Corporate presentation

2016 year-end results

September 2016

Forward Looking Statement

- *Certain statements in this presentation may constitute “forward-looking statements” that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of H_2O Innovation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this presentation. These forward-looking statements involve a number of risks and uncertainties. For details of these risks and uncertainties please refer to the Company’s Annual Information Form dated September 26, 2016 available on SEDAR (www.sedar.com). H_2O Innovation rejects any obligation to revise or update the prospective disclosures contained in this presentation.*
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Our Business DNA relies on three pillars

Water & Wastewater Projects

- FiberFlex™
- Bio-Wheel™ Bio-Brane™
- FlexMBR™
- Desal, RO, NF

Flagship

Specialty Products & Services (SP&S)

- Couplings
- SpectraGuard™
- ProDose XPRT™

Differentiator

Operation & Maintenance

- SPMC™
- ClearlogX™

Convergence

Our business formula works

Business Mix

3 business pillars;

Promote recurring revenues;

Multiple sales channels;

36 plants under O&M contract;

Leverage 650 references;

Cross-selling platforms.

+

Growth & Scalability

Combined backlog: $99,7 M;

Acquisition platform and discipline integrator;

Growth of 26% / year over 15 years (with UP);

Innovations: flexMBR™, FiberFlex™, Clearlogx®, SPMC™.

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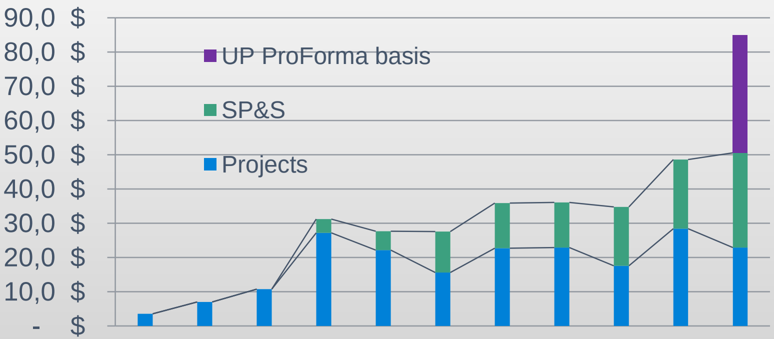
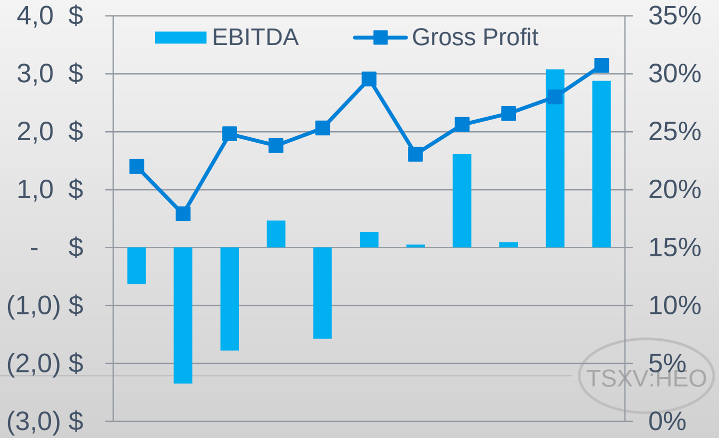
Profitability

Gross profit improved through execution, innovations and sound business mix ;

Continuous EBITDA.





1st Business Pillar

Projects and engineering solutions

2016 Highlights

- 45% of sales, 100% North America
- Distinction & awards
  - **Water Technology Company of the Year** prize – 2016 Global Water Awards, Abu Dhabi (against Danaher, GE, Suez);
  - **Water/Wastewater Award of the Year** – DBIA (Clifton Water District);
  - **Equipment/Manufacturer of the Year** – WateReuse Association.
- Largest ultrafiltration (UF) delivered project using the Fiberflex™ technology : **Clifton Water District**
- 5 awarded contracts using the Fiberflex™ on a total of 16 contracts (9 in Canada & 7 in the United States)
- Launch of **flexMBR™** in Q1 – FY2017
- Growing Pipeline/ Momentum in the wastewater market
- Current backlog: $38.7 M (Sept 1st, 2016)

2^{nd} Business Pillar

Specialty products & services (SP&S)

2016 Highlights

- 55% of sales, 30% North America & 70% Worldwide

PWT

- **2 new distributors**, on a total of 27
- New & redesigned website
- Integration of the Clearlogx® product line
- 9 new SPMC™ contracts

Piedmont

- New products (**FRP filter housings**)
- Delivered largest customer orders to EPC clients
- **Record year** (International sales network – USA)

h2o innovation

- Obtained **patent** for **High Brix** concentration process
- **Record year** (Growing sales network – USA)

