

HALOSOURCE

NOTICE OF ANNUAL GENERAL MEETING (ANNUAL SHAREHOLDERS MEETING)

To be Held on 19 May 2016

Dear HaloSource, Inc. Shareholder:

Notice is hereby given that the **HaloSource, Inc.** (the “**Company**”) Annual General Meeting (Annual Shareholders Meeting) will be held on 19 May 2016 at 9:30 a.m., *Pacific daylight time*, at the offices of the Company located at 1725 220th Street SE, Suite 103, Bothell, Washington 98021, to consider and act upon the following ordinary matters:

1. Report and accounts 2015

To receive the directors’ and auditor’s reports and the accounts for the year ended 31 December 2015.

2. Directors’ election

To elect all current directors for the ensuing year and until their successors are elected and qualified:

Jerry Wetherbee (Independent, Non-Executive Chairman), who previously served as HaloSource’s President and Chief Executive Officer from 1999 to 2004;

Martin Coles (President and Chief Executive Officer), who has been on the HaloSource Board since 2011 and was previously the President of Starbucks Coffee International;

James Thompson (Chief Financial Officer and Senior Vice President, Business Development), who joined the Company in 2004 having previously been a Principal at Alexander Hutton Venture Partners, LP;

Kent Johnson (Non-Executive Director), who has served on the Board since 2002 and was the founder of Alexander Hutton Ventures Partners, LP;

Alan Matthews (Non-Executive Director), who has served on the Board since 2008 and was previously managing director of corporate finance at Origo Partners Plc and is currently Chief Financial Officer of Anthesis Consulting Group;

Michael Ducey (Independent, Non-Executive Director), who has served on the Board since 2010 and is a former Chief Executive of both Compass Minerals Limited, a NYSE listed salt producer, and Borden Chemical, a diversified chemical company, and has significant experience in listed companies currently serving as a director of Apollo Global Management LLC, Verso Paper Holding, Inc. and Ciner Resources Corp; all NYSE listed companies; and

Massoud Entekhabi (Independent, Non-Executive Director), who has served on the Board since 2010 and is a member of Zenith Equity Partners, a private investment firm in Southern California, and a Director at Prime Focus World N.V., a world leader in offering visual effects and 3D Conversion services to the major film studios globally, who has significant experience in listed technology companies, having been a director of GMarket, Ixia and Fastclick; all of which were NASDAQ listed companies.

3. Re-appointment of auditor

To consider and, if thought fit, to pass the following resolution as an ordinary resolution: THAT BDO USA, LLP be hereby re-appointed as auditor of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company.

4. Remuneration of auditor

To consider and, if thought fit, to pass the following resolution as an ordinary resolution: THAT the directors be hereby authorized to determine the auditor's remuneration.

5. Approval of the Disposition of the Company's Recreational Water business

To approve the conditional agreement between the Company and Natural Chemistry L.P pursuant to which the Company has agreed to sell all of the assets and liabilities of its Recreational Water business on a cash free debt free basis.

6. Other Matters

To consider and act upon such other business as may properly come before the meeting or the postponement or adjournment of the meeting.

The Company is a United States corporation incorporated in the state of Washington. Its ordinary shares were first admitted for trading on the London Stock Exchange's AIM market effective October 18, 2010 and current trade on that market under the symbols HALO.

The record date for determination of shareholders entitled to notice of, and to vote at, the meeting or any postponement or adjournment thereof is 5 May 2016.

All shareholders are cordially invited to attend the meeting in person. Shareholders who do not intend to attend the meeting are encouraged to act in accordance with instructions on the Annual Meeting Proxy Card included herewith to ensure the representation of their interests.



Martin Coles

*President and Chief Executive Officer
HaloSource, Inc., Bothell WA*

Date: 6 May 2016

HALOSOURCE

PROXY INFORMATION STATEMENT

For the Annual General Meeting
(Annual Shareholders Meeting)
To be Held on 19 May 2016

INFORMATION CONCERNING SOLICITATION, VOTING AND PROPOSED DISPOSITION OF THE COMPANY'S RECREATIONAL WATER BUSINESS

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional independent adviser authorized under the Financial Services and Markets Act 2000. If you have sold all of your shares, please pass this document and its enclosures to the stockbroker or other agent through whom the sale was effected, for transmission to the purchaser.

General

The enclosed Proxy is solicited on behalf of the Board of Directors of HaloSource, Inc. ("Company") for use at the Company's Annual General Meeting (Annual Shareholders Meeting) to be held on 19 May 2016 at 9:30 a.m., Pacific daylight time, or any postponement or adjournment thereof (the "Annual Meeting"), for the purposes set forth below and in the Notice of Annual Meeting. The Annual Meeting will be held at the offices of the Company located at 1725 220th Street SE, Suite 103, Bothell, Washington 98021.

