Interim Financial Report
First quarter ended
September 30, 2018

www.h2oinnovation.com
investor@h2oinnovation.com

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the quarter ended September 30, 2018, in comparison with the corresponding period ended September 30, 2017. The MD&A should be read in conjunction with the consolidated financial statements and with the accompanying notes for the quarter ended September 30, 2018. Certain statements set forth in this MD&A regarding the operations and the activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 25, 2018 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events and other changes.

Unless otherwise indicated, all figures in the present report are expressed in Canadian dollars and come from the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

VALUE CREATION FOR CUSTOMERS

Our Three Business Pillars

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

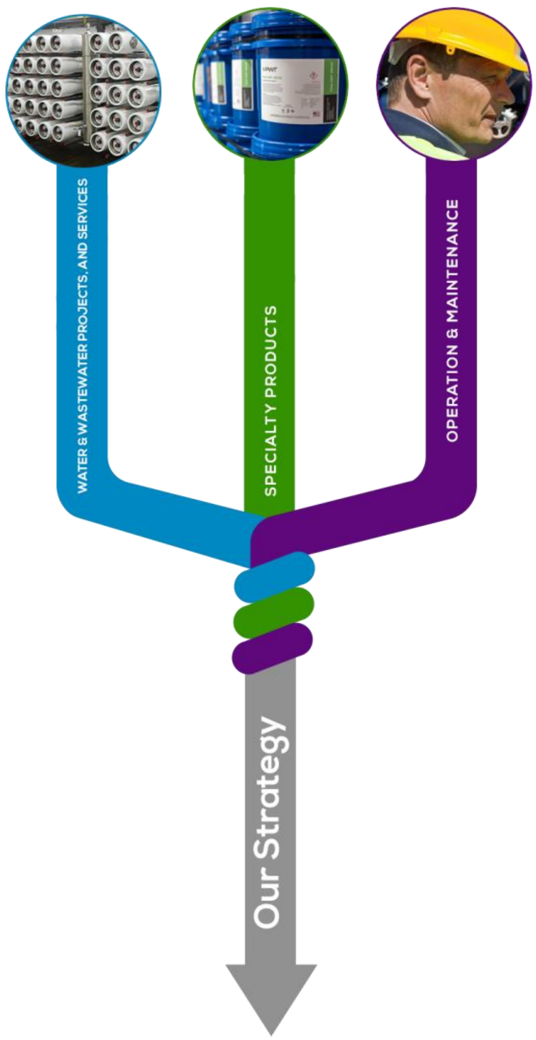
H_2O Innovation designs and provides custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users, aftersales services as well as digital solutions to monitor and optimize water treatment plants.

Specialty Products

H_2O Innovation offers a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry (couplings and cartridge filters).

Operation & Maintenance Services (“O&M”)

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all of its clients and ensures that water quality meets regulatory requirements.



Our Synergies

Use our in-depth expertise in designing and manufacturing water treatment plants to develop optimal specialty products and assist customers in the operation and maintenance of their water and/or wastewater assets as well as other public infrastructure.

RESULTS OF OPERATIONS

for the three-month periods ended September 30, 2018 and 2017
(in Canadian dollars)

COMPARATIVE FIGURES

The following paragraphs highlight certain information regarding our operations for the three-month periods ended September 30, 2018 and September 30, 2017. Starting July 1, 2018, the Aftermarkets and Services line's results have been removed from the Specialty Products business pillar to be reclassified in the Projects & Aftermarket business pillar. As a result, while looking at the figures by business pillar, we can see a shift from one pillar to the other, related to our Aftermarket and Services activities. This reclassification is intended to better represent the nature of the aftermarket services and its client base. Indeed, the majority of the Aftermarket and Services opportunities and sales are related to water and wastewater systems designed, engineered and manufactured by our Project group. Hence, the Specialty Products business pillar will now exclusively focus on the sales of specialty products.

Although the modification discussed above has an impact on the results by business pillar when compared to the previous fiscal year, it does not impact the consolidated results of the Corporation. The revenues presented in the note 10 – *Segment information* of the Corporation's condensed interim consolidated financial statements dated September 30, 2018 have been adjusted to reflect this reclassification, including the comparative figures as at September 30, 2017.

See the reclassification detailed below:

Three-month periods ended September 30, 2017	**Before reclassification**	**Aftermarket services**	**After reclassification**
	$		$
Projects and Aftermarket revenues	8,155,342	2,779,399	**10,934,741**
Specialty Products revenues	6,024,862	(2,779,399)	**3,245,463**
Operation and maintenance revenues	8,437,794	-	**8,437,794**
	22,617,998	-	**22,617,998**

Three-month periods ended September 30, 2018	**Before reclassification**	**Aftermarket services**	**After reclassification**
	$		$
Projects and Aftermarkets revenues	7,688,187	2,583,558	**10,271,745**
Specialty Products revenues	6,789,730	(2,583,558)	**4,206,172**
Operation and maintenance revenues	9,892,589	-	**9,892,589**
	24,370,506	-	**24,370,506**

RESULTS OF OPERATIONS - HIGHLIGHTS

for the three-month periods ended September 30, 2018 and 2017
(in Canadian dollars)

Three-month periods ended September 30,	2018	2017
	$	$
Revenues	24,370,506	22,617,998
Gross profit margin before depreciation and amortization	5,505,870	4,454,386
Gross profit margin before depreciation and amortization (%)	22.6%	19.7%
Operating expenses	1,328,150	877,385
Selling expenses	1,647,449	1,638,213
Administrative expenses	1,401,460	1,477,610
Net loss	(323,469)	(1,089,875)
Basic and diluted net loss per share	(0.008)	(0.027)
Adjusted net earnings (loss) [(a)]	206,602	(22,416)
Basic and diluted adjusted net earnings (loss) per share	0.005	(0.001)
EBITDA [(a)]	1,094,309	121,693
Adjusted EBITDA[(a)]	1,264,730	588,063
Adjusted EBITDA over revenues (%)	5.2%	2.6%

(a) See section on "Non-IFRS Financial Measurement".

FINANCIAL HIGHLIGHTS

for the three-month periods ended September 30, 2018

$24.4 M
↑ 7.7% from Q1 - FY2018
Revenues

- Overall organic growth coming mainly from the O&M and the Specialty Products business pillars.

$16.7 M
from $14.4 M in Q1 - FY2018
Recurring Revenue

- Coming from all recurring revenues by nature: Aftermarket and Services (consolidated in the Projects & Aftermarket business pillar), Specialty Products and O&M.

$139.9 M
from $105.3 M in Q1 - FY2018
Consolidated Backlog

- Coming from Projects & Aftermarket and O&M business pillars, providing visibility on next fiscal year:
  - ✓ $50.5 M in Projects backlog;
  - ✓ $89.4 M in O&M backlog.

$5.5 M or 22.6%
from $4.5 M or 19.7% in Q1 - FY2018
Gross Profit Margin Before Depreciation and Amortization

- Growth in gross profit margin before depreciation and amortization is linked to volume expansion while the gross profit margin % was impacted by product mix;
- Improvement of our gross profit margin by transferring the manufacturing of some of our products in-house.

$1.3 M
↑ 115.1% from Q1 - FY2018
Adjusted EBITDA

- Higher volume of revenues with higher gross profit margins before depreciation and amortization.

($0.3 M)
from ($1.1 M) in Q1 - FY2018
Net Loss

- Sustained growth from our Specialty Products and O&M business pillars;
- Improvement of the gross profit margin before depreciation and amortization;

$0.2 M
from ($0.02 M) in Q1 - FY2018
Adjusted net earnings (loss)

- Net loss presented prior to acquisition and integration related costs, and amortization of intangible assets acquired through business combination.

NON-IFRS FINANCIAL MEASUREMENT

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA)", "Net debt" and "Adjusted net earnings (loss)" are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.

The definition of adjusted EBITDA does not take into account the Corporation's net loss on bank fraud, as it is non-recurring in nature and management believes that it allows a better comparison of the Corporation's historical data as well as comparison with the information presented by competitors. The adjusted EBITDA also excludes other expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition costs, integration costs and other costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net loss based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

RECONCILIATION OF NET LOSS TO AJDUSTED EBITDA

for the three-month periods ended September 30, 2018 and 2017

Adjusted EBITDA

Three-month periods ended September 30,	**2018**	2017
	$	$
Net loss for the period	**(323,469)**	(1,089,875)
Finance costs – net	**530,983**	351,206
Income taxes	**(91,091)**	(137,985)
Depreciation of property, plant and equipment	**278,536**	307,230
Amortization of intangible assets	**699,350**	691,117
EBITDA	**1,094,309**	121,693
Unrealized exchange (gains) losses	**54,524**	(98,501)
Stock-based compensation costs	**83,047**	120,632
Net loss on bank fraud	**-**	363,364
Acquisition-related costs, integration costs and other costs	**32,850**	80,875
Adjusted EBITDA	**1,264,730**	588,063

FINANCIAL RESULTS

for the three-month periods ended September 30, 2018 and 2017

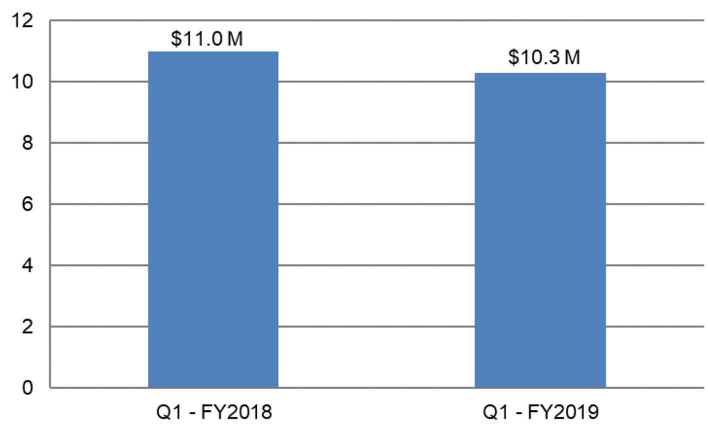
Consolidated revenues from our three business pillars for the three-month period ended on September 30, 2018 increased by $1.8 M or 7.7%, to reach $24.4 M compared to $22.6 M for the comparable quarter of previous fiscal year. This increase is fueled by the organic growth from the Specialty Products and O&M business pillars.

