

Corporate & Investors Presentation

H₂O Innovation

February 2020

Presented by :
Marc Blanchet, CFO



TSXV: **HEO**



Forward Looking Statement

- Certain statements set forth in this presentation regarding the operations and activities of H₂O 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, H₂O 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 H₂O 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.

Water Investment Thesis

The United Nations estimates that water use is currently six times greater than it was in 1900 and that demand will increase an additional 20% to 30% by 2050.



Population Growth

+ **1 billion** by 2030



Aging Infrastructure

Required investments of **\$9.1 trillion** by 2030 to **\$22.6 trillion** by 2050



Increase of Regulations

More regulations coming from the EPA on **EDCs** (endocrine disrupting chemicals)



Water Scarcity

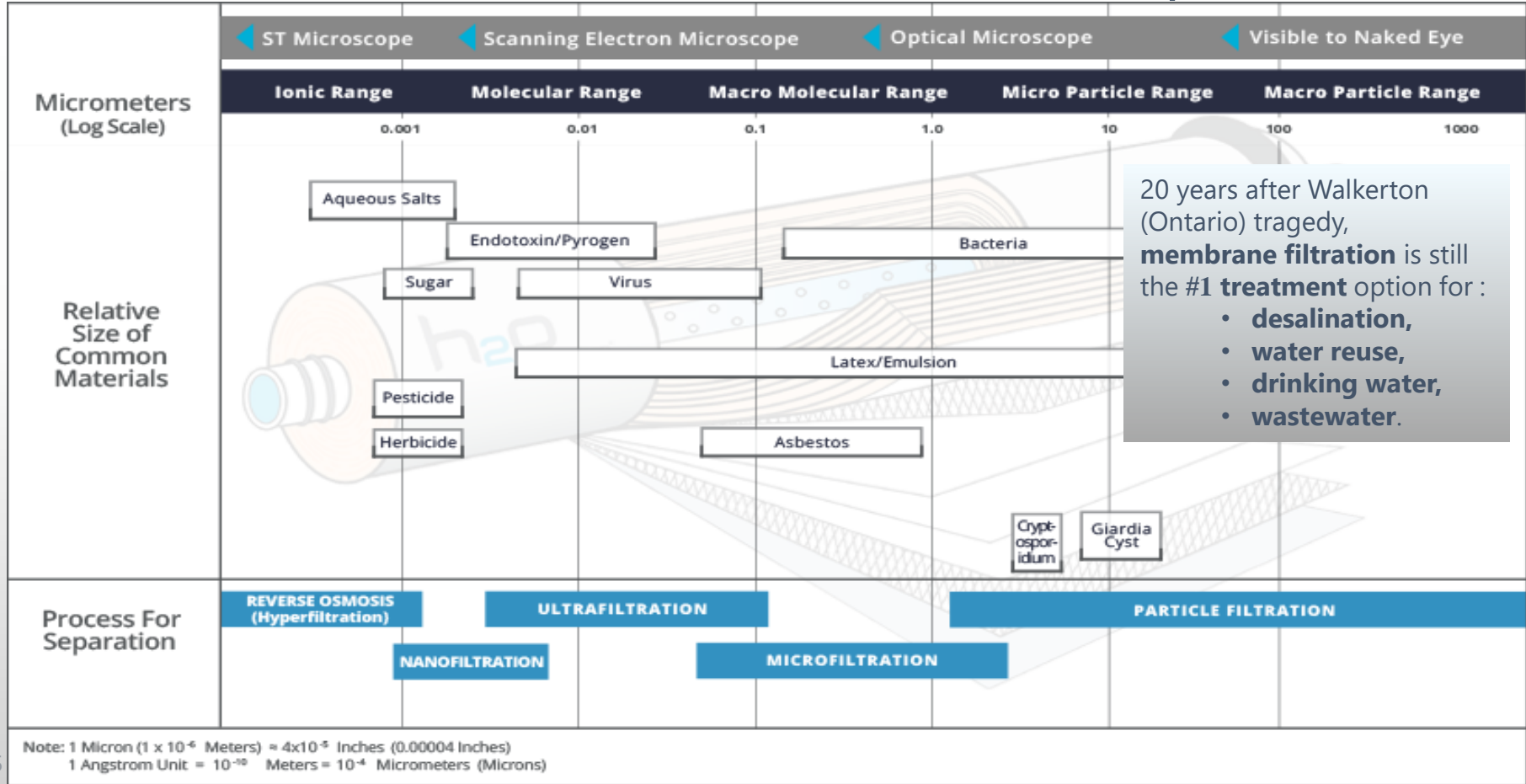
44 countries face levels of water scarcity where on average over **40%** of their available water reserves is withdrawn **every year**



Aging Workforce

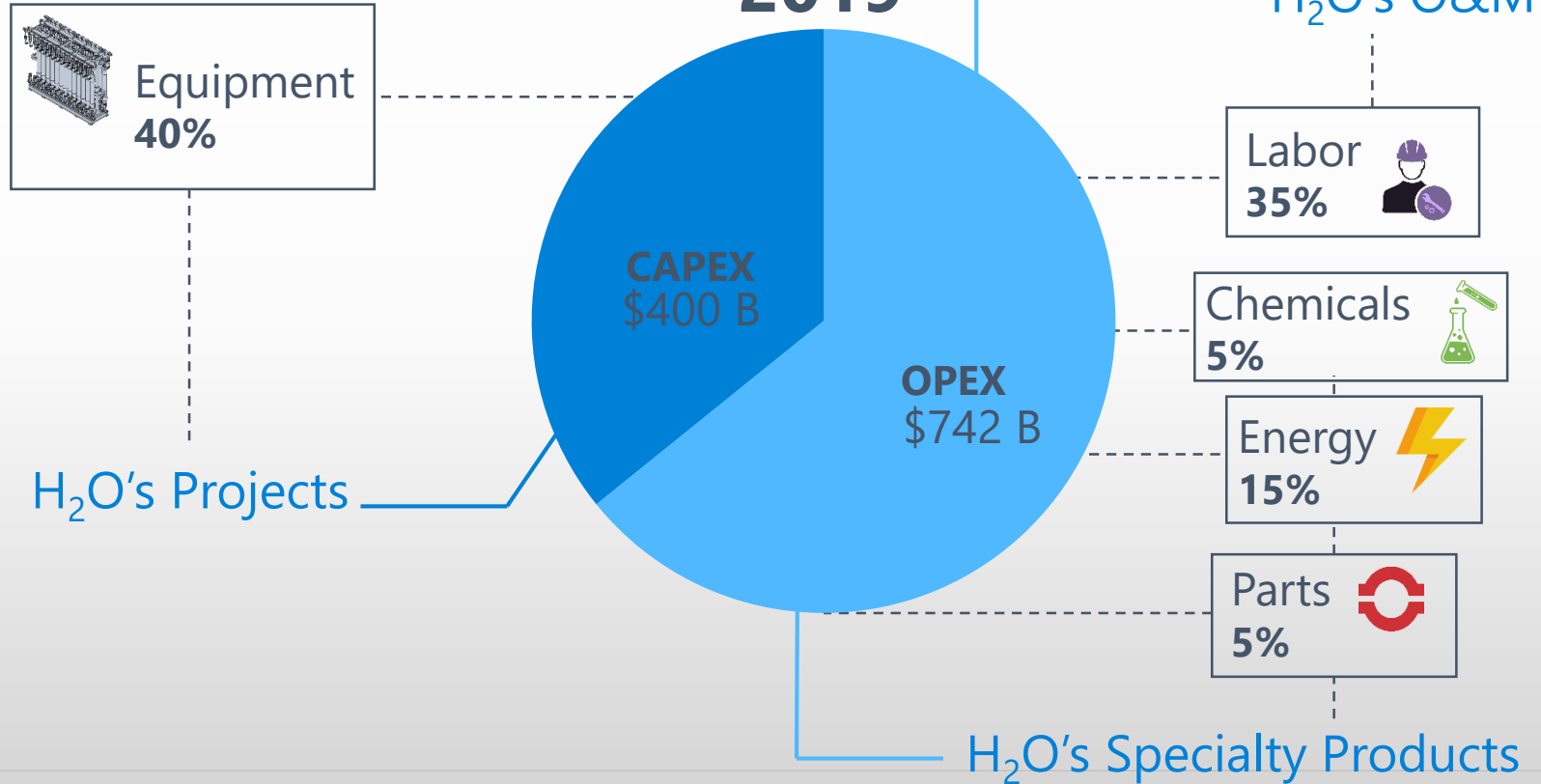
By 2026, **40%** of the North American population will be above 55 years of age, creating management challenges for infrastructures

