Interim Financial Report
Second quarter ended
December 31, 2018

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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 December 31, 2018, in comparison with the corresponding period ended December 31, 2017. The MD&A should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the quarter ended December 31, 2018. Certain statements set forth in this MD&A regarding the operations and activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 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 thousands of 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")

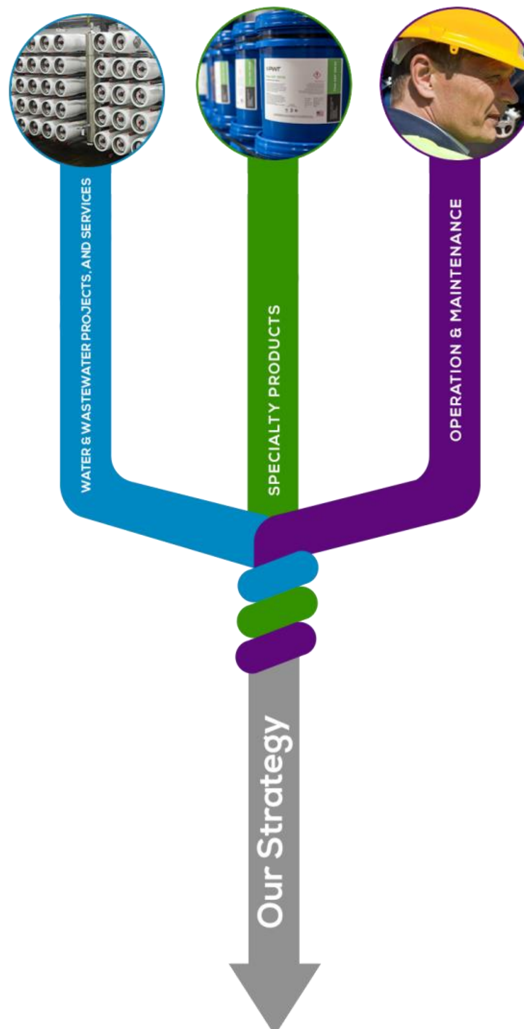
H_2O Innovation designs and provides custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users, aftersales services as well as digital solutions to monitor and optimize water treatment plants.

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 and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars)

COMPARATIVE FIGURES

The following paragraphs highlight certain information regarding our operations for the three-month and six-month periods ended December 31, 2018 and December 31, 2017. Starting July 1, 2018, the aftermarket and services financial 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, most of the aftermarket and services opportunities and sales are related to water and wastewater systems designed, engineered and manufactured by our Project business pillar. 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 12 – *Segment information* of the Corporation's condensed interim consolidated financial statements dated December 31, 2018 have been adjusted to reflect this reclassification.

See the reclassification detailed below:

Three-month periods ended

(in thousands of Canadian dollars)	**December 31, 2017**			
	Before reclassification	**Aftermarket and services**	**After reclassification**	**December 31, 2018**
	$	$	$	**$**
Projects and Aftermarket revenues	6,578	3,140	9,718	**11,852**
Specialty Products revenues	10,626	(3,140)	7,486	**5,881**
O&M revenues	8,615	-	8,615	**11,645**
	25,819	**-**	**25,819**	**29,378**

Six-month periods ended

(in thousands of Canadian dollars)	**December 31, 2017**			
	Before reclassification	**Aftermarket and services**	**After reclassification**	**December 31, 2018**
	$	$	$	**$**
Projects and Aftermarket revenues	14,734	5,928	20,662	**22,138**
Specialty Products revenues	16,650	(5,928)	10,722	**10,078**
O&M revenues	17,053	-	17,053	**21,533**
	48,437	**-**	**48,437**	**53,749**

RESULTS OF OPERATIONS – FINANCIAL HIGHLIGHTS

for the three-month and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars except per share value)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues	**29,378**	25,819	**53,749**	48,437
Gross profit margin before depreciation and amortization	**6,244**	6,213	**11,750**	10,667
Gross profit margin before depreciation and amortization (%)	**21.3%**	24.1%	**21.9%**	22.0%
Operating expenses	**1,246**	1,009	**2,574**	1,886
Selling expenses	**1,990**	2,218	**3,637**	3,856
Administrative expenses	**1,671**	1,625	**3,072**	3,112
Total SG&A	**4,907**	4,852	**9,283**	8,854
% SG&A over revenues	**16.7%**	18.8%	**17.3%**	18.3%
Net loss	**(1,212)**	(1,341)	**(1,535)**	(2,431)
Basic and diluted net loss per share	**(0.027)**	(0.033)	**(0.036)**	(0.061)
Adjusted net loss [a]	**(343)**	(783)	**(14)**	(942)
Basic and diluted adjusted loss per share	**(0.008)**	(0.020)	**(0.000)**	(0.023)
EBITDA [a]	**910**	1,227	**2,005**	1,348
Adjusted EBITDA[a]	**1,377**	1,358	**2,643**	1,945
Adjusted EBITDA over revenues (%)	**4.7%**	5.3%	**4.9%**	4.0%

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

FINANCIAL HIGHLIGHTS

for the three-month period ended December 31, 2018
compared with the three-month period ended December 31, 2017

$29.4 M
↑ 13.8%
Revenues

- Overall organic growth coming mainly from O&M and Projects & Aftermarket business pillars, while Specialty Products decreased momentarily due to unexpected delays in significant orders; and
- Financial integration of Hays as of December 1, 2018 impacted the consolidated revenues for the second quarter of fiscal year 2019.

$147.7 M
from $116.1 M
Consolidated Backlog

- Coming from Projects & Aftermarket and O&M business pillars, providing visibility on the next fiscal years:
  - $52.5 M in Projects backlog;
  - $95.2 M in O&M backlog.

$6.2 M or 21.3%
from $6.2 M or 24.1%
Gross Profit Margin

- Lower level of gross profit margin before depreciation and amortization in % is mostly impacted by the business mix, while the gross profit margin before depreciation and amortization in $ was stable.

16.7%
from 18.8%
SG&A

- This decrease is explained by a stable level of SG&A expenses, while revenues grew by 13.8% over the same period.

$1.4 M or 4.7%
from $1.4 M or 5.3%
Adjusted EBITDA

- Lower level of revenues from Specialty Products, having a high gross profit margin before depreciation and amortization impacted the adjusted EBITDA in %.

($1.2 M)
from ($1.3 M)
Net Loss

- Lower level of revenues from Specialty Products, having a high gross profit margin before depreciation and amortization impacted the net loss

($0.3 M)
from ($0.8 M)
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 ADJUSTED EBITDA

for the three-month and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Net loss for the period	**(1,212)**	(1,341)	**(1,535)**	(2,431)
Finance costs – net	**969**	473	**1,500**	824
Income taxes	**72**	1,177	**(19)**	1,039
Depreciation of property, plant and equipment	**288**	243	**567**	550
Amortization of intangible assets	**793**	675	**1,492**	1,366
EBITDA	**910**	1,227	**2,005**	1,348
Unrealized exchange (gains) losses	**(11)**	25	**44**	(73)
Stock-based compensation costs	**75**	106	**158**	226
Net loss on bank fraud	**-**	-	**-**	363
Acquisition-related costs, integration costs and other costs	**403**	-	**436**	81
Adjusted EBITDA	**1,377**	1,358	**2,643**	1,945

ACQUISITION OF HAYS UTILITY SOUTH CORPORATION

On November 14, 2018, the Corporation entered into a share purchase agreement pertaining to the acquisition of all the issued and outstanding shares of Hays Utility South Corporation ("Hays"), a privately-owned provider of water and wastewater asset management services for municipal utility districts in the State of Texas. The effective date of the acquisition is December 1, 2018.

Hays is providing O&M services to forty-one (41) clients, ranging from commercial to municipal utilities, in addition to the billing and collection services of over 34,000 customers each month. Founded in 1970, Hays has a staff of more than seventy (70) employees, including plant operators, plumbers, electricians, construction and repair crews, a customer service call center, field service representatives, client relations managers and other support staff.

H_2O Innovation acquired Hays for a cash consideration of $6.0 M (US$4.5 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a two-year period, was estimated at $2.4 M (US$1.8 M) using the Corporation's best estimate as at the acquisition date. The purchase price is also subject to customary working capital adjustments as of the closing date. The working capital adjustments were not final as of the date of the financial statements and have been estimated at $0.2 M by management as at December 31, 2018.

The purchase price was financed through a bought deal private placement of Corporation's common shares for total gross proceeds amounting to approximately $13.1 M, under which 15,745,775 common shares of the Corporation were issued at a price of $0.83 per common share. The Corporation also issued an aggregate of 642,710 non-transferable warrants to the underwriters of the bought deal private placement to purchase one Common Share per warrant at a price of $0.83, which warrants are effective until November 30, 2020.

This acquisition complements the venture that was started during fiscal year 2015 with respect to leasing and O&M services and reinforced with the acquisition of Utility Partners in July 2016. This acquisition solidifies H_2O Innovation's business model by adding recurring sales coming from O&M activities, which are predictable, and therefore counterbalance the lumpiness of revenues coming from sales of water treatment projects.

FINANCIAL RESULTS

for the three-month periods ended December 31, 2018 and 2017

Consolidated revenues from our three business pillars for the three-month period ended on December 31, 2018 increased by $3.6 M, or 13.8%, to reach $29.4 M compared to $25.8 M for the comparable quarter of previous fiscal year. This increase is partially fueled by the acquisition of Hays, as well as the organic growth from the Projects & Aftermarket and O&M business pillars.

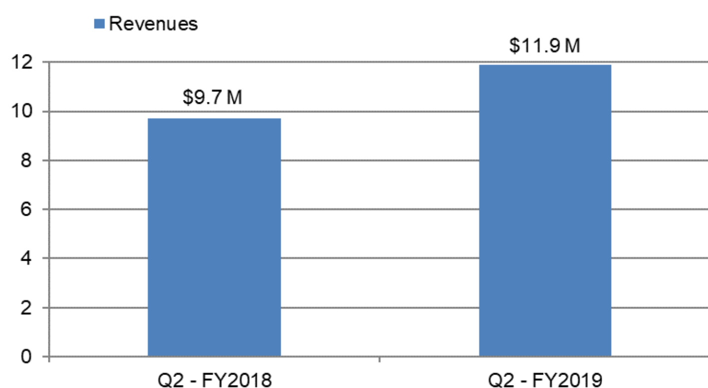
The Projects & Aftermarket business pillar is showing an increase of $2.2 M, or 21.9% of revenues, while having a healthier backlog with better projects' diversification. The focus for this business pillar is to improve the gross profit margin before depreciation and amortization prior to focusing on growing the volume of revenues. Therefore, to reach that goal, H_2O Innovation is executing more industrial and wastewater projects previously secured in the backlog, and is observing positive upside in the gross profit margins being recorded.