The company's issued share capital at 5 May 2016 (the "Record Date") was 220,278,404 Ordinary Shares (Common Shares) ("Common Stock") carrying one vote each.

Pursuant to Washington Law and the terms of the Company Articles of Incorporation (the "Articles") and Bylaws (the "Bylaws") as in effect on the date of the Annual Meeting, shareholders holding Common Stock as of the Record Date are entitled to one vote for each share of Common Stock held on all matters on which such stock is entitled to vote at the Annual Meeting.

We are asking you to execute the enclosed Proxy Form or otherwise take action to appoint our representative as your proxy in connection with voting on the matters set forth in this information statement at the Annual Meeting. Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Corporate Secretary of the Company, at 1725 220th Street SE, Suite 103, Bothell, Washington 98021, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

To execute the proxy or otherwise authorize a vote on your behalf please follow the instructions on the Proxy Form. The representative will vote your shares in accordance with your directions as set forth on the Proxy Form.

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements relating to the Company. The Company considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Company to differ materially from those contained in any forward-looking statement. These statements are made by management in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

In addition to receiving the directors' and auditor's reports and the accounts for the year ended 31 December 2015, at the meeting, the Shareholders will be asked to vote in connection with the following matters:

ELECTION OF DIRECTORS

All seven current directors are up for reelection. In the event that any of the director nominees is unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote in their discretion for a substitute nominee designated by the Board, unless the Board chooses to reduce the number of directors serving on the Board. It is not expected that any nominee will be unavailable.

Director Nominees:

Jerry Lynn Wetherbee: (aged 70) Non-Executive Chairman

Mr. Wetherbee served as HaloSource's President and Chief Executive Officer from June 1999 to March 2004 when he became Chairman. Prior to joining the Company, he held the position of Chief Executive Officer of Spectrum Aeromed, Inc., a medical-equipment manufacturing firm, for four years to 1998. His career also includes 17 years in the healthcare industry as Executive Vice President and Chief Operating Officer of Sterling Healthcare Corporation in Bellevue, WA, President and Chief Executive Officer of Crest View Hospital in Casper, WY, and as Associate Administrator and Chief Operating Officer at Memorial Hospital of Natrona County in Casper, WY where he started in 1977. Mr. Wetherbee spent eight years in the United States Air Force as an engineer and pilot. He holds both a BS and MS in Mechanical Engineering from the University of North Dakota.

Martin Patrick Coles: (aged 60) President, Chief Executive Officer and Director

Mr. Coles joined HaloSource as a member of the Board in July 2011 and was appointed President and Chief Executive officer in October 2011. Prior to joining the Company, he held the positions of Chief Operating Officer and later, President of Starbucks Coffee International. His career also includes 38 years of serving in a variety of senior executive roles at companies including Procter & Gamble, PepsiCo, Nike and Reebok. He also served as a non-executive director at Levi Strauss. Mr. Coles began his career at Procter & Gamble UK in 1977 as a graduate entry Production Manager. Mr. Coles currently serves as Chairman of the University of Washington-Bothell Business School Advisory Board, and as a member and former Chairman of the UW Foster Business School Advisory Board. Mr. Coles is also a fellow of the Albers Business School of Seattle University. He is a graduate of the University of Wales at Swansea where he received a BSc in Biochemistry.

James Allan Thompson: (aged 45) Chief Financial Officer, Senior Vice President, Business Development and Director

Mr. Thompson joined HaloSource in August 2004 as Chief Financial Officer. Mr. Thompson was re-appointed Senior Vice President Business Development in October 2013, which position he previously served from January 2012 to July 2012. Mr. Thompson also served as General Manager - Americas from July 2012 to October 2013. Prior to joining HaloSource, Mr. Thompson was a principal with Alexander Hutton Venture Partners, LP, a regional venture capital firm investing in emerging growth companies, and formerly an associate with Alexander Hutton Capital, LLC where he raised capital for technology start-ups in the Pacific Northwest of the US; he was a securities analyst with Security Capital Group and began his career as a credit analyst for Continental Illinois National Bank. Mr. Thompson has a BBA from Gonzaga University and an MBA from the University of Washington's Foster School of Business.

Kent Lawrence Johnson: (aged 72) Non-Executive Director

Mr. Johnson has served on the Board since March 2002. Mr. Johnson is a managing director of Alexander Hutton Venture Partners, LP, a venture capital fund he co-founded in 1999 and which is a shareholder of the Company. He is also a managing director of Aebig & Johnson Business Resolutions, LLC. Mr. Johnson was a founding board member of F5 Networks Inc. (NASDAQ:FFIV) and Ostex International, Inc (NASDAQ:OSTX) and is currently a director of Vera Whole Health, Global Energy Partners, and DimensionalMechanics. In the mid-1990s he was chairman and founder of Alexander Hutton Capital, LLC, a NASD-registered broker/dealer. Mr. Johnson was Chief Executive Officer of two software companies and a forest products company from 1980 to 1994. He started his career as a management consultant and CPA with Arthur Andersen LP in 1971, having previously served as an officer in the US Army. Mr. Johnson has a BA in business administration from the University of Washington and an MBA from Seattle University, where he was formerly a member of the Board of Trustees and Audit Committee and currently is an adjunct professor. At Seattle University he is also an advisory board member of the Business School's Entrepreneurship Center and endowed the Lawrence K. Johnson Chair of Entrepreneurship in 2001 in his father's name.

