FY2018 Review and Discussion on Annual Financial Results and Q4

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September 26, 2018

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 25, 2018 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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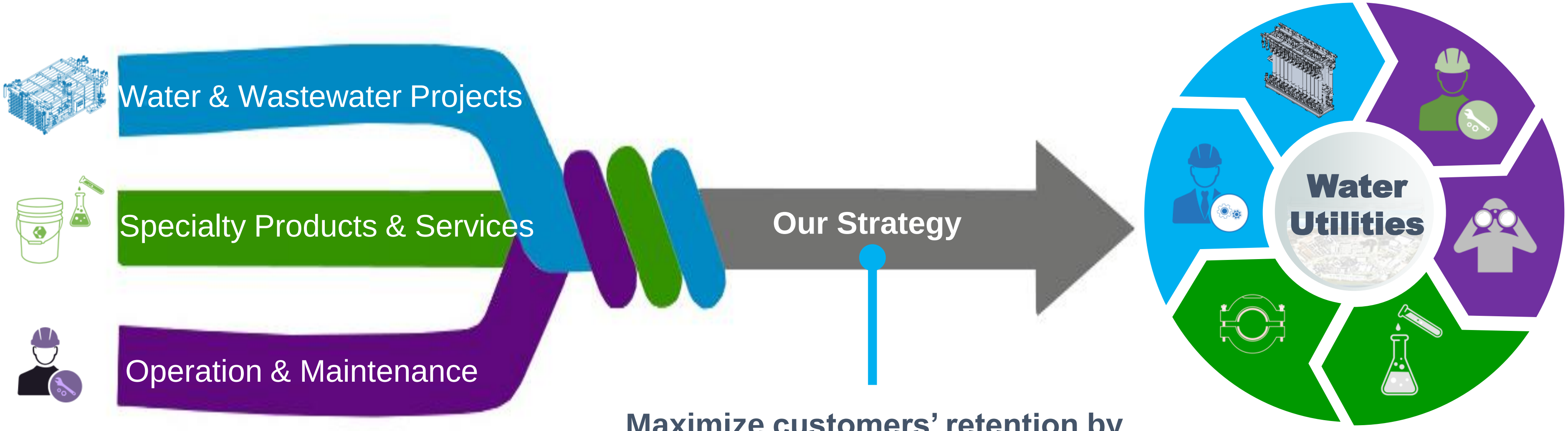
Non-IFRS Financial Measurement

- In this PowerPoint presentation, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA)" and "Net debt" are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.
- The definition of adjusted EBITDA does not take into account the Corporation's net loss from bank fraud and acquisition and integration costs. These items are non-recurring in nature and management believes that it allows a better comparison of the Corporation's historical data as well as comparison with the information presented by competitors. The adjusted EBITDA also excludes other expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gain) loss and the stock-based compensation. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. The reader can establish the link between adjusted EBITDA and net loss based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.
- Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

One Focus, Three Pillars

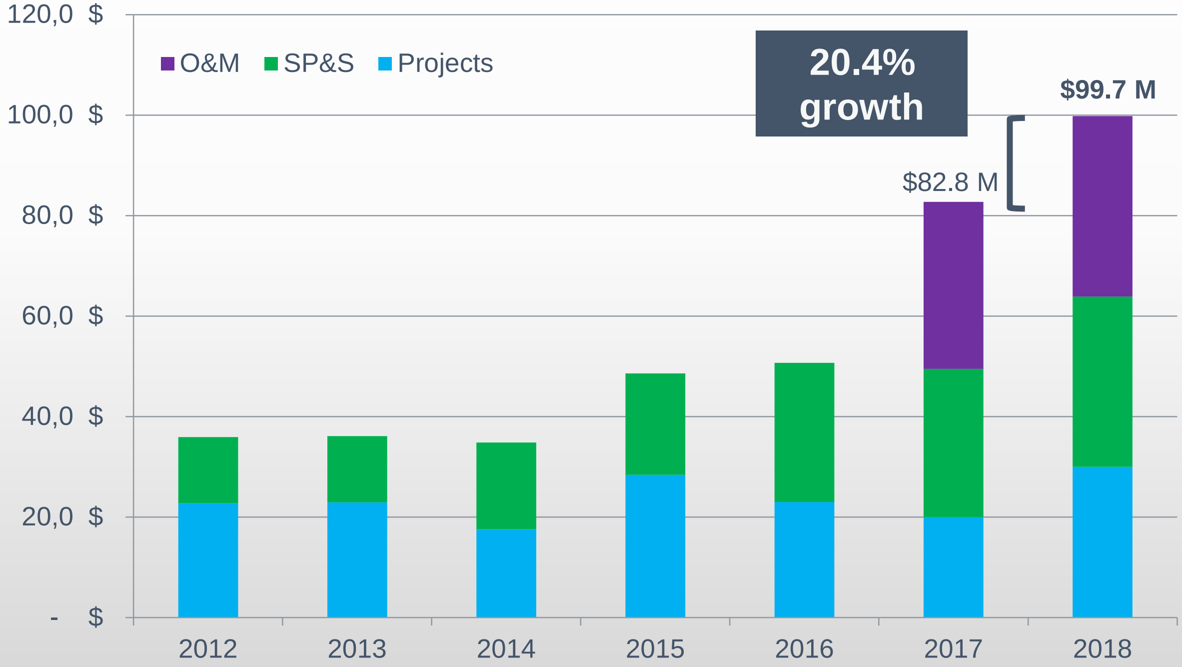


Maximize customers' retention by serving Water Utilities through an integrated approach and in-depth water and membrane expertise.

