Interim Financial Report
First quarter ended
September 30, 2019

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Trading symbols:
TSX Venture: HEO
Growth Paris: MNEMO: ALHEO
OTCQX: HEOFF

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the quarter ended September 30, 2019, in comparison with the corresponding period ended September 30, 2018. This MD&A should be read in conjunction with the condensed interim consolidation financial statements and the accompanying notes for the period ended September 30, 2019, as well as with the audited annual consolidated financial statements for the year ended June 30, 2019.

In this MD&A, "H_2O Innovation", the "Corporation", or the words "we", "our" and "us" refer to either H_2O Innovation Inc as a group, or to each of the business pillar, depending on the context.

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

Additional information about H_2O Innovation, including our 2019 Annual Information Form, is available on our website at www.h2oinnovation.com and on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements set forth in this MD&A regarding the operations and the activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 24, 2019 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events and other changes.

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NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS, as listed in the table below. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report. Even though these measures are non-IFRS measures, they are used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the Generally Accepted Accounting Principles ("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 following non-IFRS indicators are used by management to measure the performance and liquidity of the Corporation:

- Earnings before interests, income taxes, depreciation and amortization ("EBITDA")
- Adjusted earnings before interests, income taxes, depreciation and amortization ("Adjusted EBITDA")
- Earnings before administrative costs ("EBAC")
- Net debt
- Adjusted free cashflow

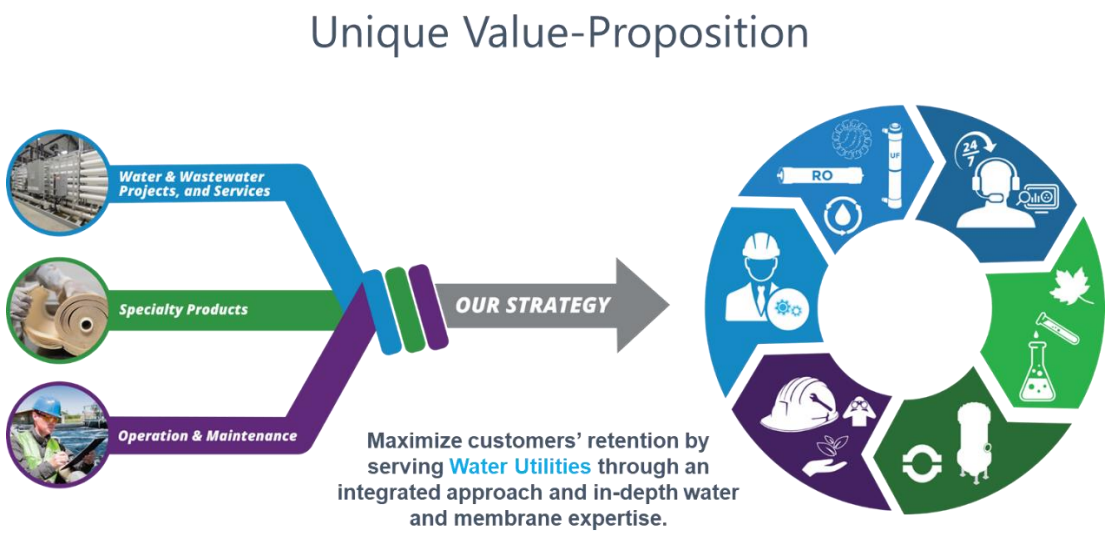
Definition of all non-IFRS measures and additional IFRS measures are provided in section "Non-IFRS financial measurement" to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Corporation presents a quantitative reconciliation of the non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS. Refer to Section "Non-IFRS financial measurement" on page 17 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used in this MD&A.

BUSINESS OF THE CORPORATION

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

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

As shown in the picture below, the customers, such as water utilities, are at the center of H_2O Innovation's offer. Through its integrated solutions combining membrane filtration expertise, specialty products and operation and maintenance, H_2O Innovation is well positioned to address the needs that a customer may have and to maximize customer's retention.



OUR OPERATIONS UNDER THREE BUSINESS PILLARS

The Corporation's operates under three business pillars, as described below:

1ST PILLAR - WATER & WASTEWATER PROJECTS AND SERVICES ("PROJECTS & AFTERMARKET")

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

H_2O Innovation has now installed more than 750 systems in North America, including all range of applications (drinking water, wastewater, desalination, water reuse, etc.). The Corporation has also developed its own open-source technologies for water treatment systems, the FiberFlex™, and for wastewater treatment systems, the flexMBR™.

2ND PILLAR - SPECIALTY PRODUCTS

H_2O Innovation offers a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry, through H_2O Innovation Maple, PWT and Piedmont. The Corporation is now exporting his specialty products in more than 80 countries.

H_2O Innovation Maple offers a complete line of equipment dedicated to maple syrup production to help the maple producers increasing their syrup production while reducing their energy consumption.

PWT focuses on chemical manufacturing and supply for the membrane industry, with a product line developed around its unique dendrimer-based antiscalant chemistry for scale and fouling control.

Piedmont is a global leader in corrosion resistant equipment for desalination plants and offers flexible grooved-end couplings, fiberglass reinforced polyester (FRP) cartridge filter housings, self-cleaning disc and screen filters, bag filters, cartridges, and strainers.

3RD PILLAR - OPERATION & MAINTENANCE SERVICES ("O&M")

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

Together, they employ 435 employees for the operation of more than 175 utilities in two Canadian provinces and eleven US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast.

KEY FINANCIAL HIGHLIGHTS

For the three-month period ended September 30, 2019
Compared with the three-month period ended September 30, 2018

Revenues	Recurring Revenues [3]	Recurring Revenues [3] (%)	Consolidated Backlog
$28.2 M	**$22.6 M**	**80.2 %**	**$153.3 M**
↑ $3.8 M or 15.8 %	↑ $5.9 M from $16.7 M	↑ from 68.5 %	↑ 9.6 % from $139.9 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Net Loss
23.8 %	**17.9 %**	**$1.6 M**	**($1.0 M)**
↑ from 22.6 %	↓ from 18.0 %	↑ 28.4 % from $1.3 M	↑ 219.8 % from ($0.3 M)

Cash flow from operating activities	Adjusted free cash flow [3]	Working Capital	Net debt [3]
$2.2 M	**$1.6 M**	**$11.6 M**	**$8.2 M**
↑ 218.2 % from $0.7 M	↑ 459.7 % from $0.3 M	↓ 10.1 % from $12.8 M	↓ 16.3 % from $9.8 M

(1) Gross profit margin presented before depreciation and amortization expenses.
(2) Selling, general operating and administrative expenses.
(3) Refer to the section "Non-IFRS financial measurements" at page 17 of this MD&A.

KEY BUSINESS HIGHLIGHTS

Employees	Distributors by business line	Number of O&M contracts
645	**Maple - 55** **PWT - 30** **Piedmont - 20**	**78**
↑ from 568		↑ from 38

FIRST QUARTER BUSINESS HIGHLIGHTS

- During the first quarter of fiscal year 2020, the Corporation announced that Piedmont, a global leader in corrosion resistant equipment for desalination plants in the industrial and municipal markets, secured during the fourth quarter of the fiscal year 2019 a record number of orders. Piedmont received orders from eight (8) medium-to-large scale desalination projects, with flow capacities ranging between 50,000 to 500,000 m3/day, for both its coupling and fiberglass ("FRP") filter housing product lines.

  Piedmont's flexible couplings and cartridge filtration product line have been selected, on a combined basis, on more than 30 projects in nearly 20 countries over the five (5) continents. These projects amount to approximately $6.6 M in orders in the last fiscal quarter, many of which are to be delivered during the fiscal year 2020.

- During the first quarter of fiscal year 2020, the Corporation announced that Utility Partners, LLC ("UP"), its business line providing operation and maintenance services ("O&M") in North America, recently renewed five (5) contracts.

  Utility Partners has renewed three (3) municipal contracts in the state of New Hampshire. Two (2) of which were renewed for five (5) years, and the third for three (3) additional years; all of which are long time clients of Utility Partners. The remaining two (2) contracts, located in Vermont and New York, were renewed for five (5) years and 13 months, respectively. Finally, UP increased the scope of its work on two (2) existing projects, thus increasing their annual value.

