**PRESS RELEASE**
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# $H_2O$ Innovation's delivers significant first quarter adjusted EBITDA growth of 115.1% over last year

**Key highlights**

- Revenue growth of 7.7% to $24.4 M, compared to $22.6 M for the first quarter of fiscal year 2018;
- Recurring revenues from Aftermarket services, Specialty Products and Operation & Maintenance ("O&M") representing 68.5% of total revenues;
- Consolidated backlog, combining Projects and O&M business pillars, stood at $139.9 M as of September 30, 2018, compared to $105.3 M for the period ended September 30, 2017;
- Adjusted EBITDA[1] increased by 115.1% or $0.7 M to reach $1.3 M during the first quarter of fiscal year 2019, from $0.6 M for the comparable period of fiscal year 2018;
- Net loss decreased by $0.8 M to reach ($0.3 M) during the first quarter of fiscal year 2019, from a net loss of ($1.1 M) for the same quarter of the previous fiscal year;
- Adjusted net earnings[2] stood at $0.2 M for the first quarter of this fiscal year, compared to a loss of ($0.02 M) for the same quarter of the previous fiscal year.

*All amounts are in Canadian dollars unless otherwise stated.*

**Quebec City, November 13, 2018** – (TSXV: HEO) – $H_2O$ Innovation Inc. ("$H_2O$ Innovation" or the "Corporation") announces its financial results for the first quarter of fiscal year 2019 ended September 30, 2018. Consolidated revenues from our three business pillars for the three-month period ended on September 30, 2018 increased by $1.8 M or 7.7%, to reach $24.4 M compared to $22.6 M for the comparable quarter of previous fiscal year. This increase is fueled by the organic growth from the Specialty Products and O&M business pillars. As we are executing more industrial and wastewater projects, previously secured in the backlog, we are starting to observe positive upside in the gross profit margins recorded. Specialty Products business pillar' results have been supported by Piedmont, our specialized products business line for water treatment system. Our efforts in developing and commercializing new products as well as to penetrate new geographical markets are paying off with increased sales and improved gross profit margins. As for PWT, our specialty chemicals product line, we increased our in-house manufacturing capacity of liquid cleaners. This manufacturing improvement, along with the addition of new distributors in strategic territories, enabled the increase of the Corporation's gross profit margin before depreciation and amortization. By increasing the gross profit while controlling our fixed expenses and SG&A[3] level, we are able to scale-up significantly our adjusted EBITDA to $1.3 M at the end of the first quarter of fiscal year 2019 compared to $0.6 M in the same quarter of the previous fiscal year.

"The overall business has never been is such a good shape and well positioned to continue its sustained organic growth while improving more rapidly its profitability. Our record combined backlog of $153.0 M,

[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.

[3] SG&A refers to selling, operating and administrative expenses

announced on October 30, 2018, contained multiple O&M long-term contracts with synergies and a greater number of wastewater and industrial-related projects. Added to our high margin Specialty Products business pillar, we are committed to improve our gross profit margin and adjusted EBITDA as the first quarter results are showing it", **stated Frédéric Dugré, President and Chief Executive Officer of $H_2O$ Innovation.**

| **Three-month periods ended September 30,** | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Revenues | **24,370,506** | 22,617,998 |
| Gross profit margin before depreciation and amortization | **5,505,870** | 4,454,386 |
| Gross profit margin before depreciation and amortization (%) | **22.6%** | 19.7% |
| Operating expenses | **1,328,150** | 877,385 |
| Selling expenses | **1,647,449** | 1,638,213 |
| Administrative expenses | **1,401,460** | 1,477,610 |
| Net loss | **(323,469)** | (1,089,875) |
| Basic and diluted net loss per share | **(0.008)** | (0.027) |
| Adjusted net earnings (loss) [a] | **206,602** | (22,416) |
| Basic and diluted adjusted net earnings (loss) per share | **0.005** | (0.001) |
| EBITDA [a] | **1,094,309** | 121,693 |
| Adjusted EBITDA[a] | **1,264,730** | 588,063 |
| Adjusted EBITDA over revenues (%) | **5.2%** | 2.6% |

(a) Non-IFRS financial measurement reconciled below.

The following paragraphs highlight certain information regarding our operations for the three-month periods ended September 30, 2018 and September 30, 2017. Starting July 1, 2018, the Aftermarkets and Services line's results have been removed from the Specialty Products business pillar to be reclassified in the Projects and Aftermarket business pillar. As a result, while looking at the figures by business pillar, we can see a shift from one pillar to the other, related to our Aftermarket and Services activities. This reclassification is intended to better represent the nature of the aftermarket services and its client base. Indeed, the majority of the Aftermarket & Services opportunities and sales are related to water and wastewater systems designed, engineered and manufactured by our Project group. Hence, the Specialty Products business pillar will now exclusively focus on the sales of specialty products.

Revenues from Projects & Aftermarket stood at $10.3 M compared to $11.0 M in the corresponding period of the previous fiscal year, representing a 6.1% decrease. The Corporation developed a more diversified backlog portfolio between water and wastewater projects, with 26.0% of the projects being in the field of wastewater as of September 30, 2018, compared to 24.0% as of September 30, 2017. Diversification is also seen between industrial and municipal projects, with 36.0% of the projects for industrial customers as of September 30, 2018, compared to 16.0% as of September 30, 2017. Both wastewater and industrial projects are characterized by better gross profit margins. The current Projects pipeline remains very rich in opportunities and, as of September 30, 2018, the backlog stood at $50.5 M, compared to $54.7 M for the comparable quarter of fiscal year 2018.

