



ANNUAL REPORT

Fiscal year ended on June 30, 2019

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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VALUE CREATION FOR CUSTOMERS

Our Three Business Pillars

Water & Wastewater Projects and Services ("Projects & Aftermarket")

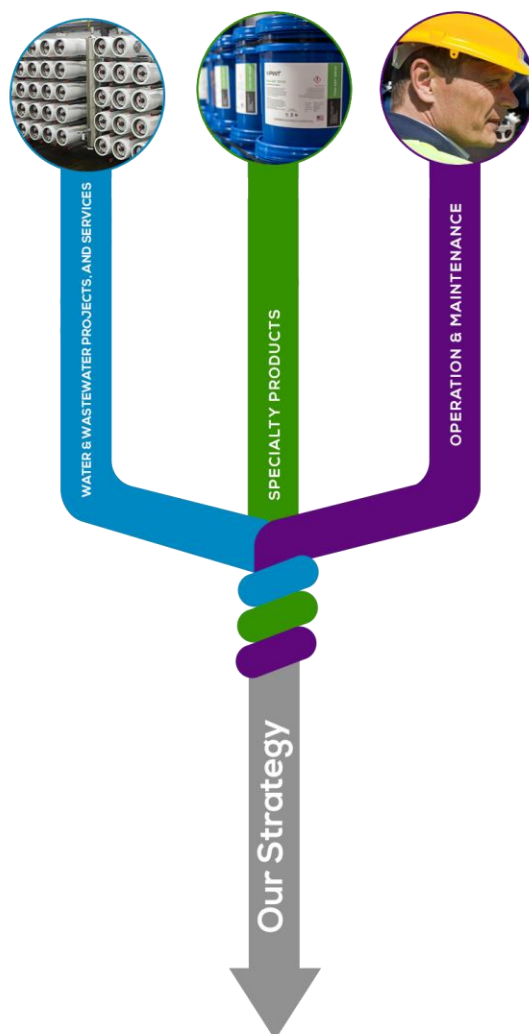
H₂O Innovation designs and provides custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users, aftersales services as well as digital solutions to monitor and optimize water treatment plants.

Specialty Products

H₂O 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")

H₂O Innovation operates, maintains, and repairs water and wastewater utilities, including 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.



HIGHLIGHTS – 1st PILLAR, PROJECTS & AFTERMARKET

- Delivered **Decatur, AK – 4.6 MGD**: system upgrade & expansion now using the flexMBR™ technology.
- Increased number of **wastewater** and **industrial** projects: diversification of awarded contracts.
- Obtained the **Inductive Automation Premier Integrator** certification: as of now, H₂O Innovation is the only OEM company in the water and wastewater treatment industry to have reached this status.
- Developed a partnership with **Sustainable Water**: 6 projects are now under progress and part of our backlog.





HIGHLIGHTS – 2nd PILLAR, SPECIALTY PRODUCTS

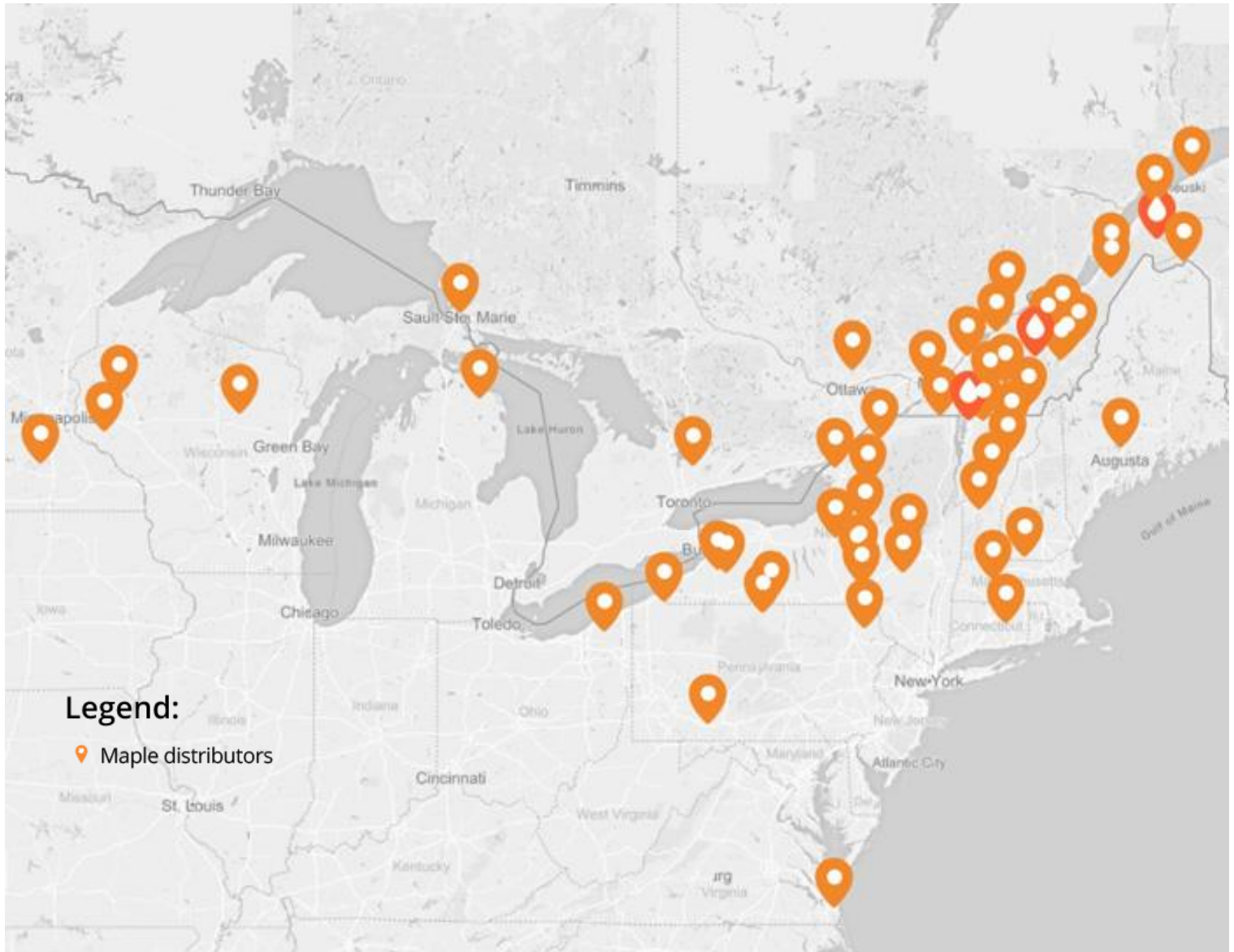
PWT™

- Delivered its largest single order in China: **2088 5-gallon pails** and **216 1-gallon jugs** of 11x concentrated antiscalant.
- Added **new filling station** at PWT's manufacturing plant in Vista, CA, to improve its production capacity and gain efficiency in the packaging of its manufactured products.

Piedmont®

- Launched new automatic **self-cleaning disc** and **screen** filters product line.
- Delivered Piedmont's **largest** FRP filter housings, in Middle East: diameter of **1600 mm** (with 410 cartridge elements of **50" length**).





HIGHLIGHTS – 2nd PILLAR, SPECIALTY PRODUCTS

H₂O Innovation Maple

- Broadened product offering: new **ultrafiltration** machine for maple sap and concentrate clarification.
- Product upgrade facing strong demand in the market, such as **20-inch** syrup filter press and Smartrek™ vacuum sensor – **triple port**.





Legend:

📍 H₂O O&M

HIGHLIGHTS – 3rd PILLAR, O&M

- Acquired **Hays South Utility Corporation** in Spring, TX (+70 employees) on December 1st, 2018.
- Captured first **sales synergies** between Hays and existing customers in Texas.
- Awarded new O&M contracts in **2** new states: Virginia & Oregon.
- Started O&M contract on a **Design Build industrial project** delivered by H₂O Innovation's Projects team.



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 H₂O Innovation's operating results and financial position for the years and the quarterly period ended June 30, 2019 and 2018. The MD&A should be read in conjunction with consolidated financial statements and the accompanying notes for the year ended June 30, 2019. Certain statements set forth in this MD&A regarding the operations and activities of H₂O 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 24, 2019 available on SEDAR (www.sedar.com).

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").

The forward-looking statements herein reflect the Corporation's expectations as at September 24, 2019, when the Corporation's Board of Directors approved this document, and are subject to change after this date. The Company does not undertake to update publicly or to revise any such forward-looking statements whether as a result of new information, future events or otherwise, unless required by applicable legislation or regulation.

RESULTS OF OPERATIONS

for the years ended June 30, 2019 and 2018
(in thousands of Canadian dollars)

COMPARATIVE FIGURES

The following paragraphs highlight certain information regarding our operations for the years ended June 30, 2019 and 2018. 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 Projects 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 23 – *Segment information* of the Corporation's consolidated financial statements dated June 30, 2019 have been adjusted to reflect this reclassification.

See the reclassification detailed below:

Years ended

(in thousands of Canadian dollars)

	June 30, 2019	June 30, 2018		
		Before reclassification	Aftermarket and services	After reclassification
	\$	\$	\$	\$
Projects and Aftermarket revenues	40,245	29,828	11,181	41,009
Specialty Products revenues	24,943	33,932	(11,181)	22,751
O&M revenues	52,770	35,908	-	35,908
	117,958	99,668	-	99,668

Furthermore, the Corporation initiated a strategic realignment of its organizational structure aimed at strengthening its position for longer-term growth. This realignment, which became effective April 1, 2019, resulted in a change to the Corporation's reportable segments, which are now: 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").

RESULTS OF OPERATIONS – FINANCIAL HIGHLIGHTS

for the years ended June 30, 2019 and 2018

(in thousands of Canadian dollars except per share value)

Years ended June 30	2019	2018
	\$	\$
Revenues	117,958	99,668
Gross profit before depreciation and amortization	27,118	22,107
Gross profit margin before depreciation and amortization (%)	23.0%	22.2%
General operating expenses	5,693	4,004
Selling expenses	7,743	8,073
Administrative expenses	6,989	6,518
Total SG&A	20,425	18,595
% SG&A over revenues	17.3%	18.6%
Net loss	(2,180)	(3,449)
Basic and diluted net loss per share	(0.044)	(0.086)
Adjusted net earnings ^(a)	1,086	688
Basic and diluted adjusted net earnings per share ^(a)	0.022	0.017
EBITDA ^(a)	5,638	2,911
Adjusted EBITDA ^(a)	7,213	4,124
Adjusted EBITDA over revenues (%)	6.1%	4.1%

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

FINANCIAL HIGHLIGHTS

for the year ended June 30, 2019
compared with the year ended June 30, 2018



\$118 M
↑ 18.4%
Revenues



\$127.9 M
Up 5.1% from \$121.7 M
Consolidated Backlog



\$27.1 M or 23.0%
from \$22.1 M or 22.2%
Gross Profit Margin



\$20.4 M or 17.3%
From \$18.6 M or 18.6%
SG&A



\$7.2 M or 6.1%
from \$4.1 M or 4.1%
Adjusted EBITDA ^(a)



(\$2.2 M)
from (\$3.4 M)
Net Loss



\$1.1 M
from \$0.7 M
Adjusted net earnings ^(a)



\$5.8 M
from (\$2.2 M)
**Cash flows generated
from operating activities**



\$9.8 M
from \$17.5 M
Net Debt

- Financial integration of Hays as of December 1, 2018 contributing to \$12.3 M the consolidated revenues for fiscal year 2019; and
- Organic growth coming mainly from O&M and Specialty Products business pillars, while Projects & Aftermarket decreased due to the timing of significant projects.
- Coming from Projects & Aftermarket and O&M business pillars, providing visibility on the next fiscal years:
 - \$45.2 M in Projects backlog vs \$53.6 M in 2018;
 - \$82.7 M in O&M backlog vs \$68.1 M in 2018.
- Higher level of gross profit margin before depreciation and amortization in % is mostly explained by the increase in revenues, the increase in gross profit margin in % coming from Projects & Aftermarket and O&M business pillars and by the reduction of the SG&A over revenues.
- This increase of SG&A is explained by the Hays acquisition, adding \$1.1 M in SG&A expenses this year;
- The decrease in % is explained by a reduction of the SG&A expenses over revenues, while revenues grew by 18.4%, compared to an increase of 9.8% for the SG&A over the same period.
- Higher level of revenues from Specialty Products, having a high gross profit margin before depreciation and amortization improved the adjusted EBITDA in %;
- The financial integration of Hays also supported the improvement of the adjusted EBITDA.
- Higher level of revenues from Specialty Products, having a high gross profit margin before depreciation and amortization;
- The acquisition of Hays also contributed to the reduction of the net loss by \$0.3 M;
- Continuous effort to improve the gross profit margins and a better management of SG&A expenses.
- Net earnings presented prior to acquisition and integration related costs, and amortization of intangible assets acquired through business combination.
- The higher level of revenues and the higher gross profit margin before depreciation and amortization improved the cash flows from operating activities;
- Improvement of the change in working capital items shows a healthier management of the Corporation's working capital items.
- Reduction of the Net Debt as at June 30, 2019 compared to June 30, 2018;
- The decrease is mainly attributable to the equity financing for the Hays acquisition and the cash flows from operating activities of \$5.8 M for fiscal year ended June 30, 2019.

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

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", Earnings before administrative costs ("EBAC") 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.

EBITDA is defined as earnings before finance costs – net, income taxes, depreciation and amortization.

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, the change in fair value of contingent consideration and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition costs, 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.

The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs, impact of U.S. tax reform, amortization of intangibles assets from acquisition and stock-based compensation costs. The reader can establish the link between net loss and adjusted net earnings (loss) with the reconciliation items presented in this report. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies. Adjusted net earnings (loss) is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

The definition of EBAC means the gross profit before depreciation and amortization reduced by the general operating and selling expenses. EBAC is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

Recurring revenue by nature is a non-IFRS measure and is defined by the management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or has a recurring sales pattern. Corporation's recurring revenues are coming from the following business lines: Aftermarket, Specialty Products and O&M.

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.

RECONCILIATION OF NET LOSS TO EBITDA AND ADJUSTED EBITDA

for the years ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

Years ended June 30,	2019	2018
	\$	\$
Net loss for the period	(2,180)	(3,449)
Finance costs – net	2,071	1,264
Income taxes	422	1,146
Depreciation of property, plant and equipment	1,349	1,139
Amortization of intangible assets	3,976	2,811
EBITDA	5,638	2,911
Unrealized exchange (gains) losses	222	(36)
Stock-based compensation costs	308	438
Net loss on bank fraud	-	443
Acquisition-related costs, integration costs and other costs	797	479
Change in fair value of contingent consideration – net of related costs	248	(111)
Adjusted EBITDA	7,213	4,124

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.

H₂O Innovation acquired Hays for an initial cash consideration of \$6.0 M (US\$4.5 M), a working capital adjustment of \$0.2 M (US\$0.2 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 \$2.3 M (US\$1.8 M) using the Corporation's best estimate as at the acquisition date. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment amounting to \$0.2 M (US\$0.2 M) was finalized and has been paid by the Corporation as at June 30, 2019.

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 exercisable 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 H₂O 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. O&M activities also provide an excellent selling platform for other specialty products coming from the 2nd business pillar.

FINANCIAL RESULTS

for the years ended June 30, 2019 and 2018

Consolidated revenues from our three business pillars for fiscal year ended on June 30, 2019 increased by \$18.3 M, or 18.4%, to reach \$118.0 M compared to \$99.7 M for the previous fiscal year. This increase is partially fueled by the acquisition of Hays, adding \$12.3 M of revenues, as well as the organic growth from the Specialty Products and O&M business pillars.

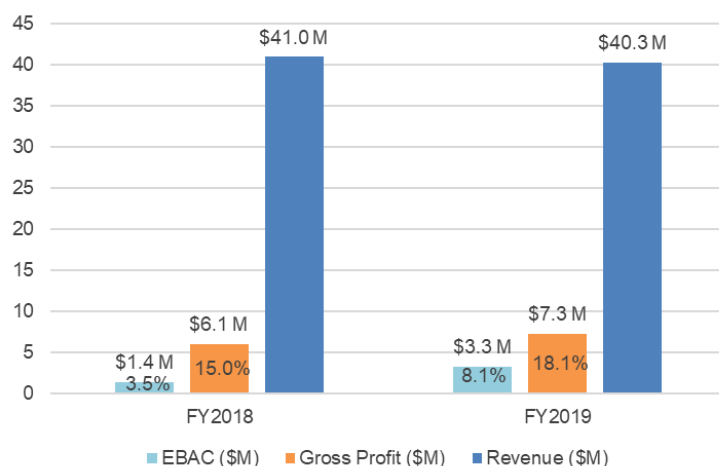
The Projects & Aftermarket business pillar is showing a decrease of \$0.7 M or 1.9 %, while having a healthier backlog with better projects' diversification. The focus for this business pillar is to improve the gross profit margin before depreciation and amortization prior to focusing on growing the volume of revenues. Therefore, to reach that goal, H₂O 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.

