



**ANNUAL INFORMATION FORM**

For the financial year ended June 30, 2013

September 24, 2013

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## 1. GENERAL

In this Annual Information Form and unless the context otherwise requires, the words "Corporation" or "H<sub>2</sub>O Innovation" refer collectively to H<sub>2</sub>O Innovation Inc. and its subsidiaries.

Products and services offered by the Corporation are thoroughly described on its website at [www.h2oinnovation.com](http://www.h2oinnovation.com). Copies of each press release issued by the Corporation are also available on the website. 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 verified 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", "if", "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 and actual results may be consistent with these forward-looking statements. Accordingly, these statements 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) competitive environment; (ii) operating risks; (iii) fixed price contracts entered into by the Corporation; (iv) the Corporation's capacity to secure performance guarantees; (v) the Corporation's management and employees; (vi) capital investment by the Corporation's customers; (vii) liquidity; (viii) current global financial conditions; (ix) implementation of its commercial strategic plan by the Corporation; (x) credit; (xi) potential product liabilities and other lawsuits to which the Corporation may be subject; (xii) additional financing and dilution; (xiii) market liquidity of the Corporation's common shares; (xiv) shortage of raw materials; (xv) development of new products; (xvi) acquisition and expansion; (xvii) foreign currency; (xviii) interest rate; and (xix) technology and regulatory changes.

## 3. CORPORATE STRUCTURE

### 3.1 Name and incorporation

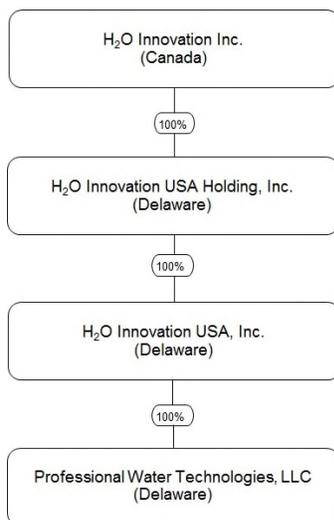
The Corporation was incorporated under the name "Hebron Fjord Resources Inc." by Articles of Amalgamation under the *Canada Business Corporations Act* on August 23, 1995, and results from the amalgamation of Chastel Resources Inc. and 3152383 Canada Inc. On December 1, 2000, the Corporation changed its corporate name to "H<sub>2</sub>O Innovation (2000) Inc." and then changed its corporate name again on December 4, 2008, to "H<sub>2</sub>O 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, since December 15, 2011, at 330 Saint-Vallier Street East, Suite 340, Quebec City, Province of Quebec, G1K 9C5, Canada.

### 3.2 Organizational Chart

The following organizational chart shows the principal subsidiaries of the Corporation and their respective jurisdiction of incorporation as of September 24, 2013.



## 4. GENERAL DEVELOPMENT OF THE BUSINESS

### 4.1 The Corporation

As a complete solution provider, H<sub>2</sub>O Innovation designs, produces, and installs customized integrated water treatment solutions targeting multiple markets. Whether it is for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater, the solutions provided by H<sub>2</sub>O 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.

H<sub>2</sub>O Innovation's vision is to become the best in North America at providing membrane-related water treatment solutions and technologies and its mission is to provide safe and integrated water treatment solution and outstanding customer care in order to secure long-term relationships.

### 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, 2013:

- Termination on May 23, 2013 of the joint venture in India. H<sub>2</sub>O Innovation sells its participation of 49% in the Indian joint venture formerly known as H<sub>2</sub>O Innovation India Limited. This transaction is described in a press release dated May 28, 2013 available on the Corporation's website.

#### Financial year ended June 30, 2012:

- Elimination on June 15, 2012 of the Chief Operating Officer position. The Corporation streamlines its organizational structure and eliminates the position of Chief Operating Officer, enhancing its focus on reaching operational excellence. Accordingly, the Corporation announces the departure of James L. Peterson, Chief Operating Officer. This event is more thoroughly described in a press release dated June 15, 2012 available on the Corporation's website.
- Renewal and extension on February 8, 2012 of the Corporation's credit facilities comprised of a total of \$4 million revolving credit facility in Canadian and U.S. currencies – up from its previous \$3 million facility. The Corporation uses this facility to finance its normal course of business. The financing is provided by National Bank of Canada, the Corporation's current commercial bank with whom it has developed an enduring relationship over the last 4 years. This transaction is more thoroughly described in a press release dated February 8, 2012 available on the Corporation's website and on SEDAR.