Membrane Filtration Is Not an Option



Global Adressable Water & Wastewater Market

2019



Why Investing in H₂O Innovation?



- Revenues of **\$125.8 M** on an LTM basis;
- Combined backlog of **\$142.7 M** (Projects and O&M), as of December 30, 2019;
- **More than 84%** of the revenues are **recurrent** by nature (Aftermarket, Specialty Products and O&M);
- Our business model promotes **sales synergies** among three business pillars and customers' retention.;
- Expanded in new geographies and built the **largest distribution** (more than **70 countries**) network for membrane chemicals and desalination equipment;
- **Manufacturing capabilities** (Canada, USA & UK) reduces exposure to commercial tariffs;
- **675 employees** in Canada, USA, Spain & UK;
- **750 systems** installed in North America;
- Operation & maintenance of **175** utilities, in **2** provinces and **11** US States;
- Sustained **5-year Annual Compound Growth Rate (ACGR) of 16%** organically and **89%** through **acquisitions**.

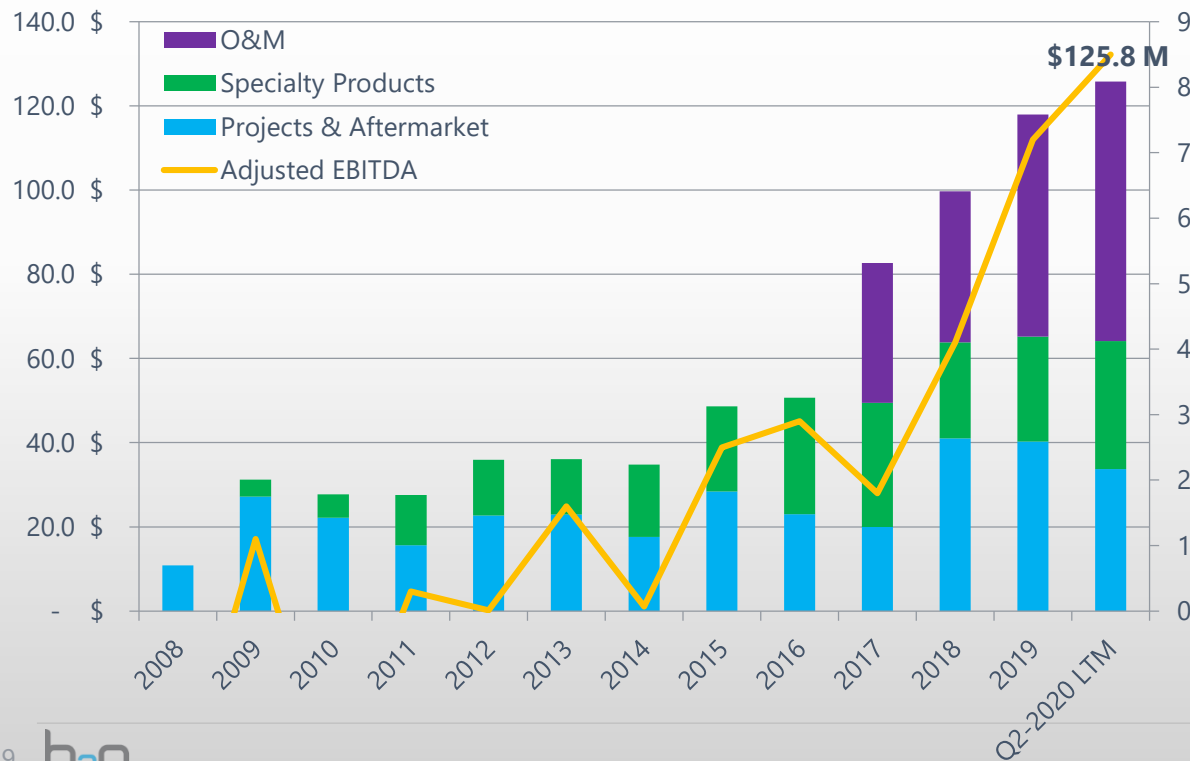
Unique Value-Proposition



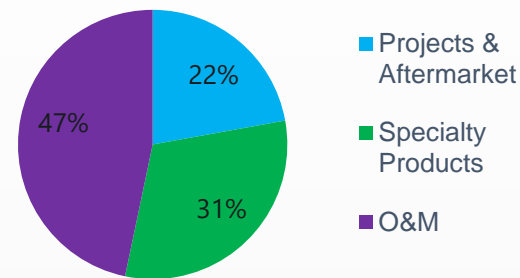
Revenue & Business Mix

Revenue & Adjusted EBITDA

In CAD million \$



Q2 - FY2020 - Revenues



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

From FY2014 to FY2019 :

