



Interim Financial Report Second quarter ended December 31, 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 H₂O Innovation's operating results and financial position for the quarter ended December 31, 2019, in comparison with the corresponding period ended December 31, 2018. This MD&A should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the quarter ended December 31, 2019, as well as with the audited annual consolidated financial statements for the year ended June 30, 2019.

In this MD&A, "H₂O Innovation", the "Corporation", or the words "we", "our" and "us" refer to either H₂O 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 H₂O 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 H₂O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 24, 2019 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H₂O 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 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
- Recurring revenues by nature

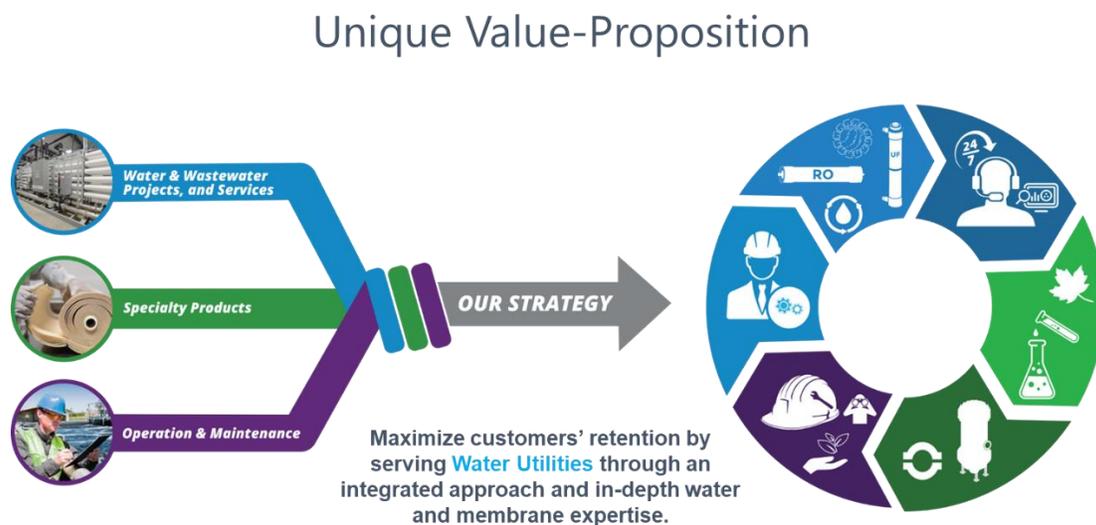
Definition of all non-IFRS measures and additional IFRS measures are provided in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Corporation presents a quantitative reconciliation of the non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS. Refer to Section "Non-IFRS financial measurements" on page 20 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, H₂O 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, H₂O 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 H₂O 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 H₂O Innovation's offer. Through its integrated solutions combining membrane filtration expertise, specialty products and operation and maintenance, H₂O 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")



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

H₂O 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

H₂O Innovation offers a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry, through H₂O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 80 countries.



H₂O 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.

Genesys manufactures its own range of specialty reverse osmosis (RO) membrane chemicals, including antiscalants, flocculants, biocides and cleaning chemicals.

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")



H₂O 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 December 31, 2019
Compared with the three-month period ended December 31, 2018

Revenues \$33.3 M ↑ \$3.9 M or 13.5 %	Recurring Revenues ⁽³⁾ \$28.0 M ↑ \$7.2 M from \$20.8 M	Recurring Revenues ⁽³⁾ (%) 84.1 % ↑ from 70.8 %	Consolidated Backlog \$142.7 M ↓ 3.4 % from \$147.7 M
Gross profit margin ⁽¹⁾ 24.8 % ↑ from 21.3 %	SG&A ⁽²⁾ 17.7 % ↑ from 16.7 %	Adjusted EBITDA ⁽³⁾ \$2.3 M ↑ 68.0 % from \$1.4 M	Adjusted EBITDA ⁽³⁾ (%) 6.9 % ↑ from 4.7 %
Net Loss (\$0.9 M) ↓ 25.0 % from (\$1.2 M)	Cash flows from operating activities (\$0.4 M) ↓ 119.4 % from \$2.1 M	Working Capital ⁽⁴⁾ \$13.5 M ↑ 5.2 % from \$12.8 M	Net debt ^{(3) (4)} \$18.0 M ↑ 84.2 % from \$9.8 M

⁽¹⁾ Gross profit margin presented before depreciation and amortization expenses.

⁽²⁾ Selling, general operating and administrative expenses (SG&A).

⁽³⁾ Refer to the section “Non-IFRS financial measurements” at page 20 of this MD&A.

