Investor Presentation Q1-FY2021

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November 10, 2020

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 23, 2020 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.*

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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 and integration. 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 management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or coming from a business with a recurring customer sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. The Corporation's recurring revenues are coming from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.
- The definition of EBAC means the earnings before depreciation and amortization reduced by the selling and general expenses. EBAC is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

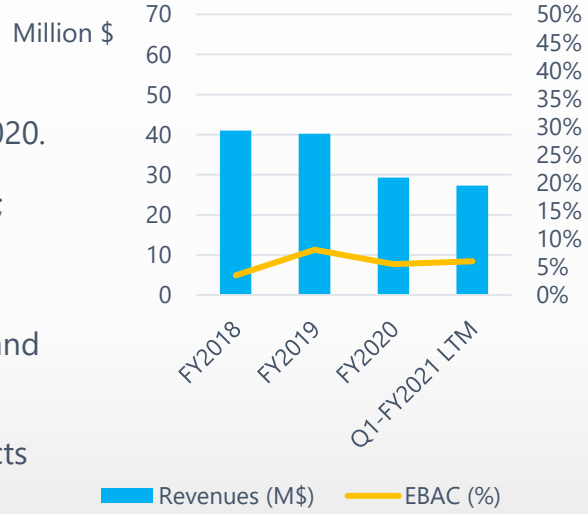
Q1-FY2021 Highlights

- Revenues reached $35.0 M, **up 24.0 %** compared to $28.2 M for Q1-FY2020;
- Expanded Texas O&M business platform with **Gulf Utility Service, Inc.** ("GUS") acquisition;
- **Gross Profit Margin** continued to improve and **reached 27.1 %** compared to 23.8 % for the same quarter of last fiscal year;
- **Adjusted EBITDA** reached **$3.5 M, or 9.9 %** of revenues, compared to $1.6 M, or 5.8 % for Q1-FY2020;
- **Net earnings** amounted to **$1.0 M**, compared to a net loss of ($1.0 M) for the comparable quarter of previous fiscal year;
- **Cash flows** from operating activities generated **$1.3 M** for the first quarter of fiscal year 2021.

1st Business Pillar – Q1-FY2021 Highlights

Water Technologies and Services (WTS)

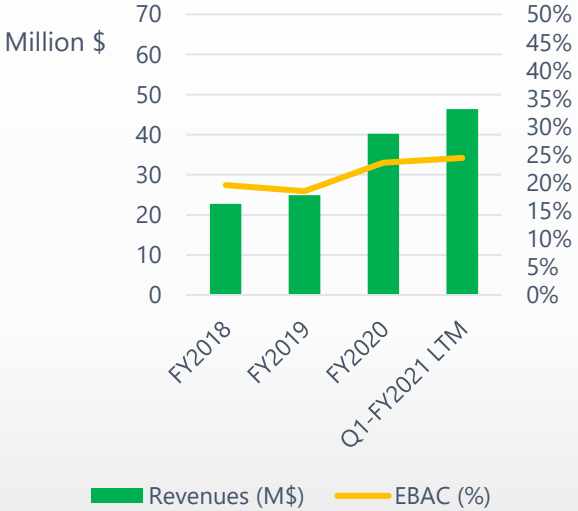
- Awarded **6** new municipal & industrial projects in North America, worth **$17.8 M**:
  - Brought the Corporation's WTS sales backlog to $42.2 M, as of August 24, 2020.
- Revenues stood at $6.2 M in Q1-FY2021 compared to $8.2 M in previous fiscal year;
- EBAC progressed from 8% to 11% at the end of Q1-FY2021;
- Worked on the commissioning and start-up of **11** systems (7 Water, 3 Wastewater and 1 Water Reuse);
- Engineering and Manufacturing teams remain extremely busy working on **26** projects which will continue to impact the coming quarters.

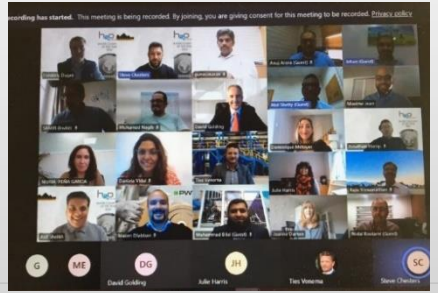


2nd Business Pillar – Q1-FY2021 Highlights

Specialty Products (SP)

- Revenues increased by 119% to $11.4 M at the end of Q1-FY2021;
- EBAC margin expanded from 18% to 24% YoY;
- Genesys: Host their first **Virtual Distributor Conference** with **25 distributors** from the Middle East;
- Piedmont: Received **NSF certification** for their cartridge elements and **installed a large project** in Saudi Arabia (450,000 m^3/day).