The Specialty Products business pillar is showing an increase of \$2.1 M or 9.6%, for fiscal year 2019 compared to the previous fiscal year, even though the revenues from the Maple business line decreased significantly. This increase is fueled by Piedmont's operations, with the bookings of couplings and filter housings reaching a new high at the end of the year. PWT, our specialty chemicals product line, also supported the growth as we increased our in-house manufacturing capacity of liquid cleaners and added an automated-filling line in our facility. This manufacturing improvement, along with the addition of new distributors in strategic territories, enabled the increase of the Corporation's revenues and gross profit margin before depreciation and amortization. The Specialty Products business pillar was also impacted by a general slowdown in the maple industry, due to adverse weather conditions during the 2018 maple syrup season. As a result, maple syrup producers have experienced a challenging year resulting in a lower production, thus lowering the investments spent in new capital equipment purchase, impacting revenues of this product line by 16.7%.

The O&M business pillar is showing a sustained organic growth combined to an external growth from the acquisition of Hays. Hence, for fiscal year 2019, the O&M revenue increased by \$16.9 M or 47.0%, compared to the previous fiscal year. The acquisition of Hays added \$12.3 M of revenues for fiscal year 2019, contributing to 23.3% of the revenue of this business pillar. The sustained organic growth of \$4.6 M is mostly driven by new projects won, as well as scope of work increases on existing projects.

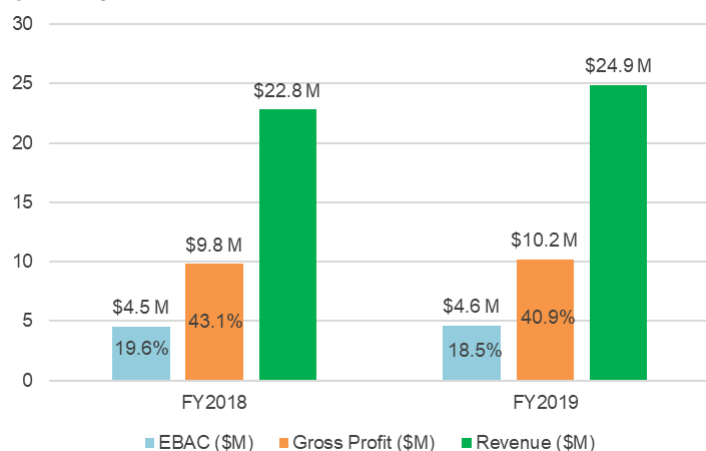
The following tables are illustrating the revenues, the gross profit margin before depreciation and amortization, and the Earnings before administrative expenses, coming from each of the business pillars.

Projects & Aftermarket Business Pillar



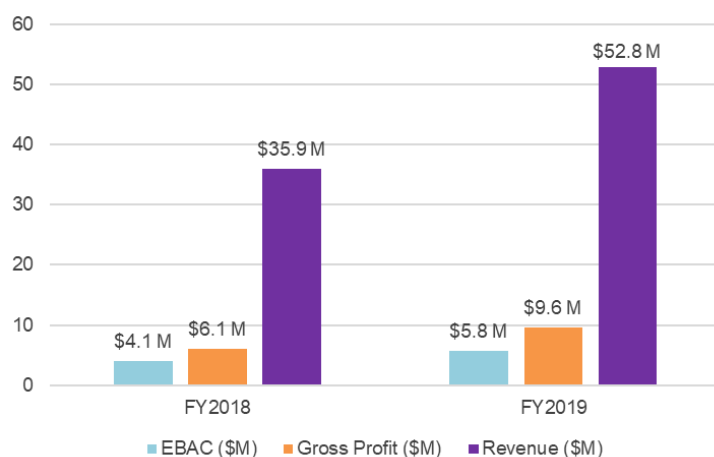
- Projects & Aftermarket revenues stood at \$40.3 M for fiscal year 2019, compared with \$41.0 M for the last fiscal year, representing a \$0.7 M, or 1.9% decrease;
- A well-balanced backlog, with diversification seen between water and wastewater projects: 29.8% of the projects being wastewater as of June 30, 2019, compared to 25.0% as of June 30, 2018. Backlog's diversification is also seen between industrial and municipal projects, with 38.3% of the projects being industrial as of June 30, 2019, compared to 31.0% as of June 30, 2018. The wastewater and the industrial projects are usually characterized by better gross profit margins, while reducing the risk related to focusing on a single market. Consequently, the gross profit margin increased by \$1.2 M and stood at \$7.3 M for fiscal year 2019, compared with \$6.1 M for the last fiscal year;
- Furthermore, the improvement in the gross profit margin and the reduction of the SG&A expenses over revenues impacted positively the EBAC as at June 30, 2019, which reached \$3.3 M compared with \$1.4 M for the last fiscal year;
- Current Projects' pipeline remains very rich in opportunities and the backlog stood at \$45.2 M, as of June 30, 2019, compared to \$53.6 M for 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



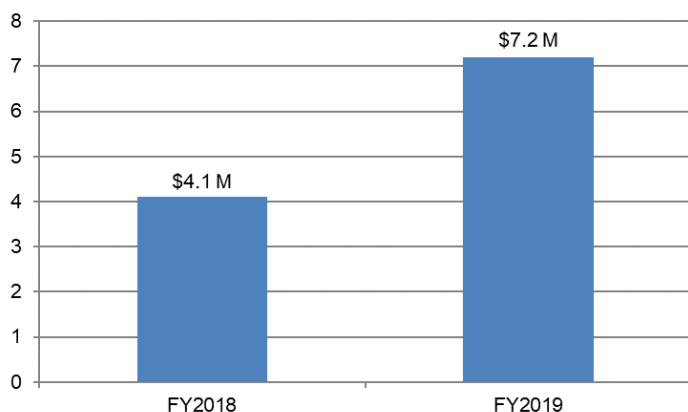
- Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry stood at \$24.9 M for the year ended June 30, 2019, compared to \$22.8 M for the previous fiscal year, representing a \$2.1 M, or 9.6% increase;
- The Specialty Products business pillar was negatively impacted by a general slowdown in the Maple industry. Such slowdown affected sales of our Maple products by 16.7% this year, compared to the previous fiscal year;
- Despite the decrease seen in the Maple industry, the EBAC increased from \$4.5 M for fiscal year 2018 to reach \$4.6 M for fiscal year 2019, and the gross profit margin increased from \$9.8 M for fiscal year 2018 to reach \$10.2 M for fiscal year 2019 because of Piedmont's business line growth. The decrease in % for the gross profit margin and the EBAC is explained by the business mix within the business pillar.

O&M Business Pillar



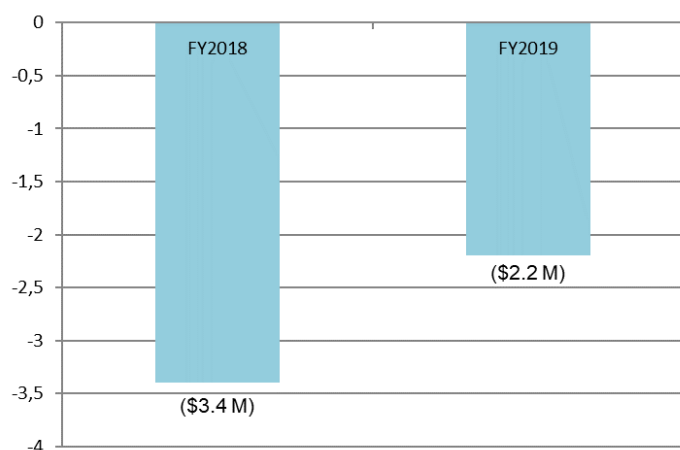
- O&M recurring revenues stood at \$52.8 M for fiscal year 2019, compared with revenues of \$35.9 M for fiscal year 2018, representing an increase of \$16.9 M, or 47.0%;
- Of this \$16.9 M revenue increase, \$12.3 M is attributable to the acquisition of Hays and is representing seven months of revenues following Hays' acquisition effective on December 1, 2018;
- The gross profit margin stood at \$9.6 M for fiscal year 2019, compared to \$6.1 M for fiscal year 2018, representing an increase of \$3.5 M. The acquisition of Hays contributed \$2.3 M of this increase. The EBAC of this business pillar also show an increase of \$1.7 M this fiscal year. Hays contributed \$1.6 M of this increase;
- The 12.8% organic growth of the O&M business pillar for fiscal year 2019 is explained by three factors:
 - New O&M projects won in Texas;
 - Renewal of projects and scope expansion on other existing projects;
 - Annual consumer price index ("CPI") adjustments on existing projects;
- Our backlog for the O&M business pillar stood at \$82.7 M as at June 30, 2019, representing an increase of 21.4% compared to the \$68.1 M backlog as at June 30, 2018, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options;
- The integration of Hays is going according to plan. After seven months, all customers and employees have been retained and sales synergies have already been captured.

Adjusted EBITDA



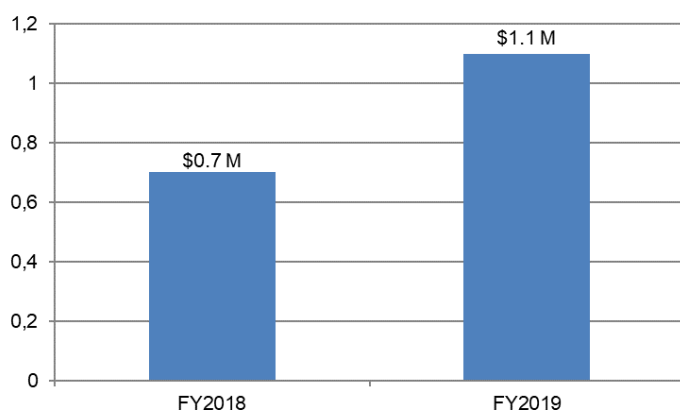
- Adjusted EBITDA increased to \$7.2 M for fiscal year 2019, from \$4.1 M for the previous fiscal year, representing an increase of \$3.1 M, or 74.9%;
- Our adjusted EBITDA in % increased to 6.1% for the year ended June 30, 2019, compared to 4.1% for the last fiscal year;
- The increase of the adjusted EBITDA in % is due to the improvement of the gross profit margin from Projects & Aftermarket and O&M business pillars as well as a higher level of the Corporation's revenues;
- The adjusted EBITDA improvement is also due to the acquisition of Hays as of December 1, 2018.

Net Loss



- The net loss stood at (\$2.2 M), from a net loss of (\$3.4 M) for the previous fiscal year, representing a reduction of \$1.2 M;
- The acquisition of Hays contributed to reduce the net loss by \$0.3 M for the period;
- The reduction of the net loss is mostly due to an improved gross profit margin and a reduction of the SG&A expenses over revenues;
- Gross profit margin before depreciation and amortization improved to \$27.1 M, for fiscal year 2019, compared to \$22.1 M for the previous fiscal year, while revenues increased by 18.4% over the same period. This increase of gross profit margin before depreciation and amortization contributed to reduce the net loss. Indeed, this year shows an increase of the gross profit margin in % coming from Projects & Aftermarket and O&M business pillars.

Adjusted net earnings



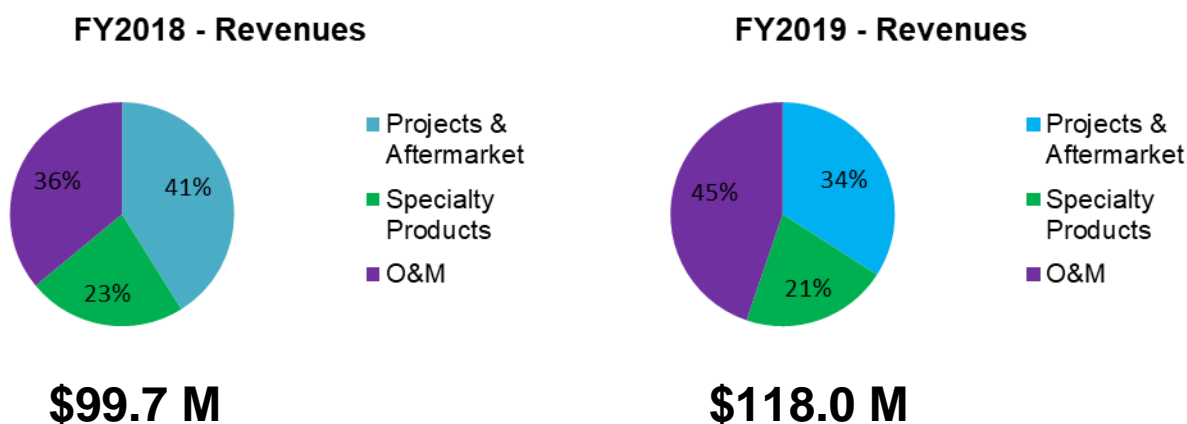
- The adjusted net earnings reached \$1.1 M or \$0.022 per share, from an adjusted net earnings of \$0.7 M or \$0.017 per share for the previous fiscal year, representing an increase of \$0.4 M;
- The increase of the adjusted net earnings is attributable to the reduction of the net loss coming from the increase of gross profit margin before depreciation and amortization;
- The adjusted net earnings are adjusted for all acquisitions-related expenses and stock-based compensation expenses.

Revenues on a Quarterly Basis

	FY2018					FY2019				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenues from Projects & Aftermarket business pillar ⁽¹⁾	\$11.0 M	\$9.7 M	\$9.8 M	\$10.5 M	\$41.0 M	\$10.3 M	\$11.9 M	\$8.9 M	\$9.2 M	\$40.3 M
Revenues from Specialty Products business pillar ⁽¹⁾	\$3.2 M	\$7.5 M	\$7.8 M	\$4.3 M	\$22.8 M	\$4.2 M	\$5.9 M	\$8.0 M	\$6.8 M	\$24.9 M
Revenues from O&M business pillar	\$8.4 M	\$8.6 M	\$9.1 M	\$9.8 M	\$35.9 M	\$9.9 M	\$11.6 M	\$15.4 M	\$15.9 M	\$52.8 M
Total revenues	\$22.6 M	\$25.8 M	\$26.7 M	\$24.6 M	\$99.7 M	\$24.4 M	\$29.4 M	\$32.3 M	\$31.9 M	\$118.0 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



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 seven months of integration, we already identified new contracts and scope of work increases within our existing projects, and sales synergies have already been recorded in the second half of this year.

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 more stable, 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. Such integrated approach is fundamental to the strategic partnership with Sustainable Water announced in the third quarter of fiscal year 2019. Through this partnership, we are providing our expertise in water reuse membrane filtration combined to our Specialty Products and O&M experience. Our team is collaborating on 6 projects as part of our backlog where the first one was commissioned in May 2019 on an industrial campus in Virginia.

For the year ended June 30, 2019, recurring revenues represented 75.9% of the Corporation's total revenues, compared to 70.0% for 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.

Backlog (Remaining Performance Obligations)

Effective July 1, 2018, the Corporation's definition of backlog has been changed and now corresponds to "Remaining Performance Obligations" ("RPO"), which is based on IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), without restatement of the prior periods. The backlog is defined as a forward-looking indicator of anticipated revenues to be recognized by the Corporation, determined based on contract awards that are firm and amounting to the transaction price allocated to remaining performance obligations. Management could be required to make estimates regarding the revenue to be generated for certain contracts. Applying the new measure of backlog or RPO did not create any adjustment as at July 1, 2018, compared with the June 30, 2018 revenue backlog closing balance.

At the end of the fiscal year 2019, the combined backlog of secured contracts between Projects and O&M reached \$127.9 M compared to \$121.7 M in the previous fiscal year, delivering organic growth of 5.1%. This combined backlog provides excellent visibility on revenues for the coming quarters in fiscal year 2020 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 years ended June 30, 2019 and 2018

	FY2019	FY2018	Variance	Significant contributions to variance
Gross Profit Margin Before Depreciation and Amortization ⁽³⁾	\$27.1 M 23.0% ⁽²⁾	\$22.1 M 22.2% ⁽²⁾	\$5.0 M	The gross profit margin before depreciation and amortization increased by 22.7%, to reach \$27.1 M, while revenues increased by 18.4%. The increase of gross profit margin before depreciation and amortization in % is explained by the increase of revenues, the increase of gross profit margin in % coming from Projects & Aftermarket and O&M business pillars and the reduction of the SG&A over revenues.
SG&A ^{(1) (3)}	\$20.4 M 17.3% ⁽²⁾	\$18.6 M 18.6% ⁽²⁾	\$1.8 M	The Corporation's SG&A reached \$20.4 M during fiscal year 2019, compared to \$18.6 M for the previous fiscal year, representing an increase of \$1.8 M, or 9.7%, while the revenues of the Corporation increased by 18.4%. The increase of SG&A in dollars is mainly due to the acquisition of Hays, contributing \$1.1 M of this increase. Accordingly, the SG&A over revenues in % decreased to 17.3%, compared to 18.6% for the previous fiscal year.
General operating Expenses ⁽³⁾	\$5.7 M 4.8% ⁽²⁾	\$4.0 M 4.0% ⁽²⁾	\$1.7 M	Of the increase of \$1.7 M, \$0.6 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⁾	\$7.7 M 6.6% ⁽²⁾	\$8.1 M 8.1% ⁽²⁾	(\$0.4 M)	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The selling expenses decreased by \$0.4 M compared to the previous fiscal year. This decrease is explained by the transfer in the cost of goods sold of the utilisation of engineering resources to support Projects, with the increase of allocation of hours usage of our existing resources.
Administrative Expenses ⁽³⁾	\$7.0 M 5.9% ⁽²⁾	\$6.5 M 6.5% ⁽²⁾	\$0.5 M	The administrative expenses in dollar increased to \$7.0 M this year, compared to \$6.5 M for the previous fiscal year. The acquisition of Hays on December 1, 2018 contributed \$0.5 M of this increase, as well as hiring to support the growth.