Specialty Products business pillar is showing a momentary decrease of $1.6 M, or 21.4% of revenues, for the second quarter of fiscal year 2019 compared to the same quarter of the previous fiscal year. This decrease is partially explained by delays out of our control in delivering significant orders of couplings for recurring customers. The Specialty Products business pillar was also impacted by a general slowdown in the maple industry, due to adverse weather conditions during the last maple syrup season. As a result, maple syrup producers have experienced a challenging year resulting in a lower production, thus lowering the investments they can spend in new capital equipment purchase. 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. Regarding Piedmont's operations, the bookings of new couplings and filter housings orders have reached a new high at the end of the second quarter. However, most of the revenues from these large orders have not been recognized in this current quarter.

The O&M business pillar is showing a constant growth, with a revenue increase of $3.0 M, or 35.2%, during the second quarter of fiscal year 2019, compared to the same quarter of the previous fiscal year. This significant revenue growth is explained by a sustained organic growth mostly driven by scope of work increases on existing projects, and the acquisition of Hays, adding $1.5 M of revenues to this business pillar for the second quarter of fiscal year 2019.

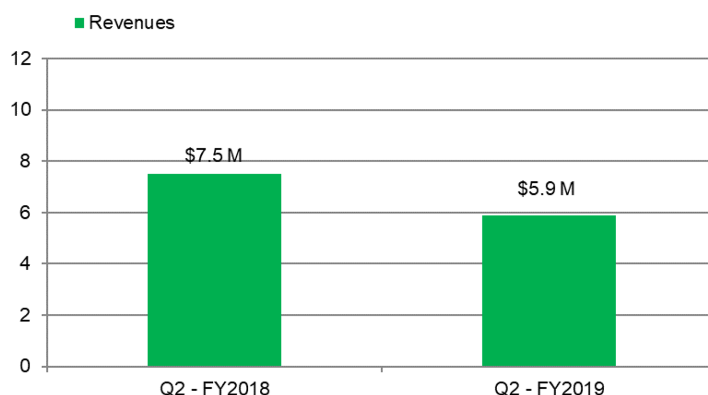
The following tables are illustrating the revenues coming from each of the business pillars.

Projects & Aftermarket Business Pillar



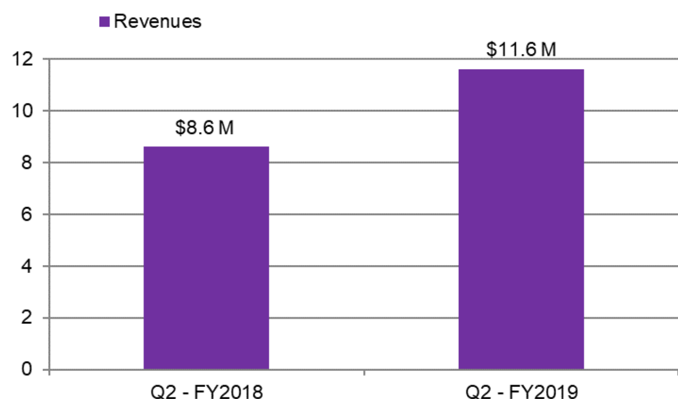
- Projects & Aftermarket revenues stood at $11.9 M for the second quarter of fiscal year 2019, compared with $9.7 M for the same quarter of last fiscal year, representing a $2.2 M or 21.9% increase;
- A well-balanced backlog, with diversification seen between water and wastewater projects: 32.7% of the projects being wastewater as of December 31, 2018, compared to 34.0% as of December 31, 2017. The wastewater projects are usually characterized by better gross profit margins, while reducing the risk related to focusing on a single market;
- Backlog's diversification is also seen between industrial and municipal projects, with 38.8% of the projects being industrial as of December 31, 2018, compared to 23.0% as of December 31, 2017, such projects being usually characterized by better gross profit margins;
- Current Projects' pipeline remains very rich in opportunities and the backlog stood at $52.5 M, as of December 31, 2018, compared to $51.9 M for the comparable quarter of fiscal year 2018. Thanks to our diversification of applications and to a rigid selection process from the sales team, our backlog is very healthy and carries projects at higher average gross profit margin.

Specialty Products Business Pillar



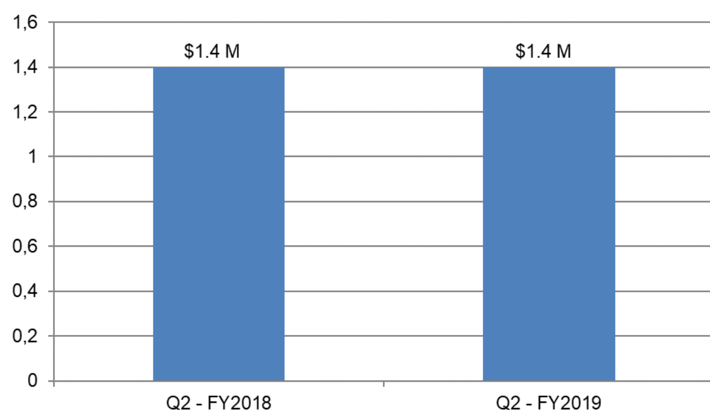
- Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry, are recurring by nature. They stood at $5.9 M for the three-month period ended December 31, 2018, compared to $7.5 M for the same quarter of previous fiscal year, representing a $1.6 M, or 21.4% decrease;
- The decrease in revenues for this business pillar is attributable to timing of significant orders related to Piedmont, which were delayed by the customers. It was also impacted by a general slowdown in the maple industry, due to adverse weather conditions during last maple syrup season;
- On the other hand, we continue to expand our distribution network by adding new distributors of PWT and Piedmont in new territories such as Russia, Singapore and Australia. All these new distributors will impact the coming quarters as they will place basic stocking orders and start to generate recurrent new sales.

O&M Business Pillar



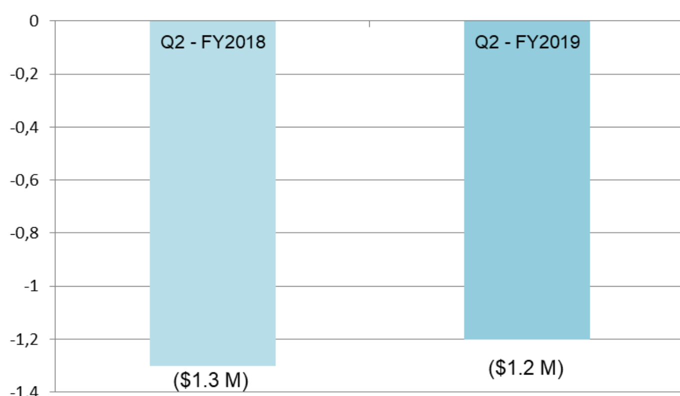
- O&M recurring revenues of $11.6 M for the second quarter of fiscal year 2019, compared with revenues of $8.6 M for the comparable period of fiscal year 2018, representing an increase of $3.0 M, or 35.2%;
- Of this $3.0 M revenue increase, $1.5 M is attributable to the acquisition of Hays and is representing one month of revenues following Hays' acquisition effective on December 1, 2018;
- The organic growth of the O&M business pillar for the second quarter of fiscal year 2019 is explained by two factors:
  - Renewal of projects with scope expansion;
  - Annual consumer price index ("CPI") adjustments on existing projects;
- Our backlog for the O&M business pillar stood at $95.2 M as at December 31, 2018, representing an increase of 48.3% compare to the $64.2 M backlog as at December 31, 2017, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options.

Adjusted EBITDA



- Adjusted EBITDA was fairly stable at $1.4 M for the second quarter of fiscal year 2019 and for the comparable period of fiscal year 2018;
- Our adjusted EBITDA in % decreased to 4.7% for the three-month period ended December 31, 2018, compared to 5.3% for the same quarter of last fiscal year;
- Decrease of the adjusted EBITDA in % was due to a decrease of the gross profit margin before depreciation and amortization, associated to a lower level of revenues with higher gross profit margins coming from Specialty Products.

Net Loss



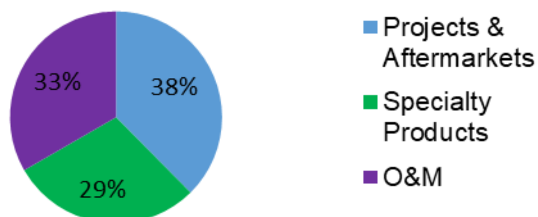
- The net loss decreased by $0.1 M to reach ($1.2 M) during the second quarter of fiscal year 2019, from a net loss of ($1.3 M) for the same quarter of the previous fiscal year;
- For the comparable quarter of the previous fiscal year, the net loss was significantly impacted by the Tax Cuts and Jobs Act, a tax legislation reducing the federal tax rate enacted by the U.S. government during the second quarter of fiscal year 2018, leading to an additional deferred tax expense of $1.1 M for the quarter. Without the $1.1 M impact from the new U.S. tax legislation, net loss for the second quarter of fiscal year 2018 would have been ($0.2 M);
- The net loss for this quarter is mostly due to an increase of non-recurring costs associated with the acquisition of Hays and the related financing, amounting to $0.4 M and $0.3 M respectively;
- Gross profit margin before depreciation and amortization was stable at $6.2 M, for the second quarter of fiscal year 2019 and for the comparable quarter of the previous fiscal year, while revenues increased by 13.8% over the same period. This decrease of gross profit margin before depreciation and amortization contributed to the net loss. Indeed, this second quarter was particularly strong with revenues coming from the Project & Aftermarket business pillar, while the Specialty Products presented a slower quarter. The Maple business line is still impacted by a slower year for the maple syrup producers. Furthermore, two significant orders of couplings from the Piedmont business line were delayed to the following quarters, thus denying us revenue recognition of higher margins products in this second quarter.

