Investor Presentation Q3-FY2019

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May 15, 2019

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)", "Net debt" and "Adjusted net earnings (loss)" 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 on bank fraud, as it is 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 (gains) losses and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition costs, integration costs and other costs, as they are not directly linked to the operations. 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 and adjusted net earnings are non-IFRS measures, they are 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.

Financial Highlights

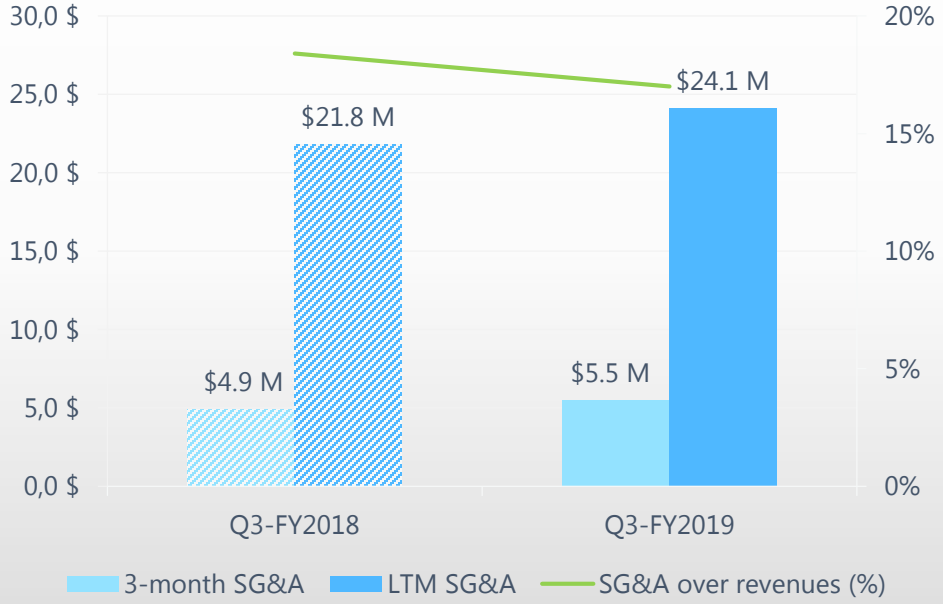
Q3-FY2019

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2019	2018	**2019**	2018
Revenues	**$32.3 M**	$26.7 M	$86.1 M	$75.1 M
Projects & Aftermarket	**$8.9 M**	$9.8 M	$31.1 M	$30.5 M
Specialty Products	**$8.0 M**	$7.8 M	$18.1 M	$18.5 M
O&M	**$15.4 M**	$9.1 M	$36.9 M	$26.2 M
Gross profit before depreciation and amortization (%)	**23.3%**	21.7%	22.4%	21.9%
SG&A	**$5.5 M**	$4.9 M	$14.8 M	$13.7 M
% SG&A	**17.0%**	18.4%	$17.2%	18.3%
Net earnings (loss)	**$0.5 M**	($0.01 M)	($1.0 M)	($2.4 M)
Adjusted net earnings (loss)	**$1.3 M**	$0.5 M	$1.2 M	($0.4 M)
Adjusted EBITDA	**$2.2 M**	$1.1 M	$4.8 M	$3.0 M
Adjusted EBITDA over revenues (%)	**6.8%**	4.0%	5.6%	4.0%

- Revenues $32.3 M: increased of 21.1% compared to $26.7 M last year;
- This increase is coming from: acquisition of Hays; organic growth from the Specialty Products and O&M business pillars.
- The Projects & Aftermarket business pillar decreased by $0.9 M, or 8.8%, but has healthier GPM coming from industrial and wastewater projects;
- GPM: increased from 21.7% to 23.3% due to:
  - Business Mix: more revenues coming from Specialty Products business pillar;
  - More sales coming from higher margins' products
- SG&A : **17.0**% down from **18.4**% for Q3-FY2018;
  - This decrease is explained by a tight management of SG&A expenses, while revenues grew by 21.1% over the same period.