The Projects & Aftermarket business pillar is showing a decrease of $0.7 M, or 6.1% of revenues, while having an healthier backlog with better gross profit margins and better projects' diversification. The focus for this business pillar is to improve the gross profit margin before growing the volume of revenue. Therefore, we are executing more industrial and wastewater projects, previously secured in the backlog, and accordingly we are starting to observe positive upside in the gross profit margins recorded.

Specialty Products business pillar's results have been supported by Piedmont, our specialized products line for water treatment system. Our efforts in developing and commercializing new products as well as to penetrate new geographical markets are paying off with increased sales and improved gross profit margins. As for PWT, our specialty chemicals product line, we increased our in-house manufacturing capacity of liquid cleaners. This manufacturing improvement, along with the addition of new distributors in strategic territories, enabled the increase of the Corporation's gross profit margin before depreciation and amortization.

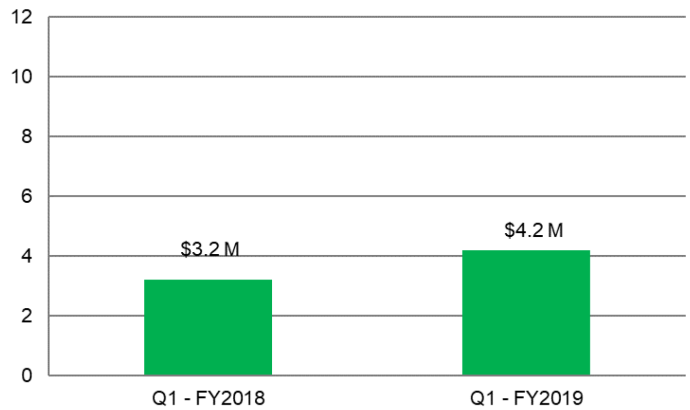
The O&M business pillar is showing a constant growth since the acquisition of Utility Partners in 2016. During the first quarter of fiscal year 2019, renewal of projects and scope of work increases for existing projects supported this performance. The following tables are illustrating the revenues coming from each of the business pillars.

Projects & Aftermarket Business Pillar



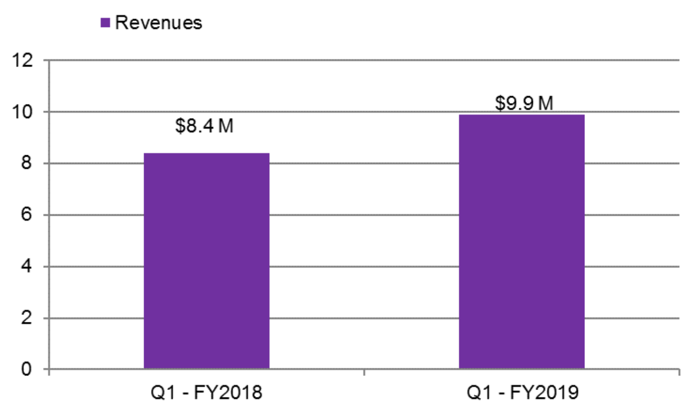
- Projects & Aftermarket revenues stood at $10.3 M for the first quarter of fiscal year 2019, compared with $11.0 M for the same quarter of last fiscal year, representing a 6.1% decrease;
- Better portfolio diversification seen in the backlog, between water and wastewater projects: 26.0% of the projects being wastewater as of September 30, 2018, compared to 24.0% as of September 30, 2017. The wastewater projects are usually characterized by better gross profit margins;
- Backlog's diversification is also seen between industrial and municipal projects, with 36.0% of the projects being industrial as of September 30, 2018, compared to 16.0% as of September 30, 2017, such projects being usually characterized by better gross profit margins;
- Current Projects' pipeline remains very rich in opportunities and the backlog stands at $50.5 M, as of September 30, 2018, compared to $54.7 M for the comparable quarter of fiscal year 2018.

Specialty Products Business Pillar



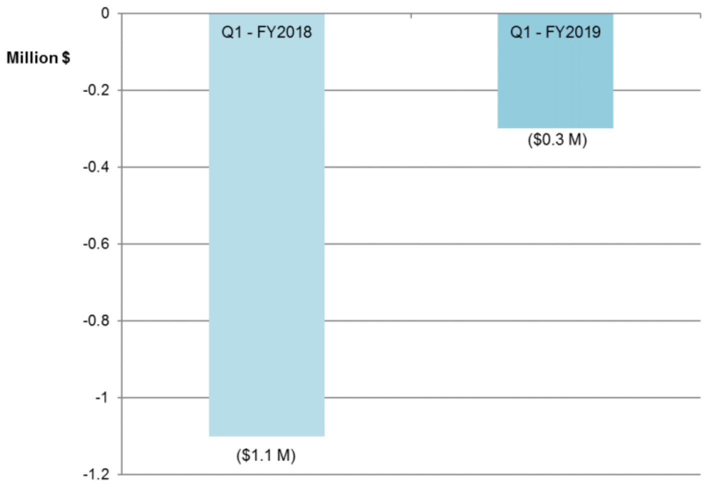
- Specialty Products revenues, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) are recurring by nature. They stood at \$4.2 M for the three-month period ended September 30, 2018, from \$3.2 M for the same quarter of previous fiscal year, representing a \$1.0 M, or 29.6% increase;
- Specialty Products business pillar expanded its products offering by adding new products and new distributors, broadening the existing offering and positioning the Corporation strategically in the market;
- We continue to improve our gross profit margin by transferring the manufacturing of some of our products in-house, while the manufacturing of these products was fully outsourced during the comparable quarter of the previous fiscal year.

O&M Business Pillar



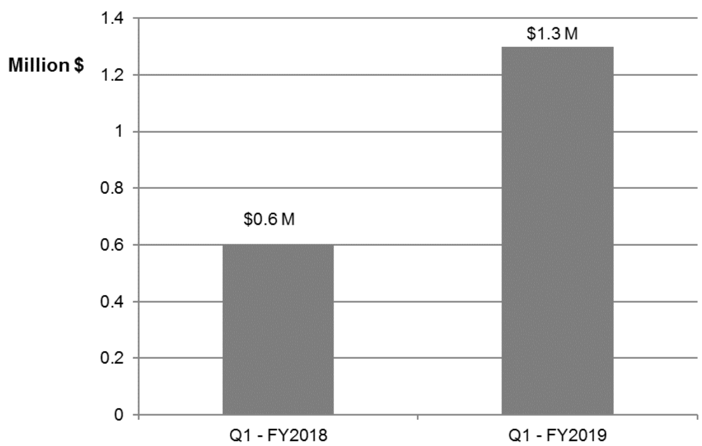
- Recurring revenues of \$9.9 M for the first quarter of fiscal year 2019, compared with revenues of \$8.4 M for the comparable period of fiscal year 2018, representing an increase of \$1.5 M, or 17.2%;
- Excluding the positive impact of \$0.4 M due to the depreciation of the Canadian dollar over the US dollar, the growth would have been 10.8%. Compared in US dollars, the O&M business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts and scope expansion on existing and renewed projects increasing our backlog;
- The growth of the O&M business pillar for the first quarter of fiscal year 2019 is explained by two factors:
  - Renewal of projects with scope expansion;
  - Annual consumer price index (“CPI”) adjustments;
- Our backlog for the O&M business pillar stood at \$89.4 M as at September 30, 2018, representing an increase of 76.7% compare to the \$50.6 M backlog as at September 30, 2017, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options. As at October 31, 2018, the backlog reached \$102.5 M.

Net Loss



- The net loss decreased by $0.8 M, or 70.3%, to reach ($0.3 M) during the first quarter of fiscal year 2019, from a net loss of ($1.1 M) for the same quarter of the previous fiscal year;
- The reduction of the net loss is driven by a sustained revenue growth of 7.7%, combined with an improvement of the gross profit margin before depreciation and amortization;
- Gross profit margin before depreciation and amortization increased by $1.0 M, or 23.6%, while revenues increased by 7.7% over the same period. This increase of gross profit margin before depreciation and amortization contributed significantly to decrease the net loss.

