents for technology used in its HVAC products.

## **4. Risk Factors**

An investment in the Common Shares is speculative and involves a degree of risk, including, but not limited to, the following specific risks. This is not an all inclusive list of uncertainties facing the Company. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also affect the operations of the Company.

### **Rising Costs of Raw Materials and Component Parts**

The Company purchases a broad range of materials in connection with its manufacturing activities. The prices the Company pays for parts used in the manufacture of its products is affected by changes in the market prices of the base metals used in its products, particularly, copper, rolled steel and special alloys. Higher than anticipated price increases for raw materials and components parts would reduce the margins realized on the sale of the Company's products.

## **Competition**

The market for the Company's products is competitive. The Company's competition includes larger manufacturers with lower material costs due to volume purchasing and smaller companies that specialize in servicing a particular niche market for geothermal products. Any inability to compete with our competitors may affect the Company's business by lowering its sales and profits.

## **Warranty Claims**

The Company provides warranty coverage for the majority of its products. Warranty claims for the cost of repairing or replacing defective parts is based on projected failure rates of the products covered under warranty. An unexpected increase in warranty claims due to higher than normal failure rates for covered parts would affect our business by increasing costs and lowering profits.

## **Product Development and Technological Changes**

The HVAC industry is characterized by ongoing technological advances and the introduction of new products utilizing new technology. The success of the Company will depend on its ability to secure competitive positions with its products and distribution and maintain such competitiveness. Although the Company is committed to the development of new products and the improvement of its existing products and distribution procedures, there can be no assurance that these research and development activities will prove profitable or that the resulting new products, if any, will be commercially viable and marketable.

## **5. Dividends**

The Company's dividend policy was first announced in September 2003. The current policy is to pay a quarterly cash dividend based on the level of profitability, the amount of cash reserves available and the potential for alternative uses of cash reserves to increase shareholder value. See section 2, "General Development of the Business," for disclosure of the dividends paid in recently completed financial years.

## **6. Capital Structure**

The Company's authorized share capital is an unlimited number of Common Shares without par value of which there were 12,092,432 Common Shares issued and outstanding as at December 31, 2008. Holders of Common Shares are entitled to receive notice of any meetings of shareholders, to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore. Please see section 5, "Dividends," for a discussion of the Company's dividend policy. Upon the liquidation, dissolution or winding up of the Company, holders of Common Shares are entitled to receive on a pro-rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights. The Company has established a stock option plan (the "Stock Option Plan"). The Stock Option Plan authorized the grant of options for up to 250,000 Common Shares to the directors and employees of the Company. As of the date of this Annual Information Form and pursuant to the Stock Option Plan, the Company has the authority to issue options for 225,000 Common Shares.

## 7. Management's Discussion and Analysis

Management's discussion and analysis of its financial position and operating results for the fiscal year ended December 31, 2008 are presented in the Company's 2008 Annual Report. That discussion and analysis is incorporated into this Annual Information Form by reference, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008, and the explanatory notes thereto, both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 8. Market for Securities

The Common Shares are listed on the TSX and trade in Canadian dollars under the symbol "WFI." The Common Shares also trade in U.S. dollars on the TSX under the symbol "WFI.U." The following table sets forth information relating to the trading of the Common Shares for the periods indicated.

### Trading ("WFI") (in CDN\$)

Date	High	Low	Number of trades	Volume traded
January 2008	\$25.94	\$20.20	1,071	325,562
February 2008	26.48	21.60	489	106,092
March 2008	25.55	19.50	609	201,274
April 2008	28.29	19.90	596	174,298
May 2008	28.58	23.31	647	128,029
June 2008	27.95	24.29	358	76,206
July 2008	31.42	23.50	675	238,921
August 2008	31.85	27.49	566	145,606
September 2008	32.00	25.00	1,038	199,494
October 2008	28.36	20.15	1,379	496,943
November 2008	28.00	19.44	1,143	243,102
December 2008	25.15	20.50	808	184,136

## 9. Directors and Officers

### Board of Directors

The following is a list of the directors of the Company, and information regarding each individual including the municipality of home address, principal occupation in the last five years, the date of appointment as a director of the Company, and the number of shares beneficially owned, directly or indirectly, or over which said director exercises control or direction. Each director named was elected at the Annual and Special General Meeting of Shareholders held on May 15, 2008. Each director's term of office runs until the next annual meeting of shareholders or until the election or appointment of a successor.

