Investor Presentation Q2-FY2020

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TSXV: HEO

Forward Looking Statement

- *Certain statements set forth in this presentation regarding the operations and activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 24, 2019 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events and other changes.*

- Cautionary Note Regarding United States Securities Laws

  This presentation does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. The securities of H_20 Innovation have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons," as such term is defined in Regulation S under the U.S. Securities Act, unless an exemption from such registration is available.

Non-IFRS Financial Measurement

- In this 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”, “Recurring revenue” and “Earnings before administrative expenses” 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.
- EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles (“GAAP”), namely the unrealized exchange (gains) losses, the change in fair value of contingent consideration 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 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.
- The definition of net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies.
- Recurring revenue by nature is a non-IFRS measure and is defined by the management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or has a recurring sales pattern. Corporation’s recurring revenues are coming from the following business lines: Aftermarket, Specialty Products and O&M.
- The definition of Earnings before administrative expenses (‘’EBAC’’) means the gross profit before operating costs, depreciation and amortization reduced by the operating and selling expenses. EBAC is a non-IFRS measure and it is used by management to make operational and strategic decisions.

Business Highlights

Q2-FY2020

- Acquisition of **Genesys** on November 15, 2019;
  1. Strong Combined Product Line;
  2. One of the Largest Distribution Networks;
  3. Global Manufacturing Capabilities

- Piedmont secured new FRP and coupling orders, totaling **$3.5 M**, including the largest SWRO desalination plant;

- Renewal of **3** major O&M contracts, totaling **$30.1 M.**

Evolution of Our Business Model Focused on Recurring Sales and Margin Improvement

Water & Wastewater Projects, and Services	Specialty Products	Operation & Maintenance
37.8%	76.7%	33.8%
H2O Innovation	H2O Innovation	Utility Partners
intelogx, clearlogx	PWT	Hays Utility South Corporation
	Genesys International	
	Piedmont	

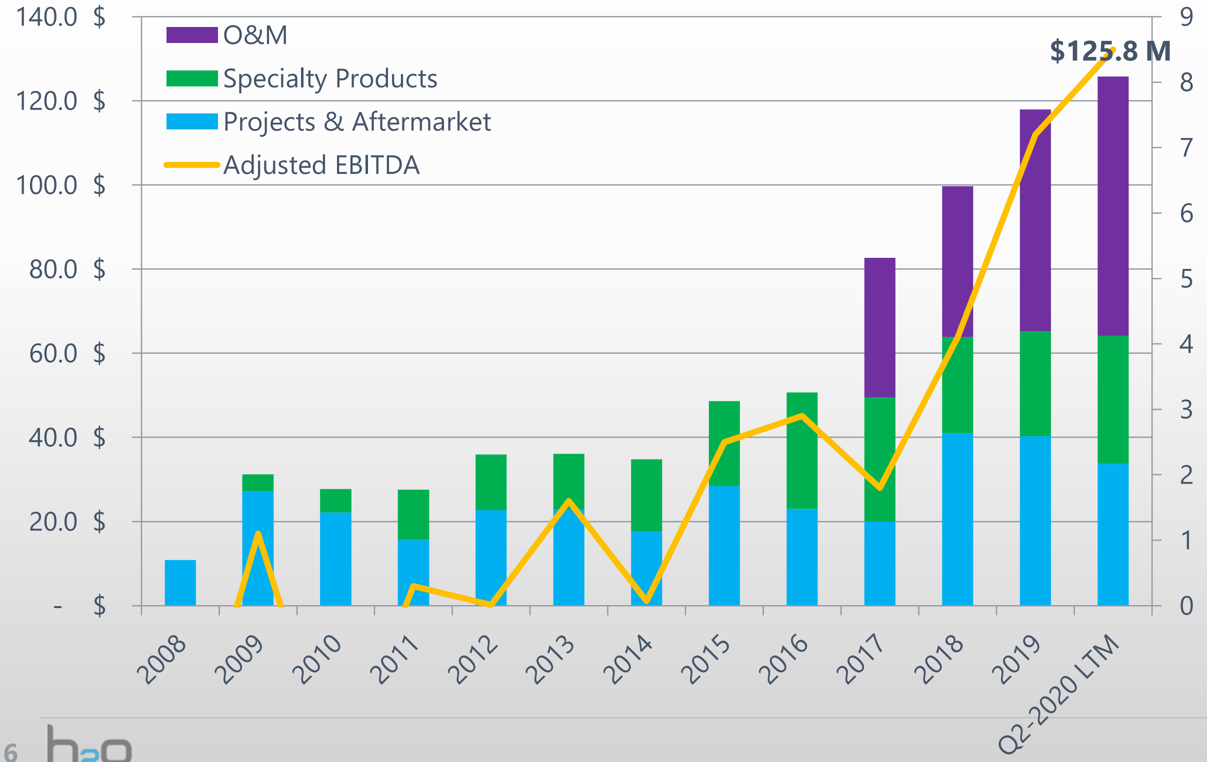
Key Drivers:

