

PRESS RELEASE
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H₂O Innovation reports fiscal year 2013 third quarter results **Company records net earnings for a fourth consecutive quarter**

Results for the three-month period ended March 31, 2013

- Revenues of \$9.9 million, a solid performance from \$10.2 million for the same period in fiscal year 2012.
- Gross profit strong at 25.2%, compared to 26.4% for the same period in fiscal year 2012.
- Adjusted EBITDA¹ at \$530,026, stable compared to \$563,603 for the same period in fiscal year 2012.
- Operating, selling and administrative expenses down by \$195,000, at 20.0% of revenues, compared to 21.4% for the same period in fiscal year 2012.
- Net earnings of \$86,834, up compared to a net loss of (\$7,651,400) for the same period in fiscal year 2012.
- Operating activities used (\$1,073,407) in net cash, compared to (\$419,247) used for the same period in fiscal year 2012.

Results for the nine-month period ended March 31, 2013

- Revenues of \$29.4 million, up by 20.6% from \$24.3 million for the same nine-month period in fiscal year 2012, a 20.6% organic growth.
- Gross profit up at 25.3%, compared to 24.8% for the same nine-month period in fiscal year 2012.
- Adjusted EBITDA at \$1,818,607, compared to \$491,505 for the same nine-month period in fiscal year 2012.
- Operating, selling and administrative expenses down by \$335,000, at 19.5% of revenues, compared to 24.9% for the same nine-month period in fiscal year 2012.
- Net earnings of \$845,384, up compared to a net loss of (\$8,954,127) for the same nine-month period in fiscal year 2012.
- Operating activities generated \$1,160,757 in net cash, compared to (\$744,717) used for the same nine-month period in fiscal year 2012.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 14, 2013 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the third quarter of fiscal year 2013 ended on March 31, 2013. For a fourth consecutive quarter, the Company is profitable and is recording net earnings of \$86,834. “Our focus to maintain profitability while increasing revenues is the result of continuous efforts in controlling the level of expenses, improving our project execution, and expanding into new markets. The initiatives undertaken in the past years to increase the level of consumables & services revenues combined with the changes implemented since June 30, 2012 meant to enhance our operations are finally paying-off. Today, our business model has been proven viable. Any revenue increase impacts positively our operating earnings as the fixed charges tends to remain the same, showing high scalability potential in our business. Nevertheless, many challenges remain as we continue to seek operational excellence in project execution and further growth in targeted markets”, stated **Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation**.

The Company’s revenues are above the \$9 M mark for a fifth consecutive quarter. Revenues for the third quarter of fiscal year 2013 totaled \$9.9 M, representing 2.5% decrease, as compared with revenues of \$10.2 M for the same quarter of fiscal year 2012. Revenues from projects reached \$5.9 M compared to \$6.7 M in the corresponding period of the previous fiscal year, representing an 11.8% decrease. Nearly 40% of these \$5.9 M revenues come from three projects in the oil & gas sector in Western Canada and nearly 20% come from municipal projects in the United States.

Revenues from sales of specialty chemicals and consumables increased by \$0.5 M for this quarter, reaching \$4.0 M compared with \$3.5 M in the comparable quarter in fiscal year 2012, representing a 15.5% growth. The maple syrup production season has reached its peak during this third quarter, which boosted our sales of consumables by approximately 20%. The Company also started to provide operation assistance services for a drinking water production unit and a wastewater plant in Northern Alberta. Since June 30, 2012, 11 out of 13 projects delivered and commissioned

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.

have integrated our specialty chemicals and consumables or are using our service program for their system operations. “These 11 projects represent a conversion rate of 84.6%, which clearly reflects the impact of a better integrated approach in our business model allowing us to grow, strengthen and retain our customer relationships over years to come”, added **Frédéric Dugré**.

The Company generated net earnings of \$86,834 or \$0.001 per share compared to a net loss of (\$7,951,400) or (\$0.127 per share) for the same period in fiscal year 2012. This improvement is attributable to three main factors. First, the Company maintained a high level of revenues, which generated satisfying gross profit margin. Second, management closely monitors the SG&A and is diligent in finding additional savings. Finally, the Company did not suffer from a goodwill impairment charge, an impairment of intangible assets and changes in fair value of contingent considerations in the third quarter of fiscal year 2013 compared to the third quarter of fiscal year 2012.

