



**PRESS RELEASE**  
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**H<sub>2</sub>O Innovation reports fiscal 2017 first quarter results: Boosted by Utility Partners acquisition, recurring activities represent 73% of consolidated revenues**

**Key highlights**

- Sustained revenue growth of 62% to reach \$19.9 M, compared to \$12.3 M in previous fiscal year;
- Adjusted EBITDA<sup>[1]</sup> increases by 42% to reach \$629,015, compared to \$441,669 for the same period in fiscal year 2016; and
- Consolidated backlog for projects and O&M contracts stands at \$105 M as at October 24, 2016, pushed by \$13.3 M of new projects secured in the first 4 months of this new fiscal year;

*All amounts in Canadian dollars unless otherwise stated.*

**Quebec City, November 14, 2016** – (TSXV: HEO) – H<sub>2</sub>O Innovation Inc. (“H<sub>2</sub>O Innovation” or the “Corporation”) announces its results for the first quarter of fiscal year 2017 ended September 30, 2016. During this quarter, the Corporation’s revenues increased by 62% to \$19.9 M, up from \$12.3 M for the same quarter of fiscal year 2016. This increase is largely attributable to the acquisition of Utility Partners, effective July 1, 2016, which added significant revenues coming from Operation and Maintenance (“O&M”) activities.

“The acquisition of Utility Partners allowed us to solidify our business model by adding recurring sales coming from O&M activities, which are more predictable, and therefore counterbalance the “peaks and valleys” profile of the revenue growth curve generated from the water treatment projects. For this first quarter, 73% of recorded revenues are recurring in nature. Today, our business model is not only more reliable and robust but it also provides an enhanced value proposition to our customers resulting into greater accountability, in-depth technical knowledge of water treatment solutions and integrated customer care with multiple speciality products. All this translate into high scalability potential of our three business pillars coming from multiple cross selling opportunities and future Design-Build-Operate projects”, **stated Frédéric Dugré, President and Chief Executive Officer of H<sub>2</sub>O Innovation.**

For this first quarter, 43% of the revenues came from O&M activities, 30% of the revenues came from the Specialty Products & Services (“SP&S”) and 27% came from water treatment projects. The Corporation’s EBITDA stands at \$629,015, compared to \$441,669 for the same quarter last year. The consolidated backlog as of September 30, 2016 stands at \$98.5 M compared to \$38.3 M last year.

Revenues from water treatment projects have declined momentarily to \$5.4 M compared to \$7.2 M in the corresponding period of the previous fiscal year, representing a 25% decrease. The decrease in revenues from water treatment projects, despite the increasing project order backlog, is not unusual since such revenues vary from quarter to quarter and depend on the different milestones reached for revenues

<sup>[1]</sup> The definition of adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA) does not take into account the Corporation’s finance costs – net, stock-based compensation costs, gain on purchase price adjustment, unrealized exchange (gains) / losses and acquisition and integration costs. The reader can establish the link between adjusted EBITDA and net (loss) earnings. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.



recognition. The project order backlog was at \$41.2 M on September 30, 2016, compared to \$38.3 M a year ago, and reached \$48.9 M at the end of October 2016 representing a 28% increase over the last 13 months.

“Even though revenues associated to water treatment projects appear to be slower this last quarter, our selling and engineering teams have been extremely busy developing new opportunities and kicking-off new projects. The water treatment projects business pillar is still a strategic growth vehicle for our company. During the first quarter of fiscal year 2017, we launched the flexMBR™, our new wastewater flexible membrane platform. Since then, we have already secured 3 contracts using this new platform and we have started to build great momentum in the wastewater market in North America, a fast growing and lucrative market in which we have not tapped into in the previous year”, **added Mr. Dugré.**

On the SP&S side, revenues reached \$5.9 M compared to \$5.1 M in the comparable quarter of the previous fiscal year, which represents an increase of 17%. This strong increase in SP&S revenues is the direct result of investments made during the last two years in the Corporation’s operating and selling functions to support the growth of this business line.