SUBSEQUENT EVENT HIGHLIGHTS

- On October 28, 2019, the Corporation announced it has entered into a binding sale and purchase agreement (the "Acquisition Agreement") pursuant to which H_2O Innovation, through a wholly-owned UK subsidiary, will acquire, from arm's-length third parties, Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited and Genesys North America, LLC (collectively "Genesys"), a group of privately-owned companies based in the United Kingdom that develop, manufacture and distribute specialty reverse osmosis (RO) membrane chemicals, antiscalants, cleaners, flocculants and biocides (the "Acquisition"). Genesys offers, through a large distribution network, a portfolio of over thirty-five (35) diversified products with unique formulation that are manufactured in its facility located in Cheshire, UK. In addition, Genesys also offers complete laboratory services such as feed water and pre-treatment tests, membrane autopsies and cleaning program design.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

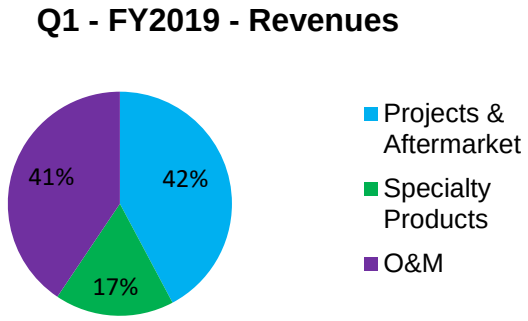
Income Statements	Three-month periods ended September 30,			
		2019		2018
	$	**% (1)**	$	% (1)
Revenues per business pillar				
Projects & Aftermarket	**8,205**	**29.1**	10,272	42.1
Specialty products	**5,192**	**18.4**	4,206	17.3
O&M	**14,826**	**52.5**	9,893	40.6
Total revenues	**28,223**	**100.0**	24,371	100.0
Revenues per geographic location				
Canada	**3,530**	**12.5**	4,192	17.2
United States	**22,711**	**80.5**	18,128	74.4
Others	**1,982**	**7.0**	2,051	8.4
Total revenues	**28,223**	**100.0**	24,371	100.0
Recurring revenues (2)	**22,639**	**80.2**	16,667	68.5
Cost of goods sold (COGS)	**21,516**	**76.2**	18,865	77.4
Gross profit before depreciation and amortization	**6,707**	**23.8**	5,506	22.6
General operating expenses	**1,388**	**4.9**	1,328	5.4
Selling expenses	**1,865**	**6.6**	1,647	6.8
Administrative expenses	**1,799**	**6.4**	1,401	5.7
Total SG&A	**5,052**	**17.9**	4,376	18.0
Depreciation and amortization	**1,654**	**5.9**	978	4.0
Finance costs – net	**453**	**1.6**	531	2.2
Other losses – net	**101**	**0.4**	2	0.0
Acquisition, integration and other related costs	**489**	**1.7**	33	0.1
Loss before income taxes	**(1,042)**	**(3.7)**	(414)	(1.7)
Income Taxes	**(9)**	**(0.0)**	(91)	(0.4)
Net loss for the period	**(1,033)**	**(3.7)**	(323)	(1.3)
Basic and diluted net loss per share	**(0.019)**	**-**	(0.008)	-
EBITDA (2)	**1,065**	**3.8**	1,095	4.5
Adjusted EBITDA (2)	**1,625**	**5.8**	1,266	5.2

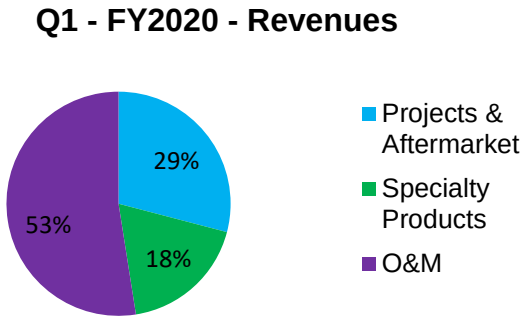
Financial position and Cash flows	**September 30, 2019**	June 30, 2018	Variation	
	$	$	$	%
Cash	**6,795**	6,206	589	9.5
Net debt (2)	**8,182**	9,780	(1,598)	16.3
Three-month periods ended September 30,	**2019**	2018		
Net cash generated by operating activities	**2,224**	699	1,525	218.2
Consolidated backlog	**153,329**	139,890	13,439	9.6

(1) % over revenues.

(2) Refer to the section "Non-IFRS financial measurements". Refer to page 17 for detailed information about non-IFRS measures used in this MD&A.

CONSOLIDATED REVENUES





Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2019, increased by $3.8 M, or 15.8 %, to reach $28.2 M compared to $24.4 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Hays during the second quarter of fiscal year 2019, which contributed $5.1 M in revenues during this quarter, and by the increase of $1.0 M coming from Specialty Products, partly offset by the decrease in revenues of $2.1 M from the Projects & Aftermarket.

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 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. In order to strengthen our business model, the Corporation announced that it has entered into a binding agreement pursuant to which H_2O Innovation, through a wholly-owned UK subsidiary, will acquire, from arm's-length third parties, Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited and Genesys North America, LLC (collectively "Genesys"), that develop, manufacture and distribute specialty reverse osmosis membrane chemicals, antiscalants, cleaners, flocculants and biocides.

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

For the three-month period ended September 30, 2019, recurring revenues represented 80.2 % of the Corporation's total revenues, compared to 68.5 % 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.

GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

The Corporation's gross profit margin before depreciation and amortization stood at $6.7 M, or 23.8 %, during the first quarter of fiscal year 2020, compared to $5.5 M, or 22.6 % for the previous fiscal year, representing an increase of $1.2 M or 21.8 %. The increase in consolidated gross profit margin is coming from the O&M and the Projects and Aftermarket business pillars, while the Specialty Products showed a slight decrease in its gross profit margin compared to the same quarter of the previous fiscal year. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of $0.1 M for the first quarter of fiscal year 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")

	Three-month periods ended September 30,			
(In thousands of Canadian dollars)	**2019**	2018	Variation	
	$	$	$	%
General operating expenses	**1,388**	1,328	60	4.5
Selling expenses	**1,865**	1,647	218	13.2
Administrative expenses	**1,799**	1,401	398	28.4
SG&A expenses	**5,052**	4,376	676	15.4

The Corporation's SG&A reached $5.1 M during the first quarter of fiscal year 2020, compared to $4.4 M for the previous fiscal year, representing an increase of $0.7 M, or 15.4 %, while the revenues of the Corporation increased by 15.8 %. SG&A for the first quarter of fiscal year 2020 were impacted by the adoption of IFRS 16 – *Leases*, as lease expenses were reclassed to depreciation and amortization. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.2 M for the first quarter of fiscal year 2020.

General operating expenses reached $1.4 M during the first quarter of fiscal year 2020, compared to $1.3 M for the previous fiscal year, representing an increase of $0.1 M, or 4.5 %. This increase is mainly due to the acquisition of Hays during the second quarter of the previous fiscal year, which contributed $0.1 M in general operating expenses for this quarter. The adoption of IFRS 16 – *Leases* resulted in a decrease of the general operating expenses of $0.09 M for the first quarter of fiscal year 2020.

Selling expenses reached $1.9 M during the first quarter of fiscal year 2020, compared to $1.6 M for the previous fiscal year, representing an increase of $0.3 M, or 13.2 %. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. This increase is explained by the increased level of revenues, impacting the level of commissions recorded. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of $0.06 M for the first quarter of fiscal year 2020.

The administrative expenses reached $1.8 M during the first quarter of fiscal year 2020, compared to $1.4 M for the previous fiscal year, representing an increase of $0.4 M, or 28.4 %. The acquisition of Hays on December 1, 2018 contributed $0.1 M of this increase, as well as hiring in the administrative team to support the growth. Additional non-recurring professional fees of $0.2 M were engaged this quarter to support the new accounting standard adoption (IFRS 15 - *Revenue from contracts with customers*) and the change in segment information. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of $0.03 M for the first quarter of fiscal year 2020.

ACQUISITIONS, INTEGRATION AND OTHER RELATED COSTS

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	$	$	$	%
Acquisition, integration and other related costs	**489**	33	456	1381.8

The acquisition, integration and other related costs reached $0.5 M during the first quarter of fiscal year 2020, compared to $0.03 M for the previous fiscal year, representing an increase of $0.5 M, or 1381.8 %. This variation is mainly due to the professional fees incurred in connection with the acquisition of Genesys Holding, as announced on October 28, 2019.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	$	$	$	%
Finance income	**(14)**	(7)	(7)	100.0
Finance costs	**467**	538	(71)	(13.2)
Finance costs - net	**453**	531	(78)	(14.7)

Finance costs – net stood at $0.5 M for the period ended September 30, 2019 compared with $0.5 M for the same period of previous fiscal year, representing a decrease of 14.7% compared to the previous fiscal year. The decrease is explained by the financing fees incurred in relation with the change of bank on November 28, 2018 and the increased use of the bank loans and the temporary use of an additional credit facility before the refinancing, which impacted negatively the first quarter of the previous fiscal year. However, the incremental interest accretion on lease liabilities from the adoption of IFRS 16 - *Leases* contributed to the finance costs in the amount of $0.1 M for the first quarter of this fiscal year.

