

H₂O Innovation reports fiscal year 2014 year-end results

Key highlights of 2014 fiscal year

- \$41.8 M of new bookings of water treatment projects secured over the year, pushing order backlog to a record high of \$38.3 M.
- Expansion of specialty products and services offering through the acquisition of Piedmont Pacific Corporation in December 2013.
- Revenues down by 3.6% to \$34.8 million, compared to previous fiscal year.
- Revenues from specialty products and services, which are recurring in nature, increased by 30% to \$17.2 M, compared to previous fiscal year.
- Gross profit before depreciation and amortization up at 26.6%, compared to 25.6% in fiscal year 2013.
- Adjusted EBITDA at \$77,155, compared to \$1,584,252 in fiscal year 2013, positive for a third consecutive year.
- Net loss of (\$1,456,131) compared to a net earnings of \$312,992 in fiscal year 2013.
- Secured \$10.1 M in equity financing to complete the acquisition of Piedmont and to reduce long-term debt.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, September 23, 2014 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces its results for the fourth quarter and 2014 fiscal year ended June 30, 2014. H₂O Innovation’s fiscal year 2014 results showed revenues of \$34.8 M down from \$36.1 M for fiscal year 2013, a 3.6% reduction year over year. Despite the small decline in revenues, the Company has shown a significant increase of 134% of its new bookings of water treatment projects, pushing the order backlog to a record-high of \$38.3 M as at June 30, 2014. The Company also solidified its business model through the acquisition of Piedmont Pacific Corporation (“Piedmont”), a world-known manufacturer of specialty couplings, adding to the portfolio of specialty products and services. The Company’s gross profit before depreciation and amortization improved over the year from 25.6% in fiscal year 2013 to 26.6% in fiscal year 2014, due to business mix and improved project execution.

The Company’s new bookings for water treatment projects secured increased by 134% from \$17.9 M during fiscal year 2013 to \$41.8 M during current fiscal year. As at June 30, 2014, Company’s sales backlog stands at \$38.3 M compared to \$14.1 M as at June 30, 2013. The bookings over revenues ratio of the Company’s stood at 2.4 for fiscal year 2014, compared to 0.78 for fiscal year 2013. “This is a good indicator that we will assist to an increase of revenues derived from water treatment projects in the coming fiscal year. Such solid order backlog at the beginning of this new 2015 fiscal year gives us the ability to better plan the allocation of our resources and growth”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation Inc.**

The decline of 3.6% in revenues in fiscal year 2014 is mainly attributable to the lower level of revenues from water treatment projects deliveries and projects progress, caused by delays beyond our control. However, these projects will be delivered during the next fiscal year. The decline was partly offset by the higher level of revenues from sales of specialty products and services, further pushed by the acquisition of Piedmont in the course of the year.

In fiscal year 2014, revenues from water treatment projects stood at \$17.6 M compared with \$22.9 M in fiscal year 2013, while revenues from specialty products and services reached \$17.2M in fiscal year 2014 compared with \$13.2 M in fiscal year 2013. The decline of revenues from water treatment projects was partly offset by the higher level of revenues from sales of specialty products and services. For the year ended June 30, 2014 sales from specialty products and services, which are of recurring nature, accounted for 49% of total revenues, while this proportion was 37% in the previous fiscal year. “The increase of 30% of revenues from sales of specialty products and services is the result of a strategic decision to acquire Piedmont, and strengthening our relationship with our customers, providing a steady stream of revenues and creating a direct value to our shareholders”, **stated Frédéric Dugré.**

The acquisition of Piedmont completed on December 5, 2013, is part of this strategy to generate greater revenues from specialty products. Additional efforts aimed at increasing the organic growth associated with our maple syrup production equipment and products and our specialty chemical products have also paid off. Indeed, our distribution network for maple syrup production equipment now has a total of 30 distributors covering the province of Quebec and the Northeast of the United States, an addition of 3 distributors over the current fiscal year. Furthermore, the additions made to the Professional Water Technology (“PWT”) sales force of specialty chemical products also supported the growth of recurring revenues from specialty products and services.

This strategy for organic growth of revenues from sales of specialty products and services is proven to be winning since it minimizes the impact of revenue volatility associated with revenues derived from water treatment projects, reinforces long-term relationships with its customers and maintain a higher gross profit.