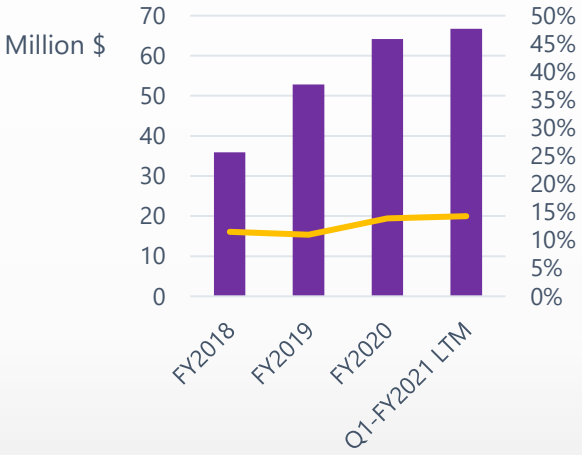




3rd Business Pillar – Q1-FY2021 Highlights

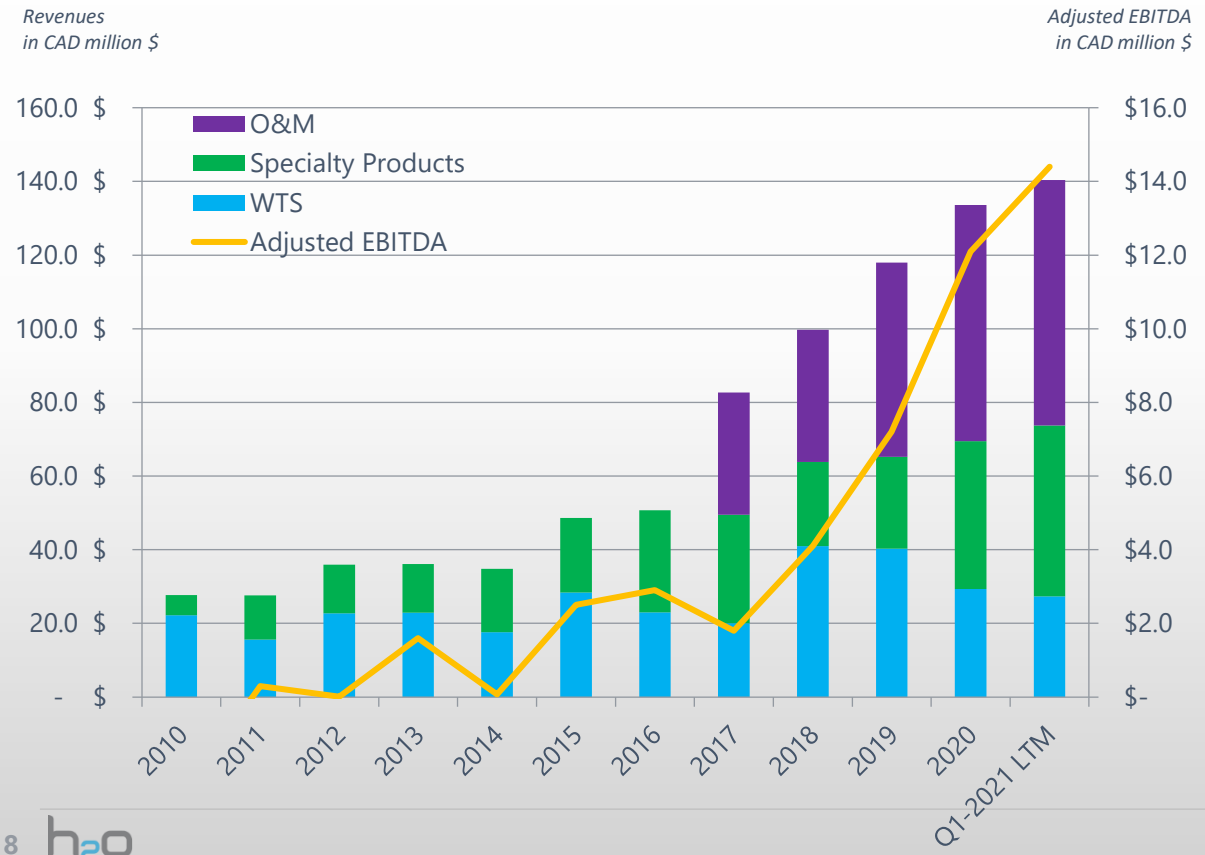
Operation & Maintenance (O&M)

