

PRESS RELEASE
For immediate release

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H₂O Innovation Enters US Operation and Maintenance Market with the Acquisition of Utility Partners and Concurrent Private Placement of \$20 M

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Key Highlights

- Acquisition of a leading US player specializing in the operation and maintenance of water and wastewater treatment plants for small to mid-size municipalities across the United States;
- Establishes third complementary business pillar with an enhanced presence in the US creating synergies and cross-selling opportunities;
- Increases H₂O Innovation backlog by \$88.3 M to be realized over the next 5 years;
- Solidifies H₂O Innovation's position as a partner of choice for Design-Build-Operate contracts;
- Expected to be immediately accretive to earnings and cash flow with an additional \$34.5 M in revenues and adjusted EBITDA of \$2.9 M;

All amounts are in Canadian dollars unless otherwise stated.

Quebec City, July 13, 2016 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”), announces that it has entered into a binding agreement pursuant to which H₂O Innovation will acquire [Utility Partners, LLC](#) (“Utility Partners”), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the “Acquisition”). The purchase price is US\$17.0 M, representing a multiple of 7.6x adjusted EBITDA as of December 31, 2015, which will be paid in cash and financed as described below.

Utility Partners provides US municipal clients with innovative and cost-effective solutions for water and wastewater treatment plants. It currently operates thirty-four (34) plants in six (6) US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California/Nevada). Utility Partners' long-term contracts have multi-year renewal options with expected revenues of approximately \$88.3 M over the next five (5) years.

Management expects the Acquisition to be accretive to earnings and cash flow from day one. In addition, following the Acquisition, the majority of H₂O Innovation's revenues will be derived from its specialty products and services segment, which are more predictable and recurring in nature. For more information on the Acquisition, please visit the section of [H₂O Innovation's website dedicated to investors](#).

“The acquisition of Utility Partners is a significant step to building H₂O Innovation's third business pillar, the operation and maintenance of water and wastewater treatment systems. The acquisition will help us better serve our existing clients through a stronger service and product offering tailored to meet their needs. Utility Partners and its team of managers and professionals will be a significant asset for H₂O

Innovation. We expect this alliance to open the door to a new market and create several cross-selling opportunities between our business lines”, **said Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

“When we initiated discussions with potential partners, we were interested in compatible corporate cultures to insure our teams would work well together as well as additional capabilities with client opportunities to fuel continued growth. H₂O Innovation was the most suitable partner given its strong equipment business which will help in better supporting our existing customers in all of their water treatment needs. As we see significant growth in Design-Build-Operate (“DBO”) contracts, H₂O Innovation, once integrated with Utility Partners, will become one of the only players able to provide high quality process equipment as well as operation and maintenance services. This new offering will make H₂O Innovation attractive to general contractors and teams targeting a growing number of DBO opportunities currently being planned across the United States”, **said Robert Monette, P.E., President of Utility Partners.**

Financial Highlights of Acquisition

Audited revenues of Utility Partners for its fiscal year ended on December 31, 2015 amounted to \$34.5 M (US\$ 26.9 M) with an adjusted EBITDA of \$2.9 M (US\$2.2 M). In addition, for the same period, Utility Partners’ net income was US\$1.5 M, the total value of its assets amounted to US\$6.3 M and total liabilities and equity were US\$ 1.5 M and US\$4.8 M, respectively.

As per the unaudited financial statements for the first quarter ended on March 31, 2016, Utility Partners’ net income was US\$ 309,610, total assets amounted to US\$ 5.2 M and total liabilities and equity were US\$1.8 M and US\$ 3.4 M, respectively.

Pro forma for the Acquisition, H₂O Innovation’s unaudited revenues, pro forma adjusted EBITDA and pro forma adjusted EBITDA margin for the twelve-month period ended December 31, 2015 will increase to approximately \$83.6 M, \$5.8 M and 7%, respectively.

Concurrent Financings

H₂O Innovation is acquiring Utility Partners for a purchase price of US\$17.0 M, on a cash-free, debt-free basis, representing a multiple of 7.6x Utility Partners’ adjusted EBITDA for the twelve month period ending December 31, 2015. The purchase price is subject to customary working capital adjustments as of the closing date.

H₂O Innovation intends to finance the Acquisition with an equity financing, by way of a bought deal private placement, for an amount of approximately \$18.4 M (the “Underwritten Offering”). Concurrently, H₂O Innovation will complete a non-brokered private placement with certain insiders in the amount of \$1.6 M and an additional \$10 M long-term secured credit facility (together with the Underwritten Offering, the “Financing”).