Name and municipality of residence	Principal occupation	Director since	Shares beneficially owned, directly or indirectly, or over which control is exercised	Percentage of voting shares beneficially owned or over which control is exercised
Bruce Ritchey Austin, Texas, U.S.A.	President & CEO WaterFurnace Renewable Energy, Inc.	November 16, 1998	138,100 Common Shares	1.1%
James R. Shields <sup>(1)</sup> Fort Wayne, Indiana, U.S.A.	Investor & Chairman Emeritus WaterFurnace Renewable Energy, Inc.	May 21, 1997	2,443,752 <sup>(5)</sup> Common Shares	20.2%
Timothy E. Shields <sup>(1)</sup> Fort Wayne, Indiana, U.S.A.	Investor & Chairman WaterFurnace Renewable Energy, Inc.	May 4, 1999	619,726 <sup>(5)</sup> Common Shares	5.1%
Thomas C. Dawson, CA <sup>(1,2)</sup> Toronto, Ontario, Canada	Corporate Director	May 4, 1999	26,000 Common Shares	0.2%
J. David Day, LLB <sup>(1,3,4)</sup> Toronto, Ontario, Canada	Corporate Director	May 21, 1997	96,500 Common Shares	0.8%
Charles R. Diltz <sup>(2,3,4)</sup> Houston, Texas, U.S.A.	Sr. Vice President Comfort Systems U.S.A. <sup>(6)</sup> President, Goodman Manufacturing Co. <sup>(7)</sup> Until December 2002	May 7, 2004	26,000 Common Shares	0.2%
Geoffrey W.J. Pottow, <sup>(2,3,4)</sup> Ph.D. Eng. Toronto, Ontario, Canada	President and CEO of The Becker Milk Co. Ltd. <sup>(8)</sup>	November 7, 1997	132,550 Common Shares	1.1%

- (1) Member of the Executive Committee
- (2) Member of the Audit Committee
- (3) Member of the Compensation Committee
- (4) Member of the Governance Committee
- (5) James R. Shields, the Company's founder owns 964,342 Common Shares. His wife owns 616,184 Common Shares. His children, except Timothy E. Shields and his family, collectively own 863,226 Common Shares. Timothy E. Shields, son of James R. Shields, owns 281,274 Common Shares. Timothy's wife owns 161,252 Common Shares. His children own 177,200 Common Shares. Thus, the extended Shields family owns 3,063,478 shares, or 25.3% of the outstanding stock of the Company.

James R. Shields	964,342	}	2,443,752
His wife	616,184		
His children except Timothy E. Shields	863,226		
Timothy E. Shields	281,274	}	619,726
His wife	161,252		
His children	177,200		

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Total Common Shares owned by extended Shields family    3,063,478

- (6) Comfort Systems USA is a national HVAC company headquartered in Houston, Texas.
- (7) Goodman Manufacturing Co. manufactures residential HVAC products distributed nationally and is headquartered in Houston, Texas.
- (8) The Becker Milk Company Ltd. is a public real estate management and investment company (TSX BEK.B).

## Officers Who Are Not Directors

Name and municipality of residence	Principal occupation
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Fred Andriano Fort Wayne, Indiana, U.S.A.	Secretary, Treasurer and CFO
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Tony Cooper Fort Wayne, Indiana, U.S.A.	Vice President
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Over the past five years, all of the aforementioned directors and officers carried on their principal or other occupations with the companies indicated next to their names, except for the following:

Fred Andriano was hired as Chief Financial Officer in September 2005. Previously, he was the Managing Partner of a private investment company and has been employed in various senior financial management and operations management positions with Uniroyal, Inc. and Dreyers Grand Ice Cream.

Tony Cooper has held his current position since January of 2004. Previously, he was Vice President of Sales and Marketing of the Company.

## Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of the proposed directors, executive officers or shareholders holding a sufficient number of securities of the Company to materially affect control of the Company:

- (a) is, as at the date of the Annual Information Form, or has been, within 10 years before the date of the Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Company) that,
  - i. was subject to a cease trade order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
  - ii. was subject to a cease trade order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, state the fact and describe the basis on which the cease trade order was made and whether the cease trade order is still in effect; or
- (b) is, as at the date of the Annual Information Form, or has been within 10 years before the date of the Annual Information Form, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within the 10 years before the date of the Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director, executive officer or shareholder.

The foregoing information, not being within the knowledge of the Company, has been furnished by the respective directors, executive officers, and shareholders.