#### 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 H<sub>2</sub>O 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 Fondation, *Le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* ("Fondation") 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.

### **4.3 Products and services offered by the Corporation**

H<sub>2</sub>O Innovation has developed its business model on two synergetic and related areas of activity: (i) the sale of water treatment systems and (ii) the sale of specialty chemicals and consumables. In addition to these two main areas of activity, H<sub>2</sub>O Innovation has also been able to position itself as a key player in the maple syrup industry.

#### 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, H<sub>2</sub>O Innovation holds a series of patented technologies such as the Bio-Brane™ and the Bio-Wheel™; and proprietary technologies such as the Bio-Fosse™, the RBR and the Bio-Tour. These technologies for applications requiring bioreactors allow the Corporation to target the wastewater and water reuse markets.

During the last financial year, H<sub>2</sub>O Innovation designed the FiberFlex™ and developed a containerized membrane bioreactor. The FiberFlex™ consists of a new skid that provides interchangeability and accommodates several types of ultrafiltration modules similar to reverse-osmosis elements. For its part, the containerized membrane bioreactor is an advanced wastewater treatment solution that can meet or exceed typical wastewater effluent regulations throughout North America. Fully integrated in a standard shipping container, this containerized membrane bioreactor can be easily transported to an isolated work site or to remote communities with access problems.

The water treatment systems activity sector accounted for 63.5% in 2013 and 67.4% in 2012 of the total consolidated revenues of the Corporation. The revenues of this area were \$22.9 M in 2013 and \$24.2 M in 2012.

#### 4.3.2 Specialty chemicals and consumables / Maple syrup industry

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 from the Corporation. 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 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™.

In this division, the Corporation also includes the revenues coming from the sale of equipment for the production of maple syrup. H<sub>2</sub>O Innovation markets its reverse osmosis technology in the maple syrup industry. The use of this technology for the benefit of the maple syrup producer's allows the Corporation to expand its business activities in an industry sector where its technology may be applied. The Corporation offers a complete line of maple syrup equipment that meets the maple syrup producer's needs, such as evaporators, reverse osmosis separators, membranes, fitting, tubing, tanks, press filters and other equipment related to the maple syrup industry. H<sub>2</sub>O Innovation differs itself with innovative products.

The specialty chemicals and consumables and the maple syrup industry activity sectors accounted for 36.5% in 2013 and 33.6% in 2012 of the total consolidated revenues of the Corporation. The revenues of this sector amounted to \$13.2 M in 2013 and to \$11.7 M in 2012.

#### 4.4 Markets, distribution methods, suppliers and customers

The Corporation is active in the United States, in Canada as well as internationally. During the financial year ended June 30, 2013, 45.1% of the Corporation's sales were recorded in the United States, 45.8% were in Canada and 9.1% were elsewhere. During the previous financial year, ended June 30, 2012, the Corporation recorded 48.3% of its sales in the United States, 37.1% in Canada, and 14.6% elsewhere.

H<sub>2</sub>O 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 and 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, commercial clients, water utilities, municipalities and local governments.

The Corporation also uses a network of nearly 10 external sales representatives to sell its wastewater treatment equipment and systems in Canada and the United States.

For its specialty chemicals and consumables, the Corporation has developed a distribution network of 22 international distributors covering the following countries: Australia, Thailand, South Korea, China, Taiwan, India, United Arab Emirates, Israel, East Africa, South Africa, Singapore, Germany, Mexico, Colombia, Brazil, Argentina, Switzerland, Malaysia, Singapore, Pakistan, Chile and Tunisia. In February and July 2013, the Corporation announced that it signed separate agreements with new distributors in Pakistan, Chile, Brazil and Tunisia. All 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.

In July 2013, Professional Water Technologies™ successfully held its second Distributor Summit Meeting in Québec City, Quebec, Canada, during which its distributors were given technical and commercial training on new chemical products and telemetry services.

In the financial year ended June 30, 2013, the Corporation received major certifications in China for two products of its Professional Water Technologies™ line of specialty solutions, SpectraGuard™ and Titan ASD™ 200 SC. SpectraGuard™ has been approved as thermal desalination technologies by Zhonghe Seawater Desalination Engineering and Co. Ltd., a cooperative grouping giant organizations in China and the China Scientific Research Institute. For Titan ASD™ 200 SC, a certificate of use has been delivered by the Ministry of Health in China.

