



PRESS RELEASE
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**H₂O Innovation's 2018 Second Quarter Results -
The Corporation is scaling up, showing growth in all business pillars**

Key highlights

- Revenues reached \$25.8 M for the second quarter of fiscal year 2018, representing a \$5.9 M, or 29.4% growth, compared to the second quarter of the previous fiscal year;
- Recurring revenues from Specialty Products and Services ("SP&S") and Operation & Maintenance ("O&M") business pillars represent 74.5% of total revenues;
- Consolidated backlog, combining Water and Wastewater Treatment Projects ("Projects") and O&M, stood at \$116.1 M as of December 31, 2017, compared to \$109.2 M for the period ended December 31, 2016, representing a 6.3% organic growth;
- Adjusted EBITDA¹ reached \$1.4 M for the second quarter of fiscal year 2018, representing a \$0.6 M, or 67.8% growth, compared to the second quarter of fiscal year 2017;
- Adjusted EBITDA over revenues increased, from 4.1% for the three-month period ended December 31, 2016 to reach 5.3% for this quarter ended December 31, 2017;
- Net loss of (\$1.3 M), compared to (\$1.1 M) in the second quarter of previous fiscal year, mostly impacted by the tax reform. Without the \$1.1 M impact from the new U.S. tax reform, net loss would have been (\$0.2 M).

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 14, 2018 – (TSXV: HEO) – H₂O Innovation Inc. ("H₂O Innovation" or the "Corporation") announces its results for the second quarter of fiscal year 2018 ended December 31, 2017. Revenues for the second quarter of fiscal year 2018 totaled \$25.8 M, representing a \$5.9 M or 29.4% increase, as compared with revenues of \$19.9 M for the second quarter of the previous fiscal year. This increase is fueled by the organic growth of the Projects and SP&S business pillars. The Projects business pillar is currently regaining speed after a slowdown in specific projects, which impacted last fiscal year's financial results. More projects are reaching the revenue recognition phase for this quarter compared to the same quarter of fiscal year 2017. SP&S results have been bolstered by the Maple business line, which is showing a faster growth with record results quarter after quarter. Our growing consolidated backlog, which stands at \$116.1 M as of December 31, 2017, compared to \$109.2 M last year, continues to provide excellent visibility on revenue recognition for the coming quarters.

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, net loss on bank fraud, unrealized exchange (gains) / losses and acquisition and integration 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.

CONSOLIDATED RESULTS Selected financial data	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2017	2016	2017	2016 (adjusted) ²
	\$	\$	\$	\$
Revenues	25,818,929	19,957,831	48,436,927	37,441,981
Gross profit before depreciation and amortization	6,213,020	4,834,439	10,667,406	9,125,664
Gross profit before depreciation and amortization (%)	24.1%	24.2%	22.0%	24.4%
Operating expenses	1,009,008	486,003	1,886,393	924,407
Selling expenses	2,217,535	1,615,633	3,855,748	3,211,524
Administrative expenses	1,625,073	2,132,083	3,102,683	3,820,501
Research and development expenses	170	33,872	8,685	115,244
Net loss	(1,340,441)	(1,093,270)	(2,430,316)	(2,042,429)
Basic and diluted loss per share	(0.033)	(0.027)	(0.061)	(0.069)
Adjusted EBITDA	1,358,281	809,625	1,946,344	1,438,640
Adjusted EBITDA over revenues (%)	5.3%	4.1%	4.0%	3.8%

Revenues from Projects stood at \$6.6 M for the second quarter of fiscal year 2018, compared to \$3.4 M in the corresponding period of the previous fiscal year, representing a 90.9% increase. This significant increase is explained by an increasing number of projects entering a higher revenue recognition phase. The Corporation also developed a more diversified portfolio between water and wastewater projects, with 34.0% in terms of number of projects being wastewater projects as of December 31, 2017, compared to 16.7% as of December 31, 2016. The wastewater projects are usually characterized by a better gross margin before depreciation and amortization. The current sales pipeline of Projects remains rich in opportunities and coming quarters should remain busy supported by a \$51.9 M projects backlog, as of December 31, 2017. With the addition of the two recent flagship industrial projects announced at the beginning of the third quarter, the projects backlog stand at \$56.1 M as of February 7, 2018.

On the SP&S side, revenues reached \$10.6 M for the second quarter of fiscal year 2018, compared to \$7.7 M in the comparable quarter of the previous fiscal year, which represents an increase of 37.6%. This increase in SP&S revenues is a result of investments made in the operating and selling functions to support and fuel the growth of this business line. The Maple business line continues its sustained growth with record sales for this quarter, as the activities are ramping up to the Maple season. “Furthermore, a first significant project was signed for the filter housing product line, which will definitely help us position ourselves and obtain more references”, **stated Frédéric Dugré, President and CEO of H₂O Innovation.**

Revenues coming from O&M activities are recurring in nature and stand at \$8.6 M, compared to revenues of \$8.8 M in the corresponding quarter of last fiscal year, representing a 2.0% decrease. However, this decrease is only due to the negative impact of the appreciation of the Canadian dollar over US dollar. Notwithstanding the foreign exchange impact, the O&M business pillar is showing an organic growth of 2.9% in U.S. dollars. The O&M business pillar is showing a steady growth since the acquisition of Utility Partners. The Corporation is signing new contracts, as reflected in the growing backlog. For the O&M business pillar, the backlog is converting to revenues evenly over the period of the contract. The backlog coming from O&M contracts stands at \$64.2 M as at December 31, 2017, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. All expiring contracts

² The adjusted results disclosed in this MD&A represent the results that should have been recorded in the financial statements for the six-month period ended December 31, 2016, with the acquisition of Utility Partners dated July 26, 2016, based on the audited financial results for fiscal year 2017. They have been adjusted to include only 5 months of Utility Partners’ operations.



following the acquisition have been renewed successfully. At the same quarter of the previous fiscal year, the O&M contracts backlog stood at \$54.9 M, representing a 16.9% increase over a twelve-month period.

