

H₂O Innovation reports fiscal year 2013 second quarter results Revenues increase 33.5%, Company records net earnings

Results for the three-month period ended December 31, 2012

- Revenues of \$9.4 million, up by 33.5% from \$7.1 million for the same period in fiscal year 2012.
- Gross profit up at 26.1%, compared to 22.6% for the same period in fiscal year 2012.
- Adjusted EBITDA¹ at \$561,888, compared to (\$404,906) for the same period in fiscal year 2012.
- Operating, selling and administrative expenses down by \$157,000, at 20.1% of revenues, compared to 29.1% for the same period in fiscal year 2012.
- Net earnings of \$488,854, up compared to a net loss of (\$1,214,510) for the same period in fiscal year 2012.
- Operating activities generated \$1,024,161 in net cash, compared to (\$1,408,003) used for the same period in fiscal year 2012.

Results for the six-month period ended December 31, 2012

- Revenues of \$19.4 million, up by 37.3% from \$14.1 million for the same six-month period in fiscal year 2012.
- Gross profit up at 25.4%, compared to 23.6% for the same six-month period in fiscal year 2012.
- Adjusted EBITDA at \$1,288,581, compared to (\$72,098) for the same six-month period in fiscal year 2012.
- Operating, selling and administrative expenses down by \$140,000, at 19.3% of revenues, compared to 27.5% for the same six-month period in fiscal year 2012.
- Net earnings of \$758,550, up compared to a net loss of (\$1,302,726) for the same six-month period in fiscal year 2012.
- Operating activities generated \$2,234,375 in net cash, compared to (\$325,470) used for the same six-month period in fiscal year 2012.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 13, 2013 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the second quarter of fiscal year 2013 ended on December 31, 2012. During this quarter, the Company’s revenues increased by 33.5% to \$9.4 M, up from \$7.1 M in the comparable quarter of the previous fiscal year – generating a solid gross profit of 26.1% compared to 22.1% in the second quarter of fiscal year 2012. “This is a significant improvement from the gross profit generated in the last two quarters. This performance is partly attributable to various factors such as the rise in our business volume and the changes we have initiated and implemented since June 30, 2012 meant to enhance our operations and increase our gross profit. Many challenges remain as we continue to seek operational excellence in project execution”, stated **Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation**.

The Company’s revenues for the second quarter of fiscal year 2013 totaled \$9.4 M, representing a \$2.3 M or 33.5% increase, as compared with revenues of \$7.1 M for the same quarter of fiscal year 2012. The increase is largely attributable to revenues from water treatment projects which reached \$6.0 M compared to \$4.0 M in the corresponding period of the previous fiscal year, representing a 47.7% increase. Nearly half of these \$6.0 M revenues come from the oil & gas sector in Western Canada and 25% from the municipal sector in the United States. This is a direct consequence of the materialisation of the Company’s order backlog which stood at \$18.7 M as at December 31, 2012. Revenues from sales of specialty chemicals and consumables increased by \$0.4 M for this quarter, reaching \$3.4 M compared with \$3.0 M in the comparable quarter in fiscal year 2012, showing a steady growth.

¹ The definition of adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA) does not take into account the Company’s changes in fair value of contingent considerations, impairment of intangible assets, impairment of goodwill, stock-based compensation costs, gain on settlement agreement, and share of (earnings) loss in a joint venture. The definition of adjusted EBITDA used by the Company may differ from those used by other companies.