Revenues on a Quarterly Basis

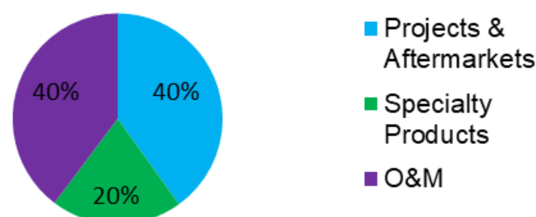
	FY2018				FY2019		Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	Q2	(Q3, Q4 FY2018 & Q1, Q2 FY2019)	(Q3, Q4 FY2017 & Q1, Q2 FY2018)
Revenues from Projects & Aftermarket business pillar [(1)]	$11.0 M	$9.7 M	$9.8 M	$10.5 M	**$10.3 M**	**$11.9 M**	**$42.5 M**	$36.0 M
Revenues from Specialty Products business pillar [(1)]	$3.2 M	$7.5 M	$7.8 M	$4.3 M	**$4.2 M**	**$5.9 M**	**$22.2 M**	$22.4 M
Revenues from O&M business pillar	$8.4 M	$8.6 M	$9.1 M	$9.8 M	**$9.9 M**	**$11.6 M**	**$40.4 M**	$35.3 M
Total revenues	$22.6 M	$25.8 M	$26.7 M	$24.6 M	**$24.4 M**	**$29.4 M**	**$105.1 M**	$93.7 M

(1) These figures have been adjusted to reflect the reclass of the aftermarket and 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



$25.8 M



$29.4 M

Our business model is allowing us to gain predictability and, through our integrated offering combining systems design and manufacturing to O&M and Specialty Products, we are maintaining long-term relationships with our customers. Hence, our recurring sales tend to increase continuously as we are commissioning new systems and adding new O&M contracts. Moreover, with the latest addition of Hays to the O&M business pillar, new opportunities are opening in a strategic geographical market such as the State of Texas. With just one month of integration, we already identified new contracts and scope of work increases within our existing projects.

With three strong business pillars, the Corporation is very well balanced and not dependant on a single source of revenue. As revenues coming from Aftermarket services, Specialty Products and O&M activities 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 December 31, 2018, recurring revenues represented 70.8% of the Corporation's total revenues, compared to 74.5% for the comparable period of the previous fiscal year. 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 business 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 second quarter of fiscal year 2019, the combined backlog of secured contracts between Projects and O&M reached $147.7 M compared to $116.1 M for the comparable quarter of the previous fiscal year, delivering organic growth of 27.2% 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.

GROSS PROFIT MARGIN AND EXPENSES

for the three-month periods ended December 31, 2018 and 2017

	Q2 FY2019[2]	Q2 FY2018[2]	Variance	Significant contributions to variance
Gross Profit Margin Before Depreciation and Amortization [3]	**$6.2 M** 21.3%	$6.2 M 24.1%	**$- M**	The gross profit margin before depreciation and amortization was stable at $6.2 M, while revenues increased by 13.8%. The decrease of gross profit margin before depreciation and amortization in % is explained by the business mix, with an increase of the sales coming from the O&M business pillar, characterized by lower margins but steadier revenues and profits. The revenues coming from Specialty Products business line is lower this quarter, impacting negatively the gross profit margin before depreciation and amortization in % as this business pillar is characterized by higher gross profit margin before depreciation and amortization.
SG&A [1] [3]	**$4.9 M** 16.7%	$4.8 M 18.8%	**+ $0.1 M**	The SG&A expenses in dollar remained fairly stable this quarter, compared to the second quarter of the previous fiscal year. The SG&A over revenues in % decreased to 16.7%, compared to 18.8% for the second quarter of the previous fiscal year. The decrease is explained by a stable level of SG&A expenses, while growing revenues by 13.8% over the same period.
Operating Expenses [3]	**$1.2 M** 4.2%	$1.0 M 3.9%	**+ $0.2 M**	This increase of $0.2 M is due to the acquisition of Hays on December 1, 2018, as well as hiring associated with development of new products, investments to improve logistic and supply chain activities, new places of operations and corporate offices and to support the increasing volume of operations.
Selling Expenses [3]	**$2.0 M** 6.8%	$2.2 M 8.6%	**- $0.2 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The selling expenses decreased by $0.2 M compared to the second quarter of the previous fiscal year. This decrease is explained by the momentary decrease in revenues coming from the Specialty Products business pillar, lowering the level of sales commissions.
Administrative Expenses [3]	**$1.7 M** 5.7%	$1.6 M 6.3%	**+ $0.1 M**	The administrative expenses in dollar remained fairly stable this quarter, compared to the second quarter of the previous fiscal year. The slight increase of the administrative expenses is due to the acquisition of Hays on December 1, 2018.

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(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 from these figures.

Finance Costs – Net

Finance costs – net have increased, reaching $1.0 M for the quarter ended December 31, 2018 compared with $0.5 M for the same period of previous fiscal year. This increase is explained by the financing fees incurred in relation with the change of bank. On November 28, 2018, the Corporation entered into a credit agreement with a new lender with respect to credit facilities aggregating an amount of up to $20.0 M. These new credit facilities should allow the Corporation to reduce its banking fees and interest charges in the coming quarters. The Corporation also increased its use of the available credit facilities during this quarter compared to the same quarter of the previous fiscal year.

In order to mitigate its credit risk and increase its borrowing capacity, the Corporation insures a portion of its accounts receivable through EDC insurance coverage, under which 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 ($1.2 M) or ($0.027) per share for the second quarter of fiscal year 2019 compared with a loss of ($1.3 M) or ($0.033) per share for the comparable quarter of fiscal year 2018. The net loss for the second quarter of fiscal year 2019 is partially due to non-recurring expenses such as financing costs ($0.3 M) and acquisition and integration costs ($0.4 M) related to the acquisition of Hays on December 1, 2018.

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.

(in thousands of Canadian dollars)	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Net loss	**(1,212)**	(1,341)	**(1,535)**	(2,431)
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**307**	-	**333**	-
Net loss on bank fraud Canada (net of tax 0%)[1]	**-**	-	**-**	363
Amortization of intangible assets from acquisition Canada (net of tax 0%)[1]	**39**	39	**79**	79
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**448**	413	**951**	821
Stock based compensation expenses Canada (net of tax 0%)[1]	**75**	106	**158**	226
Adjusted net earnings (loss)	**(343)**	(783)	**(14)**	(942)

Commitments

The Corporation has entered into long-term lease agreements expiring between 2019 and 2024 which call for lease payments of $7.5 M for the rental of space and supply agreements. The minimum annual payments over the next five years are $2.9 M in 2019, $2.2 M in 2020, $1.1 M in 2021, $0.9 M in 2022 and $0.4 M in 2023.

Information on Share Capital

As at December 31, 2018, the Corporation had 55,889,989 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 December 31, 2018

Periods ended (in thousands of Canadian dollars)	**December 31, 2018**	September 30, 2018	June 30, 2018
	$	$	$
Revenues (LTM[2] basis)	**104,980**	101,421	99,668
Accounts receivable	**20,408**	19,587	17,832
Accounts payable	**16,582**	13,303	13,370
Inventories	**8,189**	8,233	7,000

As at December 31, 2018, accounts receivable stood at $20.4 M compared with $17.8 M as at June 30, 2018. The increase of $2.6 M, or 14.4%, is mostly attributable to increase of revenues in our O&M business pillar, with scope of work expansions in our existing projects leading to increased invoicing. Invoicing milestones reached in significant water treatment projects before the end of the quarter and the increase in revenue level during the quarter for the Projects & Aftermarket business pillar also impacted the level of accounts receivable.

Inventories increased by $1.2 M, or 17.0%, to reach $8.2 M as at December 31, 2018, from $7.0 M as at June 30, 2018. This increase is to support the Specialty Products business pillar, for which inventories 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 business line, there is a seasonal effect on the inventory, as the Corporation is building up an inventory for the maple syrup season. The increase of inventory level is also impacted by delays in the delivery of significant orders for customers, which started to be shipped after the quarter ended. Management is taking measures to reduce the inventory to a lower level in order to increase its working capital available for operations.

Accounts payable and accrued liabilities increased by $3.2 M, or 24.0%, to $16.6 M as at December 31, 2018, from $13.4 M as at June 30, 2018. This increase is mainly due to the timing of the projects for the period ended December 31, 2018, with significant purchase orders standing in the accounts payable at period end.

Periods ended (in thousands of Canadian dollars)	**December 31, 2018**	September 30, 2018	June 30, 2018
		$	$
Costs incurred in excess of billings	**7,276**	5,015	6,574
Billings in excess of costs incurred	**(3,890)**	(3,639)	(2,260)
Work in progress - net	**3,386**	1,376	4,314

Costs incurred in excess of billings increased by $0.7 M, or 10.7%, to $7.3 M as at December 31, 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 $1.6 M, or 72.1% to $3.9 M as at December 31, 2018, from $2.3 M as at June 30, 2018. This increase is also attributable to differences between project advancement and project invoicing schedules.

Periods ended (in thousands of Canadian dollars, except for ratio)	**December 31, 2018**	September 30, 2018	June 30, 2018
	$	$	$
Working capital	**11,055**	6,666	7,194
Working capital ratio	**1.34**	1.23	1.26
Equity	**52,992**	39,712	40,963

The working capital increased by $3.9 M, from $7.2 M as at June 30, 2018 (ratio of 1.26) to $11.1 M as at December 31, 2018 (ratio of 1.34). This improvement of the working capital is due notably to the $13.1 M coming from the equity financing completed in November 2018 and to the cash flows from operating activities of $2.8 M for the six-month period ended December 31, 2018.

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

Equity

For the period ended December 31, 2018, shareholders' equity increased by $12.0 M to $53.0 M, from $41.0 M as at June 30, 2018. The shareholders' equity was impacted by the equity financing of $13.1 M related to the acquisition of Hays during the second quarter of fiscal year 2019, subdued by share issuance costs of $0.9 M. The following items also impacted the shareholder's equity to a lesser extent: 1) the ($1.5 M) net loss for the six-month period ended December 31, 2018; 2) the $0.2 M increase in stock option due to the stock-based compensation costs; 3) the $0.2 M related to the issuance of brokers' warrants under the bough deal private placement; and; 4) the Canadian dollar's fluctuation generating an unrealized exchange gain of $1.2 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 (in thousands of Canadian dollars)	**December 31, 2018**	September 30, 2018	June 30, 2018
		$	$
Bank overdraft	**-**	779	260
Bank loans	**8,493**	9,091	9,205
Current portion of long-term debt	**1,718**	2,256	2,235
Long-term debt	**6,689**	7,406	7,842
Less: Cash	**(5,968)**	(1,796)	(1,998)
Net debt	**10,932**	17,736	17,544

During the second quarter of fiscal year 2019, the net debt decreased, to reach $10.9 M as at December 31, 2018, from $17.5 M as at June 30, 2018. This decrease is mainly attributable to the change of bank and the renegotiation of our credit facilities with our new and existing lenders, the financing related to the acquisition of Hays, and to the cash flows from operating activities of $2.8 M for the six-month period ended December 31, 2018.

On November 28, 2018, the Corporation entered into a credit agreement with a new lender with respect to credit facilities aggregating an amount of up to $20.0 M.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2018, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.5 M which expire at various dates through fiscal year 2022. Of these letters of credit, $1.4 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 December 31, 2018:

- Debt-to-EBITDA ratio, defined as total debt divided by EBITDA:
    - not more than 3.50:1.00 until the end of the fiscal year ending June 30, 2019; and
    - not more than 3.1:1.00 at all times thereafter
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures:
    - greater than or equal to 1.10:1.00 until the end of the fiscal year ending June 30, 2019; and
    - greater than or equal to 1.20:1:00 at all times thereafter.

