



CEO's Letter to Shareholders of Thermal Energy International Provides Progress Update

OTTAWA, ONTARIO – April 25, 2018 – [Thermal Energy International Inc.](#) ("Thermal Energy" or the "Company") (TSXV: [TMG](#)), a global provider of industrial and institutional energy efficiency solutions, would like to provide a corporate update to shareholders from its CEO, William Crossland.



CEO Letter to the Shareholders of Thermal Energy International

With our fiscal year end just a little more than a month away, I would like to take this opportunity to briefly discuss our year-to-date financial results, provide an update on our largest project to date, and discuss our recent progress with regards to executing our strategy.

As we announced yesterday, our revenue for the first nine months of the fiscal year is up 19.2% compared to the same time last year, and our order book, or backlog, remains near its all-time high. As I mentioned last quarter, this is tracking to be a banner year for us, and given our strong order book, our outlook beyond this fiscal year remains very positive. Certainly supporting these statements, during the third quarter we received the largest order in our history – an \$11 million energy efficiency project with Resolute Forest Products. This order did not contribute in any meaningful way to our third quarter revenue, but we will realize the revenue from the project between now and into fiscal 2019, and possibly early fiscal 2020.

While our gross profit for the year-to-date is down from this time last year, this was simply due to differences in product mix, with a higher proportion of our revenue coming from our heat recovery business compared to first nine months of last year. Operating costs for the year-to-date period are higher than this time last year, as result of a number of strategic investments we have made associated with growing our team's capabilities and geographical reach. But the most important take away from our year-to-date financial performance is that, while profitability may have been temporarily impacted, our cash position, order book and outlook remain strong enough for us to make the decision to aggressively invest for future growth.

Update on our largest project to date

Back in December we announced an \$11 million energy efficiency project with Resolute FP Canada Inc. The project, which includes the installation of two FLU-ACE® Heat Recovery Systems and the conversion of the mill's steam traps to our proprietary GEM Steam Trap system, represents our largest heat recovery and largest GEM orders to date.

This massive project with Resolute started more than a year ago when our team began working in partnership with Resolute to fully define the project using the results of a detailed feasibility study to ensure it met the facility's energy savings and greenhouse gas reduction goals.

In late January 2018, four of our engineers went to the Resolute pulp and paper mill in Thunder Bay, Ontario to conduct an onsite survey and specification process to properly size and replace the facility's existing mechanical traps with high-efficiency GEM Steam Traps. Subsequent to the end of the third quarter, approximately 50% of the GEM traps have been delivered and installation has commenced. For the heat recovery portion of the project, major equipment has been specified and ordered (with major equipment deliveries to begin next month), and the installation of both FLU-ACE systems is progressing well.

The initial months of the project were primarily focussed on final engineering and design, finalization of scope of work, and selection of installation contractors. The project is now well underway and on schedule for completion as expected. Once completed, this project is expected to result in natural gas savings of more than 35% while reducing the mill's greenhouse gas emissions by more than 20%, or approximately 43,000 metric tonnes.

Our latest hospital orders

Hospitals tend to consume more energy per square foot than many other commercial building types, including offices and retail stores, or even educational buildings. Hospitals are open 24 hours a day and usually have sophisticated heating, ventilation, and air conditioning systems to control temperatures and air flow. Moreover, many energy-intensive activities occur in hospitals: laundry, medical and lab equipment use, sterilization, food service, refrigeration, and computer and server use. It's not surprising then that hospitals make great candidates for our proven energy efficiency products.

In our third quarter financial news release issued April 23, we also announced our latest hospital order – a \$690 thousand heat recovery order from a new Canadian hospital customer. The heat recovery system is expected to reduce the hospital's energy consumption by an estimated 40,000 Gigajoules a year, resulting in annual energy savings of \$200 thousand, while reducing its annual greenhouse gas

emissions by approximately 2,000 tonnes. The project is expected to be completed and revenue earned between June and the end of calendar year.