⁽⁴⁾ Compared with the year ended June 30, 2019.

KEY BUSINESS HIGHLIGHTS

Employees 665 ↑ 1.5 % from 655	Distributors by business line Maple - 49 PWT - 24 Genesys - 65 Piedmont - 20	Number of O&M contracts 78 ↓ from 79
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SECOND QUARTER BUSINESS HIGHLIGHTS

- Effective on November 15, 2019, H₂O Innovation, through its wholly owned subsidiary H₂O Innovation UK Holding Limited, acquired, 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 speciality reverse osmosis (RO) membrane chemicals, antiscalants, cleaners, flocculants and biocides, as well as a 24% interest in Genesys Membrane Products S.L. held by Genesys International Limited. Genesys provides chemicals and services to the membrane industry in almost 70 countries around the world.
- H₂O Innovation acquired Genesys for a purchase price of £16.9 M (\$28.5 M), on a cash-free, debt-free basis, fully paid on closing date and subject to customary working capital adjustments. The purchase price has been partially financed by a public offering of 13,335,000 units, each of which entitle the holder thereof to receive one common share (a "Common Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles its holder to purchase one common share of the Corporation (a "Warrant Share"), at a price of \$1.40 per Warrant Share. The units have been issued at a price of \$1.05 for aggregate gross proceeds of approximately \$14.0 M.

The purchase price has also been partially financed by a concurrent private placement, under which the Corporation and the co-lead underwriters entered into subscription agreements with certain institutional shareholders to issue, on a private placement basis, 7,647,619 units, each of which entitle the holder thereof to receive one Common Share and one-half of one common share purchase Warrant, for aggregate gross proceeds of approximately \$8.0 M. The private placement occurred concurrently with the public offering described above.

The purchase price has also been partially financed by a term loan in an amount of \$12.0 M, granted by National Bank of Canada as lender under the amended and restated credit agreement of the Corporation entered into on October 28, 2019 (the "Amended Credit Agreement"). The Corporation drawn on such term loan the amount needed to supplement the purchase price.

- During the second 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 three (3) contracts. These contracts are valued at \$30.1 M.

Utility Partners has renewed three (3) municipal contracts in the states of Mississippi, Vermont and New Hampshire. The first contract is renewed for an initial period of six (6) years, with three (3) renewal options of two (2) years each. UP has been in a successful partnership with this Mississippi client for over a decade. The second contract was renewed for a 5-year period, and the third, for three (3) additional years.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements	Three-month periods ended				Six-month periods ended			
	December 31,		December 31,		December 31,		December 31,	
	2019		2018		2019		2018	
	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾
Revenues per business pillar								
Projects & Aftermarket	7,384	22.2	11,866	40.4	15,589	25.3	22,138	41.2
Specialty products	10,375	31.1	5,872	20.0	15,567	25.3	10,078	18.8
O&M	15,575	46.7	11,640	39.6	30,401	49.4	21,533	40.1
Total revenues	33,334	100.0	29,378	100.0	61,557	100.0	53,749	100.0
Revenues per geographic location								
Canada	3,488	10.5	4,561	15.5	7,018	11.4	8,753	16.3
United States	23,040	69.1	22,947	78.1	45,751	74.3	41,075	76.4
Others	6,806	20.4	1,870	6.4	8,788	14.3	3,921	7.3
Total revenues	33,334	100.0	29,378	100.0	61,557	100.0	53,749	100.0
Recurring revenues ⁽²⁾	28,033	84.1	20,808	70.8	50,672	82.3	37,475	69.7
Cost of goods sold (COGS)	25,051	75.2	23,134	78.7	46,583	75.7	41,999	78.1
Gross profit before depreciation and amortization	8,283	24.8	6,244	21.3	14,974	24.3	11,750	21.9
General operating expenses	1,698	5.1	1,246	4.2	3,083	5.0	2,574	4.8
Selling expenses	2,261	6.8	1,990	6.8	4,126	6.7	3,637	6.8
Administrative expenses	1,937	5.8	1,671	5.7	3,746	6.1	3,072	5.7
Total SG&A	5,896	17.7	4,907	16.7	10,955	17.8	9,283	17.3
Depreciation and amortization	1,709	5.1	1,081	3.7	3,364	5.5	2,059	3.8
Finance costs – net	610	1.8	969	3.3	1,039	1.7	1,500	2.8
Other losses – net	(17)	(0.1)	24	0.1	84	0.1	26	0.0
Acquisition, integration and other related costs	1,291	3.9	403	1.4	1,781	2.9	436	0.8
Loss before income taxes	(1,206)	(3.6)	(1,140)	(3.9)	(2,249)	(3.7)	(1,554)	(2.9)
Income Taxes	(297)	(0.9)	72	0.2	(304)	(0.5)	(19)	(0.0)
Net loss for the period	(909)	(2.7)	(1,212)	(4.1)	(1,945)	(3.2)	(1,535)	(2.9)
Basic and diluted net loss per share	(0.014)	-	(0.027)	-	(0.033)	-	(0.036)	-
EBITDA ⁽²⁾	1,113	3.3	910	3.1	2,154	3.5	2,005	3.7
Adjusted EBITDA ⁽²⁾	2,313	6.9	1,377	4.7	3,916	6.4	2,643	4.9

