

Thermal Energy International Announces Second Quarter Financial Results

OTTAWA, ONTARIO – January 26, 2021 – Thermal Energy International Inc. (“[Thermal Energy](#)” or the “Company”) (TSX-V: [TMG](#), OTCQB: [TMGEF](#)), an innovative cleantech company and global provider of innovative and proprietary industrial carbon emissions reduction solutions, has announced its financial results for the second quarter ended November 30, 2021. All figures are in Canadian dollars.

Quarter-End Highlights:

- **Revenue:** \$4.1 million for the quarter
- **EBITDAⁱ:** \$(395) thousand for the quarter
- **Net loss** of \$(640) thousand for the second quarter
- **Cash and working capital balances** is at \$2.5 million and \$2.4 million respectively
- **Order backlogⁱⁱ:** \$7.0 million, up 27.3% from this time last year
- **Custom equipmentⁱⁱⁱ:** YTD order intake 30% ahead of last year, and 52% greater than the pre-Covid levels the year before.
- **Turn-key project development:** At record levels and 55% higher than pre-pandemic levels.

“Thermal Energy continues to see increasing market demand for carbon emission reducing solutions. And while our top line revenue and profitability continue to be impacted by the global pandemic, and especially the rotating travel restrictions in the countries where we operate, orders, revenue and order backlog for custom equipmentⁱⁱⁱ, primarily GEM and Heatsponge, continue to show record results and track well ahead of pre-pandemic levels. Similarly, while turn-key solutionⁱⁱⁱ orders have not yet recovered to pre-pandemic levels, turn-key project development with our customers is at an all-time high. In the meantime, we are continuing to invest in the future growth of the company to ensure we can deliver the growing potential project pipeline and capitalize on the current favourable market conditions”, said Thermal Energy CEO, William Crossland.

Custom Equipment Continues to Thrive

Thermal Energy sells its energy efficiency and carbon reduction solutions as either a customized piece of equipment or a fully installed turn-key project. For the first six months of this fiscal year, custom equipment order intake was 29.5% ahead of the same time last year, and 51.7% greater than the pre-Covid levels the year before.

Custom equipment sales require less engineering analysis and site attendance than turn-key projects, and as a result, given increasing market demand for carbon emission solutions our custom equipment orders have continued to thrive, and revenues have continued to grow despite the COVID-19 pandemic.

ⁱ EBITDA represents earnings before interest, taxation, depreciation, amortization, impairment of intangible assets, and share-based compensation expense.

ⁱⁱ Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company’s published financial statements.

ⁱⁱⁱ Custom equipment refers to indirect contact heat recovery solutions (HEATSPONGE and SIDEKICK), and condensate return system solutions (GEM™ steam traps). Turn-key solution refers to direct contact heat recovery solutions (e.g., FLU-ACE®).

Turn-Key Solutions - Record Level of Paid Project Development Agreements (PDAs)

In parallel to custom equipment, Thermal Energy also develops and delivers unique and innovative turn-key carbon emissions reduction and sustainable thermal energy solutions for its customers. These turn-key solutions¹ are developed in partnership with the customer often with the implementation of a paid PDA.

A paid PDA is the customer's commitment to a project whereby, based on an initial estimate of project cost and savings, the customer agrees to front the cost of further project development engineering before a final decision is made to execute the project.

Given the extensive travel and customer site visits required, turn-key projects have been most significantly impacted by the global pandemic, and given the long development and sales cycle required, the turn-key project order intake and revenue have not yet caught up to pre-pandemic levels.

However, in the Last Twelve Months (LTM) ended November 30, 2021, Thermal Energy have received 14 PDA orders. This is 55% higher than the pre-pandemic high in fiscal 2019 levels and the Company currently has the highest number of projects under development in its history.

"We believe these growing levels of custom equipment orders and turn-key solution paid project development agreements, despite the ongoing global pandemic, indicate that our customers' desire to reduce carbon emissions is stronger than ever" said CEO William Crossland.

Continued Impressive Penetration into Current Strategic Corporate Accounts Base

A key focus of Thermal Energy's growth strategy is expanding and deepening its relationships with strategic corporate accounts. As previously mentioned in the Q1 results, over the last 5 years the Company have received over \$37 million in orders from eight key multinational corporate accounts.

After placing a third turn-key energy efficiency solution order in September 2021 for one of their European sites, one of these global key [customers](#) placed a further [GEM™](#) order in August and October 2021 valued at \$242,031 for a site in North America, following up again in November 2021 with phase two for \$114,905. Over the past few years, Thermal Energy has delivered over \$2 million in turn-key projects and around \$1 million in [GEM™](#) orders in Europe and North America for this customer alone.