## Board Committees

The Company's Board of Directors has the following four standing committees:

	Executive Committee	Audit Committee	Compensation Committee	Governance Committee
<hr/> <b>Non-Independent Directors</b>				
Bruce Ritchey				
James R. Shields	Member			
Timothy E. Shields	Member			
<b>Independent Directors</b>				
Thomas C. Dawson	Member	Chairman		
J. David Day	Chairman		Member	Member
Charles R. Diltz		Member	Chairman	Member
Geoffrey W.J. Pottow		Member	Member	Chairman

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## 10. Audit Committee

### Audit Committee Charter

The text of the Company's Audit Committee Charter is attached hereto as Schedule A.

### Composition of Audit Committee

The members of the Audit Committee are: Thomas C. Dawson (Chairman of the Committee), Charles R. Diltz and Geoffrey W.J. Pottow. Each member of the Audit Committee is independent and financially literate.

## Relevant Education and Experience

Collectively, the Audit Committee has the education and experience to fulfill the responsibilities set out in its mandate. The education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee is summarized below:

Name	Education and relevant experience
Thomas C. Dawson	B. Comm. from Loyola (now Concordia University), Canada; Chartered Accountant in Canada; Retired Senior Audit and Accounting partner, with 40 years of experience, at Deloitte & Touche LLP, Chartered Accountants.
Charles R. Diltz	BSBA (Finance) from Ohio State University, Columbus, Ohio; MBA from University of Dayton; Currently Senior Vice-President, Comfort Systems U.S.A. with operating responsibility for 12 companies with annual sales of over \$300 million.
Geoffrey W.J. Pottow	S.Sc Hons. Engineering from London University, England; M.S. (Eng.) Case Institute of Technology, Cleveland, Ohio; Ph.D. (Mech. Eng.) University of Toronto, Ontario, Canada; President and CEO of The Becker Milk Company Ltd.; Formerly, member of the Audit Committee of The Becker Milk Company Ltd.

## Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

## Pre-Approval Policies and Procedures

The Audit Committee is responsible for engaging the independent auditors, overseeing their work and considering whether the provision of services, other than audit services, is compatible with maintaining their independence. All non-audit services proposed to be performed by the external auditors are submitted to the Audit Committee for pre-approval, except that the Committee has adopted a practice whereby the Chair of the Committee is authorized to review and approve engagements for non-audit services involving fees of \$10,000 or less. With respect to accounting and tax advisory services, where fees for any individual project in this pre-approval category are expected to expand beyond \$10,000, Audit Committee approval is required.

## External Auditor Service Fees

The aggregate fees billed by the Company's external auditors Grant Thornton LLP during the fiscal years ended December 31, 2008 and December 31, 2007 were as follows:

(In U.S.\$)	Year ended December 31, 2008	Year ended December 31, 2007
Audit fees	\$ 120,982	\$ 135,857
Audit related fees	94,568	85,068
Tax fees	33,656	50,670
Total	\$ 249,206	\$ 271,595

Audit fees were for professional services related to the audit of the Company's annual financial statements. Audit-related fees were for the review of the Company's interim financial statements and professional services for internal control review assistance and audit and accounting matters. Tax fees were for professional services for the preparation of tax returns, tax assistance with respect to cross-border transactions and other compliance services.

## 11. Legal Proceedings

The Company and its subsidiaries are involved in litigation in the ordinary course of operations. In management's opinion none of the litigation that the Company and its subsidiaries are currently involved in is material to the Company's financial condition or results of operations.

## 12. Interest of Management and Others in Material Transactions

To the knowledge of the directors and officers of the Company, no director or executive officer of the Company or any subsidiary of the Company, no person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the Company or a combination of both carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company, no proposed director of the Company and no associate of affiliate of the any of the foregoing has or had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company or any of its subsidiaries.

## 13. Transfer Agent and Registrar

The transfer agent and registrar for the Company's common shares is Computershare Investor Services Inc., 100 University Avenue, Suite 900, Toronto, ON M5J 2Y1, Canada.

## 14. Interests of Experts

Grant Thornton LLP, of Toronto, Ontario, Canada are the Auditors of the Company. The Auditors provided the Auditor's Report to the Shareholders of the Company for the most recently completed fiscal year that is filed with the Company's financial statements under National Instrument 51-102. Grant Thornton LLP has no registered or beneficial interest, direct or indirect, in any of the securities or other property of the Company or any of its associates or affiliates. Grant Thornton LLP was appointed Auditors of the Company in 1992.

