PRESS RELEASE **TSXV: HEO**
For immediate release **Growth Paris: MNEMO: ALHEO**
OTCQX: HEOFF

H_2O Innovation Reports Third Quarter 2020 Results

Key Financial Highlights

- Revenue growth of 11.6 % over the same period of the previous fiscal year, reaching $36.1 M for the third quarter of fiscal year 2020;
- Gross profit margin before depreciation and amortization expenses represented 28.7 % of the Corporation's total revenues for the third quarter of fiscal year 2020, compared to 23.3 % for the third quarter of previous fiscal year;
- Adjusted EBITDA[1] reached $3.8 M, or 10.5 % of revenues, for the third quarter of fiscal year 2020 compared to $2.2 M, or 6.8 % of revenues, for the comparable quarter of previous fiscal year;
- Earnings of $1.6 M before non-recurring and non-cash impairment[1] of $5.3 M for the three-month period ended March 31, 2020, compared to earnings of $0.5 M before impairment of nil for the comparable quarter of previous fiscal year;
- Net loss amounted to ($3.1 M) for the third quarter of fiscal year 2020, compared to net earnings of $0.5 M for the comparable quarter of previous fiscal year.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 13, 2020 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its financial results for the third quarter of fiscal year 2020 ended March 31, 2020.

"These financial results testify to the success of our strategy to focus on building a business relying on recurring sales. In the third quarter, our recurring revenues amounted to 88%. They are notably driven by (i) our Specialty Products that we manufacture and export to more than 80 countries and by (ii) the operation & maintenance ("O&M") of 200 water and wastewater utilities in North America. Also, thanks to the acquisition of Genesys and our focus to improve our profit margins, the gross profit margin has increased from 23.3% to 28.7%. Today, by delivering earnings of $1.6 M before the non-recurring and non-cash impairment charges related to intangible assets and goodwill associated to the Projects & Aftermarket business pillar, we demonstrate the resiliency of our business model. Despite a slowdown in our Project business, our combined backlog remains strong and diversified at $143.8 M. In light of the COVID-19 crisis, we believe many opportunities will emerge for us in the coming months and years, notably from our large distribution network of Specialty Products and also from our O&M business pillar. We believe that small and mid-size municipalities, private utilities, and industries will rely more on contracted operators, such as H_2O Innovation. Our financial situation remains strong and our balance sheet is not over leveraged, allowing us to navigate through the COVID-19 crisis in a positive manner with multiple opportunities ahead of us", **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

[1] These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release to give the reader a better understanding of the indicators used by management. Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

(In thousands of Canadian dollars)	Three-month periods ended March 31, 2020		2019 (b)		Nine-month periods ended March 31, 2020		2019 (b)	
	$	**%** (a)	$	% (a)	**$**	**%** (a)	$	% (a)
Revenues per business pillar								
Projects & Aftermarket	**6,726**	**18.7**	8,945	27.7	**22,316**	**22.9**	31,083	36.1
Specialty products	**12,893**	**35.8**	8,033	24.9	**28,459**	**29.2**	18,111	21.0
O&M	**16,442**	**45.6**	15,347	47.5	**46,843**	**48.0**	36,880	42.8
Total revenues	**36,061**	**100.0**	32,325	100.0	**97,618**	**100.0**	86,074	100.0
Gross profit margin before depreciation and amortization	**10,336**	**28.7**	7,544	23.3	**25,310**	**25.9**	19,294	22.4
SG&A expenses(c)	**6,777**	**18.8**	5,501	17.0	**17,732**	**18.2**	14,784	17.2
Net earnings (loss) for the period	**(3,097)**	**(8.6)**	532	1.6	**(5,040)**	**(5.2)**	(1,003)	(1.2)
Earnings (loss) before impairment charges[1]	**1,630**	**4.5**	532	1.6	**(313)**	**(0.3)**	(1,003)	(1.2)
EBITDA[1] before impairment	**3,890**	**10.8**	1,945	6.0	**6,044**	**6.2**	3,950	4.6
Adjusted EBITDA[1]	**3,775**	**10.5**	2,196	6.8	**7,692**	**7.9**	4,839	5.6
Recurring revenues[1]	**31,796**	**88.2**	26,485	81.9	**83,731**	**85.8**	63,960	74.3

(a) % over revenues.
(b) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.
(c) Selling, general operating and administrative expenses (SG&A).

