



Thermal Energy Announces Record FY 2012 Results

OTTAWA, ONTARIO – September 27, 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 and twelve-month periods ended May 31, 2012.

Q4 2012 Highlights (compared to Q4 FY 2011)

- Revenue of \$3.5 million up 81%
- Operating cash flow of \$216,353 up 149%

FY 2012 Highlights (compared to FY 2011)

- Revenue of \$13.1 million up 36%
- EBITDAS of \$449,291 up 308%
- Net income of \$84,731 up \$196,127
- Operating cash flow of \$903,315 up 54%
- Working capital of \$2.6 million up \$686,360 or 36%
- Base North American GEM[®] sales up 63% (excluding sales to UK based corporate account)
- North American heat recovery sales up 58% (up 65% excluding Kruger and Fibrek projects)
- North America total sales up 161%
- UK heat recovery sales up 232%

“We are delighted to report record sales, a profitable year and almost one million dollars in positive cash flow,” said William Crossland, the President and CEO of Thermal Energy. “We continue to manage our expenses strictly but now with strong positive cash flow we are able to begin investing for further growth. We believe that we have some of the best products in the market, and with our increasing global distribution capabilities and the multi-faceted sales strategy we have put in place, we are optimistic about the future growth of our company as reflected by the increased level of projects under development.”

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.
- On January 4 and January 6, 2012, the Company received orders from a major food manufacturer in the U.K. for heat recovery solutions at two of its sites. The orders total approximately \$832,000 and were substantially completed this fiscal year.

- In April 2012, the Company received a GEM[®] order for approximately \$163,000 from a publicly funded university.
- On May 10, 2012, the Company announced it had received a further purchase order for approximately \$467,000 from a major food manufacturer in the UK for a heat recovery solution. This order is expected to be completed in FY 2013.
- In June 2012, the Company received a fourth purchase order from the major food manufacturer in the U.K. for a heat recovery solution at another site. The order totals approximately \$249,000.
- On June 18, 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 the second quarter of FY 2013.
- In March 2012, the Company, together with Kruger Products Ltd., co-authored and presented a paper entitled "Forecasting and Validation of Fossil Fuel and Steam Savings from Tissue Machine Heat Recovery", at the Tissue World Show in Miami, Florida.
- 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 6 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.
- During FY 2012 the Company received three orders from a Fortune 500 company to complete \$60,000 in paid engineering and product trials for FLU-ACE[®] and / or GEM[®] solutions in 3 of the company's processing sites. All engineering and trials are expected to be completed in the first and second quarters of FY 2013.
- Since May 31, 2011 the Company has received orders totalling \$70,000 for GEM[®] steam traps from a major existing pulp and paper FLU-ACE[®] customer, who has now identified GEM[®] as their traps of choice for further replacement and retrofit at this and other sites.
- In FY 2012 the Company received a \$16,000 order from a major Energy Services Company to complete paid development of FLU-ACE[®] and GEM[®] solutions for a group of 3 hospitals, with the development to be completed in a staged manner for the 3 sites throughout FY 2013.
- Since the start of FY 2013 the Company has received two additional orders totalling \$25,000 to complete paid development of new FLU-ACE[®] heat recovery projects for a dairy processing facility and a 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 6 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.
- The Company's order backlog as at May 31, 2012 was approximately \$1.4 million compared to \$1.1 million at the same time last year. As at September 27, 2012, the Company had approximately \$2.9 million in purchase orders that had not yet been reflected as revenue in the Company's published quarterly financial statements.

Q4 2012 Financial Review

Revenue was \$3.5 million for the three-month period ended May 31, 2012, compared to \$1.9 million for the corresponding period in 2011. The revenue increase was primarily due to HR revenue from the Fibrek project and a major food manufacturer in the UK. Total increase in revenue was partially offset by a drop in GEM[®] revenue in the UK as a result of the previous year including a large GEM[®] order from the same major food manufacturer.

