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ANNUAL INFORMATION FORM

For the financial year ended June 30, 2011

September 28, 2011

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents are specifically incorporated by reference in this Annual Information Form and are available on SEDAR (www.sedar.com):

- the audited financial statements of H₂O Innovation for the financial year ended June 30, 2011; and
- the management report of H₂O Innovation for the financial year ended June 30, 2011.

1. GENERAL

In this Annual Information Form and unless the context otherwise requires, the words "Corporation" or "H₂O Innovation" refer collectively to H₂O Innovation Inc. and its subsidiaries.

Products and services offered by the Corporation are thoroughly described on its website at www.h2oinnovation.com. Copies of all the press releases published by the Corporation are also available on the website. The information on the website is not incorporated by reference in this Annual Information Form.

Data relating to market and industry forecasts presented in this Annual Information Form are derived from various publicly available sources. While management of the Corporation believes these sources to be independent and reliable, the accuracy and completeness of that information are not guaranteed and were not independently confirmed by the Corporation.

Unless otherwise indicated, money figures are expressed in Canadian dollars. The "\$US" symbol refers to American dollars. The "€" symbol refers to Euros.

2. CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Information Form, such statements use such words as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terminology. These statements reflect current expectations of the Corporation regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this Annual Information Form, or any referenced document therein, are based upon what management of the Corporation believes are reasonable assumptions, the Corporation can not assure investors that actual results will be consistent with these forward-looking statements and should not be unduly relied upon by shareholders. These forward-looking statements are made as of the date of this Annual Information Form and subject to applicable law; the Corporation does not intend to update said forward-looking statements.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Annual Information Form. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) current global financial conditions; (ii) competitive environment; (iii) operating risks; (iv) the Corporation's management and employees; (v) the Corporation's capacity to secure performance guarantees; (vi) capital investment by the Corporation's customers; (vii) fixed price contracts entered into by the Corporation; (viii) implementation of its commercial strategic plan by the Corporation; (ix) potential product liabilities and other lawsuits to which the Corporation may be subject; (x) shortage of raw materials; (xi) development of new products; (xii) acquisition and expansion; (xiii) market liquidity of the Corporation's common shares; (xiv) foreign currency; (xv) liquidity; (xvi) credit; (xvii) interest rate; (xviii) technology and regulatory changes; and (xix) additional financing and dilution.

3. CORPORATE STRUCTURE

3.1 Name and incorporation

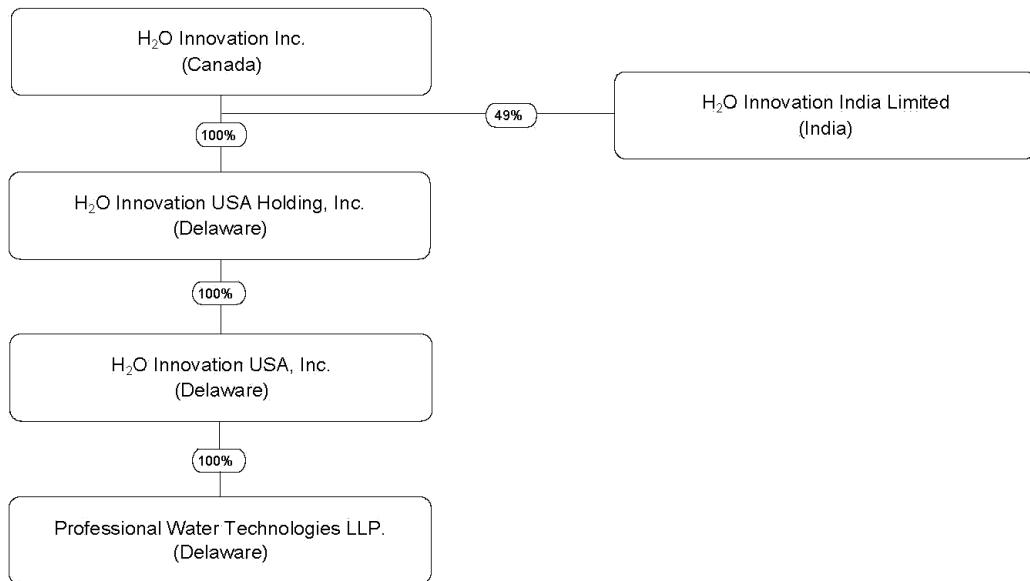
The Corporation was incorporated under the name "Hebron Fjord Resources Inc." pursuant to Articles of Amalgamation under the *Canada Business Corporations Act* on August 23, 1995, and results from the amalgamation of Chastel Resources Inc. and 3152383 Canada Inc. On December 1, 2000, the Corporation changed its corporate name to "H₂O Innovation (2000) Inc." and then changed its corporate name again on December 4, 2008, to "H₂O Innovation Inc.".

On March 1, 2006, the Corporation completed a consolidation of its common shares on the basis of ten (10) common shares then issued and outstanding for one (1) new common share. Terms and conditions of warrants and stock options then issued and outstanding were adjusted accordingly, as of the consolidation date.

The Corporation's head office is located at 420 Boul. Charest East, Suite 240, Quebec City, Province of Quebec, G1K 8M4, Canada.

3.2 Organizational Chart

The following organizational chart shows the principal subsidiaries of the Corporation and their jurisdiction of incorporation as of September 28, 2011.



4. GENERAL DEVELOPMENT OF THE BUSINESS

4.1 The Corporation

H₂O Innovation designs, produces, and installs customized integrated water treatment solutions targeting multiple markets. Whether it is for the production of drinking water, the treatment of wastewater, or industrial processes, the solutions provided by H₂O Innovation intend to combine the best available expertise with the most advanced membrane technology and products. The Corporation's reliable, state-of-the-art, eco-friendly solutions are intended to streamline end-user's costs, optimize the water treatment, and maximize the efficiency, the performance and the longevity of a water treatment system.

H₂O Innovation intends to pursue its development in the water treatment industry with a complete portfolio of membrane technologies and bioreactor process targeting municipal, industrial and commercial sectors. H₂O Innovation intends to become a leader in North-America, working through consulting engineers, at customizing water treatment systems based on comprehensive analytical and strong technical capabilities aimed at maximizing the efficiency, the performance, and the longevity of a water treatment system.

4.2 Three-year history

Over the past three years, the following events significantly influenced the general development of the Corporation's business:

Financial year ended June 30, 2011:

- Merger on July 1, 2010 of all U.S. operating subsidiaries of the Corporation: Membrane Systems Inc., Wastewater Technologies Inc. and Itasca Systems Inc. These entities are now continuing their activities under the name of H₂O Innovation USA, Inc. This merger streamlined the Corporation's structure and several of its administrative and financial processes, increased efficiency, brought better integration of its operations, and a reinforced, unified brand image for all its activities related to the sale of water treatment systems. This transaction is more thoroughly described in a press release dated June 29, 2010 available on the Corporation's website and on SEDAR; and
- Execution on June 30, 2011 with Fondaction, *Le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* ("Fondaction") of an unsecured subordinated loan in a principal amount of \$2 M. The Corporation used a portion of the loan to repay a convertible unsecured debenture issued in favour of an institutional investor as part of a private placement completed in July 2008. This transaction is more thoroughly described in a press release dated June 30, 2011, available on the Corporation's website.

