PRESS RELEASE | **TSXV: HEO**
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H_2O Innovation's 2019 Third Quarter Results - Shows Adjusted EBITDA at 6.8% of revenues and Net Earnings

Key highlights

- Sustained revenue growth of $5.6 M, or 21.1% over the same period of the previous fiscal year, reaching $32.3 M for the third quarter of fiscal year 2019;
- Recurring revenues from Aftermarket, Specialty Products and Operation & Maintenance ("O&M"), represented 81.9% of total revenues for the third quarter of fiscal year 2019;
- Selling, operating and administrative expenses % ("SG&A") decreased to 17.0% for the third quarter of fiscal year 2019, from 18.4% for the same quarter of the previous fiscal year;
- Consolidated backlog, combining Projects and O&M business pillars, stood at $138.7 M as of March 31, 2019, compared to $123.1 M for the period ended March 31, 2018;
- Adjusted EBITDA[1] reached $2.2 M, or 6.8% of revenues, during the third quarter of fiscal year 2019, compared to $1.1 M, or 4.0% of revenues, for the same quarter of the previous fiscal year;
- Net earnings increased to $0.5 M for the third quarter of fiscal year 2019, from a net loss of ($0.01 M) for the same quarter of the previous fiscal year;
- Adjusted net earnings[2] stood at $1.3 M for the third quarter of this fiscal year, compared to an adjusted net earnings of $0.5 M for the same quarter of the previous fiscal year.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 15, 2019 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its results for the third quarter of fiscal year 2019 ended March 31, 2019.

"We are extremely pleased to post these strong results, as they represent effectively the uniqueness of our business model providing high recurring revenues, high customers' retention, multiple sales synergies between our business pillars and a proven acquisition platform capable to integrate rapidly, and with efficiency, new acquisitions. Each of our six business lines, regrouped under three business pillars, continues to strive for revenue growth, gross margin improvements, SG&A expenses optimization, product innovation and business process improvements. Our road map is clear, and our objectives remain ambitious: we want to scale-up our business with projects providing sales synergies for the other business lines, develop and add new specialty products capable to improve our gross profit and leverage our sales distribution networks, and continue to consolidate the fragmented market of O&M in North America. Our business has never been as strong as it is now. Our third quarter results show sustained EBITDA performance with net earnings along with a strong balance sheet, paving the way for a strong year end", **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

[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.

[2] The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies.

(in thousands of Canadian dollars, except per share data)	Three-month periods ended March 31, **2019**	2018	Nine-month periods ended March 31, **2019**	2018
	$	$	**$**	$
Revenues	**32,325**	26,695	**86,074**	75,132
Gross profit margin before depreciation and amortization	**7,544**	5,794	**19,294**	16,461
Gross profit margin before depreciation and amortization (%)	**23.3%**	21.7%	**22.4%**	21.9%
Operating expenses	**1,576**	1,098	**4,250**	2,984
Selling expenses	**1,923**	2,091	**5,560**	5,947
Administrative expenses	**2,002**	1,713	**4,974**	4,824
Total SG&A	**5,501**	4,902	**14,784**	13,755
% SG&A over revenues	**17.0%**	18.4%	**17.2%**	18.3%
Net earnings (loss)	**532**	(12)	**(1,003)**	(2,442)
Basic and diluted net earnings (loss) per share	**0.010**	(0.000)	**(0.021)**	(0.061)
Adjusted net earnings (loss) [(a)]	**1,329**	544	**1,188**	(397)
Basic and diluted adjusted net earnings (loss) per share	**0.024**	0.014	**0.025**	(0.01)
EBITDA [(a)]	**1,945**	927	**3,950**	2,275
Adjusted EBITDA[(a)]	**2,196**	1,078	**4,839**	3,023
Adjusted EBITDA of revenues (%)	**6.8%**	4.0%	**5.6%**	4.0%

(a) Non-IFRS financial measurement reconciled below.

For the third quarter, consolidated revenues increased by $5.6 M, or 21.1%, to reach $32.3 M compared to $26.7 M for the comparable quarter of previous fiscal year. This increase is partially fueled by the acquisition of Hays, contributing $5.1 M in revenues this quarter, as well as the organic growth from the Specialty Products and O&M business pillars.

