



Thermal Energy Reports Financial Results for the Year Ending May 31, 2013

OTTAWA, ONTARIO – September 17, 2013 – Thermal Energy International Inc. (TSXV: TMG), a leading provider of custom energy and emission reduction technologies for energy intensive industries and institutions worldwide, today announced its financial results for the three-month and twelve-month periods ended May 31, 2013.

Q4 2013 Highlights (compared to Q4 FY 2012)

- Sales of \$1.9 million compared to \$3.5 million last year
- Gross profit of \$0.7 million (39% of sales) compared to \$1.3 million (38%) last year
- Administration and Selling, Marketing and Business Development expenses of \$1.3 million compared to \$1.5 million last year.
- Impairment of goodwill and intangible assets of \$2.3 million compared to \$nil last year
- Net loss of \$2.7 million compared to \$26,341 last year

FY 2013 Highlights (compared to FY 2012)

- Sales of \$8.2 million compared to \$13.1 million last year
- Gross profit of \$5.0 million (61% of sales) compared to \$5.6 million (43%) last year
- Administration and Selling, Marketing and Business Development expenses of \$5.6 million were unchanged compared to last year
- Impairment of goodwill and intangible assets of \$2.3 million compared to \$nil last year
- Net loss of \$2.8 million compared to net income of \$84,731 last year.

Subsequent Events and Business Outlook

- **15 heat recovery or GEM[®] projects currently being developed** for 10 different customers on a paid or exclusive basis compared to 7 sites for 3 customers at the end of FY 2012 and only 1 site and 1 customer in each of FY 2011 and FY2010.
- **Total order backlog of \$8.6 million as at September 16, 2013 is the highest level of order backlog in the Company's history and exceeds total sales for all of fiscal year 2013.** \$0.5 million of the order backlog is related to long term contracts that are not expected to be reflected in revenue within the next 12 months. The Company includes in "order backlog" any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published quarterly financial statements. Current order backlog includes:
 - **\$3.6 million heat recovery order** from a major North American pulp and paper company announced June 3, 2013;
 - **\$800,000 heat recovery and GEM[®] steam trap orders** from a major publicly owned hospital announced June 13, 2013;
 - **\$480,000 GEM[®] steam trap order** from a major multinational food and beverage company announced July 3, 2013;
 - **\$780,000 heat recovery and GEM[®] steam trap orders** from a major publicly owned hospital announced September 10, 2013; and,
 - **\$1.7 million heat recovery and GEM[®] steam trap orders** from a Fortune 500 food and beverage company announced September 16, 2013.

- On October 16, 2012 we announced that Tim Gardner, the inventor of the GEM[®] steam trap and founder of the GEM[®] business, had rejoined Thermal Energy after a 3 year absence. Mr. Gardner has now resigned from Thermal Energy to pursue other interests. We were glad to have had Mr. Gardner with us for the last year and we wish him all the best for the future. With Mr. Gardner's departure, and on the strength of a growing pipeline and record order backlog, **Thermal Energy is currently actively looking to hire four new sales people plus a global marketing manager.**

"After three straight years with strong sales growth and profitability improvements, Fiscal 2013 was a difficult year plagued by a number of temporary unfortunate issues" commented Thermal Energy CEO William Crossland. "The economic events of the last five years, and in particular low energy prices and the ongoing recession in Europe, finally caught up with us and a non-cash write down of the GEM[®] goodwill and intangible assets was necessary, unlike the previous two years we did not benefit from a large multi-million dollar heat recovery project, a number of other heat recovery project orders were held up due to temporary technical issues (since resolved), and GEM[®] sales were impacted by the wind down of two corporate relationships. Despite these issues however, our cash position has remained virtually unchanged from the previous year which is a testament to the current resilience of the Company, which would not have been the case three years ago. I am pleased to see all of the difficult issues of Fiscal 2013 now behind us. The investments we made in our sales and distribution strategies and capabilities 12 to 18 months ago are now starting to bear fruit as evidenced by a growing pipeline and the largest order backlog in the Company's history. We are in a strong position to continue growing the company and, as noted above, in order to take the company to the next level we are looking to immediately hire five new sales and marketing personnel."

Q4 2013 Financial Review

Revenues in the fourth quarter 2013 were \$1.9 million, compared with \$3.5 million for the same period in 2012, a decrease of \$1.6 million. Revenue from heat recovery projects fell by \$1.3 million primarily due to completion of the \$5.8 million contract with Fibrek in the fourth quarter of last year accounting for \$1.6 million revenue in that period. Other heat recovery revenue in the fourth quarter 2013 was \$298,811 higher than last year, partially offsetting the loss of the Fibrek revenue. Sales of GEM[®] product meanwhile fell by \$317,199 as a result of decreased sales to a major pharmaceutical company and lower sales across Europe due to the economy, but partially offset by increased sales in the rest of the world.

The gross profit in the fourth quarter of FY 2013 was \$746,358 (39%) compared with \$1.3 million (38%) for the same period in 2012.

Administration and Selling, Marketing and Business Development expenses incurred in the fourth quarter 2013 were \$1.3 million, compared to \$1.5 million incurred during the same period in 2012 primarily due to lower commissions, legal fees, bad debts and foreign exchange losses.