3rd Business Pillar

Operation & Maintenance (O&M)

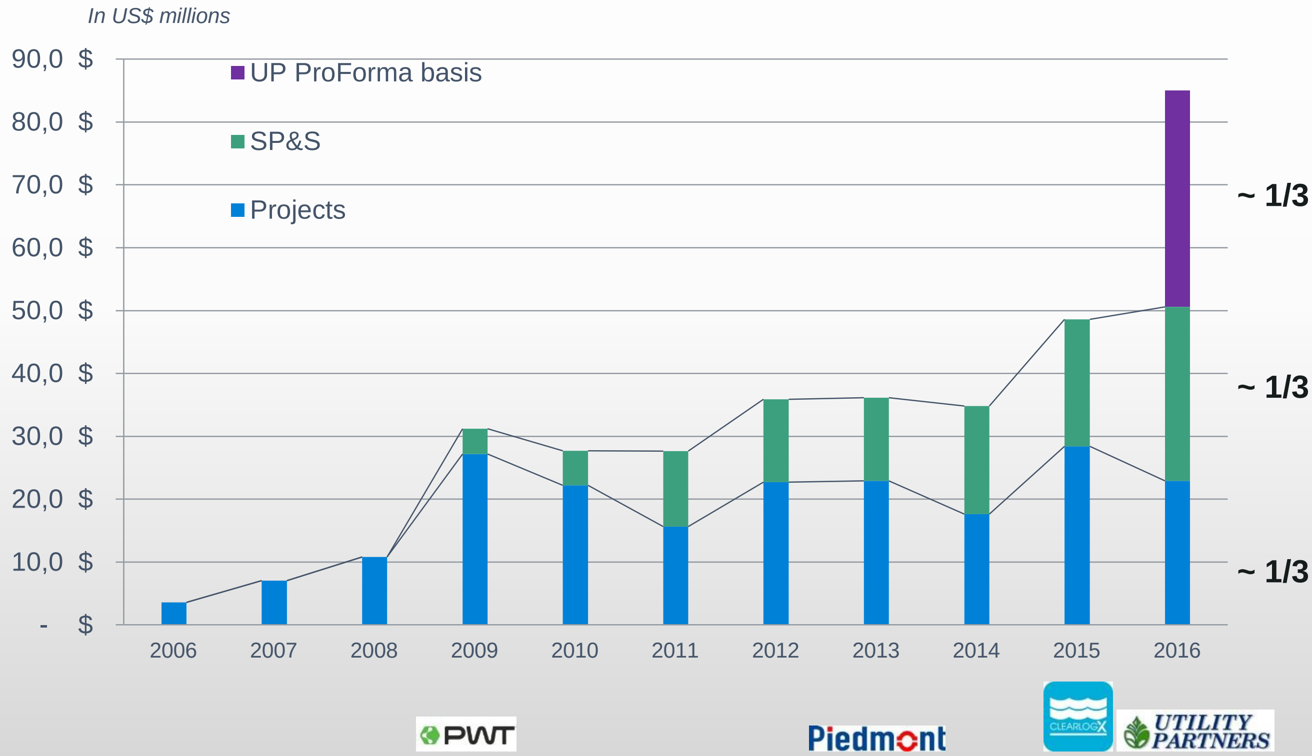
UTILITY PARTNERS

New pillar - Acquisition of **Utility Partners LLC**

- 27 contracts operating 36 plants in 6 states (Southeast, Northeast, Gulfcoast & California);
- Recurring nature of revenues provides greater visibility on future revenues;
- Further enhance H_2O Innovation's presence in the U.S. municipal market;
- Multiple cross-selling opportunities (projects & chemicals);
- Well positioned to offer Operations & Maintenance services to project customers;
- Well positioned to adress the gowing market of Design-Build-Operate (DBO).