Financial year ended June 30, 2010:

- Execution on February 1, 2010 of a joint venture agreement with Chembond Chemicals Limited to create H₂O Innovation India Limited ("H₂O India"). Pursuant to this joint venture agreement, H₂O Innovation owns 49% of H₂O Innovation India Limited. This transaction is more thoroughly described in a press release dated February 1, 2010 available on the Corporation's website and filed on SEDAR on the same day; and
- Completion on June 29, 2010 of a private placement of common shares for gross proceeds of \$2.1 M. This transaction is more thoroughly described in a press release dated June 24, 2010 available on the Corporation's website and filed on SEDAR on the same day and in a press release dated June 29, 2010 available on the Corporation's website and attached to a material change report dated and filed on SEDAR on June 30, 2010.

Financial year ended June 30, 2009:

- Acquisition on July 3, 2008 of Itasca Systems, Inc., a Minnesota based corporation specialized in process water treatment systems for industries, mainly in the energy sector. This transaction is more thoroughly described in a material change report and in a press release dated July 3, 2008 available on the Corporation's website and filed on SEDAR on July 3, 2008;
- Completion on July 10, 2008 of a private placement through the issuance of a \$1.5 M convertible debenture to SIPAR Inc. This transaction is more thoroughly described in a material change report and in a press release dated July 10, 2008 available on the Corporation's website and filed on SEDAR on July 11, 2008;
- Completion on September 15, 2008 of a \$3.5 M term loan with a Canadian chartered bank. This transaction is more thoroughly described in a press release dated September 15, 2008 available on the Corporation's website and filed on SEDAR on September 17, 2008;
- Completion, on June 4, 2009 of a \$2.75 M private placement of subscription receipts, which have been converted into units, each unit consisting of one common share in the share capital of the Corporation and one common share purchase warrant on June 17, 2009, following the closing of the acquisition of substantially all of the assets of Professional Water Technologies, Inc. ("PWT"). This transaction is more thoroughly described in a press release dated June 4, 2009 available on the Corporation's website and filed on SEDAR on June 5, 2009;
- Acquisition, on June 17, 2009, of substantially all of the assets of PWT, a California based company that develops, manufactures and sells specialty membrane pre-treatment specialty chemicals and consumables for industrial, municipal and commercial applications. This transaction is more thoroughly described in a press release dated June 19, 2009 available on the Corporation's website and filed on SEDAR on June 19, 2009 and in a material change report dated and filed on SEDAR on June 23, 2009;
- Completion, on June 19, 2009 of a \$1.5 M private placement of units consisting of one common share in the share capital of the Corporation and one common share purchase warrant. This transaction is more thoroughly described in a press release dated June 19, 2009 available on the Corporation's website and filed on SEDAR on June 19, 2009 and in a material change report dated and filed on SEDAR on June 23, 2009; and
- Completion on June 30, 2009 of a \$2.5 M debt financing by way of an unsecured term loan with a Canadian financial institution and private investors. This transaction is more thoroughly described in a press release dated June 30, 2009 available on the Corporation's website and filed on SEDAR on June 30, 2009.

4.3 Products and services offered by the Corporation

H₂O Innovation has developed its business model on two complementary and related areas of activity: (i) the sale of water treatment systems and (ii) the sale of specialty chemicals and consumables.

4.3.1 Water treatment systems

The Corporation designs, manufactures, and markets systems and equipment for the production of drinking water, the reclamation of water, desalination, the production of industrial process water and the treatment of wastewater (sanitary and industrial).

The majority of the systems sold by the Corporation are custom designed. Each system is tailored to the customers' requirements and to the specific characteristics of the water to be treated. Mostly based on membrane filtration and bioreactor technologies, these systems combine the varied technological knowledge, know-how and expertise offered by the Corporation to its customers.

In addition, H₂O Innovation holds a series of patented technologies such as the Bio-BraneTM and the Bio-WheelTM; and proprietary technologies such as the Bio-FosseTM, the RBR and the Bio-Tour. These technologies for applications requiring bioreactors allow the Corporation to target the wastewater and water reuse markets.

The water treatment systems area of activity accounted for 58% in 2011 and 63% in 2010 of the total consolidated revenue of the Corporation. The revenues of this area were \$16.8 M in 2011 and \$17.5 M in 2010.

4.3.2 Specialty chemicals and consumables

The Corporation sells products and membrane filtration systems' spare parts to serve both the needs of its installed customer base and of other customers who have not previously purchased water treatment systems. These spare parts include pumps, valves, membranes, filters, media, and any other replacement parts of a water (or wastewater) treatment system. The Corporation also synthesizes and manufactures a unique patent-pending product line of sustainable specialty chemicals for membrane pre-treatment applications (antiscalants), and develops specific blends for maintenance, preservation, and cleaning of membrane systems that maximize the operating efficiency, economy, performance, and longevity of reverse osmosis systems. The Corporation's specialty chemicals for membrane filtration systems are marketed under the brand name Professional Water Technologies.

The specialty chemicals and consumables activity sector accounted for 42% in 2011 and 37% in 2010 of the total consolidated revenue of the Corporation. The revenues of this sector amounted to \$12 M in 2011 and to \$10.2 M in 2010.

4.4 Markets, distribution methods, suppliers and customers

The Corporation is active in the United States, in Canada and on the international stage. During the financial year ended June 30, 2011, 57% of the Corporation's sales were recorded in the United States, 30% were in Canada and 13% was elsewhere. During the previous financial year, ended June 30, 2010, the Corporation recorded 62% of its sales in the United States, 27% in Canada, and 11% elsewhere.

H₂O Innovation's products and services are sold in the municipal, commercial and industrial water treatment markets. In these markets, the Corporation mainly serves: municipalities and local governments; communities and private developments; energy and power plants; automotive; oil & gas; mining and workers camps, and other industrial segments.

The Corporation's products and services are mainly sold directly to its customers by its internal sales force. Customers can mainly be categorized in two broad categories: consulting engineering firms, construction companies and engineering procurement companies on one hand and end-users on the other hand. End-users include industrial and manufacturing companies, commercials clients, water utilities, municipalities and local governments.

The Corporation also uses a network of nearly 20 external sales representatives to sell its wastewater treatment equipment and systems in Canada and the United States. Also, on January 20, 2010 the Corporation announced that it had entered into a non-exclusive sales representative agreement with 3M Purification Inc. 3M Purification has been representing H₂O Innovation's complete line of water treatment systems and specialty chemicals and consumables in the oil & gas and automotive assembly markets. This agreement, which was initially limited to the territory of the United States, was extended to Canada on March 25, 2010.

For its specialty chemicals and consumables, the Corporation has developed a distribution network of 13 international distributors covering the following countries: Australia, Thailand, South Korea, China, Taiwan, India, United Arab Emirates, Israel, Cyprus, Greece, Turkey, East Africa, South Africa, Germany, Mexico and Colombia. These distributors market and sell the Corporation's Professional Water Technologies line of specialty solutions for membrane pre-treatment, cleaning and maintenance that are part of its specialty chemicals and consumables business sector. Products sold locally by these international distributors are manufactured by the Corporation at its Vista, CA facility and shipped to distributors.

The Corporation is not relying on any single customer. For the financial year ended June 30, 2011, no customer accounted for more than 10% of the Corporation's revenue. For the financial year ended June 30, 2010, no customer of the Corporation accounted for more than 10% of its revenue.