"The hardest part is always getting that first step through the door and the initial major order. But, once the customer starts benefitting from the cost, carbon and energy savings of our solutions, we establish trust in our capabilities and our relationship strengthens. We then continue to collaborate closely with the client to develop further energy and carbon reducing solutions using more of our technologies at more customer sites." said [William Crossland](#).

Successful and Continued Expansion into Europe

Thermal Energy has successfully continued its expansion into Europe; recent notable orders in the last few months include five [GEM™](#) orders totalling over \$500k across four sites with one of Europe's largest

¹ Turn-key solutions refer to direct contact heat recovery solutions (e.g., FLU-ACE®).

meat processors based in Poland and further GEM™ orders from a global consumer goods company for three sites in Germany totalling over \$450k.

Following the success of expansion in Germany and Poland, the Company has recently further expanded its direct sales capabilities with a new sales team member in France. Having native sales teams enable us to scale the business globally, devoid of language and cultural barriers.

Positive Market Fundamentals

In October 2021, COP26 asked countries to come forward with ambitious 2030 emissions reductions targets that align with reaching net zero by the middle of the century, prompting organizations to look for the quickest and easiest ways to achieve carbon emission reduction targets.

In addition, North American and EU natural gas prices have significantly increased (between 50% and 500%) in the last 12 to 18 months. There is rising demand for carbon allowances under the EU's cap-and-trade system; [EU Carbon Permits](#) reached an all time high of approximately 90 EUR in December 2021, almost a 200% increase from the year before, and Canadian Carbon Taxes are expected to reach \$170/t in 2030 (from \$40/t in 2021). All these factors make Thermal Energy's projects even more economically attractive and provide extremely compelling short-term paybacks to the customer.

With approximately 50% of industrial thermal energy lost on site due to inefficiency, energy efficiency is the fastest, cheapest, and most significant way to reduce carbon emissions, and the market opportunity for Thermal Energy is significant and growing. Thermal Energy's technologies are proven and reliable and provide an immediate and easy route for multinational manufacturers to achieve the required savings.

Investing for Growth

Motivated by the record level of custom equipment orders and turn-key paid project development agreements, Thermal Energy continues to strengthen its competitive position by investing in its people, technology and ongoing customer relationships that are the pillars to their future success.

"Given recent strong growth in the labour market, and especially professional, scientific and technical services, during the quarter we made some one-off investments in our specialist teams to ensure our compensation levels retain our capable and highly trained staff long-term. This allows us to meet our customers' growing demand for carbon emission reduction solutions. The deep understanding our employees develop of our customers' operations has fostered strong customer loyalty and helped to achieve high customer retention rates and excellent knowledge transfer across the business over the COVID period." said [William Crossland](#).

As well as investment in competitive salaries and architecture for growth, this quarter has also reflected the expenses from costs associated with the acquisition of Sofame's technology.

Summary Financial Results

In thousand except % data	Three months ended Nov 30, 2021	Three months ended Nov 30, 2020	Six months ended Nov 30, 2021	Six months ended Nov 30, 2020
Revenue	\$4,077	\$5,020	\$7,956	\$7,848
Gross profit	\$1,712	\$2,430	\$3,356	\$3,754
Gross margin	42.0%	48.4%	42.2%	47.8%
Operating expenses	\$2,270	\$1,787	\$3,992	\$3,229
Net loss	\$(640)	\$580	\$(794)	\$362
EBITDA ⁱ	\$(395)	\$788	\$(314)	\$803
Cash position	\$2,548	\$4,903	\$2,548	\$4,903
Working Capital	\$2,446	\$4,227	\$2,446	\$4,227
Orders received	\$4,242	\$4,346	\$6,397	\$9,396
Order backlog ⁱⁱ as of November 30	\$7,000	\$5,500	\$7,000	\$5,500

Second Quarter and Year-to-Date Financial Review

Quarterly revenue was \$4.1 million, down 18.8% from last year. The decrease is due to the decrease of revenues from both turn-key heat recovery systems and condensate return systems. The second quarter last year was a catch-up quarter whereby work resumed on many of the turn-key heat recovery projects that were frozen during the severe lockdowns of the proceeding two quarters, the first two quarters of the global pandemic, i.e., Q4 2020 and Q1 2021. Gross profit for the quarter was \$1.7 million which was decreased due to COVID-19 related travel restrictions, labour shortages and raw material price increases. This resulted in a gross margin of 42%, compared to 48% for the same quarter prior year. The company has already implemented a number of measures to mitigate these issues including price increases. Operating expenses incurred for the second quarter amounted to \$2.3 million which was increased mainly due to reduction in government wage subsidies of \$173 thousand, acquisition costs of the technology from Sofame Technologies Inc. of \$86 thousand and an increase in other operating expenses of \$286 thousand because of lifting temporary COVID-19 related cost control measures, offset by foreign exchange gains of \$61 thousand. A net loss of \$640 thousand was incurred for the second quarter and EBITDA was \$(395) thousand.

