



Thermal Energy Provides Business Update and Reports First Quarter Fiscal 2013 Results

OTTAWA, ONTARIO – October 30, 2012 – Thermal Energy International Inc. (TSXV: TMG), a leading provider of custom energy and emission reduction technologies for energy intensive industries worldwide, today announced its financial results for the three month period ended August 31, 2012.

Q1 2013 Highlights

- Named to the 24th annual PROFIT Magazine Ranking of the 200 fastest growing companies in Canada
- Subsequent to quarter end, announced the adoption of a Shareholder Rights Plan to ensure that share value is maximized and that all shareholders are treated equally and fairly in connection with any initiative to acquire control of the Company
- During the quarter, expanded its sales and distribution team by appointing Grant Bailey as its Director of Global Accounts to develop international corporate accounts, David Webb as Export Development Manager to develop distribution capabilities in Europe, and Tim Gardner, inventor of the GEM[®] steam trap, as Director of Business Development to drive sales in the UK, Ireland and Italy.

“Over the last 24 months we have focused our human and capital resources on building our sales and distribution capabilities in our key markets. Our in house sales and marketing team has expanded from eight people to 15 people and we have trained more than 175 independent sales agents employed by our distributor partners”, said William Crossland, President and CEO of Thermal Energy. “We will continue to expand this strategy in North America and are now in the midst of implementing a similar strategy in Europe and the Middle East. We are also enhancing our corporate sales capabilities in order to capitalize and expand on the success we have had with our first three corporate sales accounts. As expected, revenues decreased this quarter due to the timing of the receipt of some key corporate GEM[®] sales, the wind down of some large heat recovery projects and the temporary delay of the installation of four other heat recovery systems. We believe the investments made, and which we continue to make, in our sales and distribution capabilities have strengthened the Company’s long term growth prospects. The initial investments are already showing positive results as evidenced by strong GEM[®] order growth in our key North American market and an increased number of heat recovery projects under development.”

Q1 2013 Financial Review

Revenue was \$0.9 million for the three-month period ended August 31, 2012, compared to \$1.4 million for the corresponding period in 2011. Sales of the GEM[®] Condensate return systems decreased by \$0.2 million over the same period in the previous year primarily due to expected decreased corporate sales to a major food manufacturer and a major pharmaceutical company. At the same time base GEM[®], sales in North America and the UK increased \$0.2 million. North American GEM[®] sales in particular are up 108% this quarter after growing 63% in FY 2012. Heat recovery revenues decreased by \$0.4 million due to the winding up of the Fibrek project and the lack of any heat recovery systems installed in the UK during the quarter. The installation of four heat recovery systems ordered earlier this year was delayed due to an

unforeseen technical issue. This issue has now been resolved and these four heat recovery systems are expected to be installed over the next four months.

Gross profit was \$0.5 million for the three-month period ended August 31, 2012, compared to \$0.8 million for the corresponding period in 2011. Gross profit expressed as a percentage of revenue was 60.9% during the quarter compared to 56.1% 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 coming from sales of GEM[®] Condensate return systems.

Operating expenses were \$1.5 million for the three-month period ended August 31, 2012, compared to \$1.2 million for the corresponding period in 2011. The increase is primarily due to additional costs related to the 11 new staff hired since May 2011. Other increases relate to increased staff and distributor training; audit fees for IFRS reporting; the addition of two directors and increased investor relations activities.

Net loss was \$0.8 million for the three-month period ended August 31, 2012, compared to a net loss of \$0.3 million for the corresponding period in 2011.

Operating cash flow (defined as net loss plus items not involving cash, plus lease payments received) was negative \$0.7 million compared to negative \$0.2 million in the same period last year.

Liquidity & Capital Resources

As at August 31, 2012, the Company's cash position amounted to \$0.6 million, compared to \$1.4 million as at May 31, 2012. In addition to its cash balance, the Company also had an estimated \$0.1 million of unused borrowing capacity under its bank loans. With cash balances and unused borrowing capacity of approximately \$0.7 million, together with orders in hand as discussed below, management believes that it has sufficient capital resources to fund existing operations and anticipated capital requirements for the remainder of FY 2013.

All figures are 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 update

- 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. A deposit of approximately \$219,000 has been received which will be followed by 24 quarterly payments of approximately \$54,000 over the following six years, representing a total value of approximately \$1.5 million over seven years. 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 program are part of the Company's strategy to increase revenue and profit while providing enhanced value to its customers. Both of these programs are also designed to provide a growing 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 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 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.
- During FY 2012 the Company commenced \$60,000 in paid engineering and product trials for heat recovery and / or GEM[®] solutions for a Fortune 500 company at three of its processing sites. All engineering and trials are expected to be completed in the first and second quarters of FY 2013.
- During FY 2012 the Company commenced \$16,000 in paid development of heat recovery and GEM[®] solutions for a major Energy Services Company at a group of 3 hospitals. This development is to be completed in a staged manner throughout FY 2013.
- In the first quarter of FY 2013 the Company commenced \$15,000 in paid development of a heat recovery solution for dairy processing facility.
- In the first quarter of FY 2013 the Company commenced \$10,000 in paid development of a heat recovery solution for a publicly owned hospital.
- In August 2012 the Company received an order for the supply, installation and maintenance of a GEM[®] system at a publicly owned hospital. A deposit of approximately \$92,000 has been received which will be followed by 24 quarterly payments of approximately \$19,000 over the following six years representing a total value of approximately \$548,000 over seven years. This represents the second example of the new finance and service and maintenance programs the Company is developing.
- As at October 30, 2012 the Company had approximately \$2.5 million in purchase orders that had not yet been reflected as revenue in the Company's published quarterly financial statements.

GEM® orders account for approximately \$0.9 million of this amount and compares to \$0.7 million in GEM® orders in hand at the same time last year.

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>.

William Crossland
President and CEO
Thermal Energy International Inc.
613-723-6776
bill.crossland@thermalenergy.com

Babak Pedram
Investor Relations
The Equicom Group
416-815-0700 ext.264
bpedram@tmxequicom.com

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This press release contains forward-looking statements relating to, and amongst other things, based on management's expectations, estimates and projections with respect to the anticipated receipt of funding based on ISTP approval, results and timing of research, the anticipated effectiveness of the Company's products and services and the revenues to be received by the Company from the project described. 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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