As at December 31, 2018, the Corporation was in compliance with the ratios required under its credit agreements.

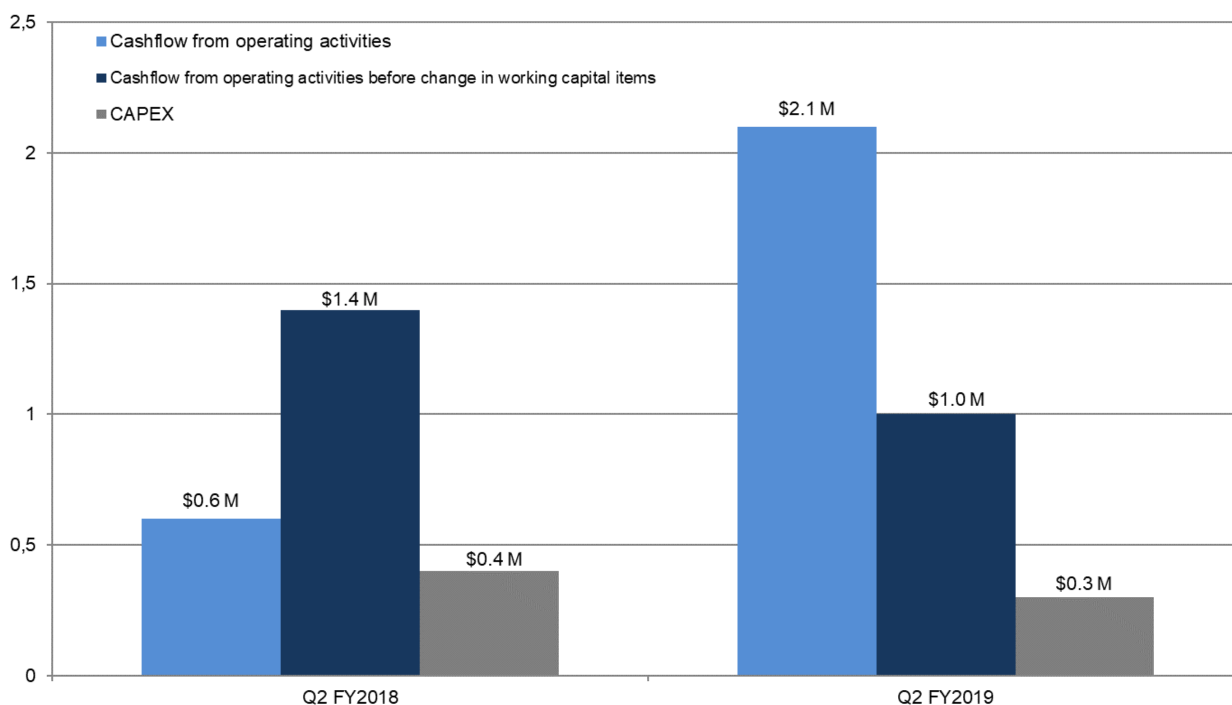
CASH FLOWS AND CAPITAL EXPENDITURES

A comparison of the Corporation's cash flows for the three-month and six-month periods ended December 31, 2018 and December 31, 2017 is presented below:

	Three-month periods ended December 31,		Six-month periods ended December 31,	
(in thousands of Canadian dollars)	**2018**	2017	**2018**	2017
	$	$	**$**	$
Cash flows from operating activities before change in working capital items	**1,014**	1,356	**2,178**	1,571
Change in working capital items	**1,189**	(735)	**719**	(3,824)
	2,203	621	**2,897**	(2,253)
Interests received / Income taxes paid	**(100)**	(4)	**(96)**	(106)
Cash flows from (used in) operating activities	**2,103**	617	**2,801**	(2,359)
Cash flows used in investing activities	**(6,531)**	(341)	**(6,863)**	(771)
Cash flows from financing activities	**9,499**	158	**8,459**	2,619
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(120)**	(3)	**(167)**	(123)
Net change	**4,951**	431	**4,230**	(634)
Cash – net of bank overdraft – Beginning of period	**1,017**	2,621	**1,738**	3,686
Cash – net of bank overdraft – End of period	**5,968**	3,052	**5,968**	3,052

Cash Flows from Operating Activities

Operating activities generated $2.1 M in cash for the quarter ended December 31, 2018, compared to $0.6 M of cash generated during the same period of previous fiscal year. This increase of the cash flows generated by operating activities is a reflection of the change in working capital items. This change is mostly due to the advancement of major projects, for which significant invoicing milestones have been reached during the quarter.



Cash Flows from Investing Activities

For the second quarter of fiscal year 2019, investing activities used net cash of ($6.5 M) compared to ($0.3 M) used in investing activities for the comparable quarter of previous fiscal year. The variation is mainly attributable to the payment related to the acquisition of Hays for an amount of $6.2 M and, to a lesser extent, to investments in property, plant and equipment of $0.3 M.

Cash Flows from Financing Activities

Financing activities generated net cash of $9.5 M in the three-month period ended December 31, 2018 compared with $0.2 M of net cash generated during the same period of previous fiscal year. Proceeds from the private placement generated cash flows amounting to $13.1 M, with related share issue expenses of $0.7 M. These funds were used to complete the acquisition of Hays, to reimburse some of our long-term debts and for working capital activities. At the same time, the Corporation negotiated a loan agreement with its new and existing lenders, reimbursed its long-term debts with previous lenders and contracted new loans, lowering the long-term debt level by an aggregate amount of $1.7 M. Interests and financing costs paid during the second quarter of fiscal year 2019 amounted to $1.2 M.

Quarterly Summary Financial Information (unaudited)

	Three-month periods ended				
(in thousands of Canadian dollars, except for per share values)	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**	**March 31, 2018**	**Last twelve months**
	$	$	$	$	**$**
Revenues	**29,378**	24,371	24,536	26,695	**104,980**
EBITDA	**910**	1,094	635	927	**3,566**
Adjusted EBITDA	**1,377**	1,265	1,099	1,078	**4,819**
Adjusted EBITDA over revenues	**4.7%**	5.2%	4.5%	4.0%	**4.6%**
Net loss	**(1,212)**	(323)	(1,007)	(12)	**(2,554)**
Basic and diluted net loss per share	**(0.027)**	(0.008)	(0.025)	(0.000)	**(0.062)**
Cash flows from (used in) operating activities	**2,103**	698	(1,987)	2,124	**2,938**

	Three-month periods ended				
(in thousands of Canadian dollars, except for per share values)	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**	**Last twelve months**
	$	$	$	$	**$**
Revenues	25,819	22,618	24,038	21,285	**93,760**
EBITDA	1,227	122	(129)	258	**1,478**
Adjusted EBITDA	1,358	588	(20)	412	**2,338**
Adjusted EBITDA over revenues	5.3%	2.6%	(0.08%)	1.9%	**2.5%**
Net loss	(1,341)	(1,090)	(1,743)	(1,346)	**(5,520)**
Basic and diluted net loss per share	(0.033)	(0.027)	(0.045)	(0.034)	**(0.14)**
Cash flows from (used in) operating activities	617	(2,975)	3,521	(1,135)	**28**

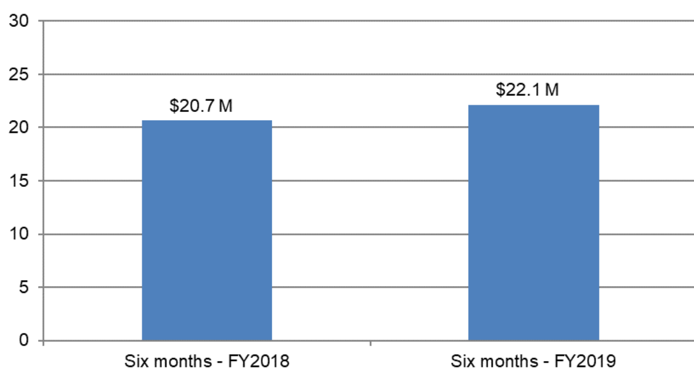
The significant growth of the Corporation and the scalability of the business model over the past year are clearly shown when comparing both twelve-month periods. Revenues for the last twelve months show an increase of 12.0% compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $2.3 M, or 2.5% of revenues to $4.8 M, or 4.6% in the last twelve months. Similarly, the cash flows from operating activities also evolved positively, moving from $0.02 M to $2.9 M over a twelve-month period.

FINANCIAL RESULTS FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2018 AND 2017

Revenues for the six-month period ended December 31, 2018 increased by $5.3 M, or 11.0%, to reach $53.7 M compared to $48.4 M for the comparable period of the previous fiscal year. This increase is mostly fueled by the organic growth of the Corporation, as well as the acquisition of Hays on December 1, 2018, contributing $1.5 M in revenues during the six-month period of this fiscal year.

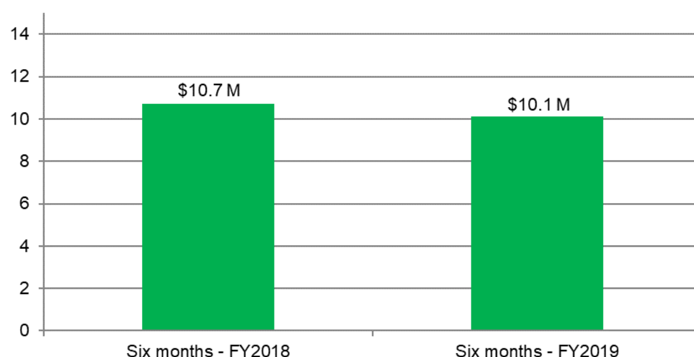
The following tables are illustrating the revenues coming from each business pillars.

Projects & Aftermarket Business Pillar



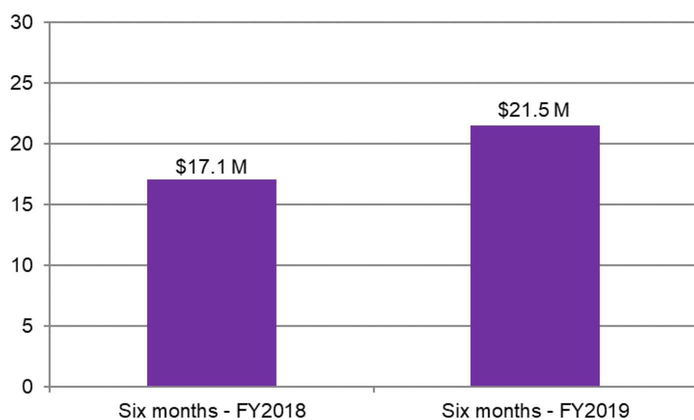
- Projects & Aftermarket revenues stood at $22.1 M for the six-month period ended on December 31, 2018, compared with $20.7 M for the same period of fiscal year 2018, representing a $1.4 M, or 6.8% increase.