SG&A Expenses

Quarters vs LTM



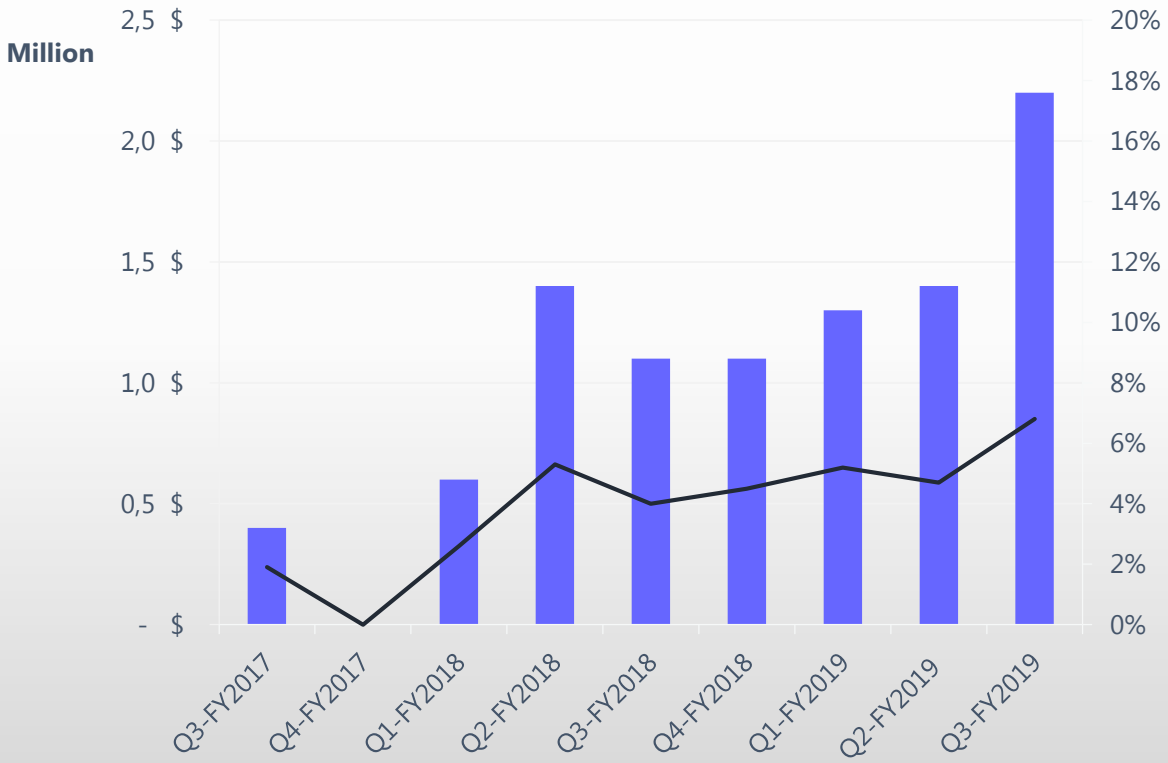
- The SG&A over revenues in % decreased to 17.0%, compared to 18.4% for the third quarter of the previous fiscal year.
- The decrease in % is explained by a tight management of SG&A expenses, while growing revenues over the same period.

Adjusted EBITDA

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2019	2018	**2019**	2018
Net earnings (loss) for the period	**$0.5 M**	($0.01 M)	($1.0 M)	($2.4 M)
Finance costs – net	**$0.3 M**	$0.08 M	$1.8 M	$0.9 M
Income taxes	**($0.2 M)**	($0.1 M)	($0.2 M)	$0.9 M
Depreciation of property, plant and equipment	**$0.3 M**	$0.2 M	$0.9 M	$0.8 M
Amortization of intangible assets	**$1.0 M**	$0.7 M	$2.5 M	$2.1 M
EBITDA	**$1.9 M**	$0.9 M	$4.0 M	$2.3 M
Unrealized exchange (gains) losses	**$0.05 M**	($0.04 M)	$0.09 M	($0.1 M)
Stock-based compensation costs	**$0.1 M**	$0.1 M	$0.2 M	$0.3 M
Net loss on bank fraud	**-**	$0.1 M	**-**	$0.4 M
Acquisition-related costs, integration costs and other costs	**$0.1 M**	-	$0.6 M	$0.08 M
Adjusted EBITDA	**$2.2 M**	$1.1 M	$4.8 M	$3.0 M

- Q3 Adjusted EBITDA: increased at $2.2 M. Improvement of 100% compared to last year ;
- Q3 Adjusted EBITDA in ratio increased to 6.8% compared to 4.0% last year;
- For the nine-month period of this fiscal year, Adjusted EBITDA increased by 60.1% : $4.8 M compare to $3.0 M last year.

Adjusted EBITDA Evolution



- On a LTM basis Adjusted EBITDA: $5.9 M or 5.4%. 100% improvement compared to previous LTM;
- Improvement of adjusted EBITDA explained by:
  - Increase of GPM coming from Projects and Speciality Products;
  - Good management of SG&A expenses and leverage our sales organization.

