



PRESS RELEASE

For immediate release

TSXV: HEO

OTCQX: HEOFF

Growth Paris: ALHEO

H₂O Innovation Expands its Specialty Products Business Pillar and Builds One of the Largest Global Specialty Chemicals Distribution Networks by Acquiring Genesys, and Announces an Equity Offering of Subscription Receipts of at least \$22.0 M

- NOT FOR DISSEMINATION IN THE UNITED STATES OR TO UNITED STATES NEWSWIRE SERVICES. -

Key Highlights

- Acquisition of a UK privately-owned group of companies specializing in the development and manufacturing of specialty chemicals dedicated to water treatment;
- Strengthens H₂O Innovation's specialty chemicals line of products and broadens its range of application;
- Adds nearly 80 distributors and technical sales professionals in complimentary geographies to build one of the largest specialty chemicals distribution networks worldwide;
- Complements existing manufacturing capabilities in Vista (California) with chemical blending facility in Cheshire, UK;
- Acquisition to be financed through committed credit facility as well as proceeds from an equity offering for gross proceeds of at least \$22 million, as follows:
 - an overnight marketed public offering of Subscription Receipts for anticipated gross proceeds of at least \$14 million
 - a concurrent brokered private placement of Subscription Receipts with certain institutional shareholders of the Corporation for aggregate proceeds of \$8 million; and
- The transaction is expected to be immediately accretive to adjusted EBITDA¹ and net earnings before acquisition costs.

All amounts are in Canadian dollars unless otherwise stated.

Quebec City, October 28, 2019 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces it has entered into a binding sale and purchase agreement (the “Acquisition Agreement”) pursuant to which H₂O Innovation, through a wholly-owned UK subsidiary, will acquire, from arm's-length third parties, Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited and Genesys North America, LLC (collectively “Genesys”), a group of privately-owned companies based in the United Kingdom that develop, manufacture and distribute specialty reverse osmosis (RO) membrane chemicals, antiscalants, cleaners, flocculants and biocides

¹ The Corporation uses both International Financial Reporting Standards (“IFRS”) and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. Non-IFRS measures, as presented herein include adjusted earnings before interest tax, depreciation and amortization (“Adjusted EBITDA”). Please refer to the section entitled “Non-IFRS Financial Measurement” of the management discussion and analysis for the fiscal year ended June 30, 2019 filed under the Corporation's SEDAR profile at www.sedar.com for the definition and historical reconciliation to the most comparable IFRS measure.



(the “Acquisition”). Genesys offers, through a large distribution network, a portfolio of over thirty-five (35) diversified products with unique formulation that are manufactured in its facility located in Cheshire, UK. In addition, Genesys also offers complete laboratory services such as feed water and pre-treatment tests, membrane autopsies and cleaning program design.

“The combination of Genesys’ product offering with our existing PWT product line will create a leading supplier of specialized chemicals for membrane water treatment plants. Once the acquisition is completed, H₂O Innovation will deliver to clients an even broader portfolio of products and solutions through one of the largest distribution networks in the world. The expanded operations and network will also improve our efficiency, when it comes to manufacturing, warehousing and freighting. The reputation of Genesys is proven and solid. Their sales relationships are long lasting and growing and we look forward to welcoming the Genesys partners into the H₂O Innovation’s family”, **said Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

Established in 2001, Genesys provides chemicals and services to the membrane industry in almost 70 countries around the world. “Through our innovative product line and first-class service, Genesys has become a leading name in the membrane market. All our branded formulations have been developed in-house and are produced at our UK factory in Cheshire. Although Genesys is highly profitable and has grown strongly over the years, we realize that the next stage in growth can only be achieved in combination with a larger organization. Our team has been aware of H₂O Innovation for many years and consider them as the perfect partner. They will maintain the family feel that Genesys has developed by looking after its staff and distributors. As there are significant areas of synergy for both companies, we fully endorse the acquisition knowing it will be highly beneficial to all those involved”, **said Ted Darton, President and Chief Executive Officer of Genesys.**

Management is expecting the Acquisition to be immediately accretive to adjusted EBITDA and net earnings before acquisition costs, as Genesys’ revenues and profitability are recurring in nature. The Acquisition will also strengthen H₂O Innovation’s position as global player in the specialty chemicals industry dedicated to water treatment. Combining Genesys with the Corporation’s PWT business line, H₂O Innovation’s distribution network is expected to reach, following the transaction, one hundred distributors covering both emerging and strategic markets.

The purchase price of the Acquisition was established at £16.95 M (\$28.39 M)² (the “Purchase Price”), on a cash-free, debt-free basis fully-payable at closing of the Acquisition. The Purchase Price is subject to customary working capital adjustments as of the closing date.

Genesys’ key financial results are outlined below:

Genesys’ consolidated financial results	As at and for the year ended December 31, 2018³	As at and for the six-month period ended June 30, 2019⁴
Revenues	£6.01 M (\$10.40 M)	£3.23 M (\$5.57 M)

² Consideration to be paid was converted using an exchange rate of 1 GBP = 1.6753 CAD, which represents the daily exchange rate of the Bank of Canada on the day prior to the announcement of the Acquisition.

