



PRESS RELEASE
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TSXV: HEO
Alternext: MNEMO: ALHEO
OTCQX : HEOFF

H₂O Innovation Announces Completion of the Acquisition of Utility Partners, Closing of Concurrent Private Placements for Approximately \$23 M

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All amounts in Canadian dollars unless otherwise stated.

Quebec City, July 26, 2016 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Company”) announces the completion of the previously announced acquisition of all the memberships interests of Utility Partners, LLC (“Utility Partners”), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the “Acquisition”), for a total consideration of US\$17.0 M (CA\$22.5 M).

Concurrent Private Placement Financings

The Company also announces that it has closed the previously announced bought deal private placement, including full exercise of the previously announced over-allotment option under such private placement (the “Bought Deal”), and concurrent additional non-brokered private placement (the “Additional Placement” and together with the Bought Deal, the “Offerings”) of common shares of the Company (the “Common Shares”) at a price of \$1.20 per Common Share for total gross proceeds of approximately \$23 M. The Bought Deal was conducted by a syndicate of underwriters led by GMP Securities L.P. and including Beacon Securities Limited. Since the completion of the Acquisition occurred concurrently with the closing of the Bought Deal, the Company has delivered Common Shares instead of subscription receipts to investors in the Bought Deal.

Certain insiders of H₂O Innovation have participated in the Bought Deal, being Ms. Éline C. Phénix for an amount of \$15,000, Mr. Pierre Côté for an amount of approximately \$50,000, both directors of the Company, Caisse de dépôt et placement du Québec, which increased its participation and subscribed to Common Shares for an amount of \$3.8 M and Investissement Québec, which also increased its participation and subscribed to Common Shares for an amount of \$4.35 M.

“As the leading institutional investor, we helped H₂O Innovation set up the credit arrangement which facilitated the acquisition of Utility Partners. The company is in a position where it can expand its presence in the American market while maintaining its head office in Québec City, thus contributing to the region’s economic development”, **declared Pierre Gabriel Côté, President and Chief Executive Officer of Investissement Québec.**

Other insiders of the Company, being Richard A. Hoel, director and holder of more than 10% of the Common Shares, for an amount of \$378,000, Lawrence E. Gamst, director of the Company, for an amount of \$48,000, Éline C. Phénix, director of the Company, for an amount of \$35,000, Marc Blanchet, Chief Financial Officer of the Company, for an amount of \$250,000, Guillaume Clairet, Chief Operating Officer of the Company, for an amount of \$270,000, and Frédéric Dugré, director and President and Chief Executive Officer of the Company, for an amount of \$750,000, participated

in the Additional Placement and subscribed for an aggregate of 1,442,498 Common Shares representing an aggregate amount of approximately \$1.7 M. Additional employees of the company participated in the Additional Placement for an amount of approximately \$200,000, for aggregate gross proceeds under the Additional Placement of approximately \$1.9 M.

Subject to the approval of the disinterested shareholders of the Company at the upcoming annual meeting of its shareholders, 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 Common Shares as part of the Additional Placement, 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 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 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 issuance of the Common Shares to insiders is 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 Company intends to use all the net proceeds of the Offerings to pay for the Acquisition price, and the costs associated with the Acquisition and 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.

The Common Shares issued as part of the Offerings are subject to a statutory resale restriction until November 27, 2016.

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.

The Company did not file a material change report 21 days prior to the closing of the Offerings as the details of the participation of the related parties of the Company had not been confirmed at that time.

Granting of stock options to top management

The Company also announces the grant today of a total of 2,303,334 stock options issued to members of top management with a vesting period of eight years, the whole pursuant to the terms and conditions of the Company’s stock option plan. The stock options entitle their holders to acquire one common share of the Company at a price of \$1.65 before July 24, 2020. The grant of stock options is a method of compensation which is used to attract and retain personnel and to provide an



incentive to participate in the long-term development of the Company and the growth of shareholder value.

Prospective disclosures

Certain statements set forth in this press release 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 products and services 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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