1) Hays' acquisition (December 1st, 2018)
2) Genesys' acquisition (November 15, 2019)

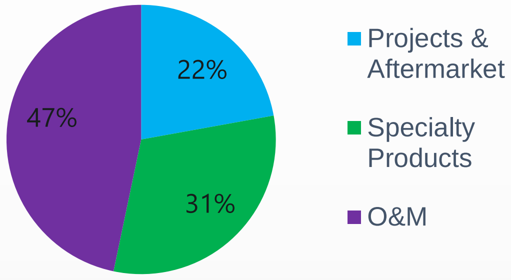
Revenue & Business Mix

Revenue & Adjusted EBITDA

In CAD million $



Q2 - FY2020 - Revenues



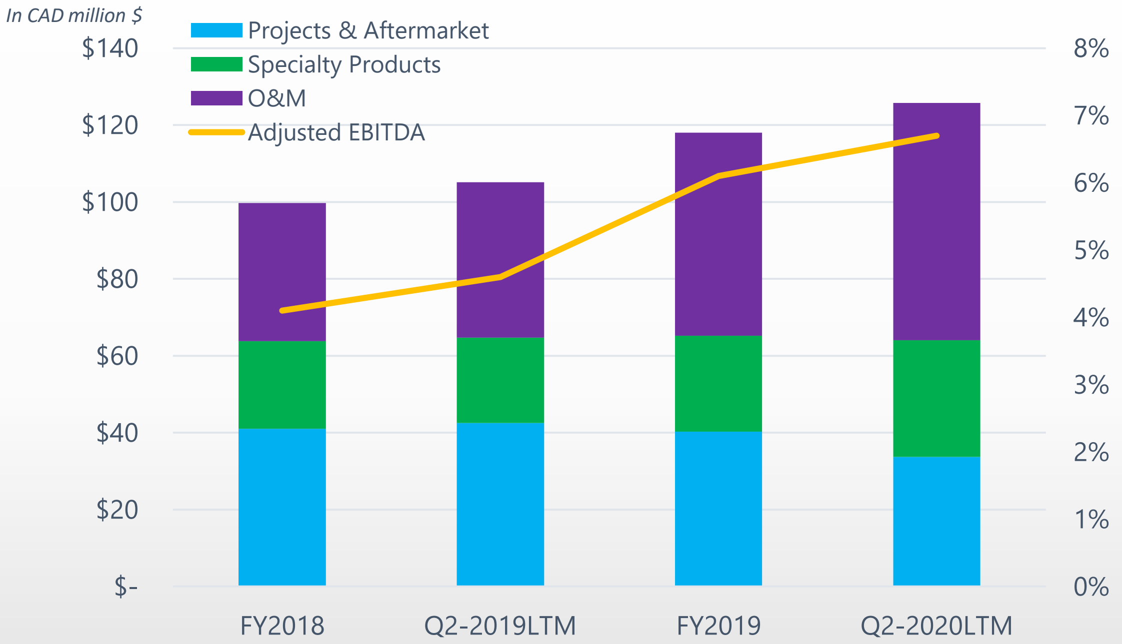
- Business mix & Specialty Products growth are allowing us to improve our adjusted EBITDA and GPM.