Revenues coming from O&M activities stand at \$8.5 M and are highly recurring in nature. These revenues are mainly coming from Utility Partners. The backlog coming from these O&M contracts stands at \$57.3 M as at September 30, 2016 and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options.

In this first quarter of fiscal year 2017, the Corporation generated a 22.5% gross profit before depreciation and amortization compared to 26.1% gross profit before depreciation and amortization generated in the first quarter of fiscal year 2016. The revenue mix in this quarter has been modified with the acquisition of Utility Partners which operates in a different commercial landscape than the Corporation’s core activities. O&M activities generally generate lower gross margin. It was therefore expected that the integration of Utility Partners into H<sub>2</sub>O Innovation would modify the overall gross margin ratio of the Corporation.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on September 30, (Unaudited)	
	2016	2015
	\$	\$
Revenues	19,868,862	12,259,328
Gross profit before depreciation and amortization	4,463,537	3,204,486
Gross profit before depreciation and amortization	22.5%	26.1%
Operating expenses	438,404	333,980
Selling expenses	1,595,891	1,357,733
Administrative expenses	1,860,730	1,043,551
Research and development expenses – net	81,372	84,564
Net (loss) earnings	(1,082,086)	52,329
Basic earnings per share	(0.028)	(0.003)
Diluted (loss) earnings per share	(0.027)	(0.003)
Adjusted EBITDA	629,015	441,669



The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 19.6% for this quarter, down from 22.3% for the corresponding quarter of the previous fiscal year. This decrease is mostly attributable to the acquisition of Utility Partners, which has lower selling and operating expenses.

Adjusted EBITDA for the quarter was recorded at \$629,015, compared to \$441,669 for the same period ended September 30, 2015. The adjusted EBITDA over revenues represents 3.2%, compared to 3.6% for the same quarter in fiscal year 2016. Lower volume of revenues of water treatment projects impacted the adjusted EBITDA. Once volume of revenues will increase, the Corporation expects this ratio to increase accordingly since all the fixed charges are already covered.

The net (loss) earnings amounted to (\$1,082,086) or (\$0.028) per share for the first quarter of fiscal year 2017 compared with \$52,329 or \$0.003 per share for the first quarter of fiscal year 2016. The increase in net loss is largely due to the acquisition of Utility Partners and the related acquisition and integration costs.

Operating activities, after the working capital items, used \$1,661,798 in cash for the period ended September 30, 2016, compared with \$227,303 of cash used during the corresponding period ended September 30, 2015. The increase in cash used is mainly attributable to the loss before income taxes in the first quarter of fiscal year 2017 and to the changes in working capital items, especially accounts payable and accrued liabilities that were paid using the funds from the transaction destined to working capital needs.

### **H<sub>2</sub>O Innovation Conference Call**

Frédéric Dugré, President and Chief Executive Officer and Marc Blanchet, Chief Financial Officer, will hold an investor conference call to discuss the financial results for 2017 first quarter in further details at 8:30 a.m. Eastern Time on Tuesday, November 15, 2016.

To access the call, please call (877) 223-4471, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on the Corporate Presentations page of the Investors section of the Corporation's website.

**The first quarter financial report is available on [www.h2oinnovation.com](http://www.h2oinnovation.com). Additional information on the Corporation is also available on SEDAR ([www.sedar.com](http://www.sedar.com)).**

### **Prospective disclosures**

Certain statements set forth in this press release regarding the operations and the activities of H<sub>2</sub>O Innovation as well as other communications by the Corporation 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 Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 26, 2016 available on SEDAR ([www.sedar.com](http://www.sedar.com)). Unless required to do so pursuant to applicable securities legislation, H<sub>2</sub>O 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 H<sub>2</sub>O Innovation**

H<sub>2</sub>O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users. The Corporation's activities rely on three pillars which are i) water and wastewater projects; ii) specialty products and services, including a complete line of specialty chemicals, consumables, specialized products for the water treatment industry as well as control and monitoring systems; and iii) operation and maintenance services for water and wastewater treatment systems. For more information, visit [www.h2oinnovation.com](http://www.h2oinnovation.com).

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### **Source:**

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