## 15. Additional Information

Additional information concerning the remuneration of senior executives, stock options granted to directors and other insiders of the Company is contained in the Company's management proxy circular prepared in connection with the Annual General and Special Meeting of Shareholders to be held on May 6, 2009.

Additional financial information, specifically the Company's audited financial statements can be found in the Company's Annual Report for the fiscal year ended December 31, 2008. Copies of these documents may be obtained by writing to the Company's head office at 9000 Conservation Way, Fort Wayne, Indiana 46809-9794. Additional information relating to WaterFurnace Renewable Energy, Inc. may also be found on SEDAR (System for Electronic Document Analysis and Retrieval) at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.waterfurnace.com](http://www.waterfurnace.com).

## **Schedule A – Audit Committee Charter**

This charter (the “Charter”) sets forth the purpose, composition, responsibilities, duties, powers and authority of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of WaterFurnace Renewable Energy, Inc. (the “Company”).

### **1. Purpose**

The purpose of the audit committee (the “Committee”) is to:

- (a) assist the Board in fulfilling its oversight responsibilities with respect to financial reporting and disclosure requirements;
- (b) ensure that an effective risk management and financial control framework has been implemented by management of the Company; and
- (c) be responsible for external and internal audit processes.

### **2. Composition and Membership**

The Board will appoint the members (“Members”) of the Committee after the annual general meeting of shareholders of the Company. The Members will be appointed to hold office until the next annual general meeting of shareholders of the Company or until their successors are appointed. The Board may remove a Member at any time and may fill any vacancy occurring on the Committee. A Member may resign at any time and a Member will cease to be a Member upon ceasing to be a director.

The Committee will consist of three directors that meet the criteria for independence and financial literacy established by applicable laws and the rules of the stock exchange upon which the Company’s securities are listed, including Multilateral Instrument 52-110 – Audit Committees. In addition, each director will be free of any relationship which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment.

The Board will appoint one of the Members to act as the Chairman of the Committee. The secretary of the Company (the “Secretary”) will be the secretary of all meetings and will maintain minutes of all meetings and deliberations of the Committee. In the absence of the Secretary at any meeting, the Committee will appoint another person who may, but need not, be a Member to be the secretary of that meeting.

### **3. Meetings**

Meetings of the Committee will be held at such times and places as the Chairman may determine, but in any event not less than four times per year. Twenty-four hours advance notice of each meeting will be given to each Member orally, by telephone, by facsimile or email, unless all Members are present and waive notice, or if those absent waive notice before or after a meeting. Members may attend all meetings either in person or by conference call.

At the request of the external auditors of the Company, the Chief Executive Officer or the Chief Financial Officer of the Company, or any member of the Committee, the Chairman will convene a meeting of the Committee. Any such request will set out in reasonable detail the business proposed to be conducted at the meeting so requested.

The Chairman, if present, will act as the Chairman of meetings of the Committee. If the Chairman is not present at a meeting of the Committee, then the Members present may select one of their Members to act as Chairman of the meeting.

A majority of Members will constitute a quorum for a meeting of the Committee. Each Member will have one vote and decisions of the Committee will be made by an affirmative vote of the majority. The Chairman will not have a deciding or casting vote in the case of an equality of votes. Powers of the Committee may also be exercised by written resolution signed by all Members.

The Committee may invite from time to time such persons as it sees fit to attend its meetings and to take part in the discussion and consideration of the affairs of the Committee.

In advance of every regular meeting of the Committee, the Chairman, with the assistance of the Secretary, will prepare and distribute to the Members and others as deemed appropriate by the Chairman, an agenda of matters to be addressed at the meeting together with appropriate briefing materials. The Committee may require officers and employees of the Company to produce such information and reports as the Committee may deem appropriate in order to fulfill its duties.

#### **4. Duties and Responsibilities**

The duties and responsibilities of the Committee are as follows:

##### **Financial Reporting and Disclosure**

- (a) Review and recommend to the Board for approval, the quarterly financial statements, management discussion and analysis, financial reports and any public release of financial information through press release or otherwise.
- (b) Review and recommend to the Board for approval, the audited annual financial statements, including the auditors' report thereon, management discussion and analysis and financial reports.
- (c) Review and recommend to the Board for approval, where appropriate, financial information contained in any prospectus, annual information form, material change disclosure of a financial nature or similar disclosure document.
- (d) Review with management of the Company and with external auditors significant accounting principles and disclosure issues and alternative treatments under Canadian generally accepted accounting principles ("GAAP") all with a view to gaining reasonable assurance that financial statements are accurate, complete and present fairly the Company's financial position and the results of its operations in accordance with Canadian GAAP.

