ANNUAL INFORMATION FORM

September 24, 2019
for the year ended on June 30, 2019

For additional information:
Investor Relations
investor@h2oinnovation.com

Trading symbols:
TSX Venture: HEO
Alternext: MNEMO: ALHEO
OTCQX: HEOFF

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1. GENERAL

In this Annual Information Form and unless the context otherwise requires, the words “Corporation” and “H_2O Innovation” refer collectively to H_2O Innovation Inc. and its subsidiaries.

Products and services offered by the Corporation are thoroughly described on its website at www.h2oinnovation.com. Copies of each press release issued by the Corporation are also available on its website. Information on the website is not incorporated by reference in this Annual Information Form.

Data relating to market and industry forecasts presented in this Annual Information Form are derived from various publicly available sources. While management of the Corporation believes these sources to be independent and reliable, the accuracy and completeness of that information are not guaranteed and were not independently verified by the Corporation.

Unless otherwise indicated, money figures are expressed in Canadian dollars. The “US$” symbol refers to American dollars. The “€” symbol refers to Euros.

The Corporation holds, directly or through its subsidiaries, registered and non-registered trademarks, including, but not limited to the following: Bio-Brane™, Bio-Wheel™, SILO™, Clearlogx®, FiberFlex™, flexMBR™, H_2O-Smartrek™, High Brix™, Intelogx™, OptiClean™, Piedmont® and PWT™. To facilitate the reading of this Annual Information Form, the symbols ® and “TM”, referring to trademarks, have been removed.

2. CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Information Form, such statements use such words as “anticipate”, “if”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “should” or “will” and other similar terminology as well as those usually used in the future and the conditional. These statements reflect current expectations of the Corporation regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements involve significant risks and uncertainties, should not be received or construed as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this Annual Information Form, or any referenced document therein, are based upon what management of the Corporation believes are reasonable assumptions, actual results may not be consistent with these forward-looking statements. Accordingly, these statements should not be unduly relied upon by shareholders. These forward-looking statements are made as of the date of this Annual Information Form and, other than as may be required pursuant to applicable law, the Corporation does not intend to update said forward-looking statements.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Annual Information Form. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) reported performance obligations; (iv) fixed price contracts renewal; (v) key personnel and health & safety; (vi) acquisition and expansion; (vii) indebtedness; (viii) impairment; (ix) international operations, global geopolitical climate and foreign exchange risks; (x) liquidity; (xi) capacity to secure performance guarantees; (xii) implementation of a strategic plan; (xiii) current global financial conditions; (xiv) cybersecurity and cyber threats; (xv) litigation; (xvi) intellectual property infringement; (xvii) dependence on third parties; (xviii) credit risk; (xix) market liquidity; (xx) capital investment; (xxi) development of new products; (xxii) additional financing and dilution; (xxiii) interest rate risk; (xxiv) insurance coverage risk; (xxv) technological changes; (xxvi) reputation and regulatory risk; and (xxvii) transfer pricing.

3. CORPORATE STRUCTURE

3.1 Name and incorporation

The Corporation was incorporated under the name “Hebron Fjord Resources Inc.” by Articles of Amalgamation under the *Canada Business Corporations Act* on August 23, 1995, and results from the amalgamation of Chastel Resources Inc. and 3152383 Canada Inc. On December 1, 2000 and on December 4, 2008, the Corporation changed its corporate name to “H_2O Innovation (2000) Inc.” and to “H_2O Innovation Inc.”, respectively.

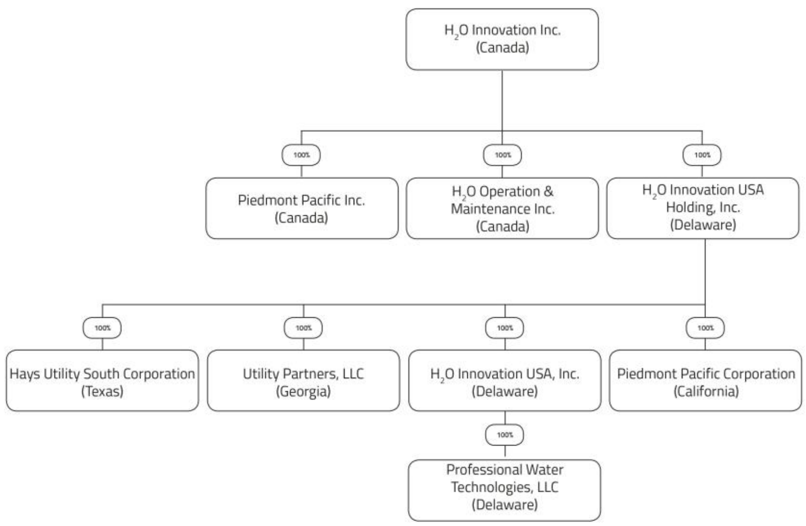
On March 1, 2006, the Corporation completed a consolidation of its common shares on the basis of ten (10) common shares then issued and outstanding for one (1) new common share. Terms and conditions of warrants and stock options then issued and outstanding were adjusted accordingly as of the consolidation date. A second consolidation of the Corporation's common shares occurred on December 1, 2014 on the basis of five (5) common shares then issued and outstanding for one (1) new common share. Terms and conditions of stock options then issued and outstanding were also adjusted accordingly as of the consolidation date.

On October 14, 2015, the Corporation obtained a restated certificate of incorporation to which are attached the rights, privileges, restrictions and conditions of each class of shares that the Corporation is authorized to issue.

The Corporation's registered office is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Province of Quebec, G1K 9C5, Canada.

3.2 Organizational chart

The following organizational chart shows the principal subsidiaries of the Corporation and their respective jurisdiction of incorporation as of September 24, 2019.



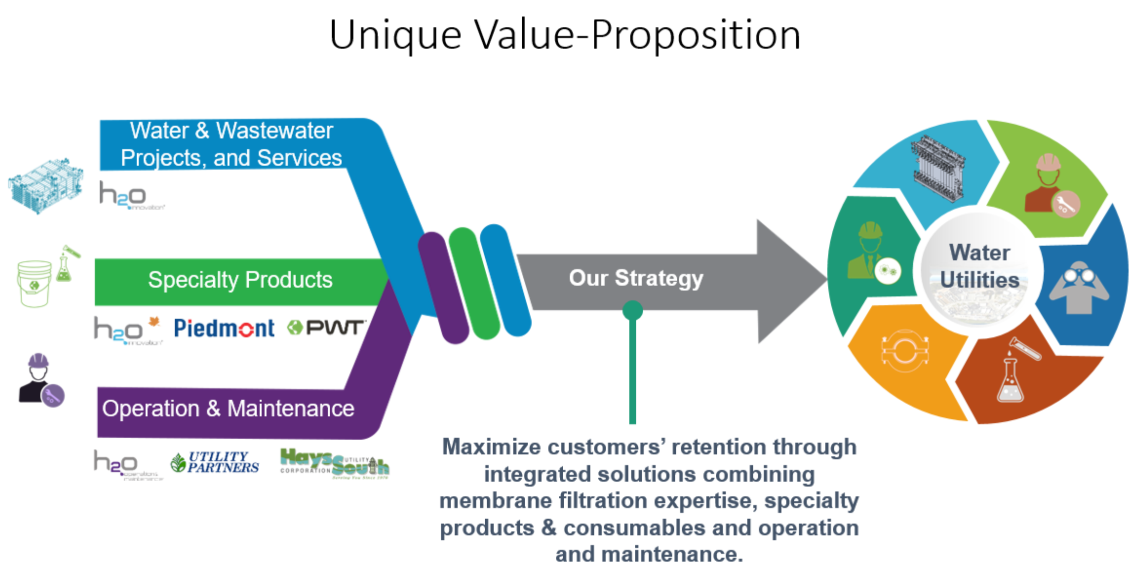
4. GENERAL DEVELOPMENT OF THE BUSINESS

As a complete solution provider, H_2O Innovation designs, manufactures and commissions customized membrane water treatment systems and provides operation and maintenance services as well as a complete line of specialty products such as chemicals, consumables, couplings, fittings and cartridge filters for multiple markets. The Corporation also designs, manufactures and implements digital solutions such as its Intelogx software, its Clearlogx automation and control technology and SCADA systems. In addition, H_2O Innovation provides a full range of maple equipment and products to maple syrup producers.

Whether it is for the production of drinking water and industrial process water, the reclamation and reuse of water, the desalination of seawater and/or the treatment of wastewater, the solutions provided by H_2O Innovation intend to combine the best available expertise with the most advanced membrane technology and products. The Corporation's reliable, state-of-the-art, eco-friendly solutions are customer-focused and intended to streamline end-user's costs, optimize the water treatment process, and maximize the efficiency, performance and longevity of water and wastewater treatment utilities including treatment systems, distribution equipment and associated assets.

H_2O Innovation uses its assets and sales forces to provide a unique and accountable business model to better serve its customers and to respond to design-build-operate ("DBO") opportunities, which are projects for which the successful bidder will design and build the water treatment system and thereafter, operate it on a long-term basis.

As shown in the picture below, the customers, such as water utilities, are at the center of H_2O Innovation's offer. Through its integrated solutions combining membrane filtration expertise, specialty products and operation and maintenance, H_2O Innovation is well positioned to address each and every need that a customer may have and to maximize customer retention. With its current business model, and across all its business pillars, H_2O Innovation provides an end-to-end solution to its customers.



H_2O Innovation's vision is to be the best at providing safe and reliable water treatment solutions and technologies and its mission is to provide safe and integrated water treatment solutions as well as outstanding customer care in order to secure long-term relationships.

4.1 Three-year history

Over the past three (3) years, the following events significantly influenced the general development of the Corporation's business:

Fiscal year ended June 30, 2019:

- Launch by Piedmont, throughout the last fiscal year, of new products allowing this business line to increase business opportunities. In May 2019, Piedmont launched a new product line of discs and screen self-cleaning filters dedicated to remove, typically at the pre-treatment phase of a membrane system, suspended solids in the water. In October 2018, Piedmont introduced a new painted iron coupling, the Style L, designed for low-pressure applications and only used for freshwater treatment as well as a new line of filters that will increase its potential scope of supply on seawater reverse osmosis ("SWRO") projects, where ultrafiltration ("UF") is used as pre-treatment.

- Partnership with Sustainable Water ("SW") on a significant pipeline of eco-engineered wastewater reclamation and reuse projects throughout the United States of America ("US", "USA" or the "United States") allowing a greater reach into the water reuse market. The first wastewater reclamation and reuse system made in collaboration with SW was delivered during the third quarter of fiscal year ended on June 30, 2019. This wastewater reclamation and reuse system, combining flexMBR open technology and reverse osmosis, was designed and manufactured by H_2O Innovation, integrates the Intelogx software, is operated by Utility Partners, LLC ("Utility Partners") and supplied with PWT specialty chemicals.

- Acquisition, on November 30, 2018, of all the issued and outstanding shares of Hays Utility South Corporation ("Hays"), a privately-owned provider of water and wastewater asset management services for municipal utility districts within the State of Texas, USA. Such acquisition has been completed for an initial cash consideration of \$6.2 M (US\$4.7 M), including working capital adjustments. Such initial consideration is, however, subject to contingent consideration (earn-out) payable over the two (2) years following the closing date.