Adjusted Net Earnings (Loss)

Q3-FY2019 vs Q3-FY2018

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2019	2018	2019	2018
Net earnings (loss)	**$0.5 M**	($0.01 M)	($1.0 M)	($2.4 M)
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**$0.1 M**	-	$0.5 M	-
Net loss on bank fraud Canada (net of tax 0%)	**-**	-	-	$0.4 M
Amortization of intangible assets from acquisition Canada (net of tax 0%)[1]	**$0.04 M**	$0.04 M	$0.1 M	$0.1 M
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**$0.6 M**	$0.4 M	$1.4 M	$1.2 M
Stock based compensation expenses Canada (net of tax 0%)[1]	**$0.08 M**	$0.1 M	$0.2 M	$0.3 M
Adjusted net earnings (loss)	**$1.3 M**	$0.5 M	$1.2 M	($0.4 M)

- Net earnings: $0.5 M from a net loss of ($0.01 M) for the same quarter of the previous fiscal year;
- Adjusted net earnings: $1.3 M compared to $0.5 M last year;
- For the first nine-month the adjusted net earnings: $1.2 M compare to a net loss of ($0.4 M) for the same period last year.
- The net earnings improvement is mostly due to:
  - An improved gross profit margins due to our product mix;
  - A tight management of expenses.

Financial Position

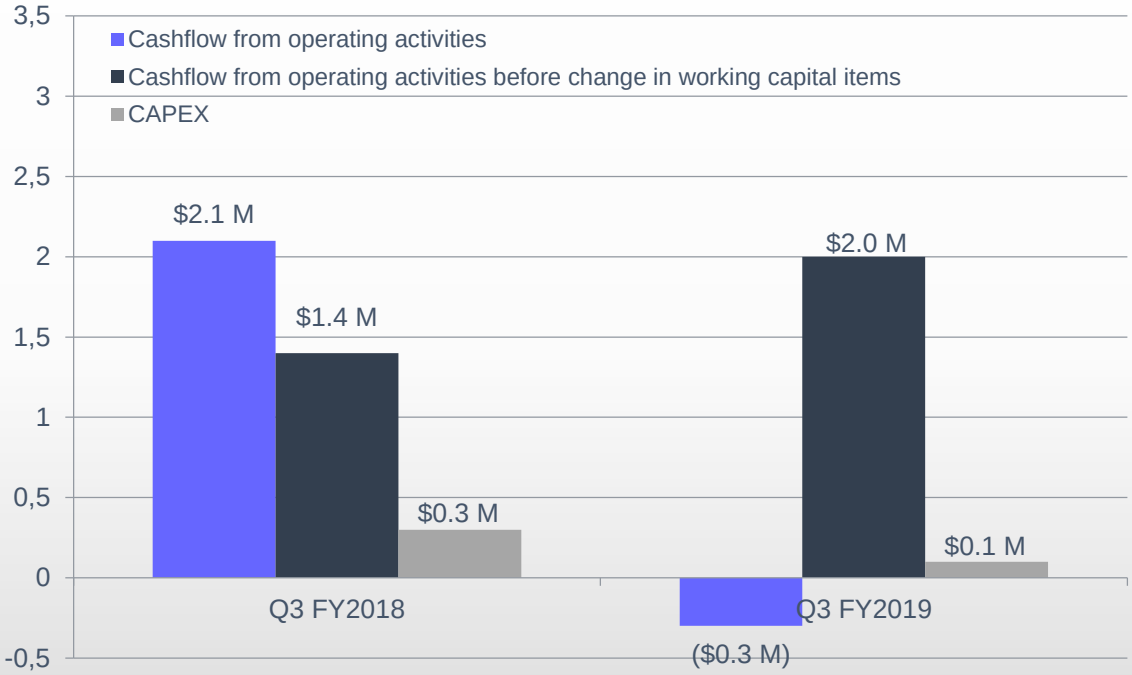
Working capital

Increased from $7.2 M to $12.2 M:

Financial Position	June 30, 2018	Sept 30, 2018	Dec 31, 2018	March 31, 2019
Cash & Cash Equivalent and Guaranteed Deposit Certificate	$2.2 M	$ 2.1 M	$6.2 M	**$6.0 M**
Receivables	$17.8 M	$19.6 M	$20.4 M	**$20.4 M**
Inventories	$7.0 M	$8.2 M	$8.2 M	**$7.8 M**
WIP - net	$4.3 M	$1.4 M	$3.4 M	**$2.6 M**
Payables	$13.4 M	$13.3 M	$16.6 M	**$14.0 M**
Bank loans and Bank overdraft	$9.5 M	$9.8 M	$8.4 M	**$9.2 M**
Long-term debt	$10.1 M	$9.7 M	$8.4 M	**$8.0 M**

