



CEO Letter to the Shareholders of Thermal Energy International: Comments on Fiscal 2018 and Beyond

OTTAWA, ONTARIO – October 29, 2018 – [Thermal Energy International Inc.](#) (“Thermal Energy” or the “Company”) (TSXV: [TMG](#)), a global provider of industrial, commercial and institutional energy efficiency and sustainability solutions, would like to provide a corporate update to shareholders from its CEO, William Crossland.

CEO Letter to the Shareholders of Thermal Energy International:

Comments on Fiscal 2018 and Beyond

The past fiscal year and the ensuing months witnessed unprecedented growth and transformation for Thermal Energy International. From the largest order in our history and solid growth in our base business, to growing our team and completing the acquisition of Boilerroom Equipment Inc. (“BEI”), we have moved ever closer to our goal to become a unique, one-stop-shop for all of our clients’ thermal energy efficiency and sustainability needs. In fact, last week we announced two projects that were beyond our historical focus of energy efficiency, and were instead focused primarily on water recovery. These included, being commissioned to develop a water and heat recovery option for three proposed Canadian oil sand developments, and a \$1.3 million order for the implementation of a water recovery system for a leading Fortune 500 food and beverage customer.

Record financial results

Last December we announced our largest order in our history, an \$11 million energy efficiency project with Resolute FP Canada Inc., which included the installation of two of our proprietary FLU-ACE[®] Heat Recovery Systems and the conversion of steam traps to our industry-leading GEM[™] Steam Traps. While this mega project certainly contributed significant revenue to our fiscal 2018 financial results, it is important to point out, that even without this project, we would have had record revenue in fiscal 2018. It is also worth noting, that at the end of fiscal 2018, the majority of the revenue from this project was yet to be earned and recorded.

For fiscal 2018, we ended up with \$17.4 million in revenue for the year, representing a 32% increase over fiscal 2017’s revenue of \$13.2 million, which was our highest annual revenue at the time. Our base business was up for the year, buoyed by continued strength from hospital orders and repeat business from our leading Fortune 500 food and beverage customer. Also, I would be remiss if I did not call out that, contributing to our new record revenue in fiscal 2018, the fourth quarter was the single strongest quarter in the history of our company.

Our strong revenue growth for the year translated to record gross profits of \$8.3 million, up 12% from \$7.4 million the year before. While our EBITDAS decreased 17.7% to \$617

thousand, the decrease is entirely due to a number of strategic investments we have made to support future growth in the business as well as several one-time expenses related to the acquisition of BEI. Excluding these growth-oriented expenses and one-time acquisition related costs, EBITDAS would have been \$1.2 million, up 64% over the prior year. Even with these additional expenses, our net income increased 57.7% to \$619 thousand.

Boilerroom Equipment Inc.

Following our year end, at the end of June we announced our acquisition of privately held Boilerroom Equipment Inc., based just outside of Pittsburgh PA. Focused on engineering and manufacturing of indirect contact heat recovery equipment for many different industries, BEI strengthens our presence in the United States, expands our offering of complementary products, and provides access to new vertical markets.

The acquisition provided us with an extensive network of more than 40 manufacturers' reps focused on commercial and industrial boilers, burners, water heaters, venting, and boiler room related products and services, providing coverage of every state in the U.S. as well as parts of Canada. BEI also has relationships with a number of boiler original equipment manufacturers (OEMs), which represented approximately 30% of BEI's sales. These are both new sales channels for Thermal Energy and represent additional sales potential for our existing products.

The acquisition expanded our product offering, providing us the HEATSPONGE and SIDEKICK heat recovery technologies. SIDEKICK is the first boiler economizer designed specifically for hot water boilers. Importantly, the direct contact FLU-ACE[®] heat recovery technology and the indirect HEATSPONGE and SIDEKICK heat recovery technologies have complementary attributes and capabilities. In certain situations an indirect heat recovery system is the best solution; in others, a direct system offers the best results. In many cases, using both indirect and direct in series generates optimal results. Owning and utilizing both technologies significantly increases the scope and cost effectiveness of potential heat recovery projects. Furthermore, our combined business is the only company, of which we are aware, that has proprietary technology for both indirect and direct heat recovery. This puts us in the unique position of being able to identify, recommend, and implement the most advantageous heat recovery solution based on each customer's unique criteria.

The modular design of the HEATSPONGE and SIDEKICK products means they are easily scalable and customizable with minimal additional engineering. Together with their lower price points compared to our highly engineered FLU-ACE systems, this makes the SIDEKICK and HEATSPONGE applicable not only for large industrial and institutional applications, but the commercial market and smaller industrial and institutional sites that are not currently cost-effective for FLU-ACE systems, as well. This is a very significant market, representing millions of locations globally.

BEI has been an excellent and natural fit for us. Before we acquired BEI, we had partnered with them numerous times, integrating their products into several of our projects over the years. As such, we were very familiar with their products and their team. Nevertheless, the acquisition was a significant undertaking in terms of time and effort. I would like to recognize

and thank all of our employees from both sides whose hard work helped make this business combination possible.

Growing our team and capabilities

The key to growing our business is to continue to grow our team and expand our portfolio of complementary energy efficiency and other sustainability solutions. As such, over the past three years we invested significantly in our team and capabilities with promotional, operational, sales, and technical staff additions in Ottawa, Bristol, Texas, Poland and Germany. Of particular note, in the past 24 months we hired an EU sales director to support and facilitate increased penetration in European markets, as well additional sales managers for the North Germany, South Germany and Poland markets. On the technical front, we hired a senior project engineer and two junior engineers to support both the growth of our existing product lines and the expansion of our product offerings, and a technical sales manager in Texas to service the gulf coast petrochemical sector. In order to provide the promotional and operational infrastructure needed to support our growing company, we hired two experienced marketing managers, and an operational systems development manager.