- Closing, on November 30, 2018, of a bought deal private placement of common shares of the Corporation (the "2018 Private Placement") for total gross proceeds of approximately $13.1 M. The net proceeds of the 2018 Private Placement were used by the Corporation to finance the acquisition of Hays and support certain ancillary costs.

- Launch, in October 2018, of a new packaged wastewater treatment product named SILO which is a simplified approach to membrane bioreactor ("MBR") treatment for smaller applications where ease of operation and low maintenance are required.

<u>Fiscal year ended June 30, 2018</u>:

- Obtention, on May 11, 2018, of ISO 9001:2015 certification, ensuring quality management, from design to manufacture, of all Piedmont products and components for water treatment systems.

- Delivery by Piedmont, in April 2018, of the largest cartridge filter housings made from fiberglass reinforced polyester ("FRP") since the creation of this product line.

- Expansion of Utility Partners' activities in the United States following the award of an operation and maintenance contract in the State of Texas, USA to service public water utilities in Southern Houston as well as in Dallas.

- Award, in December 2017, of a first operation and maintenance contract in western Canada for H_2O Operation & Maintenance Inc. ("H_2O O&M"), under which the Corporation will provide daily operation, monitoring and maintenance of water and wastewater treatment systems located in the Kananaskis Region of the Province of Alberta, Canada, for a period of five (5) years.

- Launch, in October 2017, of the OptiClean eco-friendly specialty chemicals by PWT. These specialty chemicals distinguish themselves by their eco-friendly and biodegradable components. They were developed to remove inorganic precipitants and organic foulants from membranes.

<u>Fiscal year ended June 30, 2017</u>:

- Commercialization, in September 2016, of the flexMBR (flexible membrane bioreactor) technology for advanced wastewater treatment applications, which is the first MBR with an open-source wastewater design that can operate MBR modules from different suppliers. Furthermore, at the beginning of the second quarter of fiscal year ended June 30, 2017, the Corporation launched new cartridge filter housings especially designed for high corrosion environment and made from FRP.

- Acquisition on July 26, 2016, of all the membership interests of Utility Partners, a US-based company specializing in the operation and maintenance of water and wastewater treatment plants for a total consideration of US$17.8 M (approximately $23.5 M at the time), including post-closing working capital adjustments. Utility Partners provides US municipal clients with innovative and cost-effective solutions for water and wastewater treatment plants.

- Closing, on July 26, 2016, of a bought deal private placement and a concurrent additional non-brokered private placement of common shares of the Corporation (collectively, the "2016 Private Placements") for total gross proceeds of approximately $23.1 M. The net proceeds of the 2016 Private Placements were used by the Corporation to finance the acquisition of Utility Partners.

4.2 Products and services offered by the Corporation

H_2O Innovation's current business model relies on three (3) synergetic and related pillars: (i) water and wastewater projects and aftermarket services, (ii) specialty products, including a complete line of specialty chemicals, consumables and specialized products for the water treatment industry, as well as equipment and products dedicated to the maple industry, and (iii) the operation and maintenance services for water and wastewater treatment systems and public utilities.

4.2.1 <u>Water and Wastewater Projects and Aftermarket Services ("Projects and Aftermarket")</u>

The Corporation designs, manufactures, and markets treatment solutions using membrane filtration (UF, RO and MBR) for the production of drinking water and industrial process water, the reclamation and reuse of water, the desalination of seawater and the treatment of wastewater (sanitary and industrial). With the recent targeted marketing efforts of the Corporation, the majority of the systems sold by the Corporation today are for water reuse and desalination.

H_2O Innovation holds a series of patented technologies, such as the Bio-Brane and the Bio-Wheel, designed for applications requiring bioreactors, allowing the Corporation to evolve in and develop the wastewater and water reuse markets.

In order to improve its offer to its customers, H_2O Innovation designed the FiberFlex skid that provides interchangeability and accommodates several types of ultrafiltration modules similar to reverse-osmosis elements. The FiberFlex provides the opportunity to take advantage of a much wider spectrum of current and future hollow fiber products. By using the same open-source approach, the Corporation developed the flexMBR (flexible membrane bioreactor) technology for advanced wastewater treatment applications. The flexMBR is the first MBR with an open-source wastewater design that can operate MBR modules from different suppliers. It provides flexibility to switch from one membrane model to another without having to redesign the wastewater treatment plant. The flexMBR technology is ideally suited for new systems, but can also be incorporated into an existing wastewater treatment system.

The Corporation offers to its customers containerized membrane bioreactors, which are an advanced wastewater treatment solution that can meet typical wastewater effluent regulations throughout North America. Fully integrated into a standard shipping container, this containerized membrane bioreactor can be easily transported to an isolated work site or to remote communities with access problems. During fiscal year ended on June 30, 2019, H_2O Innovation launched and began the commercialization of a simplified approach to MBR treatment for smaller applications where ease of operation and low maintenance are required. The SILO is simple, independent, gravity driven (level-based) and allows reliable operation, it has a standard compact size and is deployed in just a few days. This system is geared toward populations between 100 and 2000 people. The SILO system utilizes high concentrations of bacteria housed within a bioreactor, that consume pollutants before being filtered out of the effluent with the use of sub-micron membrane filters.

Over the last fiscal years, the number of projects executed by the Corporation with respect to the treatment of wastewater has significantly increased, a result of a strategic diversification of the technologies developed over the years. In fiscal year ended June 30, 2019, approximately 30% of the bookings related to the Projects and Aftermarket business pillar was for the design, manufacturing and commission of wastewater treatment systems.

In order to serve both the needs of its installed customer base and of other customers who have not previously purchased water treatment systems from the Corporation, the Corporation sells products and spare parts for membrane filtration systems. These spare parts include pumps, valves, membranes, filters, media, and any other replacement parts of a water (or wastewater) treatment system.

Finally, H_2O Innovation offers to its clients advanced digital solutions to facilitate the operation and maintenance of their water and wastewater treatment systems. H_2O Innovation has developed the Intelogx software that combines early detection of any issues that may arise, system optimization, remote troubleshooting and accessibility of systems, and common data storage all into one simple platform. Since October 2015, H_2O Innovation offers the Clearlogx automation and control technology, which is a patented technology, that precisely and continuously controls the feed of specialty coagulants to maintain a proper pH level and optimum particle charge, while simultaneously improving overall treatment process efficiency. Clearlogx technology is also used to avoid excessive membrane cleaning. H_2O Innovation also designs, manufactures and implements SCADA systems that are large-scale remote management systems allowing real-time processing of a large number of telemetry measures and remote control of water and wastewater plants. The SCADA system is complementary to the other digital solutions offered by the Corporation as it permits the client to gather, under a single remote management system, all of its monitoring solutions.

The Projects and Aftermarket business pillar accounted for 34.1% in 2019 and 41.1% in 2018 of the total consolidated revenues of the Corporation. The revenues of this business pillar amounted to $40.3 M in 2019 and $41.0 M in 2018.

On July 1, 2018, the management slightly reorganized the Corporation's business pillars and moved the aftermarket services and digital solutions activities from the second business pillar (Specialty Products) to the first business pillar (Projects and Aftermarket) of the Corporation in order to better represent the nature of the aftermarket services and its client base. From this date, the Specialty Products business pillar is exclusively focusing on the sales of specialty products. For reporting purposes, the revenues generated by the aftermarket services and digital solutions activities during fiscal year ended on June 30, 2018, amounting to $11.2 M, have been removed from the Specialty Products business pillar to be reclassified in the Projects and Aftermarket business pillar. Although such reclassification has an impact on the financial results by business pillar when compared to the previous fiscal year, it does not impact the consolidated results of the Corporation. Without this reclassification, the Projects and Aftermarket business pillar would have accounted for 29.9% of the total consolidated revenues of the Corporation in 2018, with revenues of $29.9 M.

4.2.2 Specialty Products

The Corporation synthesizes and manufactures a unique product line of sustainable specialty chemicals for membrane pre-treatment applications (antiscalants), and develops specific blends for maintenance, preservation, and cleaning of membrane systems that maximize the operating efficiency, economy, performance, and longevity of reverse osmosis systems. Since October 2017, PWT offers the OptiClean line of products that are eco-friendly specialty chemicals, developed internally by its team of chemists, to remove inorganic precipitants and organic foulants from membranes. H_2O Innovation also offers to its customers specialty coagulants for conventional and membrane filtration systems, which are complementary to the Corporation's specialty chemicals for membrane pre-treatment applications. The Corporation's specialty chemicals are marketed under the brand name PWT.

Through Piedmont, H_2O Innovation sells and provides a broad line of couplings and fittings that spans a wide range of industrial and municipal applications mostly using membrane-related technologies. Those couplings and fittings are manufactured using engineered composite, epoxy painted ductile iron, stainless steel or duplex or super duplex stainless steel and are designed for specific membrane filtration applications, such as ultrafiltration and reverse osmosis. Piedmont's product portfolio also includes state-of-the-art cartridge filter housings, bag filters, strainers, and cartridge filter elements especially designed for high corrosion environment and made from FRP. The FRP cartridge filter housings are universally designed to accept multiple types, brands and connections of cartridges and are designed to be used in new and existing water treatment plants. The cartridge replacement can be accomplished faster and easier than with any other filters on the market, thanks, in part, to several design features such as high-speed assembly nuts. Piedmont cartridge filter housings are regularly used in front of nanofiltration ("NF") and reverse osmosis ("RO") water treatment systems as well as clean-in-place ("CIP") systems and are a cost-effective solution and a reliable pre-treatment protection for RO systems that treat brackish and sea water. During fiscal year ended June 30, 2019, Piedmont launched a new product line of discs and screen self-cleaning filters, which are mainly used to remove suspended solids in the water, preventing equipment damages downstream, such as pumps and membranes, and to reduce membrane cleaning frequency.

The Specialty Products business pillar also includes revenues coming from the sale of products and equipment dedicated to the production of maple syrup. H_2O Innovation markets its RO and UF technologies within the maple syrup industry. By using the UF process, maple syrup producers obtain a purified sap, or concentrate, since such sap, or concentrate, passes through the pores of the membrane, limiting the passage of bacteria and suspended matter. In addition, the Corporation offers a complete line of maple syrup products and equipment that meet the maple syrup producers' needs, such as evaporators, reverse osmosis separators, monitoring solutions, membranes, fittings, tubing, tanks, press filters and other products related to the maple syrup industry. H_2O Innovation distinguishes itself in the maple industry by developing and manufacturing innovative solutions and products. One of these innovative solutions is the High Brix, a patented process to produce maple syrup by concentrating the maple sap to a sugar content of between 30º and 50º Brix using membrane filtration. By substantially increasing the sugar concentration level, the quantity of water to be evaporated, for the purpose of producing maple syrup, is significantly reduced, also resulting in a significant decrease in energy requirements for evaporation. The boiling phase, which is the last production phase, allows the producer to produce a maple syrup with the desired color and taste and to improve the product's classification. Another innovative product offered by the Corporation is the H_2O-Smartrek developed exclusively for the maple industry, providing accurate intelligence on the water tightness of a collection network by using different sensors installed throughout a sugar bush. During the fiscal year ended June 30, 2019, the Corporation developed an elevator-lift making the cleaning of the evaporators easier and safer. The elevator-lift can be installed on any evaporator, new or already existing, and automatically lifts either side of the evaporator to facilitate the cleaning of the pans and the drainage of the maple syrup.

