

**PRESS RELEASE**  
For immediate release

**TSX-V: HEO**  
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**OTCQX: HEOFF**

## **H<sub>2</sub>O Innovation sets new record-high in revenues in fiscal 2015 second quarter**

*All amounts in Canadian dollars unless otherwise stated.*

### **Results for the three-month period ended December 31, 2014**

- Revenues of \$13.7 million, up by 55.6% from \$8.8 million for the same period in fiscal year 2014.
- Gross profit before depreciation and amortization up by \$863,000 at 23.2%, compared to 26.2% for the same period in fiscal year 2014.
- Adjusted EBITDA<sup>1</sup> at \$605,023, compared to (\$90,179) for the same period in fiscal year 2014.
- Operating, selling and administrative expenses ("SG&A") at 17.7% of revenues, down compared to 25.9% for the same period in fiscal year 2014.
- Net earnings of \$117,524, up compared to a net loss of (\$500,581) for the same period in fiscal 2014.
- Order backlog for water treatment projects stood at \$29.6 million as at December 31, 2014, compared to \$17.3 million a year ago. As at January 27, 2015, the backlog for water treatment projects has reached \$38.2 M as new contracts were secured for an aggregate amount of \$11.8 M during the month.

### **Results for the six-month period ended December 31, 2014**

- Revenues of \$24.9 million, up by 45.6% from \$17.1 million for the same six-month period in fiscal year 2014.
- Gross profit before depreciation and amortization up by \$1,753,000 at 24.9%, compared to 26.0% for the same six-month period in fiscal year 2014.
- Adjusted EBITDA at \$1,414,850 compared to (\$20,509) for the same six-month period in fiscal year 2014.
- Operating, selling and administrative expenses at 18.2% of revenues, compared to 25.4% for the same six-month period in fiscal year 2014.
- Net earnings of \$400,111, up compared to a net loss of (\$970,575) for the same six-month period in fiscal year 2014.

**Quebec City, February 12, 2015** – (TSX-V: HEO) – H<sub>2</sub>O Innovation Inc. ("H<sub>2</sub>O Innovation" or the "Company") announces its results for the second quarter of fiscal year 2015. During this quarter, the Company's revenues increased by 55.6% to \$13.7 M, up from \$8.8 M in the comparable quarter of the previous fiscal year – generating a gross profit before depreciation and amortization up by \$863,000 at 23.2% compared to 26.2% in the second quarter of fiscal year 2014. "These results clearly show our ability to grow and scale-up our business – a nearly 56% growth of our revenues is unseen in our Company's history and the entire team feels extremely proud to deliver these results to our shareholders. We also clearly feel that our investments in sales efforts, marketing, product development as well as our project execution continued improvements are finally paying off", **stated Frédéric Dugré, President and Chief Executive Officer of H<sub>2</sub>O Innovation.**

Revenues for the second quarter of fiscal year 2015 totaled \$13.7 M, representing a \$4.9 M or 55.6% increase, as compared with revenues of \$8.8 M for the same quarter of fiscal year 2014. The substantial increase is largely attributable to revenues from projects which reached \$8.7 M compared to \$4.7 M in the corresponding period of the previous fiscal year, representing an 86.2% increase. During the second quarter of fiscal year 2015, the Company has completed the production phase of several large municipal and industrial projects which have now triggered revenue recognition and invoicing related to delivery milestone.

<sup>1</sup> The definition of adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA) does not take into account the Company's gain on disposal of property, plant and equipment, finance costs – net and stock-based compensation costs. The definition of adjusted EBITDA used by the Company may differ from those used by other companies.

New projects included in our backlog are currently into their initial design and engineering phases and should move to production phase later in fiscal year 2015. This high level of revenues was expected as the Company started the current fiscal year with a record-high order backlog of \$38.3 M as of July 1, 2014.

The increase of revenues from projects has been accompanied by an increase of revenues from sales of specialty products and services which reached \$5.0 M in this quarter compared with \$4.1 M in the comparable quarter of the previous fiscal year. This 20.7% increase is in part attributable to our extended presence in the maple market with the addition of new distributors and the addition of innovative products to our portfolio intended for the maple syrup production. In parallel, our efforts deployed throughout last fiscal year to enlarge our specialty chemicals distributors' network have also continued to contribute to increase revenues from sales of specialty products and services. For the Company, the growth of the specialty products and services business remains a constant priority since it is covering a large part of our selling, operating and administrative expenses. The revenues from specialty products and services have also been boosted by the addition of Piedmont, acquired in December 2013. The recurring nature of these revenues contributes to reduce volatility.