Adjusted EBITDA



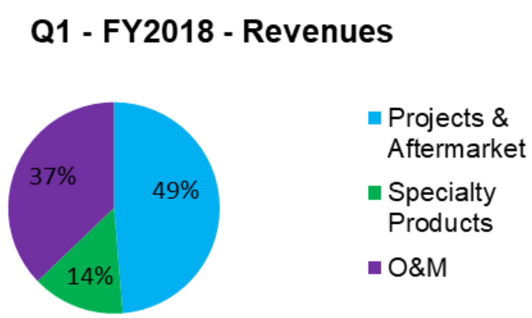
- Adjusted EBITDA increased by $0.7 M, or 115.1%, to reach $1.3 M during the first quarter of fiscal year 2019, from $0.6 M for the comparable period of fiscal year 2018;
- Improvement of the adjusted EBITDA was driven by the increase in our consolidated revenues, as well as an increase of the gross profit margin before depreciation and amortization;
- Acquisition costs excluded from the adjusted EBITDA as at September 30, 2018 are related to work on potential acquisitions;
- Our adjusted EBITDA % improved and reached 5.2% for the three-month period ended September 30, 2018, compared to 2.6% for the same quarter of last fiscal year.

Revenues on a Quarterly Basis

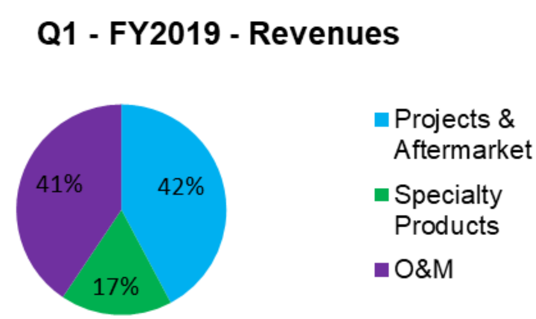
	FY2018				FY2019	Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	(Q2, Q3 & Q4 FY2018 & Q1 FY2019)	(Q2, Q3 & Q4 FY2017 & Q1 FY2018)
Revenues from Projects & Aftermarket business pillar[1]	$11.0 M	$9.7 M	$9.8 M	$10.5 M	**$10.3 M**	**$40.3 M**	$31.6 M
Revenues from Specialty Products business pillar[1]	$3.2 M	$7.5 M	$7.8 M	$4.3 M	**$4.2 M**	**$23.8 M**	$20.8 M
Revenues from O&M business pillar	$8.4 M	$8.6 M	$9.1 M	$9.8 M	**$9.9 M**	**$37.4 M**	$35.5 M
Total revenues	**$22.6 M**	**$25.8 M**	**$26.7 M**	**$24.6 M**	**$24.4 M**	**$101.5 M**	**$87.9 M**

(1) These figures have been adjusted to reflect the reclass of the Aftermarket & Services revenues from the Specialty Products business pillar to the Projects & Aftermarket business pillar. Refer to the Comparative Figures section of this MD&A.

Business mix on revenues and growth strategies



$22.6 M



$24.4 M

Our business model is allowing us to deliver improved results, and the Corporation can identify benefits of it through all three (3) business pillars. H_2O Innovation has captured multiple cross-selling opportunities between O&M and Specialty Products business pillars, generated by Utility Partners' existing contracts. The Corporation, through Utility Partners, has secured new O&M projects, using the support of the Projects and Specialty Products resources.

With three strong business pillars, the Corporation is very well balanced and not dependant on a single source of revenues. As revenues coming from Aftermarket and Services, Specialty Products and O&M are recurring in nature, the strategy to grow these revenues is proving to be efficient since it reduces volatility associated with the Projects business revenues and thus, increases predictability of the Corporation's business model.

Our expertise in designing, engineering and manufacturing membrane systems combined to our specialty products offering is allowing us to propose our customers a unique integrated added value proposition. As the value proposition is allowing our customers to reduce their operating expenses, it also provides a unique competitive advantage for the Corporation.

For the quarter ended September 30, 2018, recurring revenues represented 68.5% of the Corporation's total revenues. The Aftermarket services, Specialty Products and O&M activities also reinforce long-term relationships with Projects customers, which support the decision to invest in business development and growth of these pillars. The Corporation has a platform to capture cross-selling opportunities, where one pillar will feed the others. All together, our three business pillars provide a unique and accountable business model to better serve our existing and future customers.

At the end of the first quarter of fiscal year 2019, the combined backlog of secured contracts between Projects and O&M reached $139.9 M compared to $105.3 M for the comparable quarter of the previous fiscal year, delivering organic growth of 32.8% over the last twelve months. This combined backlog provides excellent visibility on revenues for the coming quarters in FY 2019 and beyond. The business model developed over the past years is also translating into a healthy backlog, well balanced between O&M contracts and Projects contracts. As at October 31, 2018, the combined backlog stood at $153.0 M, including $102.5 M of O&M contracts and $50.5 M for Projects contracts.

GROSS PROFIT MARGIN AND EXPENSES

for the three-month periods ended September 30, 2018 and 2017

	Q1 FY2019(2)	Q1 FY2018(2)	Variance	Significant contributions to variance
Gross Profit Margin Before Depreciation and Amortization (3)	**$5.5 M** 22.6%	$4.5 M 19.7%	**+ $1.0 M**	The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenues for the three-month period ended September 30, 2018, compared to the comparable quarter of last fiscal year. The increase of gross profit margin % before depreciation and amortization is also explained by the business mix, with an increase of the sales coming from the Specialty Products business pillar, characterized by better margins, as management is taking measures to improve margins of specific products lines. The Projects & Aftermarket business pillar is also showing an improvement of its gross profit margin, with an healthier backlog, presenting more industrial and wastewater projects.
SG&A(1) (3)	**$4.3 M** 18.0%	$4.0 M 17.7%	**+ $0.3 M**	The SG&A over revenues % increased to 18.0%, compared to the first quarter of the previous fiscal year. The increase in explained by an increase of the operating expenses, to support the increasing revenue level, including new places of operations and increased level of employees.
Operating Expenses (3)	**$1.3 M** 5.4%	$0.9 M 3.9%	**+ $0.4 M**	This increase of $0.4 M is due to hirings associated with development of new products, investments to improve logistic and supply chain activities, to new places of operations and corporate offices and to support the increasing volume of operations.
Selling Expenses (3)	**$1.6 M** 6.8%	$1.6 M 7.2%	**+ $0.0 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The selling expenses remained stable this quarter, compared to the first quarter of the previous fiscal year.
Administrative Expenses (3)	**$1.4 M** 5.8%	$1.5 M 6.5%	**- $0.1 M**	The administrative expenses in dollar remained stable this quarter, compared to the first quarter of the previous fiscal year.

(1) Selling, General & Administrative Expenses (SG&A) represent the total of the operating, selling and administrative expenses.
(2) Percentage (%) of expenses over revenues.
(3) Depreciation and amortization expenses are excluded of these figures.

Finance Costs – Net

Finance costs – net have increased, reaching $0.5 M for the quarter ended September 30, 2018 compared with $0.4 M for the same period of previous fiscal year. This increase is mainly explained by the increased use of the bank loans and the temporary use of an additional credit facility compared to the first quarter of the previous fiscal year, to finance the Corporation's operations and organic growth.

In order to mitigate its credit risk and increase its bank loans usage capacity, the Corporation insures a portion of its accounts receivable through the insurance coverage of Export Development Canada ("EDC"). The Corporation has given direction to pay all insurance proceeds to the bank. The insurance premiums are recorded in finance costs.

Net Loss

The net loss amounted to ($0.3 M) or ($0.008) per share for the first quarter of fiscal year 2019 compared with a loss of ($1.1 M) or ($0.027) per share for the comparable quarter of fiscal year 2018. The net loss reduction is mostly due to sales volume increase and an improved gross profit margin before depreciation and amortization.

The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs. The reader can establish the link between net loss and adjusted net earnings (loss) with the following reconciliation items. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies.

Three-month periods ended September 30,	**2018**	2017
	$	$
Net loss	**(323,469)**	(1,089,875)
Acquisition-related costs, integration costs and other costs Canada (net of tax 0%)[1]	**32,850**	80,875
Net loss on bank fraud Canada (net of tax 0%)[1]	**-**	363,364
Amortization of intangible assets from acquisition Canada (net of tax 0%)[1]	**39,439**	39,439
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**374,735**	463,149
Stock based compensation expenses Canada (net of tax 0%)[1]	**83,047**	120,632
Adjusted net earnings (loss)	**206,602**	(22,416)

Commitments

The Corporation has entered into long-term lease agreements expiring between 2018 and 2024 which call for lease payments of $6.9 M for the rental of space and supply agreements. The minimum annual payments over the next five years are $2.6 M in 2019, $2.3 M in 2020, $0.9 M in 2021, $0.8 M in 2022 and $0.3 M in 2023.

Information on Share Capital

As at September 30, 2018, the Corporation had 40,144,214 outstanding common shares and 2,554,334 stock options.

[1] For Canada the tax rate is 0% since the Corporation does not recognise the deferred tax asset.

FINANCIAL SITUATION

for the period ended September 30, 2018

Periods ended	September 30, 2018	June 30, 2018
		$
Revenues (LTM[2] basis)	**101,420,633**	99,668,125
Accounts receivable	**19,586,664**	17,832,119
Accounts payable	**13,302,564**	13,370,160
Inventories	**8,233,147**	7,000,004

As at September 30, 2018, accounts receivable stood at $19.6 M compared with $17.8 M as at June 30, 2018. The increase of $1.8 M, or 9.8%, is partly attributable to invoicing milestone reached in significant water treatment projects before the end of the period and the increase in revenue level during the quarter. The increase in accounts receivable explains partially the increase in bank loans, as there is a delay between the cash receipts and the use for operations.