³ The statement of income items of Genesys for the fiscal year 2018 were converted using an exchange rate of 1 GBP = 1.7299 CAD, which represents the average daily exchange rate of the Bank of Canada for the twelve-month period ended December 31, 2018. The balance sheet items of Genesys as at December 31, 2018 were converted using an exchange rate of 1 GBP = 1.7439 CAD, which represents the daily exchange rate of the Bank of Canada as at December 31, 2018.

⁴ The statement of income items of Genesys for the six-month period ended June 30, 2019 were converted using an exchange rate of 1 GBP = 1.7256 CAD, which represents the average daily exchange rate of the Bank of Canada for the six-month period ended June 30, 2019. The balance sheet items of Genesys as at June 30, 2019 were converted using an exchange rate of 1 GBP = 1.6624 CAD, which represents the daily exchange rate of the Bank of Canada as at June 30, 2019.



Genesys' consolidated financial results	As at and for the year ended December 31, 2018 ³	As at and for the six-month period ended June 30, 2019 ⁴
Adjusted EBITDA⁵	£1.94 M (\$3.35 M)	£0.94 M (\$1.61 M)
Total Assets	£5.69 M (\$9.93 M)	£6.30 M (\$10.47 M)
Total Liabilities	£0.64 M (\$1.11 M)	£0.60 M (\$1.00 M)
Equity	£5.05 M (\$8.81 M)	£5.70 M (\$9.47 M)
Net income	£1.30 M (\$2.24 M)	£0.76 M (\$1.31 M)

The Acquisition is expected to close on or about November 12, 2019 and is subject to customary conditions.

Details of the Financings

H₂O Innovation announces that it has filed today a preliminary short form prospectus (the "Preliminary Prospectus") in connection with an overnight marketed public offering (the "Public Offering") of Subscription Receipts of the Corporation (the "Subscription Receipts") for anticipated gross proceeds of at least \$14 million. It is currently anticipated that the Offering Price of the Subscription Receipts will be \$1.05, subject to the final terms being agreed at the time of the entering into an Underwriting Agreement with the Underwriters, as herein defined.

The Subscription Receipts shall be exchangeable into units (the "Units") of the Corporation on a one-for-one basis without additional payment or further action on the part of the holders thereof. Each Unit shall be composed of one (1) common share in the capital of the Corporation (a "Common Share") and one-half (1/2) of one common share purchase warrant (each whole common share purchase warrant, a "Warrant").

⁵ Genesys' adjusted EBITDA, as used herein, is defined as profit before net finance costs, income taxes, amounts written off investments, divestiture costs and founding management salaries for the twelve-month period ended June 30, 2019. The amortization and depreciation of Genesys in its consolidated financial statements is nil, therefore no adjustments were made to Genesys' Adjusted EBITDA in that regard. This measure should not be considered in isolation or as an alternative to net earnings (loss). The definition of adjusted EBITDA used herein may differ from those used by other companies. Management believes that adjusted EBITDA, as used herein, is a useful financial indicator used by investors to assess the performance of Genesys. This measure provides investors with additional information to assist them in understanding critical components of a company's financial performance, including its ability to generate cash through its current operations.

Genesys' Consolidated Income Statement	For the year ended December 31, 2018 ⁽³⁾		For the six-month period ended June 30, 2019 ⁽⁴⁾	
	£	\$	£	\$
Profit for the period	1.30 M	2.24 M	0.76 M	1.31 M
Income tax expenses	0.29 M	0.50 M	0.14 M	0.25 M
Investment revenues	(0.03 M)	(0.05 M)	-	-
Amounts written off investments	0.25 M	0.44 M	-	-
Professional fees and related costs to divestiture⁽¹⁾	0.12 M	0.20 M	0.03 M	0.04 M
Founding management salaries⁽²⁾	0.01 M	0.02 M	0.01 M	0.01 M
Adjusted EBITDA	1.94 M	3.35 M	0.94 M	1.61 M

Note:

- (1) This adjustment relates to the professional fees and related expenses incurred by Genesys for divestiture.
(2) This relates to the salaries of the two founding executives that will resigned as at the Acquisition date.



It is currently anticipated that a Warrant will entitle its holder to purchase an additional Common Share at an exercise price of \$1.40 for a 24-month period of time following the closing date. Subscribers to the Concurrent Private Placement (as defined below) have confirmed their acceptance of the above-mentioned terms and are expected to sign subscription agreements reflecting such final terms and conditions prior to the closing date.

The Offering is being co-led by Desjardins Capital Markets and Canaccord Genuity Corp. (the “Co-Lead Underwriters”), on behalf of a syndicate of underwriters (the “Underwriters”). Following pricing of the Offering, the Corporation will enter into an underwriting agreement with the Underwriters (the “Underwriting Agreement”). The Subscription Receipts will be offered for distribution in all provinces of Canada by way of a short form prospectus. The Subscription Receipts may also be placed privately in the United States or to U.S. persons (as defined under Regulation S under the *United States Securities Act of 1933*, as amended (the “Act”)) only to persons that are Qualified Institutional Buyers under Rule 144A, in transactions exempt from the registration requirements of the U.S. Securities Act, under Rule 144A and under exemptions from registration or qualification under applicable U.S. state securities laws.