The Corporation does not deem to be exposed to seasonality risks for its sales. The Corporation finds itself mildly exposed to economic cycles, as many other companies doing business in the field of infrastructure and utilities. In order to minimise the effects of these economical cycle the Corporation has balanced its activities between municipal, commercial and industrial markets, and a sound business mix combining systems sales to sales of specialty chemicals and consumables – which are generally recurring in nature. This business mix, which is a result of the acquisitions completed by the Corporation over the last few years, along with its organic growth over the same period, should enable the Corporation to manage its exposure to economic cycles.

The Corporation works with a diverse network of suppliers located in Canada and in the United States and is not dependent on a single supplier for the supply of any raw material or component. The Corporation frequently monitors its network of suppliers, their technical capabilities and the competitiveness of their pricing and sales conditions. The Corporation also works with new suppliers on an ad hoc basis throughout the year according to each project's specific manufacturing requirements.

4.5 Strategic orientation

Over the course of the financial year 2012, the Corporation intends to continue its development by relying on its historical growth strategy which combines organic growth with external growth coming from targeted acquisitions or strategic partnerships.

In North America, which is the Corporation's main geographical market, H₂O Innovation's strategic focus will be to leverage its hybrid offering of water treatment systems and consumables. This focus began following the acquisition of PWT in June 2009. The Corporation intends to continue to leverage its water treatment systems customer base to generate sales of specialty chemicals and consumables, sales that are generally recurring and thereby bring additional predictability to its business model. The Corporation's close and on-going relations with its customers of specialty chemicals and consumables have also brought additional opportunities to sell systems. The synergies between the Corporation's two areas of activity are efficient and the Corporation wishes to increase these synergies during the financial year 2012. The Corporation presents itself to its customers as a complete membrane filtration solution provider, able to provide them with the complete spectrum of systems, equipment and consumables, while also supporting them in the operation of their systems, seeking to continuously improve operational performance.

The Corporation will also focus on increasing its presence in niche markets, such as energy and power generation, ethanol production, oil & gas, and mining. In the municipal market, in order to increase its sales of water and wastewater systems, the Corporation intends to focus on smaller US communities, developing relationships with smaller-sized regional and local engineering firms. These smaller engineering firms often rely more on knowledgeable and experienced water treatment systems providers to offer their services to their municipal customers, compared to larger national or international engineering firms, which often have their own internal team of specialized water treatment engineers. In the industrial market, the Corporation will increase its focus on industrial segments with complex water problems, seeking to provide them customized solutions and to optimize the operation of their water treatment systems. The Corporation will also continue to work in order to develop new applications for its existing technologies.

During the financial year ended June 30, 2011, the Corporation continued to progressively increase its international business. In February 2010, the Corporation and Chembond Chemicals Limited ("Chembond"), a leading Indian manufacturer and supplier of specialty performance chemicals to industries across India and a provider of technical and operation and maintenance services, created H₂O Innovation India, a joint venture owned at 49% by the Corporation and at 51% by Chembond. H₂O Innovation India provides water systems and solutions to industrial customers in India. H₂O Innovation India will also serve as a sourcing and procurement platform for the Corporation, enabling it to leverage its supply chain by identifying new suppliers in Asia and establish purchasing relationships with them for key system components and parts. H₂O Innovation India may also be called upon as sub-contractor for the Corporation's international projects, with the objective to increase the Corporation's competitiveness on systems to be delivered to end-users located outside of North America. H₂O Innovation India inaugurated in April 2011 a 10,000 sq. ft. manufacturing plant near Vadodara, State of Gujarat, India.

In the financial year 2012, the Corporation intends to continue to develop its international activities with existing resources while also seeking to develop new strategic partnerships or complete potential acquisitions. The acquisition of PWT in June 2009 has provided the Corporation with a well-established international distribution network for its line of specialty chemicals and consumables, a network it intends to grow significantly in the financial year 2012. The Corporation has the following key objectives for its area of activity related to specialty chemicals and consumables for the financial year 2012: increase support to its distributors, continue to expand its network of distributors in more countries and regions and leverage its hybrid offering of water treatment systems and consumables, cross-selling to customers of its two areas of activity. Finally, for its patented wastewater technologies, the Corporation will evaluate the opportunity to licence its technologies to water treatment companies operating in foreign countries, thus expanding the size of its potential market.

The Corporation's development strategy for the financial year 2012 and beyond seeks to make its business model evolve from being mainly a manufacturer of water treatment systems and consumables to being a complete water treatment customer-focused company. With its hybrid offering, H₂O Innovation provides its customers support in the operation of the water treatment systems and continuous improvement on the performance of the equipment, in a broader and deeper geographical coverage.

4.6 Competition

Part of the Corporation's main competitors in the water treatment industry are large, multinational entities such as General Electric (USA), Veolia (France), Degremont (France), Pall Corporation, (USA), Doosan (South Korean) and Siemens (Germany). Locally, the Corporation also competes with regional players such as Harn R.O. Systems in the Southeast of the United States; FilterBox in Western Canada and Dagua in Quebec, amongst others. For certain specific technologies or in certain niche markets, the Corporation competes with specific players such as Westech for its bioreactor wastewater treatment technologies and Nalco, GE Betz, Genesys, Avista, and King Lee Technologies for its membrane filtration consumables and maintenance solutions technologies.

Meanwhile, despite its modest size, H₂O Innovation believes that it is one of the few companies in the water treatment industry in North America to offer such a broad and complete offering with such a significant number of references. In North America, its size enables the Corporation to be competitive in a niche market relatively less occupied by its larger multinational competitors. In normal economic conditions, these larger entities tend to avoid customizing solutions to customers needs and tend to embrace large scopes of work; therefore they are usually, in H₂O Innovation's opinion, less competitive on contracts valued \$5 M and less. On their side, the smaller regional players are usually, in H₂O Innovation's opinion, less competitive on contracts valued over \$0.5 M. The mid-sized projects (from \$0.5 M to \$5 M) are the niche market segment targeted by H₂O Innovation over the next years, for both municipal and industrial applications.

5. NARRATIVE DESCRIPTION OF THE BUSINESS

5.1 General business

H₂O Innovation's mission is to provide safe, integrated, customized water treatment solutions in a changing environment.

H₂O Innovation's vision is to become the best in North America, working through consulting engineers, at customizing water treatment systems based on comprehensive analytical and strong technical capabilities aimed at maximizing the efficiency, performance and longevity of systems and by this, create sustained and growing value for its shareholders and stakeholders.

H₂O Innovation designs, manufactures, and services complete water treatment systems, including installation, start-up, operation, maintenance and supply of spare parts and cleaning solutions. Treatment systems may combine ultra-filtration, nanofiltration and reverse osmosis technologies to conventional processes in order to meet specific and general requirements of municipalities, industrial customers, governmental agencies, private real estate developers, and public services utilities.

The systems designed, manufactured and serviced by H₂O Innovation cover several applications such as water desalination and purification of brackish water, the filtration of surface or underground water, the mechanical removal of suspended solids and the reclamation of industrial and sanitary wastewater, as well as the production of industrial process water.

5.2 Production methods and specialized expertise

The Corporation believes that it holds competitive advantages over its main competitors as a result of the accumulated knowledge and know-how of its people, its reference list counting more than 550 installed systems to date, its patented technologies and its scalable manufacturing capacity. The Corporation can offer several different solutions for drinking water production, process water production or wastewater treatment and is also able to service systems in these fields.

