

PRESS RELEASE
For immediate release

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

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

- Revenues of \$8.8 million, down by 6.6% from \$9.4 million for the same period in fiscal year 2013.
- Gross profit stable at 26.2%, compared to 26.1% for the same period in fiscal year 2013.
- Adjusted EBITDA¹ at (\$90,179), compared to \$561,888 for the same period in fiscal year 2013.
- Operating, selling and administrative expenses up by \$380,000, at 25.9% of revenues, compared to 20.1% for the same period in fiscal year 2013.
- Net loss of (\$500,581), down compared to a net earnings of \$488,854 for the same period in fiscal year 2013.
- Operating activities used (\$3,012,537) in net cash, compared to \$1,024,161 generated for the same period in fiscal year 2013.

Results for the six-month period ended December 31, 2013

- Revenues of \$17.1 M, down by 11.8% from \$19.4 M for the same six-month period in fiscal year 2013.
- Gross profit up at 26.0%, compared to 25.4% for the same six-month period in fiscal year 2013.
- Adjusted EBITDA at (\$20,509), compared to \$1,288,581 for the same six-month period in fiscal year 2013.
- Operating, selling and administrative expenses up by \$606,000, at 25.4% of revenues, compared to 19.3% for the same six-month period in fiscal year 2013.
- Net loss of (\$970,575), down compared to a net earnings of \$758,550 for the same six-month period in fiscal year 2013.
- Operating activities used (\$2,517,833) in net cash, compared to \$2,234,375 generated for the same six-month period in fiscal year 2013.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 12, 2014 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the second quarter of fiscal year 2014 ended on December 31, 2013. During this quarter, the Company’s revenues decreased by 6.6% to \$8.8 M, down from \$9.4 M in the comparable quarter of the previous fiscal year – generating a stable gross profit of 26.2% compared to 26.1% in the second quarter of fiscal year 2013. “This strong margin is the result of our business mix, which allows the Company to cover an important part of its fixed costs with its recurring revenues coming from its specialty products, generally sold at higher margin, even though the project business is lumpy. It is in the continuation of that purpose that H₂O Innovation completed the acquisition of Piedmont in December”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

The Company’s revenues for the second quarter of fiscal year 2014 totaled \$8.8 M, compared with \$9.4 M in the comparable quarter in fiscal year 2013. This decrease of \$0.6 M or 6.6% is largely attributable to the low level of revenues from projects deliveries and projects progress. These revenues reached \$4.7 M for this quarter compared to \$5.9 M in the comparable quarter of last fiscal year. As mentioned in the first quarter of fiscal year 2014, 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.

However, revenues from sales of specialty products and services are still progressing, reaching \$4.1 M for this quarter compared with \$3.4 M in the comparable quarter of fiscal year 2013. This 19.6% increase is the result of our sustained efforts to: i) enlarge our specialty chemicals distributors’ network, ii) provide after sale services to our

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.

systems' clients, iii) increase our market shares in Northeastern United States for equipment and products sales of maple syrup production and iv) integrate in December 2013 Piedmont's activities. "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", **added Frédéric Dugré.**

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on December 31, (Unaudited)		Six-month period ended on December 31, (Unaudited)	
	2013	2012	2013	2012
	\$	\$	\$	\$
Revenues	8,797,428	9,418,908	17,108,647	19,401,802
Gross profit	2,308,907	2,461,061	4,450,898	4,923,632
Gross profit	26.2%	26.1%	26.0%	25.4%
Operating expenses	218,644	139,369	401,230	275,141
Selling expenses	951,242	904,630	1,917,911	1,747,784
Administrative expenses	1,108,050	853,853	2,027,113	1,717,116
Research and development expenses – net	104,044	-	147,451	-
Net earnings (loss)	(500,581)	488,854	(970,575)	758,550
Basic and diluted earnings (loss) per share	(0.006)	0.008	(0.014)	0.013
Adjusted EBITDA	(90,179)	561,888	(20,509)	1,288,581

During the quarter, the Company added \$9.6 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 \$17.3 M as at December 31, 2013, compared to \$18.7 M a year ago. This quarter's new bookings include \$6.1 M from the energy sector. These new contracts are expected to be delivered within the next 12 months. "A significant portion of these contracts should be recognized as revenues during the current fiscal year 2014 and shall allow the Company to reach a level of revenues sufficient to generate profits in the next two quarters" **stated Frédéric Dugré.**

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 25.9% for this quarter, up from 20.1% 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 to a higher level of SG&A expenses. With the acquisition of Piedmont, management aims to keep 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 (\$90,179), compared with \$561,888 for the same period ended December 31, 2012. The lower revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year, combined with the significantly higher SG&A expenses also contributed to generating a negative adjusted EBITDA.

Operating activities used (\$3,012,316) in cash for the period ended December 31, 2013, compared with \$1,024,161 of cash generated during the corresponding period ended December 31, 2012. The decrease is mainly attributable to the significant decline in net loss in the second quarter of fiscal year 2014 as compared with the net earnings in corresponding period ended December 31, 2012 and to the negative change in working capital items.

Over the six-month period ended December 31, 2013, the Company's revenues totaled \$17.1 M, compared to \$19.4 M for the corresponding period ended December 31, 2012, showing a decrease of 11.8%. During this same period the Company recorded net loss amounting to (\$970,575) and a negative adjusted EBITDA of (\$20,509), compared to a net earnings of \$758,550 and a positive adjusted EBITDA of \$1,288,581 for the corresponding period of fiscal year 2013. For the six-month period ended December 31, 2013, the Company used (\$2,517,833) of

cash flows from its operating activities, compared to \$2,234,375 generated by its operating activities for the corresponding period of fiscal year 2013.

The second 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 provides integrated technological water treatment solutions based on membrane filtration technology to municipal, energy & mining end-users. H₂O Innovation designs state-of-the-art custom-built water treatment projects for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater. 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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– 30 –

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