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H_2O Innovation's 2018 Third Quarter Results - Record sales and sustained growth in all business pillars

Key highlights

- Revenues reached $26.7 M for the third quarter of fiscal year 2018, representing a $5.4 M, or 25.4% growth, compared to $21.3 M for the third quarter of the previous fiscal year;
- Recurring revenues from Specialty Products and Services ("SP&S") and Operation & Maintenance ("O&M") business pillars represent 72.1% of total revenues;
- Consolidated backlog, combining Water and Wastewater Treatment Projects ("Projects") and O&M, stood at $123.1 M as of March 31, 2018, compared to $116.1 M for the period ended March 31, 2017, representing a 6.0% organic growth;
- Adjusted EBITDA[1] reached $1.1 M for the third quarter of fiscal year 2018, an increase of $0.7 M, or 161.9%, compared to the third quarter of fiscal year 2017;
- Adjusted EBITDA % increased, from 1.9% for the three-month period ended March 31, 2017 to reach 4.0% for this quarter ended March 31, 2018;
- Net loss of ($0.01 M), compared to ($1.3 M) in the third quarter of previous fiscal year, driven by a sustained revenue growth, while the selling, general and administrative expenses remained stable.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 15, 2018 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its results for the third quarter of fiscal year 2018 ended March 31, 2018. Revenues for the third quarter of fiscal year 2018 totaled $26.7 M, representing a $5.4 M or 25.4% increase, as compared with revenues of $21.3 M for the third quarter of the previous fiscal year. This increase is fueled by the organic growth of our three business pillars. The Projects business pillar is currently regaining speed after a slowdown in specific projects, which impacted last fiscal year's financial results. More projects are reaching the revenue recognition phase for this quarter compared to the same quarter of fiscal year 2017. SP&S results have been bolstered by the Maple business line, which is delivering strong growth with record results quarter after quarter. The O&M business line is showing a constant growth since the acquisition of Utility Partners, with the addition of new projects won and the increase in scope of existing projects supporting this performance. Our growing consolidated backlog, which stands at $123.1 M as of March 31, 2018, compared to $116.1 M last year, continues to provide excellent visibility on revenue recognition for the coming quarters.

[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.

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CONSOLIDATED RESULTS Selected financial data	Three-month periods ended March 31, 2018	 2017	Nine-month periods ended March 31, 2018	 2017 (adjusted)[2]
	$	$	**$**	$
Revenues	**26,694,935**	21,284,643	**75,131,862**	58,726,624
Gross profit before depreciation and amortization	**5,793,701**	5,060,641	**16,461,107**	14,186,305
Gross profit before depreciation and amortization (%)	**21.7%**	23.8%	**21.9%**	24.2%
Operating expenses	**1,097,614**	523,721	**2,984,007**	1,448,128
Selling expenses	**2,091,069**	1,975,348	**5,946,817**	5,186,872
Administrative expenses	**1,712,460**	2,307,189	**4,815,143**	6,127,690
Research and development expenses	**-**	16,075	**8,685**	131,319
Net loss	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Basic and diluted loss per share	**(0.000)**	(0.034)	**(0.061)**	(0.100)
Adjusted EBITDA	**1,078,489**	411,737	**3,024,833**	1,850,377
Adjusted EBITDA over revenues (%)	**4.0%**	1.9%	**4.0%**	3.2%

Revenues coming from SPS&S reached $10.1 M for the third quarter of fiscal year 2018, compared to $8.6 M in the comparable quarter of the previous fiscal year, which represents an increase of 17.0%. This increase in SP&S revenues is a result of investments made in the operating and selling functions to support and fuel the growth of this business line. Investments in new products and the addition of distributors have broadened the existing market and improved our products offering. “We are very proud of the Maple business performance, which shows a 20.0% increase over the last twelve months. This performance is not only attributable to market growth, but more importantly to the increase of our market shares, driven by our innovations and the extent of our distribution network”, **stated Frédéric Dugré, President and CEO of H_2O Innovation.**

On the O&M side, recurring revenues stand at $9.1 M, compared to revenues of $8.6 M in the corresponding quarter of last fiscal year, representing a 5.3% increase. The continuous growth of the O&M business pillar is explained by the addition of a new contract in Texas started in January 2018, the scope expansion in some of the existing projects as well as the consumer price index (“CPI”) adjustments on some of the existing projects. Notwithstanding the negative impact of $0.4 M due to the appreciation of the Canadian dollar over US dollar, the organic growth would have been 10.1% if compared in US dollar. For the O&M business pillar, the backlog is converting to revenues evenly over the period of the contract. The backlog coming from O&M contracts stands at $68.1 M as at March 31, 2018, an increase of 12.7% versus last year, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The growth of this business pillar is expected to continue, with the addition of a new O&M contract in Canada starting on April 1st, 2018.