Business Mix : Projects vs SP&S vs O&M

Revenue Breakdown

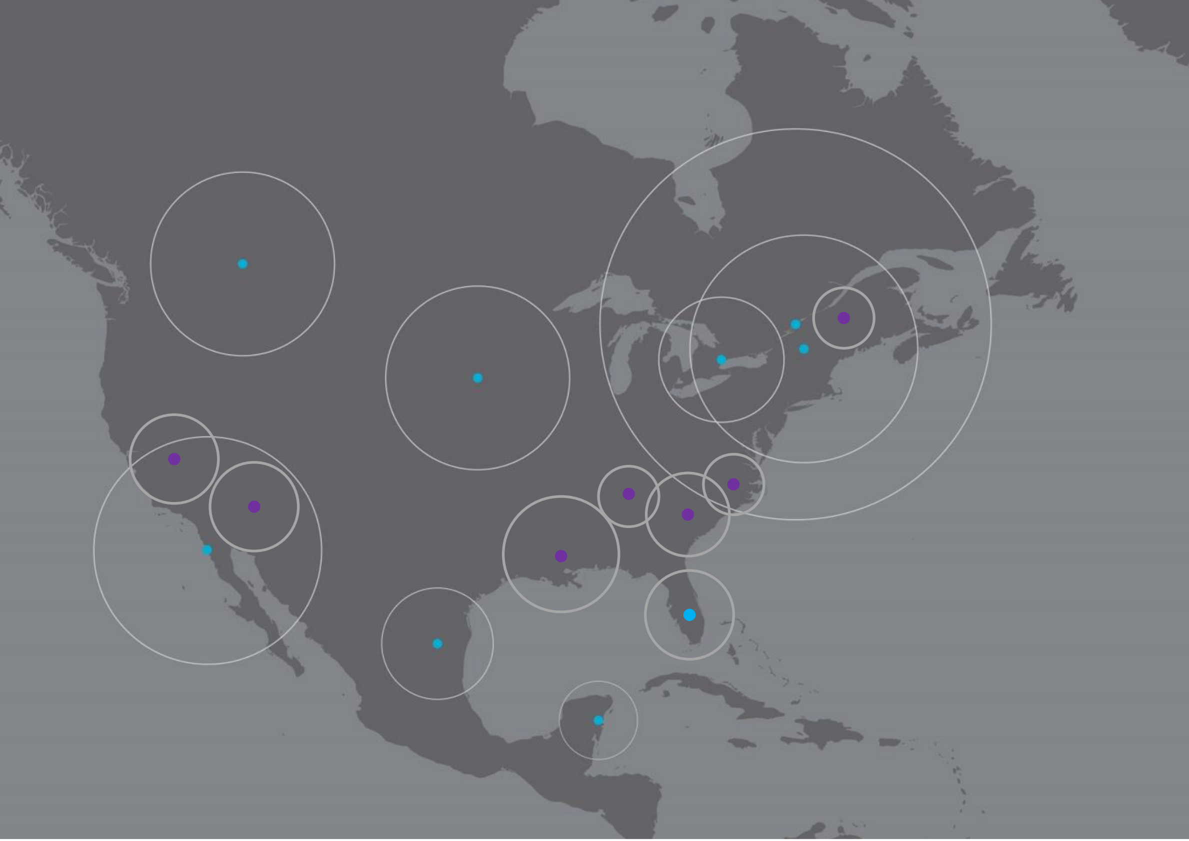


Shaped the business model to:

- ✓ Gain predictability in our business model;
- ✓ Secure long-term relationship with customers;
- ✓ Expand sales platform;
- ✓ Acquire/develop technologies and products;
- ✓ Maintain an higher gross profit.

Continuous growth

Close to our clients



Head quarter : Quebec City, QC

Manufacturing plants:
- Ham-Nord (QC) : 60,000 ft^2
- Minneapolis (MN): 30,000 ft^2
- Vista (CA) : 20,000 ft^2

Engineering & sales offices:
- Burlington (ON)
- Calgary (AB)
- Bilbao (Spain) NEW

