



Thermal Energy International Provides Business Update and Reports Second Quarter Fiscal 2013 Results

OTTAWA, ONTARIO – January 29, 2013 – Thermal Energy International Inc. (“Thermal Energy” or the “Company”) (TSXV: TMG), a leading provider of custom energy efficiency and emission reduction technologies to energy intensive industries and institutions worldwide, today announced its financial results for the three and six months ending November 30, 2012.

Overview:

- 6 month sales of \$2.1 million compared to \$6.1 million last year
- 6 month heat recovery sales down \$4.2 million
- 6 month GEM® steam trap sales up \$212,000
- Revenues decreased as expected in the first half of this year due to some large corporate GEM® sales and the successful completion and commissioning of two large heat recovery projects occurring last year while this year saw the temporary delay of installation of heat recovery orders that are now in process, of which 6 are expected to be substantially completed during the balance of this fiscal year
- 6 month North American GEM® steam trap sales up 51%
- 6 month base GEM® steam trap sales (excluding large corporate sales) up 24%
- Q2 GEM® global steam trap sales up 53%
- Received a \$330,000 purchase order from a major hospital for the installation of the Company's GEM® steam trap technology
- Extended the Greenpower Purchase Agreement with a specialty paper producer for an additional two years
- Received a \$300,000 purchase order from a Fortune 500 food and beverage company for the installation of a heat recovery system
- Signed a \$750,000 contract with a major hospital for the installation of a heat recovery system
- 11 additional potential energy efficiency projects are under development on a paid or exclusive basis with customers
- As at January 29, 2013, the Company had approximately \$3.1 million in purchase orders in backlog all of which are expected to be substantially completed this fiscal year

During the quarter Thermal Energy continued to grow its sales and distribution capabilities. Over the last 24 months Thermal Energy has:

- Doubled its in house sales and marketing team
- Retained 6 new large well known industrial distributors
- Trained approximately 200 sales agents employed by our distributor partners

"We continue to expand our sales and distribution network and focus on contracts of all sizes in a variety of key industries," said William Crossland, the President and CEO of Thermal Energy. "Over time this approach is expected to strengthen the Company's long term growth prospects, reduce our dependence on single large contracts and smooth out our revenue stream quarter-to-quarter. The strategy is already showing positive results as evidenced by strong GEM® order growth in our key North American market

and an increased number of energy efficiency projects under development. With success of this strategy in North America we are now beginning the roll out of a similar program in Europe and the Middle East."

Q2 2013 Financial Review:

Revenue was \$1.3 million for the three-month period ended November 30, 2012, compared to \$4.7 million for the corresponding period in 2011. The higher revenue in 2011 was due to heat recovery revenue from two large contracts (FibreK project and St. Georges Healthcare NHS Trust). There were no equivalent contracts in the quarter ended November 30, 2012. GEM® sales for the quarter, however, increased by 53%, over the corresponding period in 2011.

Gross profit was \$0.8 million for the three-month period ended November 30, 2012, compared to \$2.1 million for the corresponding period in 2011. Gross profit expressed as a percentage of revenue was 63.5% during the quarter compared to 45.4% for the corresponding quarter in 2011. The increase in gross profit as a percentage of sales is a result of a higher proportion of revenues generated from GEM® sales, which generate higher margins than sales of Flu-Ace Heat Recovery.

Operating expenses were \$1.6 million for the three-month period ended November 30, 2012, compared to \$1.5 million for the corresponding period in 2011. Operating expenses were increased primarily due to the addition of two sales staff, two technical staff, one additional finance employee and increased investor relations costs. However, these cost increases were offset by reductions in commissions payable and incentive provisions as a result of reduced revenues and profits, plus a reduction in legal fees compared to the same period in 2011. Research and development costs include costs related to the development of a variety of new products related to the GEM® line and the product development project targeting the Chinese petrochemical market announced February 2012.

Net loss was \$0.8 million for the three-month period ended November 30, 2012, compared to net income of \$0.5 million for the corresponding period in 2011.

Operating cash flow defined as net income (loss), plus items not involving cash, plus lease payments received for the quarter ended November 30, 2012 was (\$0.5) million as compared to \$0.6 million for the August 31, 2012 quarter.

Cash and Working Capital

As at November 30, 2012, the Company's net cash position (cash and cash equivalents less bank loans) amounted to \$0.5 million compared to \$1.4 million on May 31, 2012. As at November 30, 2012, the Company had net working capital of \$1.0 million, compared to \$2.6 million on May 31, 2012. With Cash balances and unused borrowing capacity of approximately \$0.8 million, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements in the remainder of FY 2013.

6 Month 2013 Financial Review:

Revenue was \$2.1 million for the six-month period ended November 30, 2012 as compared to \$6.1 million for the corresponding six-month period in 2011. The decrease in revenue was due to lower revenue generated from heat recovery sales due to reasons mentioned above. However, GEM® sales increased during the same period.

Gross profit was \$1.3 million for the six-month period ended November 30, 2012 as compared to \$2.9 million for the corresponding period in 2011. Gross profit expressed as a percentage of revenue was 62.4% during the period compared to 47.9% for the corresponding period in 2011. The increase in gross

profit as a percentage of sales is a result of a higher proportion of revenues generated from GEM® sales, which generate higher margins than sales of Flu-Ace Heat Recovery.