5-year ACGR (with acquisition): 88.7%

5-year ACGR (organic): 15.9%

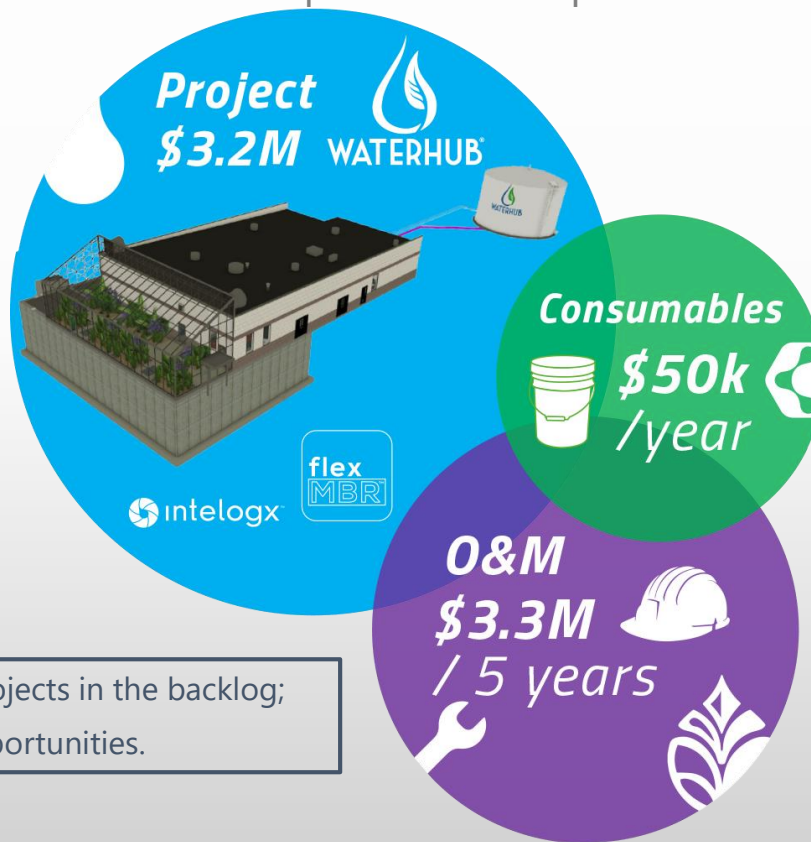
13-year ACGR (with acquisition): 26.7%

13-year ACGR (organic): 22.4%



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;
 - Intellogx™ 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.



Project : Decatur, Arkansas
Capacity : 4.6 MGD
Source : Municipal Wastewater



Project : East Cherry Creek, Colorado

Capacity : 6.7 MGD RO

Source : Colorado River

Project : Workers Camp, Alberta

Capacity : 55 GPM (300 m³/j) / 73 GPM (400 m³/j)

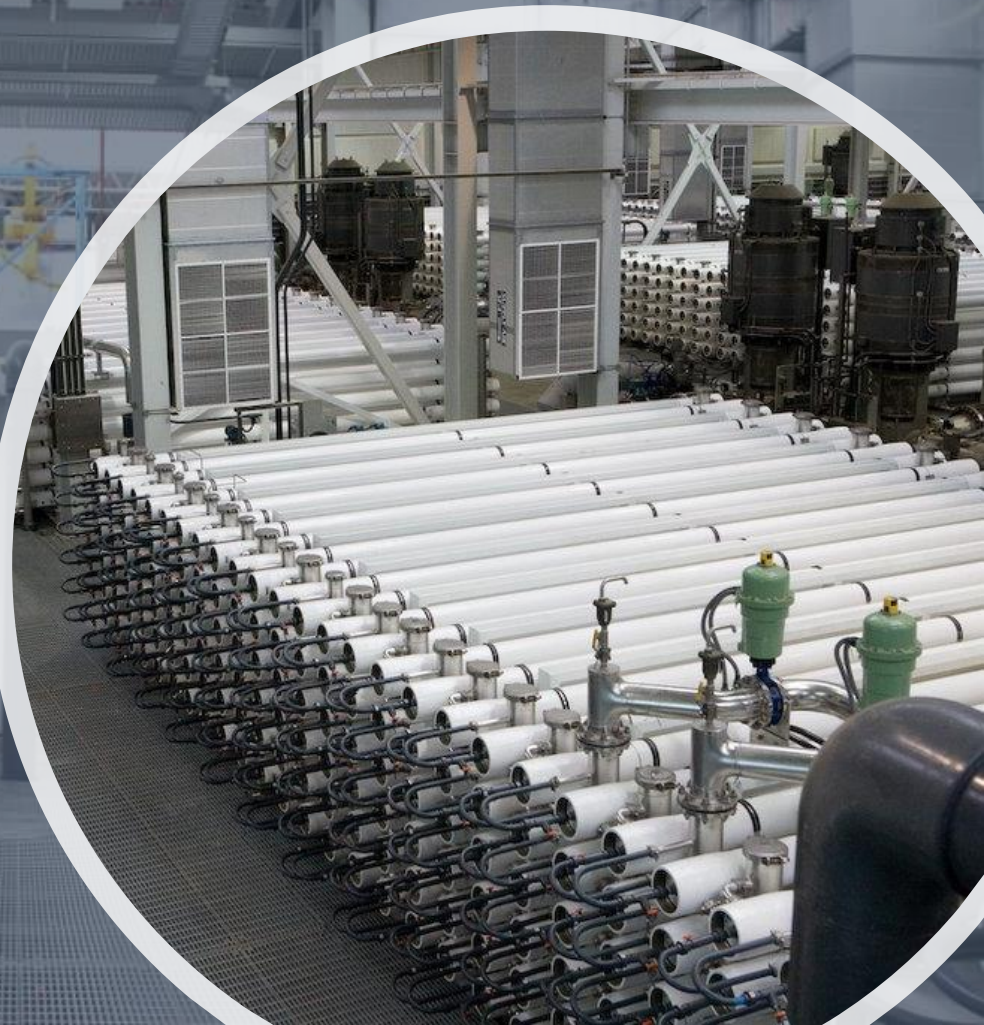
Source : Ground water and sanitary Wastewater



Project : Orange County, California, USA

Capacity : 75 MGD (283 905 m³/d)

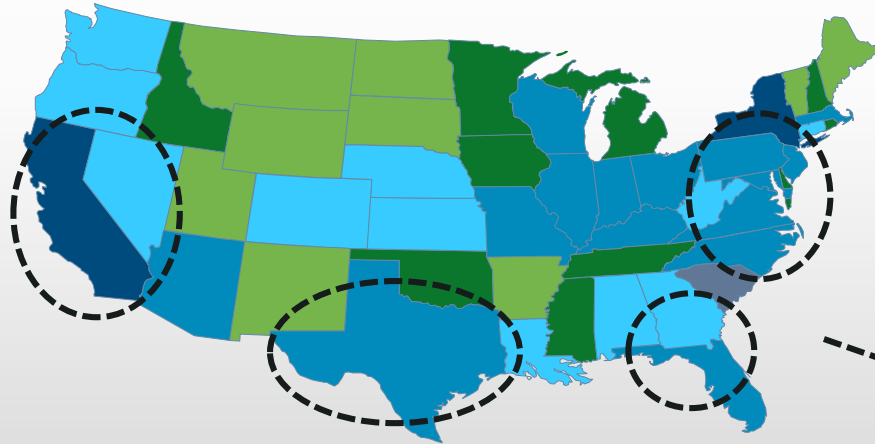
Source : Effluent of biological secondary treatment
(water reuse)