Recurring Revenues

Aftermarket, Specialty Products and O&M

Our business model promotes and encourages **strong customer retention** translating into **high recurring revenues.**

Revenue Mix & Adjusted EBITDA



	Q2-FY2019 LTM	Q2-FY2020 LTM	Variance
Revenues	105.1	125.8	↑ 19.8%
Adjusted EBITDA	4.6%	6.7%	↑ 76.5%

Providing a Cost-effective and Accountable Customer's Experience: Design, Build, Operate Using Specialty Products

SUSTAINABLE WATER®
EXTENDING THE LIFE CYCLE OF WATER

Application: Industrial Wastewater
Capacity: 70,000 GPD (2,684 m^3/d)
Technology: flexMBR™ & RO
5-year O&M Contract: Utility Partners
Specialty Products: PWT Chemicals, Piedmont filters & Intelogx software

- MBR-RO system designed to **reuse** industrial wastewater for cooling tower makeup water application.
- Historically they had discharged their wastewater to sewer and **paid** the city for potable water in their cooling tower makeup.
- It was determined that constructing an onsite system to treat wastewater to an industrial reuse level was a **cost-effective** approach to solve this problem.

Strong Value Proposition for the City of MossPoint, MS

UTILITY PARTNERS

- Drinking water RO membrane plant: **5.0 MGD**;
- Operated by Utility Partners **since 2008**;
- Upgrades:
  - Membrane replacement of **1008** membranes & financing solution;
  - Replacement of FRP filter housings by Piedmont;
  - Antiscalant & specialty cleaners provided by PWT;
  - Implementation of an energy saving program (**+10%**) by installing VFDs on high pressure pumps.

Piedmont's FRP & Coupling Orders

Piedmont

Antofagasta, Chile
10 FRP filter housings
Capacity: 50,000 m³/d

Rawafid, Saudi Arabia
103 FRP filter housings
9,296 couplings
Capacity: 240,000 m³/d

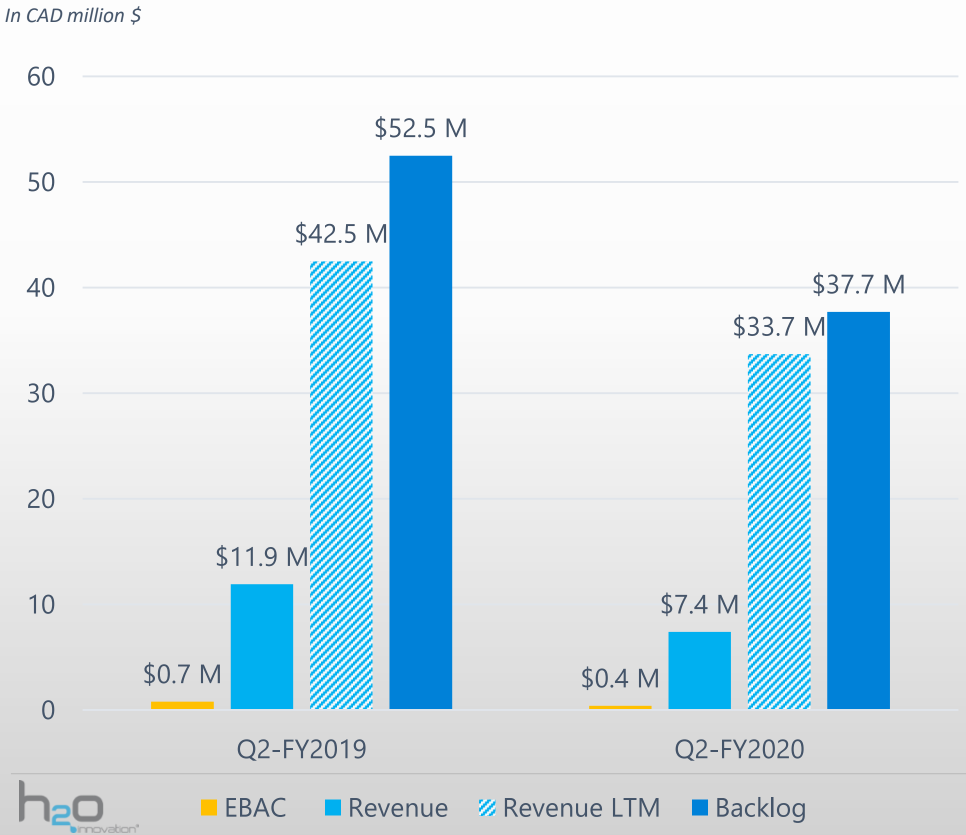
Al Kohbar, Saudi Arabia
16 FRP filter housings
Capacity: 210,000 m³/d

Taweelah, UAE
48 FRP filter housings
Capacity: 900,000 m³/d

Financial Overview Q2-FY2020

1st Business Pillar

Water & Wastewater Projects, and Services (Projects & Aftermarket)