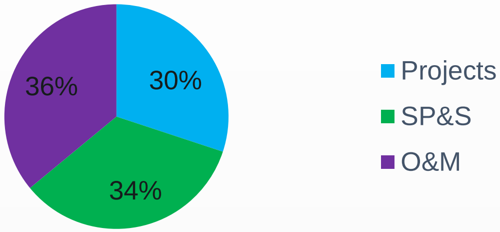
Revenue Growth

Revenue Breakdown

In CAD million $



FY2018 - Revenues



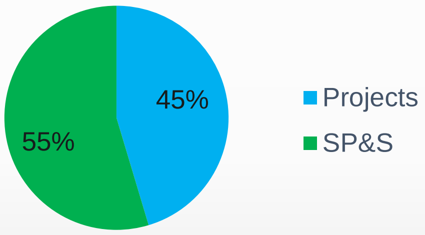
<u>Our business model allows us to :</u>

- Gain predictability in our business model with **70.0%** of recurrent revenues;
- Promote sales synergies between three business pillars;
- Long-term relationship with customers:
  - 37 O&M contracts in 9 states and 2 provinces.

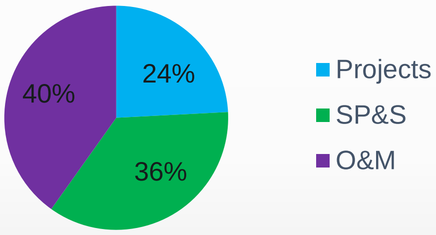
Business Mix

Driving Recurring & Long-term Revenues

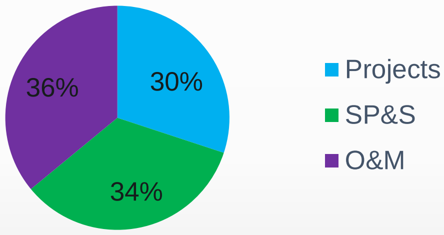
FY2016 - Revenues



FY2017 - Revenues



FY2018 - Revenues



Project Backlog : $ 38.8 M
O&M Backlog : $ - M

Combined Backlog : $38.8 M

Project Backlog : $53.9 M
O&M Backlog : $55.1 M

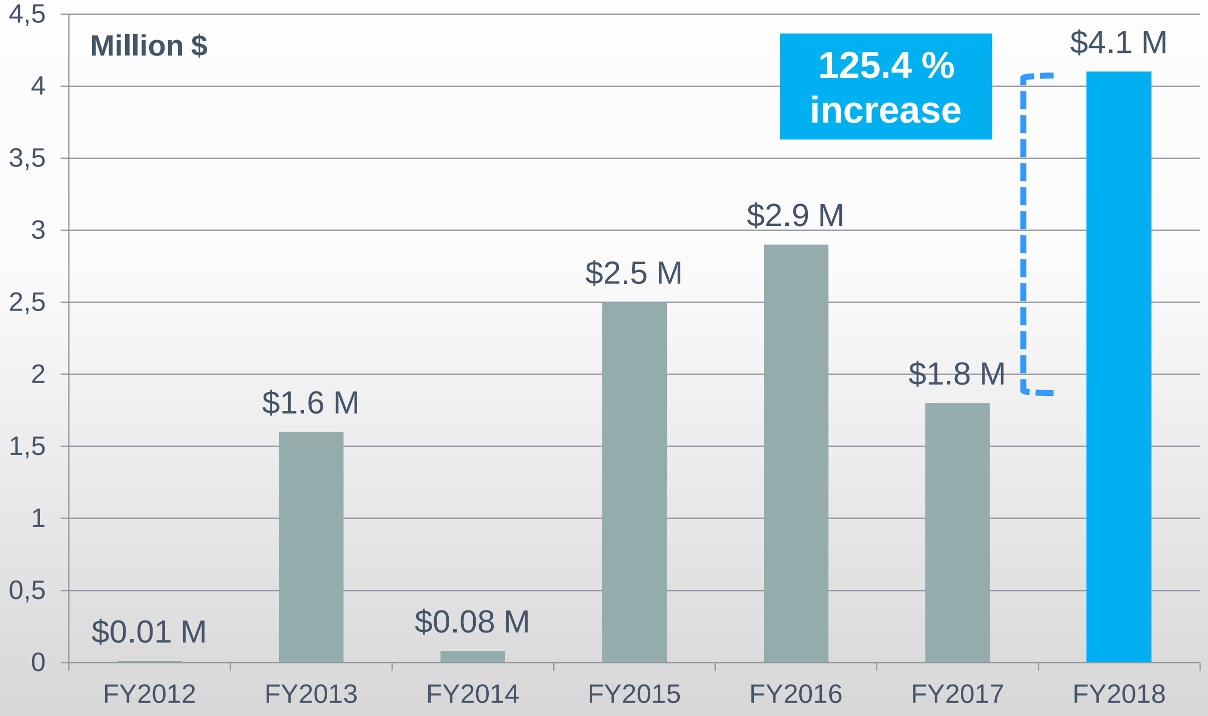
Combined Backlog : **$109.0 M**

Project Backlog : $53.6 M
O&M Backlog : $68.1 M
($89.1 M as of September 11, 2018)

