

PRESS RELEASE
For immediate release

TSX-V: HEO
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H₂O Innovation reports fiscal year 2014 third quarter results

Key highlights of the quarter

- Successful integration of Piedmont's activities, which generated great synergies and increased the contribution of the specialty products and services business into the overall revenue and gross profit of the Company.
- \$10.6 M of new bookings of water treatment projects, which materially increase the project backlog.
- Improvement of the financial position: reduction of the long-term debt and increase of our working capital.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 13, 2014 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the third quarter of fiscal year 2014 ended on March 31, 2014. During the third quarter of fiscal year 2014, revenues have remained stable compared to the same quarter of the previous year while the Company has shown significant improvement in its business model and its financial position. Indeed, the continuous growth of our specialty products and services boosted by the acquisition of Piedmont Pacific Corporation (“Piedmont”) on December 5, 2013 contributes to increase our recurring sales, brings additional synergies among our various product lines – thus solidifying our overall business, and adds greater predictability in our financial planning. Moreover, through the equity financings and acquisition completed in the first six-month period of this current fiscal year, we have significantly reduced our outstanding long-term debt and increased considerably our working capital, allowing the Company to be positioned favorably for its future growth coming from its project backlog.

The decision to expand our sales team for projects on new territories in Canada and United States is paying off as we are starting to see growth momentum again in our level of new bookings. Indeed, we have secured over \$20 M of new bookings of water treatment projects during the last six months. Bidding activity in the project business is expected to remain very active as we are seeing the level of interest from municipal customers towards our new FiberFlex design / platform – an important differentiator for the MF/UF market. Also, the average size of projects tends to increase and now exceeds \$1.5 M.

“Having built and seen this Company evolved over the last 14 years, I have never been so confident in our future, in our team, in the strength of our business model combining projects and recurring speciality product and services and in our ability to execute projects on the targeted margin. Our future is bright and we are well positioned to create value for our shareholders”, stated **Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation**.

The Company's revenues for the third quarter of fiscal year 2014 totaled \$9.8 M, compared with \$9.9 M in the comparable quarter in fiscal year 2013. This decrease of \$0.1 M or 1.4% is attributable to the lower level of revenues from projects deliveries and projects progress which is offset by the higher level of revenues from sales of specialty products and services. Revenues from projects reached \$4.4 M for this quarter compared to \$5.9 M in the comparable quarter of last fiscal year.

However, revenues from sales of specialty products and services are still progressing, reaching \$5.4 M for this quarter compared with \$4.0 M in the comparable quarter of fiscal year 2013. This 32.8% increase is mostly the result of our integration of Piedmont's activities. We also have increased our market shares in Northeastern United States for maple syrup production equipment and products. The Company continues to deploy efforts to enlarge our specialty chemicals distributors' network and provide after sale services to our systems' clients. The continuous growth of our recurring revenues contributes to stabilize our business model, increases our gross profit and preserves long-term relationships with our clients.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on March 31, (Unaudited)		Nine-month period ended on March 31, (Unaudited)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenues	9,826,466	9,966,644	26,935,113	29,368,446
Gross profit	2,682,096	2,515,477	7,132,994	7,439,109
Gross profit	27.3%	25.2%	26.5%	25.3%
Operating expenses	253,535	218,394	654,765	493,535
Selling expenses	1,053,254	853,744	2,971,165	2,601,528
Administrative expenses	972,410	925,700	2,999,523	2,642,816
Research and development expenses – net	51,197	-	198,648	-
Net earnings (loss)	(216,314)	86,384	(1,186,889)	845,384
Basic and diluted earnings (loss) per share	(0.002)	0.001	(0.015)	0.014
Adjusted EBITDA ¹	299,122	530,026	278,613	1,818,607

During the quarter, the Company added \$10.6 M in new bookings for water treatment projects. These new bookings, coupled with the revenues realized from water treatment projects during the quarter, have brought up the backlog at \$23.5 M as at March 31, 2014, compared to \$15.4 M a year ago. This quarter's new bookings include \$10.0 M to supply a seawater reverse osmosis (SWRO) system for the Monterey Peninsula Water Supply Project in California, United States. This will be the second largest SWRO system in California and the third most important in the United States.

The current pipeline of water treatment projects sales 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 at a steady pace.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 23.2% for this quarter, up from 20.0% for the corresponding quarter of the previous fiscal year. This increase is attributable to a higher level of SG&A expenses, especially selling expenses to support our business plan aimed at increasing our water treatment systems' sales in North America. "We have decided to increase the investment in the water treatment projects sales team to fuel the Company's future growth, which is monetarily affecting the level of SG&A," stated **Frédéric Dugré**. With the acquisition of Piedmont, management aims to reduce the SG&A ratio to a level similar to last year through an increase of revenues and tighter management of SG&A expenses.

Adjusted EBITDA for the quarter was recorded at \$299,122 compared with \$530,026 for the same period ended March 31, 2013. Despite a similar level of revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year at a higher gross profit, the increase in SG&A expenses have contributed to generating a smaller adjusted EBITDA.

Operating activities used (\$298,938) in cash for the period ended March 31, 2014, compared with (\$1,073,407) of cash used during the corresponding period ended March 31, 2013. The increase is mainly attributable to the decline in net loss in the third quarter of fiscal year 2014 as compared with the net earnings in corresponding period ended March 31, 2013 and to the less negative change in working capital items.

Over the nine-month period ended March 31, 2014, the Company's revenues totaled \$26.9 M, compared to \$29.4 M for the corresponding period ended March 31, 2013, showing a decrease of 8.3%. During this same period the Company recorded net loss amounting to (\$1,186,889) and a positive adjusted EBITDA of \$278,613, compared to net earnings of \$845,384 and a positive adjusted EBITDA of \$1,818,607 for the corresponding period of fiscal year

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.



2013. For the nine-month period ended March 31, 2014, the Company used (\$2,816,771) of cash flows from its operating activities, compared to \$1,160,757 generated by its operating activities for the corresponding period of fiscal year 2013.

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 24, 2013 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. 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 and consumables and a complete line of couplings. For more, visit www.h2oinnovation.com.

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