In order to mitigate its credit risk and increase its borrowing capacity, the Corporation insures a portion of its accounts receivable through EDC insurance coverage, under which the Corporation has given direction to pay all insurance proceeds to the bank. The insurance premiums are recorded in finance costs.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	$	$	$	%
EBITDA	**1,065**	1,095	(30)	(2.7)
Adjusted EBITDA	**1,625**	1,266	359	28.4
Adjusted EBITDA (%)	**5.8%**	5.2%	-	-

The Corporation's adjusted EBITDA increased by $0.3 M, or 28.4 %, to reach $1.6 M during the first quarter of fiscal year 2020, from $1.3 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 5.8 % for the three-month period ended September 30, 2019, compared to 5.2 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues, as well as an increase of the gross profit margin before depreciation and amortization, offset by an increase of the SG&A. Furthermore, the adoption on July 1, 2019 of IFRS 16 - *Leases* contributed to reduce by $0.3 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 4.6 %.

NET LOSS

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended September 30, 2019	2018	Variation	
	$	$	$	%
Net loss	**(1,033)**	(323)	(710)	(219.8)
Basic and diluted net loss per share	**(0.019)**	(0.008)	(0.011)	-

The net loss amounted to ($1.0 M) or ($0.019) per share for the first quarter of fiscal year 2020 compared to a net loss of ($0.3 M) or ($0.008) per share for the comparable quarter of fiscal year 2019. The net loss variation is mostly due to the acquisition, integration and other related costs in the amount of $0.5 M and due to the increased level of depreciation and amortization. The increased level of depreciation and amortization is mainly coming from the increased level of intangible assets acquired through Hays during the second quarter of the previous fiscal year.

BACKLOG

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 ("RPO"). 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.

As at September 30, 2019, the combined backlog of secured contracts between Projects and O&M reached $153.3 M compared to $139.9 M as at September 30, 2018, delivering organic growth of 9.6 %. This combined backlog provides excellent visibility on revenues for the coming quarters of 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.

(In thousands of Canadian dollars)	As at September 30, 2019	2018	Variation	
	$	$	$	%
Projects	**40,200**	50,456	(10,256)	(20.3)
O&M [1]	**113,129**	89,434	23,695	26.5
Consolidated backlog	**153,329**	139,890	13,439	9.6

[1] The backlog coming from the O&M business pillar is derived exclusively from our Utility Partners business line. The acquisition of Hays Utility South Corporation in December 2018 did not impact the backlog, as all of our contracts are evergreen and would not qualify for the remaining performance obligation definition.

The Projects & Aftermarket business pillar is showing a decrease of 20.3 %, while having a healthier backlog with better projects' diversification. The focus for this business pillar is to improve the gross profit margin prior to focusing on growing the volume of revenues. This business pillar showed a well-balanced backlog, with diversification seen between water and wastewater projects: 39.3% of the projects being wastewater as of September 30, 2019, compared to 26.0% as of September 30, 2018. Backlog's diversification is also seen between industrial and municipal projects, with 29.5% of the projects being industrial as of September 30, 2019, compared to 36.0% as of September 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.

Our backlog for the O&M business pillar stood at $113.1 M as at September 30, 2019, representing an increase of 26.5% compare to the $89.4 M backlog as at September 30, 2018, and comes from renewal of long-term contracts with existing customers, as well as scope expansion.

SEGMENT INFORMATION

As mentioned in Section "Our operations under three business pillars", Management analyses the Corporation's results by business pillar. The Corporation evaluates its business pillar performance using Earnings before administrative costs ("EBAC), which is a non-IFRS measure defined in the Section "Non-IFRS financial measurements" at page 17 of this MD&A.

Effective April 1, 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.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the first quarters ended September 30, 2019 and 2018.

PROJECTS & AFTERMARKET

	Three-month periods ended September 30,			
(In thousands of Canadian dollars)	**2019**	**2018**	Variation	
	$	$	$	%
Revenues from Projects & Aftermarket	**8,205**	10,272	(2,067)	(20.1)
Cost of goods sold	**6,540**	8,228	(1,688)	(20.5)
Gross profit margins before depreciation and amortization	**1,665**	2,044	(379)	(18.5)
Gross profit margins before depreciation and amortization (%)	**20.3 %**	19.9 %	-	-
General operating expenses	**202**	208	(6)	(2.9)
Selling expenses	**814**	736	78	10.6
EBAC[1] from Projects & Aftermarket	**649**	1,100	(451)	(41.0)
EBAC[1] over revenues from Projects & Aftermarket	**7.9 %**	10.7 %	-	-

Projects & Aftermarket revenues stood at $8.2 M during the first quarter of fiscal year 2020, compared to $10.3 M for the same quarter of last fiscal year, representing a decrease of $2.1 M, or 20.1 %. This variation is mainly due to the timing of Projects' contracts, which contracts will be recognized in subsequent quarters.

The gross profit margins before depreciation and amortization stood at $1.7 M, or 20.3 % for the first quarter of fiscal year 2020, compared with $2.0 M, or 19.9 % for the same quarter of last fiscal year, representing a decrease of $0.3 M, or 18.5 %, but an improvement in terms of % over revenues.

The general operating expenses and selling expenses stood at $1.0 M during the first quarter of fiscal year 2020, compared to $0.9 M, for the same quarter of last fiscal year, representing an increase of $0.1 M. This increase in the expenses is driven by the addition of salesman and process engineer to support the growth of the wastewater activity.

Projects & Aftermarket's EBAC stood at $0.6 M during the first quarter of fiscal year 2020, compared to $1.1 M for the same quarter of last fiscal year, representing a decrease of $0.5 M, or 41.0 %. The decrease is due to the lower level of revenues recognized during the quarter, compared to the same quarter of the previous fiscal year.

[1] Refer to the section "Non-IFRS financial measurements". Refer to page 19 for detailed information about non-IFRS measures used in this MD&A.

SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended September 30, 2019	2018	Variation	
	$	$	$	%
Revenues from Specialty Products	**5,192**	4,206	986	23.4
Cost of goods sold	**2,976**	2,316	660	28.5
Gross profit margins before depreciation and amortization	**2,216**	1,890	326	17.2
Gross profit margins before depreciation and amortization (%)	**42.7 %**	44.9 %	-	-
General operating expenses	**594**	664	(70)	(10.5)
Selling expenses	**670**	579	91	15.7
EBAC[1] from Specialty Products	**952**	647	305	47.1
EBAC[1] over revenues from Specialty Products	**18.3 %**	15.4 %	-	-

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, are recurring by nature. They stood at $5.2 M during the first quarter of fiscal year 2020, compared to $4.2 M for the same quarter of last fiscal year, representing an increase of $1.0 M, or 23.4 %. This increase in revenues for this business pillar is supported by significant orders delivered during this quarter for our Piedmont's business line. Sales coming from the Maple business line also contributed to this increase, as maple producers are preparing for the upcoming maple season. Maple syrup producers have experienced a healthier year resulting in a higher production, thus increasing the investments they can spend in new capital equipment purchase.

The gross profit margins before depreciation and amortization stood at $2.2 M, or 42.7 % for the first quarter of fiscal year 2020, compared with $1.9 M, or 44.9 % for the same quarter of last fiscal year, representing an increase of $0.3 M in dollar, but a decrease of the gross profit margin in %. This variation is mainly due to the business mix within this business pillar, with a lower level of revenues coming from PWT, characterized with higher gross profit margins.

The general operating expenses and selling expenses remained fairly stable at $1.3 M during the first quarter of fiscal year 2020, compared to $1.2 M, for the same quarter of last fiscal year.

Specialty Products EBAC stood at $1.0 M during the first quarter of fiscal year 2020, compared to $0.6 M for the same quarter of last fiscal year, representing an increase of $0.4 M, or 47.1 %.