Gross profit was \$1.3 million for the three-month period ended May 31, 2012, compared to \$1.1 million for the corresponding period in 2011. Gross profit expressed as a percentage of revenue was 38% during the quarter compared to 55% for the corresponding quarter in 2011. The reduction in gross profit as a percentage of sales is a result of higher proportion of revenues coming from heat recovery, which generates lower margins than sales of GEM[®] Condensate return system.

Operating expenses were \$1.5 million for the three-month period ended May 31, 2012, compared to \$1.2 million for the corresponding period in 2011. The majority of this increase is the result of additional staff being recruited throughout the current year. A total of five additional sales persons, plus three technical support and one admin role were recruited during FY 2012, with the aim of increasing global coverage and increasing future sales. In addition, loss on foreign exchange was higher as a result of the continued weakening Euro against Sterling. While operating expenses increased in absolute terms, as a percent of sales they were 43%, down from 63% for the same period last year.

Net loss was \$26,341 for the three-month period ended May 31, 2012, compared to \$25,142 for the corresponding period in 2011.

Operating cash flow (defined as net income, plus items not involving cash, plus lease payments received) was \$216,353 up \$129,577 or 149% from the \$86,776 generated in the same period last year.

FY 2012 Financial Review

Revenue was \$13.1 million for the twelve-month period ended May 31, 2012, compared to \$9.7 million for the corresponding period in 2011. The revenue increase was primarily due to HR revenue generated from Fibrek, St. Georges Healthcare NHS Trust and the first two HR systems installed at a major food manufacturer in the UK. Increased HR and North American GEM[®] revenues were partially offset by a decrease in UK GEM[®] revenues. UK GEM[®] revenue slowed this year largely because last year's figures contained the majority of the large GEM[®] orders from a major UK based food manufacturer announced December 2010 and February 2011.

Gross profit was \$5.6 million for the twelve-month period ended May 31, 2012, compared to \$4.7 million for the corresponding period in 2011. Gross profit expressed as a percentage of revenue was 42.9% for the twelve-month period compared to 48.2% for the corresponding period in 2011. The reduction in gross profit as a percentage of sales is a result of a higher proportion of revenues coming from heat recovery, which generates lower margins than sales of GEM[®] Condensate return systems.

Operating expenses were \$5.6 million for the twelve-month period ended May 31, 2012, compared to \$5.0 million for the corresponding period in 2011. The main contributors to this increase were recruitment costs and salaries of the additional staff added during the year, increased commissions payable on the increased revenues and increased staff and distributor training, all of which represent an investment in the future growth of the company. Other increases resulted from directors fees relating to the two directors added during the year, audit fees relating to the transition to reporting in accordance with International Financial Reporting Standards (IFRS), foreign exchange losses due predominantly to the weakening of the Euro against Sterling, the write down of the net investment in lease following a permitted plant shutdown at the site, and legal fees relating to the statement of claim filed against the Company by a past president. This year operating expenses were 43% of revenue compared to 52% last year, the third straight year this figure has decreased.

EBITDAS (defined as earnings before interest, taxation, depreciation, amortization, share-based compensation expense and net write down of lease) was \$449,142 for the year, up \$339,062 or 308% from the \$110,080 generated last year.

Net income was \$84,731 for the twelve-month period ended May 31, 2012, compared to net loss of \$111,396 for the corresponding period in 2011.

Operating cash flow (defined as net income, plus items not involving cash, plus lease payments received) for the year was \$903,315 up \$315,799 or 54% from the \$587,516 generated last year.

Cash and Working Capital

As at May 31, 2012, the Company's net cash position (cash and cash equivalents less bank loans) amounted to \$1.4 million, compared to \$972,163 on May 31, 2011. As at May 31, 2012, the Company had net working capital of \$2.6 million, compared to \$1.9 million on May 31, 2011.

The strong increase in working capital and net cash has been primarily driven by the Company's positive cash flow from operations which totaled \$903,315 for the year.

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. (TSXV: 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 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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