Specialty Products Business Pillar



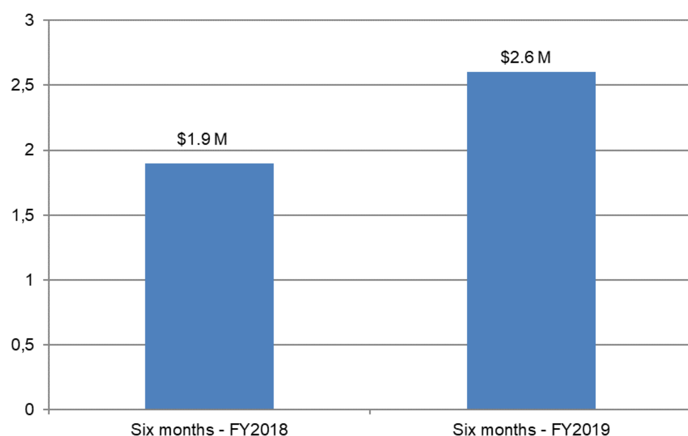
- Specialty Products revenues stood at $10.1 M for the six-month period ended on December 31, 2018, compared with $10.7 M for the same period of fiscal year 2018, representing a $0.6 M, or 5.6% decrease.

O&M Business Pillar



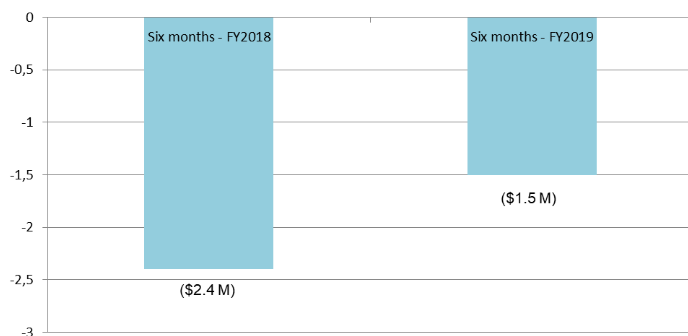
- O&M recurring revenues of $21.5 M for the six-month period ended December 31, 2018, compared with revenues of $17.1 M for the comparable six-month period of fiscal year 2018, representing a $4.4 M, or 25.7% increase;

Adjusted EBITDA



- Adjusted EBITDA increased by $0.7 M, or 36.8%, to reach $2.6 M for the six-month period ended December 31, 2018, from $1.9 M for the comparable period of fiscal year 2018;
- Improvement of the adjusted EBITDA was driven by the significant increase in revenues, as well as a decrease of the SG&A as a % over revenues;
- Our adjusted EBITDA in % improved, reaching 4.9% for the six-month period ended December 31, 2018, compared to 4.0% for the comparable period of the previous fiscal year.

Net Loss



- The net loss decreased by $0.9 M, or 36.8%, to reach ($1.5 M) during the six-month period ended December 31, 2018, from a net loss of ($2.4 M) for the same period of the previous fiscal year;
- The decrease of the net loss for the six-month period ended December 31, 2018 is due to adjusted EBITDA increase during the same period;
- The net loss is impacted by foreign exchange, as most of the revenues are in U.S. dollars, whereas the administrative expenses are primarily incurred in Canadian dollars. The Canadian dollar depreciation noticed during the period affected positively the net results of the Corporation compared to the same period of the previous fiscal year.

GROSS PROFIT MARGIN AND EXPENSES

For the six-month periods ended December 31, 2018 and 2017

	Six-month period ended December 31, 2018[2]	Six-month period ended December 31, 2017[2]	Variance	Significant contributions to variance
Gross Profit Margin before depreciation and amortization [3]	**$11.8 M** 21.9%	**$10.7 M** 22.0%	**+ $1.1 M**	The gross profit margin before depreciation and amortization increased by $1.1 M, or 10.1%, while revenues increased by 11.0%. This variation of gross profit margin before depreciation and amortization in % is explained by the business mix, with an increase of the sales coming from the O&M business pillar, characterized by lower margins but steadier revenues.
SG&A [1][3]	**$9.3 M** 17.3%	**$8.9 M** 18.3%	**+ $0.4 M**	The SG&A expenses in dollar increased by $0.4 M, or 5.0% compared to the six-month period of the previous fiscal year. The SG&A over revenues in % decreased to 17.3%, compared to 18.3% for the six-month period of the previous fiscal year. The decrease is explained by the increase in revenues of 11.0% while increasing SG&A expenses level by only 5.0% over the same period.
Operating Expenses [3]	**$2.6 M** 4.8%	**$1.9 M** 3.9%	**+ $0.7 M**	This increase of $0.7 M is due to the acquisition of Hays on December 1, 2018, as well as hiring associated with development of new products, investments to improve logistic and supply chain activities, new places of operations and corporate offices and to support the increasing volume of operations.
Selling Expenses [3]	**$3.6 M** 6.8%	**$3.9 M** 8.0%	**- $0.3 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The selling expenses decreased by $0.3 M compared to the previous comparable period. This decrease is explained by the momentary decrease in revenues coming from the Specialty Products business pillar, lowering the level of sales commissions.
Administrative Expenses [3]	**$3.1 M** 5.7%	**$3.1 M** 6.4%	**-**	The administrative expenses in dollar remained fairly stable for this six-month period, compared to the previous comparable period.

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(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 from these figures.

Finance Costs – Net

Finance costs – net increased, to $1.5 M for the six-month period ended December 31, 2018 compared to $0.8 M for the comparable period of the previous fiscal year. This increase is explained by the financing fees incurred in relation with the change of bank. On November 28, 2018, the Corporation entered into a credit agreement with a new lender with respect to credit facilities aggregating an amount of up to $20.0 M. These new credit facilities should allow the Corporation to reduce its banking fees and interest charges in the coming quarters.

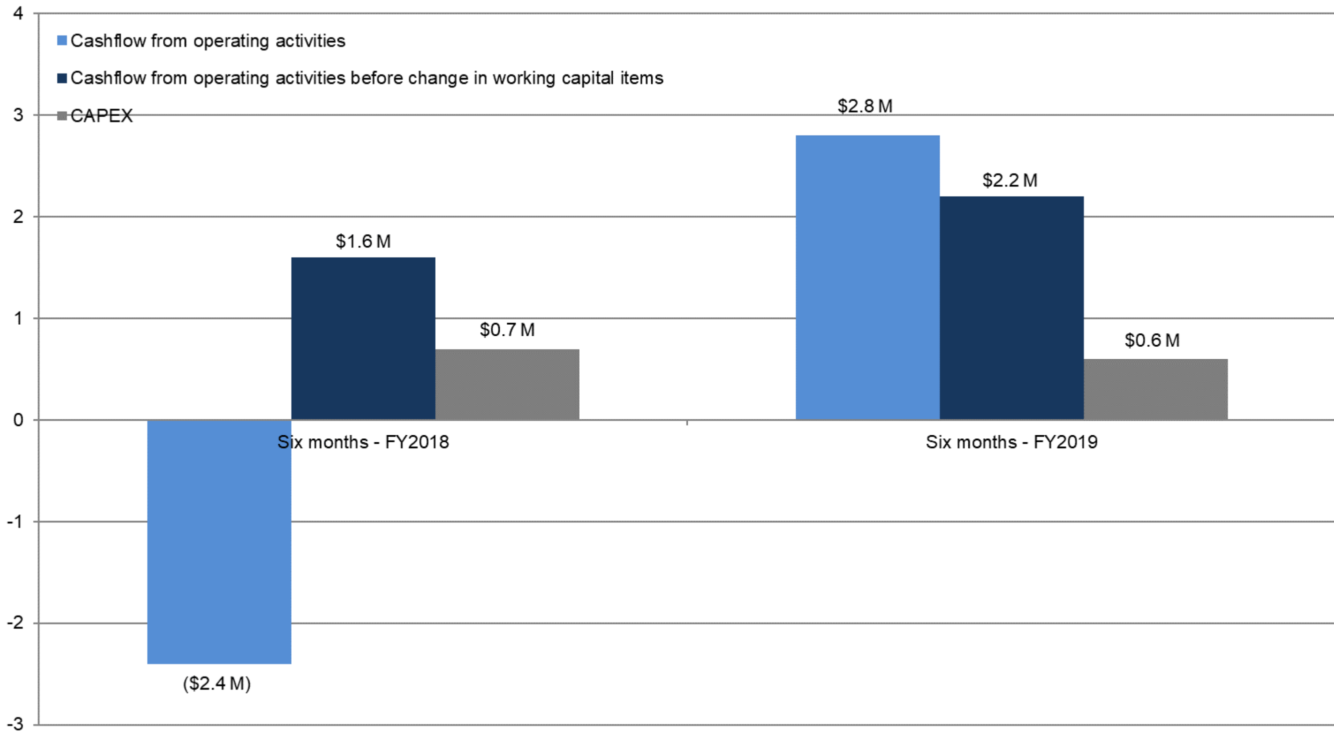
Net Loss

The net loss amounted to ($1.5 M) or ($0.036) per share for the six-month period ended December 31, 2018 compared with a net loss of ($2.4 M) or ($0.061) per share for the six-month period ended December 31, 2017. The net loss for the six-month period ended December 31, 2018 is partially due to non-recurring expenses such as financing costs ($0.3 M) and acquisition and integration costs ($0.4 M) related to the acquisition of Hays on December 1, 2018.

CASH FLOWS AND CAPITAL EXPENDITURES

Cash Flows from Operating Activities

Operating activities generated $2.8 M in cash for the six-month period ended December 31, 2018, compared to ($2.4 M) of net cash used for the comparable period ended December 31, 2017. This increase of the cash flows generated by operating activities is a reflection 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 six-month period.



Cash Flows from Investing Activities

For the six-month period ended December 31, 2018, investing activities used net cash of ($6.9 M), compared to ($0.8 M) used in investing activities for the comparable period of the previous fiscal year. The variation is mainly attributable to the payment related to the acquisition of Hays for an amount of $6.2 M and, to a lesser extent, to investments in property, plant and equipment of $0.6 M.

Cash Flows from Financing Activities

Financing activities generated net cash of $8.5 M for the six-month period ended December 31, 2018 compared with $2.6 M of net cash generated during the corresponding period ended December 31, 2017. Proceeds from the bought deal private placement generated cash flows amounting to $13.1 M, with related share issue expenses of $0.7 M. These funds were used to complete the acquisition of Hays and for working capital activities. At the same time, the Corporation negotiated its loan agreements with its new and existing lenders, reimbursed its long-term debts with previous lenders and contracted new loans, lowering the long-term debt and bank loans level by the aggregate amount of $2.2 M. Interests and finance costs paid during the first six-month period of fiscal year 2019 amounted to $1.7 M.