Concerning its maple syrup industry, the Corporation has developed a distribution network of 28 distributors who are active in Canada (Québec, Ontario and New-Brunswick) as well as in the north-east of the United States. All these distributors market and sell Corporation's maple syrup equipment throughout maple farms and other producers of maple syrup. H<sub>2</sub>O Innovation also uses its internal sales force to sell maple syrup equipment with potential customers. Corporation's maple syrup equipment is manufactured at its Ham-Nord, Quebec facility and shipped to distributors and customers.

For the financial year ended June 30, 2013, the Corporation derived more than ten percent (10%) of its revenues from a single external customer unlike the fiscal year ended June 30, 2012, where no customer accounted for more than 10% of its revenues.

The Corporation does not deem to be exposed to major seasonality risks for its sales, except for the maple syrup industry which is a seasonal industry. 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.

Since May 2013, H<sub>2</sub>O Innovation is a partner of the Rockwell Automatisation PartnerNetwork ("Rockwell"), which is an elite group of companies worldwide that have demonstrated exceptional design, delivery and innovation. This program offers the Corporation a global access to a collaborative network of companies mutually focused on developing, implementing and supporting best-in-breed solutions to achieve plant wide organization, improve machine performance and meet sustainability

objectives. This collaboration with Rockwell will help H<sub>2</sub>O Innovation to benefit the latest innovation and technology advancements and, therefore, offer its customers competitive pricing.

#### **4.5 Strategic orientation**

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 2014. 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 local engineering firms often rely more on knowledgeable and experienced water treatment systems providers to offer their services to their municipal customers, compared to 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 has also developed, and continues to promote its expertise in small and mid-sized containerized/packaged water and wastewater treatment units.

In the financial year 2014, the Corporation intends to continue to develop its international activities throughout its well-established international distribution network for its line of specialty chemicals and consumables, a network it intends to continue expanding in the financial year 2014. The Corporation has the following key objectives for its area of activity related to specialty chemicals and consumables for the financial year 2014: develop new products in order to fulfill its constantly evolving customers' needs and provide improved support to its distributors, and leverage its hybrid offering of water treatment systems and consumables, cross-selling to customers of its two areas of activity.

The Corporation's development strategy for the financial year 2014 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, H<sub>2</sub>O Innovation develops long-term relationships with its customers and provides them support in the operation of their water treatment systems for a continuous improvement of their equipment's performance and efficiency.

As for the maple syrup industry, the Corporation intends to continue to expand its distribution network and maintain its growth through the US market by acquiring a larger part of market. The Corporation will continue to develop innovative products for the maple syrup industry in order to meet the needs of its customers.

#### **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; Wigen Water Technologies in the Midwest 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.

H<sub>2</sub>O Innovation's competitors in the maple syrup industry are not numerous and are the main players in such industry, such as Les Équipements Lapierre, Les Équipements d'érablière CDL, L.S. Bilodeau and Dominion & Grimm. All these Quebec-based companies are also the competitors of the Corporation in other markets than the province of Quebec.

Meanwhile, despite its modest size, H<sub>2</sub>O 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 H<sub>2</sub>O Innovation's opinion, less competitive on contracts valued \$5 M and less. On their side, the smaller regional players are usually, in H<sub>2</sub>O 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 H<sub>2</sub>O Innovation over the next years, for both municipal and industrial applications.

## **5. NARRATIVE DESCRIPTION OF THE BUSINESS**

### **5.1 General business**

H<sub>2</sub>O Innovation designs, manufactures and assembles water treatment systems. Each project is customized by its multidisciplinary team to meet customers' specific needs.

The Corporation's process engineering experts make sure that the proposed treatment solution will ensure customer's problem resolution. Afterwards, all its specialty groups, such as project management, mechanical and 3D modeling engineering, electric and automation engineering as well as installation and commissioning, will be involved in the execution of each project, always in collaboration with people in charge of the project on customer's side.

H<sub>2</sub>O Innovation also offers complete technical & maintenance service in order to support customers' system operation on a continuous basis. The Corporation also offers remote monitoring of systems through its System Performance Monitoring Center (SPMC) to help its customers speed up their problem solving.