With its know-how, its technologies and its experience, the Corporation's water treatment systems and its line of consumable products meet or exceed all federal and local regulatory requirements for drinking water production and wastewater treatment in various private and public sectors in Canada and in the United States. The Corporation is specialized in the design of customer tailored systems. In its two production facilities dedicated to manufacturing and assembling water treatment systems, a 65,000 sq. ft. plant located in Ham-Nord (Quebec) and a 37,000 sq. ft. plant located in Minneapolis (Minnesota), the Corporation benefits from a specialized manpower able to meet customer requirements in short lead-times, thus offering a competitive advantage.

Also, H₂O Innovation India, the Corporation's Indian joint-venture, inaugurated in April 2011 a 10,000 sq. ft. manufacturing plant near Vadodara, State of Gujarat, India. This plant manufacturing capabilities are equivalent to those of the Corporation's plants located in Ham-Nord (Quebec) and Minneapolis (Minnesota). This additional production capacity enables H₂O Innovation India to locally ensure detailed engineering, together with assembly, welding, pipe fitting, in-house performance testing and programming, among other operations.

The Corporation also manufactures, in its 12,000 sq. ft. production facility in Vista (California), its sustainable specialty chemicals for membrane pre-treatment and cleaning applications. In this facility, the Corporation develops specific blends for maintenance, preservation, and cleaning of membrane systems that maximize the operating efficiency, economy, performance and longevity of reverse osmosis systems.

H₂O Innovation can offer partial or complete systems and services packages to its customers, from the pilot plant to the design, assembly, installation and customer after-sales service which includes providing cleaning solutions for membranes systems treatment and membrane forensics services for the inspection of membrane elements.

5.3 Employees

As of June 30, 2011, the Corporation had 98 employees in Canada and the United States including more than 25 engineers specialized in innovative water treatment technologies such as membrane filtration, membrane biological reactors and membrane cleaning solutions.

H₂O Innovation India, the Corporation's Indian joint-venture, had 22 employees as of June 30, 2011.

5.4 Risks and uncertainties

The following risks and uncertainties relating to the Corporation are not comprehensive; the Corporation operates in a constantly evolving sector, which can cause new risks and uncertainties to arise. The Corporation is not in position to neither predict these risks and uncertainties, nor evaluate their impact, as the case may be, on its activities, nor to evaluate to what extent may a factor, or a combination of factors, cause actual results to differ from those presented in the forward-looking statements. Therefore, the Corporation's shareholders should not unduly rely on these forward-looking statements.

Current Global Financial Conditions

The Corporation offers products and services that are primarily designed for the non-residential construction market. Non-residential construction includes municipal, industrial, commercial and institutional sectors. Activity in the non residential construction market is closely tied to overall changes in the economy. Economic growth and cycles have a direct impact on the level of construction that takes place on an annual basis. The economic recovery, which follows one of the worst economic and financial crises, still remains fragile. The Corporation believes that the water industry has a long-term sustained growth curve. During the financial year ended June 30, 2011, investments in water treatment systems have considerably increased; but on a short term basis such growth may be uneven due to the current instability of the global markets.

In addition, the current challenging global financial conditions have been characterized by increased volatility. The difficulties met by financial institutions have contributed to a reduction in liquidity among all financial institutions and have reduced the availability of credit to those institutions and to the issuers who borrow from them. These factors may impact the ability of the Corporation to obtain equity or debt financing on terms favourable to the Corporation. As such, continued increased levels of volatility and market turmoil may impact the Corporation's operations and adversely affect the price of the common shares of the Corporation.

Competitive environment

In the markets targeted by the Corporation, competition is based on a number of factors, especially price, technology, application know-how, financing viability, corporate image, product warranty, reliability, distribution network, and after-sale service. Some competitors of the Corporation have the benefit of relying on larger resources, notably financial, than the Corporation's resources. In the past, the Corporation noticed that challenging global financial conditions contributed to reduce the number of water treatment projects and increase the competition as well as the number of companies bidding on each project. If such competitive environment persists, profit margins on projects may be lowered and it may adversely affect the Corporation's business, financial situation and results of operations.

Operating risks

Design and fabrication of water treatment systems involve a high degree of operating risks. Human error in design and fabrication can cause material damage or delays in delivery. The occurrence of any of these events could result in loss of revenue, increased costs and liability to third parties. The Corporation uses software that has improved the design, drafting, estimation and fabrication of its products to minimize human error. The Corporation also controls production quality in its plants and is protected by a general insurance coverage.

Management and employees

The Corporation depends on the skills and experience of its management team and other key employees. The Corporation relies heavily on its ability to attract and retain highly-skilled personnel in a competitive environment. The Corporation may be unable to recruit, retain, and motivate highly-skilled employees in order to assist the Corporation's business, especially sales activities that are essential to the success of the Corporation. Failure to recruit and retain highly-skilled employees may adversely affect the Corporation's business, financial condition and results of operations.

Capacity to secure performance guarantees

In the industry in which the Corporation evolves, it is important for the Corporation to be able to provide required performance guarantees such as bonds or insurance coverages in order to bid for and obtain certain contracts. The capacity of the Corporation to secure performance guarantees depend among other factors on its financial situation and on the collateral guarantees that the Corporation is able to provide to a bonding company. The financial situation of the Corporation and its capacity to provide collateral guarantees can be affected by many different factors and there is no assurance that the Corporation will always be able to provide the required performance guarantees for any project. If required performance guarantees can not be provided and the Corporation can not enter into an agreement with a customer, the Corporation may not be able to execute a project for which it had all required technical skills and competitive pricing.

Capital investment

The business of the Corporation depends in part upon capital investment of its customers. In many cases such capital expenditures are substantial in relation to a customer operating budget. The technologies of the Corporation frequently represent a new solution to a customer's water treatment problems, leading to a need to educate the customer about the solutions of the Corporation. As a result, a significant proportion of the Corporation's business is made up of orders that are large in relation to total revenue and subject to a sale cycle which may exceed one year as well as to deferment and cancellation.

Fixed Price Contracts

The Corporation typically enters into fixed price manufacturing contracts based upon estimates of technical risks and total production costs. Such estimates, if materially inaccurate, can result in potential losses related to fulfilling the contractual obligations of the Corporation.

Implementation of a commercial strategic plan

The commercial strategy of the Corporation aims at leveraging its hybrid offering of systems and consumables, focusing on the development of niche sectors and concluding acquisitions or alliances with players in strategic geographical regions, strong complimentary product lines or business models. The strategic plan of the Corporation should be considered under risks perspective, expenses and difficulties frequently encountered by a developing business. The successful viability of the Corporation's growth strategy may require capital investments larger than those previously expected and nothing warrants that the Corporation will achieve the desired growth level.

Product Liability and Other Lawsuits

The Corporation is subject to a variety of potential product liabilities claims and other lawsuits related with its operations, including liabilities and expenses associated with product defects. The Corporation maintains product liability and other insurance coverage that management of the Corporation believes is generally in accordance with the market practice in its industry, but there can be no assurance that the Corporation will always be adequately insured against all such potential liabilities.

Shortage of Raw Materials

Some of the products manufactured by the Corporation require specialized raw materials. If such raw material is not available or not available under satisfactory terms and the Corporation cannot manufacture and provide its customers with the requested product, sales level and relationships of the Corporation with its customers can be negatively affected.

Development of New Products

From time to time, the Corporation develops new products of a specialized nature that have inherent risks, namely that either the product does not perform as desired or unacceptable reliability issues render the new product un-merchantable; or supplier risk that required components procured from third party vendors do not perform in an acceptable manner, thereby having an adverse impact on marketability of such new products and on the Corporation's product liability.