- **Receivables**: increased by $2.6 M, or 14.7%, mostly attributable to:
  - Increase of revenues in our O&M business pillar, with scope of work expansions in our existing projects leading to increased invoicing;
  - Invoicing milestones reached in significant water treatment projects before the end of the quarter.
- **Inventories**: increased by $0.8 M, or 11.4%, due to:
  - Support the Specialty Products business pillar, for which inventories need to be on hand and available. As at March 31, 2019, the Corporation was in the peak of its maple season;
  - Acquisition of Hays ($0.2 M).
- **Payables**: increased by $0.6 M, or 4.7%.
  - Mainly due to the integration of Hays, adding $1.3 M of accounts payable to the consolidated results.
- **Net Debt**: decreased by $6.0 M, or 34.4%:
  - This decrease comes from the extra equity raised at the same time we did the financing related to the acquisition of Hays, and to the cash flows from operating activities of $2.6 M for the nine-month period ended March 31, 2019.

Cash Flows from Operating Activities



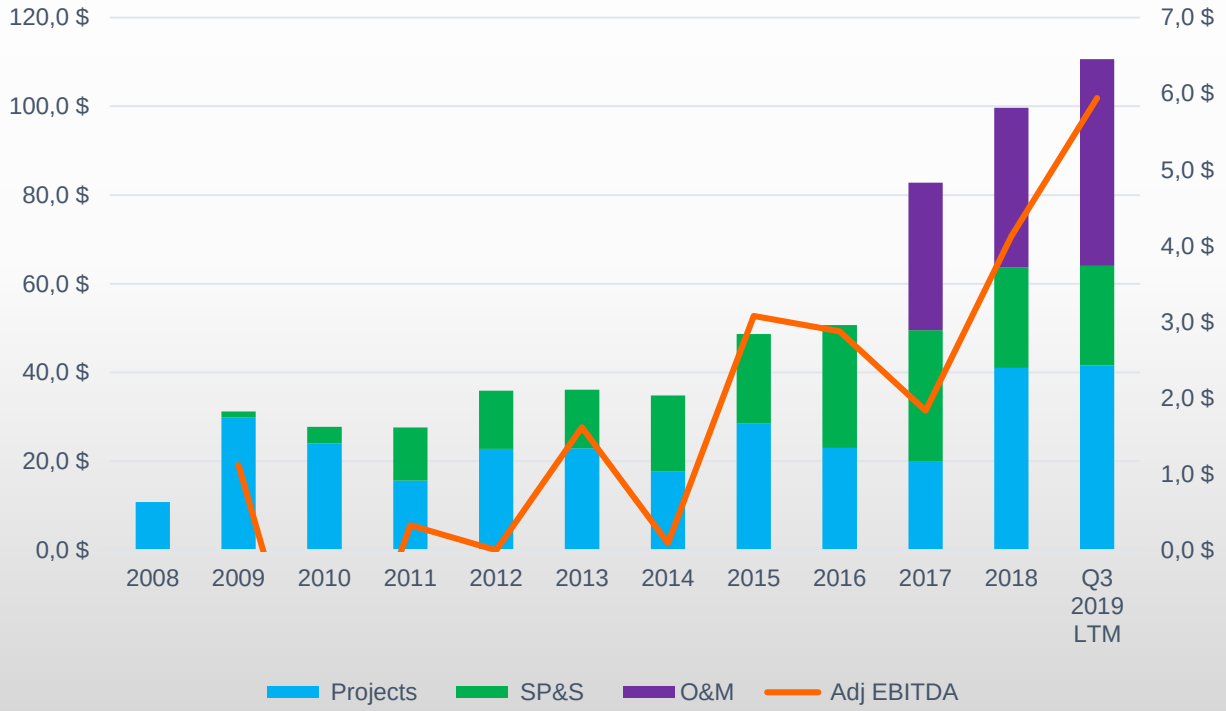
- Operating activities used $0.3 M in cash for the quarter ended March 31, 2019, compared to $2.1 M of cash generated during the same period of previous fiscal year.
- This variation of the cash flows from operating activities reflects the advancement of major projects, with significant invoicing milestones reached during this quarter, impacting the change in working capital items.

