

PRESS RELEASE
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TSX-V: HEO
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OTCQX: HEOFF

Record-high revenues and earnings after nine-month in FY2015

Results for the three-month period ended March 31, 2015

- Revenues of \$12.1 million, up by 23.4% from \$9.8 million for the same period in fiscal year 2014.
- Gross profit before depreciation and amortization up by \$1,205,000 at 32.1%, compared to 27.3% for the same period in fiscal year 2014.
- Adjusted EBITDA¹ at \$712,652, compared to \$299,122 in the previous fiscal year.
- Operating, selling and administrative expenses at 24.1% of revenues, up compared to 23.2% for the same period in fiscal year 2014, impacted by non-recurring expenses of \$230,862.
- Net earnings of \$150,490, up compared to a net loss of (\$216,314) for the same period in fiscal 2014.
- Order backlog for water treatment projects stood at \$40.4 million as at March 31, 2015, compared to \$23.5 million a year ago.

Results for the nine-month period ended March 31, 2015

- Revenues of \$37.0 million, up by 37.5% from \$26.9 million for the same nine-month period in the previous fiscal year.
- Gross profit before depreciation and amortization up by \$2,959,000 at 27.3%, compared to 26.5% for the same nine-month period in fiscal year 2014.
- Adjusted EBITDA at \$2,127,503 compared to \$278,613 for the same nine-month period in fiscal year 2014.
- Operating, selling and administrative expenses at 20.1% of revenues, compared to 24.6% for the same nine-month period in fiscal year 2014.
- Net earnings of \$550,601, compared to a net loss of (\$1,186,889) for the same nine-month period in fiscal year 2014.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 14, 2015 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the third quarter of fiscal year 2015. During this quarter, the Company’s revenues increased by 23.4% to \$12.1 M, up from \$9.8 M in the comparable quarter of the previous fiscal year – generating a gross profit before depreciation and amortization up by \$1,205,000 at 32.1% compared to 27.3% in the third quarter of fiscal year 2014. “We are presenting cumulated record-high revenues and sustained profits, after only 9 months! Achieving such high growth shows that our business model is scalable. That being said, we are still expecting growth from organic activities and envision accelerating it with targeted acquisitions. As a disciplined acquirer and experienced integrator, we have built a solid platform to rapidly leverage a targeted company in synergies with our business activities”, stated **Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation**.

Revenues for the third quarter of fiscal year 2015 totaled \$12.1 M, representing a \$2.3 M or 23.4% increase, as compared with revenues of \$9.8 M for the same quarter of fiscal year 2014. The substantial increase is largely attributable to revenues from projects which reached \$5.6 M compared to \$4.4 M in the corresponding period of the previous fiscal year, representing a 26.1% increase. During the third quarter of fiscal year 2015, the Company has completed the production phase of a large industrial project and new projects have reached the production phase, which have now triggered revenue recognition and invoicing related to delivery milestone. 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.

¹ 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.

The increase of revenues from projects has been accompanied by an increase of revenues from sales of specialty products and services which reached \$6.5 M in this quarter compared with \$5.4 M in the comparable quarter of the previous fiscal year. This 21.1% increase is in part the result of Piedmont's integration since its acquisition in December 2013. In addition, we have increased our market share in United States for maple syrup production equipment and products. Our efforts deployed throughout last fiscal year to enlarge our specialty chemicals distributors' network have also contributed to increase revenues from sales of specialty products and services. On a last twelve months basis, revenues from specialty products and services have increased by 27.6% and have reached \$19.9 M, a result of the continuous focus to grow this business segment and maximise customer retention. As these revenues are recurring in nature, and through multiple initiatives, we have solidified our business model.