The Specialty Products business pillar accounted for 21.1% in 2019 and 22.8% in 2018 of the total consolidated revenues of the Corporation. The revenues of this business pillar amounted to $24.9 M in 2019 and $22.8 M in 2018. Without the reclassification of the revenues generated by the aftermarket services and digital solutions activities explained in Section 4.2.1 above, the Specialty Products business pillar would have accounted for 34.0% of the total consolidated revenues of the Corporation in 2018, with revenues of $33.9 M.

4.2.3 Operation and Maintenance Services ("O&M")

In addition to all the technical services and specialty products offered by the Corporation in order to support customer system operation on a continuous basis, the Corporation, through its subsidiaries Utility Partners, Hays and H_2O O&M (collectively the "O&M Entities"), offers complete operation and maintenance services for water and wastewater utilities including, treatment systems to municipalities, municipal utility districts as well as industrial and mining customers. Utility Partners and Hays provide these services in the United States and H_2O O&M covers Canada. As of September 24, 2019, the O&M

Entities, as a whole, operate one hundred thirty-five (135) water treatment systems and forty-four (44) wastewater facilities within eleven (11) states in the USA and two (2) provinces in Canada.

On November 30, 2018, the Corporation expanded its activities as provider of operation and maintenance services with the acquisition of Hays. Hays provides operation, maintenance and management services to municipal utility districts ("MUD") in the State of Texas, USA, which services include meter reading, billing and collection. A MUD is one of several types of special districts that function as independent, limited governments. The purpose of a MUD is to provide a developer with an alternate way to finance infrastructure, such as water, sewer, drainage, and road facilities. MUD is managed by a board of directors elected by the property owners within the MUD. Hays is currently responsible for the operation and maintenance of more than eighty (80) water and wastewater plants and more than one hundred (100) lift stations.

The Corporation operates, maintains, and repairs water and wastewater utilities, including treatment systems, distribution equipment and associated assets for all of its clients, and ensure that water quality meets regulatory requirements. The wastewater facilities handled by the Corporation vary in process complexity from lagoon systems to advanced tertiary treatment systems using the latest technologies. Treated effluent may be land applied, discharged to a receiving stream, or reused for irrigation purposes.

Utility Partners provides public works services to certain of its customers, such as street maintenance, drainage maintenance and solid waste collection. For its part, Hays offers minor construction services related to water and wastewater treatment systems and ancillary equipment, such as water lines, sewer lines and fire hydrants. As for H_2O O&M, it offers leasing of containerized water or wastewater treatment systems and pilot units to clients who wish to test or assess a specific technology.

The O&M business pillar accounted for 44.8% in 2019 and 36.1% in 2018 of the total consolidated revenues of the Corporation. The revenues of this business pillar amounted to $52.8 M in 2019, from which $12.3 M is attributable to the acquisition of Hays and represents seven (7) months of revenues following its acquisition, and $35.9 M in 2018.

4.3 Markets and distribution methods

The Corporation is active in the United States, in Canada as well as internationally. During the fiscal year ended June 30, 2019, 74.8% of the Corporation's sales were recorded in the United States, 14.6% in Canada and 10.6% elsewhere. During the previous fiscal year, ended June 30, 2018, the Corporation recorded 70.5% of its sales in the United States, 19.6% in Canada, and 9.9% elsewhere. As more fully detailed below, most of the sales of the Corporation in the United States are related to Projects and Aftermarket as well as O&M business pillars. Even if they represent a certain portion of the sales in the United States, the Piedmont and PWT products are mostly distributed and sold worldwide through a network of distributors. Therefore, the Corporation is exposed to global market demand, prices and foreign exchange fluctuations as well as trade barriers. Furthermore, laws and regulations that incentivize the purchase of products from local sources may impact the Corporation's performance results.

H_2O Innovation's products and services are sold in the municipal, commercial and industrial water treatment markets. In these markets, the Corporation mainly serves municipalities and local governments; communities and private developments; energy and power plants; food and beverage industries; oil and gas; mining and workers' camps; and other industrial segments.

The Corporation's products and services are mainly sold directly to its customers by its internal sales force in Canada and the USA. Such customers can mainly be categorized in two broad categories: consulting engineering firms, construction companies and engineering procurement companies, on one hand, and end-users on the other hand. End-users include industrial and manufacturing companies, commercial clients, water utilities, municipalities and local governments.

The Corporation also uses a network of thirteen (13) external sales or manufacturer's representatives to market its water and wastewater treatment equipment and systems in Canada and the United States.

For its specialty chemicals, the Corporation has developed and is maintaining a distribution network of twenty-five (25) international distributors covering the following countries: USA, Canada, Spain, Germany, China, South Korea, Thailand, Taiwan, Indonesia, Malaysia, Philippines, Vietnam, Australia, India, Pakistan, United Arab Emirates, Saudi Arabia, Iraq, Lebanon, Oman, Qatar, Egypt, Libya, Bahrain, Djibouti, Ethiopia, Tanzania, Kenya, South Africa, Mexico, Brazil, Argentina, Peru, Chile, Colombia, Ecuador and Russia. All these distributors market and sell the Corporation's PWT line of specialty chemicals for membrane pre-treatment, cleaning and maintenance which are comprised in the Specialty Products business pillar. Products sold locally by these international distributors are manufactured by the Corporation at its Vista, California facility and shipped to them.

Piedmont's external distribution network relies on more than twenty (20) distributors and agents who are active in over twenty-five (25) regions and countries around the world, such as USA, Spain, Italy, Mexico, United Arab Emirates, Saudi Arabia, Australia, South Korea, Philippines, Egypt, Argentina, Chile, Brazil, New Zealand, Vietnam, Taiwan, India, South Africa, Oman, Kuwait, Bahrain, Qatar, Iraq, Singapore and Libya. All these distributors market and sell Piedmont products that are part of the Specialty Products business pillar of H_2O Innovation. The Corporation also uses its internal sales force to sell such products to potential customers. Since the beginning of 2016, H_2O Innovation has an office in Bilbao, Spain and can rely on the expertise of experienced resources in sales and product development to expand Piedmont products in the European and Middle Eastern markets.

The Corporation has, for the maple syrup industry, a distribution network of more than fifty-five (55) distributors who are active in Canada (Québec, Ontario and New-Brunswick) as well as in the North-East of the United States. All these distributors market and sell the Corporation's maple syrup equipment and products to maple farms and other producers of maple syrup of all sizes. H_2O Innovation also uses its internal sales force to sell maple syrup equipment and products to potential customers, including maple stores that are opened to the public and located in the province of Quebec, Canada and in the State of Vermont, USA. Corporation's maple syrup equipment is manufactured at its Ham-Nord, Quebec facility and then shipped to distributors and customers.

For the fiscal years ended on June 30, 2019 and June 30, 2018, no customer of the Corporation accounted for more than 10% of its revenues.

The Corporation believes that it is not exposed to significant seasonality risks related to its sales, with the sole exception of the maple syrup industry which is a seasonal industry. The Corporation finds itself mildly exposed to economic cycles, as it is the case for other companies active in the field of infrastructure and utilities. In order to minimise the impacts of these economic cycles, the Corporation balances its activities between municipal, commercial and industrial markets, in addition to a business mix combining systems sales, sales of specialty products, and operation and maintenance services for water utilities. Revenues generated by the sales of specialty products, aftermarket services and operation and maintenance services are generally recurring in nature. This business mix, which is a result of the acquisitions completed by the Corporation over the last few years, including the acquisition of Utility Partners and Hays completed in July 2016 and November 2018 respectively, along with its organic growth over the same period, should, in the opinion of the Corporation, enable it to manage its exposure to economic cycles.

4.4 Suppliers and subcontractors

Raw materials, components and supplies for major products are available from a number of different suppliers located mainly in the United States, Canada, Spain, Tunisia and China. The Corporation is not dependent on a single supplier for the supply of any raw material or component, except for some specific materials or components required for the manufacturing of Piedmont's products and the production of maple syrup equipment. Alternative sources and additional suppliers have been identified for such raw materials and components and the Corporation's management believes they could be used without any material effect on the business. Manufacturing of certain equipment or components are outsourced to a network of subcontractors carefully chosen by the Corporation with facilities in strategic locations, in order to increase its presence in emergent markets. The Corporation frequently monitors its network of suppliers, their technical capabilities and the competitiveness of their pricing and sales conditions. The Corporation also works with new suppliers on an *ad hoc* basis according to each project's specific manufacturing requirements. The Corporation extensive outsourcing network provides considerable advantages, including a more flexible and competitive cost structure that minimizes certain risks, such as the risk of currency fluctuations. In addition, due to the large number of suppliers and subcontractors, the Corporation benefits from a diversified sourcing and subcontractors' proximity to the markets it serves, which enables it in particular to obtain advantageous purchasing conditions.

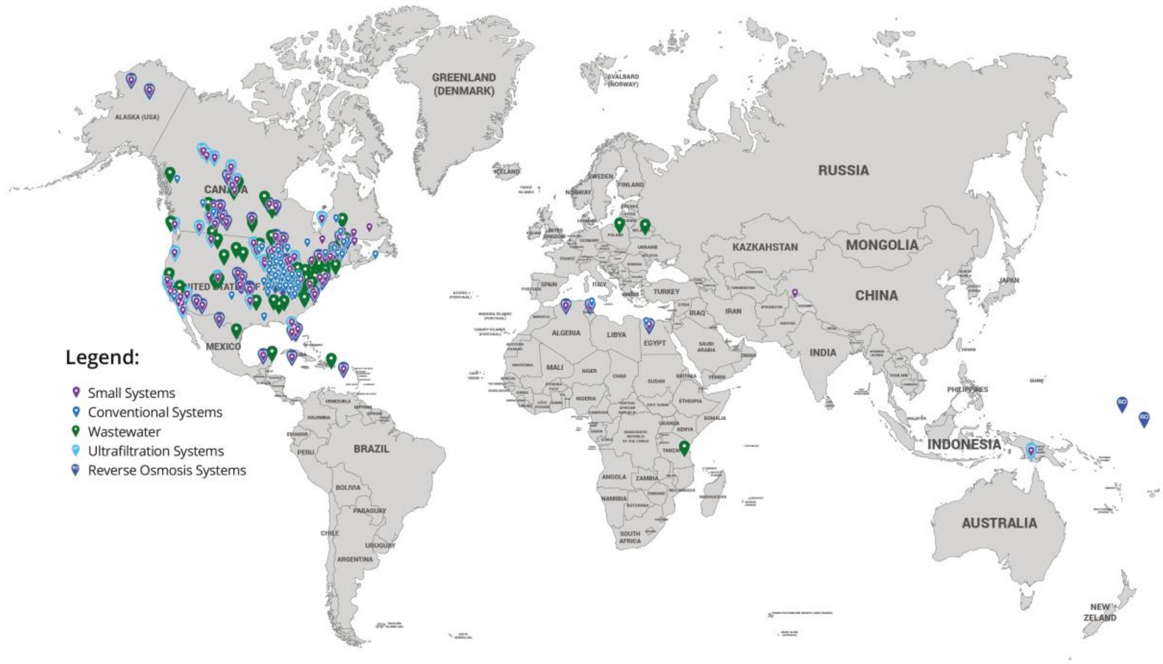
4.5 Strategic orientation

The business model of the Corporation relies on three (3) business pillars, which have been slightly reorganized on July 1, 2018 by regrouping its revenue sources and therefore, improve the focus alignment of its business strategies. During the next fiscal years, the Corporation intends to expand its international presence and focus on the development of synergies and cross-selling opportunities between its different business pillars.

