

PRESS RELEASE
For immediate release

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**Record high financial results for H₂O Innovation, the Water Technology Company
of the year: adjusted EBITDA grows faster than revenues**

Key highlights

- Revenues reached \$14.2 M for the period, compared to \$12.1 M for the same period in fiscal year 2015;
- Net earnings of \$646,422, compared to net earnings of \$150,490 for the same period in fiscal year 2015;
- Gross profit margin at 31.8%, compared to 32.1% for the same period of fiscal year 2015;
- Adjusted EBITDA¹ at \$1,245,324, compared to \$897,846 for the same period in fiscal year 2015;
- Adjusted EBITDA over revenues ratio reached 8.8%, a significant increase compared to 7.4% for the comparable period of fiscal year 2015;
- Solid order backlog for water treatment projects at \$42.1 M as at April 28, 2016;
- Integration of Clearlogx during the quarter, aimed at strengthening the business sector dedicated to water treatment systems.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 9, 2016 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its results for the third quarter ended March 31, 2016. During this quarter, the Corporation’s revenues increased by 17.1% to \$14.2 M, up from revenues of \$12.1 M for the same quarter of fiscal year 2015, generating a gross profit margin of 31.8%. “The outstanding financial results presented quarter over quarter proves the scalability of our business model and the value created by our proprietary technologies. Moreover, being voted “Water Technology Company of the year”, a worldwide competition against the largest companies in the world, is the testimonial of our constant innovation and thrive for an improved customer experience, through creativity, entrepreneurship and expertise”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

The ratio of adjusted EBITDA over revenues also increased from 7.4% for the three-month period ended March 31, 2015 to 8.8% for the comparable period ended March 31, 2016. This notable improvement of our adjusted EBITDA over revenues is fueled by the impressive organic growth of our specialty products and services business line (“SP&S”) and the sound cost management in our water treatment projects business line. The business mix between projects and SP&S business line is allowing us to gain predictability in our business model, to secure long-term relationship with customers and to maintain high gross profit. The investments done in the past to support the growth of the Corporation are now paying off, as we are currently seeing an improvement of our gross profit generated by the operations.

The significant revenues level achieved during the quarter is mostly derived from the increase of revenues from the SP&S, which reached 66.3% of the revenues of the quarter, compare to 53.6% for the comparable quarter of the previous fiscal year. SP&S revenues reached the record high level of \$9.4 M compared to \$6.5 M in the comparable quarter of the previous fiscal year. This strong increase is the result of the investment made in the sales efforts and the investment made in the development of new proprietary technologies such as the Smartrek[™], Clearlogx[®] or SPMC[™], which boosted revenues up, along with the gross profit. The Company’s proprietary technologies allowed to differentiate ourselves from our competitors

¹ The definition of adjusted earnings before interest, taxes, 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 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.

and also allowed the recent winning of the Water Technology Company of the year awarded by Global Water Intelligence (GWI), a UK based international organism, announced on April 20, 2016.

Revenues from water treatment projects decreased to \$4.8 M compared to \$5.6 M in the corresponding period of the previous fiscal year, representing a 15.0% decrease. The decrease in revenues from water treatment projects, despite the increasing backlog, is not unusual since revenues from projects varies from quarter to quarter and depends on the different milestones reached for revenues recognition.

In this third quarter of fiscal year 2016, the Corporation generated a 31.8% gross profit before depreciation and amortization, a level somewhat stable compared to the 32.1% gross profit before depreciation and amortization generated in the third quarter of fiscal year 2015. The revenue mix in this quarter shows that revenues from SP&S represent a significant proportion of total revenues compared to the corresponding period of the previous fiscal year (66.3% in fiscal year 2016 versus 53.6% in fiscal year 2015), affecting positively our gross profit margin. The constant efforts deployed on improving the execution and the procurement for our water treatment projects business line are also paying off, contributing positively to the gross profit margin.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on March 31, (Unaudited)		Nine-month period ended on March 31, (Unaudited)	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues	14,199,860	12,121,641	39,624,778	37,029,832
Gross profit before depreciation and amortization	4,522,640	3,887,460	11,853,728	10,091,943
Gross profit margin	31.8%	32.1%	29.9%	27.3%
Operating expenses	356,160	281,771	1,009,026	715,074
Selling expenses	1,679,681	1,293,880	4,648,798	3,269,523
Administrative expenses	1,289,659	1,347,761	3,521,379	3,461,590
Research and development expenses – net	24,126	78,344	144,300	167,768
Net earnings	646,422	150,490	872,972	550,601
Basic and diluted earnings per share	0.031	0.007	0.042	0.026
Adjusted EBITDA	1,245,324	897,846	2,717,600	2,498,648
Adjusted EBITDA over revenues	8.8%	7.4%	6.9%	6.7%

The Corporation secured \$5.5 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 \$42.1 M as at March 31, 2016 compared to \$40.4 M as at March 31, 2015. 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 23.4% for this quarter, down from 24.1% for the corresponding quarter of the previous fiscal year. This decrease is mostly attributable to the bad debt written-off in fiscal year 2015. Considering the improvement of the gross profit margin in the last quarters derived from the growth of the SP&S business line, management considers that the SG&A ratio is adequate. Over the last quarters, SG&A investment have paid off since we have been able to generate constant growth.



Adjusted EBITDA for the quarter was recorded at \$1,245,324, compared with \$897,846 for the same period ended March 31, 2015, representing a ratio of 8.8% of adjusted EBITDA over revenues for this quarter compared to a ratio of 7.4% for the same quarter of the previous fiscal year. This 38.7% increase in adjusted EBITDA demonstrates our operational efficiency and the improvement and scalability of our business model over the last year. Indeed, once the Corporation's fixed costs are covered, the gross profit will directly impact the adjusted EBITDA. During the third quarter of fiscal year 2016, the adjusted EBITDA increased twice as fast as revenues: 38.7% increase of adjusted EBITDA compared to fiscal year 2015 third quarter, while revenues increased by 17.1%. On a last twelve months basis this increase is even more significant. Adjusted EBITDA increase is more than three times than revenues increase: 45.7% increase for adjusted EBITDA compared to 14.2% increase for revenues on a last twelve months basis. Therefore, volume of revenues matters, as well as a sound cost management.

The net earnings amounted to \$646,422 or \$0.031 per share for the third quarter of fiscal year 2016 compared with \$150,490 or \$0.007 per share for the third quarter of fiscal year 2015. The increase in net earnings is the result of a growth of revenues and an improved level of gross profit before depreciation and amortization.

Operating activities used \$318,078 in cash for the three-month period ended March 31, 2016, compared with \$1,392,269 of cash generated during the corresponding period ended March 31, 2015. 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, subdued by the increased of earnings before income taxes for the period.

The third quarter financial report is available on www.h2oinnovation.com. 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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Source:

H₂O Innovation Inc.
www.h2oinnovation.com

Contact:

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