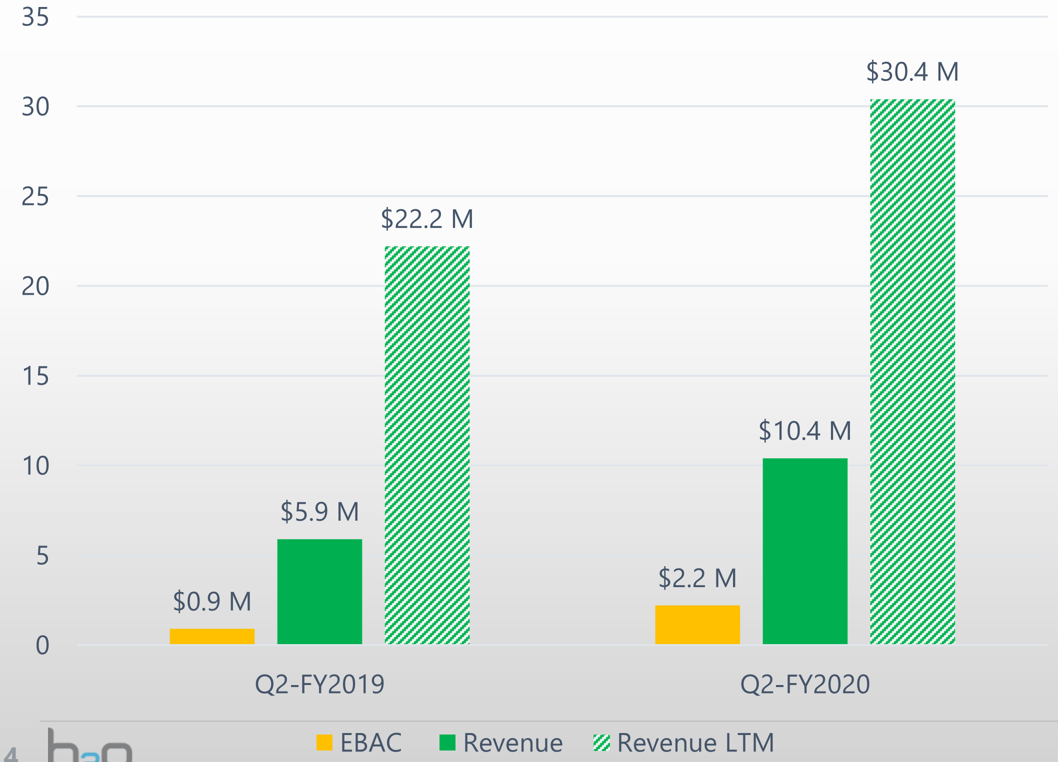


- Projects & Aftermarket revenues stood at $7.4 M during Q2-FY2020, compared to $11.9 M for the same quarter of last fiscal year, representing a $4.5 M, or 37.8 % decrease.
- The GPM stood at $1.5 M, or 19.7 % for Q2-FY2020, compared with $1.8 M, or 14.8 % for the same quarter of last fiscal year, representing a decrease of $0.3 M, or 17.0 %, but an improvement in terms of % over revenues.
- The general operating and selling expenses remained stable at $1.1 M during Q2-FY2020, compared to $1.0 M, for Q2-FY2019.
- Projects & Aftermarket's EBAC stood at $0.4 M during Q2-FY2020, compared to $0.7 M for the Q2-FY2019, representing a decrease of $0.3 M, or 50.9 %. The decrease is due to the lower level of revenues recognized during the quarter, compared to the same quarter of the previous fiscal year.
- Focus for new Projects : higher gross profit margin potential, and projects that can generate recurring revenues for O&M and Aftermarket.