Inventories increased by $1.2 M, or 17.6%, to reach $8.2 M as at September 30, 2018, from $7.0 M as at June 30, 2018. This increase is due to sales increase, to support the growing demand for the Specialty Products business pillar, for which inventories often need to be on hand and available. Delays caused by unavailable inventories could lead to the loss of important and recurrent customers. For the Maple product line, there is a seasonal effect on the inventory, as the Corporation is building up an inventory for the maple season. The increase of inventory level also has an impact on the use of the bank loans. Management is taking measures to reduce the inventory to a lower level in order to increase its moving capital available for operations.

Accounts payable and accrued liabilities decreased by $0.1 M, or 0.5%, to $13.3 M as at September 30, 2018, from $13.4 M as at June 30, 2018. This decrease is mainly due to the timing of the projects for the period ended September 30, 2018.

Periods ended	September 30, 2018	June 30, 2018
	$	$
Costs incurred in excess of billings	**5,014,749**	**6,573,665**
Billings in excess of costs incurred	**(3,638,539)**	**(2,260,305)**
Work in progress - net	**1,376,210**	**4,313,360**

Costs incurred in excess of billings decreased by $1.6 M, or 23.7%, to $5.0 M as at September 30, 2018 from $6.6 M as at June 30, 2018, generated by differences between project advancement and project invoicing schedules from one project to the other. Billings in excess of costs incurred increased by $1.4 M, or 61.0% to $3.6 M as at September 30, 2018, from $2.3 M as at June 30, 2018. This increase is also attributable to differences between project advancement and project invoicing schedules. The variation of the work in progress – net is mainly explained by three significant projects, which reached invoicing milestones during the quarter, shifting positively the work in progress position.

(2) Revenues presented on a last twelve months basis.

The working capital decreased from $7.2 M as at June 30, 2018 (current ratio of 1.26) to $6.7M as at September 30, 2018 (current ratio of 1.23).

(in Canadian dollars, except for ratio)	September 30, 2018	June 30, 2018
	$	$
Working capital	**6,665,870**	7,192,448
Working capital ratio	**1.23**	1.26
Net debt [(3)]	**17,735,887**	17,543,927
Equity	**39,712,054**	40,963,305
Net debt to equity ratio	**0.45**	0.43

Equity

For the period ended September 30, 2018, shareholders' equity decreased by $1.3 M to $39.7 M ($41.0 M as at June 30, 2018). The elements impacting the shareholders' equity in the first quarter of fiscal year 2019 are: 1) the ($0.3 M) net loss; 2) the $0.01 M increase in stock option due to the stock-based compensation costs and; 3) the Canadian dollar's fluctuation generating an unrealized exchange loss of $0.9 M resulting from the currency translation of foreign operations, mainly those of the U.S. subsidiaries.

Net Debt

The definition of net debt consists of bank overdraft, bank loans and long-term debt less cash. The reader can establish the link between net debt and debt. The definition of net debt used by the Corporation may differ from those used by other companies.

Even though net debt is a non-IFRS measure, it is used by management, analysts, investors and other financial stakeholders to assess the Corporation's capital management.

Periods ended	**September 30, 2018**	**June 30, 2018**
	$	$
Bank overdraft	**779,122**	259,951
Bank loans	**9,091,431**	9,204,804
Current portion of long-term debt	**2,255,491**	2,235,345
Long-term debt	**7,405,497**	7,841,723
Less: Cash	**(1,795,654)**	(1,997,896)
Net debt	**17,735,887**	17,543,927

During the first quarter of fiscal year 2019, the net debt increased, to reach $17.7 M as at September 30, 2018, from $17.5 M as at June 30, 2018. This increase is mainly attributable to the increase of the bank overdraft of $0.5 M. The bank loans were fairly stable during the first quarter of fiscal year 2019, presenting a $0.1 M decrease compare to the period ended June 30, 2018. The Corporation also reimbursed $0.6 M of its long-term debt, as per the repayment schedule.

During fiscal year 2018, the Corporation was in negotiation with its banking and financial partners to amend its credit facilities by considering the growth of the Corporation in the assessment of such credit facilities. On July 9, 2018, the Corporation temporarily increased its first credit facility by $5,000,000, payable on demand. This temporary tranche of the credit facility bears interest at CDN prime rate plus 2.5% for advance drawn in CDN $ and at US prime rate plus 2.5% for advance drawn in US $. As at September 30, 2018, no amount was drawn under this credit facility. The credit facility expired on October 12, 2018.

(3) Net debt comprises bank overdraft, bank loans and long-term debt, net of cash.

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2018, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.7 M which expire at various dates through fiscal year 2022. Of these letters of credit $1.6 M is secured by EDC.

CAPITAL MANAGEMENT

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a prudent approach towards financial leverage and risks.

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Corporation monitors its performance through different ratios such as those required under its credit facility and long-term debt arrangements.

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios. The financial ratios are, as at September 30, 2018:

- Working capital ratio, defined as current assets divided by current liabilities, greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity, less than or equal to 3.25:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at September 30, 2018, the Corporation was in compliance with the ratios required under its credit facility, except for the working capital ratio for which a waiver was received from the lender.

Given the incremental growth in our Project activities, the credit facility needs to be increased to support the Corporation's growth. Management is currently actively in discussions with its banking and financial partners to renegotiate its credit facility. While there can be no assurance of the success of these initiatives, the Corporation believes that it will be able to obtain new credit facility terms from its lenders.

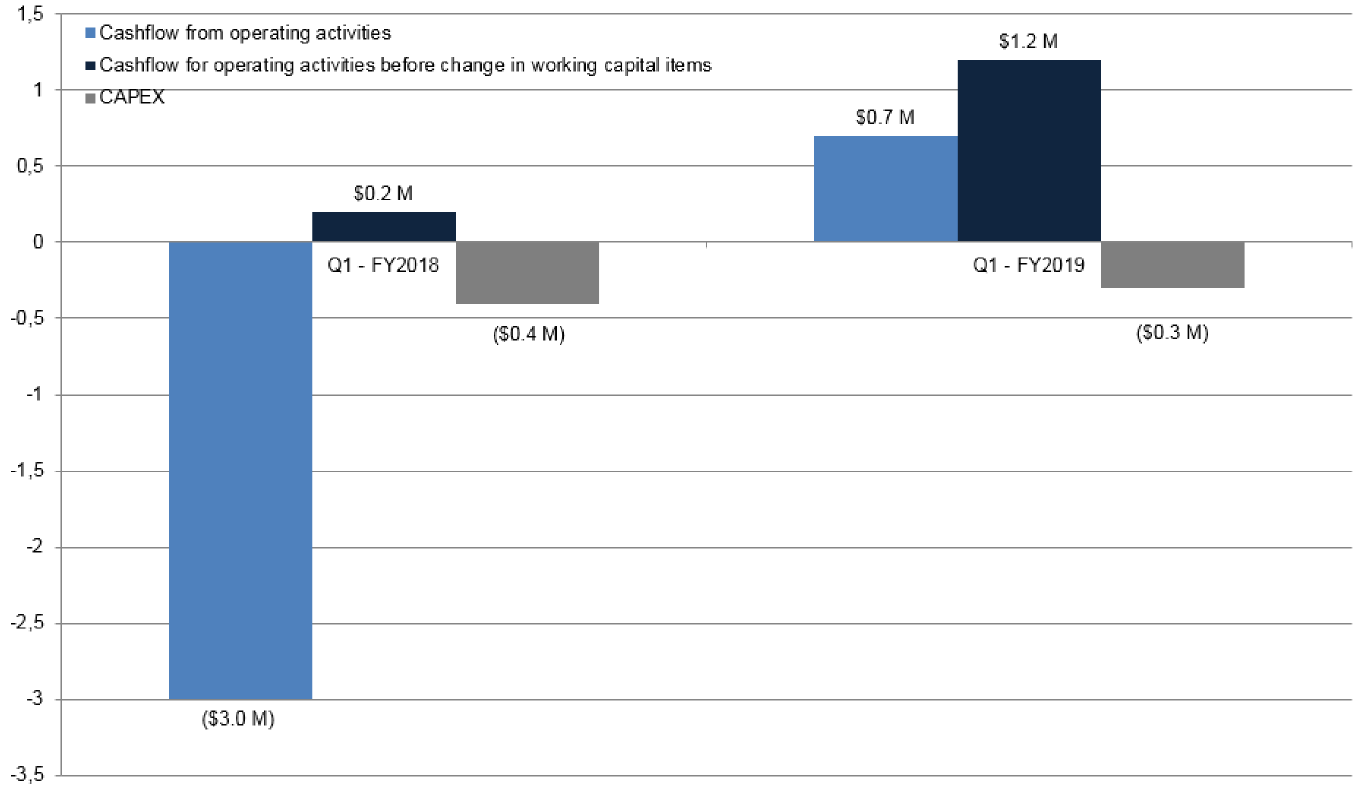
CASH FLOWS AND CAPITAL EXPENDITURE

A comparison of the Corporation's cash flows for the periods ended September 30, 2018 and June 30, 2017 is presented below:

Three-month periods ended September 30,	2018	2017
	$	$
Cash flows from operating activities before change in working capital items	1,164,441	217,186
Change in working capital items	(470,137)	(3,089,210)
	694,304	(2,872,024)
Interests received / Income taxes paid	3,876	(102,670)
Cash flows from (used in) operating activities	698,180	(2,974,694)
Cash flows used in investing activities	(333,618)	(429,302)
Cash flows from (used in) financing activities	(1,039,891)	2,461,553
Effect of exchange rate changes on the balance of cash held in foreign currencies	(46,084)	(123,511)
Net change	(721,413)	(1,065,954)
Cash – net of bank overdraft – Beginning of period	1,737,945	3,686,483
Cash – net of bank overdraft – End of period	1,016,532	2,620,529

Cash Flows from Operating Activities

Operating activities generated $0.7 M in cash for the quarter ended September 30, 2018, compared to ($3.0 M) of cash used during the same period of previous fiscal year. This increase of the cash flows generated by operating activities is a reflection of the reduction of the loss before income taxes for the period and the variation of the change in working capital items. The change in working capital items is mostly impacted by the advancement of major projects, with significant invoicing milestones reached during the quarter.