Third Quarter Results

Consolidated revenues from our three business pillars, for the three-month period ended on March 31, 2020, increased by $3.8 M, or 11.6 %, to reach $36.1 M compared to $32.3 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which contributed $3.1 M in revenues during this quarter. The growth is also explained by the increase of $1.8 M coming from the organic growth of the Specialty Products business line and $1.1 M coming from O&M, partly offset by the decrease in revenues of $2.2 M from the Projects & Aftermarket. The increase is in line with our business plan to grow first the Specialty Products and O&M, as well as prioritize projects with higher gross profit margins, fueling opportunities for other business pillars.

The net loss amounted to ($3.1 M) or ($0.040) per share for the third quarter of fiscal year 2020 compared to net earnings of $0.5 M or $0.010 per share for the comparable quarter of fiscal year 2019. The net loss is mainly due to the impairment of $5.3 M taken in the Projects & Aftermarket business pillar to reduce the value of the goodwill and intangible assets. Without the impact of this non-recurring impairment, the Corporation would present net earnings of $1.6 M for the three-month period ended March 31, 2020 and a net loss of ($0.3 M) for the nine-month period ended March 31, 2020.

The Corporation's gross profit margin before depreciation and amortization stood at $10.3 M, or 28.7 %, during the third quarter of fiscal year 2020, compared to $7.5 M, or 23.3 % for the previous fiscal year, representing an increase of $2.8 M, or 37.0 %. The increase in consolidated gross profit margin is explained by the increase in revenues coming from Specialty Products business pillar, characterized with higher gross profit margins. These higher-margin sales, positively affected by the acquisition of Genesys and the strong growth in the Piedmont business line, contributed significantly to increase the gross profit margin before depreciation and amortization

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in the third quarter of fiscal year 2020. The gross profit margin was also positively impacted by the improvement of the gross profit margins coming from the Projects & Aftermarket business line. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of $0.1 M for the third quarter of fiscal year 2020.

The Corporation's SG&A reached $6.8 M during the third quarter of fiscal year 2020, compared to $5.5 M for the same period of the previous fiscal year, representing an increase of $1.3 M, or 23.2 %, while the revenues of the Corporation increased by 11.6 %. The acquisition of Genesys in the second quarter of this fiscal year contributed $0.7 M of this increase. The general increase of SG&A grew faster than the general level of revenues, mainly due to the first business pillar – Projects & Aftermarket, as the level of revenue decreased while the cost structure remained the same. The adoption of IFRS 16 – Leases resulted in a decrease of the SG&A expenses of $0.2 M for the third quarter of fiscal year 2020, as lease expenses were reclassified to depreciation and amortization.

The Corporation's adjusted EBITDA increased by $1.6 M, or 71.9 %, to reach $3.8 M during the third quarter of fiscal year 2020, from $2.2 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 10.5 % for the third quarter of fiscal year 2020, compared to 6.8 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins, partly offset by the increase in SG&A. Furthermore, the adoption on July 1, 2019 of IFRS 16 - Leases contributed to reduce by $0.4 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 9.4 %.

In the third quarter of fiscal year 2020, with the COVID-19 pandemic creating uncertainty over the world economic future, the Corporation performed an impairment test for its goodwill and intangible assets. The COVID-19 pandemic forced management to review the forecast of its business pillars with new growth assumptions, notably for its first business pillar, the Projects & Aftermarket – mostly impacted by projects being delayed or cancelled. As a result of this analysis, management recognised an impairment charge of $5.3 M against goodwill and intangible assets pertaining to the Projects & Aftermarket business pillar.

The decision to review to a lower percentage its growth perspective for the Projects & Aftermarket pillar, is in line with our strategic decision to further grow the Specialty Products and O&M first, then the Projects & Aftermarket, due to its unpredictability, challenging execution schedule and lower gross profit margins. For the past two years, the Corporation has strategically decided to target industrial and wastewater projects, which generally generate higher gross profit margins. This remain a focus for the Corporation, however, due to the crisis and uncertainties caused by COVID-19, the growth perspective associated to the Projects & Aftermarket have become less predictable. Hence, the business plan of this pillar has been revised, causing H_2O Innovation to adjust its growth projections for the first pillar, Projects & Aftermarket.