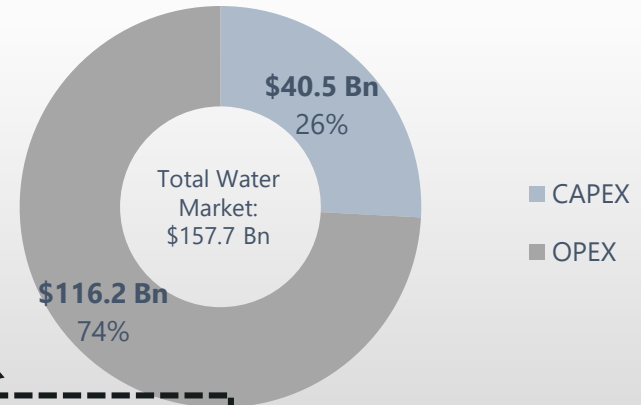
U.S. Water Infrastructure Investment Needs

- Texas estimates at \$62.5 B their investment required in water management for the next 50 years;
- Population of Texas is expected to grow 40% by 2040.

Water Infrastructure Investment Need by State



Market Breakdown

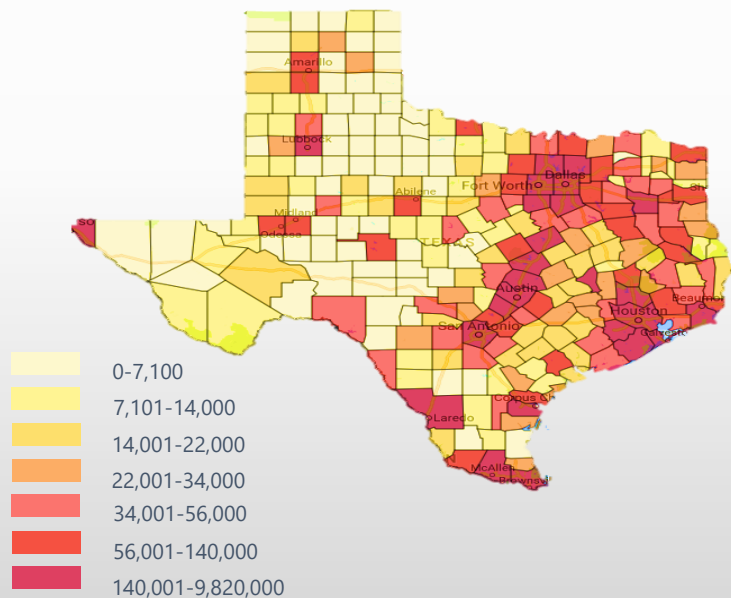


Regions of interest for business development

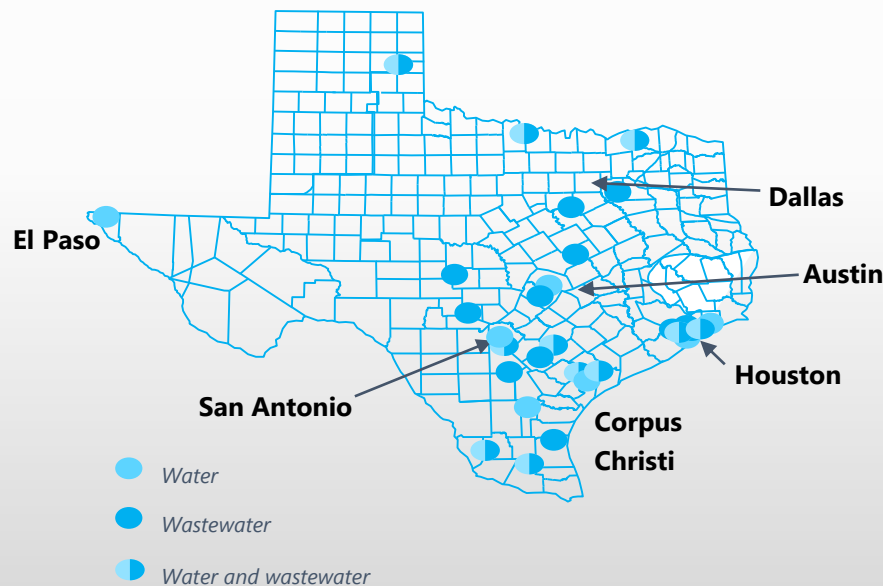
Source: Environmental Protection Agency and Global Water Intelligence

The O&M market is mainly concentrated in the South East region of Texas, in line with the population density

Population density in Texas



Locations of all* contracts awarded since 2008



*Includes contracts in cities with a population > 10,000 people

*Does not include MUD contracts

TSXV:H2O

Specialty Products



PWT and **Genesys** focuses on chemical manufacturing and supply for the membrane industry.



Piedmont is a global leader in corrosion resistant equipment for desalination plants.



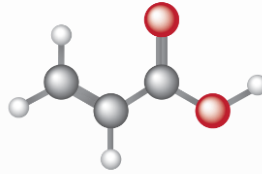
H₂O Innovation Maple offers a complete line of equipment dedicated to maple syrup production.





INNOVATIVE CHEMISTRY

Dendrimers
(Phosphate-free)



PROVEN CHEMISTRY

Phosphonate technology



Specialty chemicals for the membrane and desalination industry

Applications: membrane antiscalants
and cleaners

- Stronger combined product line
- Largest distribution network
- Global manufacturing

Piedmont

LEADER IN DESALINATION EQUIPMENT & COMPONENTS



COUPLINGS







DISC & SCREEN FILTERS



FRP
CARTRIDGE FILTER
HOUSINGS

Global Distribution Network

Legend:

-  Piedmont Distributors
-  Maple Distributors
-  PWT Distributors
-  Genesys Distributors

