



PRESS RELEASE
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H₂O Innovation: Building on a record year

Key highlights of fiscal year 2016

- Revenues reached \$50.7 M;
- Gross profit margin at 30.7%;
- Adjusted EBITDA¹ at \$2.9 M, which is a 5.7% ratio over revenues.

Strategic outlook for fiscal year 2017

- New business model with now 3 strong business pillars;
- Solid backlog of \$99.7 M, combining secured contracts for water treatment projects and operating and maintenance, as of September 26, 2016;
- Commercialisation of new proprietary technologies recently developed.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, September 26, 2016 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its results for the fourth quarter and fiscal year ended June 30, 2016, and outlines strategic outlook for fiscal 2017 considering the transforming acquisition closed in July 2016, and the new products launched since the beginning of this new fiscal year.

“During the last fiscal year, we made important steps toward growth: launched new products, opened a new office in Spain, hired new resources in our sales force, expanded in Mexico, and concluded two acquisitions. One of these acquisitions is a stepping stone of our 3rd pillar: operation and maintenance services of water and wastewater treatment infrastructures. 2016 is as an inflexion point for H₂O Innovation and allows us to start 2017 in an enviable position with a strong backlog of \$99.7 M and new products in commercialisation phase”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

H₂O Innovation’s revenues for fiscal year 2016 increased by 4.0% to \$50.7 M, up from revenues of \$48.7 M for fiscal year 2015, generating a gross profit margin of 30.7%. This year’s growth is mainly fueled by the outstanding organic growth of the Corporation’s specialty products and services pillar (“SP&S”). For the first time in its history, the Corporation has completed its fiscal year with a higher proportion of revenues coming from the SP&S activities than the water treatment projects (“Projects”) activities – 54.7% and 45.3%, respectively, compared to 41.6% and 58.4%, respectively, during the previous fiscal year. This business mix between Projects and SP&S is allowing the Corporation to gain predictability in its business model, secure long-term relationships with customers and maintain a high gross profit. This strong 37% increase, from \$20.2 M to \$27.7 M of revenues coming from SP&S, is the result of the investments made in the sales efforts and development and acquisition of new proprietary

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.



technologies such as Smartrek™, Clearlogx®, and SPMC™, which boosted revenues up, along with the gross profit.

“Our innovations portfolio, together with our distinctive business model, allowed us to receive important industry recognitions during fiscal year 2016, including: 1) the Water Technology Company of the Year awarded by Global Water Intelligence (GWI); 2) the National Award of Excellence for best Design-Build Water/Wastewater Project by the Institute of America (“DBIA”); and 3) the WateReuse Equipment/Manufacturer of the Year Award by the WateReuse Association”, **added Frédéric Dugré**.

On the Projects side, revenues in fiscal year 2016 stood at \$23.0 M compared to \$28.5 M in fiscal year 2015, representing a 19.3% decrease. The decrease in revenues from Projects, despite the increasing project order backlog, is not unusual since revenues from Projects varies from quarter to quarter and depends on the different milestones reached for revenue recognition.

In this fiscal year 2016, the Corporation generated a 30.7% gross profit before depreciation and amortization, an increase compared to the 27.9% gross profit before depreciation and amortization generated in fiscal year 2015. The constant efforts deployed on improving the execution and the procurement of the Corporation’s Projects pillar are also paying off, contributing positively to the gross profit margin.

Adjusted EBITDA decreased reaching \$2.9 M compared with \$3.1 M during prior fiscal year. The ratio of adjusted EBITDA over revenues is at 5.7%, down from 6.3% for fiscal year 2015. This decrease of EBITDA is due to the choices management made by adding resources to expend the Corporation’s sales force, and investing in product development in order to be able to launch new products during the fiscal year 2017, which increased H₂O Innovation’s selling expenses. H₂O Innovation is reinvesting in its growth. New proprietary technologies have differentiated the Corporation from its competitors and allowed it to secure sales and enhanced its customer relations.

CONSOLIDATED RESULTS Selected financial data	Three-month periods ended on June 30, (Unaudited)		Twelve-month periods ended on June 30, (Audited)	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues	11,042,913	11,670,028	50,667,691	48,699,860
Gross profit before depreciation and amortization	3,688,703	2,117,494	15,542,431	13,566,370
Gross profit margin	33.4%	26.8%	30.7%	27.9%
Operating expenses	426,161	315,025	1,435,187	1,030,099
Selling expenses	1,692,377	1,271,641	6,341,175	4,541,164
Administrative expenses	1,292,330	1,315,396	4,813,709	4,776,986
Research and development expenses – net	53,704	98,053	198,004	265,821
Net earnings (loss)	(662,775)	(284,063)	210,197	272,425
Basic and diluted earnings per share	(0.032)	(0.013)	0.010	0.013
Adjusted EBITDA	157,330	578,098	2,874,929	3,076,701
Adjusted EBITDA over revenues	1.4%	4.9%	5.7%	6.3%

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 24.8% for this fiscal year, up from 21.2% for the previous fiscal year. 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 investments have paid off since the Corporation has been able to generate constant growth and maintain a relatively high gross profit margin.