##### **Internal Controls and Audit**

- (a) Review and assess the adequacy and effectiveness of the Company's system of internal control and management information systems through discussions with management and the external auditor to ensure that the Company maintains:
  - i. the necessary books, records and accounts in sufficient detail to accurately and fairly reflect the Company's transactions;
  - ii. effective internal control systems; and
  - iii. adequate processes for assessing the risk of material misstatement of the financial statement and for detecting control weaknesses or fraud.

From time to time the Committee will assess whether a formal internal audit department is necessary or desirable having regard to the size and stage of development of the Company at any particular time.

- (b) Satisfy itself that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements.
- (c) Periodically assess the adequacy of such systems and procedures to ensure compliance with regulatory requirements and recommendations.
- (d) Review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.
- (e) Review annually insurance programs relating to the Company and its investments.

### **External Audit**

- (a) Review the performance of the external auditors who are accountable to the Committee and the Board as representatives of the shareholders, including the lead partner of the independent auditors' team and recommend to the Board the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and the compensation of the external auditors.
- (b) Oversee the work of the external auditors appointed by the shareholders of the Company with respect to preparing and issuing an audit report or performing other audit, review or attest services for the Company, including the resolution of issues between management of the Company and the external auditors regarding financial disclosure.
- (c) Review the results of the external audit and the report thereon including, without limitation, a discussion with the external auditors as to the quality of accounting principles used, any alternative treatments of financial information that have been discussed with management of the Company, the ramifications of their use as well as any other material changes. Review a report describing all material written communication between management and the auditors such as management letters and schedule of unadjusted differences.
- (d) Discuss with the external auditors their perception of the Company's financial and accounting personnel, records and systems, the cooperation which the external auditors received during their course of their review and availability of records, data and other requested information and any recommendations with respect thereto.
- (e) Review the reasons for any proposed change in the external auditors which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and inquire as to the qualifications of the proposed auditors before making its recommendations to the Board.
- (f) Review the independence of the external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards.
- (g) Review annually a report from the external auditors in respect of their internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

### **Associated Responsibilities**

- (a) Establish, monitor and periodically review a whistleblower policy and associated procedures for:
  - i. the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;
  - ii. the confidential, anonymous submission by directors, officers and employees of the Company of concerns regarding questionable accounting or auditing matters; and
  - iii. any violations of any applicable law, rule or regulation that relates to corporate reporting and disclosure, or violations of the Company's Business Conduct & Ethics.
- (b) Review and approve the Company's hiring policies regarding employees, partners and former employees and partners of the present and former external auditor of the Company.

### **Non-Audit Services**

- (a) Pre-approve all non-audit services to be provided to the Company or any subsidiary entities by its external auditors or by the external auditors of such subsidiary entities. The Committee may delegate to one or more of its members the authority to pre-approve non-audit services but pre-approval by such member or members so delegated shall be presented to the full audit committee at its first scheduled meeting following such pre-approval.
- (b) Review and assess the adequacy of the Company's risk management policies and procedures with regard to identification of the Company's principal risks and implementation of appropriate systems to manage such risks including an assessment of the adequacy of insurance coverage maintained by the Company.

### **Oversight Function**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the external auditors. The Committee, the Chairman and any Members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Member who is identified as having accounting or related financial expertise, like the role of all Members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.

## **5. Reporting**

The Chairman will report to the Board at each Board meeting on the Committee's activities since the last Board meeting. The Secretary will circulate the minutes of each meeting of the Committee to the members of the Board.

## **6. Access to Information and Authority**

The Committee will be granted unrestricted access to all information regarding the Company and all directors, officers and employees will be directed to cooperate as requested by members of the Committee. The Committee has the authority to retain, at the Company's expense, independent legal, financial and other advisors, consultants and experts, to assist the Committee in fulfilling its duties and responsibilities. The Committee also has the authority to communicate directly with internal and external auditors.

## **7. Review of Charter**

The Committee will review and assess, on an annual basis, the adequacy of this Charter and recommend any proposed changes to the Board for approval.