O&M contracts (USA):
- 36 plants

Franchise
- H_2O Innovacion de Mexico

- **530 employees**

Q4 FY2016 – Financial performance review & update in business

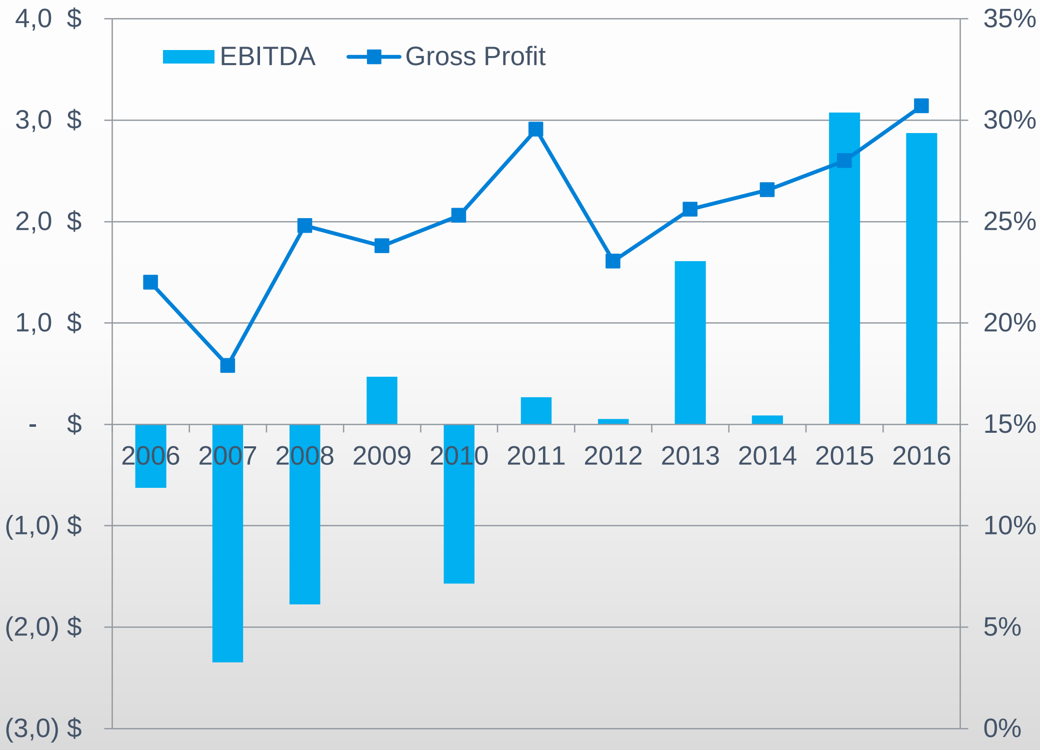
Highlights on Financial Statements

	FY2016	% rev	FY2015	% rev
Revenues	$50,667,691		$48,699,860	
From projects	$23.0 M	45.0%	$28.5 M	66.0%
From SP&S	$27.7 M	55.0%	$20.2 M	34.0%
Gross profit	$15,542,431	30.7%	$13,566,370	27.9%
SG&A	$12,590,071	24.8%	$10,348,249	21.2%
Selling	$6.3 M		$4.5 M	
Operating	$1.4 M		$1.0 M	
Administrative	$4.8 M		$4.8 M	
Earnings before income taxes	$888,259		$698,273	
Net earnings	$210,197		$272,425	
Adjusted EBITDA	$2,874,929	5.7%	$3,076,741	6.3%

Record high revenues:

- ✓ Record high revenues (increased by $2 M);
- ✓ First time in history: higher proportion of revenues coming from the SP&S activities than the Projects activities;
- ✓ Improved gross profit margin of 30.7% driven by:
  - SP&S
  - Project execution
  - Sound procurement
  - Product innovation
- ✓ Investment in growth:
  - Expansion of sales platform (Clearlogx®, Spain)
  - Development of proprietary technologies (flexMBR™, SPMC™, High Brix concentration process)
- ✓ Increase of tax impact (250K) affected the net earnings.

Gross Profit and EBITDA Performance



Key drivers :

- ✓ Business mix
- ✓ Improved project execution and develop a selective procurement culture
- ✓ Product innovation
- ✓ Sales network expansion
- ✓ EBITDA impacted by:
    - Additional resources to expend our sales force;
    - R&D product development
    - Geographical expansion

Shareholders' Value

June 30, 2015
EV : ≈$42 M
SO : 22,789,286

Today (post UP acquisition)
EV : ≈$88 M
SO : 40,144,214

Financial Position

FY2016 Review

(in Canadian dollars, except for ratios)	**Period ended June 30, 2016**	**Period ended June 30, 2015**
Working capital	**$8,342,714**	$8,423,583
Working capital ratio	**1.55**	1.75
Net debt	**$6,278,343**	$4,141,826
Equity	**$26,646,406**	$26,007,486
Net debt to equity ratio	**0.24**	0.16

Working capital ratio stands at 1.55:

- Inventories increased by $0.4 M to $4.4 M for maple activities;
- WIP increased by $1.4 M to $3.5 M due to project advancement (T&C, Schedule);
- Receivables increased by $0.3 M due to higher level of invoicing for SP&S.

Increased the net debt by $2 M, mostly for an acquisition:

- Secured a $2.7 M senior debt for the acquisition of Clearlogx®;

Subsequent events:

- Acquisition of Utility Partners;
- Increase senior debt by $10 M;
- Increase equity by $22.5 M.

Conclusion

Building on a record year

- Grew consolidated revenues to $50.7 M boosted by strong SP&S activities (37% growth from previous year);
- Improved gross profit margin to 30.7% by strong project execution, sound procurement, business mix and product innovations;
- Reached targeted EBITDA of $2.9 M while investing in our sales & operations;
- Built a third business pillar (O&M) through Utility Partners' acquisition;
- Gained predictability in our business model:
    - Combined backlog of $99.7 M for water treatment projects and operating and maintenance contracts
- Multiple cross selling opportunities between the three pillars are within reach;
- Our three business pillars (Projects, SP&S, O&M) provide a unique and accountable business model to better serve the Design-Build-Operate opportunities, a fast growing segment in the water industry.

"Large companies have tried and failed to bring together the roles of systems integrator and chemical supplier. H2O Innovation has used **smart technologies** to bridge the two disciplines, creating a virtuous circle based on **greater understanding of the customer experience**."

GWI – Global Water Awards, Feb. 2016

H_2O Innovation

Unique smart water player

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