Update on Business – Q3 FY2019

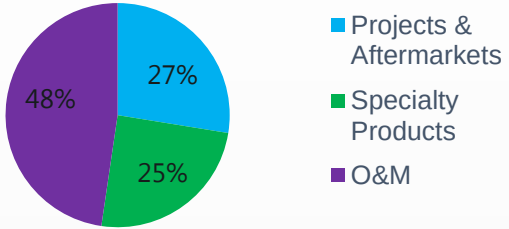
Revenue & Business Mix

Revenue & Adjusted EBITDA

In CAD million $



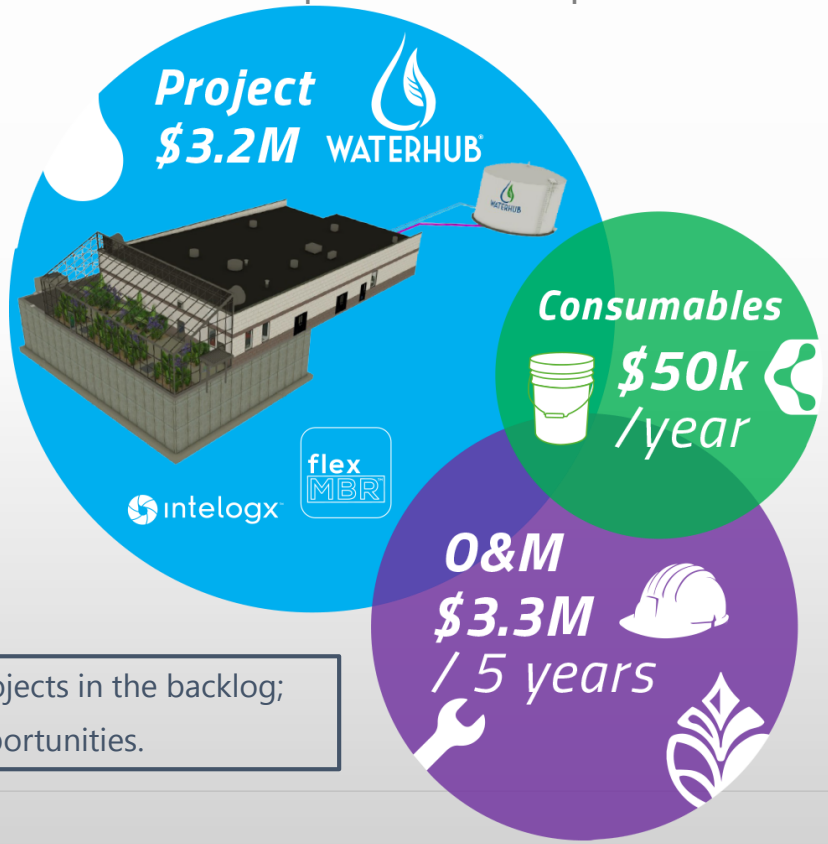
Q3 - FY2019 - Revenues



- Gain predictability in our business model with **81.9%** of recurrent revenues;
- Q3-FY2019 LTM Adjusted EBITDA stands at $5.9 M, up 43.9% from FY2018;
- Addition of O&M business pillar contributed to de-risk the business significantly.

Our Business Model Promotes Synergies and Customer Retention

Example: Partnership with Sustainable Water



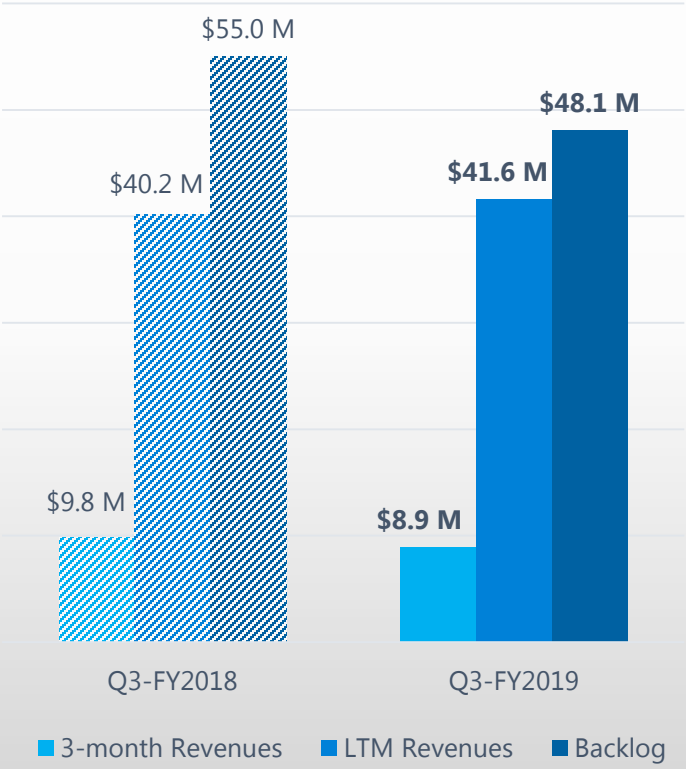
Synergies in this project:

- **$3.2 M** Capital Equipment Project
  - flexMBR™ Technology;
  - RO system;
  - Intelogx™ smart software.
- **$50 k** / year (for 5 years) of specialty products and consumables;
- **$3.3 M** for 5 years of O&M.

- **5** other similar projects in the backlog;
- More than **40** opportunities.