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 Audited Consolidated Annual 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 Company 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 Company determines the classification of its financial assets based on the Company'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 Company'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 revenues coming 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 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:

(in thousands of Canadian dollars)	
	$
Accounts payable and accrued liabilities	201
Deferred income tax	45
Deficit	156

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 12 - *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 December 31, 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.

Limitation on Scope of Design of Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at December 31, 2018, did not include the controls or procedures of the operations of Hays, following its acquisition effective on December 1, 2018. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of this acquisition in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

The following table summarizes the financial information, including fair market value of acquired intangible assets, for Hays following its acquisition:

(in thousands of Canadian dollars) (unaudited)	**One-month period ended December 31, 2018**
Results	**$**
Revenues	1,458
Net Earnings	72
	As at December 31, 2018
Financial Position	**$**
Current Assets	1,835
Non-Current Assets [1]	8,516
Current Liabilities	1,267
Non-Current Liabilities	342

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

December 31, 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
(in thousands of Canadian dollars) (Unaudited)

As at	December 31, 2018	June 30, 2018
	$	$
ASSETS (notes 6 and 8)		
Current assets		
Cash	**5,968**	1,998
Guaranteed deposit certificate	**279**	257
Accounts receivable (note 4)	**20,408**	17,832
Inventories (note 5)	**8,189**	7,000
Costs incurred in excess of billings	**7,276**	6,574
Income taxes receivable	**235**	116
Prepaid expenses	**840**	885
	43,195	34,662
Non-current assets		
Property, plant and equipment	**5,280**	4,748
Intangible assets (note 3)	**26,357**	18,753
Other assets	**344**	379
Related party loans receivable (note 13 a)	**1,250**	1,250
Goodwill (note 3)	**16,740**	14,511
Deferred income tax assets (note 3)	**-**	2,115
	93,166	76,418
LIABILITIES		
Current liabilities		
Bank overdraft	**-**	260
Bank loans (note 6)	**8,493**	9,205
Accounts payable and accrued liabilities (note 7)	**16,582**	13,370
Provisions	**140**	138
Billings in excess of costs incurred	**3,890**	2,260
Contingent consideration (note 3)	**1,318**	-
Current portion of long-term debt (note 8)	**1,718**	2,235
	32,141	27,468
Non-current liabilities		
Long-term debt (note 8)	**6,689**	7,842
Contingent consideration (note 3)	**1,145**	-
Deferred income tax liabilities (note 3)	**47**	-
Deferred rent	**152**	145
	40,174	35,455
SHAREHOLDERS' EQUITY		
Share capital (notes 3 and 9)	**89,116**	76,918
Reserve - Stock options	**3,100**	2,942
Reserve – Warrants (notes 3 and 9)	**167**	-
Deficit	**(43,439)**	(41,748)
Accumulated other comprehensive income	**4,048**	2,851
	52,992	40,963
	93,166	76,418

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré

President and Chief Executive Officer

Lisa Henthorne

Chairwoman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars, except share data) (Unaudited)

	Common shares (number)	Share capital	Reserve – Stock option	Reserve – Warrants	Deficit	Accumulated other comprehensive income (loss) – Translation adjustment	Total
		$	$	$	$	$	$
Balance as at July 1, 2017	40,144,214	76,918	2,504	-	(38,299)	2,180	43,303
Net loss for the period	-	-	-	-	(2,431)	-	(2,431)
Stock-based compensation costs	-	-	226	-	-	-	226
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	(1,428)	(1,428)
Balance as at December 31, 2017	40,144,214	76,918	2,730	-	(40,730)	752	39,670
Balance as at June 30, 2018	**40,144,214**	**76,918**	**2,942**	**-**	**(41,748)**	**2,851**	**40,963**
Impact of new accounting standards adoption (note 2)	**-**	**-**	**-**	**-**	**(156)**	**-**	**(156)**
Balance as at July 1, 2018	**40,144,214**	**76,918**	**2,942**	**-**	**(41,904)**	**2,851**	**40,807**
Stock-based compensation costs	**-**	**-**	**158**	**-**	**-**	**-**	**158**
Issuance of common shares under private placement (note 3 and 9)	**15,745,775**	**13,069**	**-**	**-**	**-**	**-**	**13,069**
Issuance of warrants under private placement (note 3 and 9)	**-**	**-**	**-**	**167**	**-**	**-**	**167**
Share issue expenses (note 3 et 9)	**-**	**(871)**	**-**	**-**	**-**	**-**	**(871)**
Net loss for the period	**-**	**-**	**-**	**-**	**(1,535)**	**-**	**(1,535)**
Other comprehensive loss – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**1,197**	**1,197**
Balance as at December 31, 2018	**55,889,989**	**89,116**	**3,100**	**167**	**(43,439)**	**4,048**	**52,992**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
For the three-month and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars, except per share data) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues (note 12)	**29,378**	25,819	**53,749**	48,437
Cost of goods sold (note 10 a)	**23,134**	19,606	**41,999**	37,770
Gross profit before depreciation and amortization	**6,244**	6,213	**11,750**	10,667
Operating expenses (note 10 a)	**1,246**	1,009	**2,574**	1,886
Selling expenses (note 10 a)	**1,990**	2,218	**3,637**	3,856
Administrative expenses (note 10 a)	**1,671**	1,625	**3,072**	3,112
Depreciation of property, plant and equipment (note 10 b)	**288**	243	**567**	550
Amortization of intangible assets (note 10 b)	**793**	675	**1,492**	1,366
Other losses – net (note 10 c)	**24**	134	**26**	384
Acquisition-related costs, integration costs and other costs (note 3)	**403**	-	**436**	81
Operating costs total	**6,415**	5,904	**11,804**	11,235
Income (loss) before finance costs and income taxes	**(171)**	309	**(54)**	(568)
Finance income (note 13 a)	**(10)**	(11)	**(17)**	(21)
Finance costs	**979**	484	**1,517**	845
Finance costs – net	**969**	473	**1,500**	824
Loss before income taxes	**(1,140)**	(164)	**(1,554)**	(1,392)
Current income tax expense	**3**	-	**6**	125
Deferred tax recovery (expense)	**69**	1,177	**(25)**	914
	72	1,177	**(19)**	1,039
Net loss for the period	**(1,212)**	(1,341)	**(1,535)**	(2,431)
Basic and diluted net loss per share (note 11)	**(0.027)**	(0.033)	**(0.036)**	(0.061)
Weighted average number of shares outstanding (note 11)	**45,449,856**	40,144,214	**42,797,035**	40,144,214

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the three-month and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Net loss for the period	**(1,212)**	(1,341)	**(1,535)**	(2,431)
Other comprehensive income - Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**2,052**	228	**1,197**	(1,428)
Comprehensive (loss) income for the period	**840**	(1,113)	**(338)**	(3,859)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and six-month periods ended December 31, 2018 and 2017
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Operating activities				
Loss before income taxes for the period	**(1,140)**	(164)	**(1,554)**	(1,392)
Non-cash items				
Finance costs – net	**969**	473	**1,500**	824
Depreciation of property, plant and equipment	**288**	243	**567**	550
Amortization of intangible assets	**793**	675	**1,492**	1,366
Deferred rent	**(5)**	13	**4**	53
Unrealized exchange (gain) loss on long-term debt	**34**	10	**11**	(56)
Stock-based compensation costs	**75**	106	**158**	226
	1,014	1,356	**2,178**	1,571
Change in working capital items	**1,189**	(735)	**719**	(3,824)
Cash from (used in) operations	**2,203**	621	**2,897**	(2,253)
Interests received	**9**	11	**17**	21
Income taxes paid	**(109)**	(15)	**(113)**	(127)
Net cash from (used in) operating activities	**2,103**	617	**2,801**	(2,359)
Investing activities				
Variation of guaranteed deposit certificate	**(1)**	(2)	**(22)**	59
Variation of other assets	**6**	139	**33**	139
Acquisition of property, plant and equipment	**(304)**	(365)	**(641)**	(745)
Acquisition of intangible assets	**(10)**	(113)	**(88)**	(224)
Proceeds from disposal of property, plant and equipment	**-**	-	**77**	-
Business combination (note 3)	**(6,222)**	-	**(6,222)**	-
Net cash used in investing activities	**(6,531)**	(341)	**(6,863)**	(771)
Financing activities				
Variation of bank loans	**(598)**	29	**(712)**	2,884
Long-term debt contracted (note 8)	**5,310**	1,151	**5,555**	1,601
Long-term debt reimbursement	**(6,362)**	(547)	**(7,004)**	(1,040)
Interest paid	**(937)**	(475)	**(1,466)**	(826)
Financing costs	**(279)**	-	**(279)**	-
Issuance of common shares under private placement (note 9)	**13,069**	-	**13,069**	-
Shares issue expenses (note 9)	**(704)**	-	**(704)**	-
Net cash from financing activities	**9,499**	158	**8,459**	2,619
Net change in cash	**5,071**	434	**4,397**	(511)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(120)**	(3)	**(167)**	(123)
Increase (decrease) in cash	**4,951**	431	**4,230**	(634)
Cash – net of bank overdraft - Beginning of period	**1,017**	2,621	**1,738**	3,686
Cash – End of period – Comprised of:				
Cash	**5,968**	3,373	**5,968**	3,373
Bank overdraft	**-**	(321)	**-**	(321)
Cash – net of bank overdraft - End of period	**5,968**	3,052	**5,968**	3,052

See accompanying notes to consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data) (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 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) ("Specialty Products"); and iii) operation and maintenance services for water and wastewater treatment systems ("O&M"). The registered office of the Corporation is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Quebec, G6V 2C7, Canada.

2. Basis of preparation

The Corporation's financial statements are presented in thousands of Canadian dollars. All values are rounded to the nearest thousand dollars, except where 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 audited consolidated annual 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 audited consolidated annual financial statements for the year ended June 30, 2018 and remained unchanged for the six-month period ended December 31, 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 the Corporation's audited consolidated annual financial statements for the year ended June 30, 2018. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's audited consolidated annual financial statements for the year ended June 30, 2018.

On February 12, 2019, 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 audited consolidated annual 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 Company 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 Company determines the classification of its financial assets based on the Company’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 Company’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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data) (Unaudited)

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 revenues coming 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 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
(in thousands of Canadian dollars, except per share data) (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	201
Deferred income tax	45
Deficit	156

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 12 - *Segment Information* for the disclosure on disaggregated revenue.