Acquisition and Expansion Risk

The Corporation may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Corporation will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties. There can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

In connection with acquisitions completed by the Corporation, there may be liabilities and contingencies, which the Corporation failed to discover or was unable to quantify in its due diligence, which it conducted prior to the execution of the acquisition, and the Corporation may not be indemnified for some or all of these liabilities and contingencies. The existence of any material liabilities or contingencies could have a material adverse effect on the Corporation's business, financial condition and results of operations. Furthermore, acquisitions may involve a number of special risks including diversion of management's attention, failure to retain key personnel and unanticipated events or circumstances, some or all of which could have a material adverse effect on the Corporation's performance.

The failure of the Corporation to manage its acquisition or expansion strategy successfully could have a material adverse effect on the Corporation's results of operations and financial condition.

Market Liquidity

There is currently limited active trading in the Corporation's common shares, which could result in a lack of liquidity for those shares. The market price for the common shares of the Corporation could consequently be subject to wide fluctuations. Factors such as the announcement of significant contracts, technological innovations, new commercial products, patents, a change in regulations, quarterly financial results, future sales of common shares by the Corporation or current shareholders, and many other factors could have considerable repercussions on the price of the Corporation's common shares. In addition, the financial markets may experience significant price and value fluctuations that affect the market prices of equity securities of companies that sometimes are unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally may adversely affect the market price of the Corporation's common shares.

Exchange Risk

The Corporation is exposed to exchange risk as a result of its U.S. dollar purchases and sales. To limit the impact of fluctuations of the Canadian dollar over the U.S. dollar and other currencies, the Corporation matches, in general and when possible, the cash receipts in a foreign currency with the cash disbursements in the same foreign currency. The Corporation does not use derivative financial instruments to protect itself from currency fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budgets and cash forecast to ensure that it has sufficient funds to fulfill its

obligations. For its operating activities, the Corporation has contracted long-term debts which will provide sufficient liquidity. For its investing activities, the Corporation will evaluate its liquidity needs when applicable and take the necessary action.

Credit Risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation records allowances, determined on a customer-per-customer basis, at the balance sheet date to account for potential losses.

Interest Rate Risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the floating-rate loans and debts receivable and loans payable. The Corporation manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments.

The deposit certificates, investment certificates, investments, unsecured loans and the convertible debenture bear interest at fixed rates and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The bank loan and the loan with a Canadian chartered bank bear interest at variable rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Technology and regulatory changes

The water treatment industry is characterized by evolving technologies, competition imposed standards and regulatory requirements which have an impact on the demand and compel the Corporation to improve its products and services. The evolution of legal, regulatory or local requirements may render obsolete some products and some water treatment processes offered by the Corporation. The acceptance of new products may also be negatively impacted by the enforcement of new governmental legislation imposing more stringent standards.

The Corporation is also subject to risks associated with the introduction of new products and applications, especially the non-acceptance on the markets, a delay in the development or a malfunction of the products.

Additional financing and dilution

The Corporation does not exclude raising additional funds by equity financing. In addition, 10,179,877 common share purchase warrants and 3,945,000 stock options are currently issued and outstanding.

The exercise of warrants and stock options, as well as any new equity financings, represent dilution factors for present and future shareholders.

6. DESCRIPTION OF THE SHARE CAPITAL

The authorized share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

As of September 28, 2011, 60,145,832 common shares are issued and outstanding.

The following is a brief summary of the attributes of the common shares and the preferred shares. This summary is subject to the more detailed provisions set out in the articles of the Corporation.

6.1 General description

6.1.1 Common shares

The holders of common shares have the right to vote at all meetings of shareholders, with the exception of those meetings at which only the holders of other classes of shares have voting rights. The holders of common shares are entitled to receive and to be paid in money, in shares or in property of the Corporation, out of the monies of the Corporation applicable to the declaration and the payment of dividends, any amount of declared dividend, when and as declared by the Board of Directors of the Corporation. The holders of common shares are entitled to receive the remaining assets of the Corporation upon its liquidation, dissolution, winding-up of the Corporation or any other distribution of its asset.

6.1.2 Preferred shares

Preferred shares may be issued at any time, in one or several series, ranking between themselves, as shares of this specific category upon payment of dividends and assets distribution in the case of Corporation winding-up, liquidation and partial or complete asset distribution among the shareholders. Subject to the provisions of the *Canada Business Corporation Act*, preferred shares do not entitle their holder to vote, to be convened to or to attend shareholders' meetings. The holders of preferred shares of a specific series are entitled to receive, with respect to each financial year or any other period indicated on the articles of amendment related to said series, preferential dividends. The cumulative or non-cumulative characteristic,

rate, amount or calculation method and payment terms of the said preferential dividends will be determined by the applicable articles of amendment. In the event of winding-up of the Corporation, the distribution of its assets in the liquidation process, in whole or in part among shareholders, the holders of preferred shares of any series receive, in cash or in nature, an amount equivalent to the counterpart payable to said issued and outstanding shares, in priority before any distribution to the holders of common shares.

7. DIVIDENDS

The Corporation has not declared any dividend on its common shares since its incorporation and intends to continue reinvesting its future benefits to support its growth.

8. MARKET FOR SECURITIES

8.1 Trading Price and Volume

The common shares of the Corporation are listed on the TSX Venture Exchange Inc. under the symbol “HEO” and on the NYSE Euronext Alternext Exchange in Paris under the symbol “ALHEO”.

The following sets out trading information for each month during the financial year ended June 30, 2011 for the Corporation's publicly traded common shares listed on the TSX Venture Exchange, as well as corresponding monthly volume:

Month	Closing High	Closing Low	Volume
July 2010	\$0.54	\$0.38	481,855
August 2010	\$0.495	\$0.39	585,677
September 2010	\$0.45	\$0.38	806,044
October 2010	\$0.42	\$0.37	868,384
November 2010	\$0.40	\$0.335	1,043,377
December 2010	\$0.365	\$0.32	1,416,821
January 2011	\$0.34	\$0.31	892,561
February 2011	\$0.315	\$0.285	3,105,107
March 2011	\$0.325	\$0.28	2,422,759
April 2011	\$0.32	\$0.285	1,243,007
May 2011	\$0.315	\$0.28	1,016,296
June 2011	\$0.52	\$0.28	6,837,095

The following sets out trading information for each month during the financial year ended June 30, 2011 for the Corporation's publicly traded common shares listed on the NYSE Euronext Alternext Exchange in Paris, France, as well as corresponding monthly volume:

Month	Closing High	Closing Low	Volume
July 2010	€ 0.38	€ 0.33	29,942
August 2010	€ 0.36	€ 0.33	71,182
September 2010	€ 0.35	€ 0.26	110,300
October 2010	€ 0.35	€ 0.30	65,087
November 2010	€ 0.30	€ 0.27	46,640
December 2010	€ 0.28	€ 0.22	201,469
January 2011	€ 0.27	€ 0.22	87,057
February 2011	€ 0.27	€ 0.23	146,469
March 2011	€ 0.26	€ 0.22	81,363
April 2011	€ 0.25	€ 0.22	98,091
May 2011	€ 0.25	€ 0.22	164,576
June 2011	€ 0.28	€ 0.22	194,734

8.2 Prior Sales

On June 30, 2011, the Corporation entered into a loan agreement with Fondaction for an unsecured subordinated loan in a principal amount of \$2,000,000 (the “**Loan**”). As additional consideration for the Loan, the Corporation has issued an aggregate number of 1,000,000 common share purchase warrants. Each such warrant entitles Fondaction to purchase one common share in the share capital of the Corporation at a price of \$0.50 for a period of 30 months following the closing of the transaction.