“New territories are opening to the O&M business line, with contracts won in Western Canada and Texas. These are potentially high growth territories, where the Corporation’s O&M activities were not yet established. This will also develop the synergies with the Projects and SP&S business pillars, as they are already active on these geographic markets. New contracts have also been won in the State of New-York, with the Corporation providing both the MBR wastewater equipment and O&M services to the same plants”, **added Frédéric Dugré, President and CEO of H₂O Innovation.**

In this second quarter of fiscal year 2018, the Corporation generated a \$6.2 M or 24.1% gross profit before depreciation and amortization compared to \$4.8 M or 24.2% for the last fiscal year. The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenue level, with all the business lines showing revenue increase for this quarter ended December 31, 2017, compared to the previous comparable quarter. The improvement of the gross profit margin before depreciation and amortization is also attributable to the sustained organic growth of the SP&S and O&M revenues. The ratio of gross profit margin before depreciation and amortization over revenues remained stable.

The Corporation’s ratio of selling, operating and administrative expenses (“SG&A”) as a whole over revenues amounted to 18.8% for this quarter, down from 21.2% for the corresponding quarter of the previous fiscal year. This decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses.

The Corporation’s adjusted EBITDA increased by \$0.6 M or 67.8%, to reach \$1.4 M during the second quarter of fiscal year 2018, from \$0.8 M for the comparable quarter of fiscal year 2017. The adjusted EBITDA improvement is generated by a significant increase in revenues for the Projects and the SP&S business lines, and driven by a decrease of the selling, general and administrative expenses (SG&A) as a percentage over revenues, impacting positively the net loss before income taxes. The adjusted EBITDA over revenues ratio stands at 5.3%, compared to 4.1% for the same quarter of fiscal year 2017. “If comparing the second quarter of fiscal year 2018 to the first quarter of this same fiscal year, the revenues have increased by 14.2% (revenues of \$22.6 M during the first quarter, compared to \$25.8 M for the second quarter), while the adjusted EBITDA have increased by 131.0% (standing at \$0.6 M for the first quarter of fiscal year 2018 compared to \$1.4 M for the second quarter). The Corporation is growing the EBITDA at a faster pace than the revenues, proving the scalability of the business model”, **stated Frédéric Dugré, President and CEO of H₂O Innovation.**

The net loss increased by \$0.2 M, or 22.6%, to reach (\$1.3 M) during the second quarter of fiscal year 2018, from a net loss of (\$1.1 M) for the comparable quarter of the previous fiscal year. The increase in net loss is mostly caused by the Tax Cuts and Jobs Act (the “Tax Act”), a tax reform enacted by the U.S. government during the second quarter of fiscal year 2018, leading to an additional deferred tax expense of \$1.1 M for this quarter. Without the \$1.1 M impact from the new U.S. tax legislation, net loss would have been (\$0.2 M). The net loss is also impacted by the foreign exchange, as most of the revenues are in U.S. dollars, whereas the administrative expenses are mostly incurred in Canadian dollars. The Canadian dollar appreciation noticed during the quarter affected negatively the net results of the Corporation compared to the same quarter of the previous fiscal year.



Net cash generated by operating activities reached \$0.6 M for the period ended December 31, 2017, compared to \$1.1 M during the corresponding period ended December 31, 2016. The decrease is due to a significant impact of change in working capital items, such as a higher volume of activities during this quarter, compared to the second quarter of fiscal year 2017, an increased level of finished goods inventory to meet the growing demands and a timing difference within the projects production phases affecting the invoicing milestones reached. Investment in property, plant and equipment was also realized, totaling \$0.4 M for the three-month period ended December 31, 2017, compared to \$0.1 M for the three-month period ended December 31, 2016.

Reconciliation of adjusted EBITDA to net loss

Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2017	2016	2017	2016 (adjusted) ²
	\$	\$	\$	\$
Net loss for the period	(1,340,441)	(1,093,270)	(2,430,316)	(2,042,429)
Finance costs – net	473,369	321,870	824,575	656,295
Income taxes	1,176,701	(88,127)	1,038,716	(391,593)
Depreciation of property, plant and equipment	242,978	181,436	550,208	356,464
Amortization of intangible assets	674,552	837,666	1,365,669	1,368,595
Unrealized exchange (gains) / losses	25,367	135,467	(73,134)	177,868
Acquisition and integration costs	-	347,124	80,875	1,020,829
Stock-based compensation costs	105,755	167,459	226,387	292,611
Net loss on bank fraud	-	-	363,364	-
Adjusted EBITDA	1,358,281	809,625	1,946,344	1,438,640

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 financial results for 2018 second quarter in further details at 10:00 a.m. Eastern Time on Wednesday, February 14, 2018.

To access the call, please call 1 (877) 223-4471 or 1 (647) 788-4922, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on the Corporate Presentations page of the Investors section of the Corporation's website.

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 26, 2017 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 i) water and wastewater projects; ii) 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 iii) operation and maintenance services for water and wastewater treatment systems. For more information, visit www.h2oinnovation.com.

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