2nd Business Pillar

Specialty Products

In CAD million $

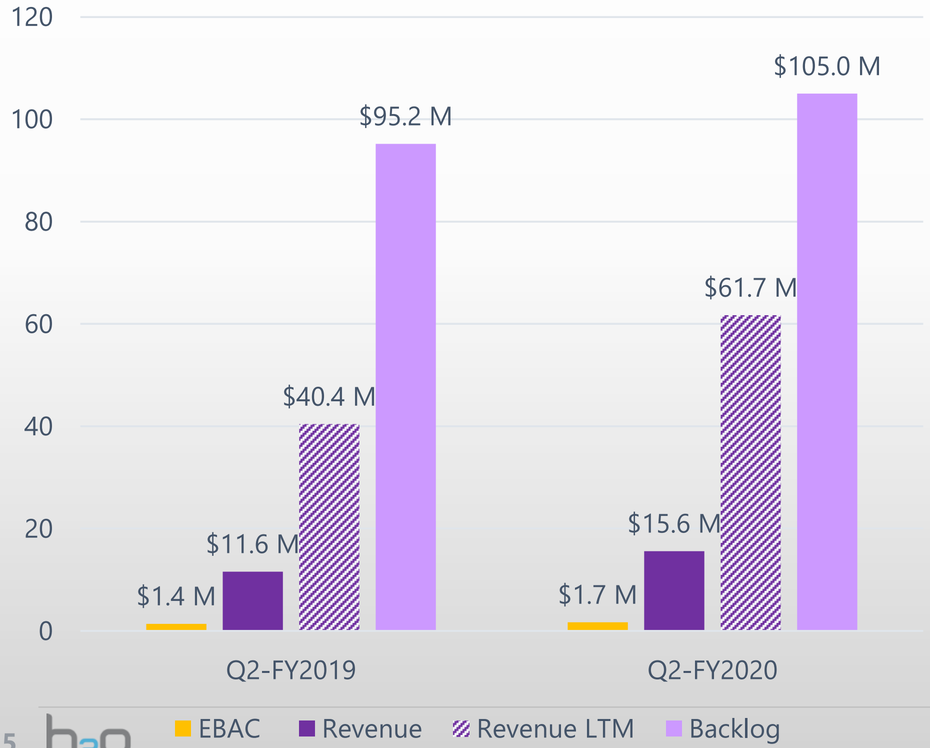


- Specialty Products revenues stood at $10.4 M during Q2-FY2020, compared to $5.9 M for the Q2-FY2019, representing an increase of $4.5 M, or 76.7 %.
- Of this $4.5 M revenue increase:
  - ➢ Genesys : $1.6 M represents 1.5 months of revenues since the acquisition date is November 15, 2019;
  - ➢ Piedmont's business line: Significant orders were delivered;
  - ➢ Maple business line : Producers are preparing for the upcoming maple season.
- The GPM stood at $4.0 M, or 39.0 %, compared with $2.3 M, or 39.3 % for the Q2-FY2019, representing an increase of $1.7 M in dollar, but a decrease of the GPM in %.
- The general operating and selling expenses stood at $1.8 M during Q2-FY2020, compared to $1.4 M, for the Q2-FY2019. The acquisition of Genesys contributed to $0.3 M of this increase.
- Specialty Products EBAC stood at $2.2 M Q2-FY2020, compared to $0.9 M for the same quarter of last fiscal year, representing an increase of $1.3 M, or 155.7 %.

3rd Business Pillar

Operation & Maintenance (O&M)

In CAD million $



- O&M revenues stood at $15.6 M during the Q2-FY2020, compared to $11.6 M for the Q2-FY2019, representing an increase of $4.0 M, or 33.8 %.
- Hays, which was acquired during the Q2-FY2019, contributed $5.3 M to the revenues of this business pillar during the quarter compared to $1.5 M for the Q2-FY2019.
- The GPM stood at $2.8 M, or 17.8 % for the Q2-FY2020, compared with $2.2 M, or 18.7 % for the Q2-FY2019, representing an increase of $0.6 M, or 27.5 %.
- The general operating and selling expenses stood at $1.0 M during the Q2-FY2020, compared to $0.8 M, for the same quarter of last fiscal year, representing an increase of $0.2 M.
- O&M EBAC stood at $1.7 M during the Q2-FY2020, compared to $1.4 M for the same quarter of last fiscal year, representing an increase of $0.3 M, or 22.7 %.