During the year, the Corporation granted to its key employees, officers and directors a total of 2,035,000 stock options with an exercise price of \$0.50 in accordance with the terms and conditions of its stock option plan.

9. DIRECTORS AND EXECUTIVE OFFICERS

9.1 Directors

Following are the names and city of residence of the directors of the Corporation, the positions and offices held with the Corporation, their principal occupation, the starting date of their mandate as director and the number of voting shares of the Corporation held directly or on which a director had control on as of June 30, 2011 and as of September 28, 2011.

Name and Place of Residence	Principal Occupation	Position and Office held with the Corporation	Director Since	Number of Shares held as of June 30, 2011 and September 28, 2011 ⁽³⁾
Frédéric Dugré Quebec City, Quebec, Canada	President and Chief Executive Officer, H ₂ O Innovation	President and Chief Executive Officer and Director	January 12, 1999	324,074
Philippe Gervais ⁽¹⁾ Montréal, Quebec, Canada	Senior Consultant, The Capital Hill Group (Government Relations Firm)	Chairman of the Board of Directors	December 19, 2001	99,446
John G. Booth ⁽²⁾ London, United Kingdom	Lawyer and Partner, JAS Financial Products L.P. (Conservation Hedge Fund)	Director	January 12, 1999	302,228
André Duquenne Montréal, Quebec, Canada	President, T2ic inc. (Services Company in Technology Transfer Innovation Capital)	Director	December 2, 2004	17,000
Élaine C. Phénix ⁽¹⁾⁽²⁾ Montréal, Quebec, Canada	President, Phénix Capital inc. (Financial Consulting Firm)	Director	December 6, 2006	37,000
Richard A. Hoel ⁽¹⁾ , Naples, Florida, United States	Investor and Lawyer – Of Counsel, Winthrop & Weinstine P.A. (Law Firm);	Director	July 10, 2008	8,371,214
Lisa Henthorne ⁽²⁾ , Tampa, Florida, United States	Chief Technology Officer of Water Standard (Water Desalination Company)	Director	July 12, 2010	0
Laurence E. Gamst ⁽¹⁾ Mendota, Minnesota, United States	General Manager, DS&B Certified Public Accountants, (Consultants & Advisor)	Director	November 10, 2010	2,684,526

⁽¹⁾ Member of the Audit Committee.

⁽²⁾ Member of the Governance, Remuneration and Risks Committee

⁽³⁾ Information provided by each director

Directors are elected on an annual basis by the shareholders. Each director holds office until its successor has been elected, or unless the director resigns or if his or her position becomes vacant by reason of death, dismissal or any other reason.

For the past five (5) years, all the directors of the Corporation held the principal occupation indicated besides their name, with the following exceptions:

- Frédéric Dugré was appointed President and Chief Executive Officer of H₂O Innovation by the Board of Directors on July 10, 2008. Previously, he held the position of Executive Vice President, Chief Financial Officer and Chief Operating Officer of H₂O Innovation since January 12, 1999; and
- Lisa Henthorne has been working as Chief Technology Officer of Water Standard since January 2009. Previously she held the position of Global Director of Desalination for CH2M HILL from July 2004 until December 2008.

As a group, the directors of the Corporation held, as of September 28, 2011, 11,835,488 common shares of the Corporation, representing 19.66% of the issued and outstanding common shares of the Corporation.

9.2 Executive Officers

Following are the names and city of residence of the executive officers of the Corporation, their principal occupation, the starting date of their function as executive officer and the number of voting shares of the Corporation held directly or on which they had control on, as of June 30, 2011 and as of September 28, 2011:

Name and Place of Residence	Position within the Corporation	With the Corporation Since	Number of Shares as of June 30, 2011 ⁽¹⁾	Number of Shares as of September 28, 2011 ⁽¹⁾
Frédéric Dugré Quebec City, Quebec, Canada	President and Chief Executive Officer	January 12, 1999	324,074	324,074
James Peterson Minnetonka, Minnesota, United States	Chief Operating Officer	July 3, 2008	2,808,386	2,808,386
Josée Riverin Quebec City, Quebec, Canada	Director of Finance	November 1, 2010	0	0
Marc Blanchet Quebec City, Quebec, Canada	Secretary and Vice President, Corporate and Legal Affairs	February 27, 2007	42,400	42,400

⁽¹⁾ Information provided by each officer.

For the past five (5) years, all the executive officers of the Corporation held the principal occupation indicated besides their name, with the following exceptions:

- Frédéric Dugré was appointed President and Chief Executive Officer of H₂O Innovation by the Board of Directors on July 10, 2008. Mr. Dugré is one of the founders of H₂O Innovation. Previously, he held a position of Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Corporation since January 12, 1999.
- James Peterson was appointed Chief Operating Officer of H₂O Innovation on July 10, 2008. Previously he was President and Chief Executive Officer of Itasca Systems, Inc since January 13, 2003. Mr. Peterson joined H₂O Innovation following the acquisition of Itasca Systems, Inc. on July 3, 2008.
- Josée Riverin was appointed Director of Finance of H₂O Innovation on February 9, 2011. Previously she served as Corporate Controller at H₂O Innovation from November 1, 2010 to February 8, 2011. Chartered accountant with over 15 years of experience, Ms. Riverin came to H₂O Innovation after holding positions as Director of Financial Reporting at Cossette Inc, from July 2003 until October 2010; and previous to that she was Principal Manager at PricewaterhouseCoopers.
- Marc Blanchet was appointed Corporate Secretary of H₂O Innovation on December 4, 2008. Marc Blanchet joined H₂O Innovation on February 27, 2007 as Director of Corporate and Legal affairs. Before he joined the Corporation, Mr. Blanchet served as a corporate lawyer in private practice law firms in Quebec City and in Paris, France. Mr. Blanchet was admitted to the Quebec Bar in 2003.

As a group, the executive officers of the Corporation held, as of September 28, 2011, 3,174,860 common shares of the Corporation, representing 5.28% of the issued and outstanding common shares of the Corporation.

9.3 Cease trade orders, bankruptcies, penalties or sanctions

Subject to what is stated below, no director, officer of the Corporation or major shareholder of the Corporation whom may affect significantly the control of the Corporation, is or has been, during the ten (10) years preceding the date of this Annual Information Form, a director or executive officer, including a chief executive officer or chief financial officer of a company that: (i) while exercising this function, was subject to a cease trade or similar order or an order to deny the relevant company the right to invoke any exemption under Canadian securities legislation for more than 30 consecutive days, (ii) has been the subject to a cease trade or similar order or an order to deny the relevant company the right to invoke any exemption under Canadian securities legislation for more than 30 consecutive days issued after the director or executive officer ceased to be a director or executive officer because of an event that occurred while the person was exercising such function, (iii), while that person was a director or executive officer or within a year of that person ceasing to act in that capacity, gone bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, was pursued by its creditors, concluded an arrangement or compromise with them, prosecute them, arranged or taken steps to conclude an arrangement or compromise with them, or a receiver, receiver-manager or trustee in bankruptcy was appointed to hold its assets or (iv) went bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, was pursued by its creditors, concluded an arrangement or compromise with them, prosecute them or a receiver, receiver-manager or trustee in bankruptcy has been appointed to hold its assets.