Research and development expenses in the quarter ended May 31, 2013 were \$19,865 compared to \$nil in the quarter ended May 31, 2012. FY2013 saw an increase in R&D activity across a number of projects including the ISTP project in China, as announced February 7, 2013.

A \$2.3 million non-cash charge for impairment of goodwill and other intangible assets was taken in the quarter ended May 31, 2013 compared to \$nil last year. In the spring of 2008, just prior to the acquisition of the GEM[®] business by Thermal Energy on July 4, 2008, energy prices and cleantech company valuations were at record levels. Six months later energy prices had fallen more than 50%. While oil prices have gradually recovered some of the loss, natural gas prices in North America are still less than

50% of the early 2008 levels and natural gas is the primary fuel source used by the majority of our customers. In addition, the second half of 2008 saw the beginning of a serious global economic recession. While the US economy has recovered the EU economy has still not climbed back to pre-2008 levels. These factors, plus a re-organization of the UK based sales group during the last two years, including two key UK sales people relocating to North America, has made it very difficult to achieve the results expected from the GEM[®] business when it was acquired 5 years ago. As a result, during impairment testing conducted in connection with the fiscal year end of May 31, 2013 it was determined that a non-cash write down of the goodwill and other intangible assets related to the GEM[®] business was appropriate at this time.

Net loss for the fourth quarter 2013 was \$2.7 million compared with \$26,341 for the same period in FY 2012, mainly as a result of the non-cash impairment of goodwill and intangible assets and the lower level of sales and related gross profit.

Fiscal Year 2013 Financial Review

Sales were \$8.2 million in FY 2013 compared to \$13.1 million in FY 2012. Sales of heat recovery systems decreased in the year by \$5.0 million while sales of GEM[®] steam traps increased by \$52,895. Last year's heat recovery revenue of \$9.7 million included the \$5.8 million Fibrek contract, the \$2.1 million St. George's contract and a number of other smaller contracts totaling \$1.8 million. This year's heat recovery revenue did not include any contracts similar in size to Fibrek or St. George's but the Company was still able to generate \$4.7 million in heat recovery revenue from a number of smaller contracts with the largest being the \$1.6 million Fortress lease extension. GEM[®] sales in FY 2013 were \$3.5 million compared to \$3.4 million in FY 2012. Reduced sales to a major pharmaceutical company and a major food manufacturer and general decreases in UK and the rest of the world due to the depressed economy were offset by an increase in sales to major hospitals and the continuing growth of GEM[®] sales in North America.

Gross profit of \$5.0 million (60.6% of sales) in FY 2013 compared to \$5.6 million (42.9%) last year. The improvement in gross profit as a percentage of sales is partly a result of a higher proportion of revenues coming from sales of GEM[®] and partly due to the extension of the Greenpower Purchase Agreement extension with Fortress Specialty Cellulose.

Administration and Selling, Marketing and Business Development expenses in FY 2013 totaled \$5.6 million compared to \$5.6 million in FY 2012. Increases resulting from the additional staff and investor relations activities were offset by decreases in legal fees and audit fees, foreign exchange losses and the write down of the net investment in lease following a permitted plant shutdown at the site.

Research and development costs increased in FY 2013 to \$184,388 compared to \$8,455 in FY 2012. The increase is related to an increased focus on R&D activity in the current year, particularly with regard to the product development project targeting the Chinese petrochemical market as well as development of sundry ancillary products relating to the GEM[®] product range.

A \$2.3 million charge for impairment of goodwill and other intangible assets was taken during FY 2013 compared to \$nil last year. The impairment is discussed above under "Q4 2013 Financial Review".

Net loss for the year was \$2.8 million compared to net income of \$84,731 last year. The difference is primarily due to the non-cash impairment in goodwill and other intangible assets and the lower level of sales and related gross profit.

Liquidity & Capital Resources

The working capital was \$1.6 million as at May 31, 2013 compared to \$2.6 million at the end of FY 2012. The decrease in working capital was primarily driven by the Company's negative cash flow from operations (defined as net income, plus items not involving cash, plus lease payments received, adjusted for the capitalization of the Greenpower Purchase Agreement extension).

Cash and cash equivalents as at May 31, 2013 of \$1.3 million was largely unchanged from \$1.4 million last year because "Net cash provided (used) in operations" for the year of (\$759,000) was offset by the "Finance lease payments received" of \$712,213.

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.

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>.

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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, the anticipated effectiveness of the Company's

products and services and the timing of revenues to be received by the Company. Statements relating to the Company's backlog, projects in development and the Company's expectations as to continued growth are all forward looking statements. 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. Fulfilment of orders, installation of product and activation of product could all be delayed for a number of reasons, some of which are outside of the Company's control, which would result in anticipated revenues from such projects being delayed or in the most serious cases eliminated. Orders in the Company's backlog as described above may not turn into revenue due to many factors, some of which are outside of the Company's control, including but not limited to the Company's ability to deliver products on time and in accordance with specifications and the continuing financial viability of the customer. Heat recovery and GEM® steam trap projects being developed by the Company at this time may not result in orders for the Company's products. The Company disclaims any obligation to publicly update or revise any such statements except as required by law.

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