



# CEO's Letter Provides Year-End Progress Report to Shareholders of Thermal Energy International

**OTTAWA, ONTARIO – June 21, 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: A Progress Report at the End of Fiscal 2018

With fiscal 2018 having come to a close, I wanted to take the opportunity to reflect on all that we have done over the past year, as it was a banner year in more ways than one. While we won't be reporting our fiscal 2018 year-end financial results for a few more months, there are many accomplishments, and a lot of progress to talk about at this time.

We've spent the last several years growing our business, our client base, and our teams. Not only are we continuing to do so, but we are beginning to see real results, as evidenced by the solid revenue growth reported for the first nine months of fiscal 2018, the receipt of the largest order in our history subsequent to this past December, and our order book reaching (and remaining near) an all-time high.

### Growing our team

Not being a capital intensive business, the key to organic growth has been, and continues to be, growing and investing in our team and enhancing our products. However, given the long sales cycle for our products and the technical nature of our sales process, new sales team members in particular take a considerable amount of time (one to two years) to ramp up and start meeting expectations. As a result, each year Thermal Energy's board and management team carefully assess the company's actual and expected profitability and cash flow, then strategically and deliberately take a portion of those profits and reinvest them in the future growth of the business by, among other things, adding to our team and developing new products, product enhancements or markets.

In each of the last two years we have invested an average of an additional \$350,000 in the future growth of our business primarily in the form of adding additional sales and technical team members. That is, we believe the investment of approximately \$700,000 of the Company's cash flow into future growth, was (and is) in the best interests of the Company, for the long term in the best long term interest of the business.

At the end of fiscal 2016 and the start of fiscal 2017, we added a sales person for Latin America as well as a sales person and engineer to target the cogeneration market with our super-efficient, FLU-ACE® solution. Then later in fiscal 2017, we officially expanded into Germany with the hiring of our first sales person there. We also added two junior engineers and a North American marketing manager towards the end of fiscal 2017.

Early in fiscal 2018, we hired a German, French and Italian speaking EU sales director to support and facilitate increased penetration in European markets, including Germany. Last October, we announced the hiring of Luc Mandeville (the former CTO and lead engineer for a global competitor Sofame) as a senior project engineer to support both growth in our existing product lines and to expand our product offerings.

In the past few months, we've hired our 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 remain focused on growing our team and their capabilities and are targeting similar investments in fiscal 2019. We are already in the process of looking for additional salespeople in both North America and Europe.

Over the last two years we have also increased our spending on product and intellectual property research and development and are planning further increased investment in this area in fiscal 2019 as well.

But we are not just growing the team and geographic footprint. We are also making significant investments to improve our team's capabilities and productivity. We are developing and implementing a number of improvements and efficiencies in the areas of lead generation, pre-screening tools, automated quote generation, enhanced CRM system capabilities, training video libraries and market data bases. And later this month we are holding a global employee conference with four days of multi-stream product and sales training for our entire sales and engineering teams to ensure every member of the team achieves their full potential as quickly and efficiently as possible.

All of these investment activities --- the on-going hiring, training and retention of the additional sales and technical staff, product, market and application R&D, enhanced marketing, upgraded operational systems --- have, over the past few years, resulted in higher operating costs and lower profitability. These are long term investments. And while it impacts our bottom line in the short term, this thoughtful and measured reinvestment is key to our growth. It does take time for it to pay off, and I believe we are starting to see just that.

## Expanding our product offering

In July of 2016 (which was in fiscal 2017) we announced that we were targeting the attractive cogeneration market by combining our proprietary FLU-ACE® heat recovery technology and engineering expertise with existing power generation technologies to provide the highest efficiency cogeneration solution available in the market, our Super-Efficient Cogeneration solution.

Last summer, in August (fiscal 2018) we received our first order under our new Super-Efficient Cogeneration offering, a \$1.5 million order from one of our prime existing clients, a leading Fortune 500 food and beverage conglomerate. The dramatic energy efficiency improvement that our Super-Efficient Cogeneration solution offered over typical cogeneration systems allowed us, at this customer site, to roughly double the revenue that we will earn when compared to providing a FLU-ACE system alone.