25
Piedmont

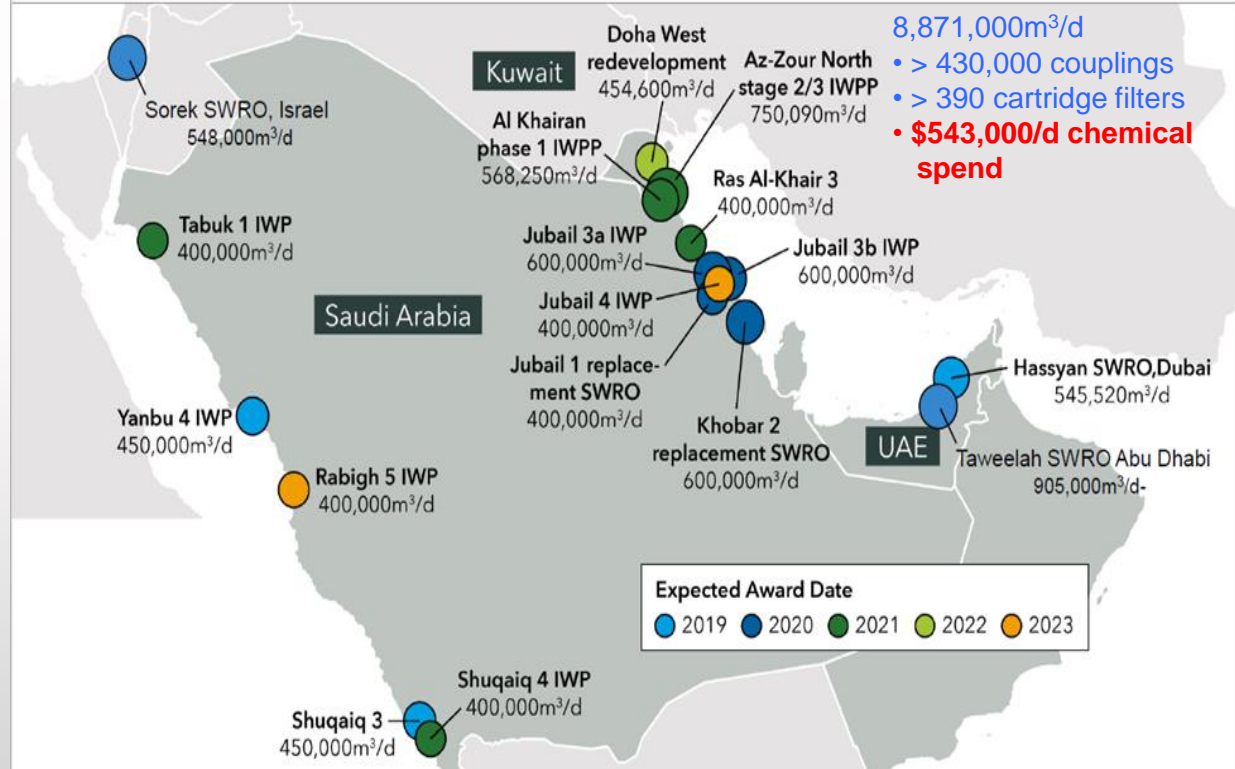
100
PWT &
Genesys

Middle East – Investment Opportunities

Middle East (SWRO) Market

- Desalination plants in the Middle East and North Africa (MENA) produce **48%** of the world's desalinated water;
- According to the GWI, the MENA region desalination market will reach **US\$4.3 billion by 2022**;
- A study by International Energy Agency has found that the six biggest users of desalination in MENA are Algeria, **Kuwait**, Libya, **Qatar**, **Saudi Arabia** and the **UAE**;
- Over 8 800 000 m³/d** of new developments are expected to be awarded in the next 5 years to respond to the **increasing demand** in these regions;

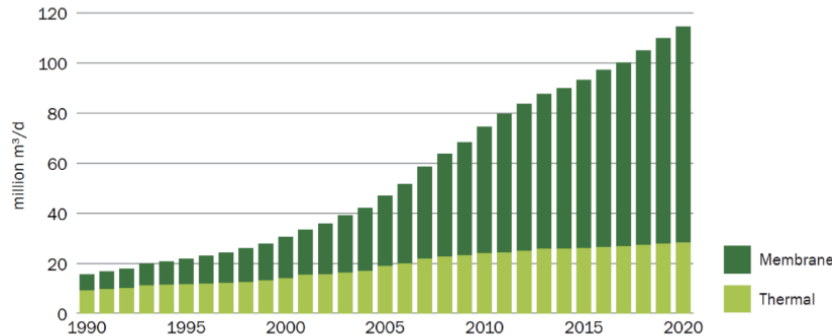
Source: MENA Desalination Market, Onsite ventures



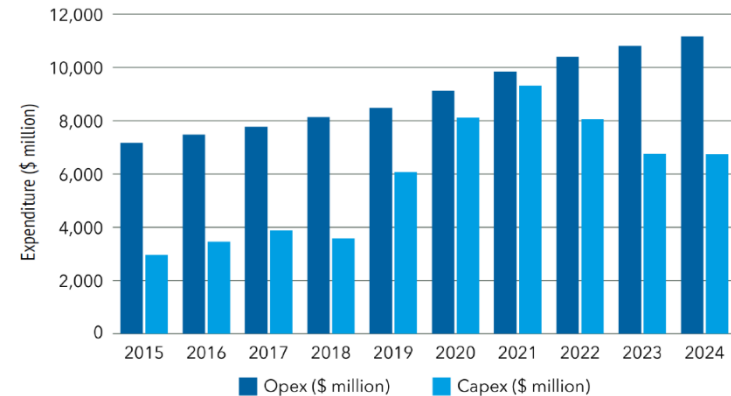
Projected Growth – Desalination Capacity, CapEx & OpEx

Global Desalination Capacity 1990-2020

- Global desalination capacity has grown **by more than 5x** over the period from 1990 to today, **mostly in the membrane market**;
- In 2019, the seawater desalination market is set to experience **its most dynamic year** since the late 2000s
- Rising demand** for clean water, **decreasing** CapEx and OpEx costs and the **need to replace** older facilities with energy-efficient processes are some of the numerous factors driving the surge in desalination projects.



Global Desal. Market CapEx & OpEx 2015-2024



Source: GWI

- Projected CapEx for the global desalination market is **expected to burst** in the next few years, reflecting the will of operators to replace older facilities with new energy-efficient ones;
- CapEx are expected to **slightly decrease** after 2021;
- Projected OpEx is expected to maintain a **constant slight growth** over the next few years;

Synergies within the Specialty Product Business Pillar

Piedmont

**SPECIALTY
CHEMICALS**



YEAR 1




YEAR 3



Update Q2-FY2020

Key Highlights of Q2-FY2020



- **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.).