The first business pillar of the Corporation, Projects and Aftermarket, is comprised of membrane filtration systems and solutions and aftermarket services sold to customers mostly located in Canada and in the United States. H_2O Innovation's first business pillar is the fundamental business of the Corporation. The Corporation's main strategy for the coming years with respect to Projects and Aftermarket business pillar is to leverage the Corporation's large installed base of nearly 750 systems in order to grow its second and third business pillars providing recurring revenues, which represented approximately 75% of the Corporation's revenues in fiscal year ended on June 30, 2019. In addition, the Corporation intends to select and pursue projects that will contribute to all the Corporation's business pillars. Considering that water reuse, industrial projects and wastewater treatment projects are three (3) market segments favored by the Corporation to insure a focused sales effort, the partnership with SW is, therefore, a key component to the Corporation's future growth.

By offering proprietary digital solutions, the Corporation believes it is in a position to upgrade customer experience, efficiency and performance. During the fiscal year ended on June 30, 2019, the Corporation has successfully completed the installation of three (3) new Clearlogx technology systems in California and North Carolina. In California, a Clearlogx technology system was added to an existing H_2O Innovation capital equipment project for optimization of coagulant chemical injection. In North Carolina, Clearlogx technology systems were installed on systems built by other system suppliers.

On June 3, 2019, the US Environmental Protection Agency ("EPA") modified its regulations, allowing year-round sales of so-called E15 fuel (the "E15"), which contains 15% ethanol and 85% gasoline. Before this modification, the sale of E15 was not permitted between June 1 and September 15 of each year. This blackout period deterred retailers from offering E15 since they would have to change pumps and warning labels at the beginning and end of each summer. Now, every service station is able to offer E15 all year round. In anticipation of the year-round E15 availability, the Corporation has delivered eight (8) capital equipment projects in the ethanol industry and is now well-positioned to capture new opportunities and meet expected increased demand as a result of these modifications to the legislation.



The second business pillar relies on specialty products of the Corporation, which include Piedmont products, PWT specialty chemicals and products and equipment dedicated to the maple industry. The Corporation expects to expand its products offering through in-house product development, licensing of products allowing manufacturing by third parties strategically chosen and expansion of its current distribution network.

Finally, the third business pillar, created following the acquisition of Utility Partners in July 2016, is dedicated to O&M. During the last fiscal year, the Corporation acquired Hays, expanding its activities in the operation and maintenance industry. Over the next years, the Corporation intends to create several synergies and cross-selling opportunities with the other business pillars of H_2O Innovation, providing customers with a single point of contact for all their water or wastewater treatment needs. These synergies and cross-selling opportunities are expected to result in strengthening long-term business relationships, increasing revenues for the Corporation and maximising customer retention.

In addition, the Corporation is looking to grow its business through strategic acquisitions within the next years. The markets for water treatment chemicals, specialty products and O&M services are relatively fragmented. Therefore, consolidation of market shares will likely occur through acquisition and organic growth, as larger players acquire share from smaller regional competitors.

During the current fiscal year, H_2O Innovation intends to maximise its assets and sales forces to provide a unique and accountable business model to serve and address the DBO opportunities, a growing segment in water industry. Under such contracts, the entity engaged by the municipalities focuses on water treatment plant's long-term goals because such entity will ultimately be responsible for the design and construction of the water plant, for its long-term operation and maintenance as well as for cost-savings and efficiencies over the next ten (10) to twenty (20) years. With the addition of Utility Partners and Hays, H_2O Innovation is one of the few players able to offer high quality process equipment as well as operation and maintenance services. It is expected that the Corporation offering will make it attractive to general contractors and teams targeting a growing number of DBO opportunities across the United States.

During the last years, the Corporation has significantly improved its customer offering to position itself as a complete membrane filtration solution provider, able to provide its customers with a wide spectrum of systems, equipment, products and consumables, while also supporting them in the operation and maintenance of their systems, seeking to continuously improve operational performance. With more than seven hundred fifty (750) reference sites, H_2O Innovation believes to be well-positioned to offer process equipment and operation and maintenance services in North America as well as specialty products all over the world.

From now, the Corporation will focus on increasing its presence in niche industrial markets. In the municipal market, in order to increase its sales of water and wastewater systems, the Corporation intends to focus on small and mid-size communities in North America, developing relationships with smaller-sized regional and local engineering firms. These local engineering firms often rely more on knowledgeable and experienced water treatment systems providers to offer their services to their municipal customers, compared to national or international engineering firms, which often have their own internal team of specialized water treatment engineers. In the industrial market, the Corporation intends to increase its focus on industrial segments with complex water problems, seeking to provide them with customized solutions and to optimize the operation of their water treatment systems. The Corporation has also developed and continues to promote its expertise in small and midsized containerized/packaged water and wastewater treatment units.

The Corporation also intends to continue developing its international activities throughout its international distribution networks for its specialty products, creating synergies between its different distribution networks and expanding such networks worldwide. The Corporation intends to continue develop new products as well, in order to fulfill constantly evolving customer needs, provide improved support to its distributors.

As for the maple syrup industry, the Corporation intends to pursue the expansion of its distribution network, maintain its growth in the US market by capturing a larger market share and develop innovative products for the maple syrup industry in order to meet its customers' needs.

4.6 Competition

Competition among suppliers of new technologies and specialised products, like the technologies, specialty products and O&M services developed, commercialized and/or provided by the Corporation, is driven by value added and technical know-how, and provides for relatively high and acceptable profit margins. In the industrial market, competition is also driven by technical know-how, value added and reputation. That being said, the overall market for all the Corporation's business pillars remains highly fragmented. Considering the current water resources and environmental legislation, the Corporation considers that clients will be further inclined to use the most effective technologies and products, regardless of their origin, to obtain solutions adapted to their needs.

In North America, H_2O Innovation has positioned itself as a leader to address water issues of small and mid-size communities and public utilities. Its size enables the Corporation to be competitive in this niche market which appeals less to its larger multinational competitors, as they tend to avoid customizing solutions to customer needs and to embrace large scopes of work.

Some of the Corporation's main competitors in the water treatment industry are large, multinational entities such as Suez, Veolia (France), Pall Corporation (division of Danaher, USA), Doosan Hydro (Florida based division of South Korean Doosan Heavy) and Evoqua (USA). The Corporation also competes with regional players such as Harn R.O. Systems in the Southeast of the United States, Wigen Water Technologies in the Midwest of the United States, and NewTerra in Canada, amongst others. For certain specific technologies or in certain niche markets, the Corporation competes with specific players such as Westech for its bioreactor wastewater treatment technologies and EcoLab, GE Betz, Genesys, Avista and King Lee Technologies for its membrane filtration consumables and maintenance solutions technologies. The main competitors of the Corporation in the couplings and fittings industry are Victaulic, Shurjoint (part of Tyco), Pass and Horizon and those in cartridge filters for the desalination market are mainly Spanish entities such as Trepovi, Dimasa, Bupolsa and Fluytec.

H_2O Innovation's competitors in the maple syrup industry are not numerous. Les Équipements Lapierre, Les Équipements d'érablière CDL, Leader Evaporators, L.S. Bilodeau and Dominion & Grimm are the main players in that industry both in and outside the Province of Quebec.

The business of operation and maintenance of water and wastewater utilities is often referred to as "Conops", for Contracted Operations & Maintenance Services. It consists of supplying labor and potentially consumables for the continued and ongoing operation and maintenance of water and wastewater treatment plants. In the Conops industry, the Corporation's main competitors are Veolia, Suez, Inframark, Jacobs Engineering and American Water. In addition, there are numerous regional Conops players such as ESG, active in the South East, or PERC, active in the South West part of the United Sates. In Canada, the main competitors are Aquatech, Nordikeau, Epcor and OCWA.

5. NARRATIVE DESCRIPTION OF THE BUSINESS

5.1 General business

H_2O Innovation designs, manufactures, assembles and commissions water and wastewater treatment systems. Each project is customized by its multidisciplinary team to meet a customer's specific needs. The Corporation's process engineering experts make sure that the proposed treatment solution will address the issues faced by a customer. Afterwards, the Corporation's specialized units, such as project management, mechanical and 3D modeling engineering, electric and automation engineering as well as installation and commissioning, will be involved in the performance of each project, in collaboration with its customers.

H_2O Innovation offers complete technical and maintenance services in order to support customer system operation on a continuous basis and supply its customers with required spare parts, repair and/or replacement of components. The Corporation expanded its offering by leasing containerized water and/or wastewater treatment systems as well as piloting units for specific purposes. In order to assist its customers with the operation of a water or wastewater treatment system, H_2O Innovation offers advanced digital solutions such as (i) the Intelogx software that combines early detection of any issues that may arise, system optimization, remote troubleshooting and accessibility of systems, as well as common data storage all into one simple platform, (ii) the Clearlogx technology, which is a patented automation and control technology that continuously controls the feed of specialty coagulants used in water treatment to maintain a proper pH level and optimum particle charge, and (iii) SCADA systems.

Through the Specialty Products business pillar, the Corporation develops and manufactures a unique range of specialty chemicals for membrane treatment under the brand name PWT. It also sells a line of specialty coagulants and flocculants. The Corporation synthetizes its own polymer and develops and blends specific antiscalants and cleaners for membrane systems. H_2O Innovation operates with a modern laboratory and automated production methods certifying the quality of shipped products from its manufacturing plant in California. The Corporation also offers membrane autopsy service to help detect intricate problems. Consequently, the Corporation can easily recommend the required protocols in order to expand a membrane useful life.

The Corporation designs and manufactures, through its subsidiary Piedmont, a broad line of specialty products for a wide range of industrial and municipal applications in the water treatment industry, mainly the desalination market, such as couplings, fittings, FRP cartridge filter housings and other complementary products.

H_2O Innovation offers complete operation and maintenance services for water and wastewater utilities, including treatment systems, distribution equipment and associated assets. Water and wastewater treatment facilities and distribution systems are operated and maintained in accordance with all laws and regulations in the USA (US Environmental Protection Agency) and in Canada (Environment and Natural Resources) in order to meet current regulatory requirements in terms of water quality. Corporation's employees operating a water or a wastewater treatment system are duly licensed and certified in accordance with applicable laws.

The Corporation, using its know-how in membrane filtration, offers to maple syrup producers a complete line of products and equipment dedicated to the production of maple syrup, helping them to increase their production of maple syrup while reducing their energy consumption costs.

5.2 Production methods and specialized expertise

The Corporation believes that it holds competitive advantages over its main competitors as a result of the knowledge and know-how of its people, its involvement in over a thousand water treatment projects, its patented technologies and its scalable manufacturing capacity. The Corporation can offer an array of solutions for drinking water and industrial process water, the reclamation and reuse of water, the desalination of seawater and the treatment of wastewater (sanitary and industrial).

