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Major US\$18.9 million acquisition in the USA

H2O Innovation makes major US\$18.9 million acquisition in the United States

Quebec City, July 3, 2008 – H2O Innovation (“H2O,” TSX-V: HEO, Alternext: MNEMO: ALHEO) continues to develop in promising markets and announces that on July 3, 2008, an H2O subsidiary has indirectly acquired 100% of the issued and outstanding shares of Itasca Systems Inc. (“Itasca”), a privately owned company with six individual shareholders dealing at arm’s length with H2O. Located in Minneapolis, Minnesota (USA), Itasca specializes in treating industrial process water, notably for the energy sector. This transaction will allow H2O to diversify its products and services offering in order to serve the fast growing industrial market and to achieve revenues of CA\$ 18.5 million on a consolidated pro forma basis as of June 30, 2007. These revenues do not account the full contribution of the acquisitions of Wastewater Technologies Inc. («WTI») and Sigma Environmental Solutions Inc.

Transaction highlights:

- Immediate access to an industrial customers list as well as to a reference list of 150 projects realized mostly in the energy sector - to allow client diversification beyond the municipal sector already served by H2O;
- Improve the average consolidated operational gross margin;
- Accelerate revenue recognition due to shorter delivery schedules and execution of industrial projects;
- Itasca in numbers:
 - sales backlog of approximately US\$1.8 million, growing H2O’s consolidated sales backlog to CA\$21.5 million as of the closing date;
 - sales of US\$13.1 million and an EBITDA of US\$2.9 million based on the audited financial statements of Itasca for the year ended December 31st 2007;
 - sustained revenue growth and continuous profitability for the last 5 years;
- Acquisition of a 37,000 ft² manufacturing and assembly facility in Minneapolis vicinity, providing a strategic manufacturing alternative to H2O’s US-based customers.

Itasca financial highlights:

The following table comprises data from Itasca audited financial statements for the year ended December 31st 2007 and the unaudited financial statements for the 3-month period ended March 31st 2008.

	December 31, 2007	December 31, 2006	March 31, 2008	March 31, 2007
	12 months	12 months	3 months	3 months
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	US\$	US\$	US\$	US\$
Assets	4 684 233	3 289 400	4 034 614	3 766 938
Liabilities	2 964 804	2 203 791	1 728 301	2 012 507
Equity	1 719 429	1 085 609	2 306 313	1 754 431
Sales	13 066 476	6 523 365	2 969 938	2 945 406
Net income	2 726 989	814 618	586 884	668 821

Acquisition of an industrial water treatment specialist

Founded in 1995, Itasca is based in Minneapolis, Minnesota. It designs, builds, and services membrane filtration systems. Since its founding, Itasca has installed 150 water treatment systems for many industrial applications related to the energy sector, notably: power generation plants, cellulose and non-cellulose ethanol plants as well as food-process industries, and also for the municipal sector. Most of these systems have maintenance and supply contracts that have been generating recurring revenues of more than 15% of Itasca's annual sales.

Itasca operates in a promising market in the United States and is located in one of the two regions most active in the water treatment sector, the other being California, where H2O is already present with its subsidiary, Membrane Systems Inc. ("MSI"). Itasca is the third acquisition – after WTI and MSI – by H2O in the United States, which is a particularly dynamic sector for industrial and municipal water treatment projects.

Major synergies and complementarities

In addition to technological and geographical synergies, the acquisition of Itasca will give H2O a new 37,000 ft² plant in the United States in a region generally recognized to offer highly skilled labor at an attractive cost as well as a production and technology platform that resembles and complements H2O manufacturing facilities in Ham-Nord (Québec), Canada.

Typically, water treatment systems dedicated to industrial sector are usually executed and delivered a short time schedule. Average time between contract signing and project completion is 4 to 6 months compared to 10 to 12 months for the average municipal contract. This results in faster turnover in its sales backlog (currently US\$1.8 million), bringing the H2O consolidated sales backlog at CA\$21.5 million to date.

Itasca's industrial sales orientation will immediately leverage and diversify H2O offer for process water applications, where gross margins are typically higher than municipal water applications and where H2O expertise in membrane solutions can be a real competitive advantage. Going forward, Itasca's industrial customer base will also benefit from H2O expertise in wastewater applications using the Company's proprietary or customized bio-reactor and submerged membrane bio-reactor (Bio-Brane™) solutions.

Improvement of H2O's margins

Itasca, which currently employs 21 people, announced sales figures of US\$13.1 million for the year ended December 31, 2007, and EBITDA of US\$2.9 million. Moreover, during this same financial period, Itasca has generated positive cash-flow of US\$2.2 million from operation. Over the last five fiscal years, Itasca's gross profit margin has hovered between 28% and 30% whereas net profitability has continued to grow.

On a pro forma basis, the consolidated financial statements for the nine-month period ended March 31, 2008 shows the following characteristics:

- Consolidated revenues figures of CA\$16.8 million
- Gross profit margin of CA\$4.3 million (25.6% of the revenues)

Consideration

The total consideration for the acquisition is US\$18.9 million paid as follows: US\$9.45 million in cash at closing and US\$9.45 million paid by the issuance of common shares of H2O at a weighted average price equal to the closing price of H2O shares on the TSX Venture Exchange during the twenty (20) trading days preceding the date of closing of the acquisition, as calculated in U.S. dollars using the exchange rate between Canadian and U.S. dollars on those dates as published by the Wall Street Journal: 0.902\$ per common share for a total of 10 476 718 common shares.

Furthermore, the acquisition of Itasca is entirely funded within H2O working capital. At closing, Itasca shall present in its balance sheet a minimum net book value (excluding the intangible assets) of US\$1.4 million. The consideration will be adjusted in order to take into account the variation of the equity on the closing date. Thus, H2O will indirectly assume certain liabilities and the subordinated debt of US\$1.275 million as set forth in the balance sheet of Itasca at the time of closing. The subordinated debt is reimbursed from the US\$9.45 million cash payment at closing.

A Business Acquisition Report including financial information required, pursuant to Canadian applicable securities laws, has been filed and is available on SEDAR web site (www.sedar.com).

About H2O

H2O's mission is to design, develop, produce and integrate state-of-the-art, environmental friendly products dedicated to the production of drinking water, the treatment of wastewater and industrial processed water, and the reclamation of water.

Forward looking statements

Certain statements in this release are forward looking. These statements are based on H2O's current expectations and involve some risks and uncertainties. By their very nature, forward-looking statements are based on expectations and hypotheses and also involve risks and uncertainties, known and unknown, many of which are beyond H2O's control. As a result, investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements regarding the market acceptance and penetration of H2O technologies and products and future revenues are based on management expectations. In addition, the reader is referred to the applicable general risks and uncertainties described in H2O's most recent Annual Information Form under the heading "Risk Factors".

The TSX Venture Exchange Inc. and the Alternext Exchange have not reviewed and do not accept responsibility for the adequacy or accuracy of this release.