The plan is to replicate this at other sites with this customer and other customers, thereby growing our aggregate revenue by increasing the number of potential sites as well as increasing the potential revenue at each site.

It is important to note that our GEM, FLU-ACE, and Super-Efficient Cogeneration solutions are just a few of the hundreds of thermal energy efficiency products and services in the marketplace. We see great potential for adding more complementary products and services that could be sold to our already extensive client list. Our strategic plan contemplates the expansion of our product offering through both in-house product development and potentially via acquisitions of similar companies or technologies.

## Demonstrating our capabilities

This past December, we announced the largest contract in the history of our company, an \$11 million energy efficiency project with Resolute FP Canada Inc. (“Resolute”). The project includes the installation of two of our proprietary FLU-ACE® Heat Recovery Systems and the conversion of steam traps to our GEM™ Steam Traps. This project is expected to result in natural gas savings of more than 35% for Resolute’s Thunder Bay, Ontario mill, while reducing the customer’s greenhouse gas emissions by approximately 43,000 metric tonnes.

Bringing this project to fruition was a significant undertaking. We have been working in partnership with Resolute for more than a year and a half now, designing, developing, and now implementing a heat recovery and steam conservation project that meets their energy savings and greenhouse gas reduction goals for the Thunder Bay mill. While working to secure the project, we were also working with Resolute to ensure the project would qualify for funding from the Ontario Centres of Excellence (OCE) Target GHG Stream 1 Program. In fact, we were able to help Resolute secure \$5 million in funding for the project. Our project’s participation in the TargetGHG Stream 1 Program provides further validation of our GHG emission reduction innovation with a reference customer.

Importantly, this project demonstrates that, we can not only deliver a large scale project such as this, but also identify and win the applicable funding for our customers as well. This combination of product and service provides a tremendous value-added offering for our clients in a space where carbon taxes and funding opportunities for GHG reduction projects are steadily growing. As we continue to grow and invest in our team, we will also continue to grow and strengthen our engineering and project development capabilities.

With activity ramping up during the fourth quarter of fiscal 2018, this project is now well underway and progressing in line with our expectations. The majority of the revenue associated with this project is expected to be recorded in fiscal 2019 and we look forward to keeping you up to date with its progress as time goes on.

## Continuing to execute our strategy

This past year has been an exciting one. From our first Super-Efficient Cogeneration order, to receiving our largest order ever, we had several successes and an order book that's stronger than ever. Our challenge is to keep and build upon this momentum in fiscal 2019 and beyond. We continue to believe that we have the right strategy in place for delivering sustainable growth.

We remain focused on growing our market share in key markets such as North America and Europe. As we have mentioned, one of the ways to do this is to expand our complementary product offering, offering a more comprehensive approach to our clients' needs. Other ways would include expanding distribution within these key markets, or targeting additional applications or vertical markets in these regions. We can do all of this either organically or through acquisitions.

Our business operates in a highly fragmented market consisting of hundreds of small-to-medium-sized energy efficiency technology providers operating in North America, Europe and around the world. We believe there are several companies out there that would be a good fit, combined with us, and we continue to seek accretive acquisitions as part of our multi-faceted growth strategy.

We believe the global market for energy efficiency remains an extremely attractive one. Governments the world over continue to pursue and implement regulations to reduce carbon emissions as they look to make the transition to a clean energy economy. Energy efficiency can help them achieve all of this faster and more cheaply than other initiatives. As such, the industrial sector continues to adopt measures that can improve the energy efficiency of internal processes and operations, thus contributing to an increased demand for energy efficiency products, solutions and services globally. By continuing to execute our multifaceted growth strategy, we plan to capitalize on these strong market fundamentals and position ourselves to be the preferred solutions provider for this space.

I would like to take this opportunity to thank you, our shareholders, for your loyalty and support over the years. 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,

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 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](http://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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