3. Business combination

Acquisition of Hays Utility South Corporation

Description of the business combination

On November 14, 2018, the Corporation entered into a share purchase agreement pertaining to the acquisition of all the issued and outstanding shares of Hays Utility South Corporation (“Hays”), a privately-owned provider of water and wastewater asset management services for municipal utility districts in the State of Texas. The effective date of the acquisition is December 1, 2018.

Hays is providing O&M services to forty-one (41) clients, ranging from commercial to municipal utilities, in addition to the billing and collection services of over 34,000 customers each month. Founded in 1970, Hays has a staff of more than seventy (70) employees, including plant operators, plumbers, electricians, construction and repair crews, a customer service call center, field service representatives, client relations managers and other support staff.

H_2O Innovation acquired Hays for a cash consideration of $6.0 M (US$4.5 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a two-year period, was estimated at $2.4 M (US$1.8 M) using the Corporation’s best estimate as at the acquisition date. The purchase price is also subject to customary working capital adjustments as of the closing date. The working capital adjustments were not final as of the date of the financial statements and have been estimated at $0.2 M by management as at December 31, 2018.

The purchase price was financed through a bought deal private placement of Corporation’s common shares for total gross proceeds amounting to approximately $13.1 M, under which 15,745,775 common shares of the Corporation were issued at a price of $0.83 per common share. The Corporation also issued an aggregate of 642,710 non-transferable warrants to the underwriters of the bought deal private placement to purchase one Common Share per warrant at a price of $0.83, which warrants are effective until November 30, 2020.

This acquisition complements the venture that was started during fiscal year 2015 with respect to leasing and O&M services and reinforced with the acquisition of Utility Partners in July 2016. This acquisition solidifies H_2O Innovation’s business model by adding recurring sales coming from O&M activities, which are predictable, and therefore counterbalance the lumpiness of revenues coming from sales of water treatment projects.

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The Corporation has not yet completed its fair value assessment of the assets acquired, the liabilities assumed and goodwill. Consequently, part of the fair value adjustments, mainly for intangible assets, are preliminary fair value estimates. The preliminary estimates thereof are subject to material adjustments to the fair value of the assets, liabilities and goodwill until the process is completed. The final purchase price allocation is expected to be completed as soon as management has gathered the significant information available and considered necessary in order to finalize this allocation especially for the intangible assets.

All of the intangible assets and the goodwill acquired are not deductible for tax purposes.

The preliminary estimates of the fair value of assets acquired and liabilities assumed for the Hays acquisition based on the estimated fair value on the date of acquisition and available information as at the date of the publication of these interim consolidated financial statements are as follow:

Estimated fair value recognized on acquisition date

(In thousands of Canadian dollars)	**December 1, 2018** **$**
Assets acquired	
Cash and cash equivalents	**363**
Accounts receivable [(1)]	**941**
Inventory	**188**
Property, plant and equipment	**478**
Other assets	**10**
Intangible assets acquired	
Customer relationships	**7,582**
Non-compete agreements	**200**
Trademark	**652**
Liabilities assumed	
Accounts payable and accrued expenses	**(926)**
Notes payable	**(347)**
Deferred tax liabilities	**(2,312)**
Identifiable net tangible assets acquired	**6,829**
Goodwill arising on acquisition	**1,743**
Purchase price consideration	**8,572**

(1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with nil of estimated uncollectible amount.

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Source and uses of funds at the transaction closing date

	December 1, 2018
	$
Source	
Private placement (note 9)	**13,069**
	13,069
Uses	
Cash consideration paid	**(5,954)**
Acquisition and integration costs	**(436)**
Share issuance costs (note 9)	**(871)**
Financing costs	**(322)**
Contingent consideration payable	**(2,417)**
Working capital for the Corporation's current activities	**(3,069)**
	-

Costs related to the acquisition

The total acquisition-related and integration costs amounted to $1.6 M and are included in the condensed interim consolidated financial statements as follows: share issuance costs amounting to $0.9 M are included in the share capital caption in the Consolidated Statements of Changes in Shareholders' Equity, financing costs of $0.3 M are included in the finance costs in the Consolidated Statements of Loss and $0.4 M of acquisition and integration costs are included in the Consolidated Statements of Loss.

Determination of fair value

At the acquisition date, the identifiable assets acquired are recognized at the acquisition-date fair value.

The Corporation's preliminary valuation of intangible assets has identified client relationships, non-compete agreements and trademark. The assigned useful lives are 10 years for client relationships, 3 years for non-compete agreements and 3 years for trademark. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's preliminary calculations, an amount of $1.7 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition. These estimates are subject to change or revaluation by management.

The change in carrying value of the goodwill is as follows:

	$
Balance as at June 30, 2017	14,301
Effect of foreign exchange differences	210
Balance as at June 30, 2018	14,511
Plus: Business combination – Hays	**1,743**
Effect of foreign exchange differences	**486**
Balance as at December 31, 2018	**16,740**

Impact of the business combination on the Corporation's financial performance

The Corporation's loss for the three-month and six-month periods ended December 31, 2018 include $1.5 M in revenues and a $0.1 M profit generated from Hays additional business.

If the business combination had been completed on July 1, 2018, the Corporation's consolidated revenues for the three-month period ended December 31, 2018 would have reached $32.3 M and consolidated loss for the three-month period ended December 31, 2018 would have been ($1.2 M). For the six-month period ended December 31, 2018, consolidated revenues would have reached $61.0 M, while the consolidated loss for the same period would have been ($1.5 M).

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a three-month and a six-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition would have occurred on July 1, 2018, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit should Hays had been acquired on July 1, 2018, the Corporation has:

- calculated depreciation of property, plant and equipment and amortization of other acquired intangible assets based on the fair value arising from initial recognition of the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements;
- adjusted the financial results from non-recurring expenses related to the previous owner of the Company; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

4. Accounts receivable

As at	**December 31, 2018**	June 30, 2018
	$	$
Trade accounts receivable	**15,841**	14,564
Retentions from customers under manufacturing contracts	**3,195**	2,628
Allowance for doubtful accounts	**(93)**	(93)
	18,943	17,099
Tax credits receivable	**25**	27
Other receivables	**1,440**	706
	20,408	17,832

5. Inventories

As at	**December 31, 2018**	June 30, 2018
	$	$
Raw materials	**1,260**	1,481
Finished goods	**6,929**	5,519
	8,189	7,000

6. Bank loans

New credit facilities

On November 28, 2018, the Corporation entered into a credit agreement with a new lender with respect to credit facilities aggregating an amount of up to $20,000, including a term loan in a maximum amount of $5,000, which is described in Note 8 – *Long-term debt.*

Under this credit agreement, the Corporation has access to the following credit facilities:

(i) a revolving facility for a maximum amount of $12,000, from which an amount of $8,493 was used as at December 31, 2018 comprised of an amount of $3,750 bearing interest at 2.34% and an amount of US$3,500 ($4,743 as at December 31, 2018) bearing interest at US$ Libor plus 2.0% (4.81% as at December 31, 2018);

(ii) a letter of credit facility for a maximum amount of $3,000 for the issuance of letters of credit entirely secured by EDC, from which an amount of $1,443 was not available as at December 31, 2018 considering the outstanding letters of credit issued by the Corporation's former bank and currently secured by EDC;

(iii) a hedging facility of $1,000, which was unused as at December 31, 2018; and

(iv) a credit facility enabling the Corporation to use a maximum amount of $400 on credit cards for Corporation's related expenses, which was unused as at December 31, 2018.

In order to secure these credit facilities with the new lender, the Corporation (and its affiliated entities) granted first ranking (i) movable hypothec on the universality of all its present and future assets in an amount of $25,000 for each grantor, and (ii) immovable hypothec on all the real property owned by the Corporation.

With its former bank, the Corporation has a credit facility enabling it to use a maximum amount of $250 on credit cards for Corporation's related expenses. This credit facility is secured by a guaranteed deposit certificate in an amount of $279 ($257 as at June 30, 2018). As at December 31, 2018, $99 was used on this credit facility ($109 as at June 30, 2018).

Former credit facilities

The Corporation had an authorized credit facility available of US$5,000 ($6,776 as at December 31, 2018) bearing interest at CDN prime rate plus 1.00% (4.45% as at June 30, 2018) and at US prime rate plus 1.00% (6.25% as at June 30, 2018). As at December 31, 2018, the amount used on this line of credit was fully repaid and the line of credit was closed.

The Corporation had an authorized credit facility available of US$2,000 ($2,710 as at December 31, 2018) bearing interest at CDN prime rate plus 1.00% (4.45% as at June 30, 2018) and at US prime rate plus 1.00% (6.25% as at June 30, 2018). As at December 31, 2018, the amount used on this line of credit was fully repaid and the line of credit was closed.

The Corporation had two credit facilities enabling it to issue letters of credit for a maximum amount of $2,000, both secured by EDC. Even if these credit facilities have been closed on December 19, 2018, as at December 31, 2018, the Corporation still has outstanding letters of credit amounting to $1,507 ($1,826 as at June 30, 2018) with its previous bank. Those letters of credit will not be renewed at their next expiry date and will be replaced, when necessary, by new letters of credit issued by the new Corporation's bank under the new credit facility.

The Corporation had access to a hedging facility of $500, which was unused and closed on December 19, 2018.

Covenants

As at December 31, 2018, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 8 – *Long-term debt*. The ratios were revised and changed as part of the credit agreement with the new lender.

7. Accounts payable and accrued liabilities

As at	December 31, 2018	June 30, 2018
	$	$
Trade accounts payable	**9,645**	8,015
Other accrued liabilities and accounts payable	**6,937**	5,355
	16,582	13,370

8. Long-term debt

As at	December 31, 2018	June 30, 2018
	$	$
At amortised cost		
Loan, denominated in Canadian dollars (a)(m)(n)	**4,389**	-
Loan from other entities, denominated in Canadian dollars (b)(m)	**2,712**	4,018
Loan, denominated in Canadian dollars (c)	**-**	3,432
Loan, denominated in US dollars (d)	**-**	1,273
Loans from other entities, denominated in Canadian dollars (e)	**-**	710
Loan from other entities, denominated in Canadian dollars (f)	**20**	25
Loan from other entities, denominated in Canadian dollars (g)	**108**	122
Loan from other entities, denominated in Canadian dollars (h)	**103**	121
Loan from other entities, denominated in Canadian dollars (i)	**178**	198
Loans from other entities, denominated in Canadian dollars (j)	**67**	-
Loans from other entities, denominated in US dollars (k)	**485**	175
Loan from other entities, denominated in US dollars (l)	**342**	-
Loan from other entities, denominated in Canadian dollars	**3**	3
	8,407	10,077
Less: Current portion	**1,718**	2,235
Long-term debt	**6,689**	7,842

(a) Loan
On November 28, 2018, a credit agreement was concluded for a term facility of a maximum amount of $5,000 to be used by the Corporation exclusively to refinance specific existing loans. On December 19, 2018, the Corporation requested a draw in the aggregate amount of $4,743 comprised of an amount of $4,400 bearing interest at 2.34% and an amount of $343 bearing interest at prime rate plus 0.75% (4.70% as at December 31, 2018). This loan is payable in 60 monthly instalments of $78, principal only, and is maturing on November 26, 2023. The loan is presented net of financing costs of $276.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (6.45% as at December 31, 2018 and 5.95% as at June 30, 2018). The maturity date and the monthly instalments were renegotiated during the quarter following a repayment of $1,000 on December 17, 2018. The loan is payable in 60 monthly instalments of $45 and maturing on December 14, 2023. The loan is presented net of financing costs of $38.