Cash Flows from Investing Activities

For the first quarter of fiscal year 2019, investing activities used net cash of ($0.3 M) compared to ($0.4 M) used in investing activities for the comparable quarter of previous fiscal year. These investments are attributable to the acquisition of property, plant and equipment of $0.3 M, mainly automotive equipment for the new projects of the O&M business pillar, and to a lesser extent to investments in intangible assets of $0.1 M.

Cash Flows from Financing Activities

Financing activities used net cash of ($1.0 M) in the three-month period ended September 30, 2018 compared with $2.5 M of net cash generated during the same period of previous fiscal year. During the first quarter of fiscal year 2019, the Corporation contracted $0.2 M of long-term debt, reimbursed $0.6 M of long-term debt and increased its bank loans by $0.1 M. Interest and fees paid during the three-month period ended on September 30, 2018 amounted to $0.5 M, compared to $0.4 M paid during the same quarter of the previous fiscal year.

Quarterly Summary Financial Information (unaudited)

	Three-month periods ended				**Last twelve months**
	September 30, 2018	**June 30, 2018**	**March 31, 2018**	**December 31, 2017**	
	$	$	$	$	**$**
Revenues	**24,370,506**	24,536,263	26,694,935	25,818,929	**101,420,633**
EBITDA	**1,094,309**	635,155	927,202	1,227,159	**3,883,825**
Adjusted EBITDA	**1,264,730**	1,099,261	1,078,489	1,358,281	**4,800,761**
Adjusted EBITDA over revenues	**5.2%**	4.5%	4.0%	5.3%	**4.7%**
Net loss	**(323,469)**	(1,006,916)	(11,599)	(1,340,441)	**(2,682,425)**
Basic and diluted net loss per share	**(0.008)**	(0.025)	(0.000)	(0.033)	**(0.067)**
Cash flows from operating activities	**698,180**	(1,987,127)	2,124,159	615,871	**1,451,083**

	Three-month periods ended				**Previous twelve months**
	September 30, 2017	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	
	$	$	$	$	**$**
Revenues	22,617,998	24,037,884	21,284,643	19,957,831	**87,898,356**
EBITDA	121,693	(129,277)	257,998	159,575	**409,989**
Adjusted EBITDA	588,063	(20,486)	411,737	809,625	**1,788,939**
Adjusted EBITDA over revenues	2.6%	(0.08%)	1.9%	4.1%	**2.0%**
Net loss	(1,089,875)	(1,742,862)	(1,345,695)	(1,093,270)	**(5,271,702)**
Basic and diluted net loss per share	(0.027)	(0.045)	(0.034)	(0.027)	**(0.13)**
Cash flows from operating activities	(2,974,694)	3,521,086	(1,135,127)	1,083,117	**494,382**

The significant growth of the Corporation and the scalability of the business model over the past year are clearly shown when comparing both twelve months period. Revenues for the last twelve months show an increase of 15.4% compared to the previous twelve months period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $1.8 M, or 2.0% of revenues to $4.8 M, or 4.7% in the last twelve months.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in note 2 to the audited consolidated annual financial statements for the year ended June 30, 2018.

NEW ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2018, except for the adoption of new standards effective as of July 1, 2018. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Corporation adopted the following new accounting standards effective July 1, 2018.

Adoption of IFRS 9

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement with a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through the statement of loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss (FVPL) are generally recorded in other comprehensive income.

The Corporation has applied IFRS 9 retrospectively, with the initial application date of July 1, 2018. As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period. However, the Corporation assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

Classification and measurement

All financial assets and liabilities are recognized initially at fair value plus, in the case of financial instruments not at FVTPL, transaction costs.

Debt financial instruments are subsequently measured at FVTPL, fair value through other comprehensive income ("FVOCI"), or amortized cost using the effective interest rate method. The Corporation determines the classification of its financial assets based on the Corporation's business model for managing the financial assets and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. The Corporation's derivatives not designated as a hedging instrument in a qualifying hedge relationship are subsequently measured at FVTPL. Equity instruments within the scope of IFRS 9, if any, are subsequently measured at FVTPL or elected irrevocably to be classified at FVOCI at initial recognition.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

As at July 1, 2018, the measurement category of the Corporation's financial instruments comparing IAS 39 to IFRS 9 are as follows, with no transitional adjustment required:

Financial Instrument	IAS 39 Measurement	IFRS 9 Measurement
Cash	Amortized cost (loans and receivables)	Amortized cost
Guaranteed deposit certificates	Amortized cost (loans and receivables)	Amortized cost
Accounts receivable	Amortized cost (loans and receivables)	Amortized cost
Related party loans receivable	Amortized cost (loans and receivables)	Amortized cost
Bank Overdraft	Amortized cost (other financial liabilities)	Amortized cost
Bank loans	Amortized cost (other financial liabilities)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost (other financial liabilities)	Amortized cost
Long-term debt	Amortized cost (other financial liabilities)	Amortized cost

Impairment

The adoption of IFRS 9 has changed the Corporation's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Corporation to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive.

For accounts receivable and costs incurred in excess of billings, the Corporation elected to use the simplified approach and assessed the impact of the standard based on lifetime expected credit losses. The Corporation has established a provision that is based on the Corporation's historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment.

For related party loans receivable, the allowance for credit loss ("ACL") is based on the 12-month ECL, referred to as the general approach under IFRS 9. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Corporation considers a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit risk mitigated by Export Development Canada's ("EDC") insurance.

There was no transitional adjustment as a result of adopting the new impairment requirements.

Adoption of IFRS 15

IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15"), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue, as well as new requirements for presentation and disclosure.

As of July 1, 2018, the Corporation adopted IFRS 15 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application.

Sale of goods

The Corporation's contracts with customers for the sale of specialty products generally include one performance obligation. The Corporation has concluded that revenue from sale of specialty products should be recognised at the point in time when control of the goods is transferred to the customer, generally on delivery. The amount of revenue to be recognized was affected by certain volume rebates provided to speciality products clients.

Some contracts for the sale of specialty chemicals provide customers with volume rebates on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract and calculated on annual basis. Rebates are offset against amounts payable by the customer on subsequent purchases in the next fiscal year. Previously, under IAS 18 “Revenue”, the Corporation did not recognize variable consideration related to volume rebates until the customer utilize the rebates since the rebates were contingent on future purchases.

Under IFRS 15, volume rebates give rise to variable consideration. IFRS 15 requires that all potential variable consideration be considered and reflected in the contract price at contract inception and constrained until the associated uncertainty is subsequently resolved.

To estimate the variable consideration to which it will be entitled, the Corporation applied the ‘most likely amount method’ since contracts have a single volume threshold. The Corporation then applies the requirements on constraining estimates of variable consideration. As such, the impact of adopting IFRS 15 on the opening consolidated statement of financial position as at July 1, 2018 is as follows:

	$
Accounts payable and accrued liabilities	200,596
Deferred income tax	44,612
Deficit	155,984

There is no material impact on the unaudited condensed interim consolidated financial statements of loss, comprehensive loss and the unaudited condensed consolidated interim statements of cash flows.

Presentation and disclosure requirements

As required for the condensed interim consolidated financial statements, the Corporation disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 10 - *Segment Information* for the disclosure on disaggregated revenue.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Corporation has filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Corporation has been made known to them; and
- information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the CEO and the CFO of the effectiveness of the Corporation's disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective, using the criteria set forth by NI 52-109.

Internal controls over financial reporting

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commission 2013* (COSO 2013) on Internal Control – Integrated Framework. The work performed during the quarter allows them to conclude that the internal controls over financial reporting are effective for the three-month period ended September 30, 2018.

Changes in internal controls over financial reporting

During the quarter, the Corporation did not make any modifications to the internal controls over financial reporting that had or could reasonably be expected to have a significant impact on the internal controls over financial reporting.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

September 30, 2018

The condensed interim consolidated financial statements which are included in this report have not been subject to a review by the Corporation's external auditors.