The specialty chemicals and consumables division designs and manufactures a unique range of specialty chemicals for membrane treatment under the brand name Professionnel Water Technologies™. The Corporation develops specific blends for maintenance, preservation and cleaning of membrane systems. H<sub>2</sub>O Innovation operates with a modern laboratory and automated production methods certifying the quality of shipped products from its manufacturing plant in California. The Corporation also offers a membrane autopsy service to help detect intricate problems. This way, the Corporation can easily recommend the required protocols in order to expand membrane life value.

### **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.

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 30,800 sq. ft. plant located in Champlin (Minnesota), the Corporation benefits from a specialized manpower able to meet customer requirements in short lead-times, thus offering a competitive advantage. Its manpower also has the expertise to manufacture and assemble water treatment systems outside of its manufacturing facilities, for example site-built projects or specific containerized/packaged units. In May 2013, H<sub>2</sub>O Innovation moved its Minnesota facility from Brooklyn Center, MN to Champlin, MN, in the area of Minneapolis, which is a smaller plant of 30,800 sq.ft. allowing the Corporation to maximize its space and reduce its costs.

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.

H<sub>2</sub>O 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.

The Corporation also offers various types of mobile units for water purification and/or wastewater treatment. These mobile units, developed for permanent, emergency or piloting use, are true modular treatment plants. Custom-built to meet the specific needs of treatment and the capacities required, they are assembled inside containers, caravans or trailers (insulated, heated and ventilated, if necessary). With its new containerized membrane bioreactor, the Corporation will offer to its customers an advanced wastewater treatment solution that can meet or exceed typical wastewater effluent regulations throughout North America. This containerized membrane bioreactor will be the far most compact and versatile containerized wastewater treatment package on the market to offer treatment redundancy usually found only in much larger plants.

### **5.3 Employees**

As of June 30, 2013, the Corporation had 124 employees in Canada and the United States including more than 26 engineers specialized in innovative water treatment technologies such as membrane filtration, membrane biological reactors and membrane cleaning solutions.

### **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.

#### *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 those of the Corporation. 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 revenues, 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.

#### *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.

#### *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.

#### *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.

#### *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 revenues and subject to a sale cycle which may exceed one year as well as to deferment and cancellation.

#### *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 is always trying to negotiate positive cash flow payment terms with its customers in order to minimize its use of credit for its works in progress. The Corporation has also contracted long-term debts and credit margin which will provide sufficient liquidity. For its investing activities, the Corporation will evaluate its liquidity needs when applicable and take the necessary action.

#### *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, 2013, 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.

#### *Implementation of a 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.

#### *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.

#### *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.

#### *Additional financing and dilution*

The Corporation does not exclude raising additional funds by equity financing. In addition, 1,000,000 common share purchase warrants and 1,862,500 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.

#### *Market Liquidity*

Trading on the Corporation's common shares is unstable, which could in same period 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.

#### *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.

### *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.

### *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 Corporation 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.

## **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 24, 2013, 60,145,823 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, 2013 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 2012	\$0.21	\$0.175	1,365,820
August 2012	\$0.23	\$0.175	656,485
September 2012	\$0.22	\$0.175	822,529
October 2012	\$0.20	\$0.175	729,840
November 2012	\$0.21	\$0.185	736,921
December 2012	\$0.22	\$0.185	1,011,967
January 2013	\$0.235	\$0.20	548,281
February 2013	\$0.255	\$0.195	999,054
March 2013	\$0.245	\$0.22	838,795
April 2013	\$0.235	\$0.215	1,435,640
May 2013	\$0.24	\$0.175	4,964,167
June 2013	\$0.21	\$0.185	580,080

The following sets out trading information for each month during the financial year ended June 30, 2013 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 2012	€0.18	€0.13	49,214
August 2012	€0.17	€0.13	22,937
September 2012	€0.15	€0.13	117,201
October 2012	€0.18	€0.12	16,117
November 2012	€0.18	€0.17	55,951
December 2012	€0.19	€0.15	131,275
January 2013	€0.20	€0.16	320,501

Month	Closing High	Closing Low	Volume
February 2013	€0.19	€0.15	139,323
March 2013	€0.19	€0.17	60,750
April 2013	€0.20	€0.14	146,922
May 2013	€0.18	€0.16	40,700
June 2013	€0.17	€0.13	244,758

## 8.2 Prior Sales

No common share purchase warrants have been issued and no stock options have been granted by the Corporation during the financial year ended June 30, 2013.