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



Key Drivers:

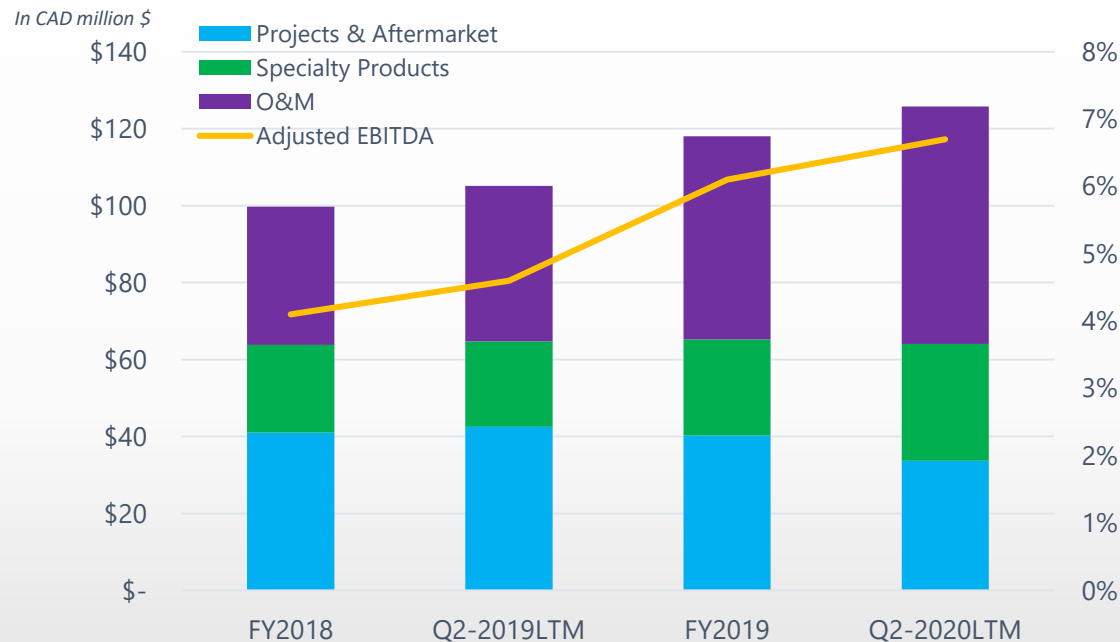
- 1) Hays' acquisition
(December 1st, 2018)
- 2) Genesys' acquisition
(November 15, 2019)

Recurring Revenues

Aftermarket, Specialty Products and O&M



Revenue Mix & Adjusted EBITDA

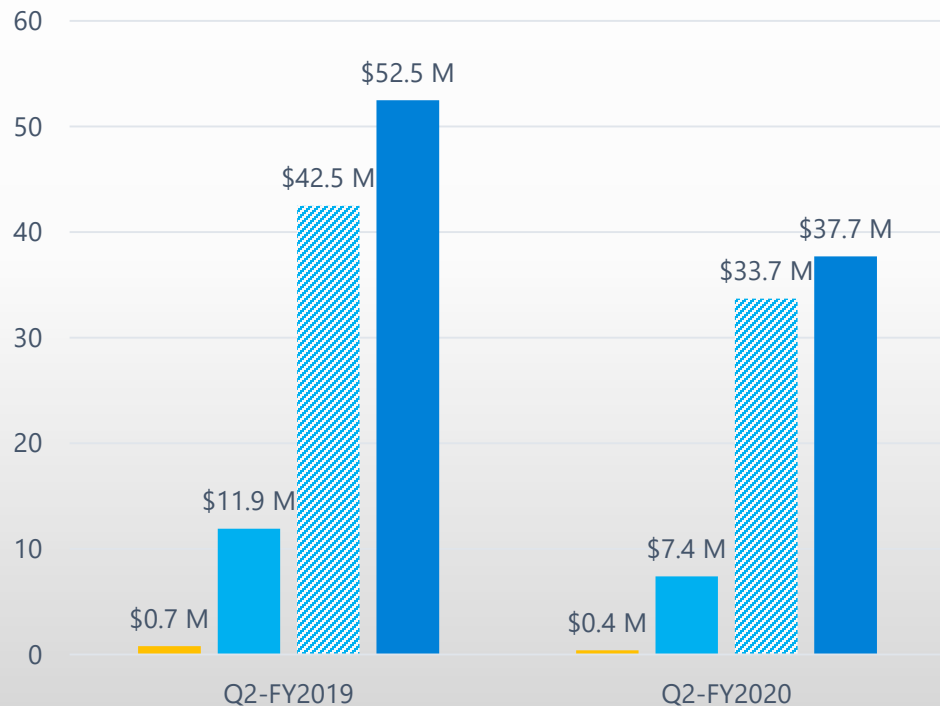


	Q2-FY2019 LTM	Q2-FY2020 LTM	Variance
Revenues	105.1	125.8	↑ 19.8%
Adjusted EBITDA	4.6%	6.7%	↑ 76.5%

1st Business Pillar

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

In CAD million \$



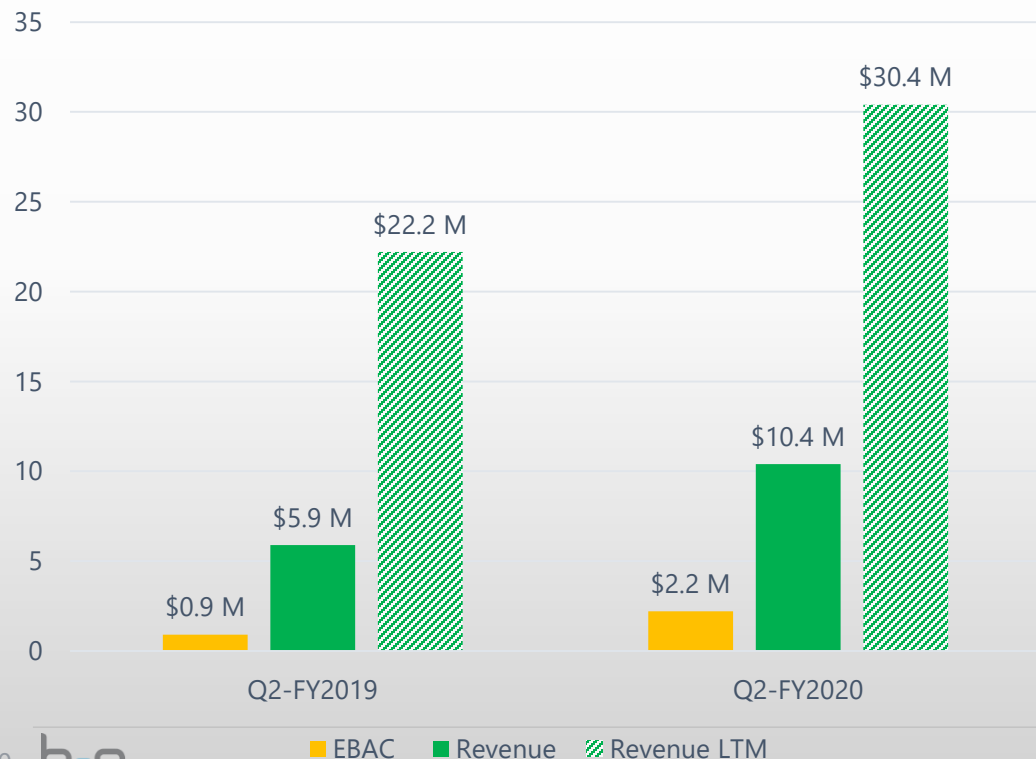
- Projects & Aftermarket revenues stood at \$7.4 M during Q2-FY2020, compared to \$11.9 M for the same quarter of last fiscal year, representing a \$4.5 M, or 37.8 % decrease.
- The GPM stood at \$1.5 M, or 19.7 % for Q2-FY2020, compared with \$1.8 M, or 14.8 % for the same quarter of last fiscal year, 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 \$