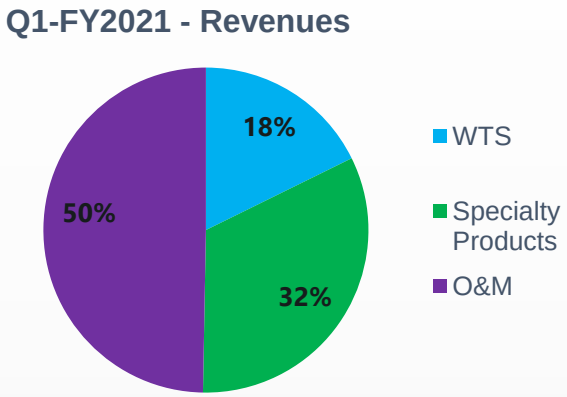
- Revenues reached $17.4 M, up 17% from Q1-FY2020;
- EBAC increased by 23% YoY ;
- Acquired **Gulf Utility Service** (GUS) – July 2020:
- Customer base in Texas now amounted to **85** customers;
- Utility Partners renewed **2** O&M contracts, worth **$4.3 M**;
- Utility Partners was awarded a **first O&M contract in Florida** and renewed an existing project, worth **$5.1 M**;
- Brought the O&M backlog to $84.7 M at the end of the first quarter.




New O&M crew in Live Oak, Florida

Revenues, Business Mix and Adjusted EBITDA





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

Recurring Revenues

Service activities coming from WTS, Specialty Products and O&M

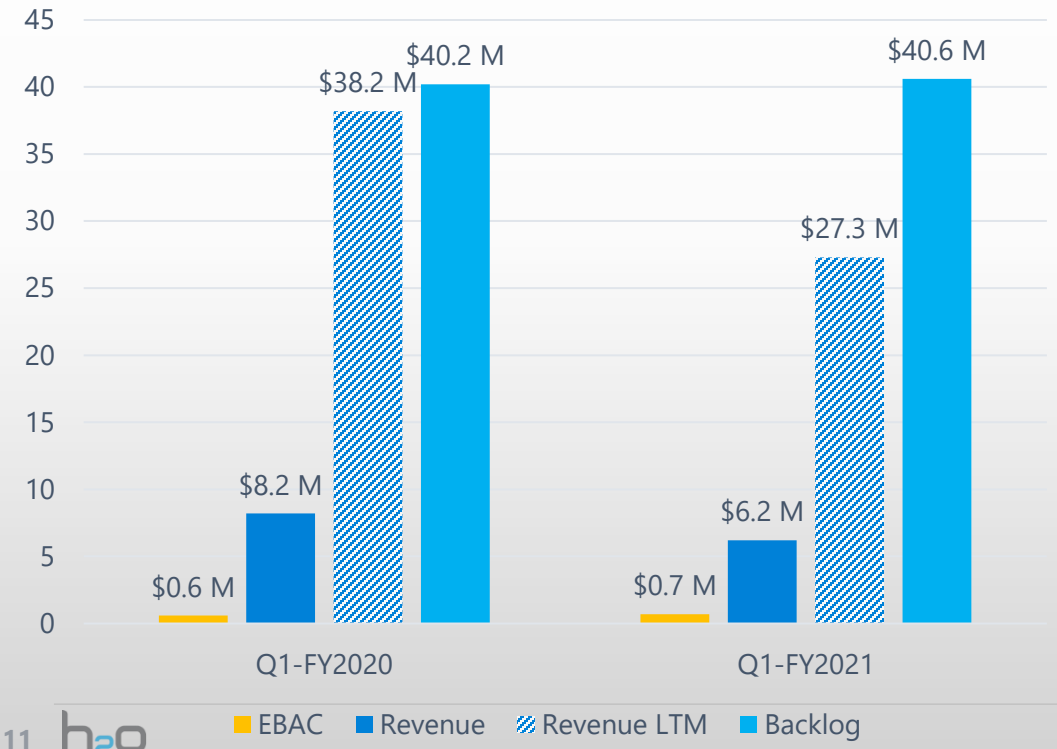
Our **"COVID resistant"** business model promotes **strong customer retention** translating into **high recurring revenues** and continuous **free cash-flow.**