Alan Roy Matthews: (aged 54) Non-Executive Director

Mr. Matthews has served on the Board since July 2008. He is currently Chief Financial Officer of Anthesis Consulting Group, a newly established global sustainable business practice consultancy. Previously he

served for 5 years as Managing Director of Corporate Finance at Origo Partners Plc, a London listed private equity investment business focused on Asia. Mr. Matthews has held board positions with a number of international companies operating in developing markets, responsible for financial functions, business development and corporate strategy. He brings over 20 years' experience in investment banking with roles in research, corporate finance and corporate broking at ANZ, Beeson Gregory (now Investec), HSBC and Seymour Pierce. He has been involved in a large number of fundraisings for companies in both private and public markets, across a broad range of industry sectors including technology, consumer and business services. After reading history at Cambridge University, he qualified as a Chartered Accountant with PricewaterhouseCoopers in its London office. He is a member of the UK's Securities & Investment Institute and an alumnus of the London Business School.

Michael Elliott Ducey: (aged 67) Non-Executive Director

Mr. Ducey has served on the Board since October 2010. He is the former Chief Executive Officer of Compass Minerals International, Inc., a NYSE listed salt producer where he was initially appointed as President in 2002. Mr. Ducey has 40 years of experience in the chemical industry, starting in 1972 with Borden Chemical where he had various roles in management, sales, marketing, planning & commercial development, including serving as President and Chief Executive Officer. He has considerable board experience: currently he is a director of Apollo Global Management, Inc., a NYSE listed alternative investment organization, Verso Paper Holding, Inc., a NYSE listed paper company and Ciner Resources Corp., a NYSE listed mining company. He was the non-executive chairman of TPC Group, Inc., a formerly NASDAQ listed hydrocarbons company, ex-director of Smurfit-Stone Container Corp., a formerly NYSE listed corrugated container producer and ex-director of UAP Holding, Inc., a formerly NYSE listed agricultural chemical company. Mr. Ducey has a BA in Economics from Otterbein College and an MBA from the University of Dayton.

Massoud Entekhabi: (aged 61) Non-Executive Director

Mr. Entekhabi has served on the Board since October 2010. He is currently a member of Zenith Equity Partners, a private investment firm in Southern California which he founded in 2003, and is also a Director at Prime Focus World NV, a Hollywood, California based world leader in offering visual effects, 3D Conversion and Animation services to the major film studios globally. Prior to this he was a General Partner and a Managing Director of TL Ventures, a venture capital firm with \$1.4 billion of assets under management, from 2000. Mr. Entekhabi has significant experience with listed technology companies, having been a director of GMarket, Ixia and Fastclick, which are or were all NASDAQ listed companies, as well as having been on the boards of a number of private technology companies. Mr. Entekhabi has over four decades of experience in accountancy having started his career with Coopers & Lybrand (later PricewaterhouseCoopers) in 1973 in London. He is a Fellow of the Institute of Chartered Accountants in England & Wales and a CPA.

Director Elections, Vote Required and Board Recommendation

In accordance with the Bylaws, the business affairs and property of the Company are managed by the directors. Directors need not be shareholders of this Corporation or residents of the State of Washington, but must have reached the age of majority.

Except as otherwise provided in the Bylaws, each director shall be elected by the vote of the majority of the votes cast. A majority of votes cast means that the number of shares cast "for" a director's election exceeds the number of votes cast "against" that director. The following shall not be votes cast: (a) a share whose ballot is marked as withheld; (b) a share otherwise present at the meeting but for which there is an abstention; and (c) a share otherwise present at the meeting as to which a shareholder gives no authority or direction. In a Contested Election (as defined below), the directors shall be elected by the vote of a plurality of the votes cast.

The following procedures apply in a non-contested election. A nominee who does not receive a majority vote shall not be elected. Except as otherwise provided in this paragraph, an incumbent director who is not elected because he or she does not receive a majority vote shall continue to serve as a holdover director until the earliest of (a) ninety (90) days after the date on which an inspector determines the voting results as to that director pursuant to Section 23B.07.290 of the Washington Business Corporation Act (the "Act"); (b) the date on which the Board of Directors appoints an individual to fill the office held by such director; or (c) the date of the director's resignation. Any vacancy resulting from the non-election of a director may be filled by the Board of Directors. If no director receives a majority vote in an uncontested election, then the incumbent directors (a) will nominate a slate of directors and hold a special meeting for the purpose of electing those nominees as soon as practicable, and (b) may in the interim fill one or more offices with the same director(s) who will continue in office until their successors are elected.