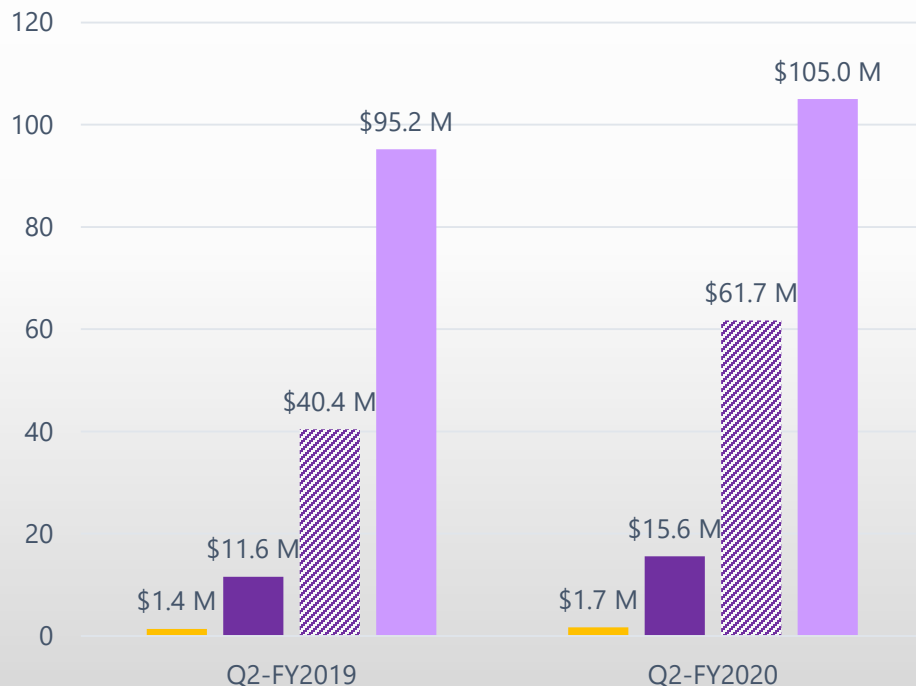
- Specialty Products revenues stood at \$10.4 M during Q2-FY2020, compared to \$5.9 M for the Q2-FY2019, representing an increase of \$4.5 M, or 76.7 %.
- Of this \$4.5 M revenue increase:
 - Genesys : \$1.6 M represents 1.5 months of revenues since the acquisition date is November 15, 2019;
 - Piedmont's 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