Financial Overview Q1-FY2021

1st Business Pillar

Water Technologies and Services (WTS)

In CAD million $

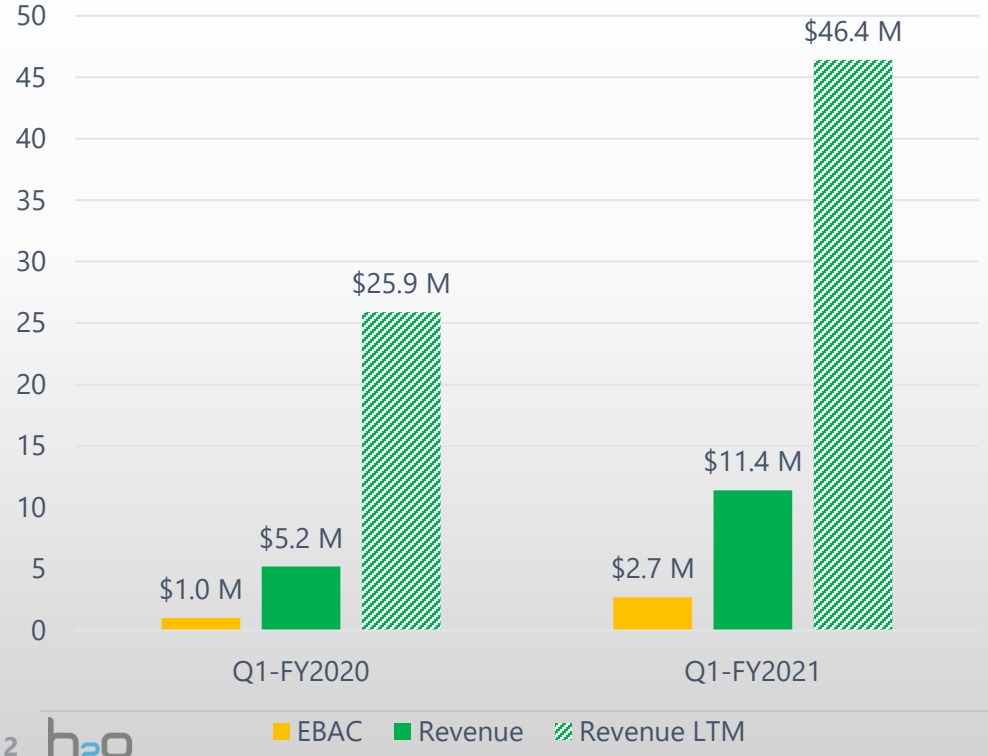


- Q1-FY2021 Revenues: $6.2 M, compared to $8.2 M for Q1-FY2020, representing a $2.0 M, or 23.9 % decrease:
  - Still in line with the expectations following the Corporation's strategic change.
- Q1-FY2021 EBAC: $0.7 M, compared to $0.6 M for Q1-FY2020, representing an increase of $0.1 M, or 7.1 %, due to:
  - The improvement of the gross profit margin before depreciation and amortization in % and the reduction of the cost structure, which will generate anticipated savings of about $0.7 M on an annual basis.

2nd Business Pillar

Specialty Products (SP)