Combined Backlog : **$121.7 M**

Up 11.6%

Adjusted EBITDA Evolution



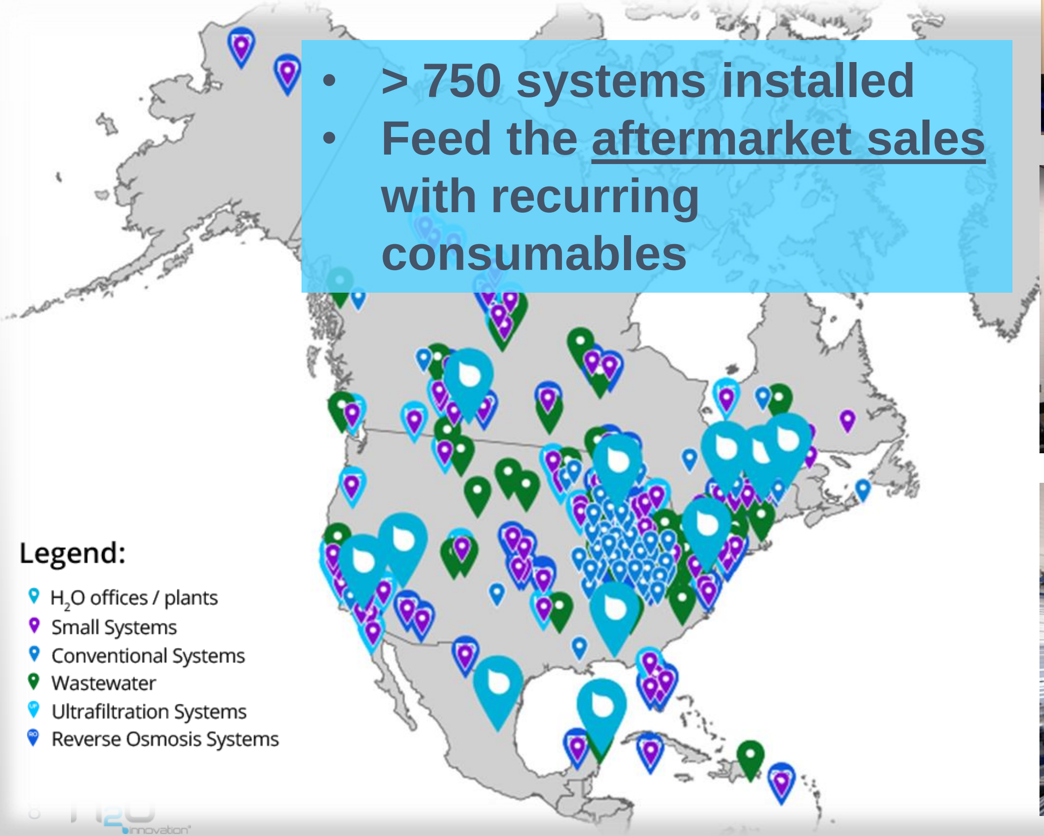
Our EBITDA is scalable :

- Grow EBITDA faster than Revenues;
- Manage SG&A to leverage sales;
- Multiple strategic initiatives in place to improve Gross Profit margin :
  - In-house chemicals manufacturing;
  - New specialty products;
  - Diversified Projects Backlog with more industrial and WW projects.

1st Business Pillar

Water & Wastewater Treatment Projects

- **> 750 systems installed**
- **Feed the aftermarket sales with recurring consumables**



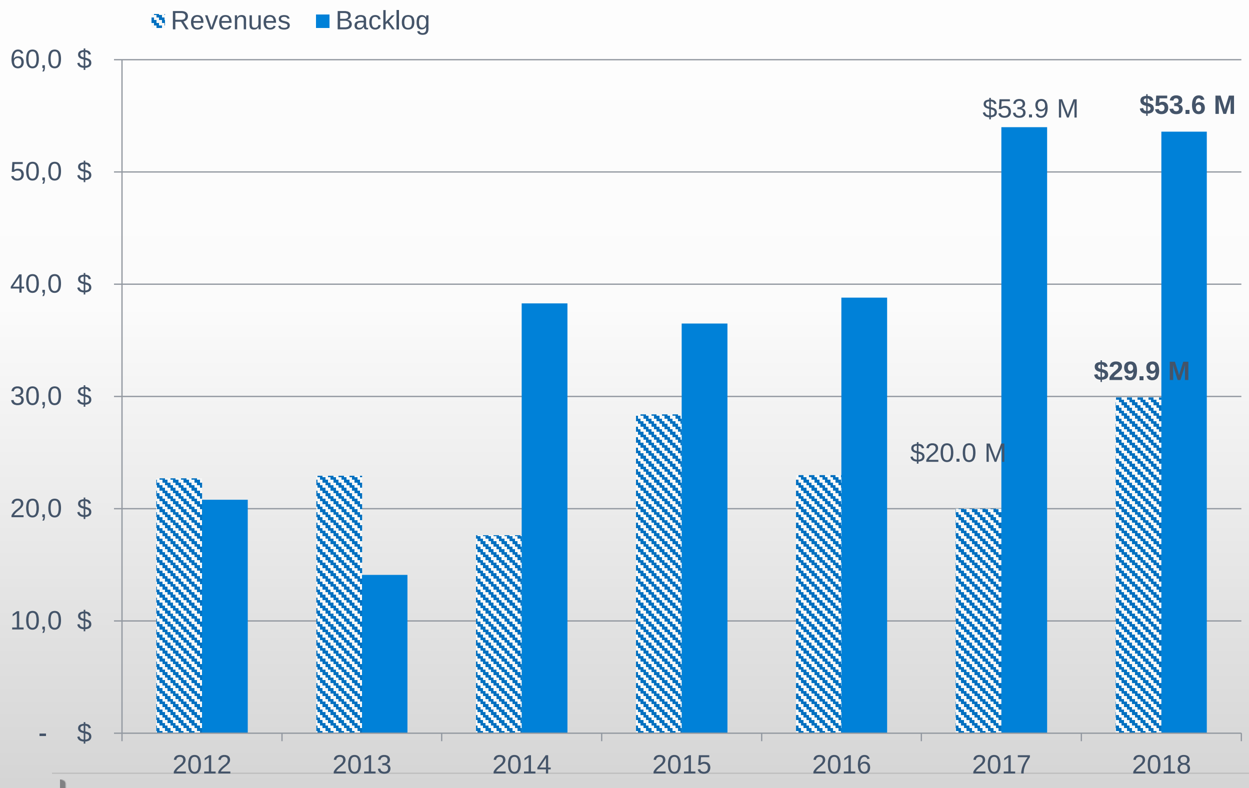
Montevina, (CA)
Drinking Water
(30 MGD)

Data Center, (OR)
Process & Water
Reuse (1.7 MGD)

O&G Men Camp,
(AB)
Drinking Water
(0.8 MGD)

1st Business Pillar

Water & Wastewater Treatment Projects

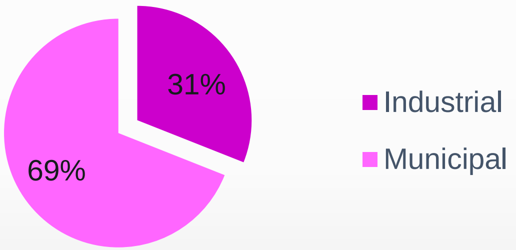


- Projects revenues increased by $9.9 M, or 49.5% increase;
- All projects on hold in FY2017 and FY2018 have resumed;
- One specific project impacted the financial results, with a total loss of $0.9 M, due to unexpected delays and costs. Notwithstanding this project, gross profit margin would be stable compared to the previous fiscal year;
- Projects sales backlog stood at $53.6 M, stable from previous fiscal year.