In this third quarter of fiscal year 2015, the Company was able to generate a 32.1% gross profit before depreciation and amortization, a level higher than the 27.3% gross profit before depreciation and amortization generated in the third quarter of fiscal year 2014. During the third quarter of fiscal year 2015, the Company agreed to terminate a contract with a customer under certain terms agreed upon. This cancellation has impacted positively the Company's gross profit during the quarter. The revenue mix in this quarter shows that revenues from specialty products and services still represent a fair proportion of total revenues compared to the corresponding period of the previous fiscal year (53.6% in fiscal year 2015 versus 54.6% in fiscal year 2014), even though the volume of revenues has increased substantially. This sustained proportion of revenues derived from specialty products and services is partly explainable by the acquisition of Piedmont and also fueled by the organic growth of the other business lines, which helped stabilized our gross profit before depreciation and amortization.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on March 31, (Unaudited)		Nine-month period ended on March 31, (Unaudited)	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues	12,121,641	9,826,466	37,029,832	26,935,113
Gross profit before depreciation and amortization	3,887,460	2,682,096	10,091,943	7,132,994
Gross profit before depreciation and amortization	32.1%	27.3%	27.3%	26.5%
Operating expenses	281,771	253,535	715,074	654,765
Selling expenses	1,293,880	1,053,254	3,269,523	2,971,165
Administrative expenses	1,347,761	972,410	3,461,590	2,999,523
Research and development expenses – net	78,344	51,197	167,768	198,648
Net earnings (loss)	150,490	(216,314)	550,601	(1,186,889)
Basic and diluted earnings (loss) per share	0.007	(0.010) ²	0.026	(0.073) ²
Adjusted EBITDA	712,652	299,122	2,127,503	278,613

The Company secured \$16.4 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 up the backlog at \$40.4 M as at March 31, 2015 compared to \$23.5 M as at March 31, 2014. This level of order backlog gives the Company a fairly good perspective over the coming quarters in terms of volume of revenues. Over the last four quarters, the Company was able to maintain the pace and execute its large backlog, showing that we can scale-up significantly our water treatment projects activities. The Company's bookings over revenues ratio for projects have increased to 2.9 this quarter compared to 2.4 for

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



the corresponding quarter of fiscal year 2014, even though the revenues from water treatment projects increased significantly.

The Company's ratio of selling, operating and administrative expenses ("SG&A") over revenues amounted to 24.1% for this quarter, up from 23.2% for the corresponding quarter of the previous fiscal year. This increase is attributable notably to the non-recurring administrative expenses of \$230,862. Without these non-recurring expenses, the ratio would have been 22.2%, below the ratio from last year corresponding period. Management is still convinced that focused investments in SG&A expenses are a trigger to generate higher level of revenues. We aim to keep the SG&A ratio to a level of 20% through a tight monitoring of SG&A expenses and an increase in revenues, which was nearly achieved with 20.1% for the nine-month period ended March 31, 2015.

Adjusted EBITDA for the quarter was recorded at \$712,652, compared with \$299,122 for the same period ended March 31, 2014. The higher revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year contributed to a higher adjusted EBITDA level.

The net earnings (loss) was \$150,490 or \$0.007 per share for the third quarter of fiscal 2015 compared with (\$216,314) or (\$0.010) per share for the same quarter of fiscal 2014. This improvement is primarily due to higher revenues and an improved gross profit before depreciation and amortization of 32.1%.

Operating activities generated \$1,392,269 in cash for the period ended March 31, 2015, compared with (\$298,938) of cash used during the corresponding period ended March 31, 2014. The increase is mainly attributable to the change in working capital items and the improvement in net earnings in the third quarter of fiscal year 2015.

Over the nine-month period ended March 31, 2015, the Company's revenues totaled \$37.0 M, compared to \$26.9 M for the corresponding period ended March 31, 2014, showing an increase of 37.5%. During this same period the Company recorded net earnings amounting to \$550,601 and a positive adjusted EBITDA of \$2,127,502, compared to a net loss of (\$1,186,889) and an adjusted EBITDA of \$278,613 for the corresponding period of fiscal year 2014. For the nine-month period ended March 31, 2015, the Company generated \$1,253,573 of cash flows from its operating activities, compared to (\$2,816,771) used by its operating activities for the corresponding period of fiscal year 2014.

The third quarter financial report is available on www.h2oinnovation.com. 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 22, 2014 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 for municipal, energy and natural resources end-users. Also, directly and through its affiliates, H₂O 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.

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