In CAD million $

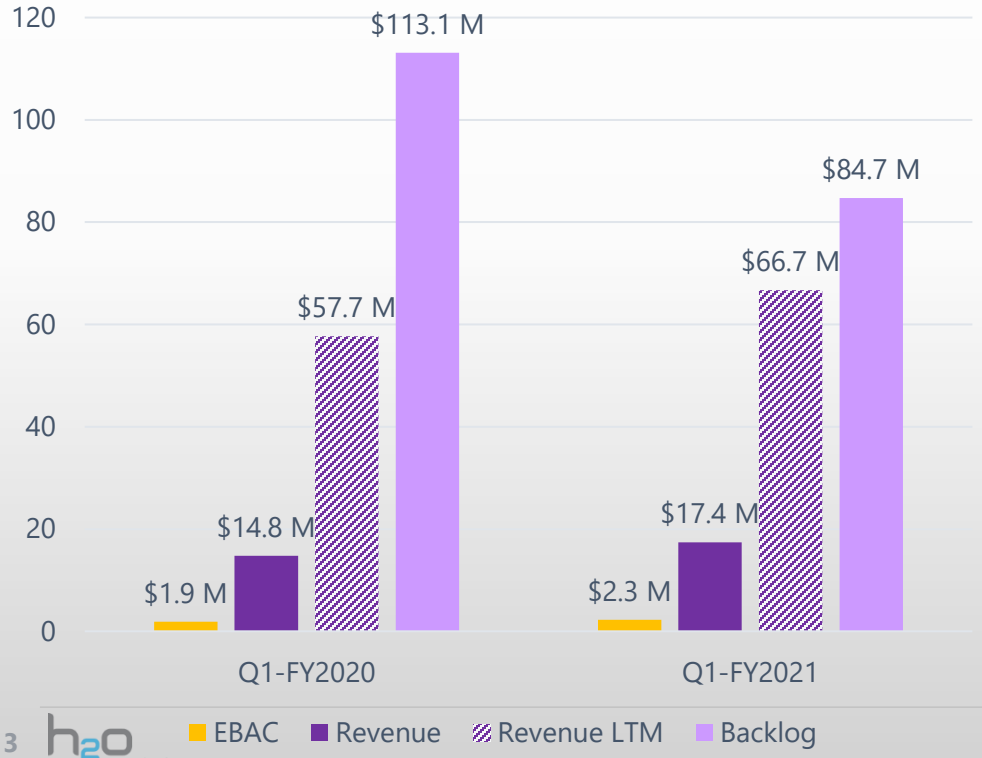


- Q1-FY2021 Revenues: $11.4 M, compared to $5.2 M for Q1-FY2020, representing an increase of $6.2 M, or 119.4 %:
  - $2.8 M is attributable to the acquisition of Genesys, effective November 15, 2019. The growth for this business pillar is also supported by significant orders delivered during this quarter for our Piedmont's business line.
- Q1-FY2021 EBAC: $2.7 M, compared to $1.0 M for Q1-FY2020, representing an increase of $1.7 M, or 186.1 %:
  - Specialty Products' EBAC was positively affected by the acquisition of Genesys and the higher level of revenues coming from Piedmont's business line.

3rd Business Pillar

Operation & Maintenance (O&M)

In CAD million $



- Q1-FY2021 Revenues: $17.4 M, compared to $14.8 M for Q1-FY2020, representing an increase of $2.6 M, or 17.1 %, due to:
  - $1.5 M coming form GUS;
  - The organic growth seen in both Utility Partners and Hays.
- Q1-FY2021 EBAC: $2.3 M, compared to $1.9 M for Q1-FY2020, representing an increase of $0.4 M, or 23.4 %:
  - The acquisition of GUS contributed to improved O&M's EBAC.
  - After only three months following GUS acquisition, some cost synergies have already been captured.