-
- (1) Selling, General & Administrative Expenses (SG&A) represent the total of the general 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 \$2.1 M for the year ended June 30, 2019 compared with \$1.3 M for the previous fiscal year. This increase is explained by non-recurring finance costs of \$0.6 M incurred in relation with the change of lender. This increase is also explained by the increased use of the bank loans and the temporary use of an additional credit facility in the first quarter of fiscal year 2019 to finance the Corporation's operations and organic growth. 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.

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 (\$2.2 M) or (\$0.044) per share for fiscal year 2019 compared to a net loss of (\$3.4 M) or (\$0.086) per share for the fiscal year 2018. The net loss reduction is mostly due to an improved gross profit margins in Projects & Aftermarket and O&M business pillars, the revenue growth, as well as through a reduction of the SG&A expenses over revenues.

The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs, impact of U.S. tax reform, amortization of intangibles assets from acquisition and stock-based compensation costs. The reader can establish the link between net loss and adjusted net earnings (loss) with the reconciliation items presented in this report. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies.

Years ended June 30 (in thousands of Canadian dollars)	2019	2018
Net loss	\$ (2,180)	\$ (3,449)
Impact of U.S. tax reform	-	1,061
Acquisition-related costs, integration costs and other costs Canada (net of tax 0%) ¹	97	81
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	534	304
Net loss on bank fraud Canada (net of tax 0%) ¹	-	443
Amortization of intangible assets from acquisition Canada (net of tax 0%) ¹	191	158
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	2,136	1,652
Stock based compensation expenses Canada (net of tax 0%) ¹	308	438
Adjusted net earnings	1,086	688

COMMITMENTS

The Corporation has entered into long-term lease agreements expiring between 2020 and 2029 which call for lease payments of \$8.2 M for the rental of space and supply agreements. The minimum annual payments over the next years are \$3.1 M in 2020, \$1.1 M in 2021, \$1.1 M in 2022, \$0.9 M in 2023 and \$1.9 M in subsequent years.

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

INFORMATION ON SHARE CAPITAL

As at September 24, 2019, the Corporation had 55,889,989 outstanding common shares, 2,554,334 stock options and 642,710 warrants.

FINANCIAL SITUATION

for fiscal year ended June 30, 2019

Periods ended (in thousands of Canadian dollars)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	\$	\$	\$	\$	\$
Revenues (LTM ² basis)	117,958	110,610	104,980	101,421	99,668
Accounts receivable	19,440	20,444	20,408	19,587	17,832
Accounts payable and accrued liabilities	12,264	14,003	16,582	13,303	13,370
Inventories	6,739	7,798	8,189	8,233	7,000

As at June 30, 2019, accounts receivable stood at \$19.4 M compared to \$17.8 M as at June 30, 2018. The increase of \$1.6 M, or 9.0%, is mostly attributable to the increase of revenues in our O&M business pillar, with scope of work expansions in our existing projects leading to increased invoicing as well as the increase in the Specialty Products business pillar. Invoicing milestones reached in water treatment projects before the end of the quarter also impacted the level of accounts receivable. The acquisition of Hays contributed to \$0.2 M of the increase in accounts receivable.

Inventories decreased by \$0.3 M, or 3.7%, to reach \$6.7 M as at June 30, 2019, from \$7.0 M as at June 30, 2018. This decrease is the result of the management measures to reduce the inventory to a lower level in order to increase its capital available for operations, and remain a priority moving forward. However, the growing demand for the Specialty Products business pillar need inventories on hand and available. The acquisition of Hays contributed to \$0.1 M of inventories as at June 30, 2019.

Accounts payable and accrued liabilities decreased by \$1.1 M, or 8.3%, to \$12.3 M as at June 30, 2019, from \$13.4 M as at June 30, 2018. This decrease is mainly due to the timing of the projects for the period ended June 30, 2019 and to payment of suppliers given the cash flows from operating activities generated.

Periods ended (in thousands of Canadian dollars)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	\$	\$	\$	\$	\$
Contract assets	5,880	5,781	7,276	5,015	6,574
Contract liabilities	(3,111)	(3,204)	(3,890)	(3,639)	(2,260)
Work in progress - net	2,769	2,577	3,386	1,376	4,314

Contract assets present a decrease of \$0.7 M, or 10.6%, to \$5.9 M as at June 30, 2019 from \$6.6 M as at June 30, 2018, generated by difference between project advancement and project invoicing schedules from one project to the other. Contract liabilities increased by \$0.8 M, or 37.7% to \$3.1 M as at June 30, 2019, from \$2.3 M as at June 30, 2018. This increase is also attributable to difference between project advancement and project invoicing schedules.

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

Periods ended (in thousands of Canadian dollars, except for ratio)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	\$	\$	\$	\$	\$
Working capital	12,842	12,194	11,055	6,666	7,192
Working capital ratio	1.49	1.41	1.34	1.23	1.26
Equity	50,859	53,015	52,992	39,712	40,963

The working capital increased by \$5.6 M, from \$7.2 M as at June 30, 2018 (ratio of 1.26) to \$12.8 M as at June 30, 2019 (ratio of 1.49). 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 \$5.8 M for the year ended June 30, 2019.

Equity

For the year ended June 30, 2019, shareholders' equity increased by \$10.0 M to \$51.0 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 fiscal year 2019, reduced by share issuance costs of \$0.9 M. The following items also impacted the shareholder's equity to a lesser extent: 1) the (\$2.2 M) net loss for the year ended June 30, 2019; 2) the \$0.3 M increase in 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 loss of \$0.4 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)	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	\$	\$	\$	\$	\$
Bank overdraft	-	-	-	779	260
Bank loans	7,545	9,226	8,493	9,091	9,205
Current portion of long-term debt	1,863	1,697	1,718	2,256	2,235
Long-term debt	6,578	6,284	6,689	7,406	7,842
Less: Cash	(6,206)	(5,699)	(5,968)	(1,796)	(1,998)
Net debt	9,780	11,508	10,932	17,736	17,544

During fiscal year 2019, the net debt decreased, to reach \$9.8 M as at June 30, 2019, from \$17.5 M as at June 30, 2018. This decrease is mainly attributable to the equity financing for the Hays acquisition, creating additional working capital capacities and to the cash flows from operating activities of \$5.8 M for fiscal year ended June 30, 2019.

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 June 30, 2019, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to \$1.3 M which expire at various dates through fiscal year 2022. Of these letters of credit, \$0.8 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 bank overdraft, bank loans and long-term 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 June 30, 2019:

- 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 3.00:1.00 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 September 30, 2019; and
 - greater than or equal to 1.20:1.00 at all times thereafter.

As at June 30, 2019, the Corporation was in compliance with the ratios required under its credit agreements.

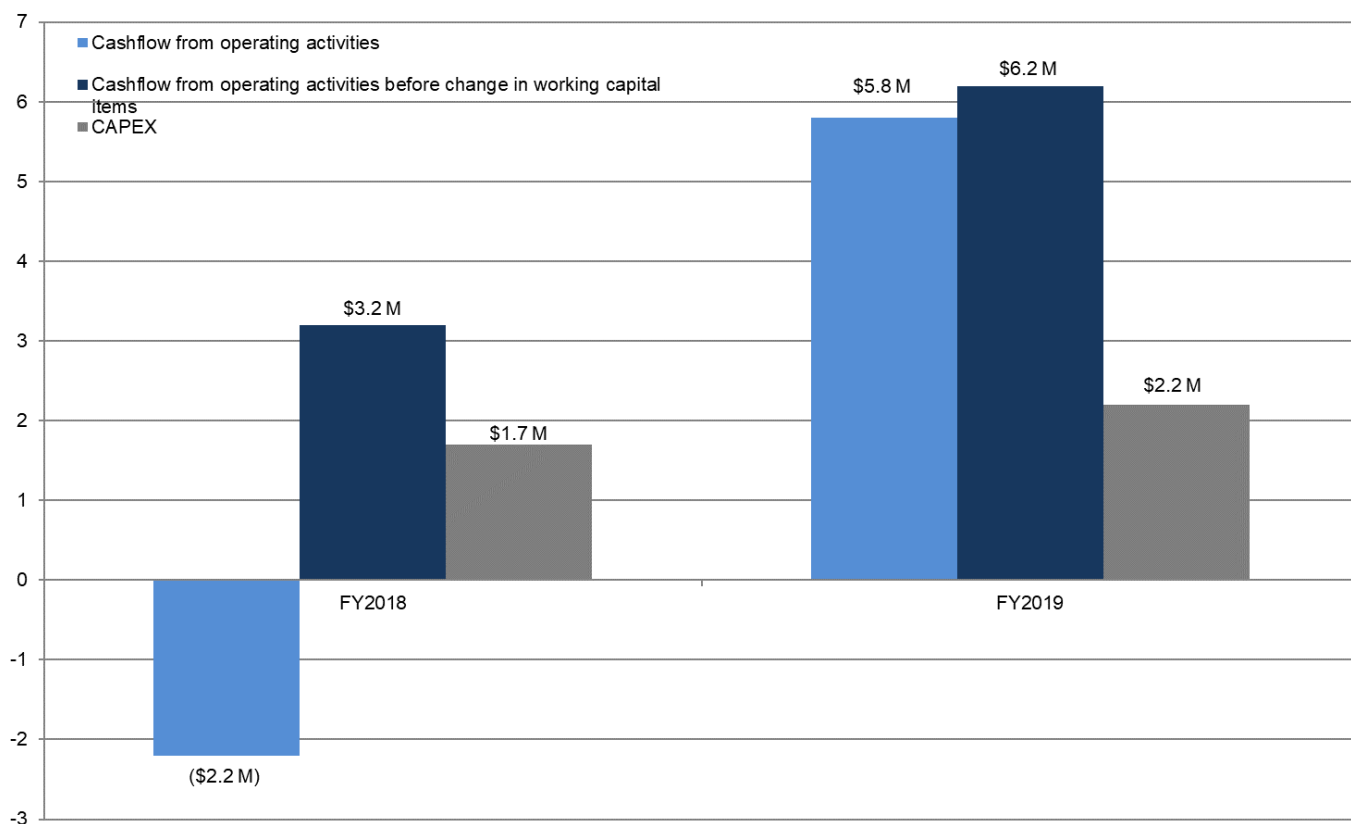
CASH FLOWS AND CAPITAL EXPENDITURES

A comparison of the Corporation's cash flows for years ended June 30, 2019 and 2018 is presented below:

Years ended June 30, (in thousands of Canadian dollars)	2019	2018
	\$	\$
Cash flows from operating activities before change in working capital items	6,165	3,178
Change in working capital items	(411)	(5,143)
	5,754	(1,965)
Interests received / Income taxes received (paid)	7	(257)
Cash flows from (used in) operating activities	5,761	(2,222)
Cash flows used in investing activities	(7,712)	(1,399)
Cash flows from financing activities	6,552	1,683
Effect of exchange rate changes on the balance of cash held in foreign currencies	(133)	(10)
Net change	4,468	(1,948)
Cash – net of bank overdraft – Beginning of year	1,738	3,686
Cash – net of bank overdraft – End of year	6,206	1,738

Cash Flows from Operating Activities

Cash flows from operating activities generated \$5.8 M for the fiscal year ended June 30, 2019, compared to \$2.2 M of cash flows used in operating activities during the previous fiscal year. This variation of the cash flows from operating activities reflects a healthier management of the Corporation's working capital items and the advancement of major contracts, with significant invoicing milestones reached during the fiscal year.



Cash Flows from Investing Activities

For fiscal year 2019, investing activities used net cash of (\$7.7 M) compared to (\$1.4 M) used in investing activities for the previous fiscal year. The variation is mainly attributable to the acquisition of Hays for an aggregate amount of \$5.7 M and to investments in property, plant and equipment of \$2.2 M.

Cash Flows from Financing Activities

Financing activities generated net cash of \$6.6 M in fiscal year 2019 compared with \$1.7 M of net cash generated during the previous fiscal year. Proceeds from the private placement generated cash flows amounting to \$13.1 M, with related share issue expenses of \$0.9 M. These funds were used to complete the acquisition of Hays, to reimburse some of our long-term debts and for working capital items. 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 \$1.8 M. Interests and financing costs paid during the fiscal year 2019 amounted to \$2.0 M.

QUARTERLY RESULTS

Fourth quarters ended June 30, (in thousands of Canadian dollars, except for per share values)	2019	2018
	\$	\$
Revenues	31,884	24,536
Gross profit margin before depreciation and amortization	7,823	5,645
Gross profit margin before depreciation and amortization (%)	24.5%	23.0%
Net loss	(1,177)	(1,007)
Adjusted net earnings (loss)	105	(138)
Basic and diluted net loss per share	(0.021)	(0.025)
Adjusted EBITDA	2,375	1,099

Revenues for the fourth quarter were up by 29.9%, or \$7.4 M, to \$31.9 M from \$24.5 M for the same quarter of the previous fiscal year.

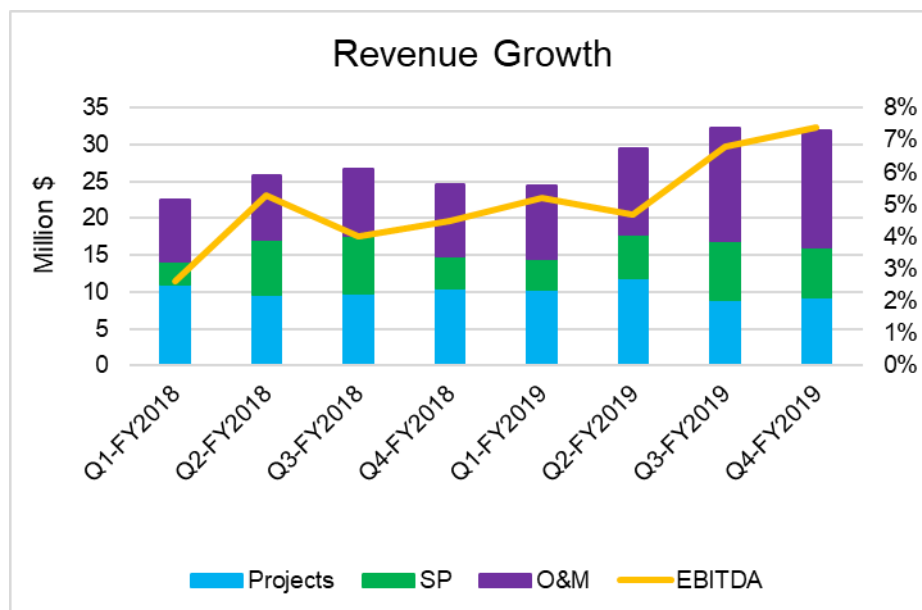
For the quarter ended June 30, 2019, the gross profit margin before depreciation and amortization increased to 24.5%, from 23.0% for the same quarter of the previous fiscal year. This increase is mostly due to the increase in revenues, the increase in gross profit margin in % coming from Projects & Aftermarket and O&M business pillars and by the reduction of the SG&A over revenues.

Quarterly Summary Financial Information

(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Year ended June 30, 2019
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	
	\$	\$	\$	\$	\$
Revenues	31,884	32,325	29,378	24,371	117,958
EBITDA	1,689	1,945	910	1,094	5,638
Adjusted EBITDA	2,375	2,196	1,377	1,265	7,213
Adjusted EBITDA over revenues	7.4%	6.8%	4.7%	5.2%	6.1%
Net earnings (loss)	(1,177)	532	(1,212)	(323)	(2,180)
Basic and diluted net earnings (loss) per share	(0.021)	0.010	(0.027)	(0.008)	(0.044)
Cash flows from (used in) operating activities	3,204	(244)	2,103	698	5,761

(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Year ended June 30, 2018
	June 30, 2018	March 31, 2018	June 30, 2018	September 30, 2017	
	\$	\$	\$	\$	\$
Revenues	24,536	26,695	25,819	22,618	99,668
EBITDA	635	927	1,227	122	2,911
Adjusted EBITDA	1,099	1,079	1,358	588	4,124
Adjusted EBITDA over revenues	4.5%	4.0%	5.3%	2.6%	4.1%
Net loss	(1,007)	(12)	(1,340)	(1,090)	(3,449)
Basic and diluted net loss per share	(0.025)	(0.000)	(0.033)	(0.027)	(0.086)
Cash flows from (used in) operating activities	(1,987)	2,124	616	(2,975)	(2,222)

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 18.4% compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from \$4.1 M, or 4.1% of revenues to \$7.2 M, or 6.1% in the last twelve months, representing a 74.9% improvement over a twelve-month period.



CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events or other matters that affect the reported amounts of the Corporation's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Corporation's consolidated financial statements are prepared. Management reviews, on a regular basis, the Corporation's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Corporation's consolidated financial statements.

Judgments

Income taxes measurement

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Corporation's entities' ability to utilize the underlying future tax deductions against future taxable income prior to expiry of the deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of any Corporation's entities ability to utilize future tax deductions changes, the Corporation would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

Determination of the reportable segment

Operating segments are determined according to the Corporation's management structure and internal information system. Operating results of each reportable segment are reviewed regularly by the Corporation's Chief Operating decision maker regarding the resources to be allocated to the segments and the assessment of their performance based on available financial information.

Management has identified three operating segments. The information structure indicates how management manages the Corporation and how it classifies its activities for planning and evaluating its performance. As a result, management manages its business line in three strategic business units, which are referred to as business pillars in the disclosure of the Corporation.

Estimates

Revenue recognition of Projects

The stage of completion of any project contract is assessed by management by taking into consideration all information available at the reporting date and through the date prior to the financial statements being available for release. In this process, management applies significant estimates about percentage-of-completion and the estimated costs to be incurred to complete work.

Impairment of goodwill and other non-current assets

Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumptions required for the value in use estimation is the discount rate and the growth rates for revenues. Cash flows for each CGU are derived from the budget for the upcoming year and a long-term forecast prepared by management, which covers an additional period of 4 years. The budget, which is approved on an annual basis by the members of the Board of Directors, and long-term forecast, are the primary sources for determining the value in use. As of June 30, 2019, and 2018, goodwill was not considered impaired.

Other non-current depreciable assets are tested for impairment should events or circumstances indicate that their book value may not be recoverable, as measured by comparing their net book value to their recoverable amount, which correspond to the higher of fair value less costs to sell and its value in use. Should the carrying amount of other non-current assets exceed their recoverable amount, an impairment loss in the amount of the excess would be recognized.

For impairment purposes, determination of cash-generating units is based on management's best estimate of what constitutes the lowest level at which an asset or group of assets is able to generate cash inflows. The Corporation must also determine whether goodwill can be attributed to one or more cash-generating units.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 10 of the consolidated financial statements.

Fair value of assets acquired in a business combination

Under the acquisition method, on the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired business are measured at their fair values. Depending on the complexity of determining the valuation for assets acquired, the Corporation uses appropriate valuation techniques in arriving at the estimated fair value at the acquisition date. These valuations are generally based on a forecast of the total expected future net discounted cash flows and relate closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant. Determination of the fair value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of earnings and consolidated statement of financial position.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17"), and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16

The Corporation plans to adopt the modified retrospective approach on July 1, 2019 and measure the right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date. The Corporation has elected to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and has performed a completeness check to ensure all leases have been considered in the implementation of the new standard. The Corporation has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Corporation has completed a preliminary evaluation of IFRS 16 and is in the process of quantifying the financial impact of the transitional adjustment of this new standard on the opening consolidated statements of financial position. On the Consolidated Statements of Financial Position, the right-of-use asset will increase, and the lease liability will increase. On the Consolidated Statements of Loss, the Corporation's depreciation of property, plant and equipment will increase, and operating lease expenses included in cost of goods sold and selling, operating and administrative expenses will decrease. On the Consolidated Statements of Cash Flows, cash flows from operating activities will increase due to higher depreciation of property, plant and equipment. Cash flows from financing activities will decrease due to repayment of lease liabilities.

FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS

The Corporation's activities expose it to a variety of financial risks: market risks (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Corporation's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Corporation's financial performance.

The Corporation's financial risk management is generally carried out by the corporate team, based on policies approved by the Board of Directors. The identification and evaluation of the financial risks are the responsibility of the corporate team.

Overview

The Corporation's financial instruments and the nature of risks which they may be subject to are set out in the following table:

Financial instrument	Risks			
	Market risks		Credit	Liquidity
	Currency	Interest rate		
Cash	X	X	X	
Guaranteed deposit certificates		X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X
Contingent consideration	X			X

Currency risk

The Corporation is exposed to exchange risk as a result of its foreign exchange purchases and sales, denominated in U.S. dollar and EURO and also as a result of its foreign subsidiary net assets. To limit the impact of fluctuations of the Canadian dollar over the U.S. dollar, the Corporation matches, in general and when possible, the cash receipts in a foreign currency with the cash disbursements in the same foreign currency. The Corporation does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

As at June 30, 2019, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar or EURO currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2019 would have been greater or lesser by approximately \$53 (\$270 for the year ended June 30, 2018).

The financial assets and liabilities denominated in a foreign currency included in the Canadian entities are as follows:

As at June 30,	2019	2018
	\$	\$
Financial assets		
Cash	1,089	133
Accounts receivable	2,822	1,161
	3,911	1,294
Financial liabilities		
Bank overdraft	-	(159)
Bank loans	(3,795)	(4,021)
Accounts payable and accrued liabilities	(929)	(1,165)
Long-term debt	-	(1,273)
	(4,724)	(6,618)

Cash flow and fair value interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the cash, guaranteed deposit certificates, related party loans receivable, bank overdraft, bank loans, contingent consideration and long-term debt. The Corporation does not use derivatives to cover this risk.

The guaranteed deposit certificates, the related party loans receivable and the unsecured loans bear interest at fixed rates and are accounted for at amortized cost. The Corporation is, therefore, not exposed to the risk of cash flows, however is exposed to changes in fair value resulting from interest rate fluctuations.

The bank loans, the long-term debt and the bank overdraft bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2019 and 2018, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2019, the allowance for doubtful accounts was \$65 (\$93 as at June 30, 2018).

The carrying amount on the consolidated statement of financial position of the Corporation's financial assets exposed to credit risk represents the maximum amount exposed to credit risk.

The following table summarizes the Corporation's exposure to credit risk:

As at June 30,	2019	2018
	\$	\$
Cash	6,206	1,998
Guaranteed deposit certificates	21	257
Accounts receivable, net of tax credits receivable	19,440	17,805
Other assets	234	379
Related party loans receivable	1,250	1,250

The Corporation holds cash and guaranteed deposits certificates with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares (see note 24a) that the Corporation considers at a low risk for loss.

The table below summarizes the aging of trade accounts receivable:

As at June 30,	2019	2018
	\$	\$
Current	7,996	6,600
Past due 1 to 30 days	3,421	4,045
Past due 31 to 90 days	3,009	2,279
Past due more than 90 days	1,654	1,640
	16,080	14,564
Less: Allowance for doubtful accounts	(65)	(93)
Trade accounts receivable	16,015	14,471
Retentions from customers under project contracts	3,253	2,628
Tax credits receivable	-	27
Other receivables	172	706
	19,440	17,832

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfil its obligations on a timely basis or at reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budgets and cash forecasts to ensure that it has sufficient funds to fulfil its obligations.

For its investing activities, the Corporation will evaluate its liquidity needs when applicable and take the necessary action.

The following table presents the financial liability instalments payable when contractually due including accrued interest:

As at June 30, 2019	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	\$	\$	\$	\$	\$
Bank loans	7,545	7,545	-	-	-
Accounts payable and accrued liabilities	12,264	12,264	-	-	-
Long-term debt	8,952	2,110	2,078	1,996	2,768
Contingent consideration	2,503	1,361	1,142	-	-
Total	31,264	23,280	3,220	1,996	2,768

As at June 30, 2018	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	\$	\$	\$	\$	\$
Bank overdraft	260	260	-	-	-
Bank loans	9,205	9,205	-	-	-
Accounts payable and accrued liabilities	13,370	13,370	-	-	-
Long-term debt	11,119	2,683	2,476	2,109	3,851
Total	33,954	25,518	2,476	2,109	3,851

Fair value

The fair value of financial instruments is based on quoted market prices when an active market exists. Otherwise, it is estimated using techniques and valuation models, such as analysis of discounted cash flows for the long-term debt, for which the significant unobservable inputs used are the discount rates which reflects the Corporation's credit risk.

There was no transfer between the levels of fair value hierarchy during the year.

The carrying amount and estimated fair value of financial instruments are as follows:

Financial instruments whose fair value approximates carrying value

Cash, guaranteed deposit certificates, accounts receivable, other assets, bank overdraft, bank loans, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Long-term debt

The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is \$8,441 (\$10,077 as at June 30, 2018) and was determined to be a level 2 financial instrument.

Contingent consideration

The fair value of the contingent consideration has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the contingent consideration is \$2,503 (\$nil as at June 30, 2018) and was determined to be a level 2 financial instrument.

RISK FACTORS AND UNCERTAINTIES

The following risks and uncertainties relating to the Corporation are not comprehensive; the Corporation operates in a constantly evolving sector, which can cause new risks and uncertainties to arise. The Corporation is not in position to neither predict these risks and uncertainties, nor evaluate their impact, as the case may be, on its activities, nor to evaluate to what extent may a factor, or a combination of factors, cause actual results to differ from those presented in the forward-looking statements. Therefore, the Corporation's shareholders should not unduly rely on these forward-looking statements.

Competitive environment

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

Operating risks and reported performance obligations

Corporation's reported performance obligations are derived from contracts that are considered firm or for which management estimates a certain amount of revenues to be generated from such contracts, thus an indication of expected future revenues. Project delays, suspensions, terminations, cancellations or reductions in scope may occur from time to time in the Corporation's industry due to considerations beyond the Corporation's control and may have a material impact on the amount of reported performance obligations with a corresponding adverse impact on future revenues and profitability. In addition, many of the Corporation's contracts contain "termination for convenience" provisions, which permit the customer to terminate or cancel a contract at its convenience. In the event a significant number of the Corporation's customers were to avail themselves of such "termination for convenience" provisions, or if one or more significant contracts were terminated for convenience, the Corporation reported performance obligations would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

Different types of events could induce an interruption of operation and/or a loss of production, such as loss of a key supplier, natural disaster or failure of a program that runs a production line. All those events could cause significant delays in operation. The Corporation has located a part of its inventory in nearby warehouses and has implemented an emergency plan that is regularly reviewed by the management. The Corporation also maintains business interruption and contingent business interruption insurance coverages. As part of operating risks, the risk to lose recurrent customers or distributors is considered and would have a noticeable impact on expected revenues and profitability. The likelihood of occurrence is possible, while low, considering the significant amount of competition within the different segments in which the Corporation operates. The Corporation developed broad distribution networks and continues to expand them worldwide by creating convergence and synergies.

Fixed price contracts and renewal

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

Key personnel and health & safety

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

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

Acquisition and expansion

The Corporation may expand its operations by acquiring additional businesses, products or technologies. There can be no assurance that (i) the Corporation will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties, or (ii) that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. The integration of a business acquisition can be a challenging task that includes, without limitation, realization of synergies, cost management to avoid duplication, information systems integration, staff reorganization, establishment of controls, procedures, and policies, as well as cultural alignment. The inability to adequately integrate an acquired business in a timely manner might result in departures of qualified personnel, lost business opportunities and/or higher than expected integration costs. Prior to completing a business acquisition, the Corporation performs exhaustive due diligence. Despite that, there are risks associated with the acquisition of a business where certain liabilities including, but not limited to, tax related claims, contingent liabilities, legal claims and environmental exposures, were not discovered during the due diligence and unknown at the time the acquisition was negotiated and concluded.

Indebtedness

The Corporation's credit agreements contain financial covenants requiring the Corporation, on a consolidated basis, to satisfy specific ratios. Such credit agreements also contain negative covenants restricting the Corporation's discretion and flexibility in the operation of its business. A breach of any of these credit agreements or the Corporation's inability to comply with these specific ratios could, if not cured or waived, result in an acceleration of the Corporation's financial debt or a cross-default under certain of its other credit agreements. If the Corporation's operating results or liquidity are not sufficient to service its current or future indebtedness, the Corporation may be forced to take actions such as reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital. In the normal course of business, the Corporation is exposed to interest rate fluctuation as a result of the floating-rate loans, debts receivable and loans payable. The Corporation manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments. Guaranteed deposit certificates and unsecured loans bear interest at fixed rates and the Corporation is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The bank loans bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Impairment

In accordance with IFRS, goodwill is assessed for impairment at least once a year by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate. The determination of these estimated cash flows requires the exercise of judgment, which might result in significant variances in the carrying amount of these assets. The Corporation cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Corporation's results of operations and financial position. Financial assets, other than those accounted for at fair value, are assessed for indicators of impairment at all time during a given fiscal year. Financial assets are

considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Corporation may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Corporation's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Corporation's investments could also have a material adverse effect on its financial condition or results of operations.

International operations, global geopolitical climate and foreign exchange risks

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

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

Liquidity

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

Capacity to secure performance guarantee

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

Implementation of a strategic plan

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

Current global financial conditions

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

Cybersecurity and cyber threats

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

Litigation

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

Intellectual property infringement

H2O Innovation protects its intellectual property related to its investments in research and development by relying on trade secret laws and confidentiality agreements with third parties who have access to information about its research and development activities. The Corporation also relies on a combination of laws effective in Canada, the United States or foreign countries with respect to trademarks, patents, trade secrets and other intellectual properties. Despite its efforts, the Corporation may not be able to determine the extent of unauthorized use and infringement of its intellectual property rights related to its trademarks, patents and other intellectual property. In any case, such efforts are difficult, expensive, and time-consuming. Failure to protect the Corporation's existing and future intellectual property rights could seriously harm its business and may result in the loss of its ability to exclude others from using and profiting from the Corporation's technology.

Dependence on third parties

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

Credit risk

Credit risk relates to the risk that a party to a contract will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from account receivables, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on forward-looking expected credit loss. Also, the Corporation insures a portion of its accounts receivable through Exportation and Development Canada ("EDC").

Market liquidity

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

Capital investment

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

Development of new products

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

Additional financing and dilution

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

Interest rate risk

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

Insurance coverage risk

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

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

Technological changes

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

Reputation and regulatory risk

Given the nature of its international operations, the Corporation is required to comply with various local, national and international rules, laws, regulations and other legal requirements enforced by governments or other regulatory authorities. In addition, misconduct, fraud, non-compliance with such applicable rules, laws and regulations, or other improper activities by one of the Corporation's employees, agents or partners could have a significant negative impact on the Corporation's business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labor, regulations pertaining to the internal control over financial reporting, environmental laws and any other applicable laws or regulations. The Corporation cannot assure that its internal controls will protect the Corporation from reckless or criminal acts committed by employees, agents or partners, despite its high ethical standards set out in its policies. Failure to comply with applicable rules, laws or regulations or acts of misconduct could subject the Corporation to fines and penalties that could harm the Corporation's reputation. The Corporation develops and maintains client relationships in the normal course of business in accordance with high ethical standards as set out in its policies. The consequence of reputational risk is a negative impact on the Corporation's public image, which may cause the cancellation of contracts and influence the Corporation's ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Corporation's contracts, alleged or proven non-compliance with laws or regulations by the Corporation's employees, agents, subcontractors, suppliers and/or partners.

Transfer pricing

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

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, 2019.

NEW ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the 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 Corporation adopted the following new accounting standards effective July 1, 2018:

Adoption of IFRS 9

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss (FVTPL) 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 as at July 1, 2018.

Classification and measurement

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

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

Financial liabilities are subsequently measured 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
Contingent consideration	FVTPL	FVTPL

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 FVTPL.

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 contract assets (under IAS 18, as at June 30, 2018), 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 as at July 1, 2018.

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 specialty 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 utilized 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:

		\$
Accounts payable and accrued liabilities		201
Deferred income tax		45
Deficit		156

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

The table below summarizes the impact of the adoption on the disclosure of the balance sheet:

	June 30, 2018 (IAS 18)	Adjustment	July 1, 2018 (IFRS 15)
Assets	\$	\$	\$
Cost incurred in excess of billings	6,574	(6,574)	-
Contract assets	-	6,574	6,574
Liabilities			
Billings in excess of costs incurred	2,260	(2,260)	-
Contract liabilities	-	2,260	2,260

As required for the 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 23 - *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 fiscal year allows them to conclude that the internal controls over financial reporting are effective for the year ended June 30, 2019.

Changes in Internal Controls over Financial Reporting

There have been no changes in Corporation's internal control over reporting that occurred during the most recent interim period and year ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, other than changes resulting from the acquisition of Hays described below.