## 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, 2013 and as of September 24, 2013.

Name and Place of Residence	Principal Occupation	Position and Office held with the Corporation	Director Since	Number of Shares held as of June 30, 2013 <sup>(3)</sup>	Number of Shares held as of September 24, 2013 <sup>(3)</sup>
Frédéric Dugré Quebec City, Quebec, Canada	President and Chief Executive Officer, H <sub>2</sub> O Innovation	President and Chief Executive Officer and Director	January 12, 1999	595,074	689,574
Philippe Gervais <sup>(1)</sup> Montréal, Quebec, Canada	Vice President, The Capital Hill Group (Government Relations Firm)	Chairman of the Board of Directors	December 19, 2001	214,446	228,946
André Duquette Montréal, Quebec, Canada	President, T2ic inc. (Services Company in Technology Transfer Innovation Capital)	Director	December 2, 2004	36,000	36,000
Élaine C. Phénix <sup>(1)(2)</sup> Montréal, Quebec, Canada	President, Phénix Capital inc. (Financial Consulting Firm)	Director	December 6, 2006	107,000	107,000
Richard A. Hoel <sup>(1)</sup> , White Bear Lake, MN United States	Investor and Lawyer – Of Counsel, Winthrop & Weinstine P.A. (Law Firm)	Director	July 10, 2008	8,371,214	8,371,214
Lisa Henthorne <sup>(2)</sup> , Tampa, FL United States	Chief Technology Officer of Water Standard (Water Desalination Company)	Director	July 12, 2010	---	---

Name and Place of Residence	Principal Occupation	Position and Office held with the Corporation	Director Since	Number of Shares held as of June 30, 2013 <sup>(3)</sup>	Number of Shares held as of September 24, 2013 <sup>(3)</sup>
Laurence E. Gamst <sup>(1)</sup> Mendota, MN United States	Investor and Certified public accountant – Managing Director and Shareholder at DS&B Certified Public Accountants, Consultants & Advisors (Accounting and Financial Consulting Firm)	Director	November 10, 2010	2,684,526	2,684,526

<sup>(1)</sup> Member of the Audit Committee.

<sup>(2)</sup> Member of the Governance, Remuneration and Risks Committee

<sup>(3)</sup> 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:

- 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 24, 2013, 12,117,260 common shares of the Corporation, representing 20.15% 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, 2013 and as of September 24, 2013:

Name and Place of Residence	Position within the Corporation	With the Corporation Since	Number of Shares as of June 30, 2013 <sup>(1)</sup>	Number of Shares as of September 24, 2013 <sup>(1)</sup>
Frédéric Dugré Quebec City, Quebec, Canada	President and Chief Executive Officer	January 12, 1999	595,074	689,574
Josée Riverin Quebec City, Quebec, Canada	Vice President, Finance	November 1, 2010	138,500	138,500
Guillaume Claret Quebec City, Quebec, Canada	Executive Vice President	November 29, 2004	189,000	76,000
Marc Blanchet Quebec City, Quebec, Canada	Vice President, Corporate and Legal Affairs and Corporate Secretary	February 27, 2007	209,900	209,900

<sup>(1)</sup> 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:

- Josée Riverin has been serving as Director of Finance of H<sub>2</sub>O Innovation since February 9, 2011, and her title changed for Vice President, Finance as of July 1, 2012. Chartered accountant with over 15 years of experience, Ms. Riverin came to H<sub>2</sub>O Innovation on November 1, 2010 as Corporate Controller 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.

- Guillaume Claret was appointed Executive Vice President of H<sub>2</sub>O Innovation as of July 1, 2012. Over the last five years, Guillaume Claret served in sequence as National Sales Manager, Director of Business Development and Vice President of Strategic Business Development. Guillaume Claret is a registered Professional Engineer in the Province of Quebec, Canada and holds an MBA from the University of San Diego, California.
- Marc Blanchet was appointed Corporate Secretary of H<sub>2</sub>O Innovation on December 4, 2008. Marc Blanchet joined H<sub>2</sub>O Innovation on February 27, 2007 as Director of Corporate and Legal affairs and his title changed for Vice President, Corporate and Legal Affairs and Corporate Secretary as of July 1, 2011. 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 24, 2013, 1,113,974 common shares of the Corporation, representing 1.85% 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 order or order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation for a period of more than 30 consecutive days, ii) was the subject to a cease trade order or order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation for a period of more than 30 consecutive days issued after the director or executive officer ceased to be a director or executive officer and which resulted from an event that occurred while that person was acting in such capacity, iii), while that person was a director or executive officer or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or iv) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Moreover, no officer or director of the Corporation and principal shareholder of the Corporation who may affect significantly the control of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority nor any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

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 Enterprises 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, 2013, 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, no director and executive officer 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, was part of a transaction that has materially affected the Corporation.

