.PRESS RELEASE
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Sustained organic revenue growth of 20.4% and improvement of the adjusted EBITDA performance by 125.4% compared to previous fiscal year

Key highlights

- Revenues reached $99.7 M for fiscal year 2018, representing a $16.9 M growth, or 20.4%, compared to $82.8 M for the previous fiscal year;
- Recurring revenues from Specialty Products and Services ("SP&S") and Operation & Maintenance ("O&M") business pillars are representing 70.0% of total revenues;
- Consolidated backlog, combining Water and Wastewater Treatment Projects ("Projects") and O&M, stood at $121.7 M as of June 30, 2018, compared to $109.0 M for the year ended June 30, 2017, representing an 11.6% organic growth;
- Adjusted EBITDA[1] reached $4.1 M for fiscal year 2018, an increase of $2.3 M, or 125.4%, compared to $1.8 M for last fiscal year;
- Adjusted EBITDA over revenues improved, from 2.2% for the fiscal year ended June 30, 2017 to reach 4.1% for this fiscal year;
- Reduction of the net loss from ($5.1 M) in previous fiscal year to ($3.4 M) in fiscal year 2018, driven by a sustained revenue growth, while the selling, general and administrative expenses ("SG&A") ratio decreased, year over year;
- Adjusted net earnings[2] reached $0.7 M for this fiscal year, compared to an adjusted net loss of ($1.7 M) for fiscal year 2017.

All amounts are in Canadian dollars unless otherwise stated.

Quebec City, September 26, 2018 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its results for the fourth quarter and fiscal year ended June 30, 2018. H_2O Innovation's revenues for fiscal year 2018 increased by 20.4 % to reach $99.7 M, up from revenues of $82.8 M for fiscal year 2017, generating a gross profit margin before depreciation and amortization of $22.1 M. This increase is fueled by the organic growth of the three business pillars. The Projects business pillar is currently regaining speed after a slowdown resulting from delayed projects that have now resumed, which impacted negatively fiscal year 2017 financial results. More projects reached the revenue recognition phase for fiscal year 2018 compared to fiscal year 2017. SP&S results have been supported by the Maple business line, which is growing steadily with record results quarter after quarter. PWT, the specialty chemicals business line, also realized record revenues this year, as the Corporation increased its in-house liquid cleaners manufacturing. This manufacturing improvement, along with the addition of new distributors in new and strategic territories, enabled the increase of the Corporation's gross profit margin before depreciation and amortization. The O&M business pillar is showing a constant growth since the acquisition of Utility Partners.

[1] The definition of adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) does not take into account the Corporation's stock-based compensation costs, net loss on bank fraud, unrealized exchange (gains) losses, acquisition-related costs, integration costs and other costs, change in fair value of contingent consideration – net of related costs and severances. 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.

[2] The definition of adjusted net earnings does not take into account the non-recurring expenses or revenues of the Corporation, notably related to acquisition-related costs, integration costs and other costs, as well as amortization of intangible assets related to acquisitions. The Corporation also adjusted the net loss with the impact of the U.S. tax reform, which is a non-recurring item that occurred in fiscal year 2018. The stock-based compensation expense is also adjusted as it is non-cash. These adjustments are presented net of tax impact. The reader can establish the link between the net loss and the adjusted net earnings. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies.

“In our 2018 fiscal year, all business pillars have contributed actively to our 20.4% revenues growth. Our business model does not only provide added-value to our customers but it brings more sales, cost synergies and increases long term recurring revenues. Our Project business pillar presented a significant growth of 49.5% in its revenues. Our sales, engineering and manufacturing teams have embraced the challenge of finding ways to deliver high-quality projects on time. At the same time, we also replenished our sales backlog with a greater number of wastewater and industrial projects, securing equivalent revenue level at higher gross margin for the coming fiscal year. With 70.0% of our total revenues recurrent by nature and a sales backlog of $121.7 M, when combining Projects and O&M contracts, we are increasing our predictability. Also, we are very pleased to see an acceleration of our EBITDA performance superior to our revenue growth, which demonstrates our scalability potential. Our focus for the coming years is still to increase our EBITDA margin by various initiatives and strategies, most of them having been implemented in fiscal year 2018. Tight projects execution, product innovations, sales network expansion, long-term customers’ retention and rigorous control on expenses will allow us to improve our EBITDA”, **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation Inc.**