Revenues from Projects & Aftermarket stood at $8.9 M for this quarter compared to $9.8 M for the corresponding quarter of the previous fiscal year, representing a decrease of $0.9 M, or 8.8%. The focus for this business pillar is to improve the gross profit margin before depreciation and amortization prior to focusing on growing the volume of revenues. Therefore, to reach that goal, H_2O Innovation is executing more industrial and wastewater projects previously secured in the backlog and is observing positive upside in the gross profit margins being recorded. The Corporation developed a more diversified backlog portfolio between water and wastewater projects, with 37.7% of the projects being in the field of wastewater as of March 31, 2019, compared to 23.2% as of March 31, 2018. Diversification is also seen between industrial and municipal projects, with 35.8% of the projects being for industrial customers as of March 31, 2019, compared to 26.8% as of March 31, 2018. Both wastewater and industrial projects are characterized by better gross profit margins, while reducing the risk related to focusing on a single market. The current Projects' pipeline remains very rich in opportunities and, as of March 31, 2019, the backlog stood at $48.1 M, compared to $55.0 M for the comparable quarter of fiscal year 2018.

The Specialty Products business pillar is showing an increase of $0.2 M, or 3.7% of revenues, for the third quarter of fiscal year 2019 compared to the same quarter of the previous fiscal year. Despite the slight increase of 3.7%, the Specialty Products pillar was mostly impacted by a general slowdown in the Maple industry, due to adverse weather conditions during the 2018 maple syrup season. Such slowdown affected sales of our Maple products by 30.7% this quarter, compared to the same quarter of the previous fiscal year. As a result, maple syrup producers have experienced a challenging year resulting in a lower production, thus lowering the investments spent in new capital equipment purchase. The Maple business line had to scale-down it expenses to adjust its cost structure according to a lower sales volume. While this business line is dealing with a slowdown, they continue to push for product innovation and gross profit margin improvements through manufacturing process and sourcing optimization. The increase in revenues seen in this business pillar is fueled by Piedmont's operations, with the bookings of couplings and filter housings reaching a new high at the end of the third quarter. PWT, the specialty chemicals product line, also supported the growth as it increased its in-house manufacturing capacity of liquid cleaners and added an automated-filling line in its facility. This manufacturing improvement, along with the addition of new distributors in strategic territories, enabled the increase of the Corporation's revenues and gross profit margin before depreciation and amortization. Overall, the Specialty Products, presenting recurring revenues by nature, stood at $8.0 M, compared to $7.8 M in the comparable quarter of the previous fiscal year. The increase in revenues for this business pillar reflects the ongoing effort to expand its distribution network and to launch new products to complete its extensive product offering.

The O&M business pillar is showing a constant growth, with a revenue increase of $6.3 M, or 69.0%, during the third quarter of fiscal year 2019, compared to the same quarter of the previous fiscal year. The recurring revenues coming from the O&M business pillar stood at $15.4 M for the third quarter of fiscal year 2019, compared to $9.1 M for the comparable period of fiscal year 2018. This significant revenue growth is explained by the Hays acquisition and by a sustained organic growth mostly driven by new projects won in Texas, by the renewal of projects and scope expansions, as well as by annual consumer price index ("CPI") adjustments on existing projects. The acquisition of Hays added $5.1 M of revenues to this business pillar for the third quarter of fiscal year 2019. The backlog coming from O&M contracts stood at $90.6 M as at March 31, 2019, representing an increase of 33.0% compare to the $68.1 M backlog as at March 31, 2018, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options.

"Four months following the acquisition of Hays, the integration is moving according to our plans. Indeed, not only we have been able to retain all Hays' customers and employees, but we have also generated our first sales synergies with one of our existing clients based in Texas. Moreover, we have already expanded some scope of work, thus revenues, to other MUD (Municipal Utility District) customers. But most importantly, we have created an environment where Hays employees feel motivated, inspired by our vision and want to strive to grow and improve the business. This is how we are creating value for customers and shareholders in a sustainable way", **added Frédéric Dugré.**

In the third quarter of fiscal year 2019, the gross profit margin before depreciation and amortization increased by 30.2%, to reach $7.5 M, while revenues increased by 21.1%. The increase of gross profit margin before depreciation and amortization in % is explained by the business mix within the Specialty Products business pillar, with more sales coming from higher margins' products this quarter compared to the same quarter of the previous fiscal year. The Projects & Aftermarkets business pillar, although showing a decrease in revenues for this quarter, is also showing a healthier gross profit margin than the comparable quarter of the previous fiscal year.