A "Contested Election" is one in which as of the last day for delivery of a notice under Bylaw requirements, a qualified shareholder has complied with the requirements with respect to one or more nominees and the Board of Directors

determines that there are more candidates for election than the number of directors to be elected. In making such determination the Board of Directors may include the number of directors that it intends to nominate and may exclude one or more nominees proposed by a noticing shareholder which it concludes does not create a bona fide election contest. Nothing herein is intended to limit the authority of the Board of Directors to change its determination as to the existence of a Contested Election at a later date, in which event it shall disclose the applicable voting regime in the notice of meeting or if such determination occurs after such notice has been sent issue a new notice which shall include disclosure of the applicable voting regime.

The directors shall be elected by the shareholders at each annual shareholders' meeting to hold office until the next annual meeting of the shareholders and until their respective successors are elected and qualified. If, for any reason, the directors shall not have been elected at any annual meeting, they may be elected at a special meeting of shareholders called for that purpose in the manner provided by these Bylaws.

The Board of the Company recommends a vote FOR each of the nominees listed above for election to the Board of Directors of the Company.

RE-APPOINTMENT OF AUDITOR

The Company is required to appoint an auditor to serve for each financial year of the Company. The current auditor of the Company is BDO USA, LLP, One Union Square, 600 University Street, Suite 2528, Seattle WA 98101, which was engaged in connection with and performed audit services for the financial years ended 31 December 2009 through 2015. BDO LLP, of 55 Baker Street, London W1U 7EU, served as Reporting Accountant in connection with our October 2010 AIM listing.

The shareholders are asked to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT BDO USA, LLP be hereby re-appointed as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

The Board of the Company recommends a vote FOR reappointment of BDO USA, LLP as auditors.

REMUNERATION OF AUDITOR

The shareholders are asked to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the directors be hereby authorized to determine the auditor's remuneration.

The Board of the Company recommends a vote FOR granting the directors authority to determine the auditor's remuneration.

APPROVAL OF THE DISPOSITION OF THE COMPANY'S RECREATIONAL WATER BUSINESS

Part I – Letter from the Chairman

Dear Shareholders

The Company announced on 6 May 2016 that it has entered into a conditional asset sale agreement (the “**ASA**”) to sell its Recreational Water business to Natural Chemistry L.P. (“**Natural Chemistry**”), a leading specialty chemicals manufacturer in the swimming pool industry, on a cash free and debt free basis for an initial cash consideration of up to \$7.5 million and further deferred cash consideration of up to \$0.5 million (the “**Disposal**”).

In view of the size of the Recreational Water business relative to the Company, the Disposal will result in a fundamental change of business of the Company under Rule 15 of the AIM Rules and, therefore, completion of the Disposal (“**Completion**”) is conditional upon the approval of HaloSource shareholders.

The Disposal is in line with the Company's previously announced strategy to focus exclusively on the growth of its Drinking Water business.

Highlights

- Up to \$7.5 million to be paid in cash within 91 days of Completion
- Deferred cash consideration of up to \$0.5 million, payable on or before 1 March 2017, subject to the Recreational Water business achieving certain sales targets for the 12 month period ending 31 December 2016
- Following the Disposal (if completed), the Company will focus exclusively on the growth of its Drinking Water business

The Disposal Consideration

Natural Chemistry will acquire all of the assets and liabilities of the Company's SeaKlear® branded Recreational Water business. Under the terms of the ASA, the Company will receive:

- on Completion, an initial cash payment of \$4.0 million;
- on the 91st day following Completion, a cash payment of \$3.5 million adjusted for uncollected receivables, non-saleable inventory and customary working capital adjustments; and
- on or before 1 March 2017, a cash payment of up to \$0.5 million subject to the Recreational Water business achieving revenues of not less than \$13,073,000 for the 12-month period ending 31 December 2016. In the event that Recreational Water business revenue for the 12-month period ending 31 December 2016 is less than \$9,684,000, no deferred consideration will be payable.

Rationale for the Disposal

As announced on 23 February 2016, the Company has chosen to accelerate plans to focus exclusively on the growth of its Drinking Water business, having already disposed of its Environmental Water business in 2016. As an important part of this strategy, the Company has made significant structural and organisational changes to its Drinking Water business, placing key resources and expenditure in its two major markets, India and China, whilst significantly reducing headcount and expenditure in the United States.

Disposal of non-core business assets of the Company with slower category growth rates, more limited opportunity for geographical expansion and stronger barriers to reaching operational scale will enable the exclusive focus on Drinking Water technologies.