Moreover, no officer or director of the Corporation and principal shareholder of the Corporation whom may affect significantly the control of the Corporation has been imposed a fine or sanctions by a court under the laws of Canada securities or a regulator Canadian securities nor has entered into a settlement agreement with a regulatory authority, nor any other fine or sanctions by a court or regulatory body that might be considered as important by a reasonable investor when making investment decisions.

On November 19, 2002, the *Commission des valeurs mobilières du Québec* imposed a management requested cease trade order towards Frédéric Dugré, John Booth, and Philippe Gervais, forbidding them to execute, directly or indirectly, any activity related to transactions on the securities of the Corporation, resulting from the fact that the Corporation was late in filing its annual financial statements and annual report for the financial year ended June 30, 2002, following a change of the Corporation's auditors. The cease trade order was lifted on December 19, 2002.

André Duquenne was a director of Bigknowledge Enterprises Inc., a public company incorporated under the *Companies Act* (Québec), the common shares of which were listed on the TSX Venture from June 2005 to November 2005. Bigknowledge Inc. filed for bankruptcy in November 2005. André Duquenne was also a director of Groupe Conseil Omnitech Inc., a public company incorporated under the *Companies Act* (Québec), the common shares of which were listed on the TSX Venture from January 2006 to September 2007. Groupe Conseil Omnitech Inc. proceeded with an assignment of its assets for the benefit of its creditors under the provisions of the *Bankruptcy and Insolvency Act*.

10. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Subject to certain proceedings in the normal course of business, the Corporation is not party to any proceedings which would have a material adverse effect, individually or as a whole, on the business, financial situation or operating results. During the financial year ended June 30, 2011, the Corporation has not been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or that would likely be considered important to a reasonable investor in making an investment decision. The Corporation has not entered into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority.

11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Over the past three (3) financial years, the directors and executive officers of the Corporation as well as any person that beneficially owns, or controls or directs, directly or indirectly, more than ten percent (10%) of any class or series of the issued and outstanding voting securities of the Corporation, or any of their associates or affiliates, were part of the following transactions materially affecting the Corporation:

Financial year ended June 30, 2011:

No transaction.

Financial year ended June 30, 2010:

- On June 29, 2010, the Corporation completed a non-brokered private placement with a group of private investors, to which Mr. Richard A. Hoel, director of the Corporation and a shareholder holding more than 10% of the common shares of the Corporation, and Mr. James L. Peterson, Chief Operating Officer of the Corporation, each participated by respectively subscribing to 2,000,000 and 235,295 common shares. Mr. Hoel and Mr. Peterson were treated equally with all the other subscribers to this private placement and did not receive any special remuneration thereunder. This transaction is more thoroughly described in a press release dated June 24, 2010 available on the Corporation's website and filed on SEDAR on the same day and in a press release dated June 29, 2010 available on the Corporation's website and attached to a material change report dated and filed on SEDAR on June 30, 2010.

Financial year ended June 30, 2009:

- On June 4, 2009, the Corporation completed a \$2.75 M private placement of subscription receipts, which have been converted into units consisting of one common share in the share capital of the Corporation and one common share purchase warrant on June 17, 2009. Mr. Richard Hoel, director of the Corporation and a shareholder holding more than 10% of the issued and outstanding common shares of the Corporation, and Mr. James Peterson, Chief Operating Officer of the Corporation, each participated to this private placement by respectively subscribing to 485,000 and 165,000 subscription receipts. Mr. Hoel and Mr. Peterson were treated equally with all the other subscribers to this private placement and did not receive any special remuneration thereunder. This transaction is more thoroughly described in a press release dated June 19, 2009 available on the Corporation's website and filed on SEDAR on June 19, 2009;
- On June 30, 2009 the Corporation completed a \$2.5 M debt financing. Mr. Richard Hoel, director of the Corporation and a shareholder holding more than 10% of the common shares of the Corporation, and Mr. James Peterson, Chief Operating Officer of the Corporation, participated to this financing. Mr. Hoel and Mr. Peterson entered into loan agreements with the Corporation under which the principal amount of the loans of US\$201,502.08 and US\$80,609.97 respectively, bear interest at the annual rate of 11% and are repayable in equal monthly instalments

from June 1, 2010 to June 1, 2014. As additional consideration to the lenders under this debt financing, the Corporation has issued a total of 1,250,000 common share purchase warrants, or one half warrant per Canadian dollar of loan. Mr. Hoel and Mr. Peterson were treated equally with all the other lenders in this financing and did not receive any special remuneration thereunder. This transaction is more thoroughly described in a press release dated June 30, 2009 available on the Corporation's website and filed on SEDAR on June 30, 2009. It is to be noted that Mr. Laurence E. Gamst, which was not linked to the Corporation at this time, also participated to this financing, up to \$67,136.91. Mr. Gamst was treated equally with all the other lenders in this financing and did not receive any special remuneration thereunder.

12. TRANSFER AGENTS AND REGISTRARS

The Canadian transfer agent and registrar of the Corporation is Computershare Investor Services Inc. which holds the register of transaction of the common shares of the Corporation in its offices located in Montreal, Province of Quebec.

The European transfer agent and registrar of the Corporation is Société Générale Securities Services (France) which holds the register of transaction of the common shares of the Corporation in its offices located in Paris, France.

13. MATERIAL CONTRACTS

All contracts entered into closed by the Corporation during the last financial year are considered as entered into during the normal course of business, with the following exception.

- Unsecured subordinated loan agreement of \$2,000,000 with Fondaction. The Corporation used a portion of the loan to repay the convertible unsecured debenture issued in favour of an institutional investor as part of a private placement completed in July 2008. This transaction is more thoroughly described in a press release dated June 30, 2011 available on the Corporation's website.

14. INTERESTS OF EXPERTS

During the financial year ended June 30, 2011, the auditors of the Corporation were PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l. chartered accountants at their Quebec City office. The auditors are independent in accordance with the rules of the Code of Ethics of Chartered Accountants of Quebec.

15. AUDIT COMMITTEE

15.1 General

The Audit Committee of Board is comprised of four independent directors and is responsible for reporting on certain aspects of the stewardship of the Corporation as delegated by the Board of Directors.

15.2 Mandate of the Audit Committee

The Mandate of the Audit Committee is attached as Schedule "A" to this Annual Information form.

15.3 Composition

The members of the Audit Committee are:

Mrs. Élaine C. Phénix (Chairperson)
Mr. Richard A. Hoel
Mr. Philippe Gervais
Mr. Laurence E. Gamst

Each of these members is independent and financially literate.

Élaine C. Phénix holds a Bachelor of Arts with honour degree from the Collège Jean-de-Brébeuf, a Fellow degree from the Canadian Securities Institute, and an ASC degree (certified corporate director) from the Collège des administrateurs de sociétés. Mrs. Phénix counts over twenty-five (25) years of experience in the Canadian capital market, especially as Senior Vice-President, Underwriting, at Lévesque, Beaubien, Geoffrion Inc. (now National Bank Financial Inc.) and as Senior Vice-President, Capital Development at the Montreal Exchange. Since 1999, Mrs. Phénix is consultant in assets management and President of Phénix Capital Inc. Mrs Phénix is currently member of seven (7) boards of directors, including the board of RBC Asset Management Inc. and the Professional Liability Insurance Fund of the Barreau du Québec, and serves on several audit and governance committees.