Financial Highlights

Q2-FY2020 vs Q2-FY2019

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2019	2018	**2019**	2018
Revenues	**$33.3 M**	$29.4 M	**$61.6 M**	$53.7 M
Projects & Aftermarket	**$7.4 M**	$11.9 M	**$15.6 M**	$22.1 M
Specialty Products	**$10.4 M**	$5.9 M	**$15.6 M**	$10.1 M
Operation & Maintenance	**$15.6 M**	$11.6 M	**$30.4 M**	$21.5 M
Gross profit before depreciation and amortization (%)	**24.8%**	21.3%	**24.3%**	21.9%
SG&A	**$5.9 M**	$4.9 M	**$11.0 M**	$9.3 M
% SG&A	**17.7%**	16.7%	**17.8%**	17.3%
Net loss	**($0.9 M)**	($1.2 M)	**($1.9 M)**	($1.5 M)
Adjusted EBITDA	**$2.3 M**	$1.4 M	**$3.9 M**	$2.6 M
Adjusted EBITDA over revenues (%)	**6.9%**	4.7%	**6.4%**	4.9%

- Revenues increased by $3.9 M, or 13.5 %, to reach $33.3 M compared to $29.4 M for the Q2-FY2019.
    - This overall increase is fueled by the acquisition of Genesys during the Q2-FY2020, which contributed $1.6 M in revenues during this quarter;
    - The growth is also explained by the organic increase of $2.9 M coming from Specialty Products and $4.0 M coming from O&M, partly offset by the decrease in revenues of $4.5 M from the Projects & Aftermarket.
- GPM: increased from 21.3% to 24.8% due to:
    - The increased GPM in % is coming from the Specialty Products business pillar, characterized with higher GPM;
    - The adoption of IFRS 16 – Leases resulted in a decrease of the COGS expenses of $0.1 M for the Q2-FY2020.

SG&A Expenses

- SG&A reached $5.9 M during Q2-FY2020, compared to $4.9 M for the previous fiscal year, representing an increase of $1.0 M, or 20.2 %, while the revenues of the Corporation increased by 13.5 %.
  - The administrative expenses reached $1.9 M during Q2-FY2020, compared to $1.7 M for the previous fiscal year, representing an increase of $0.2 M, or 15.9 %;
  - The acquisition of Genesys in the second quarter also contributed $0.3 M of this increase.
  - The acquisition of Hays in Q2-2020 added $0.1 M for a three-month period.
  - Some hires have taken to support the growth.
  - The adoption of IFRS 16 – Leases resulted in a decrease of the SG&A expenses of $0.2 M for the second quarter of fiscal year 2020.

Adjusted EBITDA

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2019	2018	**2019**	2018
Net loss for the period	**($0.9 M)**	($1.2 M)	**($1.9 M)**	($1.5 M)
Finance costs – net	**$0.6 M**	$1.0 M	**$1.0 M**	$1.5 M
Income taxes	**($0.3 M)**	$0.07 M	**($0.3 M)**	($0.02 M)
Depreciation of property, plant and equipment	**$0.7 M**	$0.3 M	**$1.4 M**	$0.6 M
Amortization of intangible assets	**$1.0 M**	$0.8 M	**$2.0 M**	$1.5 M
EBITDA	**$1.1 M**	$0.9 M	**$2.2 M**	$2.0 M
Unrealized exchange (gain) loss	**($0.2 M)**	($0.01 M)	**($0.3 M)**	$0.04 M
Stock-based compensation costs	**$0.05 M**	$0.08 M	**$0.1 M**	$0.2M
Change in fair value of contingent consideration	**$0.1 M**	-	**$0.2 M**	-
Acquisition-related costs, integration costs and other costs	**$1.3 M**	$0.4 M	**$1.8 M**	$0.4 M
Adjusted EBITDA	**$2.3 M**	$1.4 M	**$3.9 M**	$2.6 M

- The Corporation's adjusted EBITDA increased by $0.9 M, or 68.0 %, to reach $2.3 M during the Q2-FY2020, from $1.4 M for the comparable period of fiscal year 2019.
- The adjusted EBITDA % improved and reached 6.9 % for the Q2-FY2020, compared to 4.7 % for the same quarter of last fiscal year.
- Improvement of the adjusted EBITDA was driven by the:
  - ➢ Increase in the Corporation's consolidated revenues, especially revenues from the Specialty Products business pillar, characterized with higher gross profit margins;
  - ➢ The adoption on July 1, 2019 of IFRS 16 - Leases contributed to reduce by $0.3 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - Leases, the adjusted EBITDA would have been 6.0 %.