For additional information:
Investor Relations
investor@h2oinnovation.com

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

Financial reports, annual reports and press releases are accessible on our website *www.h2oinnovation.com* and on SEDAR.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(In Canadian dollars)

As at	September 30, 2018	June 30, 2018
	$	$
ASSETS (notes 5 and 7)		
Current assets		
Cash	**1,795,654**	1,997,896
Guaranteed deposit certificate	**278,095**	256,677
Accounts receivable (note 3)	**19,586,664**	17,832,119
Inventories (note 4)	**8,233,147**	7,000,004
Costs incurred in excess of billings	**5,014,749**	6,573,665
Income taxes receivable	**115,111**	115,904
Prepaid expenses	**846,029**	884,686
	35,869,449	34,660,951
Non-current assets		
Property, plant and equipment	**4,690,725**	4,748,155
Intangible assets	**17,864,625**	18,753,435
Other assets	**345,533**	378,947
Related party loans receivable (note 11 a)	**1,250,000**	1,250,000
Goodwill	**14,236,806**	14,511,205
Deferred income tax assets	**2,216,355**	2,115,430
	76,473,493	76,418,123
LIABILITIES		
Current liabilities		
Bank overdraft	**779,122**	259,951
Bank loans (note 5)	**9,091,431**	9,204,804
Accounts payable and accrued liabilities (note 6)	**13,302,564**	13,370,160
Provisions	**136,431**	137,938
Billings in excess of costs incurred	**3,638,539**	2,260,305
Current portion of long-term debt (note 7)	**2,255,491**	2,235,345
	29,203,578	27,468,503
Non-current liabilities		
Long-term debt (note 7)	**7,405,497**	7,841,723
Deferred rent	**152,364**	144,592
	36,761,439	35,454,818
SHAREHOLDERS' EQUITY		
Share capital	**76,918,285**	76,918,285
Reserve - Stock options	**3,025,117**	2,942,070
Deficit	**(42,227,712)**	(41,748,259)
Accumulated other comprehensive income	**1,996,364**	2,851,209
	39,712,054	40,963,305
	76,473,493	76,418,123

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Philippe Gervais
Chairman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended September 30, 2018 and 2017
(Unaudited)
(In Canadian dollars)

	Common shares (number)	Share capital	Reserve – Stock option	Deficit	Accumulated other comprehensive income (loss) – Translation adjustment	Total
		$	$	$	$	$
Balance as at July 1, 2017	40,144,214	76,918,285	2,503,905	(38,299,429)	2,180,123	43,302,884
Net loss for the period	-	-	-	(1,089,875)		(1,089,875)
Stock-based compensation costs	-	-	120,632	-	-	120,632
Other comprehensive income – Currency translation adjustments	-	-	-	-	(1,656,489)	(1,656,489)
Balance as at September 30, 2017	40,144,214	76,918,285	2,624,537	(39,389,304)	523,634	40,677,152
Balance as at June 30, 2018	**40,144,214**	**76,918,285**	**2,942,070**	**(41,748,259)**	**2,851,209**	**40,963,305**
Impact of new accounting standards adoption (note 2)	**-**	**-**	**-**	**(155,984)**	**-**	**(155,984)**
Balance as at July 1, 2018	**40,144,214**	**76,918,285**	**2,942,070**	**(41,904,243)**	**2,851,209**	**40,807,321**
Net loss for the period	**-**	**-**	**-**	**(323,469)**	**-**	**(323,469)**
Stock-based compensation costs	**-**	**-**	**83,047**	**-**	**-**	**83,047**
Other comprehensive loss – Currency translation adjustments	**-**	**-**	**-**	**-**	**(854,845)**	**(854,845)**
Balance as at September 30, 2018	**40,144,214**	**76,918,285**	**3,025,117**	**(42,227,712)**	**1,996,364**	**39,712,054**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
For the three-month periods ended September 30, 2018 and 2017
(Unaudited)
(In Canadian dollars)

Three-month periods ended September 30,	**2018**	2017
	$	$
Revenues (note 10)	**24,370,506**	22,617,998
Cost of goods sold (note 8 a)	**18,864,636**	18,163,612
Gross profit before depreciation and amortization	**5,505,870**	4,454,386
Operating expenses (note 8 a)	**1,328,150**	877,385
Selling expenses (note 8 a)	**1,647,449**	1,638,213
Administrative expenses (note 8 a)	**1,401,460**	1,477,610
Research and development expenses (notes 8 a)	**-**	8,515
Depreciation of property, plant and equipment (note 8 b)	**278,536**	307,230
Amortization of intangible assets (note 8 b)	**699,350**	691,117
Other losses – net (note 8 c)	**1,652**	250,095
Acquisition-related costs, integration costs and other costs	**32,850**	80,875
Operating costs total	**5,389,447**	5,331,040
Income (loss) before finance costs and income taxes	**116,423**	(876,654)
Finance income (note 11 a)	**(7,216)**	(9,817)
Finance costs	**538,199**	361,023
Finance costs – net	**530,983**	351,206
Loss before income taxes	**(414,560)**	(1,227,860)
Current income tax expense	**3,337**	124,750
Deferred tax recovery	**(94,428)**	(262,735)
	(91,091)	(137,985)
Net loss for the period	**(323,469)**	(1,089,875)
Basic and diluted net loss per share (note 9)	**(0.008)**	(0.027)
Weighted average number of shares outstanding (note 9)	**40,144,214**	40,144,214

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three-month periods ended September 30, 2018 and 2017
(Unaudited)
(In Canadian dollars)

Three-month periods ended September 30,	2018	2017
	$	$
Net loss for the period	**(323,469)**	(1,089,875)
Other comprehensive income - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**(854,845)**	(1,656,489)
Comprehensive loss for the period	**(1,178,314)**	(2,746,364)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended September 30, 2018 and 2017
(Unaudited)
(In Canadian dollars)

Three-month periods ended September 30,	2018	2017
	$	$
Operating activities		
Loss before income taxes for the period	**(414,560)**	(1,227,860)
Non-cash items		
Finance costs – net	**530,983**	351,206
Depreciation of property, plant and equipment	**278,536**	307,230
Amortization of intangible assets	**699,350**	691,117
Deferred rent	**9,685**	40,801
Unrealized exchange gain on long-term debt	**(22,600)**	(65,940)
Stock-based compensation costs	**83,047**	120,632
	1,164,441	217,186
Change in working capital items	**(470,137)**	(3,089,210)
Cash from (used in) operations	**694,304**	(2,872,024)
Interests received	**7,216**	9,817
Income taxes paid	**(3,340)**	(112,487)
Net cash from (used in) operating activities	**698,180**	(2,974,694)
Investing activities		
Variation of guaranteed deposit certificate	**(21,418)**	60,981
Variation of other assets	**26,932**	-
Acquisition of property, plant and equipment	**(337,603)**	(379,597)
Acquisition of intangible assets	**(78,457)**	(110,686)
Proceeds from disposal of property, plant and equipment	**76,928**	-
Net cash used in investing activities	**(333,618)**	(429,302)
Financing activities		
Variation of bank loans	**(113,373)**	2,855,449
Long-term debt contracted (note 7)	**245,249**	450,086
Long-term debt reimbursement	**(641,814)**	(492,981)
Interest paid	**(529,953)**	(351,001)
Net cash (used in) from financing activities	**(1,039,891)**	2,461,553
Net change in cash	**(675,329)**	(942,443)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(46,084)**	(123,511)
Decrease in cash	**(721,413)**	(1,065,954)
Cash – net of bank overdraft - Beginning of period	**1,737,945**	3,686,483
Cash – End of period – Comprised of:		
Cash	**1,795,654**	2,904,784
Bank overdraft	**(779,122)**	(284,255)
Cash – net of bank overdraft - End of period	**1,016,532**	2,620,529

See accompanying notes to consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of business

H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation's activities rely on three pillars which are: i) water and wastewater projects, and aftermarket services ("Projects and Aftermarket"); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters); and iii) operation and maintenance services for water and wastewater treatment systems. The head office of the Corporation is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

2. Basis of preparation

The Corporation's financial statements are presented in Canadian dollars. All values are rounded at the nearest dollar, except otherwise indicated.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.*

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2018 were consistently applied to all periods presented in this document, except for the adoption of new standards effective as of July 1, 2018, as discussed below. Please refer to note 2 in the Corporation's audited consolidated annual financial statements for the year ended June 30, 2018 for a complete description of the Corporation's significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2018 and remained unchanged for the three-month period ended September 30, 2018.

The accompanying unaudited condensed interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention.

These condensed interim consolidated financial statements are intended to provide an update on 2018 annual statements. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's 2018 annual audited consolidated financial statements.

On November 12, 2018, the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2018, except for the adoption of new standards effective as of July 1, 2018. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Corporation adopted the following new accounting standards effective July 1, 2018.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Adoption of IFRS 9

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments: Recognition and Measurement with a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through the statement of loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss (FVPL) are generally recorded in other comprehensive income.

The Corporation has applied IFRS 9 retrospectively, with the initial application date of July 1, 2018. As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period. However, the Corporation assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

Classification and measurement

All financial assets and liabilities are recognized initially at fair value plus, in the case of financial instruments not at FVTPL, transaction costs.