For the six months ended November 30, 2021, revenue was \$8.0 million, up 1.4% from last year mainly due to the increased revenue from indirect contact heat recovery systems offset by the decrease of revenues from turn-key heat recovery solutions and condensate returns systems. Gross profit for the first six months was \$3.4 million which decreased mainly due to COVID-19 related travel restrictions, labour shortages and raw material price increases. This resulted in a gross margin of 42%, compared to 48% for the same period prior year. Operating expenses incurred for the first two quarters amounted to \$4.0 million which was increased mainly due to a reduction in government wage subsidies of \$433 thousand,

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ⁱⁱ Order backlog represents any purchase orders that have been received by the Company but have not yet been reflected as revenue in the Company's published financial statements.

an increase in acquisition cost of the technology from Sofame Technologies Inc. of \$93 thousand and increases in other operating expenses of \$669K because of lifting temporary cost control measures, and increases to staff salary in order to catch up with the significantly increased annual inflation rate and to ensure we remain competitive and are able to effectively execute the projects in our pipeline and capitalize on the current market. These cost increases were offset by foreign exchange gains of \$431 thousand. A net loss of \$794 thousand was incurred for the first two quarters, and EBITDA was \$(314) thousand.

The Company's cash position was \$2.5 million as at November 30, 2021, compared to \$4.2 million as at May 31, 2021. The decrease was due to cash used in operating activities of \$855 thousand (including \$421 thousand from fluctuating levels of non-cash working capital such as accounts receivable, accounts payable etc.), investing activities of \$332 thousand (primarily the acquisition of the Sofame assets) and financing activities of \$537 thousand (repayment of long-term debt and lease obligations), all of which was offset by the exchange gains of \$31 thousand.

Working capital decreased by \$1.4 million to \$2.4 million on November 30, 2021, compared to \$3.8 million on May 31, 2021. The decrease in working capital was mainly due to the decrease in cash and cash equivalents, offset by the increase in inventory, the decrease in deferred revenue, and the decrease in trade payables and other liabilities.

Order Intake and Order Backlog Summary

Orders received during this fiscal year-to-date are 31.9% lower than orders received during the same time last year. However, orders for custom equipment, primarily GEM and Heatsponge, are 29.5% ahead of the same time last year, and 51.7% greater than the pre-Covid levels the year before. The Company ended the quarter with a total order backlog of \$7.0 million, up 27% from the \$5.5 million at the same time last year, and with the custom equipment order backlog at record levels and 152% higher than the same time last year. Company defines its order backlog as the value of projects for which purchase orders have been received, but that have not yet been fully reflected as revenue in the Company's published financial statements.

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/financial-reports.html.

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Notes to editors

About Thermal Energy International Inc.

Thermal Energy International Inc., ranked as one of [Canada's Top Growing Companies](#) in 2021, 2020 and 2019, is an established global supplier of proprietary, proven energy efficiency and emissions reduction solutions to the industrial 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 many Fortune 500 and other leading multinational companies across a wide range of industry sectors.

Thermal Energy is 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 can 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, [HEATSPONGE](#) – Indirect contact condensing heat recovery systems, and [DRY-REX™](#) - Low temperature biomass drying systems.

Thermal Energy has engineering offices in Ottawa, Canada, Pittsburgh, USA, as well as Bristol, UK, with sales offices in Canada, UK, USA, Germany, Poland, and Italy. 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 twitter.com/GoThermalEnergy.



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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, the timing of revenues to be received by the Company, the anticipated effects of COVID-19 on the business, backlog and revenue, the expectation that orders in backlog will become revenue and the anticipated benefits of the Company's current efforts at training and business improvement efforts. Information as to the amount of heat recovered, energy savings and payback period associated with Thermal Energy International's products are based on the Company's own testing and average customer results to date. Statements relating to the expected installation and revenue recognition for projects, statements about the anticipated effectiveness and lifespan of the Company's products, statements about the expected environmental effects and cost savings associated with the Company's products and statements about the Company's ability to cross-sell its products and sell to more sites 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. 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. Any customer's willingness to purchase additional products from the Company and whether orders in the Company's backlog as described above will turn into revenue is dependent on many factors, some of which are outside of the Company's control, including but not limited to the customer's perceived needs and the continuing financial viability of the customer. The Company disclaims any obligation to publicly update or revise any such statements except as required by law. Readers are referred to the risk factors associated with the Company's business as described in the Company's most recent Management's Discussion and Analysis available at www.SEDAR.com.

EBITDA and backlog are non-IFRS financial measures, do not have a standardized meaning prescribed by International Financial Reporting Standards and therefore may not be comparable to similar measures presented by other companies. Please refer to the Company's most recent Management's Discussion and Analysis available at www.SEDAR.com for more details about these non-IFRS financial measures.

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