The Corporation's selling, operating and administrative expenses ("SG&A") in dollar increased by $0.6 M, or 12.2% this quarter, compared to the third quarter of the previous fiscal year, to support the 21.1%

revenue increases. The increase is mainly due to the acquisition of Hays, contributing to $0.5 M of this increase during the quarter. The SG&A over revenues in % decreased to 17.0%, compared to 18.4% for the third quarter of the previous fiscal year. The decrease is explained by a tight management of SG&A expenses, while growing revenues over the same period.

The Corporation's adjusted EBITDA increased to $2.2 M for the third quarter of fiscal year 2019, from $1.1 M for the comparable quarter of the previous fiscal year, representing an increase of $1.1 M, or 103.7%. The adjusted EBITDA in % increased to 6.8% for the three-month period ended March 31, 2019, compared to 4.0% for the same quarter of last fiscal year. Increase of the adjusted EBITDA in % was due to an increase of the gross profit margin before depreciation and amortization, associated to a higher level of revenues with higher gross profit margins coming from Specialty Products, and a reduction of the SG&A %.

The net earnings reached $0.5 M, from a net loss of ($0.01 M) for the same quarter of the previous fiscal year, representing an increase of $0.5 M. The net earnings for this quarter is mostly due to an improved gross profit margins due to the product mix, as well as through a tight management of expenses. Gross profit margin before depreciation and amortization improved at $7.5 M, for the third quarter of fiscal year 2019, compared to $5.8 M for the comparable quarter of the previous fiscal year, while revenues increased by 21.1% over the same period. This increase of gross profit margin before depreciation and amortization contributed to the net earnings of this quarter. Indeed, this third quarter was particularly strong with increased revenues coming from the Specialty Products and O&M business pillar, while the Projects & Aftermarkets business pillar presented a slower quarter.

The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs. The reader can establish the link between net earnings (loss) and adjusted net earnings (loss) with the following reconciliation table. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies.

(in thousands of Canadian dollars)	Three-month periods ended March 31, 2019	Three-month periods ended March 31, 2018	Nine-month periods ended March 31, 2019	Nine-month periods ended March 31, 2018
	$	$	**$**	$
Net earnings (loss)	**532**	(12)	**(1,003)**	(2,442)
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**99**	-	**431**	-
Net loss on bank fraud Canada (net of tax 0%)[3]	**-**	-	**-**	363
Amortization of intangible assets from acquisition Canada (net of tax 0%)[3]	**39**	39	**118**	118
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**584**	411	**1,409**	1,232
Stock based compensation expenses Canada (net of tax 0%)[3]	**75**	106	**233**	332
Adjusted net earnings (loss)	**1,329**	544	**1,188**	(397)

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

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Operating activities used $0.3 M in cash for the quarter ended March 31, 2019, compared to $2.1 M of cash generated during the same period of previous fiscal year. This variation of the cash flows from operating activities reflects the advancement of major projects, with significant invoicing milestones reached during the quarter, impacting the change in working capital items. Moreover, following the equity financing related to the Hays acquisition, significant accounts payable were paid, reducing the pressure on cash flow management, but deteriorating momentarily the change in working capital items.

Reconciliation of net earnings (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.

(in thousands of Canadian dollars)	**Three-month periods ended March 31, 2019**	2018	**Nine-month periods ended March 31, 2019**	2018
	$	$	**$**	$
Net earnings (loss) for the period	**532**	(12)	**(1,003)**	(2,442)
Finance costs – net	**352**	76	**1,852**	900
Income taxes	**(210)**	(124)	**(229)**	914
Depreciation of property, plant and equipment	**300**	258	**867**	808
Amortization of intangible assets	**971**	729	**2,463**	2,095
EBITDA	**1,945**	927	**3,950**	2,275
Unrealized exchange (gains) losses	**47**	(35)	**91**	(108)
Stock-based compensation costs	**75**	106	**233**	332
Net loss on bank fraud	**-**	80	**-**	443
Acquisition-related costs, integration costs and other costs	**129**	-	**565**	81
Adjusted EBITDA	**2,196**	1,078	**4,839**	3,023

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 financial results for 2019 third quarter in further details at 10:00 a.m. Eastern Time on Wednesday, May 15, 2019.

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 third quarter financial report is available on www.h2oinnovation.com. 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 and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as “anticipate”, “if”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “should” or “will” and other similar terms as well as those usually used in the future and the conditional. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results 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 and services; ii) specialty products, which include a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water treatment industry; and iii) operation and maintenance services for water and wastewater treatment systems and utilities. For more information, visit www.h2oinnovation.com.

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