Richard A. Hoel holds a J.D. from Harvard Law School and a B.A. in Economics from Hamline University. He was a founding partner of Winthrop & Weinstine, a Minneapolis law firm of approximately 85 lawyers. His law practice focused on representing corporate and entrepreneurial customers particularly in the area of buying, restructuring and selling companies. In addition to his law practice, he has been an owner, director and investor in numerous companies in various industries for over twenty years. As part of this process, he has been personally and professionally involved in the business, tax, securities

and regulatory issues associated with acquisitions, divestitures and restructurings. He has also been the Vice Chairman and long-time Trustee of Hamline University.

Philippe Gervais graduated from the University of Montréal in 1988 with a Bachelor of Science in Economics. From 1988 to 1992, he worked for the Minister of National Revenue as Special Assistant responsible for the implementation of the GST. His government service continued with positions as Executive Assistant to the Federal Minister of Public Works and Government Services and then as Political Attaché to the Deputy Premier and President of Treasury Board of Québec. In 1994, Mr. Gervais joined the Capital Hill Group, a government relations firm, as a senior consultant. His vast experience was called upon to modify legislation, strategically positioning issues and assisting in selling goods and services to governments in Canada and abroad.

Laurence E. Gamst graduated from the University of Minnesota in 1976. He is a Certified Public Accountant and an active member of the American Institute of Certified Public Accountants and Minnesota Society of Certified Public Accountants. In 1976, Mr. Gamst joined DS&B Certified Public Accountants, Consultants & Advisors, where he now acts as Managing Principal. Mr. Gamst uses his vast financial, business ownership and management experience to set and achieve the firm's strategic direction. In addition, he utilizes his business advisory, direct ownership and financial expertise to proactively help clients with strategic planning, operations, succession and financing issues. Mr. Gamst was instrumental in developing DS&B's healthcare specialty, and the firm is now recognized as one of the state's leading healthcare consulting teams. Mr. Gamst is also a private investor and, with partners, invests and acquires privately-owned operating companies.

15.4 Fees of the Auditor

During the past two years, the Corporation paid the following fees to its auditors for services rendered:

Fees	Financial year ended June 30, 2011	Financial year ended June 30, 2010
1. Audit fees ⁽¹⁾	\$79,897	\$112,450
2. Audit-related fees ⁽²⁾	\$68,084	\$64,590
3. Tax fees ⁽³⁾	\$46,944	\$82,302
Total fees	\$194,925	\$259,342

(1) Audit fees include all fees incurred in respect of audit services, being the professional services rendered by the Corporation's auditors for the audit of the Corporation's annual financial statements and those of the Corporation subsidiaries and the review of the Corporation's quarterly financial statements as well as services normally provided by the Corporation external auditors in connection with statutory and regulatory filings and engagements;

(2) Audit-related fees include the aggregate fees billed for assurance and related services by the Corporation's external auditors that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under "Audit fees";

(3) Tax fees include the aggregate fees billed for professional services rendered by the Corporation's external auditors for tax compliance, tax advice, and tax planning.

15.5 Pre-approval policies and procedures

The mandate of the Audit Committee set out in Schedule A provides that the Audit Committee shall approve the hiring of the auditor. This mandate also prohibits the Corporation to use the external auditors to obtain services non audit related without the pre-approval of the Audit Committee.

16. ADDITIONAL INFORMATION

Additional information regarding the Corporation is available on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities of the Corporation and securities authorized under equity compensation plans is contained in the Corporation's information circular for its annual meeting of shareholders to be held on December 7, 2011. Additional information is also provided in the Corporation's financial statements and MD&A for the financial year ended June 30, 2011, or by request to the Investor Relations Department, 420, boul. Charest East, Suite 240, Quebec (QC) G1K 8M4.

Schedule “A”: MANDATE OF THE AUDIT COMMITTEE

The Audit Committee of the Board of directors is composed of three outside directors and is responsible for reporting on certain aspects of the stewardship of the Corporation as delegated by the Board of Directors. All the members of the Audit committee should possess sufficient knowledge to be able to read and understand the financial statements. At least one of the members of the committee should have « related accounting or finance expertise » for having occupied functions in the accounting or finance sectors, the necessary accounting professional certification or any other comparable experience allowing the acquisition of the professional qualifications and experience, including the occupation of the position of Chief Executive Officer, Financial Officer or officer with financial responsibilities, and be knowledgeable to analyze and understand a complete set of financial statements.

The members of the committee are re-appointed each year by the Board of directors at the first meeting of the Board following the Annual General Meeting of the shareholders or at another meeting, if a vacancy occurs. The Board of directors also appoints a chairman among the three designated directors.

The Board of Directors retains plenary authority and power to do all lawful acts and things that are not by law or otherwise directed or required to be exercised or done by the shareholders of the Corporation or in some other manner.

All directors shall act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Definition of Responsibilities

In carrying out its responsibilities, the Audit Committee of the Board shall have the following specific responsibilities:

1. The oversight of the qualifications and independence of the outside auditors of the Corporation and approval of the terms and conditions of their audit and non-audit service engagements as required by and in accordance with applicable laws and regulations of the stock exchange and of securities regulatory authorities on which the Corporation lists its securities;
2. Obtain an annual report from the External auditors listing all the services and including all related expenses provided to the Corporation, other than those related to the internal audit;
3. The prior approval of any service non-related to the audit and required by the Corporation;
4. Review the competency and adequacy of the accounting personnel to discharge the Corporation responsibility with the necessary regulatory bodies in consultation with the President & CEO and the external auditors;
5. The assessment of the performance of the independent auditors and the filling of any vacancy in the office of the independent auditor between shareholders' meetings;
6. The recommendation of the annual appointment or, if appropriate, the removal, of the independent auditors of the Corporation to the shareholders of the Corporation for their approval in accordance with applicable laws;
7. The Audit committee in consultation with management and the external auditors prepare an annual audit plan to determine the work to be done by the auditors and the monitoring of certain aspects of the internal control of the Corporation;
8. The oversight of the reliability and integrity of accounting principles and practices followed by management, financial statements and other financial reporting, and disclosure practices followed by management;
9. Meet privately with the external auditors on an annual basis or at any time when deemed necessary to review the results of their finding in their internal audit;
10. The review and recommendation for approval of the annual audited consolidated financial statements of the Corporation and, as required in accordance with applicable laws as well as the approval of the quarterly un-audited consolidated financial statements of the Corporation;
11. Investigate any claims originating from third parties, the income tax departments, etc. and establish their real or potential impact on the results of the Corporation and ensure proper annotations are made to the financial statements;
12. The review and recommendation for approval of prospectuses, annual information forms, annual reports or other applicable forms, as the case may be, including proxy circulars and proxy statements sent to shareholders of the Corporation. The review of management's discussion and analyses of financial condition and results of operations and, any other material disclosure documents as determined by the Board of Directors from time to time;
13. Any other matter as delegated by the Board, and;
14. Report to the Board of Directors on each and all meetings on a timely and regular basis.

General

In discharging its duties and responsibilities, the Audit Committee is expected to be fully diligent in its oversight to avoid fraud or abuse. Accordingly, the Board may conduct such examinations, investigations or inquiries, and engage such special legal, accounting or other advisors, at the expense of the Corporation, at such time or times and on such terms and conditions as the Board of Directors considers appropriate.