For the years ended 31 December 2014 and 31 December 2015, the results of the Recreational Water business were as follows:

	Audited Year Ended 31 December 2015 (\$'000)	Audited Year Ended 31 December 2014 (\$'000)
Revenue	9,684	11,452
Gross Profit	5,104	6,199

As at 31 December 2015, the Recreational Water business had unaudited gross assets of approximately \$8,500,000 and unaudited net assets of approximately \$6,000,000, including goodwill of \$1,490,000.

The Board considers the Recreational Water business to be non-core to the Company's future strategy. The proposed Disposal of the Recreational Water business, along with the other initiatives executed by the Company to date in 2016, will significantly reduce operating expenses, strengthen the Company's balance sheet, and enable management to focus exclusively on the Drinking Water business and capitalise on this rapidly growing industry.

Should the proposed Disposal of the Recreational Water business not be approved by shareholders, the Company would need to explore additional sources of capital, such as equity financing, in order to continue as a going concern or consider strategic alternatives for the Company as a whole.

Use of Proceeds

The Company expects to use the net proceeds from the Disposal for general working capital purposes and to fund the growth of its Drinking Water business.

Following the Disposal, the Board estimates that total revenues for 2016 will be lower than current expectations and the net loss for 2016 will be greater than current expectations. The operating performance of the Drinking Water business remains in line with the Board's expectation as at the date of the Company's preliminary results statement issued on 8 March

Future Strategy

The Company believes its current product offering for gravity-fed, pressurised and reverse osmosis water purification devices, its possession of the highest regulatory certifications in the United States and China, along with a stable of strong strategic relationships and a pipeline of new products and performance, enables it to capitalise on the rapidly growing opportunity in Drinking Water.

The global residential water treatment market was valued at over \$11 billion in 2014 and is expected to see a global growth rate of over 9% over the next five to seven years. The residential water treatment market in China was valued at over \$2.5 billion in 2014 and the market is expected to grow at a double-digit rate over the next seven years. The key drivers in the Chinese residential water treatment market include rising customer awareness, growing health concerns, rising disposable incomes and the increase in China's middle class. The Indian residential water treatment market was valued at over \$600 million in 2014. Poor water quality, rising disposable incomes and improved customer awareness are the key drivers in the residential water treatment market in India (Source: 2015 Verify Markets Report).

The Board believes that the Company's existing Drinking Water operation remains valuable and provides shareholders with the most substantial opportunity for growth. In addition to its existing technologies, the Company's sole focus on Drinking Water will allow it to continue development of innovative new technologies, including advanced applications to remove highly toxic dissolved contaminants, such as lead, fluoride and arsenic, to levels well below current EPA and NSF standards. In 2015, the Company completed laboratory-scale product development on this new absorption technology platform and began pilot production scale-up work in conjunction with existing and new partners. The ability to remove these toxic dissolved contaminants will allow the Company to target additional and new customers in existing geographies with new applications as well as to pursue new markets such as North America and Europe opening up an entirely new avenue of opportunity for the Company's future growth.

Senior management in the Company's Drinking Water division in the Asia-Pacific region has been strengthened by the recent appointment of two executives with extensive water sector experience. The Company has recently appointed Tamal Chaudhuri as General Manager of India and Wu Jian Quiang as General Manager of China. The Board expects their appointments, together with the previously announced structural changes, will improve the Company's ability to expand existing partner relationships and accelerate business development efforts to add new partners in the region.

Mr. Chaudhuri has 29 years' experience in senior roles in the consumer durables industry and joins HaloSource from A.O. Smith India Water Products Private Ltd, a leading water heater and purifier company in India and part of A.O. Smith Corporation, one of the world's leading manufacturers of residential and commercial water heaters and boilers. Mr. Chaudhuri spent almost nine years at the group, most recently as Managing Director, where he was central to turning the business around and successfully implemented innovative marketing strategies to transform a nascent brand into the No. 3 position in India. Previously, Mr. Chaudhuri held a management role at Merloni Termosanitari India Limited Ltd, one of the largest manufacturers of residential water heaters globally. Prior to this, he worked in the sales department at LML Vespa & Shriam Honda Power Equipment Limited. Mr. Chaudhuri holds a Bachelor of Science degree in Statistics from Presidency College in Calcutta and completed the 'Executive Program in Leadership' at Stanford Graduate Business School, USA.

Mr. Wu joins HaloSource from BASF, a global leader in the chemicals business, where he spent 13 years at the company's largest joint venture in China, most recently as the regional business head for water solutions in Asia. Mr. Wu holds an MBA from a joint program of China's Tong Ji University and France's ENPC in addition to Bachelors degrees in Electrical Engineering and Science and Technology.

The Board of the Company believes that the disposition of the Recreational Water business is in the best interests of the Company and its shareholders as a whole and recommends a vote FOR approval of the Resolution as they intend to do in respect of their own beneficial holdings amounting, in aggregate, to 3,299,623 shares of common stock, representing approximately 1.50 percent of the issued and outstanding Shares of common stock of the Company.