CONSOLIDATED RESULTS Selected financial data	Three-month periods ended on June 30, (Unaudited)		Twelve-month periods ended on June 30, (Audited)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenues	7,896,401	6,768,455	34,831,514	36,136,901
Gross profit before depreciation and amortization	2,117,494	1,812,428	9,250,488	9,251,537
Gross profit before depreciation and amortization	26.8%	26.8%	26.6%	25.6%
Operating expenses	204,718	202,544	859,483	696,079
Selling expenses	1,071,346	907,553	4,042,511	3,509,081
Administrative expenses	1,100,644	890,226	4,100,167	3,533,042
Research and development expenses – net	21,497	-	220,145	-
Net earnings (loss)	(269,242)	(532,392)	(1,456,131)	312,992
Basic and diluted earnings (loss) per share	(0.002)	(0.008)	(0.017)	0.005
Adjusted EBITDA	(201,458)	(234,355)	77,155	1,584,252
Adjusted EBIDTA	(2.6%)	(3.5%)	0.2%	4.4%

The Company’s ratio of selling, operating and administrative expenses (“SG&A”) as a whole over revenues amounted to 25.8% for fiscal year 2014, up from 21.4% for 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, combined to a lower level of revenues derived from water treatment projects sales. 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 fiscal year 2014 was \$77,155 compared to \$1,584,252, for fiscal year 2013. The adjusted EBITDA has significantly varied in fiscal year 2014 due to the severe decline of revenues derived from water treatment projects and the increase of SG&A expenses.

Net cash used by operating activities amounted to (\$2,486,316) in fiscal year 2014 compared to \$1,053,500 of net cash generated by operating activities during the previous fiscal year. This deterioration is attributable to the significant net loss in fiscal year 2014 compared to a net earnings fiscal year 2013. This significant deterioration is also attributable to a negative change in working capital items, such as:

- Higher volume of activities toward year-end reflected in an increase of the level of accounts receivable as of June 30, 2014 compared to June 30, 2013;
- This higher volume of activities has also increased the level of accounts payable and accrued liabilities in fiscal year 2014 compared to fiscal year 2014;
- A timing difference within the projects production phases affecting the invoicing milestones reached and therefore affecting costs incurred in excess of billings and billings in excess of costs incurred.

Financial results for the fourth quarter of fiscal year 2014

Revenues for the fourth quarter were up by 17 % to \$7.9 M from \$6.8 M for the same quarter of the previous fiscal year. The increase is explained by the increase of \$1.7 M in revenues from specialty products and services, coming in part from the acquisition of Piedmont in December 2013 and, to lesser extent, to higher level of sales of maple syrup



production equipment. It was toned down by a decrease of \$0.6 M of revenues from water treatment projects which suffer from lower volume of projects execution.

For the quarter ended June 30, 2014, the gross profit before depreciation and amortization remained stable at 26.8%.

The fourth quarter SG&A expenses were somewhat stable and similar to the first three quarters of fiscal year 2014. They stand at \$2.4 M in this current quarter compared to \$2.0 M in the fourth quarter of fiscal year 2013. The increase is mainly due to the integration completion of Piedmont to our Vista's office and hiring to support its operations and the increase of selling expenses related to bookings secured during the quarter.

Strategic outlook for fiscal year 2015

We begin this fiscal year 2015 with confidence. We have a record high order backlog of water treatment projects standing at \$38.3 M as at June 30, 2014 and our revenues from specialty products and services, which are recurring in nature, reached \$17.2 M during fiscal year 2014. It means that the strategic investments we have made in fiscal year 2014 are paying off and we intend to continue towards this direction." **stated Frédéric Dugré.**

During fiscal year 2014 the Company has made significant steps in its water treatment projects sales' business development:

- Secured, for a second mandate, the supply of a modular plant to produce drinking water and wastewater sanitation for a major oil & gas company worker's camp in Alberta;
- Granted a \$10 M contract to design, manufacture and deliver of reverse osmosis units for the municipality of Monterey, the second largest desalination plant unit in California;
- Selected by the City of Montevina, California for providing an ultrafiltration system with a capacity of 30 million gallons of water, ultrafiltration largest ultrafiltration project ever undertaken to date by the Company;
- Successfully marketed to several Northwestern United States municipalities, its new design frame Fiberflex for membranes MF/UF made to accommodate several types of microfiltration membranes and different ultrafiltration.

All these important milestones accomplished during fiscal year 2014 will certainly contribute to the revenues of the next fiscal year but will also position favorably the Company for future wins. Indeed, the current pipeline of water treatment projects sales remains rich in opportunities which should allow the Company to renew its order backlog and support its revenue growth. With an enlarged sales team compared to 2013 fiscal year, we maintain high bidding activities and business development mainly in Canada and United States while supporting our network of international distributors and agents to ensure organic growth for our specialty products.

The increase of revenues from specialty products and services is mainly due by the revenues coming from the acquisition and the successful integration of Piedmont. In fiscal year 2015, we intend to continue to maximize cross-selling activities between the distinct networks of PWT and Piedmont. We will also continue the expansion of our distribution networks for specialty chemical products PWT as well as for our Piedmont flexible couplings.

All of these growth initiatives established during fiscal year 2014 allow us to begin the 2015 fiscal year with confidence.

The annual 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 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 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.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) nor the Alternext Exchange accepts responsibility for the adequacy or accuracy of this release.

– 30 –

Source:

H₂O Innovation Inc.
www.h2oinnovation.com

Contact:

Marc Blanchet
+1 418-688-0170
marc.blanchet@h2oinnovation.com