The Corporation is specialized in the design of customer-tailored water treatment systems. With its three (3) production facilities – a 60,000 sq. ft. plant located in Ham-Nord (Quebec), a 10,400 sq.ft. plant located in St-Joseph-de-Coleraine (Quebec) and a 30,800 sq. ft. plant located in Champlin (Minnesota) – the Corporation manufactures maple syrup equipment and assembles water treatment systems. In February 2018, the Corporation moved, from Ham-Nord to St-Joseph-de-Coleraine (Quebec), assembly of water treatment systems, while keeping the manufacturing of maple equipment at its Ham-Nord facility. As a result, the Corporation gained efficiency, improved quality control as well as being able to meet customer requirements in shorter lead-times, thus offering a competitive advantage. The plant in Champlin (Minnesota) is still dedicated to the assembly of water treatment system. The Corporation's specialized manpower also has the expertise to manufacture and assemble water treatment systems outside of its manufacturing facilities, for example site-built projects or specific containerized/packaged units.

At its 12,000 sq. ft. production facility in Vista, California, the Corporation manufactures its sustainable specialty chemicals for membrane pre-treatment and cleaning applications, including liquid cleaners. The Corporation also synthetizes its own polymer and develops antiscalants and cleaners for membrane systems that maximize the operating efficiency, economy, performance and longevity of reverse osmosis systems. The Corporation has a warehouse capacity in Vista, California, of 7,640 sq. ft. adjacent to its production facility.

The Corporation also offers various types of mobile units for water purification and/or wastewater treatment. These mobile units, developed for permanent, emergency or piloting use, are true modular treatment plants. Custom-built to meet the specific needs of treatment and the capacities required, they are assembled inside containers, caravans or trailers (insulated, heated and ventilated, if necessary). With its containerized membrane bioreactor, the Corporation offers to its customers an advanced wastewater treatment solution that can meet typical wastewater effluent regulations throughout North America. This containerized membrane bioreactor is one of the most compact and versatile containerized wastewater treatment packages on the market to offer treatment redundancy, usually found only in much larger plants.

The Corporation designs couplings and fittings made from engineered composite, epoxy painted ductile iron, stainless steel and duplex and super duplex stainless steel. H_2O Innovation designs, manufactures and sells cartridge filter housings made from FRP. Almost all the molds used in the manufacturing of the couplings and FRP cartridge filter housings are the exclusive property of the Corporation, including the molds for the internal components of the FRP cartridge filter which are made of polyamide material. The various materials are injected in the molds under strict quality control to minimize any manufacturing defects. Once the housings are completed and confirmed compliant with the specifications, the other components such as hardware (gaskets, nuts and bolts) or internal components (gaskets, internal support and tie rods) are installed to complete the product's assembly. During the fiscal year ended June 30, 2019, H_2O Innovation launched two (2) new products, the discs and the screen filters, completing the product range in the prefiltration stage of a RO desalination plant. With these additional products, H_2O Innovation is now able to supply prefiltration systems for the two (2) different types of designs in a RO plant: prefiltration cartridge filters for the conventional filtration, and discs or screen filters for the UF membrane filtration. Customers are provided with detailed installation and instruction manuals and can also benefit from the Corporation's technical services. Couplings, fittings and FRP cartridge filter housings are designed and engineered in-house by specialized resources and are manufactured by carefully selected and strategic partners and suppliers. In 2018, Piedmont obtained its ISO 9001:2015 certification, ensuring quality management, from design to manufacturing, of all its products and components for water treatment systems. During the fiscal year ended June 30, 2019, Piedmont secured National Sanitation Foundation ("NSF") certification for its FRP cartridge filter housing product line, increasing significantly its chances of participating and winning projects in the municipal sector in the United States.

5.3 Employees

As of June 30, 2019, the Corporation had approximately six hundred fifty (650) employees in Canada, Spain and the United States, including thirty-eight (38) engineers specialized in process and application and wastewater process related to innovative water treatment technologies, such as membrane filtration, membrane biological reactors and membrane cleaning solutions, in mechanical and systems engineering, in software development, in electrical design and control panels as well as in controls and programming.

The number of employees being part of the O&M business pillar is approximately four hundred forty (440) employees, including certified operators of water and wastewater treatment facilities present at each O&M project site.

5.4 Intellectual property

The Corporation holds intellectual property rights such as technologies, trademarks, trade names, brand names, copyrights and trade secrets, and also enters into licensing agreements with third parties to grant or secure rights to intellectual property rights, allowing it to offer innovative solutions to its clients. Certain of the Corporation's proprietary technologies are protected by patents and H_2O Innovation does its utmost to protect its intellectual property rights, particularly where technology or products provide a major competitive edge.

5.5 Environmental protection

The Corporation is concerned about the principles of sustainable development, including energy efficiency and the optimal use of resources, notably the reclamation and reuse of water, which is proven by its business partnership with SW. As a result, the Corporation's solutions help its clients to reduce their environmental footprint. Management believes that such expertise will be a differentiating factor from competing entities over the medium and long term. With respect to its own operations, the Corporation believes that environmental protection requirements do not have any material, financial, operational or other impact, notably in regard to its activities, capital expenditures, earnings or competitive position.

5.6 Risks and uncertainties

The following risks and uncertainties relating to the Corporation are not exhaustive, since the Corporation operates in a constantly evolving sector, which can cause new risks and uncertainties to arise. The Corporation is neither in position to predict these risks and uncertainties, nor evaluate their impact, as the case may be, on its activities, nor to evaluate to what extent may a factor, or a combination of factors, cause actual results to differ from those presented below. Certain of these risks and uncertainties are described in more details in the Corporation's most recent Management's Discussion and Analysis available on SEDAR at www.sedar.com.

Competitive environment

The Corporation competes with companies of various sizes offering substantially similar technologies, products and services dedicated to the water industry. Historically, the Corporation has developed its target markets by building on its innovative technologies and on the expertise and know-how of its employees to provide clients with customized and tailored solutions that provide economic and operational advantages. The Corporation considers that overall global financial conditions, development of innovative technologies and specialty products and capital investments made by potential customers in their infrastructure contributed to increase the competition and the number of companies bidding on a same project. In the different segments in which the Corporation operates, competition is based on a number of factors, mainly pricing, performance obligations, internal resources, financial strength, technology, application and know-how, reputation for quality, timeliness and experience, distribution network and aftermarket services. If the Corporation is unable to effectively respond to competitive factors, results of operations and financial condition may be adversely impacted.

Operating risks

Different types of events could induce an interruption and/or a loss of the Corporation's operation and production, and cause significant delays in operation. The Corporation has located a part of its inventory in nearby warehouses and has implemented an emergency plan that is regularly reviewed by the management. The Corporation also maintains business interruption and contingent business interruption insurance coverages.

Reported performance obligations

Corporation's reported performance obligations are derived from contracts that are considered firm or for which management estimates a certain amount of revenues to be generated from such contracts. Project delays, suspensions, terminations, cancellations or reductions in scope may occur from time to time in the Corporation's industry due to considerations beyond the Corporation's control and may have a material impact on the amount of reported performance obligations with a corresponding adverse impact on future revenues and profitability. Furthermore, the risk resulting from the loss of recurrent customers or distributors is considered and would have a noticeable impact on expected revenues and profitability. The likelihood of occurrence is possible, while low, considering the significant amount of competition within the different segments in which the Corporation operates. The Corporation developed broad distribution networks and continues to expand them worldwide by creating convergence and synergies.

Fixed price contracts and renewal

The Corporation typically enters into fixed price contracts for the design, manufacture and commissioning of water and wastewater treatment systems and certain of its Specialty Products, for which the price is based on technical risk estimates, total production costs and potential contingencies. Such fixed price, if materially inaccurate, can result in potential losses related to the reported performance obligations of the Corporation. In addition, the Corporation enters into operation and maintenance service agreement for terms ranging from three (3) to five (5) years, with multi-year renewal options, or on an evergreen basis. In the event an operation and maintenance service contract is not renewed at the end of its term or terminated at any time by a customer upon a relatively short notice, any such non-renewal or termination may adversely affect the Corporation's results and financial position as well as its reported performance obligations with a corresponding impact on expected future revenues and profitability.

Key personnel and health & safety

The Corporation depends on the skills and experience of its management team and other key employees having significant expertise and knowledge of the Corporation's business. Furthermore, the Corporation relies on its ability to recruit and retain qualified and highly-skilled employees in a competitive environment, and failure to do so may adversely affect the Corporation's business, financial condition and results of operations. Therefore, the Corporation strives to offer competitive employment conditions, a wide variety of career opportunities and a stimulating working environment. However, other factors may come into play, and there can be no assurance that the employment conditions offered by the Corporation will be sufficient to retain key professionals.

Considering the type of industry in which the Corporation operates, the Corporation is facing situations that may result in accidents causing injuries to its employees, customers or subcontractors and, therefore, it has implemented a health and safety program within its organization. Its employees are properly trained to face such kind of situations and are aware of potential hazardous work situations. Health and safety committees have been created throughout the Corporation and such committees meet on a regular basis to, among others, plan training sessions for the Corporation's employees.

Acquisition and expansion

The Corporation may expand its operations by acquiring additional businesses, products or technologies. While the Corporation's management has solid experience in integrating businesses, there can be no assurance that (i) the Corporation will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties, or (ii) that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Prior to completing a business acquisition, the Corporation performs exhaustive due diligence. Despite that, there are risks associated with the acquisition of a business where certain liabilities including, but not limited to, tax related claims, contingent liabilities, legal claims and environmental exposures, were not discovered during the due diligence and unknown at the time the acquisition was negotiated and concluded.

Indebtedness

The Corporation's credit agreements contain financial covenants requiring the Corporation, on a consolidated basis, to satisfy specific ratios. Such credit agreements also contain negative covenants restricting the Corporation's discretion and flexibility in the operation of its business. A breach of any of these credit agreements or the Corporation's inability to comply with these specific ratios could, if not cured or waived, result in an acceleration of the Corporation's financial debt or a cross-default under certain of its other credit agreements. If the Corporation's operating results or liquidity are not sufficient to service its current or future indebtedness, the Corporation may be forced to take actions such as reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital.

Impairment

A significant portion of the Corporation's assets is attributable mainly to goodwill, which is a result of the acquisitions completed by the Corporation over the years and include without limitation, brand name, customer base, customer relations, technologies and intellectual property rights ("financial assets"). Different factors related to market and economic conditions could influence the value of its financial assets. Financial assets, other than those accounted for at fair value, are assessed for indicators of impairment at all time during a given fiscal year and are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any future write-offs or write-downs of financial assets could have a material adverse effect on its financial condition or results of operations.

International operations, global geopolitical climate and foreign exchange risks

The Corporation's international sales operations expose it to risks inherent in operating in foreign jurisdictions, such as (i) imposition of or increase in import or export duties, surtaxes, tariffs or other customs duties, (ii) compliance with import and/or export laws, (iii) tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof, (iv) business practices favoring local companies, (v) longer accounts receivable cycles in certain foreign countries, whether due to cultural, economic or other factors, and (vi) changes or instability in foreign political or economic conditions. The Corporation cannot ensure that one or more of these factors will not harm the Corporation and the Corporation's inability to expand its international operations would adversely impact its revenues, results of operations and financial condition.