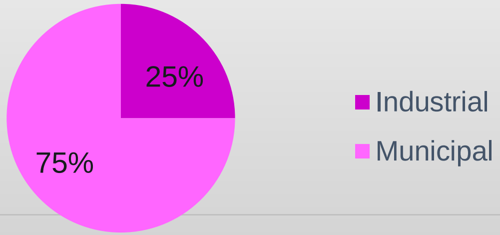
1st Business Pillar - Backlog Diversification

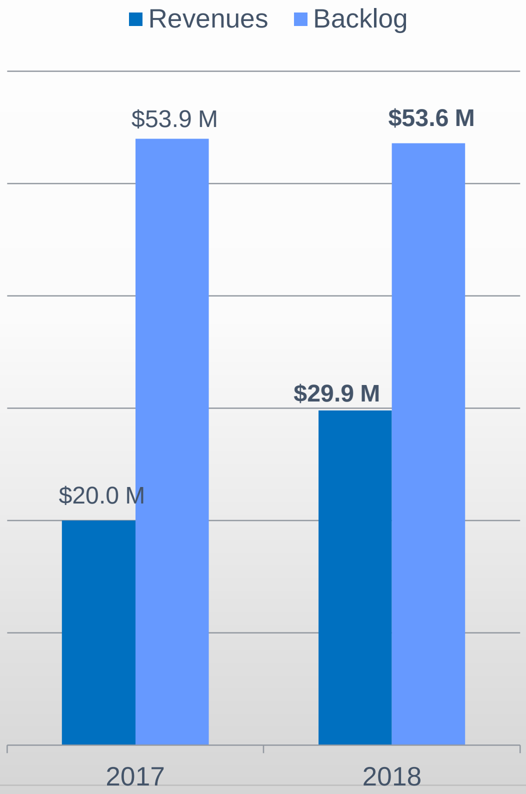
Water & Wastewater Treatment Projects

FY2018

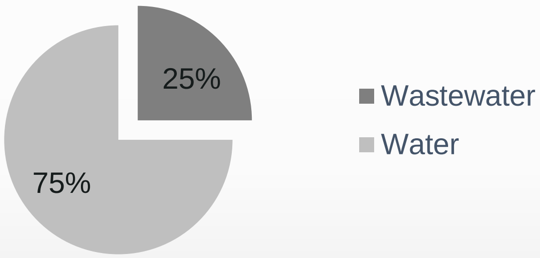


FY2017

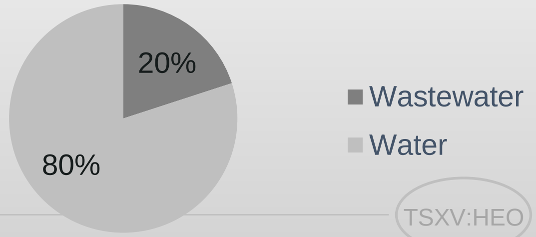




FY2018



FY2017

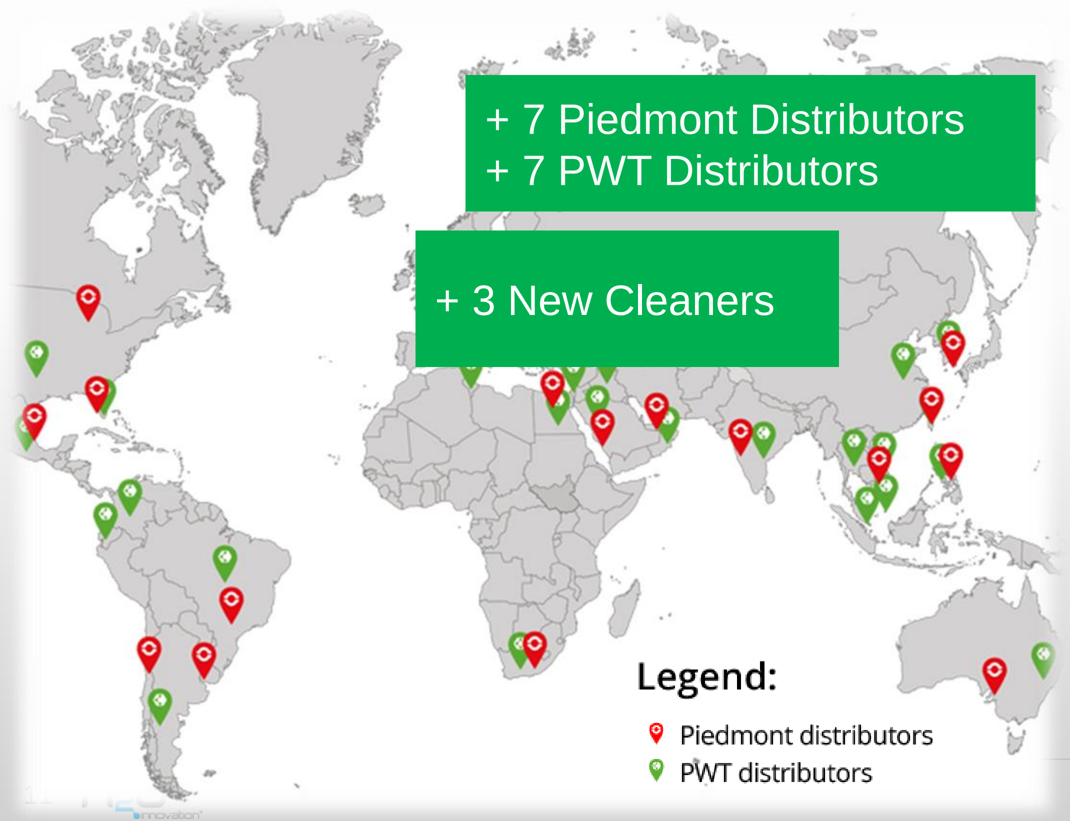


2nd Business Pillar

Specialty Products & Services (SP&S)