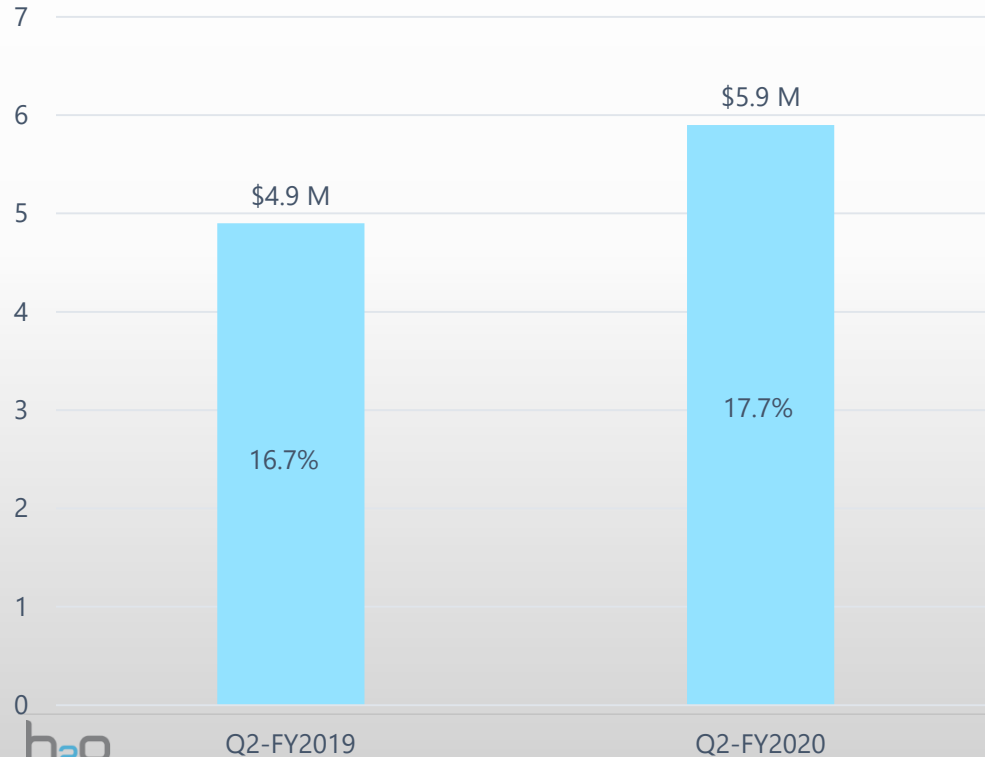
Q2-FY2020 vs Q2-FY2019

	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

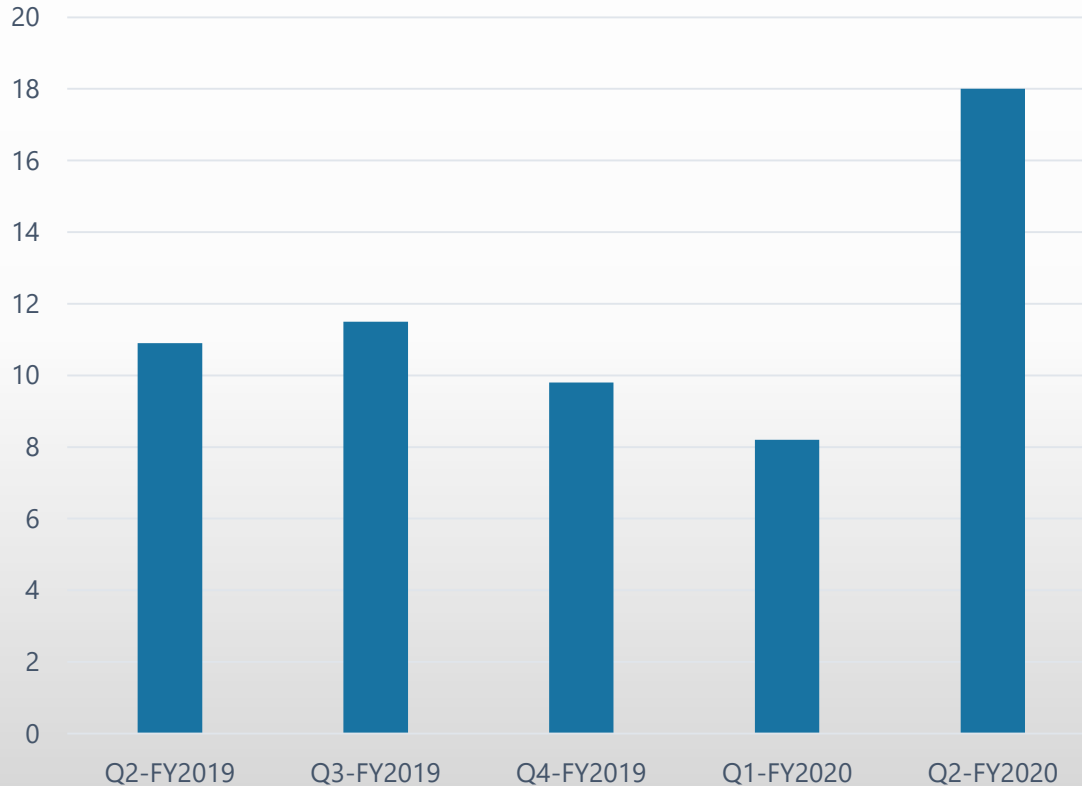
In CAD million \$



- 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.

Net Debt

In CAD million \$

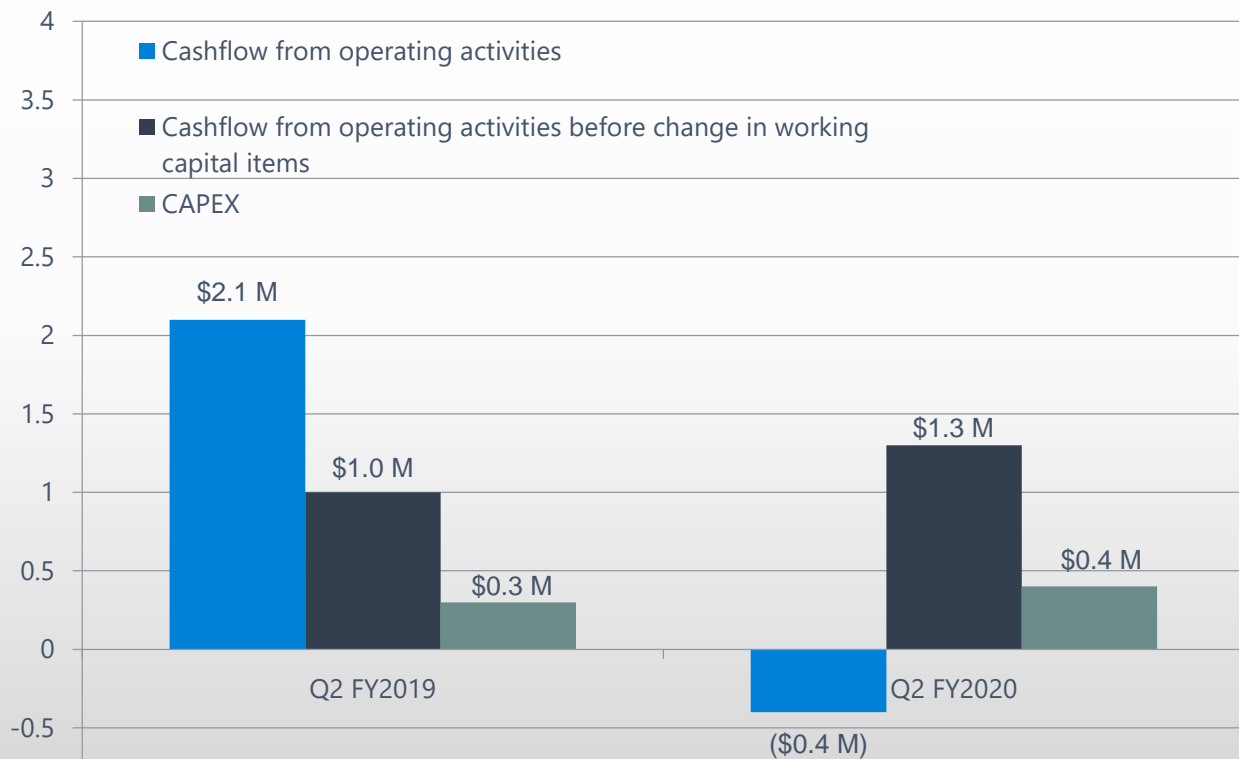


- As at December 31, 2019, the net debt stood at \$18.0 M, compared with \$9.8 M as at June 30, 2019, representing a \$8.2 M increase, or 84.2 %.
 - This increase is mainly attributable to the term loan of \$12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019, offset by the reimbursement of \$1.3 M in bank loans;
 - Reduction of the net debt \$1.2 M - \$1.5 M per quarter.

	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.

Corporate Information

TSX Venture : HEO / OTCQX : HEOFF

Board of Directors :

Lisa Henthorne, Chair

CTO Water Standard, Former IDA Chairman

Richard Hoel, Director & Vice Chairman

Lawyer, Founding partner of Winthrop & Weinstine

Frédéric Dugré, President & CEO

Mechanical Engineer, Founder

Stéphane Guérin, Director

Former President and CFO of Hewitt Equipment Limited

René Vachon, Director

Former CFO of Miranda Technologies

Pierre Côté, Director

Former CTO of Zenon / GE

Robert Comeau, Director

Former CFO of Lumen Pulse

Advisors to the Board :

Elisa M. Speranza

Former Senior VP and Corporate Director, CH2M Hill OMI

Leonard Graziano

Former President and CEO, Severn Trent Services, Inc.

Outstanding Common Shares (after closing of the Offerings): 76,872,608

Warrants: 10,491,310

Stock Options: 2,554,334

Officers and Directors: 6,3%

Main Institutional Shareholders (after closing of the Offerings:

IQ (15,55%) / BDC (12.81%) / CDPQ (11.03%) / Walter (7.11%)

Officers :

Frédéric Dugré, President & CEO

Marc Blanchet, CFO

Guillaume Clairet, COO

Management :

Greg Madden, Vice President & Managing Director of Aftermarket

Denis Guibert, Vice President & Managing Director of Projects

Rock Gaulin, Vice President & Managing Director of Maple

William Douglass, Vice President & Managing Director of O&M

Ties Venema, Managing Director of Piedmont

Ryan Furukawa, Managing Director of PWT

Steve Chesters, Managing Director of Genesys

TSXV:HEO



H₂O Innovation

Unique smart **water** player

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