In addition, the Corporation's activities outside Canada expose the Corporation to foreign currency exchange risks, mainly as a result of its purchases and sales made in US dollar or Euro, which could adversely impact its operating results. To limit the impact of the fluctuations of the Canadian dollar over the US dollar and other currencies, the Corporation matches, in general and when possible, the cash receipts in a foreign currency with the cash disbursements in the same foreign currency. As of today, the Corporation does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

Liquidity

This liquidity risk is managed by establishing cash forecasts, as well as operating and strategic plans. Constant monitoring of expected cash inflows and outflows is implemented and achieved through forecasts assessing the adequacy of cash resources to meet financial and contractual obligations as they become due, maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations. There can be no assurance that the Corporation's forecasts will adequately predict its liquidity needs.

Capacity to secure performance guarantees

The Corporation is, in certain instances, required to obtain bonds or bank guarantees as a means to secure its various contractual obligations. Significant instability or disruptions of the capital markets or a deterioration in or weakening of its financial position due to internal or external factors, could restrict or prohibit the Corporation to access to, or significantly increase the cost or the availability of, these bonds or bank guarantees, including bonds and letters of credit. A deterioration in the Corporation's financial condition could limit the Corporation's ability to issue new bonds, letters of credit or other performance guarantees, which would have a material adverse effect on the Corporation's business, financial condition and results of operations. A draw on bonds, letters of credit or bank guarantees by one or more third parties could, among other things, significantly reduce the Corporation's cash position and have a material adverse effect on its business and results of operations.

Implementation of a strategic plan

The commercial strategy of the Corporation aims at leveraging its offering based on three (3) pillars, namely Projects and Aftermarket, Specialty Products and O&M, by focusing on the development of niche sectors and by concluding acquisitions or alliances with players in strategic geographical regions, complementary product lines or business models. The strategic plan of the Corporation should be addressed taking into consideration potential risks, expenses and difficulties frequently encountered by growth companies. The successful viability of the Corporation's growth strategy may require capital investments larger than those previously expected, and nothing guarantees that the Corporation will achieve its desired growth level.

Current global financial conditions

Volatile financial market conditions and adverse credit market conditions could adversely affect the borrowing capacity of the Corporation and of its customers, distributors and partners, which support the continuation and expansion of the Corporation's activities worldwide, and could result in contract cancellations or suspensions, project delays, payment delays or defaults by the Corporation's clients. Corporation's ability to operate or expand its business would be limited if, in the future, the Corporation is unable to access sufficient credit capacity, including capital market funding, bank credit, such as letters of credit, and surety bonding on favourable terms or at all. These disruptions could materially impact the Corporation's performance obligations, revenues and net income.

Cybersecurity and cyber threats

The Corporation relies on the accuracy, reliability, and proper use of information processing systems and management information technology and provides several services to its customers using these information processing systems. Any interruption in these systems could have a material adverse effect on the Corporation's business, financial condition and results of operations. The Corporation has developed and implemented a cybersecurity plan to mitigate the risks associated with cyber threats, breach or loss of data and inadequate users' behaviors. Different controls are currently in place, such as network security, data security, training and awareness. The Corporation also maintains a cyber liability insurance coverage as well as a technology error and omission insurance coverage with respect to all services offered to its customers with respect to electronic or computer-based system or network.

Litigation

In the course of its business, the Corporation may become involved in, named as a party to, or be the subject of various legal proceedings and other claims relating to the conduct of the business. These may include claims, suits, government investigations and other proceedings, the outcome of which cannot be predicted with certainty and may be determined adversely to the Corporation. As a result, such matters could have a material adverse effect on the reputation, results of operations, liquidity or financial position of the Corporation. Moreover, the cost of defending against lawsuits and diversion of management's attention could be significant.

Intellectual property infringement

H_2O Innovation protects its intellectual property related to its investments in research and development by relying on trade secret laws and confidentiality agreements with third parties who have access to information about its research and development activities. The Corporation also relies on a combination of laws effective in Canada, the United States or foreign countries with respect to trademarks, patents, trade secrets and other intellectual properties. Despite its efforts, the Corporation may not be able to determine the extent of unauthorized use and infringement of its intellectual property rights related to its trademarks, patents and other intellectual property. In any case, such efforts are difficult, expensive, and time-consuming. Failure to protect the Corporation's existing and future intellectual property rights could seriously harm its business and may result in the loss of its ability to exclude others from using and profiting from the Corporation's technology.

Dependence on third parties

For the manufacturing of water and wastewater treatment systems and specialty products or for the performance of the operation and maintenance services, the Corporation relies on different suppliers and subcontractors. If a supplier or subcontractor fails for any reason to provide raw materials, parts, materials, equipment or services (the "supplies") as required, or provides supplies that are not of an acceptable quality, the Corporation may be required to source those supplies on a delayed basis or at a higher price than anticipated, which could impact contract profitability. In addition, faulty equipment, parts or materials could impact any water and wastewater treatment project, resulting in claims against the Corporation for failure to meet required project specifications. In addition, in instances where the Corporation relies on a single contracted supplier or subcontractor or a small number of suppliers or subcontractors, there can be no assurance that the marketplace can provide these products or services on a timely basis, or at the costs the Corporation had anticipated.

Credit risk

Credit risk relates to the risk that a party to a contract will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from account receivables, the Corporation reviews credit limits, monitors aging of accounts receivable, obtains credit insurance when available and establishes an allowance for doubtful accounts based on forward-looking expected credit loss.

Market liquidity

Trading on the Corporation's common shares may be unstable, which could result in a lack of liquidity for the common shares. The market price for the common shares of the Corporation could consequently be subject to wide fluctuations. Factors such as the announcement of significant contracts, technological innovations, new commercial products, patents, a change in regulations, quarterly financial results, future sales of common shares by the Corporation or current shareholders, and many other factors could have considerable repercussions on the price of the Corporation's common shares. Broad market fluctuations, as well as economic conditions generally may adversely affect the market price of the Corporation's common shares.

Capital investment

The business of the Corporation depends in part upon capital investment of its customers, mainly in connection with the Projects and Aftermarket business pillar. In many cases, such capital expenditures are substantial compared to their operating budget. The technologies of the Corporation may be an alternative solution to more customary methods for a water treatment problem, leading to a need to educate the customer about the solutions of the Corporation. As a result, a significant proportion of the Corporation's business is made up of large orders compared to its total revenues and subject to a sale cycle which may exceed one year as well as to postponement and cancellation of projects.

Development of new products

Development of new technologies and products of a specialized nature by the Corporation entails inherent risks, namely that either the technology or product does not perform as desired or unacceptable reliability issues making such new technology or product unmerchantable; or the risk that required components procured from third party suppliers do not perform in an acceptable manner, thereby having an adverse impact on marketability of such new technologies and products and on the Corporation's product liability.

Additional financing and dilution

The Corporation does not exclude raising additional funds by equity financing to fund its activities or implement its strategic plan. In addition, as at September 24, 2019, 642,710 broker warrants to purchase common shares ("broker warrants"), and 2,554,334 stock options are currently issued and outstanding. The exercise of broker warrants and stock options, as well as any new equity financings, represent dilution factors for present and future shareholders.

Interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation as a result of the floating-rate loans, debts receivable and loans payable. The Corporation manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments. Guaranteed deposit certificates and unsecured loans bear interest at fixed rates and the Corporation is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The bank loans bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Insurance coverage risk

The Corporation maintains a wide insurance portfolio relating to its operations, including, among other coverage, property, general and product liability, professional liability, pollution liability, workers' compensation as well as directors' and officers' liability policies. There is a risk that the Corporation's current insurance coverage will not be sufficient to cover all losses, that future insurance coverage will not contain additional exclusions or limitations, that the Corporation will not be able to continue to obtain insurance coverage, or that insurance coverage will not be available at an economically reasonable cost.

The Corporation may be subject to a variety of potential product liabilities claims and other claims related with its operations, including liabilities and expenses associated with product defects. The Corporation maintains product liability and other insurance coverage that management believes as generally in accordance with the market practice in its industry, but there can be no assurance that the Corporation will always be adequately insured against all such potential liabilities. In the event that the Corporation does not have adequate or any insurance, product liability claims, litigation or other losses could have a material adverse effect on results of operations and financial condition.

Technological changes

The water industry is characterized by evolving technologies, competition-imposed standards and regulatory requirements which have an impact on the demand and force the Corporation to improve its technologies, products and services. The Corporation's inability to enhance existing technologies, products and solutions and develop and introduce new innovative water treatment solutions in a timely manner in response to changing market conditions and customer demands, could be materially and adversely affected.

Reputation and regulatory risk

Given the nature of its international operations, the Corporation is required to comply with various local, national and international rules, laws, regulations and other legal requirements enforced by governments or other regulatory authorities. In addition, misconduct, fraud, non-compliance with such applicable rules, laws and regulations, or other improper activities by one of the Corporation's employees, agents or partners could have a significant negative impact on the Corporation's business and reputation. The Corporation develops and maintains client relationships in the normal course of business in accordance with high ethical standards as set out in its policies. The risk of non-performance of a contract under the terms agreed including the possibility of a default or a significant incident could adversely impact its reputation and influence its future capacity to win projects.

The consequence of reputational risk is a negative impact on the Corporation's public image, which may cause the cancellation of contracts and influence the Corporation's ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Corporation's contracts, alleged or proven non-compliance with laws or regulations by the Corporation's employees, agents, subcontractors, suppliers and/or partners.

Transfer pricing

The Corporation conducts business operations in multiple jurisdictions and through various legal entities in Canada, the United States and Spain. The tax laws of these jurisdictions have detailed transfer pricing regulations which require that all transactions with non-resident related parties be priced using arm's-length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where the Corporation carries on business could challenge the Corporation's arm's-length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Corporation's transfer pricing policies, its income tax expense could be adversely affected, and it could also be subject to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on the Corporation's future earnings and future cash flows.

6. DIVIDENDS

The Corporation has not declared any dividend on its common shares since its incorporation and intends to continue reinvesting its future benefits to support its growth.

7. DESCRIPTION OF THE SHARE CAPITAL

The authorized share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

As of September 24, 2019, 55,889,989 common shares are issued and outstanding.

The following is a brief summary of the attributes of the common shares and the preferred shares. This summary is subject to the more detailed provisions set out in the Articles of the Corporation.

7.1 General description

7.1.1 <u>Common shares</u>

The holders of common shares have the right to vote at all meetings of shareholders, with the exception of those meetings at which only the holders of other classes of shares have voting rights. The holders of common shares are entitled to receive and to be paid in money, in shares or in property of the Corporation, out of the monies of the Corporation applicable to the declaration and the payment of dividends, any amount of declared dividend, when and as declared by the Board of Directors of the Corporation. The holders of common shares are entitled to receive the remaining assets of the Corporation upon its liquidation, dissolution, winding-up or any other distribution of its assets.

7.1.2 <u>Preferred shares</u>

Preferred shares may be issued at any time, in one or several series, ranking between themselves, as shares of this specific category upon payment of dividends and assets distribution in the case of Corporation winding-up, liquidation and partial or complete asset distribution among the shareholders. Subject to the provisions of the *Canada Business Corporation Act*, preferred shares do not entitle their holder to vote, to be convened to or to attend shareholders' meetings. The holders of preferred shares of a specific series are entitled to receive, with respect to each fiscal year or any other period indicated on the articles of amendment related to said series, preferential dividends. The cumulative or non-cumulative characteristic, rate, amount or calculation method and payment terms of the said preferential dividends will be determined by the applicable articles of amendment. In the event of the winding-up of the Corporation, or the distribution of its assets in the liquidation process, in whole or in part among shareholders, the holders of preferred shares of any series receive, in cash or in nature, an amount equivalent to the counterpart payable to said issued and outstanding shares, in priority before any distribution to the holders of common shares.