On the Specialty Products side, recurring revenues reached $4.2 M, compared to $3.2 M in the comparable quarter of the previous fiscal year, representing a $1.0 M, or 29.6% increase. Specialty Products business pillar expanded its products offering by adding new products and new distributors, broadening its existing offering and positioning the Corporation strategically in the market. The Corporation continues to improve its gross profit margin by manufacturing some products in-house, while the manufacturing of these products was fully outsourced during the comparable quarter of the previous fiscal year.

The recurring revenues coming from O&M business pillar stood at $9.9 M for the first quarter of fiscal year 2019, compared to $8.4 M for the comparable period of fiscal year 2018, representing an increase of $1.5 M or 17.2%. Excluding the positive impact of $0.4 M related to the depreciation of the Canadian dollar over the US dollar, the growth would have been 10.8%. Compared in US dollars, this business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts and scope expansions on existing and renewed contracts increasing its backlog. The growth of the O&M business pillar during this quarter is explained by the renewal of projects and scope expansions, as well as the annual consumer price index ("CPI") adjustments. The backlog coming from O&M contracts stood at $89.4 M as at September 30, 2018, representing an increase of 76.7% compare to the $50.6 M backlog as at September 30, 2017, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options. As at October 31, 2018, the backlog reached $102.5 M.

"Our expertise in designing, engineering and manufacturing membrane systems combined to our specialty products offering is allowing us to propose our customers a unique integrated added value proposition. As the value proposition is allowing our customers to reduce their operating expenses, it also provides a unique competitive advantage for the Corporation", **added Frédéric Dugré.**

In this first quarter of fiscal year 2019, the Corporation generated a 22.6% gross profit before depreciation and amortization compared to a 19.7% gross profit before depreciation and amortization generated in the first quarter of fiscal year 2018, which is explained by the revenue increase for the three-month period ended September 30, 2018, compared to the same period of the previous fiscal year. Gross profit margin before depreciation and amortization increased by $1.0 M, or 23.6%, while revenues increased by 7.7% over the same period. This increase of gross profit margin before depreciation and amortization contributed significantly to the reduction of the net loss.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues increased to 18.0% for this quarter, compared to 17.7% for the corresponding quarter of the previous fiscal year. The increase is explained by an increase of the operating expenses, to support the increasing revenue level, including new places of operations and increased level of employees.

The Corporation's adjusted EBITDA increased by $0.7 M, or 115.1%, to reach $1.3 M as at September 30, 2018, from $0.6 M for the comparable period of fiscal year 2018. The improvement of the adjusted EBITDA was driven by the increase of the Corporation's consolidated revenues, as well as an increase of the gross profit margin before depreciation and amortization. The acquisition costs excluded from the adjusted EBITDA as at September 30, 2018 are related to work on potential acquisitions. The Corporation's adjusted EBITDA over revenues improved and reached 5.2% for the three-month period ended September 30, 2018, compared to 2.6% for the same quarter of last fiscal year.

The net loss amounted to ($0.3 M) or ($0.008) per share for the first quarter of fiscal year 2019 compared with a loss of ($1.1 M) or ($0.027) per share for the comparable quarter of fiscal year 2018. The net loss improvement is mostly due to sales volume increase, an improved gross profit margin before depreciation and amortization and tight management of expenses.

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

| Three-month periods ended September 30, | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Net loss | (323,469) | (1,089,875) |
| Acquisition-related costs, integration costs and other costs Canada (net of tax 0%)[4] | 32,850 | 80,875 |
| Net loss on bank fraud Canada (net of tax 0%)[2] | - | 363,364 |
| Amortization of intangible assets from acquisition Canada (net of tax 0%)[2] | 39,439 | 39,439 |
| Amortization of intangible assets from acquisition USA (net of tax 23.71%) | 374,735 | 463,149 |
| Stock based compensation expenses Canada (net of tax 0%)[2] | 83,047 | 120,632 |
| **Adjusted net earnings (loss)** | **206,602** | (22,416) |

Operating activities generated $0.7 M in cash for the quarter ended September 30, 2018, compared to ($3.0 M) of cash used during the same period of previous fiscal year. This increase of the cash flows generated by operating activities is a reflection of the reduction of the loss before income taxes for the period and the variation of the change in working capital items. The change in working capital items is mostly impacted by the advancement of major projects, with significant invoicing milestones reached during the quarter.

**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 September 30, | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Net loss | (323,469) | (1,089,875) |
| Finance costs – net | 530,983 | 351,206 |
| Income taxes | (91,091) | (137,985) |
| Depreciation of property, plant and equipment | 278,536 | 307,230 |
| Amortization of intangible assets | 699,350 | 691,117 |
| **EBITDA** | **1,094,309** | 121,693 |
| | | |
| Unrealized exchange (gains) losses | 54,524 | (98,501) |
| Stock-based compensation costs | 83,047 | 120,632 |
| Net loss on bank fraud | - | 363,364 |
| Acquisition-related costs, integration costs and other costs | 32,850 | 80,875 |
| **Adjusted EBITDA** | **1,264,730** | 588,063 |

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

**$H_2O$ Innovation Conference Call**
Frédéric Dugré, President and Chief Executive Officer and Marc Blanchet, Chief Financial Officer, will hold a conference call to discuss the financial results for the 2019 first quarter in further details at 9:00 a.m. Eastern Standard Time on Tuesday, November 13, 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 first 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 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 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 aftermarket 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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