CONSOLIDATED RESULTS **Selected financial data**	**Three-month periods ended on June 30,** (unaudited)		**Twelve-month periods ended on June 30,** (audited)	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues	**24,536,263**	24,037,884	**99,668,125**	82,764,508
Gross profit margin before depreciation and amortization	**5,645,489**	4,971,074	**22,106,596**	19,157,380
Gross profit margin before depreciation and amortization (%)	**23.0%**	20.7%	**22.2%**	23.1%
Operating expenses	**1,019,617**	467,873	**4,003,624**	1,916,001
Selling expenses	**2,126,351**	1,978,627	**8,073,168**	7,165,499
Administrative expenses	**1,694,575**	3,039,677	**6,509,718**	9,167,360
Research and development expenses	**-**	21,630	**8,685**	152,949
Net loss	**(1,006,915)**	(1,742,862)	**(3,448,830)**	(5,130,986)
Basic and diluted loss per share	**(0.025)**	(0.045)	**(0.086)**	(0.133)
EBITDA	**635,155**	(129,277)	**2,911,212**	56,502
Adjusted EBITDA	**1,099,261**	(20,486)	**4,124,094**	1,829,891
Adjusted EBITDA over revenues (%)	**4.5%**	(0.08%)	**4.1%**	2.2%

Recurring revenues coming from O&M business pillar stand at $35.9 M, compared to revenues of $33.2 M for last fiscal year, representing an 8.1% increase. A portion of this increase is related to the acquisition date of Utility Partners, since the company was acquired at the end of July 2016 representing eleven (11) months of revenues during fiscal year 2017. The continuous growth of the O&M business pillar is explained by the award of new contracts, scope expansions of existing projects, and annual consumer price index (“CPI”) adjustments. Excluding the negative impact of $1.6 M due to the appreciation of the Canadian dollar over US dollar, the growth of the O&M business pillar would have been 12.9%. Compared in US dollars, the O&M business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts increasing its backlog. The backlog coming from O&M contracts stands at $68.1 M as at June 30, 2018, an increase of 23.6% versus last year, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. Following new renewals and scope expansion, the O&M backlog stands at $89.1 M as of August 31, 2018.

At the end of the fiscal year 2018, the consolidated backlog stood at $121.7 M compared to $109.0 M in the previous fiscal year, delivering organic growth of 11.6%. The Corporation was able to secure new O&M and Projects contracts, reinforcing the design-build-operate (“DBO”) model. The business model developed over the past years is also translating into a healthy backlog, well-balanced between O&M and Projects contracts.

New territories are opening to the O&M business pillar, 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. The Corporation expects the creation of synergies with the Projects and SP&S business pillars, since both of them are already active in these geographic markets. Contracts have also been won in the State of New York, where the Corporation is providing both the MBR wastewater equipment and the O&M services to the same plants.

The SP&S revenues, recurring by nature, reached $33.9 M for fiscal year 2018, compared to $29.5 M for the previous fiscal year, which represents an increase of $4.4 M, or 15.0%. This increase in SP&S revenues is supported by all business lines: Maple products, PWT specialty chemicals, Piedmont products and Aftermarket sales. The sales of specialty chemicals impacted favorably revenues of this business line, with the addition of new distributors in new strategic territories. Furthermore, the Corporation also up-graded its manufacturing process in Vista, California, to increase the volume of liquid cleaners manufactured in-house. This improvement resulted into an increase in gross profit margin while also providing to our customers more competitive products. Piedmont business line expanded its products offering and added new distributors to its network, broadening the existing offering and positioning the Corporation in the market. "Our distribution strategy is working: leveraging and growing our sales network, through distributors, by introducing complementary products", **added Frédéric Dugré.**

Revenues coming from Projects stood at $29.9 M for fiscal year 2018, compared to $20.0 M for fiscal year 2017, representing a $9.9 M, or 49.5% increase. All delayed projects, which led to a slowdown of the Corporation's financial results in fiscal year 2017, have all resumed and are well into revenue recognition phase. However, one specific project impacted negatively the financial results, with a total loss of $0.9 M, due to unexpected delays and costs, for which all the actual and expected losses have been recorded. Without the loss associated with this project, the gross profit margin before depreciation and amortization of this business pillar would have been stable when compared to last year. The Corporation developed a more diversified portfolio between water and wastewater projects, with 25.0% of projects being wastewater projects as of June 30, 2018, compared to 20.0% as of June 30, 2017. Diversification is also seen between industrial and municipal projects, with 31.0% of the projects being industrial as of June 30, 2018, compared to 25.0% as of June 30, 2017. Both wastewater and industrial projects are characterized by a better gross profit margin. The current sales pipeline of the Projects remains rich in opportunities and the backlog stands at $53.6 M as of June 30, 2018, compared to $53.9 M for fiscal year 2017.

In fiscal year 2018, the Corporation generated a 22.2% gross profit margin before depreciation and amortization, a decrease compared to the 23.1% gross profit before depreciation and amortization generated in fiscal year 2017. This decrease of the gross profit margin before depreciation and amortization is explained by the business mix, as more revenues are coming from Projects and O&M characterized by a lower gross profit margin before depreciation and amortization.