Financial Highlights

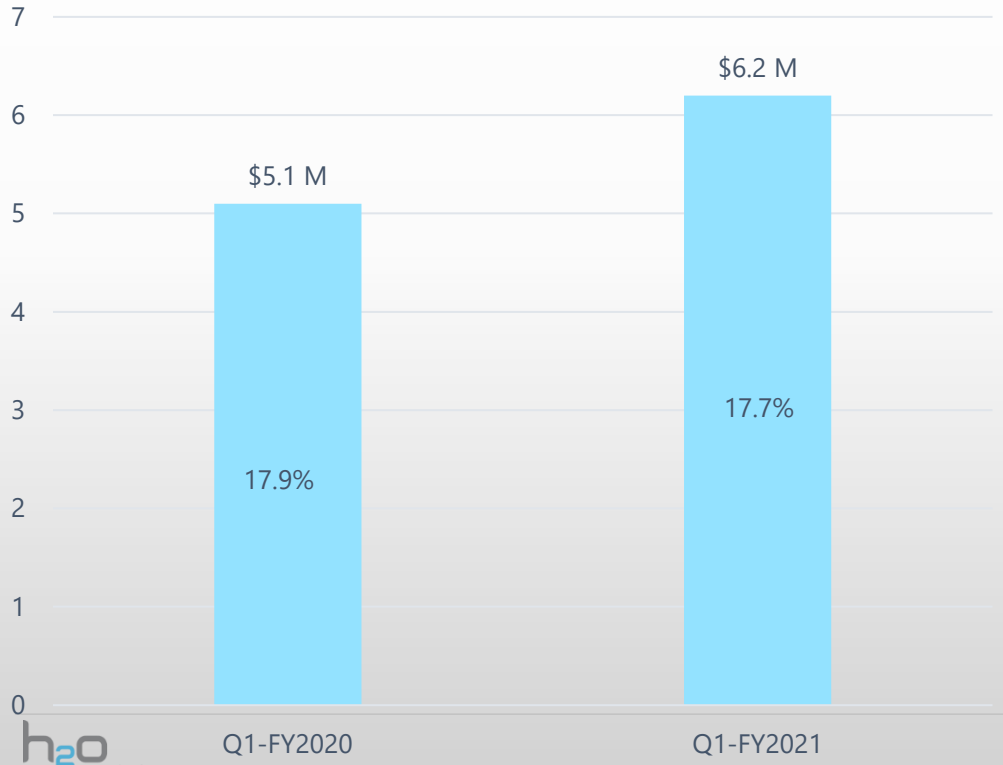
Q1-FY2021 vs Q1-FY2020

	Three-month periods ended September 30,	
	2020	2019
Revenues	**$35.0 M**	$28.2 M
WTS	**$6.2 M**	$8.2 M
Specialty Products	**$11.4 M**	$5.2 M
O&M	**$17.4 M**	$14.8 M
Gross profit before depreciation and amortization (%)	**27.1%**	23.8%
SG&A	**$6.2 M**	$5.1 M
% SG&A	**17.7%**	17.9%
Net earnings (loss)	**$1.0 M**	($0.1 M)
Adjusted EBITDA	**$3.5 M**	$1.6 M
Adjusted EBITDA over revenues (%)	**9.9%**	5.8%

- Revenues for Q1-FY2021: $35.0 M, compared to $28.2 M for Q1-FY2020, representing an increase of $6.8 M, or 24.0 %;
- GPM for Q1-FY2021: 27.1 %, compared to 23.8 % for Q1-FY2020, due to:
  - Business mix, with more sales coming from SP, which are characterized with higher margins' product;
  - An improvement of WTS' GPM in %, in line with the Corporation's strategy.
- Net earnings for Q1-FY2021 : $1.0 M compared to a net loss of ($1.0 M) for Q1-FY2020.
  - The variation was impacted by the increase in the Corporation's consolidated revenues and by the improvement in GPM along with a stable % of SG&A over revenues.

SG&A Expenses

In CAD million $



- Q1-FY2021 SG&A : $6.2 M or 17.7% compared to $5.1 M or 17.9% for Q1-FY2020, increase of $1.1 M, or 22.9 %, while the revenues of the Corporation increased by 24.0 %.
  - The acquisition of Genesys in Q2-FY2020 contributed $0.6 M;
  - The acquisition of GUS on July 1, 2020 contributed $0.1 M;
  - Higher professional fees following Genesys' acquisition in another country (United Kingdom).

Adjusted EBITDA

	Three-month periods ended September 30,	
	2020	2019
Net earnings (loss) for the period	**$1.0 M**	($1.0 M)
Finance costs – net	**$0.6 M**	$0.5 M
Income taxes	**($0.3 M)**	($0.01 M)
Depreciation of property, plant and equipment	**$0.8 M**	$0.7 M
Amortization of intangible assets	**$1.0 M**	$1.0 M
EBITDA	**$3.1 M**	$1.1 M
Unrealized exchange (gain) loss	**$0.2 M**	($0.1 M)
Stock-based compensation costs	**$0.04 M**	$0.06 M
Change in fair value of contingent consideration	**$0.06 M**	$0.1 M
Acquisition-related costs, integration costs and other costs	**$0.06 M**	$0.5 M
Adjusted EBITDA	**$3.5 M**	$1.6 M

- Q1-FY2021 adjusted EBITDA: $3.5 M, increased by $1.9 M, or 114.3 %, compared to $1.6 M for Q1-FY2020;
  - ➢ Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in GPMs.
- Q1-FY2021 adjusted EBITDA %: 9.9 %, compared to 5.8 % for Q1-FY2020;