Last month, on March 26th, we announced that we had received an \$820 thousand heat recovery order from a teaching hospital seeking to significantly reduce its operating costs as well as reduce its carbon. Our FLU-ACE system will recover the energy from the waste heat generated in the flue gases of two gas-fired hot water boilers and an onsite cogeneration unit. The waste heat will be used to generate hot water for use in hydronic heating and domestic hot water. Once installed, the FLU-ACE system is expected to provide the teaching hospital with annual savings of approximately \$220 thousand, while reducing greenhouse gas emissions by 1,007 tonnes per year. This project is expected to be completed and revenue earned over the next five or six months.

During the third quarter, we also received a \$310 thousand order for a heat recovery system for a new central laundry facility that will handle laundry for several hospitals. This order was not previously announced.

Our order book remains very strong

As of April 23, 2018 our order backlog stood at \$16.3 million, which is more than double the \$8 million we reported this time last year. The Resolute project and the hospital orders mentioned above are big contributors to the significant growth in our order book, but several smaller orders received during the quarter and subsequent to quarter end (including two GEM orders announced on January 29, 2018 totaling \$386 thousand from one of the world's leading consumer products conglomerates) also contributed to this growth.

As a reminder, the Company includes in "order backlog" (also referred to as "order book") the value of projects in respect of which purchase orders have been received but have not yet been reflected as revenue in the Company's published quarterly financial statements. Order backlog is a useful performance measure that Management uses as an indicator of the short-term future revenue of our Company resulting from orders already in hand. It is important to note that once an order or partial order is recorded as revenue, the order backlog is reduced by the amount of the newly reported revenue.

Continuing to execute our strategy

We continue to make progress on our multifaceted but prudent strategy for growth that we communicated at our annual general meeting of shareholders back in November. Some of the core components of that strategy are to increase our productivity, capabilities and reach by growing and investing in our team. Year-to-date operating costs are higher this year due to the addition of a sales person in Germany mid-way through the third quarter of last year, a marketing manager in North America at the end of fiscal 2017, and an experienced EU Sales Director as well as a very experienced senior engineer in the first half of fiscal 2018. More recently, in just the last couple of months, we've hired a second salesperson for the German market; a technical sales person in Texas to service the gulf coast petrochemical sector; and, an experienced UK-based marketing manager. We are also in the process of looking for additional salespeople in both North America and Europe. These markets alone represent massive upside, as our overall penetration in these markets is still relatively low. While our focus remains on these key markets, we will pursue other, secondary markets when the right opportunities present themselves.

Our growing sales, marketing and technical teams remain focused on winning repeat business from our growing customer base. Importantly, we will continue to develop our corporate accounts as they represent the largest potential for repeat business.

In addition to increasing our penetration with our existing products, we remain on the lookout for other complementary products and services that we can offer to our broad, existing client list thereby leveraging our established distribution platform and channels. By capitalizing on all of these opportunities we are looking to continue to grow organically and develop our business as we have in the past, while at the same time look for accretive acquisition opportunities that can add further complementary products, markets or distribution channels.

Now more than ever, we believe that Thermal Energy is well-positioned to capitalize on the extensive sales and technical capabilities we have built over the last several years, and the current strong market fundamentals, to realize our enormous growth potential.

In closing, I would like to extend a big thank you to our team for all of your efforts, our customers for allowing us to improve your energy efficiency and lower your greenhouse gas emissions, and last but not least, our shareholders for your continued support.

Sincerely,

William Crossland

Forward looking statements

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 expected installation and revenue recognition for projects, statements about our backlog, statements about our hiring plans and statements about execution of our strategy to grow sales productivity and expand the business by growing our team and global presence, as well as introducing new products, are 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. The term "backlog" as used in this news release has the meaning given to it above and the Company's use of such term may not be comparable to "backlog" presented by other issuers who may define such term differently (see further discussion of this non-IFRS measure in the Company's MD&A for the third quarter ended February 28, 2018). 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. We may not be able to hire individuals with the skillsets desired within the time frames expected, if at all. Our growth and product strategies may not proceed as anticipated or the market may not be receptive to our strategy. 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.

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