Adjusted EBITDA increased by $2.3 M, or 125.4%, to reach $4.1 M during fiscal year 2018, up from $1.8 M for fiscal year 2017. Adjusted EBITDA improvement was driven by the increase in revenues of all the Corporation's business pillars, as well as a decrease of the SG&A as a percentage over revenues. This improvement was partly offset by a lower gross profit margin before depreciation and amortization as a percentage over revenues caused by revenue mix and also negatively impacted by a specific water treatment project that incurred a loss of $0.9 M. The Corporation's adjusted EBITDA over the revenues, in percentage, improved and reached 4.1% for the fiscal year ended June 30, 2018, compared to 2.2% for the previous fiscal year.

The Corporation's SG&A ratio over revenues amounted to 18.6% for this fiscal year, down from 22.0% for the previous fiscal year. This decrease in SG&A as a percentage over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses. SG&A level in dollars was fairly stable compared to last year, with a $0.3 M increase, while the revenue level increased noticeably.

The net loss amounted to ($3.4 M) or ($0.086) per share for fiscal year 2018 compared with a net loss of ($5.1 M) or ($0.133) per share for fiscal year 2017. The net loss reduction is mostly due to sales volume increase and tight management of expenses.

In addition, the net loss was significantly impacted by new tax legislation from the U.S. government. During the fiscal year 2018, the U.S. government enacted comprehensive tax legislation commonly referred to as the *Tax Cuts and Jobs Act* (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%. Without the $1.0 M impact from the new U.S. tax legislation, the net loss would have been ($2.4 M). The net loss can also be explained by the following non-recurring items:

Years ended June 30	2018	2017
	$	$
Net loss	**(3,448,830)**	(5,130,986)
Impact of U.S. tax reform	**1,061,444**	-
Acquisition-related costs, integration costs and other costs Canada (net of tax 0%)[3]	**80,875**	245,961
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**303,468**	626,139
Net loss on bank fraud Canada (net of tax 0%)	**443,364**	-
Amortization of intangible assets from acquisition Canada (net of tax 0%)	**157,757**	108,721
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**1,652,026**	1,861,348
Stock based compensation expenses Canada (net of tax 0%)	**438,165**	627,528
Adjusted net earnings (loss)	**688,269**	(1,661,289)

Reconciliation of net loss to adjusted EBITDA

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 the management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
Net loss for the period	**(1,006,916)**	(1,742,862)	**(3,448,830)**	(5,130,986)
Finance costs – net	**363,807**	328,485	**1,264,358**	1,296,511
Income taxes	**231,273**	(78,886)	**1,145,755**	(654,351)
Depreciation of property, plant and equipment	**330,721**	788,415	**1,138,636**	1,336,729
Amortization of intangible assets	**716,270**	575,571	**2,811,293**	3,208,599
EBITDA	**635,155**	(129,277)	**2,911,212**	56,502
Net loss on bank fraud	**-**	-	**443,364**	-
Unrealized exchange (gains) losses	**72,247**	(58,668)	**(35,535)**	14,183
Acquisition-related costs, integration costs and other costs	**397,783**	-	**478,658**	1,066,696
Stock-based compensation costs	**105,844**	167,459	**438,165**	627,526
Change in fair value of contingent consideration – net of related costs	**(111,770)**	-	**(111,770)**	-
Gain on settlement for fixed asset damaged	**-**	-	**-**	(265,000)
Severances	**-**	-	**-**	329,984
Adjusted EBITDA	**1,099,261**	(20,486)	**4,124,094**	1,829,891

[3] For Canada the tax rate is 0% since the Corporation does not recognise the deferred tax asset.

Financial results for the fourth quarter of fiscal year 2018

Revenues for the fourth quarter were up by 2.1%, or $0.5 M, to $24.6 M from $24.1 M for the same quarter of the previous fiscal year. The increase is explained by the sustained organic growth in all the Corporation's business pillars.

For the quarter ended June 30, 2018, the gross profit margin before depreciation and amortization increased to 23.0%, from 20.7% for the same quarter of the previous fiscal year. This is mostly due to a shift in the business mix during fiscal year 2018, where SP&S and O&M revenues reached 70.0% of the total revenues. During such fourth quarter, adjusted EBITDA reached $1.1 M, or 4.5% over revenues, compared to ($0.02 M), or (0.08%) over revenues for the same period last year. This significant improvement of the adjusted EBITDA is coming mostly from the reduction of the net loss.

H_2O 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 2018 financial results in further detail at 10:00 a.m. Eastern Time, on Wednesday, September 26, 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 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 H_2O 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. 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 25, 2018 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O 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_2O Innovation

H_2O 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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