The Corporation has also granted the Underwriters an option to purchase additional Subscription Receipts under the Public Offering at the Offering Price, exercisable in whole or in part at the sole discretion of the Co-Lead Underwriters, at any time up to thirty (30) days after the closing date (the “Over-Allotment Option”), for additional gross proceeds of up to \$1 million.

Concurrently to the Public Offering, H₂O Innovation will complete a brokered private placement of Subscription Receipts (the “Concurrent Private Placement”) with certain institutional shareholders and insiders of the Corporation for an aggregate gross proceeds of \$8 million, under the same terms and conditions as the Subscription Receipts issued under the Public Offering (the Public Offering and the Concurrent Private Placement are collectively the “Offerings”). The Subscription Receipts issued in the Concurrent Private Placement (and any underlying securities) will be subject to a four (4) month hold from the closing date of the Offerings.

The Corporation intends to use the net proceeds of the Offerings to partially finance the Purchase Price and related transaction expenses relating to the Acquisition.

The gross proceeds of the Offerings (the “Escrowed Proceeds”) will be held in escrow pending confirmation from the Corporation (the “Release Notice”) that all closing conditions of the Acquisition have been satisfied (or waived), except for the payment of the Purchase Price (the “Escrow Release Conditions”). Upon delivery of the Release Notice, the Subscription Receipts will be automatically exchanged for Units of the Corporation and the Escrowed Proceeds, less the balance of the commission payable to the Underwriters, will be released to the Corporation.

If the Release Notice is not provided on or before December 31, 2019 or such other date as the Corporation and the Co-Lead Underwriters may agree upon (the “Termination Time”), the Acquisition Agreement is terminated in accordance with its terms or the Corporation, prior to the Termination Time, advises the Co-Lead Underwriters or the public that it does not intend to proceed with the Acquisition, each Subscription Receipt will be automatically cancelled without any further action. Holders of the Subscription Receipts will be entitled to receive a repayment of an amount equal to the Offering Price multiplied by the number of Subscription Receipts held by such holder, plus their pro rata portion of any accrued interest on the Escrowed Proceeds (if any).

In the event the closing of the Acquisition occurs concurrently with the closing of the Offerings, the Corporation will issue Units instead of Subscription Receipts.



The Offerings are expected to close on or about November 12, 2019. The Public Offering and the Concurrent Private Placement are conditional upon each other. The Offerings are also conditional upon there being no termination of the Acquisition or announcement of such termination prior to the closing of the Offerings.

The issuance of the Subscription Receipts (and underlying Units, underlying Common Shares and underlying Warrants) is subject to customary approvals of applicable securities regulatory authorities, including the TSX Venture Exchange.

The securities being offered have not and will not be registered under the Act, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. This news release shall not constitute an offer to sell or the solicitation of an offer to buy securities nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

Insider Participation

Certain insiders of H₂O Innovation have indicated their intention to participate in the Offerings, which participation constitutes “related party transaction” as defined under *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* (“Regulation 61-101”). The Offerings will be 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 Corporation’s market capitalization. The Corporation has not yet filed a material change report as required by Regulation 61-101 due the confidentiality of the Acquisition and the Offerings before its announcement.

New Credit Facility

In order to finance the remaining portion of the Purchase Price and the ancillary costs and expenses, H₂O Innovation has entered into an amended and restated credit agreement with its arm’s length lender to obtain an additional long-term loan in an amount of \$12 M.

H₂O Innovation Conference Call

The Corporation will hold a conference call to discuss this announcement in further details at 4:30 p.m. Eastern Standard Time on October 28, 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 and will be available on the Corporation’s profile on SEDAR at www.sedar.com.

Prospective disclosures

Certain statements set forth in this press release regarding the Acquisition, the terms of the Offerings, the successful completion of the Acquisition, the successful marketing and completion of the Offerings, the Corporation’s anticipated use of proceeds under the Offerings, the expected timing for closing of the Acquisition, the expected timing for closing of the Offerings, the expected synergies and benefits of the Acquisition and 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. 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. Factors that could cause or contribute to such differences include, but are not limited to, failure to obtain TSX Venture Exchange approval of the Offering, failure to satisfy the Escrow Release Conditions prior to the Termination Time and those risk factors discussed in the Annual Information Form of the Corporation dated September 24, 2019 available on SEDAR (www.sedar.com). Certain of the forward-looking statements included in this press release may be considered “financial outlook” for purposes of applicable Canadian provincial and territorial securities laws. Readers are cautioned that such financial outlook information contained in this press release should not be used for the purposes other than for which it is disclosed herein or therein, as the case may be. 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 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.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Source:

H₂O Innovation Inc.
www.h2oinnovation.com

Contact:

Marc Blanchet
+1 418-688-0170
marc.blanchet@h2oinnovation.com