Financial Position

Working capital

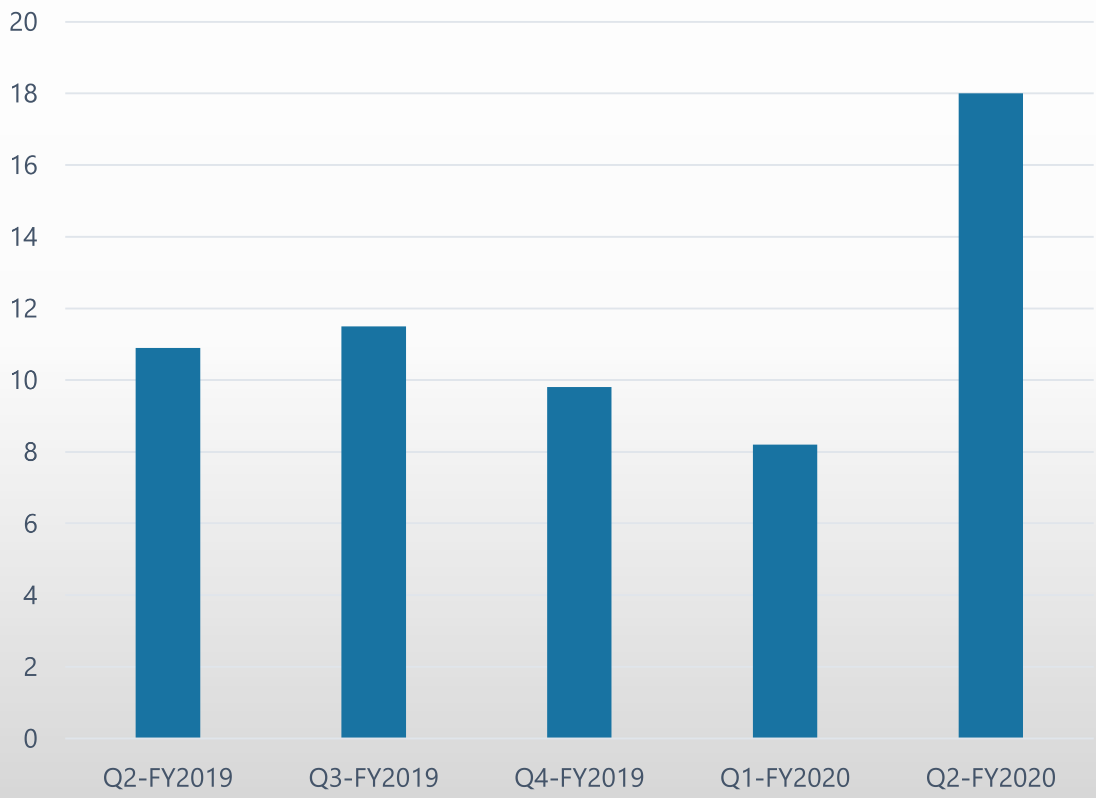
Increased from $12.8 M to $13.5 M:

Financial Position	Period ended December 31, 2019	Period ended June 30, 2019
Cash and Guaranteed Deposit Certificate	$6.5 M	**$6.2 M**
Receivables	$22.6 M	**$19.4 M**
Inventories	$7.4 M	**$6.7 M**
Contract assets	$5.8 M	**$5.9 M**
Payables	$14.6 M	**$12.3 M**
Bank loans	$6.2 M	**$7.5 M**
Long-term debt	$18.2 M	**$8.4 M**
Contract liabilities	$3.6 M	**$3.1 M**

- **Receivables**: increased by $3.2 M, or 16.3%, mostly attributable to:
  - ➢ The integration of Genesys.
  - ➢ Significant growth in Piedmont's Business line.
- **Inventories**: increased by $0.6 M, or 9.6%, due to:
  - ➢ The integration of Genesys.
- **Payables**: increased by $2.3 M, or 18.7%:
  - ➢ The integration of Genesys.