In this second quarter of fiscal year 2015, the gross profit before depreciation and amortization reached \$3.2 M compared to \$2.3 M in the corresponding quarter of the previous fiscal year, an improvement of \$0.9 M which positively affected net earnings. In percentage, the Company was able to generate a 23.2% gross profit before depreciation and amortization, a level lower than the 26.2% gross profit before depreciation and amortization generated in the second quarter of fiscal year 2014. This decline in percentage is the result of the shift in our revenue mix during this quarter where revenues from specialty products and services represent a lower proportion of total revenues compared to the corresponding period of the previous fiscal year (36.3% in fiscal year 2015 versus 46.8% in fiscal year 2014).

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on December 31, (Unaudited)		Six-month period ended on December 31, (Unaudited)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenues	13,689,060	8,797,428	24,908,191	17,108,647
Gross profit before depreciation and amortization	3,171,532	2,308,907	6,204,483	4,450,898
Gross profit before depreciation and amortization	23.2%	26.2%	24.9%	26.0%
Operating expenses	232,817	218,644	433,303	401,230
Selling expenses	1,069,354	951,242	1,975,643	1,917,911
Administrative expenses	1,126,033	1,108,050	2,113,829	2,027,113
Research and development expenses – net	49,502	104,044	89,424	147,451
Net earnings (loss)	117,524	(500,581)	400,111	(970,575)
Basic and diluted earnings (loss) per share	0.006	(0.031) <sup>2</sup>	0.019	(0.069) <sup>2</sup>
Adjusted EBITDA	605,023	(90,179)	1,414,850	(20,509)

The Company secured \$2.2 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 order backlog at \$29.6 M as at December 31, 2014 compared to \$17.3 M as at December 31, 2013. However, as of January 27, 2015, the backlog for water treatment projects has reached \$38.2 M

<sup>2</sup> Adjusted to reflect the December 1<sup>st</sup>, 2014 five-to-one share consolidation.



since the Company has secured new contracts for an aggregate amount of \$11.8 M this month, mainly for the supply of drinking water systems to municipal customers. This level of backlog gives the Company a fairly good perspective over the coming quarters in terms of level of revenues.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 17.7% for this quarter, down from 25.9% for the corresponding quarter of the previous fiscal year. This decrease is largely attributable to the enhancement in volume of water treatment projects business and improvement in volume of sales from specialty products and services. Despite the increase of \$200,000 in the level of SG&A expenses during the second quarter of fiscal year 2015 compared to the corresponding quarter of fiscal year 2014, we have seen growth in revenues level, which generated an increase of \$863,000 in gross profit before depreciation and amortization. " We have been successful for the last two consecutive quarters at keeping our SG&A ratio level under 20% which is promising to ensure that, as we keep the pace, we grow our topline which is reflected in our bottom line", **added Frédéric Dugré.**

Adjusted EBITDA for the quarter was recorded at \$605,023, compared with (\$90,179) for the same period ended December 31, 2013. The higher revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year, generated a higher gross profit before depreciation and amortization and contributed to a higher adjusted EBITDA level.

The net earnings (loss) was \$117,524 or \$0.006 per share for the second quarter of fiscal 2015 compared with (\$500,581) or (\$0.031) per share for the second quarter of fiscal 2014. This improvement is primarily due to higher revenues and an improved level of gross profit before depreciation and amortization.

Operating activities used (\$549,922) in cash for the period ended December 31, 2014, compared with (\$3,012,537) of cash used during the corresponding period ended December 31, 2013. It is mainly attributable to the change in working capital items and it is softened by improvement in net earnings in the second quarter of fiscal year 2015.

Over the six-month period ended December 31, 2014, the Company's revenues totaled \$24.9 M, compared to \$17.1 M for the corresponding period ended December 31, 2013, showing an increase of 45.6%. During this same period the Company recorded net earnings amounting to \$400,111 and a positive adjusted EBITDA of \$1,414,850, compared to a net loss of (\$970,575) and a negative adjusted EBITDA of (\$20,509) for the corresponding period of fiscal year 2014. For the six-month period ended December 31, 2014, the Company used (\$138,697) of cash flows from its operating activities, compared to (\$2,517,833) used by its operating activities for the corresponding period of fiscal year 2014.

**The second quarter financial report is available on [www.h2oinnovation.com](http://www.h2oinnovation.com). 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 22, 2014 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 for municipal, energy & natural resources end-users. Also, directly and through its affiliates, H<sub>2</sub>O Innovation provides services and products complementary to its membrane filtration and reverse osmosis systems. These products consist of a complete line of specialty chemicals, consumables and couplings. For more, visit [www.h2oinnovation.com](http://www.h2oinnovation.com).

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### **Source:**

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