The net earnings amounted to \$210,197 or \$0.010 per share for fiscal year 2016 compared to \$272,425 or \$0.013 per share for fiscal year 2015. The decrease in net earnings despite higher revenues and gross profit is partly due to a higher level of SG&A expenses, aimed to support the constant growth of the Corporation.

Operating activities generated \$2.6 M in cash in fiscal year 2016 compared to \$2.1 M of cash generated by operating activities during the previous fiscal year. This improvement is attributable to the slight improvement of earnings before income taxes in fiscal year 2016 compared to fiscal year 2015 but also to a positive change in working capital items, such as a higher volume of activities toward year-end reflected in an increase of the level of accounts payable and accrued liabilities in fiscal year 2016 compared to fiscal year 2015; and a timing difference within the projects production phases affecting the invoicing milestones reached and therefore affecting costs incurred in excess of billings and billings in excess of costs incurred.

Financial results for the fourth quarter of fiscal year 2016

Revenues for the fourth quarter were down by 5.4% to \$11.0 M from \$11.7 M for the same quarter of the previous fiscal year. The decrease is explained by a decrease of \$1.75 M in revenues from Projects and an increase of \$1.1 M in revenues from SP&S.

For the quarter ended June 30, 2016, the gross profit before depreciation and amortization increased to reach 33.4%, from 29.7% for the same quarter of the previous fiscal year, mostly due to a shift in the business mix during fiscal year 2016 where SP&S revenues exceeds 50% of the total revenues .

The fourth quarter SG&A expenses were higher than the first three quarters of fiscal year 2016. They stand at \$3.4 M in this current quarter compared to \$2.9 M in the fourth quarter of fiscal year 2015. The increase is mainly due to hiring to support operations, to the increase of selling expenses related to high bidding activities, which includes hiring of resources in the project sales team, to the commissions paid during the quarter for bookings secured and to SP&S sales.

Adjusted EBITDA for the fourth quarter was \$157,330 compared to \$578,098 for the same period of last fiscal year. As for the net loss of \$662,775 for this quarter, it is caused by the increase of the SG&A expenses explained in the previous paragraph.

Strategic outlook for fiscal year 2017

Shortly after the 2016 year end, H₂O Innovation announced the closing of the acquisition of Utility Partners, LLC ("Utility Partners"). This acquisition complements the venture that was started during fiscal year 2015 in leasing and operation and maintenance of water treatment systems ("O&M"). Utility Partners is a US-based company specialized in the operation and maintenance of municipal water and wastewater treatment plants. It operates, maintains, and repairs water treatment and distribution



equipment as well as associated assets for all of its clients and ensures that water quality meets regulatory requirements. It currently operates 34 utilities in six US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California/Nevada). Utility Partners has entered into long-term contracts, mainly with municipalities, that contain multi-year renewal options. Therefore, it increases the level of recurring revenues of the Corporation.

With three strong business pillars, the Corporation is now very well balanced and not dependant on a single source of revenues. SP&S and O&M activities reinforce long-term relationships with the projects customers, and as the revenues coming from the SP&S and O&M are recurring in nature, it minimizes the impact of revenue volatility associated with revenues from Projects. The Corporation's backlog combining secured contracts for water treatment projects and operating and maintenance is at \$99.7 M as at September 26, 2016.

"We now have a platform to capture cross selling opportunities, where one pillar will feed the others. The focus for fiscal year 2017 will be to scale up our business model by maximizing the use of all our resources and sales forces. All together, these three business pillars provide a unique and accountable business model to better serve the Design-Build-Operate ("DBO") opportunities, a fast growing segment in the water industry", **stated Frédéric Dugré.**

Stock Option Plan

The Board of Directors of H₂O Innovation approved a modification to the Corporation's Stock Option Plan (the "Plan"). The new Plan will now reserve 4,000,000 common shares of the Company for option purposes, compared to 1,100,000 shares for the previous Plan. The options are available for officers, directors, employees and consultants of the Corporation and account for less than 10 % of the Corporation's issued and outstanding common shares. This modification is subject to the final approval of the TSX Venture Exchange.

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 the fourth quarter and full fiscal year 2016 financial results in further detail at 10:00 a.m. Eastern Time on Tuesday, September 27, 2016.

To access the call, please call (647) 427-3388 or (877) 224-6662, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on H₂O Innovation's website.

The annual 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 26, 2016 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, industrial, energy and natural resources end-users. The Corporation's activities rely on three pillars which are water and wastewater projects, 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 operation and maintenance services for water and wastewater treatment systems. For more information, visit www.h2oinnovation.com.

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– 30 –

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