Management maintains its objective of improving the Corporation's profitability and will remain selective on the projects on which the Corporation intends to bid. Management also maintains its strategy, which aims at growing the other business pillars in order to continue to grow recurring revenues, in particular specialty products revenues, which are characterized by higher gross profit margin.

Cash flows from operating activities generated $0.9 M for the quarter ended March 31, 2020, compared to ($0.2 M) of cash flows used from operating activities during the same period of previous fiscal year. The increase in the cash flows from operating activities is coming from the improvement of the earnings before income taxes and impairment charges.

Reconciliation of Net Earnings (Loss) to EBITDA and to Adjusted EBITDA

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, unrealized exchange (gains) / losses, change in fair value of contingent consideration and acquisition and integration costs. The reader can establish the link between adjusted EBITDA and net loss by looking at the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

Even though EBITDA and adjusted EBITDA are non-IFRS measures, 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 March 31,		**Nine-month periods ended March 31,**	
(In thousands of Canadian dollars)	**2020**	2019	**2020**	2019
	$	$	**$**	$
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Finance costs – net	**469**	352	**1,508**	1,852
Income taxes	**(631)**	(210)	**(937)**	(229)
Depreciation of property, plant and equipment	**702**	300	**2,082**	867
Amortization of intangible assets	**1,139**	971	**3,123**	2,463
Impairment of intangible assets and goodwill	**5,308**	-	**5,308**	-
EBITDA before impairment	**3,890**	1,945	**6,044**	3,950
Unrealized exchange (gain) loss	**(273)**	47	**(616)**	91
Stock-based compensation costs	**55**	75	**169**	233
Changes in fair value of the contingent consideration	**57**	-	**268**	-
Acquisition-related costs, integration costs and other costs	**46**	129	**1,827**	565
Adjusted EBITDA	**3,775**	2,196	**7,692**	4,839

Net Debt

The definition of net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**March 31, 2020**	June 30, 2019	Variation	
	$	$	$	%
Bank loans	**7,182**	7,545	(363)	(4.8)
Current portion of long-term debt	**2,809**	1,863	946	50.8
Long-term debt	**14,770**	6,578	8,192	124.5
Less: Cash	**(6,649)**	(6,206)	(443)	(7.1)
Net debt	**18,112**	9,780	8,332	85.2

Recurring Revenues

The Corporation defines recurring revenues as: recurring revenue by nature which is a non-IFRS measure and is defined by management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or has a recurring sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. The Corporation’s recurring revenues are coming from the Aftermarket, Specialty Products and O&M business lines. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.

Reconciliation of net earnings (loss) to earnings (loss) before impairment

Earnings (loss) before impairment is defined as the net earnings (loss) before the impairment charges taken following the impairment test performed during the third quarter of fiscal year 2020. This non-IFRS measure is used by management to evaluate the results of the Corporation before this non-recurring item.

(In thousands of Canadian dollars)	**Three-month periods ended March 31,** **2020**	2019	**Nine-month periods ended March 31,** **2020**	2019
	$	$	**$**	$
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Impairment of intangible assets and goodwill	**5,308**	-	**5,308**	-
Deferred tax impact on impairment	**(581)**	-	**(581)**	-
Earnings (loss) before impairment	**1,630**	532	**(313)**	(1,003)

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 third quarter financial results in further details at 10:00 a.m. Eastern Time on Wednesday, May 13, 2020.

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 24, 2019 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 main pillars. The first one is ***Water & Wastewater Projects, and Aftermarket Services*** and includes all types of projects as well as digital solutions (Intelogx™ and Clearlogx®) to monitor and optimize water treatment plants. H_2O Innovation's second pillar, ***Specialty Products***, includes a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry, through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 80 countries. Finally, H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all of its clients and ensures that water quality meets regulatory requirements, through the third pillar – ***Operation and Maintenance*** – under the Utility Partners and Hays Utility South Corporation brands. Together, they employ 435 employees for the operation of more than 175 utilities in two Canadian provinces and eleven US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast. For more information, visit www.h2oinnovation.com.

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