### **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 and are not considered "material contracts" for the purpose of *Regulation 51-102 respecting Continuous Disclosure Obligations*.

### **14. INTERESTS OF EXPERTS**

During the financial year ended June 30, 2013, the auditor of the Corporation was Deloitte LLP, Chartered Professional Accountants at their Quebec City office. The auditor is independent in accordance with the rules of the Code of Ethics of Chartered Professional Accountants of Quebec.

### **15. AUDIT COMMITTEE**

#### **15.1 General**

The Audit Committee of the Board of Directors is comprised of four independent directors and is responsible for reporting on certain aspects of the governance 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. Éleine C. Phénix (Chairperson)
- Mr. Laurence E. Gamst
- Mr. Philippe Gervais
- Mr. Richard A. Hoel

Each of these members is independent and financially literate.

Éleine 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 five (5) boards of directors, and serves on several audit and governance committees.

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.

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.

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.

## 15.4 Fees of the Auditor

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

Fees	Financial year ended June 30, 2013 <sup>(5)</sup>	Financial year ended June 30, 2012 <sup>(6)</sup>
1. Audit fees <sup>(1)</sup>	\$88,500	\$79,670
2. Audit-related fees <sup>(2)</sup>	\$12,576 <sup>(7)</sup>	\$90,637
3. Tax fees <sup>(3)</sup>	\$52,477 <sup>(7)</sup>	\$43,866
4. All other fees <sup>(4)</sup>	---	---
<b>Total fees</b>	<b>\$153,553</b>	<b>\$214,173</b>

<sup>(1)</sup> Audit fees include all fees incurred in respect of audit services, being the professional services rendered by the Corporation's auditor 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 auditor in connection with statutory and regulatory filings and engagements.

<sup>(2)</sup> Audit-related fees include the aggregate fees billed for assurance and related services by the Corporation's auditor 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".

<sup>(3)</sup> Tax fees include the aggregate fees billed for professional services rendered by the Corporation's auditor for tax compliance, tax advice, and tax planning.

<sup>(4)</sup> All other fees include the aggregate fees billed for products and services rendered by the Corporation's auditor other than the services reported under clauses (1), (2) and (3) above.

<sup>(5)</sup> The auditor for the financial year ended on June 30, 2013 was Deloitte LLP.

<sup>(6)</sup> The auditor for the financial year ended on June 30, 2012 was PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

<sup>(7)</sup> The audit-related fees and the tax fees stated for the financial year ended on June 30, 2013 include respectively an amount of \$5,728 and \$43,550 billed by the Corporation's former auditor.

## 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 auditor to obtain non audit-related services without the pre-approval of the Audit Committee.

## 15.6 Audit Committee Oversight

Since the commencement of the Corporation's most recently completed financial year, the Audit Committee has not made any recommendations to nominate or compensate an auditor that were not adopted by the Board of Directors of the Corporation.

## 16. ADDITIONAL INFORMATION

Additional information regarding the Corporation is available on SEDAR at [www.sedar.com](http://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 Management Proxy Circular which will be published over the next weeks, prior to the Corporation's Annual General Meeting of Shareholders. Additional information is also provided in the Corporation's financial statements and management's discussion and analysis for the financial year ended June 30, 2013, or by request to the Investor Relations Service, H<sub>2</sub>O Innovation Inc., 330 rue St-Vallier Est, Suite 340, Quebec (Quebec) G1K 9C5, Canada.

## Schedule "A": MANDATE OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of a minimum of three outside independent 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 of Directors 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 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 of Directors shall have the following specific responsibilities:

1. The oversight of the qualifications and independence of the auditor 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 auditor 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, the Vice President, Finance and the auditor;
5. The assessment of the performance of the independent auditor 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 auditor 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 auditor prepare an annual audit plan to determine the work to be done by the auditor 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 auditor 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 of Directors, 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 of Directors 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.