

PRESS RELEASE
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H₂O Innovation reports fiscal 2016 second quarter results Corporation maintained growth while improving its financial results

Key highlights

- Revenues reached \$13.2 M for the period, compared to \$13.7 M for the same period in fiscal year 2015;
- Net earnings of \$174,221, compared to net earnings of \$117,524 for the same period in fiscal year 2015;
- Gross profit margin before depreciation and amortization at 31.3%, compared to 23.2% for the same period of fiscal year 2015;
- Adjusted EBITDA¹ at \$1,030,502, compared to \$685,427 for the same period in fiscal year 2015;
- Solid order backlog for water treatment projects reached new record-high at \$50.8 M as at January 6, 2016;
- Acquisition of all of the assets of Clearlogx pertaining to its unique Clearlogx® control technology during the quarter, aimed at strengthening the business sector dedicated to water treatment systems.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 8, 2016 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its results for the second quarter of fiscal year 2016 ended December 31, 2015. Even though the Corporation’s revenues slightly decreased by 3.8% to \$13.2 M, down from \$13.7 M in the comparable quarter of the previous fiscal year, the net earnings and EBITDA increased significantly. “These great results were fueled by our gross profit margin, which went from 23.2% for the comparable quarter to 31.3% in the second quarter of fiscal year 2016. It is the result of constant efforts, sound business mix and gradual addition of new innovations that differentiates our offering and pushing profit margins up”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

Even though revenues decreased from the comparable period, the ratio of adjusted EBITDA over revenues increased, from 5% for the three-month period ended December 31, 2014 to 7.8% for the comparable period ended December 31, 2015. This notable improvement of our adjusted EBITDA over revenues is fueled by the organic growth of our specialty products and services (“SP&S”) business line in addition to the sound cost management in our water treatment projects business line.

The revenues level maintained during the quarter is derived from to the increase in revenues from SP&S, which reached \$7.3 M compared to \$5.0 M in the comparable quarter of the previous fiscal year, representing an increase of 45.7%. This strong increase in SP&S revenues is the direct result of investments made during the last year in our operating and selling functions to support the growth of this business line. Clearlogx, which assets’ were acquired during the second quarter of fiscal year 2016, strengthened the increase in SP&S revenues. For the Corporation, it is still a constant priority to continue to grow the specialty products and services business.

Revenues from water treatment projects decreased to \$5.9 M compared to \$8.7 M in the corresponding period of the previous fiscal year, representing a 32.1% decrease. The decrease in revenues from water treatment projects despite the increasing backlog is due to the larger projects composing our order backlog,

¹ 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 loss and acquisition costs. The reader can establish the link between adjusted EBITDA and net earnings. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

thus stretching the revenue recognition over a longer period of time, based on the different milestones reached.

In this second quarter of fiscal year 2016, the Corporation generated a 31.3% gross profit before depreciation and amortization, a higher level than the 23.2% gross profit before depreciation and amortization generated in the second quarter of fiscal year 2015. The revenue mix in this quarter shows that revenues from SP&S represent a fair proportion of total revenues compared to the corresponding period of the previous fiscal year (55.0% in fiscal year 2016 versus 36.3% in fiscal year 2015), affecting positively our gross profit. The constant work on improving the execution and the procurement for our water treatment projects business line is paying off, supporting the positive effect on the gross profit.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on December 31, (Unaudited)		Six-month period ended on December 31, (Unaudited)	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues	13,165,590	13,689,060	25,424,918	24,908,191
Gross profit before depreciation and amortization	4,126,602	3,171,532	7,331,088	6,204,483
Gross profit before depreciation and amortization	31.3%	23.2%	28.8%	24.9%
Operating expenses	318,886	232,817	652,866	433,303
Selling expenses	1,611,384	1,069,354	2,969,117	1,975,643
Administrative expenses	1,188,169	1,126,033	2,231,720	2,113,829
Research and development expenses – net	35,610	49,502	120,174	89,424
Net earnings	174,221	117,524	226,550	400,111
Basic and diluted earnings per share	0.008	0.006	0.011	0.019
Adjusted EBITDA	1,030,502	685,427	1,472,276	1,600,802

The Corporation secured \$9.6 M in new bookings for water treatment projects over the quarter. These new bookings, combined with the realized revenues from water treatment projects during the quarter and the significant weakening of the Canadian dollar compared to the US dollar, have brought up the backlog at \$43.1 M as at December 31, 2015 compared to \$29.6 M as at December 31, 2014 and reached record-high level at \$50.8 M on January 6, 2016. This level of order backlog gives the Corporation a fairly good perspective over the coming quarters in terms of volume of revenues. Our team has demonstrated that it can manage the execution challenge that comes with such large order backlog and we have structured the organization in order to achieve even more.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 23.7% for this quarter, up from 17.7% for the corresponding quarter of the previous fiscal year. This increase is mostly attributable to the additions of personnel to support our overall operations and our continuing growth. Management aims to keep the annual average SG&A ratio around 20% through a tight management of SG&A expenses and an increase in revenues.

Adjusted EBITDA for the quarter was recorded at \$1,030,502, compared with \$685,427 for the same period ended December 31, 2014, representing a ratio of 7.8% of adjusted EBITDA over revenues for this quarter compared to a ratio of 5% for the same quarter of the previous fiscal year. This significant increase in adjusted EBITDA, despite the slight decrease in revenues, demonstrates our operational efficiency and the improvement of our business model over the last year. Indeed, once the Corporation's fixed costs are covered, the gross profit will directly impact the EBITDA. Therefore, volume of revenues matters, as well as a sound cost management.



The net earnings amounted to \$174,221 or \$0.008 per share for the second quarter of fiscal 2016 compared with \$117,524 or \$0.006 per share for the second quarter of fiscal 2015. The increase in net earnings is the result of an improved level of gross profit before depreciation and amortization.

Operating activities generated \$128,383 in cash for the three-month period ended December 31, 2015, compared with (\$549,922) of cash used during the corresponding period ended December 31, 2014. The variation is mainly attributable to the change in working capital items and the unrealized exchange loss on the long-term debt contracted during the period.

The second quarter financial report is available on www.h2oinnovation.com and on NYSE Euronext Alternext's site. Additional information on the Corporation 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 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 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.

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