1st Business Pillar

Water & Wastewater Projects, and Aftermarket

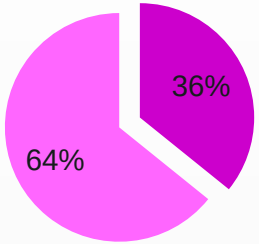


- Despite momentarily decrease in the sales backlog, the water & wastewater project business pillar is stronger:
  - Higher weighted average gross margin;
  - Greater diversification.

1st Business Pillar - Backlog Diversification

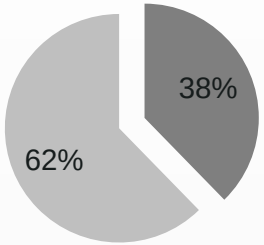
Water & Wastewater Projects, and Aftermarket

Q3 - FY2019

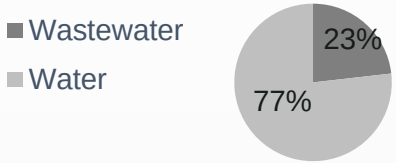


Q3 - FY2018

Q3 - FY2019



Q3 - FY2018

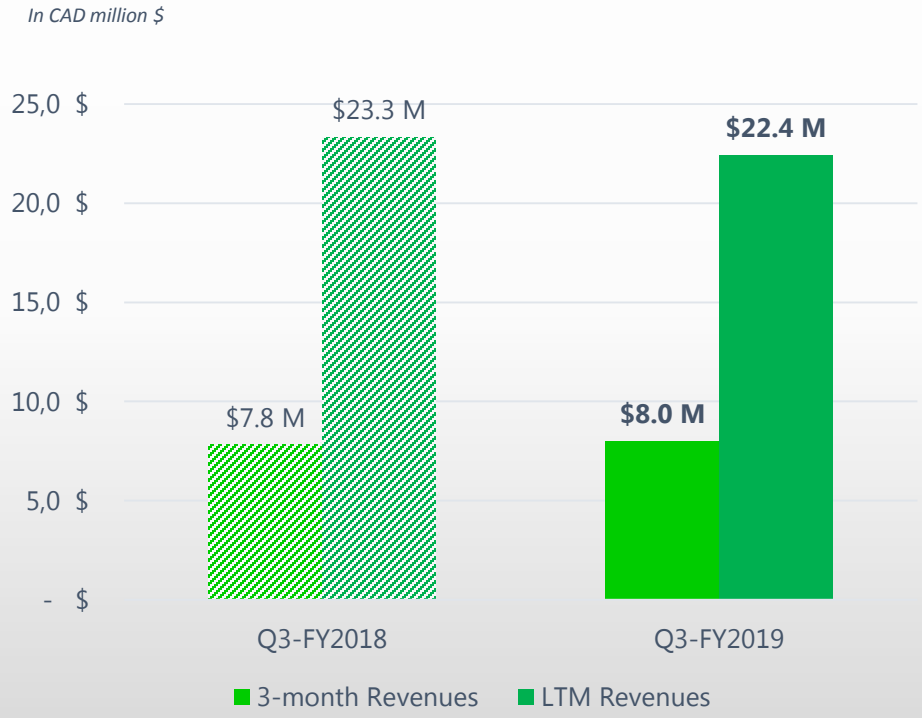


WaterHub, VA
- 1.2 MGD
- Industrial Wastewater, Water Reuse

Decatur, AK
- 4.6 MGD
- Municipal Wastewater

2nd Business Pillar

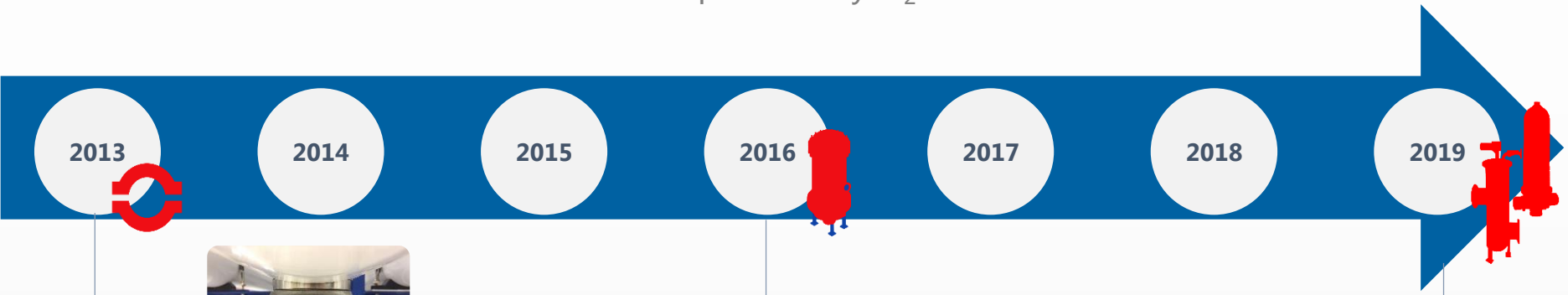
Specialty Products



- Specialty products revenues stood at $8.0 M, from $7.8 M for Q3-FY2018, representing a $0.2 M, or 3.7% increase;