As part of our strategic plan we have expanded, and will continue to expand our product offering and expertise to include not just complimentary heat recovery and energy efficiency solutions, but also products related to water recovery and the broader sustainability market. The launch of our Super-Efficient CoGeneration solution in 2016, and our subsequent first order for this offering in 2017, is one example of this. And while we developed FLU-ACE to condense water and recover waste heat from a variety of sources including boiler, gas turbine, oven and dryer exhausts, our focus has primarily been on the recovery of the heat. The same technology can be applied to reduce or eliminate the use of fresh city water or groundwater. Last week we announced we had been commissioned to engineer and design an innovative water recovery solution for a world-leading petrochemical company operating in the Canadian oilsands. The system would recover water from the boiler plant and cogeneration operations to provide required process water and to reduce capital costs. This represents Thermal Energy's first paid contract to engineer and design a system with a focus on water recovery ahead of heat recovery. We also announced we had received a \$1.3 million order from a leading Fortune 500 food and beverage company to implement a water recovery system. For this project we are not using our FLU-ACE technology, but are instead integrating a number of alternate technologies into one highly engineered turnkey solution that is expected to reduce the customer's water usage by over 25 million gallons per year. These projects have application in other industries with high water costs around the world.

Looking ahead

Our order backlog was approximately \$12.7 million at the time we reported our year end results near the end of September, compared to \$9.0 million when we reported fiscal 2017 results a year earlier.

With a strong order book and our expanded team, product offering and market reach, we are well positioned to continue our momentum in fiscal 2019 and beyond. We remain focused on growing our market share in our key markets of North America and Europe, while expanding

our products and capabilities, not just in thermal energy efficiency, but also in the broader sustainability market.

As businesses across the globe search for ways they can reduce operating costs and improve sustainability, they will increasingly be looking to suppliers that have a broad range of sustainability capabilities to identify, recommend, and implement the most advantageous solutions. This presents significant opportunities for TEI as our business operates in a highly fragmented market consisting of hundreds of small-to-medium-sized energy efficiency and sustainability technology providers operating in North America, Europe, and around the world. GEM, FLU-ACE, DRY-REX, HEATSPONGE, and SIDEKICK are just a few of the hundreds of products and services in the marketplace. We will continue to look for additional complementary energy-efficiency and sustainability products and services that could be sold to our extensive and growing client list.

Thank you

As always, I would like to take this opportunity to thank you, our shareholders, for your loyalty and continued support. As I look ahead, I could not be more confident in our team, strategy, and growth prospects. I am very proud of what the Thermal Energy team has accomplished over this past year and I look forward to what the future holds in store for us.

Sincerely,

Bill

ENDS

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Notes to editors:

About Thermal Energy International Inc.

Thermal Energy International Inc. is an established global supplier of proprietary, proven energy efficiency, emissions reduction and sustainability solutions to the industrial, commercial and institutional sectors. We save our customers money and improve their bottom line by reducing their fuel use and cutting their carbon emissions. Our customers include a large number of Fortune 500 and other leading multinational companies across a wide range of industry sectors.

Thermal Energy is also a fully accredited professional engineering firm and by providing a unique mix of proprietary products together with process, energy and, environmental engineering expertise, Thermal Energy is able to deliver unique turnkey projects with significant financial and environmental benefits for our customers.

Thermal Energy's proprietary products include; [GEM™](#) - Steam Traps, [FLU-ACE®](#) - Direct contact condensing heat recovery, Heat-Sponge SIDEKICK and RAINMAKER – Indirect contact condensing heat recovery systems, and [Dry-Rex®](#) - Low temperature biomass drying systems.

Thermal Energy has offices in Ottawa, Canada, Pittsburgh, USA, as well as Bristol, U.K., Germany, Poland, Italy and China. TEI's common shares are traded on the TSX Venture Exchange (TSX-V) under the symbol TMG.

For more information, visit our website at www.thermalenergy.com and follow us on Twitter at <http://twitter.com/GoThermalEnergy>.

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The shareholder letter above contains forward-looking statements relating to, and amongst other things, based on management's expectations, estimates and projections. Statements relating to the factors that management believes will lead to revenue growth for the Company, future investment in different areas of the Company's business and the anticipated effects of such investments, development of new products and expansion of the Company's product offering, future sales strategies and their anticipated effects, effectiveness and impact of the Company's projects, the expected installation and revenue recognition for projects, possible acquisitions and the impacts such acquisitions might have on the Company, hiring plans and statements about execution of the Company's strategy to grow sales productivity and expand the business by growing the Company's team and global presence, are all examples of 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. Investments made by the Company in its business may not have the desired outcomes, the Company's offerings may not gain the market acceptance anticipated, the Company may allocate its resources to uses not currently anticipated, 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, the Company's hiring plans may not be successful or have the potential impacts described above. Actions taken by the Company's customers and factors inherent in the customer's facilities but not anticipated by the Company can have a negative impact on the expected effectiveness and lifespan of the Company's products and on the expected environmental effects and cost savings expected from the Company's products. Readers are referred to additional risk factors set out in our public disclosure documents available at www.SEDAR.com. The Company disclaims any obligation to publicly update or revise any such statements except as required by law.