Operating expenses were \$3.1 million for the six-month period ended November 30, 2012, compared to \$2.7 million for the corresponding period in 2011 for the reasons noted above.

Net loss was \$1.6 million for the six-month period ended November 30, 2012, compared to net income of \$0.1 million for the corresponding period in 2011.

All figures are expressed in Canadian dollars. Full financial results including Management's Discussion and Analysis and accompanying notes to the financial results, are available on www.SEDAR.com and www.thermalenergy.com.

Business Outlook:

As reported previously, on December 17, 2010 the Company signed a Letter of Intent with a major North American pulp and paper company outlining the two parties' intent to develop and, subject to financing and approval by the pulp and paper company's board of directors, implement on an exclusive basis heat recovery projects at three of the customer's locations. A project has been developed for the first site and is awaiting approval by the customer. The second site did not support a viable project and further development work is not currently being conducted at this site. The final site is still under consideration.

In April 2012 the Company received an order for the supply, installation and maintenance of a heat recovery system at a publicly owned hospital. The project has a total value of approximately \$1.5 million over seven years which is equivalent to a discounted present value of approximately \$950,000. This order represents the first example of a new financing program the Company is developing for its public sector clients and a new service and maintenance program being developed for both heat recovery and GEM® products. The finance program and service and maintenance programs are part of the Company's strategy to increase revenue and profit while providing enhanced value to its customers. Both of these programs have been designed to provide a growing and recurring revenue stream for the Company.

In May 2012, the Company announced it had received a purchase order for approximately \$467,000 from a major food manufacturer for a heat recovery solution at one of its sites. This order is expected to be completed in FY 2013.

In June 2012, the Company received another purchase order for approximately \$249,000 from the same major food manufacturer for a heat recovery solution at one of its sites. This order is expected to be completed in FY 2013.

In June 2012, the Company received an order for approximately \$562,000 from a publicly owned hospital for a heat recovery solution. This order is expected to be substantially completed in FY 2013.

In August 2012 the Company received an order for the supply, installation and maintenance of a GEM® system at a publicly owned hospital. The project has a total value of approximately \$548,000 over seven years which is equivalent to a discounted present value of approximately \$375,000. This represents the second example of the new finance and service and maintenance programs the Company is developing.

On November 2, 2012, the Company announced it had signed a \$330,000 contract with a publicly funded hospital for installation of its GEM® steam trap technology. The project is expected to be substantially completed by the end of FY 2013.

On November 29, 2012, the Company announced it had extended the Greenpower Purchase Agreement with a specialty paper producer until December 31, 2014. Upon completion of the extended term, the specialty paper producer has an option to further extend to a maximum of 24 months on substantially the same terms or purchase the FLU-ACE® Waste Heat Recovery System.

On December 14, 2012, the Company announced it had received an initial purchase order totalling approximately \$300,000 for the installation of a heat recovery system at a food and beverage company. The project is expected to be substantially completed by the end of FY 2013. Thermal Energy is working on developing additional energy efficiency programs for this company at other sites.

On December 18, 2012, the Company announced it had received a purchase order valued at approximately \$750,000 for the installation of a heat recovery system at a large publicly funded hospital. The project is expected to be substantially completed by the end of FY 2013.

The company is currently developing energy efficiency projects on a paid or exclusive basis at 11 different sites for 8 different customers. This compares to 4 sites for 2 customers in 2011.

The Company's order backlog as at November 30, 2012 was approximately \$2.1 million compared to \$4.8 million at the same time last year. As at January 29, 2013, the Company had approximately \$3.1 million in purchase orders that had not yet been reflected as revenue in the Company's published quarterly financial statements.

About Thermal Energy International Inc.

Thermal Energy International Inc. is an innovative cleantech company providing a variety of proprietary and proven energy efficiency, emission reduction, water efficiency, and bioenergy products and solutions to the industrial, commercial and institutional markets worldwide. Thermal Energy is also a fully accredited professional engineering firm, and can offer advanced process and applications engineering services. By providing a unique mix of proprietary products together with process, energy, environmental, and financial expertise Thermal Energy is able to deliver significant financial and environmental benefits to its customers.

Thermal Energy's products include; GEM® - Steam traps and condensate return systems, FLU-ACE® - Direct contact condensing heat recovery, and Dry Rex™ - Low temperature biomass drying systems. These award winning products are effective in a wide variety of industries and application and have an excellent track record of longevity, proven reliability and performance providing significant energy savings, reduced GHG emissions, improved water efficiency, lower maintenance costs, improved product quality and increased production efficiency.

Thermal Energy International Inc. has offices in Ottawa, Canada as well as Bristol, UK, United States, Italy and China. To find out more about Thermal Energy International Inc. (TSX-V: TMG), visit our website at <http://www.thermalenergy.com>.

This press release contains forward-looking statements relating to, and amongst other things, based on management's expectations, estimates and projections, the anticipated effectiveness of the Company's products and services and the timing of revenues to be received by the Company. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors, some of which are outside of the Company's control, could cause events and results to differ materially from those stated. The Company disclaims any obligation to publicly update or revise any such statements.

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