Revenues coming from Projects stood at $7.5 M for the third quarter of fiscal year 2018, compared to $4.0 M in the corresponding period of the previous fiscal year, representing an 87.7% increase. All delayed projects, which led to a slowdown of the Corporation’s financial results in fiscal year 2017, have all resumed and are entering into revenue recognition phase. However, one specific project is impacting negatively the financial results, with a cost overrun of $0.3 M during the third quarter of fiscal year 2018, due to unexpected delays and costs. Notwithstanding this project, the gross profit margin before depreciation would stand at 22.8%. The Corporation developed a more diversified portfolio between water

[2] The adjusted results disclosed in this MD&A represent the results that should have been recorded in the financial statements for the six-month period ended March 31, 2016, with the acquisition of Utility Partners dated July 26, 2016, based on the audited financial results for fiscal year 2017. They have been adjusted to include only 5 months of Utility Partners’ operations.

and wastewater projects, with 24.5% of projects being wastewater projects as of March 31, 2018, compared to 16.0% as of March 31, 2017. The Projects sales team is also focusing on new industrial opportunities to build up the project backlog, with 27.0% of the backlog being industrial as of March 31, 2018. Together, the industrial and wastewater projects are usually characterized by a better gross margin before depreciation and amortization. The current sales pipeline of Projects remains rich in opportunities supported by a $55.0 M projects backlog, as of March 31, 2018, compared to $55.7 M for the comparable period of the previous fiscal year. The improved quality of our backlog should be noticeable in the next quarters, as the actual results are still impacted by lower margin projects from long-term contracts.

"Altogether, our three business pillars keep on growing, improving and are proposing to our customers a unique integrated offering. The revenue growth delivered quarter over quarter, the scalability of our business model and the value created by our proprietary technologies indicate that we are moving in the right direction and that our strategy is working. We continue to strive for innovations allowing us to secure new sales, maintain customers' retention and recruit new distributors for our speciality product lines. Our solid growth in addition to curtailing expenses is allowing us to improve profitability. Overall, our business has never been so well balanced, predictable and positioned for growth", **added Frédéric Dugré, President and CEO of H_2O Innovation.**

In this third quarter of fiscal year 2018, the Corporation generated $5.8 M in gross profit before depreciation and amortization, or 21.7% compared to $5.1 M or 23.8% for the last fiscal year. The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenue level, with all the business lines showing revenue increase for this quarter ended March 31, 2018, compared to the previous comparable quarter. However, the gross profit margin before depreciation and amortization % is decreasing, explained by the business mix: more revenues coming from Projects and O&M, which are characterized by a lower gross margin before depreciation and amortization.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 18.4% for this quarter, down from 22.6% for the corresponding quarter of the previous fiscal year. This decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses.

The Corporation's adjusted EBITDA increased by $0.7 M or 161.9%, to reach $1.1 M during the third quarter of fiscal year 2018, from $0.4 M for the comparable quarter of fiscal year 2017. The adjusted EBITDA improvement is generated by the increase in revenues for all our business pillars, as well as a decrease of the SG&A as a percentage over revenues. The adjusted EBITDA over revenues ratio increased reaching 4.0% for the three-month period ended March 31, 2018, compared to 1.9% for the comparable period of the previous fiscal year.

The net loss decreased by $1.3 M, or 99.1%, to reach $0.01 M during the third quarter of fiscal year 2018, from a net loss of ($1.3 M) for the comparable quarter of the previous fiscal year. The improvement of the net loss is driven by a sustained revenue growth of 25.4%, while the selling, general and administrative expenses (SG&A) remained stable. The net loss for the three-month period ended March 31, 2018 is also improved by a non-recurring adjustment of $0.3 M related to the insurance premiums. Furthermore, the net loss is impacted by foreign exchange, as most of the revenues are in U.S. dollars, whereas the administrative expenses are primarily incurred in Canadian dollars. The Canadian dollar appreciation noticed during the quarter affected negatively the net results of the Corporation compared to the same quarter of the previous fiscal year.

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Net cash generated by operating activities reached $2.1 M for the period ended March 31, 2018, compared to ($1.1 M) of cash used for the comparable quarter ended March 31, 2017. This improvement of the cash flows from operating activities is a reflection of the revenue growth and better management of the resources.

Reconciliation of adjusted EBITDA to net loss

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 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,**	
	2018	2017	**2018**	2017 (adjusted)[2]
	$	$	**$**	$
Net loss for the period	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Finance costs – net	**75,976**	328,485	**900,551**	984,780
Income taxes	**(124,234)**	(189,262)	**914,482**	(580,855)
Depreciation of property, plant and equipment	**257,705**	191,850	**807,913**	548,314
Amortization of intangible assets	**729,354**	1,272,620	**2,095,023**	2,641,215
Unrealized exchange (gains) / losses	**(34,647)**	(59,586)	**(107,781)**	118,282
Acquisition and integration costs	**-**	45,867	**80,875**	1,066,696
Stock-based compensation costs	**105,934**	167,458	**332,321**	460,069
Net loss on bank fraud	**80,000**	-	**443,364**	-
Adjusted EBITDA	**1,078,489**	411,737	**3,024,833**	1,850,377

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 the 2018 third quarter in further details at 10:00 a.m. Eastern Time on Tuesday, May 15, 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 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, 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, notably regarding certain assumptions as to the success of a venture. 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 26, 2017 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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