O&M

(In thousands of Canadian dollars)	Three-month periods ended September 30, 2019	2018	Variation	
	$	$	$	%
Revenues from O&M	**14,826**	9,893	4,933	49.9
Cost of goods sold	**12,000**	8,321	3,679	44.2
Gross profit margins before depreciation and amortization	**2,826**	1,572	1,254	79.8
Gross profit margins before depreciation and amortization (%)	**19.1 %**	15.9 %	-	-
General operating expenses	**592**	456	136	29.8
Selling expenses	**381**	332	49	14.8
EBAC[1] from O&M	**1,853**	784	1,069	136.4
EBAC[1] over revenues from O&M	**12.5 %**	7.9 %	-	-

O&M revenues stood at $14.8 M during the first quarter of fiscal year 2020, compared to $9.9 M for the same quarter of last fiscal year, representing an increase of $4.9 M, or 49.9 %. Hays, which was acquired during the second quarter of the previous fiscal year, contributed $5.1 M to the revenues of this business pillar during the quarter. However, compared to the same quarter of last fiscal year, the Corporation lost two contracts for which the customers decided to take back the operation and maintenance of their water treatment system in-house, representing revenues of approximately 0.3 M $.

The gross profit margins before depreciation and amortization stood at $2.8 M, or 19.1 % for the first quarter of fiscal year 2020, compared with $1.6 M, or 15.9 % for the same quarter of last fiscal year, representing an increase of $1.2 M, or 79.8 %. This variation is mainly due to two projects that were in the start-up phase during the first quarter of last fiscal year, impacting negatively the gross profit margin temporarily.

The general operating expenses and selling expenses stood at $1.0 M during the first quarter of fiscal year 2020, compared to $0.8 M, for the same quarter of last fiscal year, representing an increase of $0.2 M. This increase is linked to the increase of revenues and to the addition of Hays' expenses, which contributed $0.1 M in general operating expenses and selling expenses during this quarter.

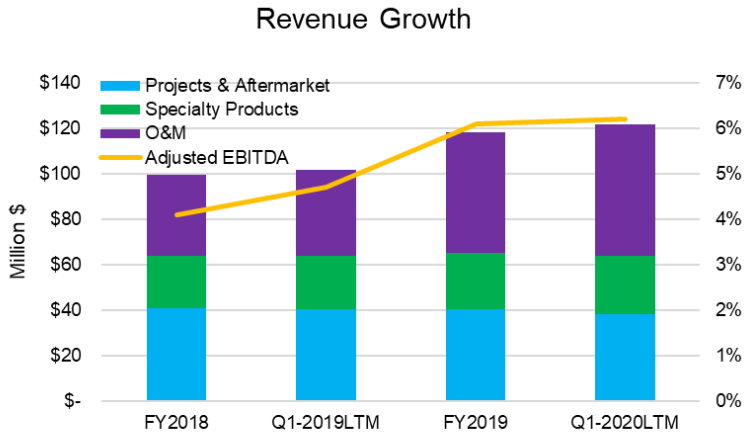
O&M EBAC stood at $1.9 M during the first quarter of fiscal year 2020, compared to $0.8 M for the same quarter of last fiscal year, representing an increase of $1.1 M, or 136.4 %.

QUARTERLY FINANCIAL INFORMATION

(in thousands of Canadian dollars, except for per share values)	Three-month periods ended September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	Last twelve months
	$	**$**	**$**	$	**$**
Revenues	**28,223**	31,884	32,325	29,378	121,810
EBITDA	**1,065**	1,689	1,945	910	5,609
Adjusted EBITDA	**1,625**	2,375	2,196	1,377	7,573
Adjusted EBITDA over revenues	**5.8 %**	7.4 %	6.8 %	4.7 %	6.2 %
Net earnings (loss)	**(1,033)**	(1,177)	532	(1,212)	(2,890)
Basic and diluted net earnings (loss) per share	**(0.019)**	(0.021)	0.010	(0.027)	(0.054)
Cash flows from (used in) operating activities	**2,224**	3,204	(244)	2,103	7,287

(in thousands of Canadian dollars, except for per share values)	Three-month periods ended September 30, 2018	June 30, 2018	March 31, 2018	December 30, 2017	Previous twelve months
	$	$	$	$	**$**
Revenues	24,371	24,536	26,695	25,819	101,421
EBITDA	1,094	635	927	1,227	3,883
Adjusted EBITDA	1,265	1,099	1,079	1,358	4,801
Adjusted EBITDA over revenues	5.2 %	4.5 %	4.0 %	5.3 %	4.7 %
Net loss	(323)	(1,007)	(12)	(1,340)	(2,682)
Basic and diluted net loss per share	(0.008)	(0.025)	(0.000)	(0.033)	(0.067)
Cash flows from (used in) operating activities	698	(1,987)	2,124	616	1,451

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 20.1 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $4.8 M, or 4.7 % of revenues to $7.6 M, or 6.2 % in the last twelve months, representing a 58.3 % improvement over a twelve-month period.



LIQUIDITY AND CAPITAL RESOURCES

This section is intended to provide the reader with a better understanding of the Corporation's liquidity and capital resources.

CASH FLOWS ANALYSIS

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

Three-month periods ended September 30, (in thousands of Canadian dollars)	**2019**	**2018**
	$	$
Cash flows from operating activities before change in working capital items	**1,226**	1,165
Change in working capital items	**984**	(470)
	2,210	695
Interests received / Income taxes paid	**14**	4
Cash flows from operating activities	**2,224**	699
Cash flows used in investing activities	**(501)**	(333)
Cash flows used in financing activities	**(1,182)**	(1,040)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**48**	(47)
Net change	**589**	(721)
Cash – net of bank overdraft – Beginning of period	**6,206**	1,738
Cash – net of bank overdraft – End of period	**6,795**	1,017

Cash increased by $0.6 M during the first quarter of fiscal year 2020, compared with a decrease of ($0.7 M) for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities generated $2.2 M for the quarter ended September 30, 2019, compared to $0.7 M of cash flows generated from 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.

Cash Flows from Investing Activities

Investing activities used ($0.5 M) of cash flows for the quarter ended September 30, 2019, compared to ($0.3 M) of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to investments in property, plant and equipment of $0.3 M.

Cash Flows from Financing Activities

Financing activities used ($1.2 M) for the quarter ended September 30, 2019, compared to ($1.0 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to the payment of lease liabilities of $0.2 M from the adoption of IFRS 16.

Adjusted free cash flows

Adjusted free cash flows is a non-IFRS measure used by management when assessing the amount of cash generated after accounting for capital expenditures and non-core charges. Refer to the section "Non-IFRS financial measurements" at page 19 of this MD&A for the reconciliation. Adjusted free cash flows stood at $1.6 M for the first quarter of fiscal year 2020, from $0.3 M for the comparable quarter of the previous fiscal year. The increase of $1.3 M in mainly coming from the cash flows generated by the operating activities, offset by the impact of the adoption of IFRS 16 – *Leases.*

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between September 30, 2019 and June 30, 2019 for selected information:

(In thousands of Canadian dollars)	**September 30, 2019**	June 30, 2019	Variation	Explanations
	$	$	$	
Accounts receivable	**18,592**	19,440	(848)	The decrease is mostly attributable to the timing between invoicing and collection.
Inventories	**6,962**	6,739	223	The increase is due to sales increase, to support the growing demand for the Specialty Products business pillar, especially the Maple business line, for which inventories often need to be on hand and available.
Contract assets	**7,830**	5,880	1,950	The increase is generated by difference between project advancement and project invoicing schedules from one project to the other.
Accounts payable	**14,267**	12,264	2,003	The increase is mainly due to the timing of the projects for the period ended September 30, 2019.
Contract liabilities	**3,311**	3,111	200	The increase is also attributable to difference between project advancement and project invoicing schedules.

NET DEBT

The definition of net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**September 30, 2019**	June 30, 2019	Variation	
	$	$	$	%
Bank loans	**7,457**	7,545	(88)	(1.2)
Current portion of long-term debt	**1,724**	1,863	(139)	(7.5)
Long-term debt	**5,796**	6,578	(782)	(11.9)
Less: Cash	**(6,795)**	(6,206)	(589)	(9.5)
Net debt	**8,182**	9,780	(1,598)	(16.3)

As at September 30, 2019, the net debt stood at $8.2 M, compared with $9.8 M as at June 30, 2019, representing a $1.6 M decrease, or 16.3 %. This decrease is mainly attributable to the decrease of the long-term debt following the repayment schedules, while cash increased of $0.6 M. The adoption of IFRS 16 – *Leases* also contributed to reduce the net debt since obligations under finance lease has been reclassified to the lease liabilities.