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 June 30, 2019, 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)

	Three-month period ended June 30, 2019	Twelve-month period ended June 30, 2019
Results	\$	\$
Revenues	5,850	12,311
Net Earnings (loss)	(19)	346
		As at June 30, 2019
Financial Position		\$
Current Assets		3,835
Non-Current Assets ⁽¹⁾		878
Current Liabilities		1,909
Non-Current Liabilities		242
⁽¹⁾ includes fair market value of acquired intangible assets		

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management's Discussion and Analysis ("MD&A") of H₂O Innovation Inc. and all other information in the Annual Report are the responsibility of Management and have been reviewed and approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared in accordance with the requirements of securities regulators. The Consolidated Financial Statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the Consolidated Financial Statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

H₂O Innovation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to H₂O Innovation Inc. has been made known to them; and information required to be disclosed in H₂O Innovation Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

H₂O Innovation's CEO and CFO have also evaluated the effectiveness of H₂O Innovation's disclosure controls and procedures as of June 30, 2019. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date. Based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting, based on material weakness' definition set forth in NI 52-109. In compliance with NI 52-109, H₂O Innovation's CEO and CFO have provided a certification related to H₂O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors. The Audit Committee meets periodically with Management, as well as with the internal and external auditors, to review the Consolidated Financial Statements, external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the Consolidated Financial Statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the Consolidated Financial Statements and MD&A for issuance to shareholders.

The Consolidated Financial Statements have been audited by Ernst & Young LLP., the external independent auditor, in accordance with IFRS on behalf of the shareholders. The external independent auditor has full and free access to the Audit Committee to discuss their audit and related matters.

The President and Chief Executive Officer



Frédéric Dugré

September 24, 2019

The Chief Financial Officer



Marc Blanchet



CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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.

Independent auditor's report

To the shareholders of
H₂O Innovation Inc.

Opinion

We have audited the consolidated financial statements of **H₂O Innovation Inc.** and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Raymond Morissette.

*Ernst & Young LLP*¹

Quebec City, Canada
September 24, 2019

¹ CPA auditor, CA, public accountancy permit n° A109180

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at June 30,	2019	2018
	\$	\$
ASSETS (notes 11 and 13)		
Current assets		
Cash	6,206	1,998
Guaranteed deposit certificates	21	257
Accounts receivable (note 6)	19,440	17,832
Inventories (note 7)	6,739	7,000
Contract assets (notes 2 and 17)	5,880	-
Cost incurred in excess of billings (notes 2 and 17)	-	6,574
Income taxes receivable (note 15)	69	116
Prepaid expenses	768	885
	39,123	34,662
Non-current assets		
Property, plant and equipment (note 8)	6,552	4,748
Intangible assets (note 9)	21,967	18,753
Other assets	234	379
Related party loans receivable (note 24a)	1,250	1,250
Goodwill (notes 5 and 10)	15,727	14,511
Deferred income tax assets (note 15)	144	2,115
	84,997	76,418
LIABILITIES		
Current liabilities		
Bank overdraft	-	260
Bank loans (note 11)	7,545	9,205
Accounts payable and accrued liabilities (note 12)	12,264	13,370
Provisions	137	138
Contract liabilities (notes 2 and 17)	3,111	-
Billings in excess of costs incurred (notes 2 and 17)	-	2,260
Contingent consideration (notes 5 and 14)	1,361	-
Current portion of long-term debt (note 13)	1,863	2,235
	26,281	27,468
Non-current liabilities		
Long-term debt (note 13)	6,578	7,842
Deferred rent (note 22)	137	145
Contingent consideration (notes 5 and 14)	1,142	-
	34,138	35,455
SHAREHOLDERS' EQUITY		
Share capital (note 16)	89,057	76,918
Reserve - Stock options (note 16)	3,250	2,942
Reserve - Warrants (notes 5 and 16)	167	-
Deficit	(44,084)	(41,748)
Accumulated other comprehensive income	2,469	2,851
	50,859	40,963
	84,997	76,418

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré



President and Chief Executive Officer

Lisa Henthorne



Chairman of the Board of Directors

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars, except share data)

	Common shares (number) (note 16)	Share capital (note 16)	Reserves – Stock option (note 16)	Reserve – Warrants (note 16)	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 year	-	-	-	-	(3,449)	-	(3,449)
Stock-based compensation costs (note 16)	-	-	438	-	-	-	438
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	671	671
Balance as at June 30, 2018	40,144,214	76,918	2,942	-	(41,748)	2,851	40,963
Balance as at July 1, 2018	40,144,214	76,918	2,942	-	(41,748)	2,851	40,963
Impact of new accounting standards adoption (note 2)	-	-	-	-	(156)	-	(156)
Adjusted balance as at July 1, 2018	40,144,214	76,918	2,942	-	(41,904)	2,851	40,807
Stock-based compensation costs (note 16)	-	-	308	-	-	-	308
Issuance of common shares under private placement (notes 5 and 16)	15,745,775	13,069	-	-	-	-	13,069
Issuance of warrants under private placement (notes 5 and 16)	-	-	-	167	-	-	167
Share issue expenses (notes 5 et 16)	-	(930)	-	-	-	-	(930)
Net loss for the year	-	-	-	-	(2,180)	-	(2,180)
Other comprehensive loss – Currency translation adjustments	-	-	-	-	-	(382)	(382)
Balance as at June 30, 2019	55,889,989	89,057	3,250	167	(44,084)	2,469	50,859

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS

(in thousands of Canadian dollars, except per share data)

Years ended June 30,	2019	2018
	\$	\$
Revenues (notes 17 and 23)	117,958	99,668
Cost of goods sold (note 18a)	90,840	77,561
Gross profit before depreciation and amortization	27,118	22,107
General operating expenses (note 18a)	5,693	4,004
Selling expenses (note 18a)	7,743	8,073
Administrative expenses (notes 18a)	6,989	6,518
Depreciation of property, plant and equipment (note 18b)	1,349	1,139
Amortization of intangible assets (note 18b)	3,976	2,811
Other losses – net (note 18c)	258	122
Acquisition-related costs, integration costs and other costs	797	479
Operating costs total	26,805	23,146
Earnings (loss) before finance costs - net and income taxes	313	(1,039)
Finance income	(48)	(41)
Finance costs	2,119	1,305
Finance costs – net	2,071	1,264
Loss before income taxes	(1,758)	(2,303)
Current income tax expense (note 15)	147	158
Deferred tax expense (note 15)	275	988
	422	1,146
Net loss for the year	(2,180)	(3,449)
Basic and diluted net loss per share (note 19)	(0.044)	(0.086)
Weighted average number of shares outstanding (note 19)	49,289,706	40,144,214

See accompanying notes to consolidated financial statements.

H₂O INNOVATION INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of Canadian dollars)

Years ended June 30,	2019	2018
	\$	\$
Net loss for the year	(2,180)	(3,449)
Other comprehensive income – Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	(382)	671
Comprehensive loss for the year	(2,562)	(2,778)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended June 30,	2019	2018
	\$	\$
Operating activities		
Loss before income taxes for the year	(1,758)	(2,303)
Non-cash items		
Finance costs – net	2,071	1,264
Depreciation of property, plant and equipment	1,349	1,139
Amortization of intangible assets	3,976	2,811
Changes in fair value of contingent consideration (note 14)	248	(228)
Others	(29)	57
Stock-based compensation	308	438
	6,165	3,178
Change in working capital items	(411)	(5,143)
Interests received	48	41
Income taxes paid	(41)	(298)
Net cash flows from (used in) operating activities	5,761	(2,222)
Investing activities		
Variation of guaranteed deposits certificates	235	1,114
Variation of other assets	146	188
Acquisition of property, plant and equipment	(2,209)	(1,719)
Acquisition of intangible assets	(257)	(989)
Business combination, net of cash acquired (note 5)	(5,732)	-
Proceeds from disposal of property, plant and equipment	105	7
Net cash flows used in investing activities	(7,712)	(1,399)
Financing activities		
Variation of bank loans	(1,660)	4,112
Long-term debt reimbursement (note 13)	(8,065)	(3,146)
Long-term debt contracted (note 13)	6,244	1,985
Interest paid	(2,010)	(1,268)
Financing costs	(263)	-
Issuance of common shares under private placement (note 16)	13,069	-
Share issue expense (note 16)	(763)	-
Net cash flows from financing activities	6,552	1,683
Net change in cash	4,601	(1,938)
Effect of exchange rate changes on the balance of cash held in foreign currencies	(133)	(10)
Increase (decrease) in cash	4,468	(1,948)
Cash – net of bank overdraft - Beginning of year	1,738	3,686
Cash – net of bank overdraft - End of year	6,206	1,738
Presented on the statement of financial position as follows:		
Cash	6,206	1,998
Bank overdraft	-	(260)
	6,206	1,738

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

1. Description of business

H₂O Innovation Inc. ("H₂O 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 utilities, including treatment systems, distribution equipment and associated assets ("O&M"). The registered office of the Corporation is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Quebec, G1K 9C5, Canada.

2. Basis of preparation and summary of significant accounting policies

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention.

On September 24, 2019, the Board reviewed and approved the consolidated financial statements and authorized its publication.

Reporting and functional currency

The Corporation's reporting currency is the Canadian dollar. The functional currency of the Canadian corporations is the Canadian dollar. The functional currency of the foreign subsidiaries located in the United States of America and in Hong Kong is the US dollar.

All values are rounded up to the nearest thousand dollars, except where otherwise indicated.

Principles of consolidation

The consolidated financial statements comprise the accounts of the Corporation, its wholly-owned subsidiaries H₂O Innovation USA Inc., H₂O Innovation USA Holding Inc., Professional Water Technologies, LLC, Piedmont Pacific Corporation, Piedmont Pacific Inc., H₂O Operation & Maintenance Inc., Piedmont Hong Kong Limited, Utility Partners, LLC, Hays Utility South Corporation and Hays Assets Management, LLC.

Subsidiaries

Subsidiaries are all entities over which the Corporation has control. Control is achieved when the Corporation has all three of the following elements: the power to direct the relevant activities of the subsidiary, exposure or rights to variable returns from its involvement with the subsidiary; and the ability to use its power over the subsidiary to affect the amount of the Corporation's returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred in the consolidated statement of loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with *IAS 12 Income Taxes* and *IAS 19 Employee Benefits* respectively;
- assets (or disposal groups) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the consolidated statement of loss as a bargain purchase gain.

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 Financial Instruments*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Foreign currency translation

Monetary assets and liabilities of the Canadian corporations denominated in foreign currencies are translated at the exchange rate in effect at the statement of financial position date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses are translated at the exchange rate at the date of the transaction, with the exception of revenues and expenses relating to non-monetary assets and liabilities, which are translated at historical rate. Exchange gains and losses are reflected in the consolidated statement of loss.

The assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive (loss) income and accumulated in equity under the heading of currency translation adjustment.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the rate prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive (loss) income.

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Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management reviews significant unobservable inputs and valuation adjustment. If third party information is used to measure fair values, management assesses the evidences obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Corporation uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities that the Corporation can access at the measurement date.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which that change has occurred.

Further information about the assumptions made in measuring fair values is included in the notes to the consolidated financial statements.

Cash

Cash includes cash and demand deposits. The Corporation considers bank overdraft in its cash.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average costs method for raw materials and finished goods. Also, the Corporation is using the absorption costing method for finished goods. The absorption costing method used by the Corporation includes direct materials, labour and manufacturing overhead expenses.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Corporation is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Other assets

Other assets are mainly composed of accounts receivable due in more than 12 months and of security deposits. The security deposits are recorded at amortized cost.

Property, plant and equipment

All property, plant and equipment are shown at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes expenditures that are attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful economic life. Land is not depreciated. For the buildings, component depreciation accounting is also used for components that have different useful economic life. Depreciation is calculated over the following periods:

Buildings	10-26 years
Machinery and equipment	5-10 years
Computer equipment	3-5 years
Furniture, fixtures and office equipment	5-10 years
Automotive equipment	5 years
Containerized units	4-10 years
Leasehold improvements	remaining term of the lease between two and ten years

The depreciation expense is included in the consolidated statement of loss as “Depreciation of property, plant and equipment”.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting period end, with the effect of any changes in estimate accounted for on a prospective basis. In 2019, the Corporation reviewed the estimated useful lives of moulds, included in machinery and equipment, and reduced it from 10 years to 5 years. The impact of the change was not significant.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of loss.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over their estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortization expense is included in the consolidated statement of loss as “Amortization of intangible assets”.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit-level. The assessment of indefinite life is also reviewed on an annual basis to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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The Corporation is using the following amortization methods:

Intangible assets acquired separately

- Software is amortized using the straight-line method over a period of seven (7) or ten (10) years.

Intangible assets acquired in business combinations

- Intellectual property includes the patents, the rights on technologies, technologies and the technical drawings. Intellectual properties and patents are amortized using the straight-line method over a period of six (6) to twenty (20) years.
- Rights on technologies and technologies are amortized using the straight-line method over a period of seven (7) to eight (8) years.
- Technical drawings are amortized using the straight-line method over a period of ten (10) years.
- Trademarks with a definite useful life are amortized using the straight-line method over a period of seven (7) years.
- Customer relations are amortized using the straight-line method over periods of ten (10) and fifteen (15) years.
- Non-compete agreements are amortized using the straight-line method over a period of six (6) months to ten (10) years.
- Contractual agreements are amortized over the related contract length.
- Distribution network is amortized using the straight-line method over a period of five (5) years.

Intangible assets also include development costs for new products which have proven technical feasibility and for which a clearly defined future market exists. Costs of developing the new products are reduced by the related investment tax credits and amortized over a maximum period of five years on a straight-line basis. Expenditures on research activities are expensed as incurred.

Impairment of property, plant and equipment and intangible assets excluding goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss.

Where an impairment loss on assets with definite useful life subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of loss.

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Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating unit (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal. The Corporation has elected to perform its annual impairment test of goodwill as of April 1st of each year.

Revenue recognition

Revenue recognition – after the adoption of IFRS 15 as of July 1, 2018

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular performance obligation to the customer.

Project contracts

In most cases, for performance obligations satisfied over time, the Corporation recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Corporation in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. In certain other situations, the Corporation might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

The Corporation accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Corporation's stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Corporation recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

As a significant portion the Corporation's revenues are recognized over time, the contractual terms which determine when consideration becomes receivable from the customer, such as upon the achievement of certain milestones, the Corporation's reaching such milestones earlier or later than anticipated and the ability to obtain down payments on contracts will influence, among other factors, the balance of trade receivables, contract assets and contract liabilities on a given contract.

Sales of specialty products and aftermarket services

For Specialty Products and Aftermarket Services, revenue is recognized at the point in time when control of the asset is transferred to the customer, either at FOB shipping or FOB destination. The Corporation generally has a right to payment at the time of delivery (which is the same time that the Corporation has satisfied its performance obligations under the arrangement), as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.

Revenue from aftersales services consist of the man hour required to repair water treatment system and are recognised at a point time.

The Corporation may provide discounts and sales promotional incentives to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. The

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Corporation applies the most likely amount method estimating discounts provided to customers using contracted rates and estimating volume rebates provided to customers based on historical spending patterns. Consequently, revenues are recognized net of these estimated promotional incentives.

In subsequent periods, the Corporation monitors the performance of customers against agreed-upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

Operation and maintenance revenue

Revenues consist of operator contracts, which include utility management, maintenance services, management of employees, and other miscellaneous services specific to the contract. The contracts are long-term with municipalities with billings occurring monthly based on one-twelfth of the annual service fee as outlined in the contract, and revenue is recognised over time. Repairs, installation, and other services outside the scope of the services, as outlined in the contract, and amounts above the budgeted costs are billed at cost to the customer and recognised as they occur.

The amount of revenue recognized by the Corporation is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Corporation expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives and volume rebates.

The Corporation may enter into contractual arrangements with a client to deliver services on one contract which span more than one performance obligation, such as Project and Operation and Maintenance ("O&M") combined. When entering into such arrangements, the Corporation allocates the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone selling price and recognized according to the respective revenue recognition methods described above.

The Corporation may apply its revenue recognition policy to a portfolio of contracts or performance obligations with similar characteristics if the effect on its financial statements of applying such policy to the portfolio is not reasonably expected to differ materially from applying its policy to the individual contracts or performance obligations within that portfolio. The Corporation presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to consideration in exchange for goods or services that the Corporation has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Corporation that exceeds the right to consideration resulting from the Corporation's performance under a given contract.

Revenue recognition – prior to adoption of IFRS 15 as of July 1, 2018

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of specialty products and services

Revenue from the sale of specialty products and consignment inventory is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue from aftersales services consist of the man hour required to repair water treatment system. Revenue is recognised when the service is rendered to the client, based on the labor hours incurred, when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably.