- Revenues for this business pillar are showing a slight increase despite the following impacts:
  - General slowdown in the maple industry, due to adverse weather conditions during the 2018 maple syrup season, resulting into a 30.7% decrease in maple sales, compared to the same quarter of previous fiscal year;
  - Significant growth in Piedmont coming from product diversification & delivery of 1 out of 2 large coupling orders, that have been delayed in Q2.
- Ongoing effort to:
  - Expand PWT and Piedmont distribution networks;
  - Develop new territories;
  - Launch new products.

Evolution of Piedmont's Product Offering

Since it's Acquisition by H_2O Innovation



Piedmont's acquisition by H2O Innovation

Launch of new FRP cartridge filter housings

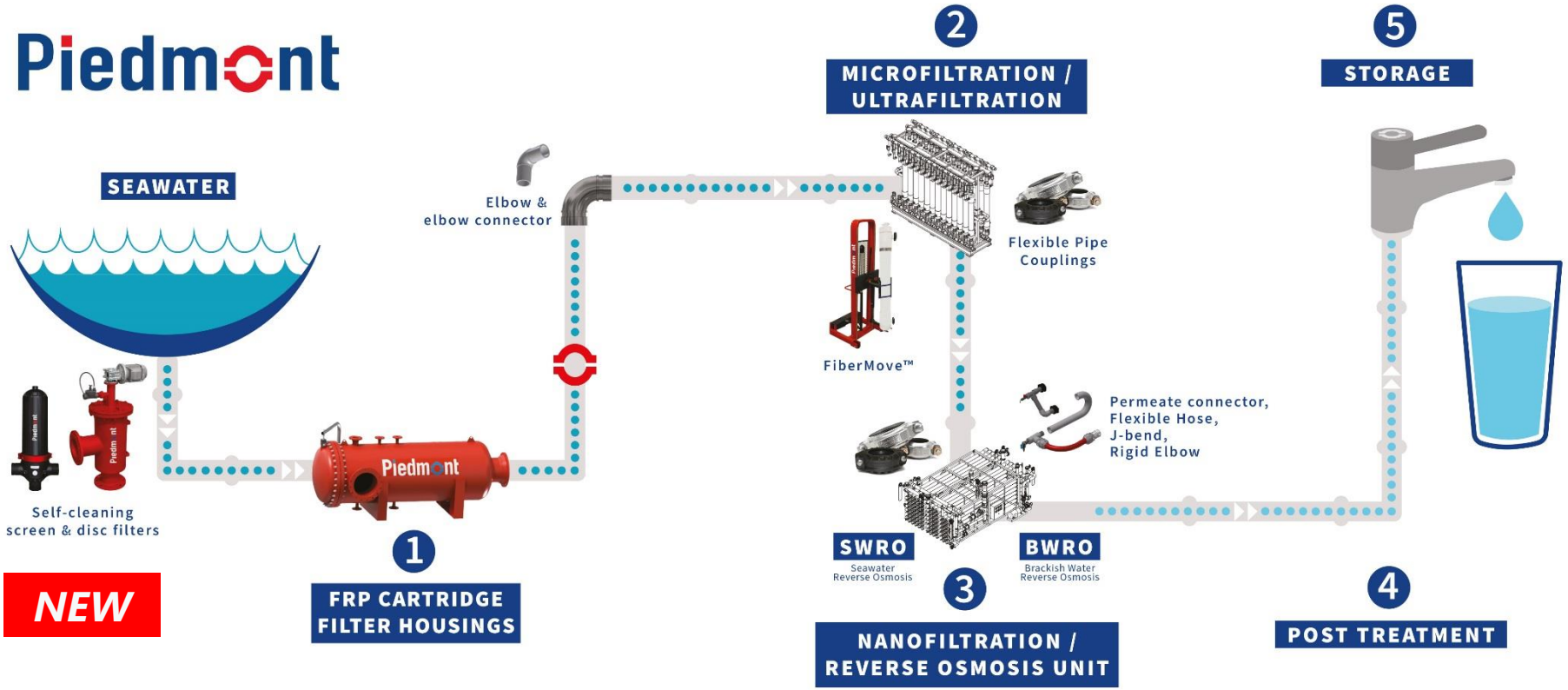
Launch of new disc and self-cleaning filters