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 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 September 30, 2019:

- Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.00:1.00 at all times;
- 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 September 30, 2019, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2019, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.1 M which expire at various dates through fiscal year 2022. Of these letters of credit, $1.1 M is secured by EDC.

NON-IFRS FINANCIAL MEASUREMENTS

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements presented below 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 AND ADJUSTED EBITDA

EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes 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.

RECONCILIATION OF NET LOSS TO EBITDA AND TO AJDUSTED EBITDA

for the three-month periods ended September 30, 2019 and 2018
(In thousands of Canadian dollars)

Three-month periods ended September 30,	**2019**	2018
	$	$
Net loss for the period	**(1,033)**	(323)
Finance costs – net	**453**	531
Income taxes	**(9)**	(91)
Depreciation of property, plant and equipment	**689**	279
Amortization of intangible assets	**965**	699
EBITDA	**1,065**	1,095
Unrealized exchange (gain) loss	**(103)**	55
Stock-based compensation costs	**60**	83
Changes in fair value of the contingent consideration	**114**	-
Acquisition-related costs, integration costs and other costs	**489**	33
Adjusted EBITDA	**1,625**	1,266

EBAC

The definition of EBAC means the earnings 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.

	Three-month periods ended September 30,	
(In thousands of Canadian dollars)	**2019**	2018
	$	$
Revenue from external customers:		
Revenue recognized overtime	**20,410**	17,597
Revenue recognized at a point in time	**7,813**	6,774
	28,223	24,371
Cost of goods sold	**21,516**	18,865
Gross profit before depreciation and amortization	**6,707**	5,506
General operating expenses	**1,388**	1,328
Selling expenses	**1,865**	1,647
Earnings before administrative costs (EBAC)	**3,454**	2,531

RECURRING REVENUES BY NATURE

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. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.

(In thousands of Canadian dollars)	**Three-month period ended September 30, 2019**			
	Projects and Aftermarket	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	8,205	5,192	14,826	28,223
Recurring revenues	**2,621**	**5,192**	**14,826**	**22,639**

(In thousands of Canadian dollars)	Three-month period ended September 30, 2018			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenues	10,272	4,206	9,893	24,371
Recurring revenues	**2,568**	**4,206**	**9,893**	**16,667**

NET DEBT

The definition of net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies. Refer to page 18 of this MD&A for reconciliation.

ADJUSTED FREE CASH FLOW

The Corporation believes that Adjusted free cash flow is an important measure when assessing the amount of cash generated after accounting for capital expenditures and non-core charges. It demonstrates cash available to make business acquisitions and reduce debt.

The following table shows the reconciliation of Cash flow from operating activities to Adjusted free cash flow:

	Three-month periods ended September 30,	
(In thousands of Canadian dollars)	**2019**	2018
	$	$
Cash flow from operating activities	**2,224**	699
Acquisition of property, plant and equipment	**(269)**	(338)
Acquisition of intangible assets	**(125)**	(78)
Payment of lease liabilities	**(246)**	-
Adjusted free cash flow	**1,584**	283

SUBSEQUENT EVENTS

On October 28, 2019, the Corporation announced that it has entered into a binding sale and purchase agreement pursuant to which H_2O Innovation, through a wholly-owned UK subsidiary, will acquire, from arm's-length third parties, Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited, Genesys North America, LLC and the 24% interest in Genesys Membrane Products S.L. (collectively "Genesys"), a group of privately-owned companies based in the United Kingdom that develop, manufacture and distribute speciality reverse osmosis membrane chemicals, antiscalants, cleaners, flocculants and biocides (the "Acquisition") .

The purchase price of the Acquisition was established at £16.95 M ($28.39 M) (the "Purchase Price"), on a cash-free, debt-free basis, fully payable at closing of the Acquisition. The Purchase Price is subject to customary working capital adjustments as of the closing date.

The Acquisition is expected to close on or about November 14, 2019 and is subject to customary conditions.

The Acquisition's Purchase Price is being partially financed by the Public Offering of 13,335,000 Subscription Receipts, each of which will entitle the holder thereof to receive, upon the Acquisition Closing, one Unit comprised of one Common Share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The net proceeds to H_2O Innovation will be approximately $13.0 M after deducting the Underwriters' Commission and other transaction costs of approximately $1.0 M. H_2O Innovation has granted the Underwriters an over-allotment option to purchase up to an additional 952,380 Subscription Receipts at a price of $1.05 per Subscription Receipt, representing maximum additional gross proceeds of approximately $1.0 M.

The Acquisition's Purchase Price is also being partially financed by the Concurrent Private Placement. The Corporation and the Co-Lead Underwriters will enter into a subscription agreement with certain institutional shareholders to issue on a private placement basis 7,647,619 Subscription Receipts concurrently with the closing of the Offering for aggregate gross proceeds of approximately $8.0 M. The net proceeds to H_2O Innovation will be approximately $7.5 M after deducting the Underwriters' Commission and other transaction costs of approximately $0.5 M.

The Acquisition's Purchase Price is also being partially financed by such amount needed to be drawn on the Term Loan made available in an amount of $12.0 M under the Amended and Restated Credit Agreement of the Corporation entered into on October 28, 2019 with National Bank of Canada as lender. Financing fees of $0.3 M related to the Amended and Restated Credit Agreement will be netted against the Term Loan. The Term Loan shall be reimbursed by the Corporation by way of quarterly installment based on annual amortization of 12.5 % of the principal amount. The first instalment shall be due on December 31, 2019.

CLAIMS AND LITIGATION

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.

FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risks: credit risks, liquidity risks and market risks (including currency risk and interest risk). The interim consolidated financial statements and interim MD&A did not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the audited annual financial statements of the Corporation for the year ended June 30, 2019. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

RISK FACTORS

For a detailed description of risk factors associated with the Corporation, please refer to the "Risks and uncertainties" section of the Corporation's annual information form date September 24, 2019. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

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

IFRS 16 - LEASES

IFRS 16 supersedes IAS 17. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on–balance sheet model. A lessee is required to recognize assets and liabilities arising from a lease following a single model where previously leases were classified as either finance leases or operating leases. Certain exemptions apply for short-term leases and leases of low-value assets.

The Corporation has applied this standard using the modified retrospective approach (without restating comparative figures) for the fiscal year beginning July 1, 2019. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Corporation's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or deferred rent payments.

At transition, the Corporation has elected to apply the practical expedient to grandfather the assessment of which contracts contain leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Corporation also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of the IFRS had an impact on the balance sheet and statement of loss as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense from the liability recorded.

In addition, the principal payments of lease liabilities are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities prior to July 1, 2019.

Summary of new accounting policies

- *Right-of-Use Assets*

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are amortized over the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes renewal options only if the Corporation is reasonably certain to exercise the options. Lease terms range from 1 to 9 years for buildings, 1 to 2 years for automotive equipment and 1 to 4 years for machinery and equipment.

- *Lease Liabilities*

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

- *Short-term leases and leases of low-value assets*

The Corporation applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

- *Determining the lease term of contracts with renewal options*

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Impact on transition to IFRS 16 - Leases

The impact of adopting IFRS 16 as at July 1, 2019 is as follows (increase/(decrease)):

	$
Property, plant and equipment	(716)
Right-of-use assets	8,776
Accounts payable and accrued liabilities	(7)
Long-term debt	(553)
Deferred rent	(137)
Lease liabilities [1]	8,757

[1] The current portion of lease liabilities impact correspond to $0.9 M as at July 1, 2019

The following table presents the reconciliation between the Corporation's commitments as of June 30, 2019 and the lease liabilities recognized on initial application of IFRS 16 as at July 1, 2019:

	$
Commitments as at June 30, 2019	6,273
Discounting leases as at July 1, 2019[1]	(1,714)
Renewal options reasonably certain to be exercised	3,669
Commitments relating to short-term and low-value assets	(24)
Pre-existing capital leases as at July 1, 2019	553
Total lease liabilities as at July 1, 2019	**8,757**

[1] At the date of adoption of IFRS 16, the weighted average rate was 4.26 %.