Financial Position

Working capital

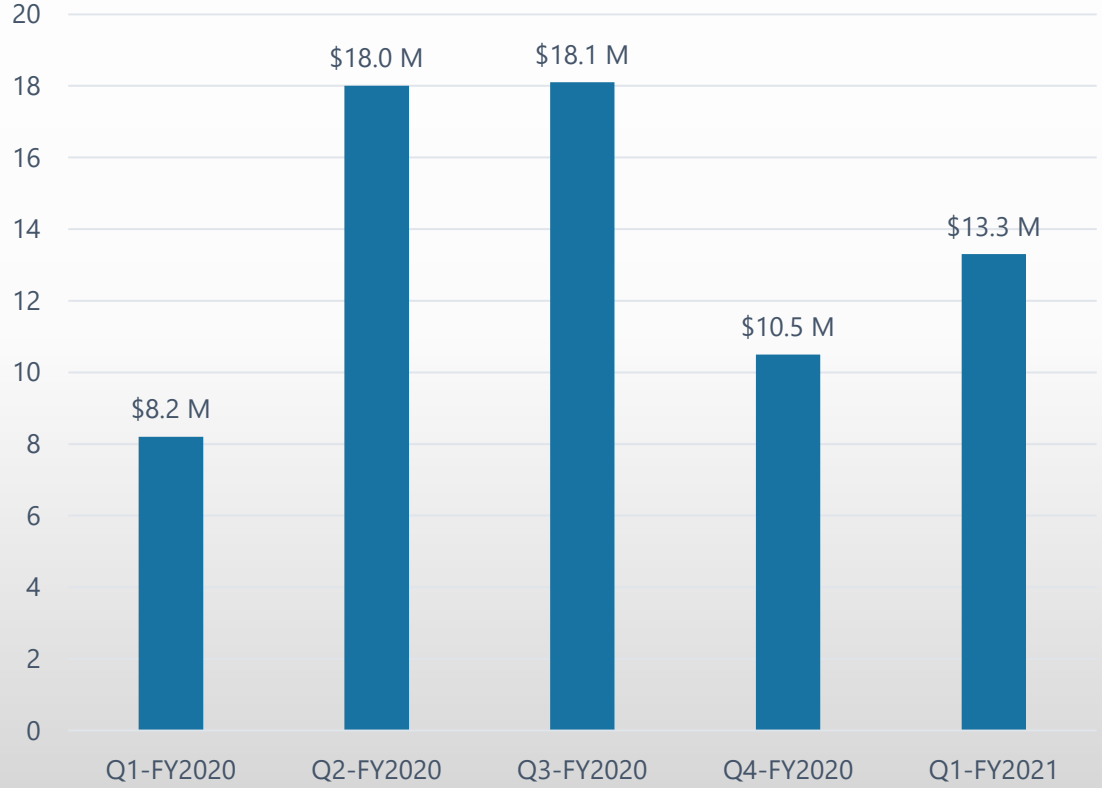
Increased from $17.6 M to $17.7 M:

Financial Position	Period ended September 30, 2020	Year ended June 30, 2020
Cash and Guaranteed Deposit Certificate	**$7.3 M**	$9.4 M
Receivables	**$21.9 M**	$19.3 M
Inventories	**$8.4 M**	$7.9 M
Contract assets	**$6.9 M**	$8.6 M
Payables	**$16.2 M**	$15.9 M
Bank loans	**$2.6 M**	$3.4 M
Long-term debt	**$17.9 M**	$16.5 M
Contract liabilities	**$1.8 M**	$3.2 M

- **Receivables** increased by $2.6 M, or 13.6 %, due to:
  - The significant deliveries in Piedmont's business line;
  - GUS' acquisition added $0.6 M in accounts receivable.
- **Inventories** increased by $0.6 M, or 7.3 %, due to:
  - GUS' acquisition contributed to $0.1 M of this increase;
  - Work in progress in Maple's business line in order to prepare for the Maple season, compensated by deliveries in Piedmont's business line this quarter.
- **Payables** remained fairly the same as of June 30, 2020, even though the acquisition of GUS added $0.5 M of accounts payable and accrued liabilities.