+ 7 Piedmont Distributors
+ 7 PWT Distributors

+ 3 New Cleaners



2nd Business Pillar

Specialty Products & Services (SP&S)

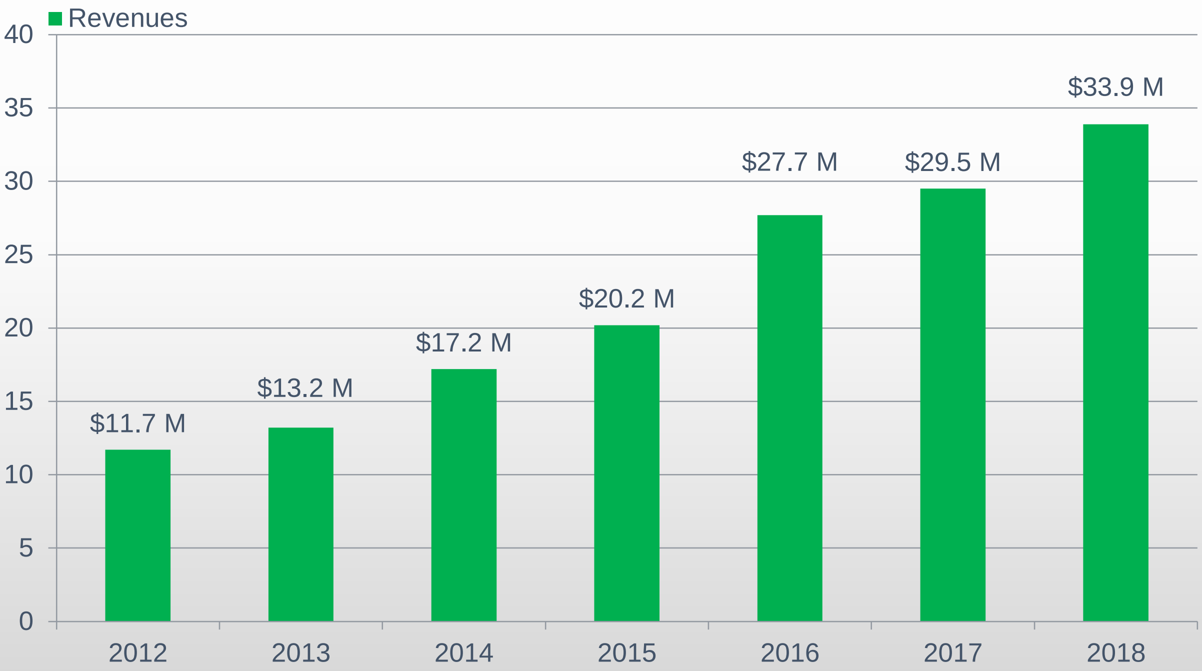
+ 7 Maple Distributors

+ 45 New Products

Provided all the farming maple equipment to a new **200,000-tap** maple syrup production.

2nd Business Pillar

Specialty Products & Services (SP&S)



- SP&S revenues, stood at $33.9 M, representing a $4.4 M, or 15.1% increase;
- Increase of SP&S is boosted by growth in all business lines (Maple, PWT Chemicals, Piedmont and Aftermarket);
- The Corporation also enhanced its process to increase the volume of in-house manufacturing of liquid cleaners during the year;
- Our Piedmont business line also expanded its products offering and added new distributors to its network.

3rd Business Pillar

Operation & Maintenance (O&M)

Geographical Expansion :

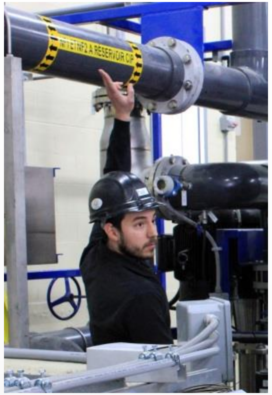
+ 2 new states (Texas, NY)

+ 1 new province (Alberta)

100% renewal since the acquisition in 2016:

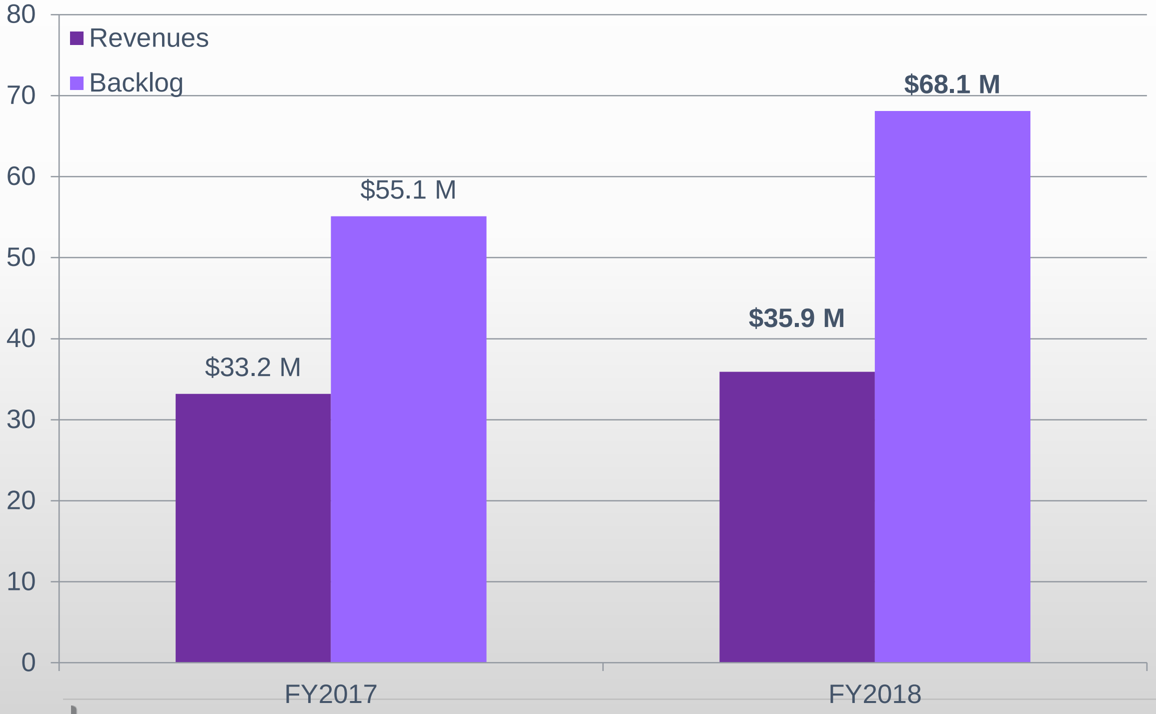
37 O&M Projects

- **2 in Canada (2 Provinces)**
- **35 in USA (9 States)**



3rd Business Pillar

Operation & Maintenance (O&M)



- Recurring O&M revenues stood at $35.9 M, representing a 8.1% increase;
  - ➢ Notwithstanding the FX impact ($CAD/$US) the growth is 12.9%.
- The continuous growth of the O&M business pillar is explained by three factors :
  - ➢ Addition of 11 new projects and scope expansion, in 2 new States and 1 province;
  - ➢ Consumer price index ("CPI") adjustments on some of the existing projects.

Change in Reporting of our Business Pillars

Water & Wastewater Projects, and Services

Water & Wastewater Projects

Services (After Sales & Digital Solutions)

Specialty Products

PWT

Piedmont

Maple

Operation & Maintenance

Utility Partners

H_2O O&M

$11 M to $13 M

Services (After Sales & Digital Solutions)

Financial Performance – FY2018

Financial Highlights

FY2018

	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2018	2017	**2018**	2017
Revenues	**$24.5 M**	$24.0 M	**$99.7 M**	$82.8 M
Projects	**$7.6 M**	$7.2 M	$29.9 M	$20.0 M
SP&S	**$7.2 M**	$7.3 M	$33.9 M	$29.5 M
O&M	**$9.8 M**	$9.6 M	$35.9 M	$33.3 M
Gross profit before depreciation and amortization (%)	**23.0%**	20.7%	**22.2%**	23.1%
SG&A	**$4.8 M**	$5.3 M	$18.6 M	$18.3 M
Net loss	**($0.1 M)**	($1.7 M)	($3.4 M)	($5.1 M)
Adjusted EBITDA[(a)]	**$1.1 M**	($0.02 M)	$4.1 M	$1.8 M
Adjusted EBITDA over revenues (%)	**4.5%**	(0.09%)	4.1%	2.2%

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

- 20.4% increase of revenues (year over year): fueled by the organic growth of the three business pillars;
- SG&A : **18.6**% down from **22.0**% for FY2017:
- The net loss is impacted by :
  - Sales volume increase;
  - Tight management of expenses;
  - Business mix : projects and O&M have lower gross margin ;
  - Without this one project that generated a loss of $0.9M, gross margin before depreciation and amortization would have been at 23%, which is in line with last year;
  - US tax adjustment (of $1.0 M).

Revenues Trend

- **Consolidated backlog** of $121.7 M, up 11.7% from $109.0 M in FY2017:
  - Projects backlog stands at $53.6 M, boosted by wastewater, water reuse and industrial activities;
  - O&M backlog stands at $68.1 M, supported by 100% contract renewal and scope expansions.

	FY2017					FY2018				
	Q1	Q2	Q3	Q4	Total	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Revenues from Projects	$5.4 M	$3.4 M	$4.0 M	$7.2 M	$20.0 M	**$8.2 M**	**$6.6 M**	**$7.5 M**	**$7.6 M**	**$29.9 M**
Revenues from SP&S	$5.9 M	$7.7 M	$8.6 M	$7.3 M	$29.5 M	**$6.0 M**	**$10.6 M**	**$10.1 M**	**$7.2 M**	**$33.9 M**
Revenues from O&M	$6.2 M(2)	$8.8 M	$8.7 M	$9.6 M	$33.3 M	**$8.4 M**	**$8.6 M**	**$9.1 M**	**$9.8 M**	**$35.9 M**
Total revenues	$17.5 M	$19.9 M	$21.3 M	$24.1 M	$82.8 M	**$22.6 M**	**$25.8 M**	**$26.7 M**	**$24.5 M**	**$99.7 M**

(1) Revenues from Projects vary from quarter to quarter and depend on the different milestones reached for revenues recognition.
(2) During the 2017 year-end audit, the acquisition of Utility Partners has been considered effective as of July 26, 2016 (instead of July 1, 2016). Therefore, the revenues of the first quarter of fiscal year 2017 have been adjusted accordingly and only 2 months of Utility Partners' operations are recorded in revenues for Q1 2017.