(c) Loan
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000 to finance the acquisition of Utility Partners. The loan bore interest at prime rate plus 1.5% (4.95% as at June 30, 2018). The loan was fully repaid on December 19, 2018. The remaining financing costs of $33 have been written-off.

(d) Loan
On October 20, 2015, an agreement was concluded for a loan amounting to US$2,000 ($2,710 as at December 31, 2018) to finance the acquisition of all the assets of Clearlogx® control technology and its specialty coagulant business line. The loan bore interest at prime rate plus 1.0% (6.25% as at June 30, 2018). The loan was fully repaid on December 19, 2018.

(e) Loans from other entities
On September 20, 2014, an agreement was concluded for a loan of $460 bearing interest at floating prime rate plus 1.05% (6.60% as at June 30, 2018). This loan was fully repaid on December 19, 2018.

On April 13, 2016, an agreement was concluded for a loan of $565 bearing interest at floating prime rate plus 1.0% (6.55% as at June 30, 2018). This loan was fully repaid on December 19, 2018.

(f) Loan from other entities
On July 12, 2016, an agreement was concluded for a loan of $42 to finance the acquisition of equipment. The loan bears interest at 3.4%, is payable in monthly instalments of $0.8, principal and interest, and is maturing in July 2021.

(g) Loan from other entities
In January 2015, the Corporation entered into an agreement for a loan of $200 for the renovation of premises. The loan bears interest at 6.83%, is payable in 87 monthly instalments of $3, principal and interest, and is maturing in June 2022.

(h) Loan from other entities
On October 12, 2017, an agreement was concluded for a loan of $151 to finance the acquisition of equipment. The loan bears interest at 5.34%, is payable in 48 monthly instalments of $3, principal and interest, and is maturing in August 2021.

(i) Loans from other entities
In April 2018, the Corporation entered in financing agreements totaling $208 to finance the acquisition of automotive equipment. The loans bear interest at 4.49%, are payable in 60 monthly instalments totaling $4, principal and interest, and are maturing in March 2023.

(j) Loan from other entities
In September 2018, The Corporation entered into an agreement for a loan of $69 to finance the acquisition of an automotive equipment. The loan bears interest at 5.99%, is payable in 72 monthly instalments of $1, principal and interest, and is maturing in September 2024.

(k) Loans from other entities
In April 2018, the Corporation entered in financing agreements totaling $190 (US$140) to finance the acquisition of automotive equipment. The loans bear interest ranging between 5.99% to 7.59%, are payable in 60 monthly instalments totaling $4 (US$3), principal and interest, and are maturing in March 2023.

In September 2018, the Corporation entered in financing agreements totaling $177 (US$131) to finance the acquisition of automotive equipment. The loans bear interest ranging between 7.26% to 9.29%, are payable in 60 monthly instalments totaling $4 (US$3), principal and interest, and are maturing in March 2023.

In November 2018, the Corporation entered in financing agreements totaling $155 (US$114) to finance the acquisition of automotive equipment. The loans bear interest ranging between 7.14% to 8.99%, are payable in 60 monthly instalments totaling $3 (US$2), principal and interest, and are maturing in March 2023.

(l) Loan from other entities
Following the acquisition of Hays, the Corporation acquired financing agreements totaling $484 (US$357) with respect to the acquisition of automotive equipment. The loans bear interest ranging between 3.74% and 6.59%, are payable between 36 and 48 monthly instalments totaling $12 (US$9), principal and interest, and are maturing through February 2019 to July 2022.

(m) These long-term debt arrangements require that the Corporation meet the following financial ratios:

- Debt-to-EBITDA ratio, defined as total debt divided by EBITDA
  - not more than 3.50:1.00 until the end of the fiscal year ending June 30, 2019; and
  - not more than 3.10:1.00 at all times thereafter.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures
  - greater than or equal to 1.10:1.00 until the end of the fiscal year ending June 30, 2019; and
  - greater than or equal to 1.20:1:00 at all times thereafter.

(n) This long-term debt arrangement is secured by a first ranking (i) movable hypothec on the universality of all the Corporation's present and future assets, and (ii) immovable hypothec on all the real property owned by the Corporation.

Covenants

As at December 31, 2018, the Corporation is in compliance with the ratios required under its credit agreements.

9. Capital stock

Private placement

On November 30, 2018, the Corporation issued, by way of a bought deal private placement, 15,745,775 common shares with gross proceeds of $13,069 and expenses of $871 for net proceeds of $12,198. The Corporation used the proceeds to complete the acquisition of Hays (note 3) and to support its working capital.

Warrants

On November 30, 2018, the Corporation issued an aggregate of 642,710 non-transferable warrants to the underwriters of the bought deal private placement to purchase one common share per warrant at a price of $0.83, which warrants are effective until November 30, 2020. The Black & Scholes value was established at $0.26 per warrant.

The table below shows the assumptions used in determining the share purchase warrants under the Black & Scholes option pricing model:

	November 30, 2018
Number of warrants	**642,710**
Expected dividend yield	**0%**
Expected volatility	**32%**
Risk-free interest rate	**2.16%**
Expected life (years)	**2**
Fair value at the grant date	**$0.260**

Share capital

The Corporation has authorized an unlimited number of common shares (being voting and participating shares) with no par value.

As at December 31, 2018, the Corporation has a total of 55,889,989 shares issued (40,144,214 as of June 30, 2018).

10. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Material	**10,148**	9,720	**18,416**	17,724
Salaries and fringe benefits	**12,479**	10,601	**22,849**	20,619
Subcontractors and professional fees	**2,249**	1,588	**4,262**	3,719
Rent, electricity, insurance and office expenses	**567**	518	**1,236**	996
Telecommunications and travel expenses	**1,127**	1,173	**2,029**	2,064
Bad debt expenses	**-**	13	**-**	13
Share based compensation	**75**	106	**158**	226
Other expenses	**1,396**	739	**2,332**	1,263
Total cost of goods sold, operating, selling and administrative expenses	**28,041**	24,458	**51,282**	46,624
Depreciation of property, plant and equipment	**288**	243	**567**	550
Amortization of intangible assets	**793**	675	**1,492**	1,366
Costs including depreciation and amortization	**29,122**	25,376	**53,341**	48,540

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its 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 and administrative 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 and six-month periods ended December 31, 2018 and 2017; and ii) the amounts of cost of goods sold, operating expenses, selling expenses and administrative 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 December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cost of goods sold	**240**	204	**471**	473
Operating expenses	**1**	1	**2**	1
Selling expenses	**11**	9	**23**	19
Administrative expenses	**36**	29	**71**	57
	288	243	**567**	550

Amortization of intangible assets by function	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cost of goods sold	**149**	82	**296**	195
Selling expenses	**571**	561	**1,052**	1,108
Administrative expenses	**73**	32	**144**	63
	793	675	**1,492**	1,366

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Cost per function including depreciation and amortization

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cost of goods sold	**23,523**	19,892	**42,766**	38,438
Operating expenses	**1,247**	1,010	**2,576**	1,887
Selling expenses	**2,572**	2,788	**4,712**	4,983
Administrative expenses	**1,780**	1,686	**3,287**	3,232
	29,122	25,376	**53,341**	48,540

c) Other losses – net

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Realized exchange (gain)/loss	**50**	121	**11**	124
Unrealized exchange (gain)/loss	**(11)**	25	**44**	(73)
Other (gains)/losses (a)	**(15)**	(12)	**(29)**	333
	24	134	**26**	384

(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.

11. 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 December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
Net loss	**($1,212)**	($1,341)	**($1,535)**	($2,431)
Basic and diluted weighted average number of share outstanding	**45,449,856**	40,144,214	**42,797,035**	40,144,214
Basic and diluted net loss per share	**($0.027)**	($0.033)	**($0.036)**	($0.061)

The following items are excluded from the calculation of basic and diluted net loss per share because their exercise price was greater than the average market price of the common shares at the date mentioned below:

	December 31, 2018	June 30, 2018
Stock options	**2,554,334**	2,554,334

For the three-month and six-month periods ended December 31, 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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12. 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 products and services.

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Projects and Aftermarket revenues	**11,852**	9,718	**22,138**	20,662
Specialty Products revenues	**5,881**	7,486	**10,078**	10,722
O&M revenues	**11,645**	8,615	**21,533**	17,053
	29,378	25,819	**53,749**	48,437

Geographical information

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues from external customers				
Revenues according to geographic location				
Canada	**4,561**	5,220	**8,753**	10,335
United States	**22,947**	17,859	**41,075**	33,649
China	**382**	612	**752**	640
Other	**1,488**	2,128	**3,169**	3,813
	29,378	25,819	**53,749**	48,437

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

As at	**December 31, 2018**	June 30, 2018
	$	$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	**6,714**	6,883
United States	**41,663**	31,130
	48,377	38,013

13. 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 (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 $979 as at December 31, 2018 ($1,354 as at June 30, 2018).

An amount of $8 was paid to the Corporation in regards of these loans and recorded as finance income in the Consolidated Statements of Loss for the three-month period ended December 31, 2018 and $16 for the six-month period ended December 31, 2018 ($7 for the three-month period ended December 31, 2017 and $16 for the six-month period ended December 31, 2017).

b) Compensation of executive officers and board of directors

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Short-term benefits [1]	**279**	378	**521**	819
Post-employment benefits [2]	**33**	23	**61**	39
Share-based payments	**75**	106	**158**	226
	387	507	**740**	1,084

[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 amounts 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.

14. Comparative figures

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

GENERAL INFORMATION

Board of Directors

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

Management

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

Advisory Members

Elisa Speranza (2)(4)
Leonard Graziano (3)(4)

(1) Audit Committee
(2) Governance, Remuneration and Risks Committee
(3) Growth Committee
(4) Operation and Innovation Committee

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

Independent Auditors
Ernst & Young LLP

Transfer Agent
AST Trust Company (Canada)

OFFICES AND PLANTS

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