The following tables reconciles the right-of-use assets for the Corporation as of September 30, 2019:

Three-month period ended September 30, 2019	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,862	127	787	8,776
Depreciation of right-of-use assets	(260)	(26)	(22)	(308)
Net book value as at September 30, 2019	**7,602**	**101**	**765**	**8,468**

The following table presents the lease liabilities for the Corporation as of September 30, 2019:

	Three-month period ended September 30, 2019
	$
Balance at July 1, 2019	8,757
Payment of lease liabilities	(337)
Interest expense on lease liabilities	91
Balance as at September 30, 2019	**8,511**

Amendments issued to be adopted at a later date

The following amendments to standards have been issued and are applicable to the Corporation for its annual periods beginning on July 1, 2020 and thereafter, with an earlier application permitted:

- Amendments to IFRS 3, *Business Combinations*, improve the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

- Definition of Material (Amendments to IAS 1, *Presentation of Financial Statements*, ("IAS 1") and to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8")) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

The Company is currently evaluating the impact of adopting these amendments on its financial statements.

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

The CEO and the CFO have also designed internal controls over financial reporting or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission 2013 (COSO 2013) on Internal Control – Integrated Framework. The work performed during the quarter allows them to conclude that the internal controls over financial reporting are effective for the three-month period ended September 30, 2019.

Changes in Internal Controls over Financial Reporting

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

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

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at September 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) (unaudited)	**Three-month period ended September 30, 2019**
Results	**$**
Revenues	5,059
Net Earnings	315
	As at September 30, 2019
Financial Position	**$**
Current Assets	3,307
Non-Current Assets [1]	8,882
Current Liabilities	1,776
Non-Current Liabilities	1,957

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2019

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

For additional information:
Investor Relations
investor@h2oinnovation.com

Trading symbols:
TSX Venture: HEO
Growth Paris: MNEMO: ALHEO
OTCQX: HEOFF

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars) (Unaudited)

As at	September 30, 2019	June 30, 2019
	$	$
ASSETS (notes 6 and 8)		
Current assets		
Cash	**6,795**	6,206
Guaranteed deposit certificates	**22**	21
Accounts receivable (note 4)	**18,592**	19,440
Inventories (note 5)	**6,962**	6,739
Contract assets	**7,830**	5,880
Income taxes receivable	**40**	69
Prepaid expenses	**817**	768
	41,058	39,123
Non-current assets		
Property, plant and equipment	**5,761**	6,552
Intangible assets	**21,338**	21,967
Right-of-use assets (note 2 a)	**8,468**	-
Other assets	**341**	234
Related party loans receivable (note 13 a)	**1,250**	1,250
Goodwill (note 3)	**15,910**	15,727
Deferred income tax assets	**181**	144
	94,307	84,997
LIABILITIES		
Current liabilities		
Bank loans (note 6)	**7,457**	7,545
Accounts payable and accrued liabilities (note 7)	**14,267**	12,264
Provisions	**138**	137
Contract liabilities	**3,311**	3,111
Contingent consideration (notes 3 and 9)	**1,439**	1,361
Current portion of long-term debt (note 8)	**1,724**	1,863
Current portion of lease liabilities (note 2 a)	**1,172**	-
	29,508	26,281
Non-current liabilities		
Long-term debt (note 8)	**5,796**	6,578
Deferred rent	**-**	137
Contingent consideration (notes 3 and 9)	**1,208**	1,142
Lease liabilities (note 2 a)	**7,339**	-
	43,851	34,138
SHAREHOLDERS' EQUITY		
Share capital	**89,057**	89,057
Reserve - Stock options	**3,310**	3,250
Reserve – Warrants (note 3)	**167**	167
Deficit	**(45,117)**	(44,084)
Accumulated other comprehensive income	**3,039**	2,469
	50,456	50,859
	94,307	84,997

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Lisa Henthorne
Chairwoman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended September 30, 2019 and 2018
(in thousands of Canadian dollars, except share data) (Unaudited)

	Common shares (number)	Share capital	Reserve – Stock option	Reserve – Warrants	Deficit	Accumulated other comprehensive income (loss) – Translation adjustment	Total
		$	$		$	$	$
Balance as at June 30, 2018	40,144,214	76,918	2,942	-	(41,748)	2,851	40,963
Impact of new accounting standards adoption	-	-	-	-	(156)	-	(156)
Balance as at July 1, 2018	40,144,214	76,918	2,942	-	(41,904)	2,851	40,807
Stock-based compensation costs	-	-	83	-	-	-	83
Net loss for the period	-	-	-	-	(323)	-	(323)
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	(855)	(855)
Balance as at September 30, 2018	40,144,214	76,918	3,025	-	(42,227)	1,996	39,712
Balance as at July 1, 2019	**55,889,989**	**89,057**	**3,250**	**167**	**(44,084)**	**2,469**	**50,859**
Stock-based compensation costs	**-**	**-**	**60**	**-**	**-**	**-**	**60**
Net loss for the period	**-**	**-**	**-**	**-**	**(1,033)**	**-**	**(1,033)**
Other comprehensive loss – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**570**	**570**
Balance as at September 30, 2019	**55,889,989**	**89,057**	**3,310**	**167**	**(45,117)**	**3,039**	**50,456**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
For the three-month periods ended September 30, 2019 and 2018
(in thousands of Canadian dollars, except per share data) (Unaudited)

Three-month periods ended September 30,	**2019**	2018
	$	$
Revenues (note 12)	**28,223**	24,371
Cost of goods sold (note 10 a)	**21,516**	18,865
Gross profit before depreciation and amortization	**6,707**	5,506
General operating expenses (note 10 a)	**1,388**	1,328
Selling expenses (note 10 a)	**1,865**	1,647
Administrative expenses (note 10 a)	**1,799**	1,401
Depreciation of property, plant and equipment and right-of-use assets (note 2 a) and 10 b)	**689**	279
Amortization of intangible assets (note 10 b)	**965**	699
Other losses – net (note 10 c)	**101**	2
Acquisition-related costs, integration costs and other costs	**489**	33
Operating costs total	**7,296**	5,389
Earning (loss) before finance costs - net and income taxes	**(589)**	117
Finance income (note 13 a)	**(14)**	(7)
Finance costs	**467**	538
Finance costs – net	**453**	531
Loss before income taxes	**(1,042)**	(414)
Current income tax expense	**26**	3
Deferred tax recovery	**(35)**	(94)
	(9)	(91)
Net loss for the period	**(1,033)**	(323)
Basic and diluted net loss per share (note 11)	**(0.019)**	(0.008)
Weighted average number of shares outstanding (note 11)	**53,258,504**	40,144,214

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three-month periods ended September 30, 2019 and 2018
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2019**	2018
	$	$
Net loss for the period	**(1,033)**	(323)
Other comprehensive income - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**570**	(855)
Comprehensive loss for the period	**(463)**	(1,178)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended September 30, 2019 and 2018
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2019**	2018
	$	$
Operating activities		
Loss before income taxes for the period	**(1,042)**	(414)
Non-cash items		
Finance costs – net	**453**	531
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	**689**	279
Amortization of intangible assets	**965**	699
Changes in fair value of contingent consideration (note 9)	**114**	-
Others	**(13)**	(13)
Stock-based compensation costs	**60**	83
	1,226	1,165
Change in working capital items	**984**	(470)
Interests received	**14**	7
Income taxes paid	**-**	(3)
Net cash flows from operating activities	**2,224**	699
Investing activities		
Variation of guaranteed deposit certificate	**(1)**	(21)
Variation of other assets	**(106)**	27
Acquisition of property, plant and equipment	**(269)**	(338)
Acquisition of intangible assets	**(125)**	(78)
Proceeds from disposal of property, plant and equipment	**-**	77
Net cash flows used in investing activities	**(501)**	(333)
Financing activities		
Variation of bank loans	**(88)**	(113)
Long-term debt contracted (note 8)	**312**	245
Long-term debt reimbursement (note 8)	**(719)**	(642)
Payment of lease liabilities (note 2 a)	**(246)**	-
Interest paid	**(441)**	(530)
Net cash flows used in financing activities	**(1,182)**	(1,040)
Net change in cash	**541**	(674)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**48**	(47)
Increase (decrease) in cash	**589**	(721)
Cash – net of bank overdraft - Beginning of period	**6,206**	1,738
Cash – net of bank overdraft - End of period	**6,795**	1,017
Presented on the statement of financial position as follows:		
Cash	**6,795**	1,796
Bank overdraft	**-**	(779)
	6,795	1,017

See accompanying notes to consolidated financial statements.