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Project contracts

Project contracts are within the scope of *IAS 11 – Construction contracts*. Where the outcome of a project contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the percentage-of-completion of the contract, which represent proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work and claims are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where outcome of a project contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred if it is probable that it will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately and the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Corporation recognises any impairment loss that has occurred on assets dedicated to that contract.

When the contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is included in the statement of financial position under “Costs incurred in excess of billings”. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is included in the consolidated statement of financial position under “Billings in excess of costs incurred”.

Operation and maintenance revenue

Revenues consist of operator contracts, which include utility management, maintenance services, management of employees, and other miscellaneous services specific to the contract. The contracts are long-term with municipalities with billings occurring monthly based on one-twelfth of the annual service fee as outlined in the contract, and revenue is recognised on a straight-line basis. Repairs, installation, and other services outside the scope of the services, as outlined in the contract, and amounts above the budgeted costs are billed at cost to the customer and recognised as they occur.

Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably using the effective interest rate applicable. Interest income is included in the finance income in the statement of loss.

Share capital

Common shares are classified as equity. Incremental costs that are directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

Share-based payment

The Corporation offers a stock option plan to directors, executive officers, key employees and consultants providing services to the Corporation and accounts for these awards in accordance with *IFRS 2 – Share-based Payment*. Stock options granted to directors, executive officers, key employees and consultants providing services are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding determination of the fair value of equity-settled share-based transactions are set out in note 16 – *Capital Stock*.

The fair value at the grant date of stock options is determined using the Black-Scholes pricing model and is recognized in the consolidated statement of loss as a compensation expense using a graded vesting schedule over the vesting period, based on the Corporation’s estimate of the number of shares that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is recognized in the consolidated statement of loss such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to the Reserve – stock option.

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Any consideration received by the Corporation upon the exercise of stock options is credited to share capital, and the Reserve – stock option component resulting from share-based payment is transferred to share capital upon the issuance of the shares.

Taxation

Income tax expense represents the sum of the current and deferred tax. Tax is recognized in the consolidated statement of loss, except to the extent it relates to items recognized directly in equity, in which case the related tax is recognized in equity.

Current tax

Current tax assets or current tax liabilities represent the taxation authorities' obligations or claims for prior or current periods which are not received or paid at the statement of financial position date. Current tax is based on taxable profit which differs from accounting profit. Current tax liabilities are measured using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax

Deferred tax is accounted for using a temporary difference approach and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the statement of financial position date.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the chief executive officer who makes strategic decisions.

In the fourth quarter of fiscal year 2019, the Corporation implemented certain organizational realignment. As a result of the realignment, the Corporation has re-evaluated its segment financial reporting structure and, effective in the fourth quarter of fiscal year 2019, has three new financial reporting segments: 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").

Before the organizational realignment, the Corporation was operating under a single reporting segment, which was providing water and wastewater treatment systems and related products and services.

Net loss per share

Basic net loss per common share are computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated giving effect to the potential dilution that could occur if the stock options to issue common shares were exercised at the later of the beginning of the year or the issuance date. The treasury stock method is used to determine the dilutive effect of stock options.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

The provision for warranty claims represents the present value of the management's best estimate of the future outflow of economic benefits that will be required under the Corporation's obligations for warranties. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, duration of warranties provided by suppliers, altered manufacturing processes or other events affecting product quality.

The Corporation offers warranties that are of variable lengths of time depending on each customer agreements.

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the 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.

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

Adoption of IFRS 9

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss (FVTPL) 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 as at July 1, 2018.

Classification and measurement

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

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

Financial liabilities are subsequently measured 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
Contingent consideration	FVTPL	FVTPL

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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 FVTPL.

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 contract assets (under IAS 18, as at June 30, 2018), 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 as at July 1, 2018.

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 specialty 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 utilized 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.

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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 consolidated financial statements of loss, comprehensive loss and the consolidated statements of cash flows.

The table below summarizes the impact of the adoption on the disclosure of the balance sheet:

	June 30, 2018 (IAS 18)	Adjustment	July 1, 2018 (IFRS 15)
Assets	\$	\$	\$
Cost incurred in excess of billings	6,574	(6,574)	-
Contract assets	-	6,574	6,574
Liabilities			
Billings in excess of costs incurred	2,260	(2,260)	-
Contract liabilities	-	2,260	2,260

As required for the 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 23 - *Segment Information* for the disclosure on disaggregated revenue.

3. Critical accounting estimates, assumptions and judgements

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events or other matters that affect the reported amounts of the Corporation's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Corporation's consolidated financial statements are prepared. Management reviews, on a regular basis, the Corporation's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Corporation's consolidated financial statements.

Judgments

Income taxes measurement

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Corporation's entities' ability to utilize the underlying future tax deductions against future taxable income prior to expiry of the deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of any Corporation's entities ability to utilize future tax deductions changes, the Corporation would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

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Determination of the reportable segment

Operating segments are determined according to the Corporation's management structure and internal information system. Operating results of each reportable segment are reviewed regularly by the Corporation's Chief Operating decision maker regarding the resources to be allocated to the segments and the assessment of their performance based on available financial information.

Management has identified three operating segments. The information structure indicates how management manages the Corporation and how it classifies its activities for planning and evaluating its performance. As a result, management manages its business line in three strategic business units, which are referred to as business pillars in the disclosure of the Corporation.

Estimates

Revenue recognition of Projects

The stage of completion of any project contract is assessed by management by taking into consideration all information available at the reporting date and through the date prior to the financial statements being available for release. In this process, management applies significant estimates about percentage-of-completion and the estimated costs to be incurred to complete work.

Impairment of goodwill and other non-current assets

Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumptions required for the value in use estimation is the discount rate and the growth rates for revenues. Cash flows for each CGU are derived from the budget for the upcoming year and a long-term forecast prepared by management, which covers an additional period of 4 years. The budget, which is approved on an annual basis by the members of the Board of Directors, and long-term forecast, are the primary sources for determining the value in use.

As of June 30, 2019 and 2018, goodwill was not considered impaired.

Other non-current depreciable assets are tested for impairment should events or circumstances indicate that their book value may not be recoverable, as measured by comparing their net book value to their recoverable amount, which correspond to the higher of fair value less costs to sell and its value in use. Should the carrying amount of other non-current assets exceed their recoverable amount, an impairment loss in the amount of the excess would be recognized.

For impairment purposes, determination of cash-generating units is based on management's best estimate of what constitutes the lowest level at which an asset or group of assets is able to generate cash inflows. The Corporation must also determine whether goodwill can be attributed to one or more cash-generating units.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 10.

Fair value of assets acquired in a business combination

Under the acquisition method, on the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired business are measured at their fair values. Depending on the complexity of determining the valuation for assets acquired, the Corporation uses appropriate valuation techniques in arriving at the estimated fair value at the acquisition date. These valuations are generally based on a forecast of the total expected future net discounted cash flows and relate closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant. Determination of the fair value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of earnings and consolidated statement of financial position.

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4. Accounting standards and amendments issued but not yet adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17"), and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16

The Corporation plans to adopt the modified retrospective approach on July 1, 2019 and measure the right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date. The Corporation has elected to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and has performed a completeness check to ensure all leases have been considered in the implementation of the new standard. The Corporation has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Corporation has completed a preliminary evaluation of IFRS 16, and is in the process of quantifying the financial impact of the transitional adjustment of this new standard on the opening consolidated statements of financial position. On the Consolidated Statements of Financial Position, the right-of-use asset will increase and the lease liability will increase. On the Consolidated Statements of Loss, the Corporation's depreciation of property, plant and equipment will increase and operating lease expenses included in cost of goods sold and selling, operating and administrative expenses will decrease. On the Consolidated Statements of Cash Flows, cash flows from operating activities will increase due to higher depreciation of property, plant and equipment. Cash flows from financing activities will decrease due to repayment of lease liabilities.

5. 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.

H₂O Innovation acquired Hays for an initial cash consideration of \$6.0 M (US\$4.5 M), a working capital adjustment of \$0.2 M (US\$0.2 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 \$2.3 M (US\$1.8 M) using the Corporation's best estimate as at the acquisition date. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment amounting to \$0.2 M (US\$0.2 M) was finalized and has been paid by the Corporation as at June 30, 2019.

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The purchase price was financed through a bought deal private placement of the 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 exercisable until November 30, 2020.

This acquisition complements the venture that was started during fiscal year 2015 with respect to O&M services and reinforced with the acquisition of Utility Partners in July 2016. This acquisition solidifies H₂O Innovation's business model by adding recurring sales coming from O&M activities, which are predictable, and therefore counterbalances the less predictable revenues coming from sales of water treatment projects.

Purchase price allocation on acquisition date (December 1, 2018)

(In thousands of Canadian dollars)	Initial allocation	Adjustments	Final allocation
	\$	\$	\$
Assets acquired			
Cash	363	94	457
Accounts receivable ⁽¹⁾	941	(778)	163
Contract assets	-	1,482	1,482
Inventory	188	(32)	156
Property, plant and equipment	478	586	1,064
Other assets	10	211	221
Customer relationships	7,582	(1,158)	6,424
Non-compete agreements	200	452	652
Trademark	652	(652)	-
Liabilities assumed			
Accounts payable and accrued expenses	(926)	(519)	(1,445)
Notes payable	(347)	-	(347)
Deferred tax liabilities	(2,312)	645	(1,667)
Identifiable net assets acquired	6,829	331	7,160
Goodwill arising on acquisition	1,743	(415)	1,328
Fair value of net assets acquired	8,572	(84)	8,488
Consideration			
Cash	5,954	-	5,954
Fair value of contingent consideration payable	2,417	(118)	2,299
Working capital adjustment	201	34	235
Total consideration payable	8,572	(84)	8,488
Cash consideration paid			5,954
Working capital adjustment paid			235
Less : Cash acquired			(457)
Net cash flow on acquisition			5,732

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The purchase price allocation shown above is final and is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. It was completed during the fourth quarter of fiscal year 2019. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

Since the initial allocation, the Corporation has determined the final working capital of the acquire and has also obtained evidence to evaluate the fair value of the tangible and intangible assets acquired. Considering these new information, the fair value of the contingent consideration payable was adjusted to reflect the appropriate discount rate.

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

Costs related to the acquisition

The total acquisition-related and integration costs pertaining to the Hays acquisition amounted to \$0.7 M and are included in the Consolidated Statements of Loss, under *Acquisition-related costs, integration costs and other costs*.

Determination of fair value

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

The Corporation's valuation of intangible assets has identified client relationships and non-compete agreements. The assigned useful lives are 10 years for client relationships and range from 6 months to 3 years for non-compete agreements. 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 calculations, an amount of \$1.3 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.

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

The Corporation's loss for the year ended June 30, 2019 include \$12.3 M in revenues, and a \$0.4 M profit, generated from Hays additional business, before income tax, depreciation and amortization of \$0.8 M.

If the business combination had been completed on July 1, 2018, the Corporation's consolidated revenues for the year ended June 30, 2019 would have reached \$126.8 M and consolidated net loss for the year ended June 30, 2019 would have been \$1.9 M.

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a twelve-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 Corporation; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

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6. Accounts receivable

As at June 30,	2019	2018
	\$	\$
Trade accounts receivable	16,080	14,564
Retentions from customers under manufacturing contracts	3,253	2,628
Allowance for doubtful accounts (a)	(65)	(93)
	19,268	17,099
Tax credits receivable	-	27
Other receivables	172	706
	19,440	17,832

Trade accounts receivable disclosed above include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable. In some cases, the Corporation holds the legal right to lien construction projects in the event that certain counterparties do not pay their balance within a specified period of time. The gross amount of accounts receivable for which an allowance for doubtful accounts is recorded is \$65 (\$93 as at June 30, 2018).

(a) Movement in the allowance for doubtful accounts

As at June 30,	2019	2018
	\$	\$
Balance at beginning of the year	(93)	-
Impairment losses recognized on receivables	(44)	(92)
Amounts written off during the year as uncollectible	74	-
Foreign exchange translation	(2)	(1)
Balance at end of the year	(65)	(93)

There is no impairment or amount past due other than those related to trade accounts receivable.

7. Inventories

As at June 30,	2019	2018
	\$	\$
Raw materials	847	1,481
Work in progress	262	-
Finished goods	5,630	5,519
	6,739	7,000

As a result of variations in the aging of its inventory of raw materials held in Canada, the Corporation recognized an inventory provision for the year of \$118 (\$103 in fiscal year 2018).

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8. Property, plant and equipment

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized units	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at June 30, 2017	74	1,580	2,777	347	546	762	1,840	593	8,519
Additions	-	19	607	106	28	651	210	98	1,719
Disposals	-	-	-	(1)	-	(28)	(24)	-	(53)
Write-off of fully depreciated assets	-	-	-	(102)	(145)	(89)	(48)	-	(384)
Effect of foreign currency exchange differences	-	-	25	-	2	16	15	4	62
Balance as at June 30, 2018	74	1,599	3,409	350	431	1,312	1,993	695	9,863
Additions	-	15	914	192	23	865	170	30	2,209
Business combination (note 5)	-	-	177	3	30	854	-	-	1,064
Disposals	-	-	-	(9)	-	(307)	-	-	(316)
Effect of foreign currency exchange differences	-	-	(15)	-	(1)	(25)	(6)	(1)	(48)
Balance as at June 30, 2019	74	1,614	4,485	536	483	2,699	2,157	724	12,772
Cumulated depreciation									
Balance as at June 30, 2017	-	(372)	(1,842)	(214)	(329)	(272)	(1,028)	(295)	(4,352)
Depreciation expense	-	(76)	(219)	(64)	(40)	(239)	(433)	(68)	(1,139)
Disposals	-	-	-	1	-	28	3	-	32
Write-off of fully depreciated assets	-	-	-	102	145	89	48	-	384
Effect of foreign currency exchange differences	-	-	(12)	-	(1)	(9)	(14)	(4)	(40)
Balance as at June 30, 2018	-	(448)	(2,073)	(175)	(225)	(403)	(1,424)	(367)	(5,115)
Depreciation expense	-	(77)	(307)	(96)	(47)	(491)	(254)	(77)	(1,349)
Disposals	-	-	-	8	-	230	-	-	238
Effect of foreign currency exchange differences	-	-	7	-	-	(8)	6	1	6
Balance as at June 30, 2019	-	(525)	(2,373)	(263)	(272)	(672)	(1,672)	(443)	(6,220)
Net amount as at June 30, 2018	74	1,151	1,336	175	206	909	569	328	4,748
Net amount as at June 30, 2019	74	1,089	2,112	273	211	2,027	485	281	6,552

The non-cash additions of property and equipment amounted to \$1.6 M in the year ended June 30, 2019 (\$1.2 M as at June 30, 2018). The carrying value of machinery and equipment held under finance leases at June 30, 2019 was \$734 M (\$151 M as at June 30, 2018). Additions during the year include \$583 M (\$151 M as at June 30, 2018) of machinery and equipment under finance leases. Leased assets are pledged as security for the related finance lease.

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9. Intangible assets

Cost	Software	Intellectual property	Trademarks	Customer relations	Distribution network	Contractual agreements	Non-Compete agreements	Deferred development costs	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at June 30, 2017	2,291	10,316	2,434	13,435	1,641	2,211	3,867	582	36,777
Additions	656	11	-	-	-	-	-	322	989
Write-off of fully depreciated assets	(224)	-	(29)	(33)	-	-	-	(155)	(441)
Effect of foreign currency exchange differences	3	129	28	197	24	32	56	1	470
Balance as at June 30, 2018	2,726	10,456	2,433	13,599	1,665	2,243	3,923	750	37,795
Additions	137	5	-	-	-	-	-	115	257
Business combination (note 5)	25	-	-	6,424	-	7	652	-	7,108
Disposals	-	(15)	-	-	-	-	-	-	(15)
Write-off of fully depreciated assets	-	-	-	(35)	-	-	-	-	(35)
Effect of foreign currency exchange differences	(2)	(55)	(12)	(188)	(10)	(14)	(35)	(1)	(317)
Balance as at June 30, 2019	2,886	10,391	2,421	19,800	1,655	2,236	4,540	864	44,793
Accumulated amortization									
Balance as at June 30, 2017	(395)	(6,404)	(806)	(5,714)	(1,641)	(865)	(362)	(170)	(16,357)
Amortization expense	(125)	(565)	(155)	(940)	-	(617)	(378)	(31)	(2,811)
Write-off of fully depreciated assets	224	-	29	33	-	-	-	155	441
Effect of foreign currency exchange differences	(2)	(103)	(14)	(118)	(24)	(35)	(19)	-	(315)
Balance as at June 30, 2018	(298)	(7,072)	(946)	(6,739)	(1,665)	(1,517)	(759)	(46)	(19,042)
Amortization expense	(295)	(679)	(170)	(1,355)	-	(379)	(809)	(289)	(3,976)
Disposals	-	5	-	-	-	-	-	-	5
Write-off of fully depreciated assets	-	-	-	35	-	-	-	-	35
Effect of foreign currency exchange differences	1	47	6	59	10	14	15	-	152
Balance as at June 30, 2019	(592)	(7,699)	(1,110)	(8,000)	(1,655)	(1,882)	(1,553)	(335)	(22,826)
Net amount as at June 30, 2018	2,428	3,384	1,487	6,860	-	726	3,164	704	18,753
Net amount as at June 30, 2019	2,294	2,692	1,311	11,800	-	354	2,987	529	21,967

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10. Goodwill

The change in carrying value is as follows:

	Total \$
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	1,328
Effect of foreign exchange differences	(112)
Balance as at June 30, 2019	15,727

For the purpose of annual impairment testing, goodwill is allocated to cash-generating units ("CGU") or groups of CGUs, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises. The Corporation carries out its impairment tests on each CGU or groups of CGUs annually or more frequently if there is an indicator of impairment.