Debt financial instruments are subsequently measured at FVTPL, fair value through other comprehensive income ("FVOCI"), or amortized cost using the effective interest rate method. The Corporation determines the classification of its financial assets based on the Corporation's business model for managing the financial assets and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. The Corporation's derivatives not designated as a hedging instrument in a qualifying hedge relationship are subsequently measured at FVTPL. Equity instruments within the scope of IFRS 9, if any, are subsequently measured at FVTPL or elected irrevocably to be classified at FVOCI at initial recognition.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

As at July 1, 2018, the measurement category of the Corporation's financial instruments comparing IAS 39 to IFRS 9 are as follows, with no transitional adjustment required:

Financial Instrument	IAS 39 Measurement	IFRS 9 Measurement
Cash	Amortized cost (loans and receivables)	Amortized cost
Guaranteed deposit certificates	Amortized cost (loans and receivables)	Amortized cost
Accounts receivable	Amortized cost (loans and receivables)	Amortized cost
Related party loans receivable	Amortized cost (loans and receivables)	Amortized cost
Bank Overdraft	Amortized cost (other financial liabilities)	Amortized cost
Bank loans	Amortized cost (other financial liabilities)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost (other financial liabilities)	Amortized cost
Long-term debt	Amortized cost (other financial liabilities)	Amortized cost

Impairment

The adoption of IFRS 9 has changed the Corporation's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Corporation to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive.

For accounts receivable and costs incurred in excess of billings, the Corporation elected to use the simplified approach and assessed the impact of the standard based on lifetime expected credit losses. The Corporation has established a provision that is based on the Corporation's historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment.

For related party loans receivable, the allowance for credit loss is based on the 12-month ECL, referred to as the general approach under IFRS 9. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Corporation considers a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit risk mitigated by Export Development Canada's ("EDC") insurance.

There was no transitional adjustment as a result of adopting the new impairment requirements.

Adoption of IFRS 15

IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15"), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue, as well as new requirements for presentation and disclosure.

As of July 1, 2018, the Corporation adopted IFRS 15 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application.

Sale of goods

The Corporation's contracts with customers for the sale of specialty products generally include one performance obligation. The Corporation has concluded that revenue from sale of specialty products should be recognised at the point in time when control of the goods is transferred to the customer, generally on delivery. The amount of revenue to be recognized was affected by certain volume rebates provided to speciality products clients.

Some contracts for the sale of specialty chemicals provide customers with volume rebates on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold determined and calculated on annual basis. Rebates are offset against amounts payable by the customer on subsequent purchases in the next fiscal year. Previously, under IAS 18 "Revenue", the Corporation did not recognize variable consideration related to volume rebates until the customer utilize the rebates since the rebates were contingent on future purchases.

Under IFRS 15, volume rebates give rise to variable consideration. IFRS 15 requires that all potential variable consideration be considered and reflected in the contract price at contract inception and constrained until the associated uncertainty is subsequently resolved.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

To estimate the variable consideration to which it will be entitled, the Corporation applied the 'most likely amount method' since contracts have a single volume threshold. The Corporation then applies the requirements on constraining estimates of variable consideration. As such, the impact of adopting IFRS 15 on the opening consolidated statement of financial position as at July 1, 2018 is as follows:

	$
Accounts payable and accrued liabilities	200,596
Deferred income tax	44,612
Deficit	155,984

There is no material impact on the unaudited condensed interim consolidated financial statements of loss, comprehensive loss and the unaudited condensed consolidated interim statements of cash flows.

Presentation and disclosure requirements

As required for the condensed interim consolidated financial statements, the Corporation disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 10 - *Segment Information* for the disclosure on disaggregated revenue.

3. Accounts receivable

As at	**September 30, 2018**	June 30, 2018
	$	$
Trade accounts receivable	**16,838,555**	14,563,808
Retentions from customers under manufacturing contracts	**2,782,104**	2,627,875
Allowance for doubtful accounts	**(92,288)**	(92,636)
	19,528,371	17,099,047
Tax credits receivable	**25,394**	26,694
Other receivables	**32,899**	706,378
	19,586,664	17,832,119

4. Inventories

As at	**September 30, 2018**	June 30, 2018
	$	$
Raw materials	**1,742,442**	1,481,463
Finished goods	**6,490,705**	5,518,541
	8,233,147	7,000,004

5. Bank loans

The Corporation has an authorized credit facility available of US$5,000,000 ($6,750,000 as at September 30, 2018) bearing interest at CDN prime rate plus 1.00% (4.70% as at September 30, 2018 and 4.45% as at June 30, 2018) and at US prime rate plus 1.00% (6.75% as at September 30, 2018 and 6.25% as at June 30, 2018) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at September 30, 2018, $6,560,104 was used on this line of credit ($6,504,804 as at June 30, 2018).

The Corporation has an authorized credit facility available of US$2,000,000 ($2,700,000 as at September 30, 2018) bearing interest at CDN prime rate plus 1.00% (4.70% as at September 30, 2018 and 4.45% as at June 30, 2018)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

and at US prime rate plus 1.00% (6.75% as at September 30, 2018 and 6.25% as at June 30, 2018). As at September 30, 2018, $2,531,327 was used on this credit facility ($2,700,000 as at June 30, 2018).

The Corporation has two credit facilities enabling it to issue letters of credit for a maximum amount of $2,000,000, both secured by EDC. As at September 30, 2018, $1,644,023 was used on these credit facilities ($1,826,276 as at June 30, 2018).

The Corporation has access to a hedging facility of $500,000. This facility is secured by EDC and is unused as at September 30, 2018 (unused as at June 30, 2018).

The Corporation has a credit facility enabling it to use a maximum amount of $250,000 on credit cards for Corporation's related expenses. This credit facility is secured by a guaranteed deposit certificate in an amount of $278,095 ($256,677 as at June 30, 2018). As at September 30, 2018, $67,793 was used on this credit facility ($108,850 as at June 30, 2018).

The Corporation still has outstanding letters of credit amounting to $21,079 as at September 30, 2018 ($21,485 as at June 30, 2018) with its previous bank.

A $30.0 M movable hypothec on the universality of the Corporation's property have been pledged as security for these credit facilities.

On July 9, 2018, the Corporation temporarily increased its first credit facility by $5,000,000, payable on demand. This temporary tranche of the credit facility bears interest at CDN prime rate plus 2.5% for advance drawn in CDN $ and at US prime rate plus 2.5% for advance drawn in US $. As at September 30, 2018, no amount was drawn under this credit facility. The credit facility expired on October 12, 2018.

Covenants

As at September 30, 2018, the Corporation was in compliance with the ratios required under its credit facility, as described in Note 7 – *Long-term debt*, except for the working capital ratio for which a waiver was received from the lender.

6. Accounts payable and accrued liabilities

As at	**September 30, 2018**	June 30, 2018
	$	$
Trade accounts payable	**5,538,115**	8,014,727
Other accrued liabilities and accounts payable	**7,764,449**	5,355,433
	13,302,564	13,370,160

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

7. Long-term debt

As at	**September 30, 2018**	June 30, 2018
	$	$
At amortised cost		
Loan, denominated in Canadian dollars (a)(j)(k)	**3,228,222**	3,431,655
Loan from other entities, denominated in Canadian dollars (b)(j)(k)	**3,865,266**	4,018,170
Loan, denominated in US dollars (c)(j)(k)	**1,119,647**	1,272,907
Loans, denominated in Canadian dollars (d)(k)	**675,560**	709,520
Loan from other entities, denominated in Canadian dollars (e)	**22,445**	24,511
Loan from other entities, denominated in Canadian dollars (f)	**115,678**	122,390
Loan from other entities, denominated in Canadian dollars (g)	**112,014**	120,830
Loans from other entities, denominated in Canadian dollars (h)	**186,392**	198,344
Loans from other entities, denominated in US dollars (i)	**332,514**	175,068
Loan from other entities, denominated in Canadian dollars	**3,250**	3,673
	9,660,988	10,077,068
Less: Current portion	**2,255,491**	2,235,345
Long-term debt	**7,405,497**	7,841,723

(a) Loan
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 1.5% (5.20% as at September 30, 2018 and 4.95% as at June 30, 2018), payable in 72 monthly instalments of $69,444, principal only, maturing on July 18, 2022. The loan is presented net of financing costs of $35,666.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (6.20% as at September 30, 2018 and 5.95% as at June 30, 2018), payable in 96 monthly instalments of $52,083, principal only, reimbursement starting the 14th day of six-month following the disbursement, maturing on December 4, 2024. The loan is presented net of financing costs of $40,984.

(c) Loan
On October 20, 2015, an agreement was concluded for a loan amounting to $2,584,000 (US$2,000,000), to finance the acquisition of all the assets of Clearlogx®'s control technology and its specialty coagulant business line. The loan bears interest at prime rate plus 1.0% (6.75% as at September 30, 2018 and 6.25% as at June 30, 2018), payable in 60 monthly instalments of $43,100 (US$33,333), principal only, maturing on October 20, 2020.

(d) Loans
On September 20, 2014, an agreement was concluded for a loan of $460,000, secured by a first rank hypothec on the Ham-Nord plant, representing a carrying value of $1,131,000, bearing interest at floating prime rate plus 1.05% (6.85% as at September 30, 2018 and 6.60% as at June 30, 2018), payable in one instalment of $4,120 on September 23, 2015 and 131 monthly instalments of $3,480, principal only, maturing on August 23, 2026.

On April 13, 2016, an agreement was concluded for a loan of $565,000, bearing interest at floating prime rate plus 1.0% (6.80% as at September 30, 2018 and 6.55% as at June 30, 2018), payable in one instalment of $8,360 on June 23, 2016 and 71 monthly instalments of $7,840, principal only, maturing on May 23, 2022.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(e) Loan from other entities
On July 12, 2016, an agreement was concluded for a loan of $41,720 bearing interest at 3.4% payable in monthly instalments of $801 and maturing July 12, 2021.