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

1. Description of business

H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation's activities rely on three pillars, which are: i) water and wastewater projects, and services ("Projects and Aftermarket"); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) ("Specialty Products"); and iii) operation and maintenance services for water and wastewater treatment systems ("O&M"). The registered office of the Corporation is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Quebec, G1K 9C5, Canada.

2. Basis of preparation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), except that they do not include all disclosure required under IFRS for annual consolidated financial statements, and accordingly they are condensed consolidated financial statements. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting.*

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2019 were consistently applied to all periods presented in this document, except for the adoption of new standards effective as of July 1, 2019, as discussed below.

These condensed interim consolidated financial statements are intended to provide an update on the Corporation's audited consolidated annual financial statements for the year ended June 30, 2019. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's audited consolidated annual financial statements for the year ended June 30, 2019.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2019 and remained unchanged for the three-month period ended September 30, 2019.

The Corporation's financial statements are presented in thousands of Canadian dollars. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

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

On November 12, 2019, the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

New accounting policy

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2019, except for the adoption of new standards effective as of July 1, 2019. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 – *Leases* has been applied effective July 1, 2019.

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

a) IFRS 16 - Leases

IFRS 16 supersedes IAS 17. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on–balance sheet model. A lessee is required to recognize assets and liabilities arising from a lease following a single model where previously leases were classified as either finance leases or operating leases. Certain exemptions apply for short-term leases and leases of low-value assets.

The Corporation has applied this standard using the modified retrospective approach (without restating comparative figures) for the fiscal year beginning July 1, 2019. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Corporation's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or deferred rent payments.

At transition, the Corporation has elected to apply the practical expedient to grandfather the assessment of which contracts contain leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Corporation also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of the IFRS had an impact on the balance sheet and statement of loss as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense from the liability recorded.

In addition, the principal payments of lease liabilities are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities prior to July 1, 2019.

<u>Summary of new accounting policies</u>

- *Right-of-Use Assets*

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are amortized over the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes renewal options only if the Corporation is reasonably certain to exercise the options. Lease terms range from 1 to 9 years for buildings, 1 to 2 years for automotive equipment and 1 to 4 years for machinery and equipment.

- *Lease Liabilities*

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs.

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

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

- *Short-term leases and leases of low-value assets*

The Corporation applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

- *Determining the lease term of contracts with renewal options*

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Impact on transition to IFRS 16 - Leases

The impact of adopting IFRS 16 as at July 1, 2019 is as follows (increase/(decrease)):

	$
Property, plant and equipment	(716)
Right-of-use assets	8,776
Accounts payable and accrued liabilities	(7)
Long-term debt	(553)
Deferred rent	(137)
Lease liabilities [1]	8,757

[1] The current portion of lease liabilities impact corresponds to $0.9 M as at July 1, 2019

The following table presents the reconciliation between the Corporation's commitments as of June 30, 2019 and the lease liabilities recognized on initial application of IFRS 16 as at July 1, 2019:

	$
Commitments as at June 30, 2019	6,273
Discounting leases as at July 1, 2019[1]	(1,714)
Renewal options reasonably certain to be exercised	3,669
Commitments relating to short-term and low-value assets	(24)
Pre-existing capital leases as at July 1, 2019	553
Total lease liabilities as at July 1, 2019	**8,757**

[1] At the date of adoption of IFRS 16, the weighted average rate was 4.26 %.

The following tables reconciles the right-of-use assets for the Corporation as of September 30, 2019:

Three-month period ended September 30, 2019	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,862	127	787	8,776
Depreciation of right-of-use assets	(260)	(26)	(22)	(308)
Net book value as at September 30, 2019	**7,602**	**101**	**765**	**8,468**

The following table presents the lease liabilities for the Corporation as of September 30, 2019:

	Three-month period ended September 30, 2019
	$
Balance at July 1, 2019	8,757
Payment of lease liabilities	(337)
Interest expense on lease liabilities	91
Lease liabilities as at September 30, 2019	**8,511**

Amendments issued to be adopted at a later date

The following amendments to standards have been issued and are applicable to the Corporation for its annual periods beginning on July 1, 2020 and thereafter, with an earlier application permitted:

- Amendments to IFRS 3, *Business Combinations*, improve the definition of a business. The amendments help entities determine whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

- Definition of Material (Amendments to IAS 1, *Presentation of Financial Statements*, ("IAS 1") and to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8")) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

The Company is currently evaluating the impact of adopting these amendments on its financial statements.

3. Business combination

Acquisition of Hays Utility South Corporation

Description of the business combination

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

H_2O 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 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 H_2O 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)	**Final allocation**
	$
Assets acquired	
Cash	**457**
Accounts receivable [1]	**163**
Contract assets	**1,482**
Inventory	**156**
Property, plant and equipment	**1,064**
Other assets	**221**
Customer relationships	**6,424**
Non-compete agreements	**652**
Trademark	**-**
Liabilities assumed	
Accounts payable and accrued expenses	**(1,445)**
Notes payable	**(347)**
Deferred tax liabilities	**(1,667)**
Identifiable net assets acquired	**7,160**
Goodwill arising on acquisition	**1,328**
Fair value of net assets acquired	**8,488**
Consideration	
Cash	**5,954**
Fair value of contingent consideration payable	**2,299**
Working capital adjustment	**235**
Total consideration payable	**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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data) (Unaudited)

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 this 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.

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.

Goodwill following the business combinations

The change in carrying value is as follows:

	Total
	$
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
Effect of foreign exchange differences	**183**
Balance as at September 30, 2019	**15,910**

4. Accounts receivable

As at	**September 30, 2019**	June 30, 2019
	$	$
Trade accounts receivable	**15,080**	16,080
Retentions from customers under manufacturing contracts	**2,927**	3,253
Allowance for doubtful accounts	**(66)**	(65)
	17,941	19,268
Other receivables	**651**	172
	18,592	19,440

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

5. Inventories

As at	September 30, 2019	June 30, 2019
	$	$
Raw materials	**954**	847
Work in progress	**337**	262
Finished goods	**5,671**	5,630
	6,962	6,739

6. Bank loans

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 8 – *Long-term debt.*

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

(i) a revolving facility for a maximum amount of $12.0 M, from which an amount of $7.5 M was used as at September 30, 2019. The interest rates on these amounts are distributed as follow:
   a. $3.4 M ($3.5 M as at June 30, 2019) bearing interest at Banker Acceptance + 2.0% (3.99 % as at September 30, 2019 and 4.00 % as at June 30, 2019);
   b. $0.4 M ($0.2 M as at June 30, 2019) bearing interest at CDN prime rate plus 0.75% (4.70 % as at September 30, 2019 and 4.70 % as at June 30, 2019);
   c. US$2.4 M ($3.2 M as at September 30, 2019 and $3.8 M as at June 30, 2019) bearing interest at US$ Libor plus 2.0% (4.05 % as at September 30, 2019 and 4.40 % as at June 30, 2019); and
   d. US$0.4 M ($0.5 M as at September 30, 2019) bearing interest at US$ base rate plus 0.75% (6.25 % as at September 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 $0.1 M was not available as at September 30, 2019 ($0.4 M 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 $1.1 M ($0.8 M as at June 30, 2019) was used on this credit facility as at September 30, 2019.

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 September 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 $0.2 M was used as at September 30, 2019 ($0.1 M 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.

Covenants

As at September 30, 2019, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 8 – *Long-term debt*.

7. Accounts payable and accrued liabilities

As at	September 30, 2019	June 30, 2019
	$	$
Trade accounts payable	**3,445**	4,876
Other accrued liabilities	**10,822**	7,388
	14,267	12,264

8. Long-term debt

As at	September 30, 2019	June 30, 2019
	$	$
At amortised cost		
Loan, denominated in Canadian dollars (a)(e)(f)	**3,766**	3,980
Loan from other entities, denominated in Canadian dollars (b)(e)	**2,310**	2,444
Loans from other entities, denominated in US dollars (c)	**1,122**	1,125
Loans from other entities, denominated in Canadian dollars (d)	**322**	892
	7,520	8,441
Less: Current portion	**1,724**	1,863
Long-term debt	**5,796**	6,578

(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% (3.99 % as at September 30, 2019 and 4.00 % as at June 30, 2019) and an amount of $343 bearing interest at prime rate plus 0.75% (4.70 % as at September 30, 2019 and 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 $186 ($209 as at June 30, 2019).

(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 September 30, 2019 and 6.45 % as at June 30, 2019). 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 $28 ($31 as at June 30, 2019).