8. MARKET FOR SECURITIES

8.1 Trading price and volume

The common shares of the Corporation are listed on the TSX Venture Exchange Inc. ("TSX-V") under the symbol "HEO". The following table sets out trading information for each month during the fiscal year ended June 30, 2019 for the Corporation's publicly traded common shares listed on the TSX-V, as well as corresponding monthly volume:

Month	Closing High	Closing Low	Volume
July 2018	$1.33	$1.15	269,392
August 2018	$1.26	$1.02	198,652
September 2018	$1.20	$1.10	449,793
October 2018	$1.12	$0.86	767,017
November 2018	$0.97	$0.79	495,794
December 2018	$0.97	$0.84	351,972
January 2019	$0.94	$0.86	406,704
February 2019	$0.89	$0.80	406,542
March 2019	$0.89	$0.80	120,363
April 2019	$0.96	$0.83	323,503
May 2019	$1.15	$0.93	265,052
June 2019	$1.28	$0.97	641,184

The common shares of the Corporation are also traded on the NYSE Euronext Alternext Exchange in Europe under the symbol "ALHEO" and on the OTCQX marketplace in the USA under the symbol "HEOFF".

8.2 Prior sales

On November 30, 2018, the Corporation entered into an Underwriting Agreement (as defined in *Section 13 – Material Contracts* of this Annual Information Form) under which it agreed to issue to Haywood Securities Inc., Beacon Securities Limited and Canaccord Genuity Corp. (the "Underwriters") non-transferrable broker warrants in consideration of their services with respect to the 2018 Private Placement. Therefore, on November 30, 2018, the Corporation issued an aggregate number of 642,710 broker warrants to the Underwriters. Each such broker warrant entitles its holder to purchase one common share of the Corporation at a price of $0.83 until November 30, 2020.

9. DIRECTORS AND EXECUTIVE OFFICERS

9.1 Directors

Below are the names and city of residence of the current directors of the Corporation, the positions and offices held with the Corporation, their principal occupation, the starting date of their mandate as director and the number of voting shares of the Corporation held directly or over which a director had control on as of September 24, 2019.

Name and Place of Residence	Principal Occupation	Position and Office held with the Corporation	Director Since	Number of Shares held as of September 24, 2019
Robert Comeau(1)(2)(3) Dollard-des-Ormeaux, Quebec Canada	Corporate Director (formerly Chief Financial Officer for Lumenpulse Inc.)	Director	December 6, 2017	157,201
Pierre Côté(3)(4) Ancaster, Ontario Canada	President, Côté Membrane Separation Ltd. (consulting firm)	Director	November 12, 2013	214,342

Name and Place of Residence	Principal Occupation	Position and Office held with the Corporation	Director Since	Number of Shares held as of September 24, 2019
Stephen A. Davis(1) Longmeadow, MA United States	Managing Partner Ventry Industries, LLC (investment holding company)	Director	June 28, 2017	26,598
Frédéric Dugré(3)(4) Quebec City, Quebec Canada	President and Chief Executive Officer, H_2O Innovation Inc.	President and Chief Executive Officer and Director	January 12, 1999	856,630
Lisa Henthorne(2) Tampa, FL United States	Chief Technology Officer, Water Standard (water desalination company)	Chairman of the Board of Directors	July 12, 2010	59,000
Richard A. Hoel(1)(3) Naples, FL United States	Private investor (former lawyer at Winthrop & Weinstine P.A.)	Vice-Chairman of the Board of Directors	July 10, 2008	2,654,013
René Vachon(1)(2) Sherbrooke, Quebec Canada	Corporate Director (formerly Vice President – Corporate Development and Chief Financial Officer for Miranda Technologies)	Director	June 13, 2019	None

(1) Member of the Audit Committee
(2) Member of the Corporate Governance, Remuneration and Risks Committee
(3) Member of the Growth Committee
(4) Member of the Projects, Operation and Innovation Committee

Directors are elected on an annual basis by the shareholders. Each director appointed by the Board of Directors to fill a vacancy holds office until the next annual meeting of the shareholders. Each director holds office until its successor has been elected, or unless the director resigns or if his or her position becomes vacant by reason of death, dismissal or any other reason.

For the past five (5) years, all the directors of the Corporation held the principal occupation indicated beside their name, with the following exception:

- Robert Comeau is currently working as a consultant for different clients since 2015. He has been the Chief Financial Officer of Lumenpulse Inc. from 2012 to 2015. Prior to joining Lumenpulse Inc., Mr. Comeau served as Chief Financial Officer of Aveos Fleet Performance Inc. (''Aveos'') for almost three (3) years.

9.2 Executive officers

Below are the names and city of residence of the executive officers of the Corporation, their principal occupation, the starting date of their function as executive officer and the number of voting shares of the Corporation held directly or over which they had control on September 24, 2019:

Name and Place of Residence	Position within the Corporation	With the Corporation Since	Number of Shares as of September 24, 2019
Frédéric Dugré Quebec City, Quebec, Canada	President and Chief Executive Officer	January 12, 1999	856,630
Marc Blanchet Quebec City, Quebec, Canada	Chief Financial Officer	February 27, 2007	379,669
Guillaume Clairet Quebec City, Quebec, Canada	Chief Operating Officer	November 29, 2004	379,947

For the past five (5) years, all of the executive officers of the Corporation held the principal occupation indicated beside their name, with the following exceptions:

- Marc Blanchet was appointed Chief Financial Officer and Secretary of the Corporation on September 21, 2015, after having served as Vice President, Corporate and Legal Affairs and Corporate Secretary since July 1, 2011. Marc Blanchet joined H_2O Innovation on February 27, 2007 as Director of Corporate and Legal Affairs.

- Guillaume Clairet was appointed Chief Operating Officer of H_2O Innovation on September 21, 2015 and previously served as Executive Vice President from July 1, 2012. Since he joined H_2O Innovation in November 2004, and before being appointed as Executive Vice President in July 2012, Mr. Clairet served in sequence as National Sales Manager, Director of Business Development and Vice President of Strategic Business Development.

As a group, the directors and executive officers of the Corporation held, as of September 24, 2019, 4,727,400 common shares of the Corporation, representing 8.46% of the issued and outstanding common shares of the Corporation.

9.3 Cease trade orders, bankruptcies, penalties or sanctions

No director or executive officer of the Corporation, is or has been, during the ten (10) years preceding the date of this Annual Information Form, a director, chief executive officer or chief financial officer of a company that: i) was subject to a cease trade order or order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation for a period of more than thirty (30) consecutive days that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, ii) was the subject to a cease trade order or order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation for a period of more than thirty (30) consecutive days issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in such capacity, iii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets while that person was a director, chief executive officer or chief financial officer or within a year of that person ceasing to act in that capacity, or iv) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except the following:

- Robert Comeau served as Vice President and Chief Financial Officer of Aveos Fleet Performance Inc. (“Aveos”) from January 26, 2009 until March 31, 2011. On March 19, 2012, Aveos filed a voluntary petition for relief under the Companies’ Creditors Arrangement Act (Canada) (the “CCAA”). The Québec Superior Court issued a stay of proceedings until April 5, 2012 and subsequently until November 22, 2013. On March 22, 2012, the Court issued an order appointing a restructuring officer with the requisite authority to carry on and supervise the affairs of Aveos. On November 18, 2013, Aveos presented a motion for the termination of the CCAA proceedings, and on November 22, 2013, following a Motion of the Issuance of an order to appoint a Receiver pursuant to Section 243 of the Bankruptcy and Insolvency Act (Canada) (the “BIA”) by certain creditors of Aveos, the Québec Superior Court issued a termination and discharge order with respect to the CCAA proceedings and issued an order appointing a receiver under the BIA. On November 25, 2013, the Québec Superior Court issued a notice of bankruptcy and called a first meeting of creditors pursuant to subsection 102(1) of the BIA.

Moreover, no director or executive officer of the Corporation has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority nor any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

10. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Corporation is not party to any proceedings which would have a material adverse effect, individually or as a whole, on the business, financial situation or operating results of H_2O Innovation or that involve a claim in an amount, exclusive of costs and interest, that exceeds 10% of the current assets of the Corporation.

During the fiscal year ended June 30, 2019, the Corporation has not been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or that would likely be considered important to a reasonable investor in making an investment decision. The Corporation has not entered into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority.

11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Over the past three (3) fiscal years, no director, executive officer of the Corporation or any person that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the issued and outstanding voting securities of the Corporation, or any of their associates or affiliates, is or has been part of a transaction that has materially affected the Corporation, except the following:

Fiscal year ended on June 30, 2019:

- On November 30, 2018, certain insiders of H_2O Innovation (Robert Comeau, Pierre Côté, Richard Hoel, Caisse de dépôt et de placement du Québec and Investissement Québec) participated in the 2018 Private Placement for an aggregate of 3,451,260 common shares of the Corporation.

Fiscal year ended on June 30, 2017:

- On July 26, 2016, certain insiders of H_2O Innovation (Investissement Québec, Caisse de dépôt et de placement du Québec, Élaine Phénix, Pierre Côté, Richard Hoel, Laurence Gamst and Guillaume Clairet) participated in the 2016 Private Placements for an aggregate of 7,246,998 common shares of the Corporation.

- On July 26, 2016, Frédéric Dugré, director, President and Chief Executive Officer, Marc Blanchet, Chief Financial Officer, and Guillaume Clairet, Chief Operating Officer, participated in the 2016 Private Placements for an aggregate amount of $1.25 M. The Corporation extended to Messrs. Dugré, Blanchet and Clairet, individual loans in an aggregate amount of $1.25 M in order for them to acquire common shares of H_2O Innovation, which loans were subsequently approved by the disinterested shareholder of the Corporation, bear interest at a rate of 2.5%, are secured by a pledge of the acquired common shares and will be reimbursed upon predefined repayment conditions. See Section 2.5 of the Management Proxy Circular of the Corporation dated September 25, 2016 for additional information.

12. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of the Corporation is AST Trust Company (Canada), which holds the register of transaction of the common shares of the Corporation in its offices located in Montreal, Province of Quebec.

13. MATERIAL CONTRACTS

Except the following material contracts, all contracts entered into and closed by the Corporation during the current and the last fiscal year are considered as entered into during the normal course of business and are not considered as "material contracts" for the purpose of *Regulation 51-102 respecting Continuous Disclosure Obligations*:

- Underwriting Agreement entered into between the Corporation and the Underwriters on November 30, 2018 (the "Underwriting Agreement") in connection with the 2018 Private Placement. The Underwriting Agreement was filed on SEDAR on January 9, 2019.

- Share Purchase Agreement entered into between H_2O Innovation USA Holding, Inc., Hays Utility Limited Partnership, Ltd and Donald J. Hays, dated November 14, 2018, concerning the acquisition by H_2O Innovation USA Holding, Inc. of all of the issued and outstanding shares of Hays Utility South Corporation. The Share Purchase Agreement was filed on SEDAR on January 9, 2019.

14. INTERESTS OF EXPERTS

During the fiscal year ended June 30, 2019, the auditor of the Corporation was Ernst & Young LLP, Chartered Professional Accountants at their Quebec City office. The auditor has confirmed its independence within the meaning of the rules of the *Code de déontologie de l'Ordre des comptables professionnels agréés du Québec*.