The Company generated net earnings of \$488,854 or \$0.008 per share compared to a net loss of (\$1,214,510) or (\$0.020 per share) for the same period in fiscal year 2012. This improvement is attributable to four main factors. First, the Company recorded a high level of revenues. Second, management has applied a tight control on project execution, notably for procurement, and on hours spent on projects. Third, management closely monitors the SG&A and is diligent in finding additional savings. Finally, the Company recorded a gain on settlement agreement related to the Company's wastewater activities. "Over the last two quarters we have made an important restructuring in our wastewater activities, both on the technical and commercial sides. We believe this will springboard the growth momentum in this sector as we are consolidating our sales rep network", added **Frédéric Dugré**.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on December 31, (Unaudited)		Six-month period ended on December 31, (Unaudited)	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenues	9,418,908	7,056,495	19,401,802	14,126,263
Gross profit	2,461,061	1,592,624	4,923,632	3,337,558
Gross profit	26.1%	22.6%	25.4%	23.6%
Operating expenses	139,369	181,538	275,141	286,644
Selling expenses	904,630	954,006	1,747,784	1,818,673
Administrative expenses	853,853	919,647	1,717,116	1,774,739
Net earnings (loss)	488,854	(1,214,510)	758,550	(1,302,726)
Basic and diluted earnings (loss) per share	0.008	(0.020)	0.013	(0.022)
Adjusted EBITDA	561,888	(404,906)	1,288,581	(72,098)

During the quarter, the Company added \$4.3 M in new bookings for water treatment projects. These new bookings, coupled with the level of revenues realized from systems projects during the quarter, have brought down the backlog at \$18.7 M as at December 31, 2012. Management remains confident to grow the Company's sales backlog again above the \$20 M mark as its sales pipeline is rich with multiple opportunities in its targeted markets. In the coming months, the Company will focus on increasing its footprint in North America for water and wastewater treatment projects.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 20.1% for this quarter, down from 29.1% for the corresponding quarter of the previous fiscal year. This decrease is partially attributable to the increase in volume of business and reflects the Company's efforts to reach profitability and maximize the use of its internal resources, showing the benefit and scalability of its business model. Overall, the Company's SG&A expenses show a decrease of approximately \$160,000 compared to the corresponding quarter of fiscal year 2012 and remain in line with the Company's fiscal year 2013 budget.

Adjusted EBITDA for the quarter was recorded at \$561,888, compared with (\$404,906) for the same period ended December 31, 2011. The higher revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year, combined with the significant gross profit improvement from 22.6% to 26.1% and the somewhat stable SG&A expenses also contributed to generating positive adjusted EBITDA.

Operating activities generated \$1,024,161 in cash for the period ended December 31, 2012, compared with (\$1,408,003) of cash used during the corresponding period ended December 31, 2011. The rise is mainly attributable to the significant improvement in net earnings in the second quarter of fiscal year 2013 as compared with the corresponding period ended December 31, 2011 and to the positive change in working capital items.

Over the six-month period ended December 31, 2012, the Company's revenues totaled \$19.4 M, compared to \$14.1 M for the corresponding period ended December 31, 2011, showing an increase of 37.3%. During this same



period the Company recorded net earnings amounting to \$758,550 and a positive adjusted EBITDA of \$1,288,581, compared to a net loss of (\$1,302,726) and a negative adjusted EBITDA of (\$72,098) for the corresponding period of fiscal year 2012. For the six-month period ended December 31, 2012, the Company generated \$2,234,375 of cash flows from its operating activities, compared to (\$325,470) used by its operating activities for the corresponding period of fiscal year 2012.

The second quarter financial report is available on www.h2oinnovation.com and on NYSE Euronext Alternext's site. Additional information on the Company is also available on SEDAR (www.sedar.com).

Prospective disclosures

Certain statements set forth in this press release regarding the operations and the activities of H₂O Innovation as well as other communications by the Company to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of words such as “anticipate”, “if”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “should” or “will”, and other similar expressions, as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Company to be materially different than those indicated. Information about the risk factors to which the Company is exposed is provided in the Annual Information Form dated September 25, 2012 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H₂O Innovation assumes no obligation to update or revise forward-looking statements contained in this press release or in other communications as a result of new information, future events and other changes.

About H₂O Innovation

H₂O Innovation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology to municipal, energy & natural resources end-users. H₂O Innovation also provides a complete line of specialty chemicals and consumables for membrane filtration and reverse osmosis systems. For more, visit www.h2oinnovation.com.

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