(c) Loans from other entities
As part of the acquisition of Hays, the Corporation has assumed loans totaling $351 (US$265) related to financing agreement for automotive equipment. The loans bear interest ranging between 3.74 % and 6.59 % and are payable between 36 and 48 monthly instalments totaling $12 (US$9), principal and interest, and are maturing through February 2019 to July 2022.

The Corporation acquired financing agreements totaling $1,272 (US$961) to finance the acquisition of automotive equipment and machinery and equipment. The loans bear interest ranging between 0.99 % and 10.35 % and are payable between 48 and 72 monthly instalments totaling $26 (US$20), principal and interest, and are maturing through March 2023 to June 2025.

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

(e) 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 of not more than 3.00:1.00 at all times.
- 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.

(f) 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 September 30, 2019, the Corporation was in compliance with the ratios required under its credit agreements.

9. Contingent consideration

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

	$
Balance as at June 30, 2018	-
Contingent consideration – Hays (note 3)	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
Plus: Change in fair value of contingent consideration	**114**
Effect of foreign exchange differences	**30**
Balance as at September 30, 2019	**2,647**
Less: Current portion	**1,439**
Contingent consideration – non-current portion	**1,208**

10. Additional information about the nature of costs components

a) Expenses by nature

Three-month periods ended September 30,	2019	2018
	$	$
Material	**8,039**	8,268
Salaries and fringe benefits	**14,027**	10,370
Subcontractors and professional fees	**2,034**	2,012
Rent, electricity, insurance and office expenses	**827**	669
Telecommunications and travel expenses	**747**	902
Share based compensation	**60**	83
Other expenses	**834**	937
Total cost of goods sold, operating, selling and administrative expenses	**26,568**	23,241
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	**689**	279
Amortization of intangible assets	**965**	699
Costs including depreciation and amortization	**28,222**	24,219

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, 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 three-month periods ended September 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 for the periods as noted above.

Depreciation of property, plant and equipment and right-of-use assets by function

Three-month periods ended September 30,	2019	2018
	$	$
Cost of goods sold	**629**	231
General operating expenses	**1**	1
Selling expenses	**25**	12
Administrative expenses	**34**	35
	689	279

Amortization of intangible assets by function

Three-month periods ended September 30,	2019	2018
	$	$
Cost of goods sold	**223**	147
Selling expenses	**664**	481
Administrative expenses	**78**	71
	965	699

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

Cost per function including depreciation and amortization

Three-month periods ended September 30,	**2019**	2018
	$	$
Cost of goods sold	**22,368**	19,243
General operating expenses	**1,389**	1,329
Selling expenses	**2,554**	2,140
Administrative expenses	**1,911**	1,507
	28,222	24,219

c) Other losses – net

Three-month periods ended September 30,	**2019**	2018
	$	**$**
Unrealized exchange (gain) loss	**(103)**	55
Realized exchange (gain) loss	**107**	(39)
Other gains	**(17)**	(14)
Changes in fair value of contingent consideration	**114**	-
	101	2

11. Net loss per share

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

Three-month periods ended September 30,	**2019**	2018
Net loss	**($1,033)**	($323)
Basic and diluted weighted average number of share outstanding	**53,258,504**	40,144,214
Basic and diluted net loss per share	**($0.019)**	($0.008)

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 three-month periods ended September 30, 2019 and 2018, the diluted net loss per share was the same as the basic net loss per share, since the effect of stock options and warrants would have been anti-dilutive. Accordingly, the diluted net loss per share for these periods is calculated using the basic weighted average number of shares outstanding.

12. 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 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 three-month period ended September 30, 2019			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	5,584	-	14,826	20,410
Revenue recognized at a point in time	2,621	5,192	-	7,813
	8,205	5,192	14,826	28,223
Cost of goods sold	6,540	2,976	12,000	21,516
Gross profit before depreciation and amortization	1,665	2,216	2,826	6,707
General operating expenses	202	594	592	1,388
Selling expenses	814	670	381	1,865
Earnings before administrative costs (EBAC)	649	952	1,853	3,454
Administrative expenses				1,799
Depreciation of property, plant and equipment and right-of-use assets				689
Amortization of intangible assets				965
Other losses – net				101
Acquisition-related costs, integration costs and other costs				489
Finance costs – net				453
Loss before income taxes				(1,042)

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

	For the three-month period ended September 30, 2018			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	7,704	-	9,893	17,597
Revenue recognized at a point in time	2,568	4,206	-	6,774
	10,272	4,206	9,893	24,371
Cost of goods sold	8,228	2,316	8,321	18,865
Gross profit before depreciation and amortization	2,044	1,890	1,572	5,506
General operating expenses	208	664	456	1,328
Selling expenses	736	579	332	1,647
Earnings before administrative costs (EBAC)	1,100	647	784	2,531
Administrative expenses				1,401
Depreciation of property, plant and equipment				279
Amortization of intangible assets				699
Other losses – net				2
Acquisition-related costs, integration costs and other costs				33
Finance costs – net				531
Loss before income taxes				(414)

Geographical information

Three-month periods ended September 30,	**2019**	2018
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**3,530**	4,192
United States	**22,711**	18,128
Other	**1,982**	2,051
	28,223	24,371

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

As at	**September 30, 2019**	June 30, 2019
	$	$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	**8,249**	7,006
United States	**43,228**	37,240
	51,477	44,246

13. Related party disclosure and remuneration

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of a non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,240 as at September 30, 2019 ($1,146 as at June 30, 2019).

An amount of $7 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of loss for the three-month period ended September 30, 2019 ($7 for the three-month period ended September 30, 2018).

b) Compensation of executive officers and board of directors

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

Three-month periods ended September 30,	**2019**	2018
	$	$
Short-term benefits [1]	**272**	279
Post-employment benefits [2]	**37**	33
Share-based payments	**60**	83
	369	395

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

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

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

14. Comparative figures

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

15. Events after the reporting period

On October 28, 2019, the Corporation announced that it has entered into a binding sale and purchase agreement pursuant to which H2O Innovation, through a wholly-owned UK subsidiary, will acquire, from arm's-length third parties, Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited, Genesys North America, LLC and the 24% interest in Genesys Membrane Products S.L. (collectively "Genesys"), a group of privately-owned companies based in the United Kingdom that develop, manufacture and distribute speciality reverse osmosis ("RO") membrane chemicals, antiscalants, cleaners, flocculants and biocides (the "Acquisition") .

The purchase price of the Acquisition was established at £16.95 M ($28.39 M) (the "Purchase Price"), on a cash-free, debt-free basis, fully payable at closing of the Acquisition. The Purchase Price is subject to customary working capital adjustments as of the closing date.

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The Acquisition is expected to close on or about November 14, 2019 and is subject to customary conditions.

The Acquisition's Purchase Price is being partially financed by the Public Offering of 13,335,000 Subscription Receipts, each of which will entitle the holder thereof to receive, upon the Acquisition Closing, one Unit comprised of one Common Share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The net proceeds to H_2O Innovation will be approximately $13.0 M after deducting the Underwriters' Commission and other transaction costs of approximately $1.0 M. H_2O Innovation has granted the Underwriters an over-allotment option to purchase up to an additional 952,380 Subscription Receipts at a price of $1.05 per Subscription Receipt, representing maximum additional gross proceeds of approximately $1.0 M.

The Acquisition's Purchase Price is also being partially financed by the Concurrent Private Placement. The Corporation and the Co-Lead Underwriters will enter into a subscription agreement with certain institutional shareholders to issue on a private placement basis 7,647,619 Subscription Receipts concurrently with the closing of the Offering for aggregate gross proceeds of approximately $8.0 M. The net proceeds to H_2O Innovation will be approximately $7.5 M after deducting the Underwriters' Commission and other transaction costs of approximately $0.5 M.

The Acquisition's Purchase Price is also being partially financed by such amount needed to be drawn on the Term Loan made available in an amount of $12.0 M under the Amended and Restated Credit Agreement of the Corporation entered into on October 28, 2019 with National Bank of Canada as lender. Financing fees of $0.3 M related to the Amended and Restated Credit Agreement will be netted against the Term Loan. The Term Loan shall be reimbursed by the Corporation by way of quarterly installment based on annual amortization of 12.5 % of the principal amount. The first instalment shall be due on December 31, 2019.

GENERAL INFORMATION

Board of Directors

Lisa Henthorne, Chairwoman 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 WWWTP[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]

Advisory Members

Elisa Speranza [2][4]
Leonard Graziano [3][4]

[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

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

AST Trust Company (Canada)

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