Part II – Summary of the Principal Terms and Conditions of the Disposition Agreement

The Disposition Agreement was entered into on 5 May 2016 between the Company and Natural Chemistry and is the principal agreement in respect of the disposition of the Company's Recreational Water business. The following is a summary of the principal terms of that agreement and certain ancillary agreements.

1. Agreement to sell the Recreational Water business

The Company has entered into a conditional Disposition Agreement with Natural Chemistry L.P. pursuant to which the Company has agreed to sell all of the assets (including tangible and intangible assets) and certain liabilities of its Recreational Water business on a cash free debt free basis for cash consideration of up to \$8.0 million U.S.

The base cash consideration payable to the Company of \$7.5 million will be adjusted based upon net working capital in the Recreational Water business, to be calculated through a completion accounts process. The Company is also entitled to receive deferred cash consideration of up to \$0.5 million based upon the 2016 revenues of the Recreational Water business.

2. Condition

Completion of the Disposition Agreement is conditional upon the passing of the Resolution by the shareholders and will terminate if this condition is not satisfied.

3. Actions during the Period to Completion

In respect of the period commencing on the date of the Disposition Agreement and ending on Completion, the Company has agreed not to, without the prior written consent of the Purchaser, depart from the ordinary course of the day-to-day conduct of the Recreational Water business.

4. Post-Completion obligations

The Company has agreed that, for a period of five years following Completion, it will refrain from competing with the Recreational Water business and it has agreed to be subject to customary restrictive covenants in this regard.

5. Representations and Warranties

The Company has given certain representations and warranties in relation to the Recreational Water business, which are usual for this type of transaction. The Purchaser shall not be entitled to recover indemnities until the total amount exceeds \$75,000 and then only for damages in excess of \$75,000 (except for breaches of Fundamental Representations). The maximum cumulative amount that Purchaser Indemnities shall be entitled to for all claims are limited to 15% of the purchase price (except for breaches of Fundamental Representations).

6. Right to terminate

The Purchaser may terminate the Disposition Agreement if there are any breaches of representations and warranties or failure of the Company to comply with its covenants through Completion.

7. Dispute resolution

The Disposition Agreement is governed by the laws of the State of Delaware. Delaware courts shall have exclusive jurisdiction to settle any disputes arising out of or in connection with the Disposition Agreement.

8. Transitional Services Agreement

Pursuant to the Disposition Agreement, the parties have agreed to enter into a transitional services agreement. Under this agreement the Company will provide certain transitional services to the Purchaser for a period following Completion.

Other Matters

The shareholders are asked to consider and act upon such other business as may properly come before the meeting or the postponement or adjournment of the meeting.

General Recommendation of the Board of Directors

The Board considers that the resolutions contained in this Annual Meeting notice and to be proposed at the Annual Meeting are in the best interests of the Company and shareholders as a whole and recommend that you vote in favour of them. Directors who hold shares in the Company intend to vote in favour of these resolutions in respect of their own beneficial holdings.

NOTES AND INFORMATION

(1) The documents noted at (i) and (ii) below are available for inspection during normal business hours at the Company's current headquarters located at 1725 220th Street SE, Suite 103, Bothell, Washington 98021 on any business day and will be available at the place where the Annual Meeting is being held from 15 minutes prior to and during the meeting:

- i. Copies of the directors' service contracts (or, where appropriate, letters of appointment); and
- ii. Copies of the Company Articles of Incorporation and Bylaws as currently in effect.

(2) To be admitted to the meeting, shareholders are asked to bring identification and their admittance pass or notice of availability card, if any, that they have received through the post and be able to confirm their name and address as it appears on the register.

(3) Any shareholder attending the Annual Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website (www.halosource.com) in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(4) Only holders of Ordinary Shares (Common Stock) on the register at and as of 6.00 pm Pacific daylight time on the Record Date shall be entitled to attend and/or vote at the Annual Meeting. Such shareholders can vote in respect of the number of shares registered in their names at that time, but any subsequent changes to the register shall be disregarded in determining rights to attend and vote. All votes will be tabulated by the inspector of elections appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes and abstentions. A shareholder who is present in person or by proxy and who abstains from taking any of the shareholder action described in this proxy statement will be included in the number of shareholders present at the Annual Meeting for the purpose of determining the presence of a quorum. Abstentions will not be counted in any of the proposals because they are not considered votes cast.

(5) The Bylaws provide that except as otherwise provided in the Act or the Articles, at any meeting of the shareholders, a majority in interest of all the shares entitled to vote on a matter, represented by shareholders of record in person or by proxy, shall constitute a quorum of that voting group for action on that matter. The following specific terms of the Bylaws and others not summarized here may be applicable in connection with the Annual Meeting and votes of the shareholders as the Annual Meeting:

Once a share is represented at a meeting, other than to object to holding the meeting or transacting business, it is deemed to be present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting. At such reconvened meeting, any business may be transacted that might have been transacted at the meeting as originally notified.

