

## **H<sub>2</sub>O Innovation reports fiscal 2014 first quarter results** **Return to positive adjusted EBITDA**

- Revenues of \$8.3 million, down by 16.7% from \$9.98 million for the same period in fiscal year 2013.
- Gross profit increased at 25.8%, compared to 24.7% for the same period in fiscal year 2013.
- Adjusted EBITDA<sup>1</sup> at \$69,670, compared to \$726,693 for the same period in fiscal year 2013.
- Operating, selling and administrative expenses at 24.9% of revenues, up compared to 18.4% for the same period in fiscal 2013.
- Net loss of (\$469,994), down compared to a net earnings of \$269,696 for the same period in fiscal 2013.
- Operating activities generated \$494,483 in net cash, compared to \$1,210,214 for the same period in fiscal 2013.

*All amounts in Canadian dollars unless otherwise stated.*

**Quebec City, November 12, 2013** – (TSXV: HEO) – H<sub>2</sub>O Innovation Inc. (“H<sub>2</sub>O Innovation” or the “Company”) announces its results for the first quarter of fiscal year 2014. During this quarter, the Company’s revenues decreased by 16.7% to \$8.3 M, up from \$9.98 M in the comparable quarter of the previous fiscal year – generating a gross profit of 25.8% compared to 24.7% in the first quarter of fiscal year 2013. The Company returned to positive adjusted EBITDA this quarter after one quarter of negative adjusted EBITDA for the fourth quarter ended June 30, 2013. “Throughout this fiscal year, we will continue to strengthen the Company’s business model established on the combination of water treatment projects sales and recurring sales of specialty chemicals and other consumables through the 2014 operating plan relying on three pillars: quality, innovation and people”, **stated Frédéric Dugré, President and Chief Executive Officer** of H<sub>2</sub>O Innovation.

Revenues for the first quarter of fiscal year 2014 totaled \$8.3 M, representing a \$1.7 M or 16.7% decrease, as compared with revenues of \$9.9 M for the same quarter of fiscal year 2013. The decline is largely attributable to revenues from projects which reached \$5.1 M compared to \$7.0 M in the corresponding period of the previous fiscal year, representing a 27.5% decrease. The decline is partly attributable to the fact that some of the Company’s water treatment projects clients have delayed the delivery or the commissioning of their systems, a situation the Company cannot control. This situation has postponed to the second half of fiscal year 2014 the revenue recognition of these projects. In addition, more than half of last year’s comparable quarter revenues came from three (3) projects in the oil & gas sector in Western Canada, which were of bigger sizes than this quarter’s projects. From time to time, the nature of projects realized varies depending on the sales backlog used.

The decrease of revenues has been softened by an increase of revenues from sales of specialty chemicals and consumables which reached \$3.2 M in this quarter compared with \$2.9 M in the comparable quarter of the previous fiscal year, representing a 9.2% increase. These revenues are recurring in nature. In the first quarter of fiscal year 2014, we have added two new distributors to our sales who will now represent PWT products and services in Brazil and Tunisia. In addition, our efforts toward the expansion of our distribution network for products related to maple syrup production have contributed to nearly 60% of the increase of our revenues from specialty chemicals and consumables during this quarter.

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<sup>1</sup> 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 and share of (earnings) loss in a joint venture and stock-based compensation costs. The definition of adjusted EBITDA used by the Company may differ from those used by other companies.

In this first quarter of fiscal year 2014, the Company was able to generate a 25.8% gross profit, up from 24.7% in the first quarter of fiscal year 2013. The revenue mix in this quarter shows that revenues from specialty chemicals and consumables represent a higher proportion of total revenues compared to the corresponding period of the previous fiscal year (38.6% in fiscal year 2014 versus 29.4% in fiscal year 2013).

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on September 30, (Unaudited)	
	2013	2012
	\$	\$
Revenues	8,311,219	9,982,894
Gross profit	2,141,991	2,462,571
Gross profit	25.8%	24.7%
Operating expenses	182,586	135,772
Selling expenses	966,669	843,154
Administrative expenses	919,063	863,263
Research and development expenses – net	43,407	-
Net earnings (loss)	(469,994)	269,696
Basic and diluted earnings (loss) per share	(0.008)	0.004
Adjusted EBITDA	69,670	726,693

The Company secured \$3.4 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 \$12.4 M as at September 30, 2013. The Company's bookings over revenue ratio for projects have declined to 0.7 from 1.1 in the previous quarter. The current pipeline is still rich in opportunities which should allow the Company's sales backlog to support its revenue growth. We maintain strong bidding activities and management efforts are aimed at growing the Company's sales backlog rapidly.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 24.9% for this quarter, up from 18.4% for the corresponding quarter of the previous fiscal year. This increase is largely attributable to the decline in volume of water treatment projects business due to some clients-related delays and due to a higher level of SG&A expenses.

"We have begun this fiscal year by streamlining our research and development activities into a more structured model to ensure that the objectives included in our 2014 operating plan relying on three pillars: Quality, Innovation and People are met" **added Frédéric Dugré**. Therefore, a new function has been identified in the Company's statement of earnings to reflect the decisions made in this plan in regards to innovation. Research and development expenses, net, totaled \$43,407 for the current quarter.

Adjusted EBITDA for the quarter was recorded at \$69,670, compared with \$726,693 for the same period ended September 30, 2012. The lower revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year and the higher SG&A expenses also contributed to generating negative adjusted EBITDA. The Company returned to positive adjusted EBITDA this quarter after one quarter of negative adjusted EBITDA for the fourth quarter ended June 30, 2013.

The net earnings (loss) was (\$469,994 or (\$0.008) per share for the first quarter of fiscal 2013 compared with \$269,696 or \$0.004 per share for the first quarter of fiscal 2013. This deterioration is primarily due to lower revenues despite generating a higher gross profit of 25.2% and to higher SG&A expenses.



Operating activities generated \$494,483 in cash for the period ended September 30, 2013, compared with \$1,210,214 of cash generated during the corresponding period ended September 30, 2012. The decline is mainly attributable to the degradation in net loss in the first quarter of fiscal year 2014 as compared with the corresponding period ended September 30, 2012 and to the change in working capital items.

**The first quarter financial report is available on [www.h2oinnovation.com](http://www.h2oinnovation.com) and on NYSE Euronext Alternext's site. Additional information on the Company is also available on SEDAR ([www.sedar.com](http://www.sedar.com)).**

### **Prospective disclosures**

Certain statements set forth in this press release regarding the operations and the activities of H<sub>2</sub>O 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 24, 2013 available on SEDAR ([www.sedar.com](http://www.sedar.com)). Unless required to do so pursuant to applicable securities legislation, H<sub>2</sub>O 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 H<sub>2</sub>O Innovation**

H<sub>2</sub>O 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. H<sub>2</sub>O Innovation also provides a complete line of specialty chemicals and consumables for membrane filtration and reverse osmosis systems. For more, visit [www.h2oinnovation.com](http://www.h2oinnovation.com).

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