

**PRESS RELEASE**  
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**TSXV: HEO**  
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## **H<sub>2</sub>O Innovation reports fiscal 2016 first quarter results** **Corporation records net earnings and positive adjusted EBITDA**

### **Key highlights**

- 9.3% increase of its revenues to \$12.3 M, compared to \$11.2 M for the same period in fiscal year 2015;
- Gross profit before depreciation and amortization at 26.1%, compared to 27.0% for the same period in fiscal year 2015;
- Adjusted EBITDA<sup>1</sup> at \$441,669, compared to \$900,781 for the same period in fiscal year 2015;
- Net earnings of \$52,329, compared to net earnings of \$282,587 for the same period in fiscal 2015;
- Solid order backlog for water treatment projects stands at \$44.3 M as at November 5, 2015;
- Announced acquisition of Clearlogx, Inc., aimed at strengthening the business sector dedicated to water treatment systems.

*All amounts in Canadian dollars unless otherwise stated.*

**Quebec City, November 10, 2015** – (TSXV: HEO) – H<sub>2</sub>O Innovation Inc. (“H<sub>2</sub>O Innovation” or the “Corporation”) announces its results for the first quarter of fiscal year 2016 ended September 30, 2015. During this quarter, the Corporation’s revenues increased by 9.3% to \$12.3 M, up from \$11.2 M in the comparable quarter of the previous fiscal year – generating a gross profit of 26.1% compared to 27.0% in the first quarter of fiscal year 2015. The Corporation maintained a positive adjusted EBITDA for the first quarter ended September 30, 2015. The order backlog for water treatment projects stands at \$44.3 M as at November 5, 2015.

Revenues for the first quarter of fiscal year 2016 totaled \$12.3 M, representing a \$1.1 M or 9.3% increase, as compared with revenues of \$11.2 M for the same quarter of fiscal year 2015. Revenues from water treatment projects were somewhat stable and reached \$7.2 M compared to \$7.3 M in the corresponding period of the previous fiscal year, representing a 1% decrease. The revenues level maintained during the quarter is a reflection of the numerous water treatment projects composing our order backlog, which are reaching different milestones, from initial design and engineering phases to higher revenue-generating phases such as manufacturing.

The increase of revenues from projects has been accompanied by an increase of revenues from sales of specialty products and services (“SP&S”) which reached \$5.1 M in this quarter compared with \$3.9 M in the comparable quarter of the previous fiscal year. “This strong increase of 29.0% 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”, **stated Frédéric Dugré, President and Chief Executive Officer of H<sub>2</sub>O Innovation**. For the Corporation, it is still a constant priority to continue to grow the specialty products and services business.

In this first quarter of fiscal year 2016, the Corporation generated a 26.1% gross profit before depreciation and amortization, a lower level than the 27.0% gross profit before depreciation and amortization generated in the first quarter of fiscal year 2015. The revenue mix in this quarter shows that revenues from SP&S still represent a fair proportion of total revenues compared to the corresponding period of the previous fiscal year (41.2% in fiscal year 2016 versus 35.1% in fiscal year 2015). However, even though the volume of SP&S sales increased by additional maple syrup production equipment sales during the first quarter of fiscal year 2016, the Corporation has recorded punctually a lower level of sales of specialty chemicals compared to the corresponding period of the previous fiscal year, creating pressure on the gross margin.

<sup>1</sup> 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 and unrealized exchange loss. 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.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on September 30, (Unaudited)	
	2015	2014
	\$	\$
Revenues	12,259,328	11,219,131
Gross profit before depreciation and amortization	3,204,486	3,032,951
Gross profit before depreciation and amortization	26.1%	27.0%
Operating expenses	333,980	200,486
Selling expenses	1,357,733	906,289
Administrative expenses	1,043,551	987,796
Research and development expenses – net	84,564	39,922
Net earnings	52,329	282,587
Basic and diluted earnings per share	0.003	0.014
Adjusted EBITDA	441,669	900,781

The Corporation secured \$9.0 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, have brought up the backlog at \$38.3 M as at September 30, 2015 compared to \$36.1 M as at September 30, 2014. “We have never been exposed to so many opportunities of water treatment projects sales. In order to face this upcoming array of bidding opportunities, we have invested in SG&A expenses, which proved to be a winning move, as the order backlog reached \$44.3 M as at November 5, 2015”, **added Frédéric Dugré**. Our team has demonstrated that we can manage the execution challenge that comes with such large order backlog and we are confident that our team is able to achieve even more.

The Corporation’s ratio of selling, operating and administrative expenses (“SG&A”) as a whole over revenues amounted to 22.3% for this quarter, up from 18.7% for the corresponding quarter of the previous fiscal year. This increase is mostly attributable to the distributors’ event held in August. 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 \$441,669, compared with \$900,781 for the same period ended September 30, 2014. The lower net earnings recorded during the quarter compared with the net earnings for the corresponding quarter of the previous fiscal year and the adjustment for the gain on the purchase price adjustment for the Piedmont’s transaction caused the decrease in adjusted EBITDA.

The net earnings amounted to \$52,329 or \$0.003 per share for the first quarter of fiscal 2016 compared with \$282,587 or \$0.014 per share for the first quarter of fiscal 2015. The decrease in net earnings is partly due to the distributor event, which is held every two years, and to a higher level of SG&A expenses, aimed to support the constant growth of the Corporation.

Operating activities used (\$227,303) in cash for the period ended September 30, 2015, compared with \$411,225 of cash generated during the corresponding period ended September 30, 2014. The decline is mainly attributable to the decrease in net earnings before income taxes in the first quarter of fiscal year 2016 and to the gain on purchase price adjustment on the Piedmont’s transaction.

**The first quarter financial report is available on [www.h2oinnovation.com](http://www.h2oinnovation.com). Additional information on the Corporation is also available on SEDAR ([www.sedar.com](http://www.sedar.com)).**

### **Prospective disclosures**

Certain statements set forth in this press release regarding the operations and the activities of H<sub>2</sub>O 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](http://www.sedar.com)). Unless required to do so pursuant to applicable securities legislation, H<sub>2</sub>O 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 H<sub>2</sub>O Innovation**

H<sub>2</sub>O 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, H<sub>2</sub>O 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](http://www.h2oinnovation.com).

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### **Source:**

H<sub>2</sub>O Innovation Inc.  
[www.h2oinnovation.com](http://www.h2oinnovation.com)

### **Contact:**

Marc Blanchet  
+1 418-688-0170  
[marc.blanchet@h2oinnovation.com](mailto:marc.blanchet@h2oinnovation.com)