If a quorum exists, action on a matter is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the question is one upon which by express provision of law or of the Articles of Incorporation or of these Bylaws a different vote is required.

Shareholders of record may vote at any meeting either in person or by proxy. A shareholder may appoint a proxy to vote for the shareholder by submission of (a) a written appointment form signed by the shareholder or the shareholder's attorney-in-fact, or (b) an electronic transmission sent in accordance with the provisions for electronic notice under the Bylaws. An appointment of proxy is effective when an appointment form or an electronic transmission (or documentary evidence thereof, including verification information) is received by the person authorized to tabulate votes for the Company. The proxy has the same power to vote as that possessed by the shareholder, unless the appointment form or electronic transmission contains an express limitation on the power to vote or direction as to how to vote the shares on a particular matter, in which event the Company must tabulate the votes in a manner consistent with that limitation or direction. Any proxy regular on its face shall have a rebuttable presumption of validity. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the appointment form or electronic transmission.

A majority of the shares represented at the meeting, even if less than a quorum, may adjourn the meeting from time to time. At such reconvened meeting at which a quorum is present any business may be transacted at the meeting as originally notified. If a meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, or place if a new date, time, or place is announced at the meeting before adjournment; however, if a new record date for the adjourned meeting is or must be fixed in accordance with the corporate laws of the State of Washington, notice of the adjourned meeting must be given to persons who are shareholders as of the new record date

No business may be transacted at an annual or special meeting of shareholders other than business that is:

(a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof);

(b) otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof); or

(c) otherwise properly brought before the meeting:

(i) by a shareholder that holds of record stock of the Company entitled to vote at the meeting on such matter (including any election of a director) ("Record Holder") or a person (a "Nominee Holder") that holds such stock through a nominee ("street name" or depository interest registrar) holder of record of such stock and can demonstrate to the Company such indirect ownership of, and such Nominee Holder's entitlement to vote, such stock on such matter; and

(ii) such shareholder complies with the specific notice procedures set forth in the Bylaws (such Record and Nominee Holders are referred to as "Noticing Shareholders").

In order for a Noticing Shareholder to properly bring any item of business before a meeting of shareholders, timely notice must be given in proper written form to the secretary of the Company.

To be timely, a Noticing Shareholders' notice shall be delivered to the secretary at the principal executive offices of the Company:

(i) as to an annual meeting, not earlier than the close of business on the 120th day and not later than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to the date of such annual meeting and not later than the close of business on the later of the 90th day prior to the date of such annual meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, not later than the 10th day following the day on which public announcement of the date of such meeting is first made by the Company; or

(ii) as to a special meeting, not later than the close of business on the date of delivery of the first shareholder demand in compliance with Section 23B.07.020(a) of the Act.

In no event shall any adjournment or postponement of an annual or special meeting, or the announcement thereof, commence a new time period for the giving of a shareholder's notice as described above.

To be in proper form, a Noticing Shareholder's notice to the secretary of the Company must:

(i) set forth, as to the Noticing Shareholder and, if the Noticing Shareholder holds for the benefit of another, the beneficial owner, on whose behalf the nomination or proposal is made:

(A) the name and address of such Noticing Shareholder, as they appear on the Company's books and, if the Noticing Shareholder holds for the benefit of another, the name and address of such beneficial owner (collectively "Holder"),

(B) the following information:

(1) the class or series and number of shares of the Company which are, directly or indirectly, owned beneficially and/or of record;

(2) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Company or otherwise (a "Derivative Instrument") that is directly or indirectly owned beneficially and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company;

(3) any proxy, contract, arrangement, understanding, or relationship pursuant to which such Holder has a right to vote or has granted a right to vote any shares of any security of the Company;

(4) any short interest in any security of the Company (for purposes of this Bylaw a person shall be deemed to have a short interest in a security if such Holder directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security);

(5) any rights to dividends on the shares of the Company owned beneficially by such Holder that are separated or separable from the underlying shares of the Company;

(6) any proportionate interest in shares of the Company or Derivative Instruments held, directly or indirectly, by a general or limited partnership or limited liability company or similar entity in which such Holder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, is the manager, managing member or directly or indirectly beneficially owns an interest in the manager or managing member of a limited liability company or similar entity;

(7) any performance-related fees (other than an asset-based fee) that such Holder is entitled to which is based on any increase or decrease in the value of shares of the Company or any Derivative Instruments; and

(8) the information called for by (1) through (7) for any members of such Holder's immediate family sharing the same household;

(C) such information shall be provided as of the date of the notice required by (B) and any changes in the information required by (B) between the initial disclosure and the record date for the meeting shall be disclosed by such Holder in a supplemental notice to be provided to the Company not later than 10 days after the record date for the meeting;

(D) any other information relating to such Holder, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder;

(ii) if the notice relates to any business other than a nomination of a director or directors that the shareholder proposes to bring before the meeting, such notice must set forth:

(A) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of such Holder, in such business, and

(B) a description of all agreements, arrangements and understandings, direct and indirect, between such Holder, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder;

(iii) set forth, as to each person, if any, whom the Holder proposes to nominate for election or reelection to the Board of Directors the specific information required in the Bylaws; and

(iv) with respect to each nominee for election or reelection to the Board of Directors, include a completed and signed questionnaire, representation and agreement required by the Bylaws.