Net Debt

In CAD million $

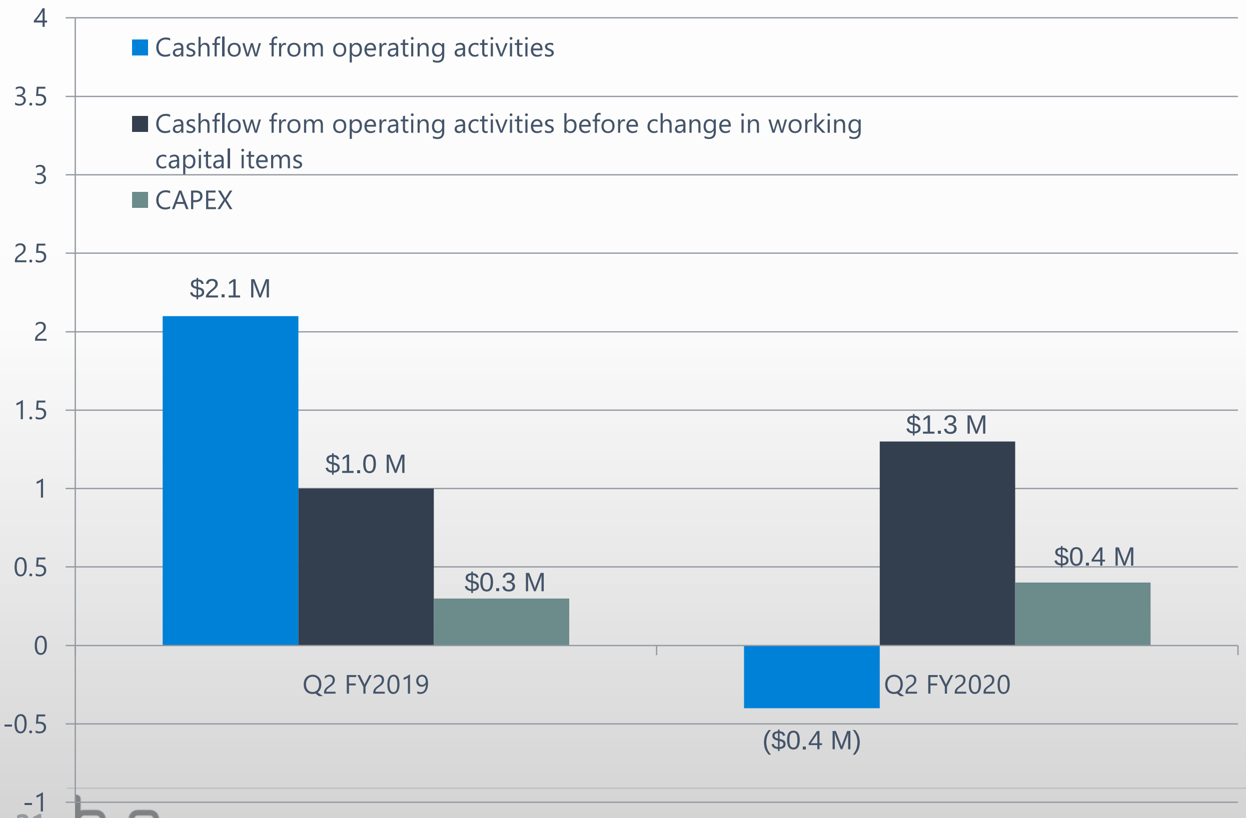


- As at December 31, 2019, the net debt stood at $18.0 M, compared with $9.8 M as at June 30, 2019, representing a $8.2 M increase, or 84.2 %.
  - This increase is mainly attributable to the term loan of $12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019, offset by the reimbursement of $1.3 M in bank loans;
  - The adoption of IFRS 16 – Leases also contributed to reduce $0.6 M the net debt since obligations under finance lease has been reclassified to the lease liabilities.

	December 31, 2019	June 30, 2019
Bank loans	$6.2 M	$7.5 M
Current portion of long-term debt	$3.2 M	$1.9 M
Long-term debt	$15.1 M	$6.6 M
Less: Cash	($6.5 M)	($6.2 M)
Net debt	**$18.0 M**	**$9.8 M**

Cash Flows from Operating Activities

In CAD million $



- Cash flows from operating activities used $0.4 M for the Q2-FY2020, compared to $2.1 M generated for the same period of previous fiscal year.

Key Highlights

- **Revenue growth of 13.5%**;
- **Adjusted EBITDA** reached $2.3 M, up 68.0% compared to $1.4 M in Q2-FY2019;
- **84.1%** of the revenues are recurrent by nature (Aftermarket, Specialty Products and O&M);
- Our business, particularly the adjusted EBITDA, is **scalable;**
- **Acquisition of Genesys** on November 15, 2019:
    - Strong Combined Product Line;
    - One of the Largest Distribution Networks;
    - Global Manufacturing Capabilities.
- Our **FiberFlex™ open platform** listed as GWI's **Water Technology Breakthroughs** of the decade;
- Our business model captures many **sales synergies** among three business pillars and promotes customer retention (Virginia WaterHub, Moss Point, etc.).

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ANNIVERSARY

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