As a result of the reporting segment changes described in Note 2 – Basis of preparation and summary of significant accounting policies, the CGU or groups of CGUs for which goodwill is tested was regrouped and reallocated to the Corporation's CGU and groups of CGUs for impairment testing purposes. The carrying amount of goodwill was reallocated to CGU or groups of CGUs (includes goodwill allocated from the Hays acquisition of \$1.3 M in the O&M CGU) as follows:

As at June 30,	2019
	\$
Projects & Aftermarket	2,434
Specialty Products	3,795
O&M	9,498
Goodwill	15,727

The Corporation has previously aggregated its 'CGU into countries for the purposes of the goodwill impairment test. The modification in the assessment of the CGU is a consequential change of IAS 36, which specify that the level to which the goodwill is allocated must represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and not be larger than an operating segment. For the fiscal year ended June 30, 2018, the carrying amount of goodwill was allocated to or group of CGUs as follows:

As at June 30,	2018
	\$
Canada	-
United States	14,511
Goodwill	14,511

The recoverable amount of each identifiable CGU or group of CGU was established by calculating its value in use which is performed using discounted cash flow projections that are based on a one-year financial budget approved by the Board of Directors and a long-term forecast prepared by management, which covers an additional period of 4 years. The key assumptions required for the value in use estimation is the discount rate and the growth rates for revenues. Other assumptions used include future gross profits on projects and services, products and operation and maintenance. Cash flows and future gross profit were projected based on past experience and actual operating results using forecasts approved by management. The discount rates were based on the Corporation's weighted average cost of capital using a standard capital structure and reflect specific risks related to the CGU under review.

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The calculation of the recoverable amount was based on the following key assumptions:

As at June 30, 2019	Projects & Aftermarkets	Specialty Products	O&M
Growth rate for the terminal period	3.0%	3.0%	3.0%
Pre-tax discount rate	18.5%	18.1%	16.4%

For the fiscal year ended June 30, 2018, the following key assumptions were used:

As at June 30, 2018	United States
Growth rate for the terminal period	3.0%
Pre-tax discount rate	14.6%

For the Projects & Aftermarket group of CGUs, if the discount rate had increased by 1.0% compared to the assumption taken by the Corporation, assuming other variables remain constant, the recoverable amount would have been lesser by approximately \$1.0 M and an impairment of \$0.2 M would have been recorded. If the growth rate had decreased by 1% compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be no impairment.

For the Specialty Products group of CGUs, if the discount rate had increased by 1.0% compared to the assumption taken by the Corporation, assuming other variables remain constant, the recoverable amount would have been lesser by approximately \$1.9 M and an impairment of \$0.9 M would have been recorded. If the growth rate had decreased by 1% compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be no impairment.

For the O&M group of CGUs If the discount rate had increased by 1.0% for each identifiable CGU or group of CGUs compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be no impairment. If the growth rate had decreased by 1.0% for each identifiable CGU or group of CGUs compared to the assumption taken by the Corporation, there would be no impairment.

11. 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 \$20.0 M, including a term loan in a maximum amount of \$5.0 M, which is described in Note 13 – *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 \$12.0 M, from which an amount of \$7.5 M was used as at June 30, 2019. The interest rates on these amounts are distributed as follow:
 - a. \$3.5 M bearing interest at Banker Acceptance + 2.0% (4.00% as at June 30, 2019);
 - b. \$0.2 M bearing interest at CDN prime rate plus 0.75% (4.70% as at June 30, 2019); and
 - c. US\$ 2.9 M (\$3.8 M as at June 30, 2019) bearing interest at US\$ Libor plus 2.0% (4.40% as at June 30, 2019).
- (ii) a letter of credit facility for a maximum amount of \$3.0 M for the issuance of letters of credit entirely secured by Exportation Development Canada ("EDC"), from which an amount of \$0.4 M was not available as at June 30, 2019 considering the outstanding letters of credit issued by the Corporation's former bank and currently secured by EDC. An amount of \$0.8 M was used on this credit facility as at June 30, 2019.

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In addition to the above credit facilities, the Corporation has access to the following additional credit facilities:

- (i) a hedging facility of \$1.0 M, which was unused as at June 30, 2019; and
- (ii) a credit facility enabling the Corporation to use a maximum amount of \$0.4 M on credit cards for Corporation's related expenses, from which an amount of \$0.1 M was used as at June 30, 2019.

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 \$25.0 M for each grantor, and (ii) immovable hypothec on all the real property owned by the Corporation.

Former credit facilities

Until November 28, 2018, the Corporation had the following authorized credit facilities available:

- (i) US\$5.0 M (\$6.5 M as at June 30, 2019) 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 June 30, 2019, the amount used on this line of credit was fully repaid and the line of credit was closed;
- (ii) US\$2.0 M (\$2.6 M as at June 30, 2019) 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 June 30, 2019, the amount used on this line of credit was fully repaid and the line of credit was closed;
- (iii) two credit facilities enabling it to issue letters of credit for a maximum amount of \$2.0 M, both secured by EDC. Even if these credit facilities have been closed on December 19, 2018, as at June 30, 2019, the Corporation still has outstanding letters of credit amounting to \$0.5 M (\$1.8 M 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 \$0.5 M, which was unused and closed on December 19, 2018.

With its former bank, the Corporation also had a credit facility enabling it to use a maximum amount of \$0.3 M on credit cards for Corporation's related expenses, which was unused and closed on June 30, 2019 (\$0.1 M as at June 30, 2018).

Covenants

As at June 30, 2019, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 13 – *Long-term debt*. The ratios were revised and changed as part of the credit agreement with the new lender.

12. Accounts payable and accrued liabilities

As at June 30,	2019	2018
	\$	\$
Trade accounts payable	4,876	8,015
Other accrued liabilities	7,388	5,355
	12,264	13,370

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

13. Long-term debt

As at June 30,	2019	2018
	\$	\$
<i>At amortised cost</i>		
Loan, denominated in Canadian dollars (a)(h)(i)	3,980	-
Loan from other entities, denominated in Canadian dollars (b)(h)	2,444	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
Loans from other entities, denominated in US dollars (f)	1,125	175
Loans from other entities, denominated in Canadian dollars (g)	892	469
	8,441	10,077
Less: Current portion	1,863	2,235
Long-term debt	6,578	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 Banker Acceptance rate plus 2.0% (4.00% as at June 30, 2019) and an amount of \$343 bearing interest at prime rate plus 0.75% (4.70% as at June 30, 2019). 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 \$209.

(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 June 30, 2019 and 5.95% as at June 30, 2018). The maturity date and the monthly instalments were renegotiated, 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 \$31.

(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 (\$2,617 as at June 30, 2019) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

(f) Loans from other entities

As part of the acquisition of Hays, the Corporation has assumed loans totaling \$347 (US\$265) related to financing agreement for automotive equipment. The loans bear interest ranging between 3.74% and 6.59%, are payable between 36 and 48 monthly instalments totaling \$11 (US\$9), principal and interest, and are maturing through February 2019 to July 2022.

The Corporation acquired financing agreements totaling \$949 (US\$725) to finance the acquisition of automotive equipment and machinery and equipment. The loans bear interest ranging between 0.99% and 9.29%, are payable between 48 and 72 monthly instalments totaling \$20 (US\$15), principal and interest, and are maturing through March 2023 to June 2025.

(g) Loans from other entities

The Corporation acquired financing agreements totaling \$514. The loans bear interest ranging between 3.40% and 8.63%, are payable between 36 and 99 monthly instalments totaling \$6, principal and interest, and are maturing through August 2020 to June 2027.

Obligation under finance lease

The Corporation is under finance lease agreements totaling \$734 for the acquisition of machinery and equipment. The loans bear interest ranging between 5.34% and 6.60%, are payable in 48 monthly instalments totaling \$15, principal and interest, and are maturing through August 2021 to June 2023.

(h) 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 3.00:1.00 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 quarter ending September 30, 2019; and
 - greater than or equal to 1.20:1.00 at all times thereafter.

(i) 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 June 30, 2019, the Corporation is in compliance with the ratios required under its credit agreements.

The following table presents reconciliation between the opening and closing balances for the long-term debt.

As at June 30,	2019	2018
	\$	\$
Long-term debt, at beginning of the year	10,077	11,185
Increase in long-term debt	6,244	1,985
Repayment of long-term debt	(8,065)	(3,146)
Debt acquired through business acquisitions (note 5)	347	-
Financing costs	(263)	-
Amortization of financing costs	108	37
Effect of foreign exchange differences	(7)	16
Long-term debt, at end of the year	8,441	10,077

The annual principal instalments due on the long-term debt are \$1.9 M in 2020, \$1.9 M in 2021, \$1.9 M in 2022, \$1.9 M in 2023 and \$0.8 M in 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

14. Contingent consideration

The change in carrying value of the contingent consideration is as follows:

	\$
Balance as at June 30, 2017	233
Less: Change in fair value of contingent consideration	(228)
Effect of foreign exchange differences	(5)
Balance as at June 30, 2018	-
Contingent consideration – Hays (note 5)	2,299
Plus: Change in fair value of contingent consideration	248
Effect of foreign exchange differences	(44)
Balance as at June 30, 2019	2,503
Less: Current portion	1,361
Contingent consideration – non-current portion	1,142

15. Income taxes

Income tax expenses (recovery) are detailed as follows:

As at June 30,	2019	2018
	\$	\$
Current tax expense:		
Current period	99	79
Adjustment for prior periods	48	79
	147	158
Deferred tax expense:		
Origination and reversal of temporary differences	262	(250)
Reduction in tax rate	86	1,046
Adjustment for prior periods	(73)	192
	275	988
Income taxes	422	1,146

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Reconciliation of the Corporation's effective income tax expense

The Canadian statutory tax rate is 26.67% (26.75 % for 2018). The following is a reconciliation of income taxes calculated at the Canadian statutory tax rate to the expense for 2019 and 2018.

As at June 30,	2019	2018
	\$	\$
Loss before income taxes	(1,758)	(2,303)
Income taxes at the Canadian statutory tax rate of 26.67% (26.75% in 2018)	(469)	(616)
Tax effect from:		
Effect of differences in tax rates in other jurisdictions	77	(46)
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	182	310
Changes in statutory rates ^(a)	304	1,049
Non-deductible stock-based payments	82	117
Adjustments in respect of prior years	(25)	320
Non-deductible items	237	31
Other	34	(19)
Total income tax expense	422	1,146

- (a) On December 22, 2017, the President of the United States signed into law the *Tax Cuts and Jobs Act* ("U.S. Tax Reform"). The U.S. Tax Reform reduced the U.S. federal corporate income tax rate from 34% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Corporation's net deferred tax asset at June 30, 2018 decreased by \$1.0 M.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Corporation in future years including, a 100% first year deduction for qualified property, and limitations to the deduction for net interest expense incurred by U.S. corporations. Future regulations and interpretations to be issued by U.S. authorities may also impact the Corporation's estimates and assumptions used in calculating its income tax provisions.

Deferred tax assets and liabilities

As at June 30,	2019	2018
	\$	\$
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	3,673	5,435
Deferred tax liabilities	(3,529)	(3,320)
Net deferred tax assets	144	2,115

Net deferred tax assets of \$0.1 M were recognized as at June 30, 2019 (\$2.1 M as at June 30, 2018) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, and projections for future taxable income, management believes it is probable the Corporation will realized the benefits of these deductible differences and operating losses carried forward. See Note 3 – Critical accounting estimates, assumptions and judgements for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

Changes to deferred tax assets (liabilities) related to temporary differences as follows:

	Balance as at July 1, 2018	Recognized in earnings	Recognized in equity	Business acquisition	Balance as at June 30, 2019
	\$	\$	\$	\$	\$
Non-capital losses	616	(382)	(99)	-	135
Property, plant and equipment	(264)	(150)	4	(74)	(484)
Intangible assets	2,486	254	7	(1,532)	1,215
Goodwill	(3,056)	-	11	-	(3,045)
U.S. interests not deducted and deferred	1,268	584	(14)	-	1,838
Other assets	1,065	(581)	1	-	485
	2,115	(275)	(90)	(1,606)	144

	Balance as at July 1, 2017	Recognized in earnings	Recognized in equity	Balance as at June 30, 2018
	\$	\$	\$	\$
Non-capital losses	276	327	13	616
Property, plant and equipment	(287)	27	(4)	(264)
Intangible assets	2,203	244	39	2,486
Goodwill	(3,012)	-	(44)	(3,056)
U.S. interests not deducted and deferred	3,007	(1,737)	(2)	1,268
Other assets	896	151	18	1,065
	3,083	(988)	20	2,115

At June 30, 2019, the Corporation had the following tax losses carried forward available to reduce taxable income in the future, and in respect of which the Corporation has not recognized a deferred tax on those from Canada.

Tax losses carried forward expire as follows:	Date	Canada	USA
		\$	\$
	2026	69	-
	2027	1,924	-
	2028	2,619	-
	2029	1	-
	2030	672	-
	2033	-	98
	2034	2,612	-
	2035	205	-
	2036	305	293
	2037	2,930	240
	2038	1,535	-
	2039	927	-
		13,799	631

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At June 30, 2019, the Corporation had the following investment tax credits carryovers to reduce income tax payable in the future, and in respect of which the Corporation has not recognized an asset.

Investment tax credits expire as follows	Date	Canada
	2021	9
	2022	76
	2023	141
	2024	51
	2026	36
	2027	22
	2028	38
	2029	6
	2030	21
	2031	21
	2032	14
	2033	53
	2036	5
	2037	16
		509

The ability to realize the tax benefits from these losses and investment tax credits is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses and investment tax credits arose. Deferred tax assets are recognized in respect of tax losses and other temporary differences giving rise to deferred tax assets only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered.

Accordingly, no deferred tax asset has been recognized on the following tax losses carried forward and temporary differences.

As at June 30, 2019	Canada	United States
	\$	\$
Tax losses carried forward	13,799	-
Exploration expenses	1,779	-
Capital losses	501	-
Research and development expenses	2,229	-
Property, plant and equipment	5,339	-
Financing and share issue expenses	1,669	-
Others	268	-
	25,584	-

As at June 30, 2018	Canada	United States
	\$	\$
Tax losses carried forward	12,253	-
Exploration expenses	1,779	-
Capital losses	254	-
Research and development expenses	2,326	-
Property, plant and equipment	7,346	-
Financing and share issue expenses	898	-
Others	95	-
	24,951	-

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16. 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 \$13.1 M and expenses of \$0.9 M for net proceeds of \$12.2 M. The Corporation used the proceeds to complete the acquisition of Hays (note 5) 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 exercisable 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 fair value of 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 of June 30, 2019, the Corporation has a total of 55,889,989 shares issued (40,144,214 as of June 30, 2018).

Stock options

The Corporation has established a stock option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Corporation. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The maximum number of shares that may be issued under the plan amounts to 4,000,000.

For the year ended June 30, 2019, the amount recorded as stock-based compensation for options granted to its directors, officers and key employees is \$308 (\$438 in fiscal year 2018).

The following table summarizes the situation of the Corporation's stock-based compensation plan as at June 30, 2019 and June 30, 2018 and the change during the years ended on these dates:

Years ended June 30,	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding - Beginning of year	2,554,334	1.75	2,565,334	1.75
Granted	-	-	-	-
Forfeited	-	-	(11,000)	2.50
Outstanding - End of year	2,554,334	1.75	2,554,334	1.75
Exercisable – End of year	826,834	1.95	538,917	2.11

The range of exercise prices for options outstanding at the end of the year was \$1.65 to \$3.75 (\$1.65 to \$3.75 in fiscal year 2018).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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As at June 30, 2019, the following stock options were granted:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)
\$			
3.75	Directors	25,000	0.41
3.75	Directors	4,000	1.04
2.50	Employees	188,000	1.37
2.50	Directors	34,000	1.23
1.65	Employees	2,303,334	5.08
		2,554,334	4.69

17. Contract assets and contract liabilities

The adoption of IFRS 15 in 2019 resulted in additional disclosures of financial information related to the disaggregation of revenue from contracts with customers. As such, the Corporation added details on fiscal year 2019 revenues by geographic area and type of revenues, with a reconciliation between revenues from contracts with customers under the scope of IFRS 15 and total revenues.