In the context of the Underwritten Offering, H₂O Innovation has engaged a syndicate of underwriters led by GMP Securities L.P. and including Beacon Securities Limited (the “Underwriters”) to sell 15,333,333 subscription receipts of the Company (the “Subscription Receipts”) at a price of \$1.20 per Subscription Receipt, for aggregate gross proceeds of approximately \$18.4 M. The Company has also granted the Underwriters an option to purchase up to an additional 2,300,000 Subscription Receipts at the same price, exercisable at any time prior to 48 hours before the completion of the Underwritten Offering, for additional gross proceeds of up to approximately \$2.8 M (the “Over-Allotment Option”). If the closing of

the Acquisition occurs concurrently with the closing of the Underwritten Offering, the Company will deliver common shares (“Common Shares”) instead of Subscription Receipts to investors in the Underwritten Offering.

Certain insiders of H₂O Innovation have indicated their intention to participate in the Underwritten Offering, including *Investissement Québec* for an amount of approximately \$4.35 M.

In addition, the Company intends to complete a concurrent non-brokered private placement of Common Shares with two (2) directors of H₂O Innovation who are US residents, one of which is Richard Hoel (who currently holds 10.18% of Company’s common shares) as well as Frédéric Dugré, director, President and Chief Executive Officer, Marc Blanchet, Chief Financial Officer, and Guillaume Claret, Chief Operating Officer, at a price of \$1.20 per Common Share, for aggregate gross proceeds of \$1.6 M. Subject to securing all necessary approvals, the Company will extend to Frédéric Dugré, Marc Blanchet and Guillaume Claret, individual loans in an aggregate amount of \$1.25 M (the “Loans”), in order for them to acquire such Common Shares, which loans will bear interest at a rate of 2.5%, be secured by a pledge of the acquired Common Shares and be reimbursed upon predefined repayment conditions (the “Additional Placement” and, together with the Underwritten Offering, the “Offerings”)

The participation of insiders of the Company in the Offerings, as well as the loans by the Company to certain officers, constitute “related party transactions” as defined under *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* (“Regulation 61-101”). The Subscription Receipts and the Common Shares, as the case may be, issued to insiders will be exempt from the formal valuation and minority shareholder approval requirements of Regulation 61-101 as neither the fair market value of securities being issued to insiders nor the consideration being paid by insiders will exceed 25% of the Company’s market capitalization.

The Common Shares acquired by Frédéric Dugré, Marc Blanchet and Guillaume Claret pursuant to the Additional Placement will be held in escrow until such time as the Loans have been approved by the disinterested shareholders of the Company.

The gross proceeds of the Underwritten Offering less 50% of the commission payable to the Underwriters (the “Escrowed Proceeds”) will be held in escrow pending confirmation from the Company (the “Release Notice”) that all closing conditions have been satisfied (or waived), except for the payment of the purchase price. Upon delivery of the Release Notice, the Subscription Receipts will be automatically exchanged for Common Shares. If the Release Notice is not provided on or before September 30, 2016 (the “Termination Time”), or the Company, prior to the Termination Time, advises the Underwriter or the public that it does not intend to proceed with the Acquisition, the Escrowed Proceeds will be reimbursed to each holder of Subscription Receipts at the original subscription price.

If the Over-Allotment Option is exercised in full, the total gross proceeds to H₂O Innovation from the sale of Subscription Receipts will be approximately \$21.2 M. The Company has agreed to pay a commission equal to 5% of the gross proceeds of the Underwritten Offering to the Underwriters.

The Company intends to use all the net proceeds of the Offerings to pay for the Acquisition price, and the costs associated with the Offerings. Any other amount required to pay for the Acquisition will come from the \$10 M credit facilities, the balance of which will be used for working capital post acquisition and to support research and innovation initiatives.

All securities to be issued under the Offerings (including the Common Shares issuable upon conversion of the Subscription Receipts) will be subject to a four-month hold period following the closing date.

The securities offered pursuant to the Offerings have not and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements under the Act. This news release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

Closing of the Acquisition

The Acquisition and the Financing are expected to close on or about July 26, 2016 and are all subject to customary conditions, including all necessary approvals of the TSX Venture Exchange.

Advisors

GMP Securities L.P. acted as exclusive financial advisor and McCarthy Tétrault LLP and Troutman Sanders LLP acted as legal advisors to H₂O Innovation in connection with the Acquisition and the Financing.

H₂O Innovation Conference Call

Frédéric Dugré, President and Chief Executive Officer and Marc Blanchet, Chief Financial Officer, will hold an investor conference call to discuss this announcement in further detail at 1:00 p.m. Eastern Time on Wednesday, July 13, 2016. To access the call, please call (647) 788-4922 or (877) 223-4471, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on [H₂O Innovation's website](#).

Non-IFRS Measures

This press release makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures to provide investors with additional measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period and to prepare annual operating budgets.

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. Forward-looking information includes, but is not limited to, statements about the Acquisition and the Financings, including the expected timing. 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, 2015 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 for municipal, energy and 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, consumables and couplings. For more information, 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.

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