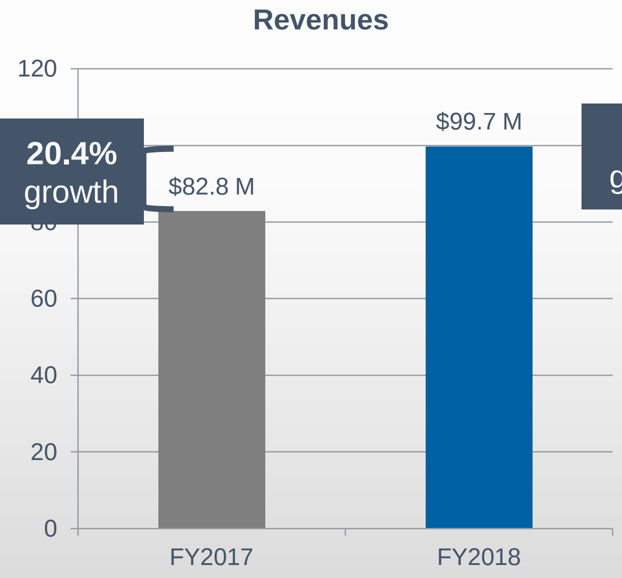
Adjusted EBITDA

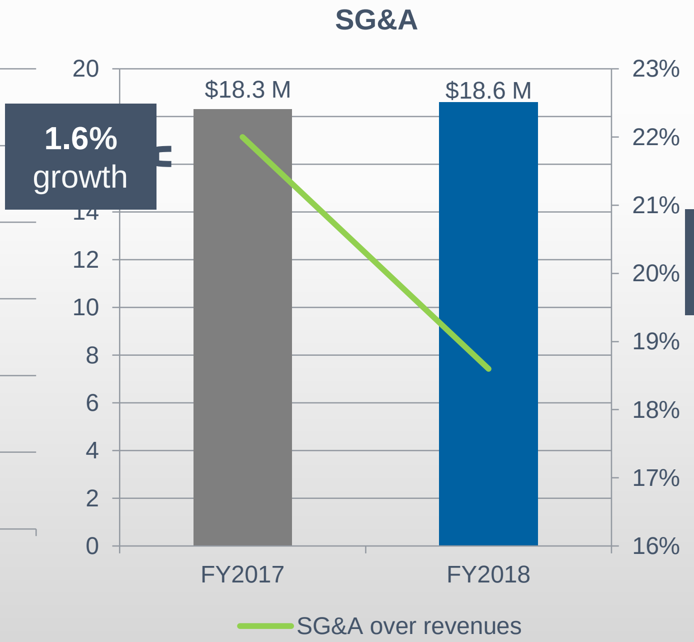
	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2018	2017	**2018**	2017
Net loss for the period	**($1.0 M)**	($1.7 M)	**($3.4 M)**	($5.1 M)
Finance costs – net	**$0.4 M**	$0.3 M	**$1.3 M**	$1.3 M
Income taxes	**$0.2 M**	($0.08 M)	**$1.1 M**	($0.7 M)
Depreciation of property, plant and equipment	**$0.3 M**	$7.9 M	**$1.1 M**	$1.3 M
Amortization of intangible assets	**$0.7 M**	$0.6 M	**$2.8 M**	$3.2 M
EBITDA	**$0.6 M**	($0.1 M)	**$2.9 M**	$0.06 M
Net loss on bank fraud	**-**	-	**$0.4 M**	-
Unrealized exchange (gains) / losses	**$0.07 M**	($0.06 M)	**($0.04 M)**	$0.01 M
Acquisition and integration costs	**$0.4 M**	-	**$0.5 M**	$1.1 M
Stock-based compensation costs	**$0.1 M**	$0.2 M	**$0.4 M**	$0.6 M
Other (Change in fair value of contingent consideration, severances, settlement)	**($0.1 M)**	-	**($0.1 M)**	-
Adjusted EBITDA	**$1.1 M**	($0.02 M)	**$4.1 M**	$1.8 M

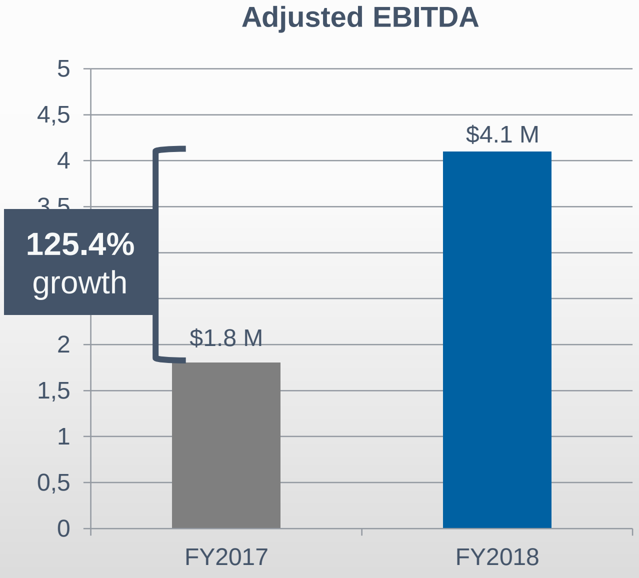
- **Adjusted EBITDA increased** by $2.3 M or **125.4%,** to reach $4.1 M;
  - Driven by the significant increase in revenues for all the business pillars, as well as a decrease of the SG&A as a percentage over revenues.
  - SP&S business line growth of 15.0% increased the gross profit margin before depreciation, as this business line is characterized by higher gross profit margin before depreciation and amortization
- **Ratio of EBITDA over revenues** is at **4.1%** an increase from 2.2% in FY2017.

Scalability of Adjusted EBITDA

FY2017 vs FY2018







Adjusted Net Earnings (Loss)

FY2018 vs FY2017

Years ended June 30	**2018**	2017
Net loss	**($3.4 M)**	($5.1 M)
Impact of tax reform	**$1.0 M**	-
Acquisition costs, integration costs and other costs	**$0.5 M**	$0.9 M
Net loss on bank fraud	**$0.4 M**	-
Amortization of intangible assets from acquisition	**$1.8 M**	$2.0 M
Stock based compensation expenses	**$0.4 M**	$0.6 M
Adjusted net earnings (loss)	**$0.7 M**	($1.7 M)

- The net loss amounted to ($3.4 M) or ($0.086) per share for fiscal year 2018 compared with a loss of ($5.1 M) or ($0.133) per share for fiscal year 2017.
  - This reduction is mostly due to sales volume increase and tight management of expenses.
  - Is it also caused by a new tax legislation from the U.S. reducing the U.S. federal corporate tax rate from 35% to 21%;
  - And other non-recurring and non-cash impact.