Contract assets and contract liabilities are as follow:

As at June 30,	2019	2018
	\$	\$
Construction costs related to Projects incurred plus recognized profits less recognized losses to date	61,878	66,592
Less: progress billings	(59,109)	(62,278)
Consolidated statement of financial position for ongoing projects contracts	2,769	4,314

Recognized and included in the consolidated statement of financial position as amounts due:

As at June 30,	2019	2018
	\$	\$
From customers under project contracts (contract assets)	5,880	-
From customers under project contracts (costs incurred in excess of billings)	-	6,574
To customers under project contracts (contract liabilities)	(3,111)	-
To customers under project contracts (billings in excess of costs incurred)	-	(2,260)
Consolidated statement of financial position for ongoing projects contracts	2,769	4,314

During the year, \$1,877 of revenues were recorded for amounts included in contract liability at the beginning of the year (\$1,000 in the year ended 2018).

Remaining performance obligations

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at June 30, 2019, on all contracts with customers, is expected to be recognized in revenues as follows:

	2020	2021	2022	Thereafter	Total
Projects	\$23.5 M	\$16.6 M	\$5.1 M	-	\$45.2 M
O&M	\$31.0 M	\$29.1 M	\$13.2 M	\$9.4 M	\$82.7 M

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It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

18. Additional information about the nature of costs components**a) Expenses by nature**

Years ended June 30,	2019	2018
	\$	\$
Material	37,291	35,742
Salaries and fringe benefits	54,288	42,894
Subcontractors and professional fees	8,177	8,132
Rent, electricity, insurance and office expenses	3,262	2,151
Telecommunications and travel expenses	4,278	4,376
Bad debt expenses	47	109
Stock-based compensation	308	438
Other expenses	3,614	2,314
Total cost of goods sold, operating, selling and administrative expenses	111,265	96,156
Depreciation	1,349	1,139
Amortization	3,976	2,811
Costs including depreciation and amortization	116,590	100,106

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, general 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 years ended June 30, 2019 and 2018 and ii) the amounts of cost of goods sold, general operating expenses, selling expenses and administrative expenses, if depreciation and amortization were allocated within those cost categories.

Depreciation of property, plant and equipment by function

Years ended June 30,	2019	2018
	\$	\$
Cost of goods sold	1,151	973
General operating expenses	5	3
Selling expenses	51	40
Administrative expenses	142	123
	1,349	1,139

Amortization of intangible assets by function

Years ended June 30,	2019	2018
	\$	\$
Cost of goods sold	691	451
Selling expenses	2,990	2,235
Administrative expenses	295	125
	3,976	2,811

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Cost per function including depreciation and amortization

Years ended June 30,	2019	2018
	\$	\$
Cost of goods sold	92,682	78,985
General operating expenses	5,698	4,007
Selling expenses	10,784	10,348
Administrative expenses	7,426	6,766
	116,590	100,106

c) Other losses (gains) – net

Years ended June 30,	2019	2018
	\$	\$
Unrealized exchange loss (gain)	222	(36)
Realized exchange loss (gain)	(114)	73
Other losses (gains)	(6)	109
(Gain) on disposal of property, plant and equipment	(92)	(24)
Changes in fair value of contingent consideration	248	-
	258	122

19. 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:

Years ended June 30,	2019	2018
Net loss	(\$2,180)	(\$3,449)
Basic and diluted weighted average number of share outstanding	49,289,706	40,144,214
Basic and diluted net loss per share	(\$0.044)	(\$0.086)

The following items are excluded from the calculation of basic and diluted net earnings (loss) per share because their exercise price was greater than the average market price of the common shares and the legal exercise period relating to the warrants.

	2019	2018
Stock options	2,554,334	2,554,334
Warrants	642,710	-

For the years ended June 30, 2019 and 2018, there was no difference in the basic and diluted weighted average number of shares outstanding, since the effect of the stock options and warrants would have been anti-dilutive. Accordingly, the diluted loss per share for these years is calculated using the basic weighted average number of shares outstanding.

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20. Financial risk management

The Corporation's activities expose it to a variety of financial risks: market risks (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Corporation's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Corporation's financial performance.

The Corporation's financial risk management is generally carried out by the corporate team, based on policies approved by the Board of Directors. The identification and evaluation of the financial risks are the responsibility of the corporate team.

Overview

The Corporation's financial instruments and the nature of risks which they may be subject to are set out in the following table:

Financial instrument	Risks			
	Market risks		Credit	Liquidity
	Currency	Interest rate		
Cash	X	X	X	
Guaranteed deposit certificates		X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X
Contingent consideration	X			X

Currency risk

The Corporation is exposed to exchange risk as a result of its foreign exchange purchases and sales, denominated in U.S. dollar and EURO and also as a result of its foreign subsidiary net assets. To limit the impact of fluctuations of the Canadian dollar over the U.S. dollar, the Corporation matches, in general and when possible, the cash receipts in a foreign currency with the cash disbursements in the same foreign currency. The Corporation does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

As at June 30, 2019, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar or EURO currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2019 would have been greater or lesser by approximately \$53 (\$270 for the year ended June 30, 2018).

The financial assets and liabilities denominated in a foreign currency included in the Canadian entities are as follows:

As at June 30,	2019	2018
	\$	\$
Financial assets		
Cash	1,089	133
Accounts receivable	2,822	1,161
	3,911	1,294
Financial liabilities		
Bank overdraft	-	(159)
Bank loans	(3,795)	(4,021)
Accounts payable and accrued liabilities	(929)	(1,165)
Long-term debt	-	(1,273)
	(4,724)	(6,618)

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Cash flow and fair value interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the cash, guaranteed deposit certificates, related party loans receivable, bank overdraft, bank loans, contingent consideration and long-term debt. The Corporation does not use derivatives to cover this risk.

The guaranteed deposit certificates, the related party loans receivable and the unsecured loans bear interest at fixed rates and are accounted for at amortized cost. The Corporation is, therefore, not exposed to the risk of cash flows, however is exposed to changes in fair value resulting from interest rate fluctuations.

The bank loans, the long-term debt and the bank overdraft bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2019 and 2018, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2019, the allowance for doubtful accounts was \$65 (\$93 as at June 30, 2018).

The carrying amount on the consolidated statement of financial position of the Corporation's financial assets exposed to credit risk represents the maximum amount exposed to credit risk.

The following table summarizes the Corporation's exposure to credit risk:

As at June 30,	2019	2018
	\$	\$
Cash	6,206	1,998
Guaranteed deposit certificates	21	257
Accounts receivable, net of tax credits receivable	19,440	17,805
Other assets	234	379
Related party loans receivable	1,250	1,250

The Corporation holds cash and guaranteed deposits certificates with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares (see note 24a) that the Corporation considers at a low risk for loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

The table below summarizes the aging of trade accounts receivable:

As at June 30,	2019	2018
	\$	\$
Current	7,996	6,600
Past due 1 to 30 days	3,421	4,045
Past due 31 to 90 days	3,009	2,279
Past due more than 90 days	1,654	1,640
	16,080	14,564
Less: Allowance for doubtful accounts	(65)	(93)
Trade accounts receivable	16,015	14,471
Retentions from customers under project contracts	3,253	2,628
Tax credits receivable	-	27
Other receivables	172	706
	19,440	17,832

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfil its obligations on a timely basis or at reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budgets and cash forecasts to ensure that it has sufficient funds to fulfil its obligations.

For its investing activities, the Corporation will evaluate its liquidity needs when applicable and take the necessary action.

The following table presents the financial liability instalments payable when contractually due including accrued interest:

As at June 30, 2019	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	\$	\$	\$	\$	\$
Bank loans	7,545	7,545	-	-	-
Accounts payable and accrued liabilities	12,264	12,264	-	-	-
Long-term debt	8,952	2,110	2,078	1,996	2,768
Contingent consideration	2,503	1,361	1,142	-	-
Total	31,264	23,280	3,220	1,996	2,768

As at June 30, 2018	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	\$	\$	\$	\$	\$
Bank overdraft	260	260	-	-	-
Bank loans	9,205	9,205	-	-	-
Accounts payable and accrued liabilities	13,370	13,370	-	-	-
Long-term debt	11,119	2,683	2,476	2,109	3,851
Total	33,954	25,518	2,476	2,109	3,851

Fair value

The fair value of financial instruments is based on quoted market prices when an active market exists. Otherwise, it is estimated using techniques and valuation models, such as analysis of discounted cash flows for the long-term debt, for which the significant unobservable inputs used are the discount rates which reflects the Corporation's credit risk.

There was no transfer between the levels of fair value hierarchy during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

The carrying amount and estimated fair value of financial instruments are as follows:

Financial instruments whose fair value approximates carrying value

Cash, guaranteed deposit certificates, accounts receivable, other assets, bank overdraft, bank loans, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Long-term debt

The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is \$8,441 (\$10,077 as at June 30, 2018) and was determined to be a level 2 financial instrument.

Contingent consideration

The fair value of the contingent consideration has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the contingent consideration is \$2,503 (\$nil as at June 30, 2018) and was determined to be a level 2 financial instrument.

21. 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 financial risk.

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of bank overdraft, bank loans and long-term 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 at fixed points in time. The financial ratios are, as at June 30, 2019:

- 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 3.00:1.00 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 quarter ending September 30, 2019; and
 - greater than or equal to 1.20:1.00 at all times thereafter.

As at June 30, 2019, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements. As at June 30, 2018, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements, except for the fixed charge coverage for which a waiver was received from the lender.

22. Commitments and contingencies

Leasing arrangements

Operating leases relate to leases of premises with lease terms of between 1 and 10 years. The Corporation has options to renew the leases for its premises for additional terms varying between 3 to 5 years. The Corporation does not have an option to purchase the leased premises at the expiry of the lease periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

Future minimum rentals payable under non-cancellable operating leases as at June 30 are as follow:

Payments recognized as an expense

Years ended June 30,	2019	2018
	\$	\$
Minimum lease payments	1,183	977
	<u>1,183</u>	<u>977</u>

Non-cancellable operating lease commitments

As at June 30,	2019	2018
	\$	\$
Not later than 1 year	1,183	977
Later than 1 year and not later than 5 years	3,663	3,050
Later than 5 years	1,427	77
	<u>6,273</u>	<u>4,104</u>

Liabilities recognized in respect of non-cancellable operating leases

As at June 30,	2019	2018
	\$	\$
Deferred rent		
Non-current	137	145
	<u>137</u>	<u>145</u>

Commitments

As at June 30, 2019, the Corporation had commitments of \$1,911 relating to purchase agreements with specific suppliers in the next fiscal year 2020.

Legal claim contingency

Various claims and legal proceedings have been initiated against the Corporation in the normal course of its operating activities. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any payments resulting from their outcome are not likely to have a substantial negative impact on the Corporation's consolidated financial statements. The Corporation limits its exposure to some risks of claims related to its activities by subscribing to insurance policies.

23. Segment information

In the fourth quarter of fiscal year 2019, the Corporation implemented certain organizational realignment. As a result of the realignment, the Corporation has re-evaluated its segment financial reporting structure and, effective in the fourth quarter of fiscal year 2019, has three new financial reporting segments: 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").

Before the organizational realignment, the Corporation was operating under a single reporting segment, which was providing water and wastewater treatment systems and related products and services.

Products from which reportable segments derive their revenues

For management purposes, the Corporation is organised into business pillars based on its different products and services. The Corporation operates under three distinct reportable segment consisting of: i) water and wastewater projects, and services ("Projects and Aftermarket"); ii) specialty products, including a complete line of maple equipment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

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 Corporation's chief operating decision maker evaluates segment performance on the basis of earnings before administrative expenses as reported to internal management, on a periodic basis.

Inter-segment revenues and expenses are eliminated upon consolidation and relate mainly to sales within the Specialty Products segment. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following is a measure of profit or loss for each reportable segment as used by the chief operating decision maker:

	For the year ended June 30, 2019			
	Projects and Aftermarket revenues	Specialty Products revenues	O&M revenues	Total
	\$	\$	\$	\$
Revenue from external customers:				
Revenue recognized overtime	28,472	-	52,770	81,242
Revenue recognized at a point in time	11,773	24,943	-	36,716
	40,245	24,943	52,770	117,958
Cost of goods sold	32,948	14,754	43,138	90,840
Gross profit before depreciation and amortization	7,297	10,189	9,632	27,118
General operating expenses	821	2,397	2,475	5,693
Selling expenses	3,214	3,184	1,345	7,743
Earnings before administrative costs (EBAC)	3,262	4,608	5,812	13,682
Administrative expenses				6,989
Depreciation of property, plant and equipment				1,349
Amortization of intangible assets				3,976
Other losses – net				258
Acquisition-related costs, integration costs and other costs				797
Finance costs – net				2,071
Loss before income taxes				(1,758)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

	For the year ended June 30, 2018			
	Projects and Aftermarket revenues \$	Specialty Products revenues \$	O&M revenues \$	Total \$
Revenue from external customers:				
Revenue recognized overtime	29,828	-	35,908	65,736
Revenue recognized at a point in time	11,181	22,751	-	33,932
	41,009	22,751	35,908	99,668
Cost of goods sold	34,858	12,942	29,761	77,561
Gross profit before depreciation and amortization	6,151	9,809	6,147	22,107
General operating expenses	801	2,325	878	4,004
Selling expenses	3,929	3,020	1,124	8,073
Earnings before administrative costs (EBAC)	1,421	4,464	4,145	10,030
Administrative expenses				6,518
Depreciation of property, plant and equipment				1,139
Amortization of intangible assets				2,811
Other losses – net				122
Acquisition-related costs, integration costs and other costs				479
Finance costs – net				1,264
Loss before income taxes				(2,303)

Geographical information

The Corporation is domiciled in Canada. The result of its revenue from external customers in Canada is \$17,194 (\$20,710 in 2018), and the total revenue from external customers from other countries is \$100,764 (\$78,958 in 2018). Detailed information for the Corporation's markets is as follows:

Years ended June 30,	2019	2018
	\$	\$
Revenues from external customers		
Revenue according to geographic location		
Canada	17,194	20,710
United States	88,200	70,268
China	2,879	2,444
Korea	1,657	1,577
Other	8,028	4,669
	117,958	99,668

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

As at June 30,	2019	2018
	\$	\$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	7,007	6,883
United States	37,240	31,130
	44,247	38,013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except share data)

Information about major customers

For the fiscal years ended June 30, 2019 and June 30, 2018, no customer accounted for more than ten percent (10%) of its revenues.

24. Related parties 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 the non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and they can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was \$1,146 as at June 30, 2019 (\$1,354 as at June 30, 2018).

An amount of \$31 was paid to the Corporation in regards of these loans and recorded as finance income in the consolidated statements of loss for the year ended June 30, 2019 (\$31 for the year ended June 30, 2018).

b) Compensation of executive officers and Board of Directors

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

Years ended June 30,	2019	2018
	\$	\$
Short-term benefits ⁽¹⁾	1,421	1,389
Post-employment benefits ⁽²⁾	111	123
Share-based payments	308	438
	1,840	1,950

⁽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 and the deferred profit sharing plan.

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

The remuneration of executive officers and Board of Directors is determined by the Corporation's Corporate Governance, Remuneration and Risks committee having regards to the performance of individuals and market trends.

25. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

GENERAL INFORMATION

Board of Directors

Lisa Henthorne, Chairman of the Board of Directors⁽²⁾

Robert Comeau, Director ⁽¹⁾⁽²⁾⁽³⁾

Pierre Côté, Director ⁽³⁾⁽⁴⁾

Stephen A. Davis, Director ⁽¹⁾

Frédéric Dugré, President, Chief Executive Officer and Director

Richard Hoel, Director and Vice Chairman of the Board of Directors ⁽¹⁾⁽³⁾

René Vachon, Director ⁽¹⁾⁽²⁾

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 & Managing Director of WWTP⁽⁵⁾

Gregory Madden, Vice President & Managing Director of Aftermarket

Rock Gaulin, Vice President & Managing Director of Maple

William Douglass, Vice President & Managing Director of O&M⁽⁶⁾

⁽¹⁾ Audit Committee

⁽²⁾ Governance, Remuneration and Risks Committee

⁽³⁾ Growth Committee

⁽⁴⁾ Projects, Operation and Innovation Committee

⁽⁵⁾ Water and Wastewater Treatment Projects

⁽⁶⁾ Operation and Maintenance

Advisory Members

Operation and Maintenance Committee

Elisa Speranza ⁽²⁾⁽⁴⁾

Leonard Graziano ⁽³⁾⁽⁴⁾

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McCarthy Tétrault S.E.N.C.R.L.

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Ernst & Young LLP

Transfer Agent

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