CONSOLIDATED RESULTS Selected financial data	Three-month periods ended on March 31, (Unaudited)		Nine-month periods ended on March 31, (Unaudited)	
	2013	2012	2013	2012
	\$	\$	\$	\$
Revenues	9,966,644	10,222,312	29,368,446	24,348,575
Gross profit	2,515,477	2,700,507	7,439,109	6,038,065
Gross profit	25.2%	26.4%	25.3%	24.8%
Operating expenses	218,394	177,749	493,535	464,393
Selling expenses	853,744	993,043	2,601,528	2,811,716
Administrative expenses	925,700	1,022,044	2,642,816	2,796,783
Net earnings (loss)	86,834	(7,651,400)	845,384	(8,954,127)
Basic and diluted earnings (loss) per share	0.001	(0.127)	0.014	(0.149)
Adjusted EBITDA	530,026	563,603	1,818,607	491,505
Adjusted EBIDTA	5.3%	5.5%	6.2%	2.0%

The Company secured \$2.6 M in new bookings for water treatment projects over the quarter. These new bookings, combined with the realized revenues from water treatment projects during the quarter, have brought down the backlog at \$15.4 M as at March 31, 2013. “Many opportunities in both territories and applications are composing the Company’s sales pipeline; we maintain strong bidding activities and management efforts are aimed at growing the Company’s sales backlog above the \$20 M mark before our year-end”, stated **Frédéric Dugré**. These efforts include the strategic hiring of David Faber as Director of Systems Sales USA, who has already taken the lead of the U.S. systems sales and the hiring of a sales manager based in British Columbia to develop a sales network and promote our products and services in Western Canada.

The Company’s ratio of selling, operating and administrative expenses (“SG&A”) as a whole over revenues amounted to 20.0% for this quarter, down from 21.4% for the corresponding quarter of the previous fiscal year. The improvement of this ratio is partly the result of the important reorganization initiated since June 30, 2012. We were able to maintain the volume of business during this third quarter of fiscal year 2013 and our efforts show the benefit and scalability of our business model. Overall, the Company’s SG&A expenses show a decrease of approximately \$195,000 compared to the corresponding quarter of fiscal year 2012.

Adjusted EBITDA for the quarter was recorded at \$530,026, or 5.3% of revenues, compared with \$563,603, or 5.5% of revenues, for the same period ended March 31, 2012. While the level of revenues decreased from \$10.2 M to \$9.9 M and the gross profit declined from 26.4% to 25.2% during the third quarter of fiscal year 2013 compared with the period ended March 31, 2012, the reduction of SG&A expenses was sufficient to maintain a positive adjusted EBITDA above the \$0.5 M mark.

Operating activities used (\$1,073,407) in cash for the period ended March 31, 2013, compared with (\$419,247) of cash used during the corresponding period ended March 31, 2012. The decline is mainly attributable to the negative change in working capital items, which effect has been offset by the improvement in net earnings in the third quarter of fiscal year 2013 as compared with the corresponding period ended March 31, 2012. “We anticipate an improvement in the working



capital items during the next quarter because of the expected milestones to be reached within invoicing and manufacturing activities”, stated **Frédéric Dugré**.

Over the nine-month period ended March 31, 2013, the Company’s revenues totaled \$29.4 M, compared to \$24.3 M for the corresponding period ended March 31, 2012, showing a solid organic growth of 20.6%. During this same period the Company recorded net earnings amounting to \$845,384 and a positive adjusted EBITDA of \$1,818,607, compared to a net loss of (\$8,954,127) and an adjusted EBITDA of \$491,505 for the corresponding period of fiscal year 2012. For the nine-month period ended March 31, 2013, the Company generated \$1,160,757 of cash flows from its operating activities, compared to (\$744,717) used by its operating activities for the corresponding period of fiscal year 2012.

The third 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, performance and achievements 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, based on the current expectations of management, involve a number of risks and uncertainties, known and unknown, which may result in actual and future results, performance and achievements 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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