Financial Position

Working capital

Decreased from $9.0 M to $7.2 M:

	FY2017	FY2018
Cash & Cash Equivalent and Guaranteed Deposit Certificate	$5.1 M	**$2.0 M**
Receivables	$13.2 M	**$17.8 M**
Inventories	$4.9 M	**$7.0 M**
WIP	$4.3 M	**$4.3 M**
Income taxes	($0.05 M)	**$0.1 M**
Prepaid expenses	$1.4 M	**$0.9 M**
Bank loans	$5.1 M	**$9.2 M**
Payables	$12.8 M	**$13.4 M**
Current portion of long-term debt	$2.0 M	**$2.2 M**

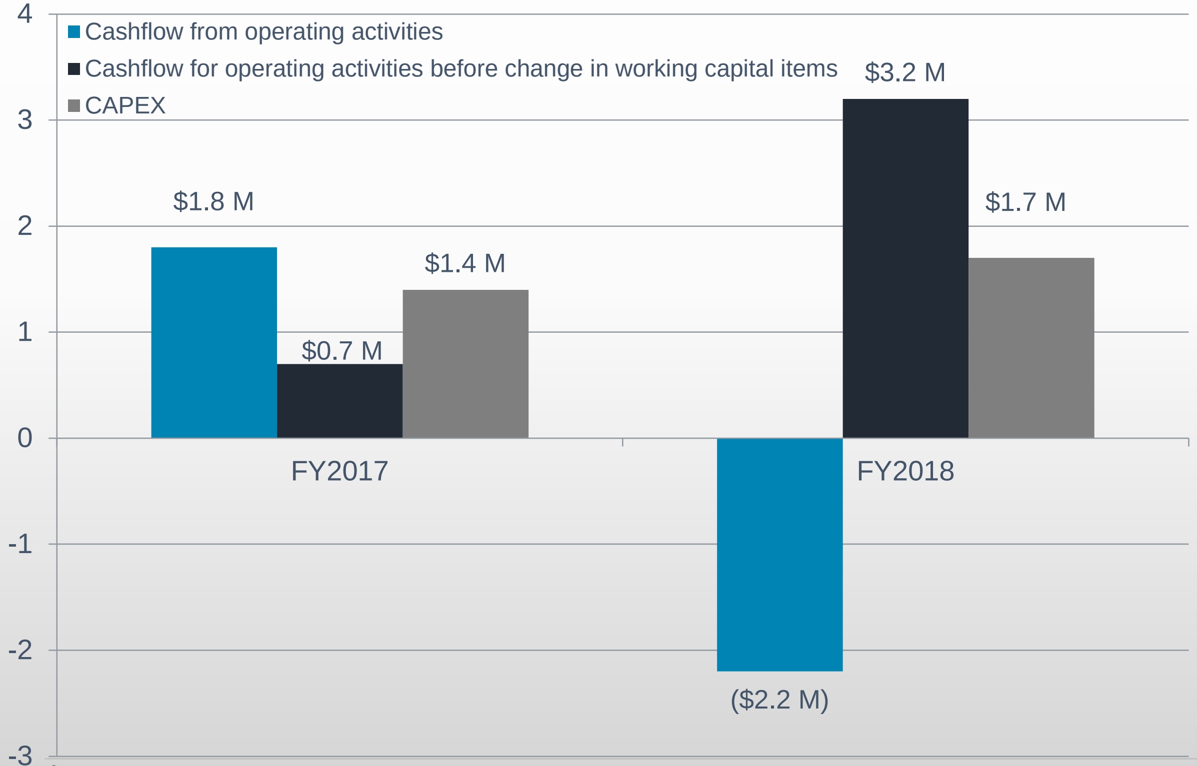
- **Receivables**: stood at $17.8 M, compared to $13.2 M as at June 30, 2017
  - Invoicing milestones reached in Projects;
  - Increase in revenue level
- **Inventories**: increased by $2.1 M to $7.0 M as at June 30, 2018 from $4.9 M as at June 30, 2017;
  - Increase of sales, to support the growing demand for all the business lines, but notably for the Maple, PWT & Piedmont activities;
  - Impact on the use of the bank loans, as the Corporation need to build up the inventory.
- **Payables**: increased by $0.8 M compare to last year.

Net debt

Increased to reach $17.5 M, from $12.6 M last year.

- Increase is essentially du to the increase of receivables and inventory;
- Bank loans increased by $4.1 M to support the manufacturing of Projects, SP&S inventories and capex for O&M;

Cash Flows from Operating Activities



- Operating activities used ($2.2 M) in cash for the fiscal year ended June 30, 2018, compared to $1.8 M of cash generated during the previous fiscal year.
    - This increase is a reflection of the change in working capital items, with more cash spent to support the daily activities of the Corporation, including the significant increase of accounts receivable and inventories.

Key Highlights

- **Sustained revenue growth of 20.4% and significant adjusted EBITDA improvement of 125.4%;**
- Combined backlog of **$121.7 M** (Projects and O&M), as of June 30, 2018, remains strong and diversified;
- **70.0 %** of the revenues are recurrent by nature (SP&S and O&M);
- Our business model proposes many sales synergies among three business pillars.

Projects

- Project sales backlog: $53.6 M (as of June 30, 2018);
- Growing momentum for industrial and wastewater projects.

SP&S

- Sustained organic growth of 15.1% supported by sales network expansion;
- Keep developing new products, and expanding our distribution network.

O&M

- Backlog of $68.1 M for operation and maintenance contracts (as of June 30, 2018);
- Pursue growth in new geographic regions: Texas and Alberta.

H_2O Innovation

Unique smart water player

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