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

In the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement by the Company naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by the Bylaws shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary at the principal executive offices of the Company not later than the close of business 10 days following the day on which such public announcement is first made by the Company.

Only such persons who are nominated in accordance with the procedures set forth in the Bylaws shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in the Bylaws. Except as otherwise provided by law, the Articles or the Bylaws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in the Bylaws and, if any proposed nomination or business is not in compliance with the Bylaws, to declare that such defective proposal or nomination shall be disregarded.

(6) Any shareholder is entitled to appoint one or more proxies to exercise all or any of his/her rights to attend the Annual Meeting and to speak and act on his/her behalf. If a member appoints more than one proxy, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a shareholder of the Company. A Form of Proxy which may be used to make such appointment and give proxy instructions is enclosed with these materials and is available from the Company's corporate secretary, Craig Crowell, by email at ccrowell@halosource.com. To be effective, a duly completed Form of Proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority, must reach Computershare USA, the Company's agent for receipt of proxies, or, in the case of a proxy appointed electronically, the electronic address specified for this purpose on the form of proxy delivered herewith or Company's website (please see 'Electronic Voting' on the homepage of www.halosource.com) by 9:30 a.m. on Tuesday, 17 May 2016 (or not less than 48 hours before the time fixed for any adjourned meeting).

If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.

(7) Unless voting instructions are indicated on the Form of Proxy, a proxy may vote or withhold his vote as he thinks fit on the resolutions or on any other business (including amendments to resolutions) which may come before the meeting. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.

(8) If you are an ordinary shareholder and wish to attend the Annual Meeting, the return of the Form of Proxy or the appointment of a proxy via the electronic voting instructions on the annual meeting proxy card enclosed herewith will not prevent you from attending and voting in person. In the case of joint holders, any one holder may vote. If more than one holder is present at the meeting, only the vote of the senior will be accepted, seniority being determined by the order in which names appear on the register.

(9) A shareholder must inform the Company in writing of any termination of the authority of a proxy.

(10) Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that, if it is appointing more than one corporate representative, it does not do so in relation to the same shares.

(11) At, or as soon as practicable following the Annual Meeting, the results of the voting at the meeting and the number of votes cast for and against and the number of votes withheld in respect of each resolution will be announced publicly and placed on the Company's website (www.halosource.com).

(12) A copy of this Annual Meeting notice can be found at the Company's website (www.halosource.com).

(13) Any electronic address provided either in this Annual Meeting notice or any related documents may not be used to communicate with the Company for any purposes other than those expressly stated.

(14) The Company's Ordinary Shares trade on the London Stock Exchange's AIM Market and the trading symbol is HALO.

(15) Shares sold in the Placings completed on 18 October 2010, 19 October 2012 and 18 November 2014, respectively, were/are for United States securities law purposes considered restricted shares and for a period after original issuance traded in certificated form. The ISIN for such restricted certificated shares is USU4063G1077, and the trading symbol is HAL. Shares issued on exercise of employee stock options and on cash exercise of existing warrants are for United States securities law purposes considered restricted shares and for a period after original issuance trade in certificated form. The ISIN for such restricted certificated shares is USU4063G1077, and the trading symbol is HAL. The ISIN for shares that have entered the market as a result of selling shareholders or that have past the restriction period and trade electronically on CREST is US40638H1086, and the trading symbol is HALO.

The 2015 Annual Report can be viewed at or downloaded from the Company's investor relations website (ir.halosource.com) or a copy requested by writing to Investor Relations, HaloSource Inc., 1725 220th Street SE, Suite 103, Bothell, Washington 98021, United States of America.

Electronic communications

HaloSource encourages its shareholders to help it reduce the environmental impact by registering to receive shareholder communications electronically by email and via the Internet. Receiving documents electronically helps us reduce our printing, paper and postage costs. We believe shareholders who register also receive information more quickly and simply.

To receive communications and documents electronically, please register your email address at the address for electronic voting set forth on the enclosed annual meeting proxy card and we will send you an email letting you know that the shareholder documents are available online at our website (ir.halosource.com) for you to view or download.

The Board of Directors knows of no other matters to be submitted to the shareholders at the Annual Meeting. If any other matters properly come before the meeting, the proxy holders will vote the shares they represent in such manner as the Board may recommend.

By Order of the Board of Directors



Martin Coles
President and Chief Executive Officer
6 May 2016

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