(f) Loan from other entities
In January 2015, the Corporation entered into an agreement for a loan of $200,000 for the renovation of the premises. The loan bears interest at 6.83% and is payable in 87 monthly instalments of $2,921, principal and interest, and is maturing in June 2022.

(g) Loan from other entities
On October 12, 2017, an agreement was concluded for a loan of $150,700 to finance the acquisition of equipment. The loan bears interest at 5.34% and is payable in 48 monthly instalments of $3,463, principal and interest, and is maturing in August 2021.

(h) Loans from other entities
In April 2018, the Corporation entered in financing agreements totaling $207,659 to finance the acquisition of automotive equipment. The loans bear interest at 4.49% and are payable in 60 monthly instalments totaling $3,870, principal and interest, and maturing in March 2023.

(i) Loans from other entities
In April 2018, the Corporation entered in financing agreements totaling $184,314 (US$139,971) to finance the acquisition of automotive equipment. The loans bear interest ranging between 5.99% to 7.59% and are payable in 60 monthly instalments totaling $3,640 (US$2,764), principal and interest, and maturing in March 2023.

In September 2018, the Corporation entered in financing agreements totaling $171,509 (US$131,264) to finance the acquisition of automotive equipment. The loans bear interest ranging between 7.26% to 9.29% and are payable in 60 monthly instalments totaling $3,442 (US$2,634), principal and interest, and maturing in September 2023.

(j) These long-term debt arrangements require that the Corporation meet the following financial ratios:
- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity less than or equal to 3.25:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

(k) A $30.0 M movable hypothec on the universality of the Corporation's property have been pledged as security for these credit facilities.

Covenants

As at September 30, 2018, the Corporation was in compliance with the ratios required under its credit facility, except for the working capital ratio for which a waiver was received from the lender.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

8. Additional information about the nature of costs components

a) Expenses by nature

Three-month period ended September 30,	2018	2017
	$	$
Material	8,268,105	8,003,963
Salaries and fringe benefits	10,369,847	10,017,660
Subcontractors and professional fees	2,012,686	2,131,324
Rent, electricity, insurance and office expenses	669,045	478,077
Telecommunications and travel expenses	901,936	890,316
Share based compensation	83,047	120,632
Other expenses	937,029	523,363
Total cost of goods sold, operating, selling, administrative and research and development expenses	23,241,695	22,165,335
Depreciation of property, plant and equipment	278,536	307,230
Amortization of intangible assets	699,350	691,117
Costs including depreciation and amortization	24,219,581	23,163,682

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month periods ended September 30, 2018 and 2017; and ii) the amounts of cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation of property, plant and equipment by function

Three-month periods ended September 30,	2018	2017
	$	$
Cost of goods sold	231,223	268,752
Operating expenses	928	682
Selling expenses	11,551	9,435
Administrative expenses	34,834	28,361
	278,536	307,230

Amortization of intangible assets by function

Three-month periods ended September 30,	2018	2017
	$	$
Cost of goods sold	147,436	112,450
Selling expenses	480,534	547,636
Administrative expenses	71,380	31,031
	699,350	691,117

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Cost per function including depreciation and amortization

Three-month periods ended September 30,	2018	2017
	$	$
Cost of goods sold	**19,243,295**	18,544,814
Operating expenses	**1,329,078**	878,067
Selling expenses	**2,139,534**	2,195,284
Administrative expenses	**1,507,674**	1,537,002
Research and development expenses	**-**	8,515
	24,219,581	23,163,682

c) Other losses – net

Three-month periods ended September 30,	2018	2017
	$	$
Unrealized exchange (gain)/loss	**54,524**	(98,501)
Realized exchange (gain)/loss	**(38,914)**	2,794
Other (gains)/losses (a)	**(13,958)**	345,802
	1,652	250,095

(a) During the three-month period ended September 30, 2017, the Corporation was victim of an external fraud perpetrated through its banking online platform, which led to a net loss of $363,364.

9. Net loss per share

The following table sets out the weighted average basic and diluted number of outstanding shares used to compute the basic and diluted loss per share:

Three-month periods ended September 30,	2018	2017
Net loss	**($323,469)**	($1,089,875)
Basic and diluted weighted average number of share outstanding	**40,144,214**	40,144,214
Basic and diluted net loss per share	**($0.008)**	($0.027)
Items excluded from the calculation of diluted net loss per share because the exercise price was greater than the average market price of the common shares		
Stock options	**2,554,334**	2,565,334

For the three-month period ended September 30, 2018 and 2017, the diluted net loss per share was the same as the basic net loss per share, since the effect of stock options is anti-dilutive. Accordingly, the diluted net loss per share for these periods was calculated using the basic weighted average number of shares outstanding.

10. Segment information

Products and services from which reportable segment derive their revenues

For management purposes, the Corporation is organised into business units based on its products and services. The Corporation operates under a single reportable segment consisting of delivering drinking water and process water production and wastewater treatment systems, including related services.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following is an analysis of the Corporation's revenues for the period for the continuing operations.

Three-month periods ended September 30,	2018	2017
	$	$
Projects and Aftermarket revenues	**10,271,745**	10,934,741
Specialty products revenues	**4,206,172**	3,245,463
Operation and maintenance revenues	**9,892,589**	8,437,794
	24,370,506	22,617,998

Geographical information

Three-month period ended September 30,	2018	2017
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**4,192,054**	5,114,976
United States	**18,127,354**	15,789,946
Other	**2,051,098**	1,713,076
	24,370,506	22,617,998

Revenues are attributed to the various countries according to the customer's country of residence.

As at	September 30, 2018	June 30, 2018
	$	$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	**6,808,309**	6,882,661
United States	**29,983,847**	31,130,134
	36,792,156	38,012,795

11. Related party disclosure and remuneration

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250,000 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of a non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,166,000 as at September 30, 2018 ($1,354,167 as at June 30, 2018).

An amount of $7,192 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of loss for the three-month period ended September 30, 2018 ($7,192 for the three-month period ended September 30, 2017).

b) Compensation of executive officers and board of directors

The remuneration of executive officers and of the Board of Directors during the period was as follows:

Three-month period ended September 30,	**2018**	2017
	$	$
Short-term benefits [1]	**279,075**	441,222
Post-employment benefits [2]	**32,626**	15,906
Share-based payments	**83,047**	120,632
	394,748	577,760

(1) Short-term benefits include mainly wages, salaries, bonuses and other non-monetary benefits.
(2) Post-employment benefits include the Corporation's share purchase plan contribution.

The amounts disclosed in the table are the amount recognised as an expense during the reporting period related to the executive officers and members of the Board of Directors.

The remuneration of executive officers and Board of Directors is determined by the Corporation's corporate governance, remuneration and risks committee having regards to the performance of individuals and market trends.

12. Comparative figures

Certain comparative figures have been reclassified to conform to this fiscal year's presentation.

GENERAL INFORMATION

Board of Directors

Philippe Gervais, Chairman of the Board (1)
Frédéric Dugré, President, Chief Executive Officer and Director
Pierre Côté, Director (3)
Élaine C. Phénix, Director
Jean-Réal Poirier, Director (2) (3)
Richard Hoel, Director (1)
Lisa Henthorne, Director (2) (3) (4)
Stephen A. Davis, Director (2)
Robert Comeau, Director (1)

Management

Frédéric Dugré, President and Chief Executive Officer (3) (4)
Marc Blanchet, Chief Financial Officer and Secretary
Guillaume Clairet, Chief Operating Officer (3) (4)
Denis Guibert, Vice President and General Manager, Engineering
Gregory Madden, Vice President, Aftermarket and Digital Solutions
Rock Gaulin, Vice President, Manufacturing and Operations
William Douglass, Vice President, Operation and Maintenance and General Manager of Utility Partners

(1) Audit Committee
(2) Governance, Remuneration and Risks Committee
(3) Technology and Projects Committee
(4) Operation and Maintenance Committee

Advisory Members
Operation and Maintenance Committee

Elisa Speranza
Leonard Graziano

Legal Counsel
McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors
Ernst & Young LLP

Transfer Agent
AST Trust Company (Canada)

OFFICES AND PLANTS

Head Office
330, rue St-Vallier Est, Suite 340
Quebec City, Quebec, G1K 9C5
Phone: 418.688.0170
Fax: 418.688.9259

investor@h2oinnovation.com
www.h2oinnovation.com

Manufacturing Plants (North America)
201 1st Avenue
Ham-Nord, Quebec, G0P 1A0

6 Chemin Vimy, Suites 200 and 300
St-Joseph-de-Coleraine, Quebec, G0N 1B0

1048 La Mirada Court
Vista, California 92081

8900, 109th Ave N, Suite 1000
Champlin, Minnesota 553160

Offices
1046 18th Ave SE
Calgary, Alberta T2G 1L6

5500 North Service Road, Suite 207
Burlington, Ontario L7L 6W6

6 Barroeta Aldamar
48001 Bilbao, Spain

1710 23rd Avenue,
Gulfport, Mississippi 39501

7220 S. Cinnamon Road, Suite 110
Las Vegas, Nevada 89113