Net Debt

In CAD million $

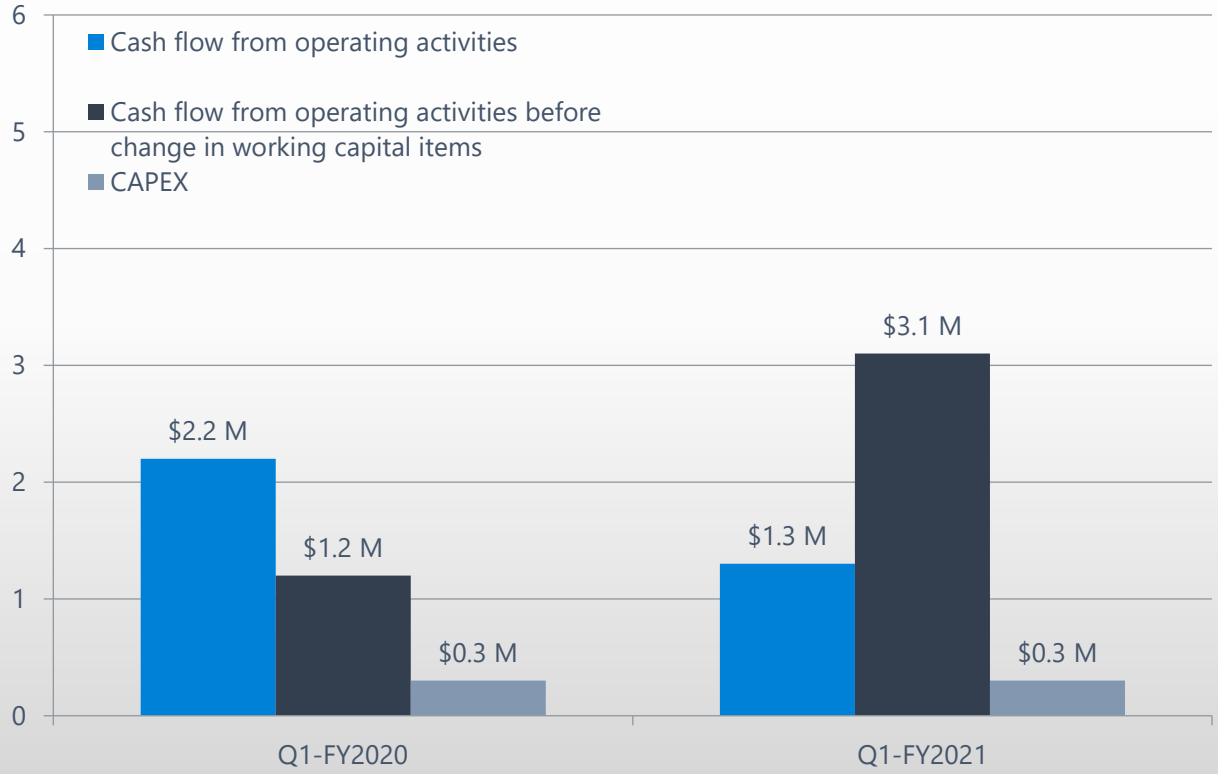


- As at September 30, 2020, the net debt stood at $13.3 M, compared with $10.5 M as at June 30, 2020, representing a $2.8 M increase, or 25.7 %, due to:
  - The term loan of $2.1 M contracted to partially financed the acquisition of GUS on July 1, 2020;
  - The decrease in cash available of $2.1 M, offset by the reimbursement of $0.8 M in bank loans and of $0.8 M in long-term debt.

	September 30, 2020	June 30, 2020
Bank loans	$2.6 M	$3.4 M
Current portion of long-term debt	$3.3 M	$2.8 M
Long-term debt	$14.6 M	$13.8 M
Less: Cash	($7.3 M)	($9.4 M)
Net debt	**$13.3 M**	**$10.5 M**

Cash Flows from Operating Activities

In CAD million $



- Cash flows from operating activities generated $1.3 M for Q1-FY2021, compared to $2.2 M for Q1-FY2020.
- For Q1-FY2021, cash flows from operating activities resulted primarily from the net earnings of $1.0 M, plus $2.1 M of non-cash adjustments to the net earnings and $1.8 M in unfavorable changes in working capital items.
- For Q1-FY2020, cash flows from operating activities resulted primarily from the net loss of $1.0 M, plus $2.2 M of non-cash adjustments to the net loss and $1.0 M in favorable changes in working capital items.

Takeaways on Q1-FY2021

- **Revenue growth of 24.0 %**;
- **Proven and solid business model with 90.2 %** of revenues recurrent by nature (services activities coming from WTS, Specialty Products and O&M);
- Our "one-stop-shop" model promotes multiple sales synergies and high customer retention;
- **Gross Profit Margin** continued to improve and **reached 27.1 %** compared to 23.8 % for the same quarter of last fiscal year;
- **Adjusted EBITDA** reached $3.5 M, up 114.3 % compared to $1.6 M for Q1-FY2020;
- **Net earnings** amounted to **$1.0 M**, compared to a net loss of ($1.0 M) for the comparable quarter of previous fiscal year;

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