Creating value by:

- Growing product offering
- Leveraging sales network

Piedmont Growing Offering

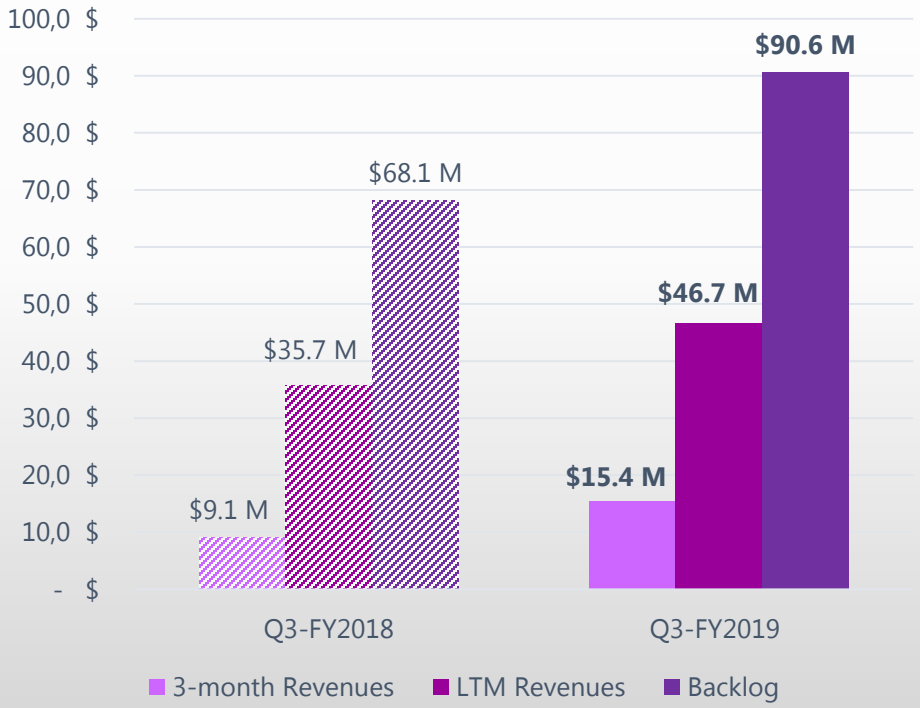
New Disc & Screen Self-Cleaning Filters



3rd Business Pillar

Operation & Maintenance (O&M)

In CAD million $



- O&M recurring revenues of $15.4 M for Q3-FY2019, compared with $9.1 M for Q3-FY2018, representing an increase of $6.3 M, or 69.0%:
  - $5.1 M is attributable to the acquisition of Hays;
  - $1.2 M is coming from organic growth on existing O&M contracts (scope expansions, annual consumer price index ("CPI") adjustments).
- O&M backlog stands at $90.6 M as at March 31, 2019, compared with $68.1 M in previous year, a 33.0 % increase (boosted by O&M contract renewals & new O&M projects).

Hays' Integration

Moving as Planned

Operation & Maintenance Business Pillar

Integration Process

Hays South Utility Corporation — Serving You Since 1970

Utility Partners

Customers & employees are supportive of the acquisition.

New delegation of authority in place with proper control.

New opportunities are opening in the State of Texas.

New contracts and scope of work increases have been identified within our existing projects.

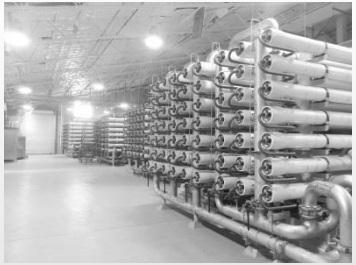
TEXAS

- **11** systems installed
- **50** O&M clients
- **6** projects in the backlog

Key Highlights

- **Revenue growth of 21.1%**;
- Combined backlog of **$138.7 M** (Projects and O&M), as of March 31, 2019, remains strong and diversified;
- **81.9 %** of the revenues are recurrent by nature (Aftermarket, Specialty Products and O&M);
- Our business model proposes many sales synergies among three business pillars.
- **Adjusted EBITDA** reached $2.2 M and **Net Earnings** increased to $0.5 M

Projects & Aftermarket



- Project sales backlog: $48.1 M (as of March 31, 2019);
- Growing momentum for industrial and wastewater projects:
  - Gross Margin keeps improving.

Specialty Products

- Keep expanding our distribution network for Piedmont and PWT;
- Launch of new products to complete our extensive product offering.

O&M

- Hays' integration is moving along;
- Multiple cost and sales synergies are already identified;
- Backlog of $90.6 M for operation and maintenance contracts (as of March 31, 2019).

H_2O Innovation

Unique smart water player

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