15. AUDIT COMMITTEE

15.1 General

The Audit Committee of the Board of Directors is currently comprised of four (4) independent directors and is responsible for reporting on certain aspects of the governance of the Corporation as delegated by the Board of Directors.

15.2 Mandate of the Audit Committee

The Mandate of the Audit Committee is attached as Schedule “A” to this Annual Information Form.

15.3 Composition

As of September 24, 2019, the members of the Audit Committee are:

Mr. Robert Comeau
Mr. René Vachon
Mr. Richard A. Hoel
Mr. Stephen A. Davis

Each of these members is independent and financially literate.

Robert Comeau is a Chartered Professional Accountant with over thirty (30) years of experience and holds a degree in Finance from Les Hautes Etudes Commerciales (HEC) at Université de Montreal. Mr. Comeau is reputed for his solid background in financial planning and reporting, treasury and financing, mergers and acquisitions, restructuring and information systems. During his career, Mr. Comeau has been Chief Financial Officer of both public and private companies. Among them were Lumenpulse Inc., Aveos and Emergis Inc. He also worked at Nortel Networks, where he was Vice President, Finance and Operations for various divisions, and was notably Chief Financial Officer for an international joint venture with Matra. In addition, Mr. Comeau served as Chief Executive Officer of Media5 Corporation, a company that develops Voice Over IP software and hardware.

René Vachon, CPA, CA, held the positions of Vice President – Corporate Development and Chief Financial Officer at Miranda Technologies for close to ten (10) years, from 2003 to 2012. Previously, he served as Vice President – Strategy and Corporate Development and Chief Financial Officer at Autostock Inc. and Belron Canada from 1995 to 2002. During his career, Mr. Vachon also held various positions including those related to strategic planning, mergers and acquisitions, finance, IT and human resources. At the present time, Mr. Vachon sits on the board of directors of private companies, for which he is also the chairman of the audit committee.

Richard A. Hoel holds a J.D. from Harvard Law School and a B.A. in Economics from Hamline University. He was a founding partner of Winthrop & Weinstein, a Minneapolis law firm of approximately 140 lawyers. His law practice focused on representing corporate and entrepreneurial customers particularly in the area of buying, restructuring and selling companies. In addition to his law practice, he has been an owner, director and investor in numerous companies in various industries for over twenty (20) years. As part of this process, he has been personally and professionally involved in the business, tax, securities and regulatory issues associated with acquisitions, divestitures and restructurings. He has also been the Vice Chairman and long-time Trustee of Hamline University.

Stephen A. Davis was President and Chief Operating Officer of American Saw & Manufacturing Company for twenty-two (22) years. Since 2003, he serves at Ventry Industries LLC, an investment firm in both public and private assets, based in Massachusetts. He currently holds the position of Managing Partner. Stephen also sits on the Board of Directors of Western Massachusetts Economic Development, serves as a director of the Irene E. & George A. Davis Foundation as well as a director of the EcoTechnology Center, and is a trustee emeritus of the Community Foundation of Western Massachusetts.

15.4 Fees of the Auditor

On December 6, 2017, the Corporation changed its external independent auditor for Ernst & Young LLP, which appointment has been duly approved by the shareholders of the Corporation. Therefore, Ernst & Young LLP replaced Deloitte LLP, as auditor of the Corporation, from that date. During the past two (2) years, the Corporation paid the following fees to its auditor for services rendered:

Fees	**Fiscal year ended June 30, 2019**	Fiscal year ended June 30, 2018
1. Audit fees[(1)]	**$390,900**	$308,000[(5)]
2. Audit-related fees[(2)]	**---**	$18,000[(6)]
3. Tax fees[(3)]	**---**	$91,715[(7)]
4. All other fees[(4)]	**---**	---
Total fees	**$390,900**	$417,715

(1) Audit fees include all fees incurred in respect of audit services, being the professional services rendered by the Corporation's auditor for the audit of the Corporation's annual financial statements and those of the Corporation's subsidiaries and the review of the Corporation's quarterly financial statements as well as services normally provided by the Corporation's auditor in connection with statutory and regulatory filings and engagements.

(2) Audit-related fees include the aggregate fees billed for assurance and related services by the Corporation's auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under "Audit fees".

(3) Tax fees include the aggregate fees billed for professional services rendered by the Corporation's auditor for tax compliance, tax advice, and tax planning.

(4) All other fees include the aggregate fees billed for products and services rendered by the Corporation's auditor other than the services reported under clauses (1), (2) and (3) above.

(5) An amount of $80,000 relates to audit fees billed by Deloitte, LLP, the former auditor of the Corporation.

(6) An amount of $8,000 relates to audit-related fees billed by Deloitte LLP, the former auditor of the Corporation.

(7) An amount of $88,365 relates to tax fees billed by Deloitte LLP, the former auditor of the Corporation.

15.5 Pre-approval policies and procedures

The mandate of the Audit Committee set out in Schedule A provides that the Audit Committee shall approve the hiring of the auditor. In accordance with the mandate of the Audit Committee, the authority to grant preapprovals on any audit and non-audit service engagements may be delegated to one or more of its designated members, being understood that such member(s) shall ensure that the qualifications and the independence of the auditor are sustained and not affected. Such preapprovals or decisions shall be ratified by the Audit Committee at the next meeting.

15.6 Audit Committee oversight

Since the beginning of the Corporation's most recently completed fiscal year, the Audit Committee has not made any recommendations to nominate or compensate an auditor that were not adopted by the Board of Directors of the Corporation.

16. ADDITIONAL INFORMATION

Additional information regarding the Corporation is available on SEDAR at www.sedar.com. Additional information, including information with respect to directors' and officers' remuneration and indebtedness, principal holders of securities of the Corporation and securities authorized under equity compensation plans, is contained in the Corporation's Management Proxy Circular which will be published over the next weeks, prior to the Corporation's Annual General Meeting of Shareholders. Additional information is also provided in the Corporation's consolidated financial statements and management's discussion and analysis for the fiscal year ended June 30, 2019, or by request to the Investor Relations Department, H_2O Innovation Inc., 330 rue St-Vallier Est, Suite 340, Quebec City, Quebec, G1K 9C5, Canada.

Schedule “A”: MANDATE OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of a minimum of three (3) non-related, independent directors and the quorum shall consist of a majority of the members duly appointed by the Board of Directors.

The Audit Committee is responsible for reporting on certain aspects of the stewardship of the Corporation as delegated by the Board of Directors. All the members of the Audit committee should possess sufficient knowledge to be able to read and understand the financial statements. At least one of the members of the committee should have « related accounting or finance expertise » for having occupied functions in the accounting or finance sectors, the necessary accounting professional certification or any other comparable experience allowing the acquisition of the professional qualifications and experience, including the occupation of the position of Chief Executive Officer, Chief Financial Officer or officer with financial responsibilities, and be knowledgeable to analyze and understand a complete set of financial statements.

The members of the committee are re-appointed each year by the Board of Directors at the first meeting of the Board of Directors following the Annual Meeting of the shareholders or at another meeting, if a vacancy occurs. The Board of Directors also appoints a chairman among the members of the Audit Committee.

The Board of Directors retains plenary authority and power to do all lawful acts and things that are not by law or otherwise directed or required to be exercised or done by the shareholders of the Corporation or in some other manner.

All directors shall act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Definition of Responsibilities

In carrying out its responsibilities, the Audit Committee of the Board of Directors shall have the following specific responsibilities:

1. Oversee the qualifications and independence of the auditor of the Corporation and approve the terms and conditions of its audit and non-audit service engagements as required by and in accordance with applicable laws and regulations of the stock exchange and of securities regulatory authorities on which the Corporation lists its securities;
2. Obtain an annual report from the auditor listing all the services and including all related expenses provided to the Corporation, other than those related to the internal audit;
3. Approve any service non-related to the audit and required by the Corporation;
4. Oversee the work of the auditor of the Corporation for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Corporation;
5. Participate to the resolution of disagreements between Corporation’s management and the auditor regarding financial reporting;
6. Recommend to the Board of Directors the compensation of the auditor;
7. Review the competency and adequacy of the accounting personnel to discharge the Corporation responsibility with the necessary regulatory bodies in consultation with the President and Chief Executive Officer, the Chief Financial Officer and the auditor;
8. Assess the performance of the auditor and ensure the filling of any vacancy in the office of the auditor between annual shareholders' meetings;
9. Recommend the annual appointment or, if appropriate, the removal, of the auditor of the Corporation to the Board of Directors of the Corporation for approval;
10. Prepare, in consultation with Corporation’s management and the auditor, an annual audit plan to determine the work to be done by the auditor and the monitoring of certain aspects of the internal control of the Corporation;
11. Oversee the reliability and integrity of accounting principles and practices followed by management, financial statements and other financial reporting, and disclosure practices followed by management;
12. Meet privately with the auditor on an annual basis or at any time when deemed necessary to review the results of their finding in their internal audit;
13. Review and recommend to the Board of Directors for approval the annual audited consolidated financial statements of the Corporation, the quarterly un-audited consolidated financial statements of the Corporation, MD&A and annual and interim profit or loss press releases in order to confirm their compliance with applicable laws before their disclosure by the Corporation;
14. Review and recommend to the Board of Directors for approval, management's discussion and analyses of financial condition and results of operations, prospectuses, annual information forms, annual reports or other applicable forms, as the case may be, including proxy circulars and proxy statements sent to shareholders of the Corporation, and, any other material disclosure documents as determined by the Board of Directors from time to time;
15. Review and recommend to the Board of Directors for approval, borrowings, credit facilities (and their renewal) and other banking arrangements of the Corporation.
16. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
17. Investigate any claims originating from third parties and received directly by the Committee and any claims of third parties received by the Corporation’s management and disclosed to the Committee on a promptly basis, the income tax departments, etc. and establish their real or potential impact on the results of the Corporation and ensure proper annotations are made to the financial statements;

18. Review and approve the Corporation's hiring policies regarding partners, employees and formers partners and employees of the present and former auditor of the Corporation;

19. Assess, review, oversee or approve any other matter as delegated by the Board of Directors, and;

20. Report to the Board of Directors on each and all meetings on a timely and regular basis.

General

The authority to grant preapprovals on any audit and non-audit service engagements may be delegated by the Audit Committee to one or more of its designated members, being understood that such member(s) shall ensure that the qualifications and the independence of the auditor are sustained and not affected. Such preapprovals or decisions shall be ratified by the Audit Committee at the next meeting.

The Committee acknowledges and agrees that the Corporation received from its auditor and/or other professionals, various educational, informational and other tools in the form of newsletters, webcast, podcast, websites, database subscriptions, checklist, research reports, surveys or other similar or related tools and services ("Subscriptions"). Considering that the Corporation's management may use, consult, consider or otherwise refer to such Subscriptions, the Committee acknowledges and approves the use of such Subscription by the Corporation's management.

In discharging its duties and responsibilities, the Audit Committee is expected to be fully diligent in its oversight to avoid fraud or abuse. Accordingly, the Board of Directors may conduct such examinations, investigations or inquiries, and engage such special legal, accounting or other advisors, at the expense of the Corporation, at such time or times and on such terms and conditions as the Board of Directors considers appropriate.

Revised by the Board of Directors on February 13, 2018.