Financial position and Cash flows

	December 31, 2019	June 30, 2019	Variation	
	\$	\$	\$	%
Cash	6,467	6,206	261	4.2
Net debt ⁽²⁾	18,018	9,780	8,238	84.2
Six-month periods ended December 31,	2019	2018		
Net cash generated by operating activities	1,818	2,801	(983)	(35.1)
Consolidated backlog	142,700	147,700	(5,000)	(3.4)

⁽¹⁾ % over revenues.

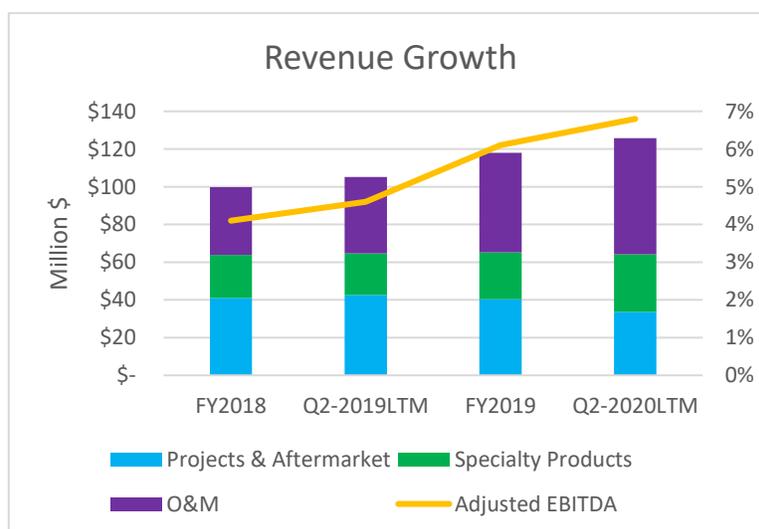
⁽²⁾ Refer to the section “Non-IFRS financial measurements”. Refer to page 20 for detailed information about non-IFRS measures used in this MD&A.

QUARTERLY FINANCIAL INFORMATION

(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Last twelve months
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	
	\$	\$	\$	\$	\$
Revenues	33,334	28,223	31,884	32,325	125,766
EBITDA	1,113	1,065	1,689	1,945	5,812
Adjusted EBITDA	2,313	1,625	2,375	2,196	8,509
Adjusted EBITDA over revenues	6.9 %	5.8 %	7.4 %	6.8 %	6.8 %
Net earnings (loss)	(909)	(1,033)	(1,177)	532	(2,587)
Basic and diluted net earnings (loss) per share	(0.014)	(0.019)	(0.021)	0.010	(0.044)
Cash flows from (used in) operating activities	(407)	2,224	3,204	(244)	4,777

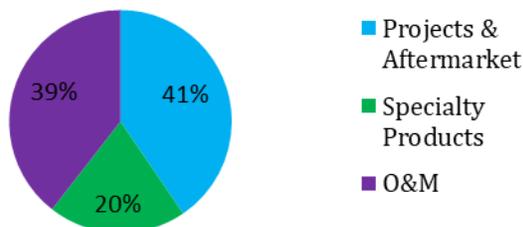
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Previous twelve months
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	
	\$	\$	\$	\$	\$
Revenues	29,378	24,371	24,536	26,695	104,980
EBITDA	910	1,094	635	927	3,566
Adjusted EBITDA	1,377	1,265	1,099	1,079	4,820
Adjusted EBITDA over revenues	4.7 %	5.2 %	4.5 %	4.0 %	4.6 %
Net loss	(1,212)	(323)	(1,007)	(12)	(2,554)
Basic and diluted net loss per share	(0.027)	(0.008)	(0.025)	(0.000)	(0.060)
Cash flows from (used in) operating activities	2,103	698	(1,987)	2,124	2,938

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 19.8 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from \$4.8 M, or 4.6 % of revenues to \$8.5 M, or 6.8 % in the last twelve months, representing a 76.5 % improvement over a twelve-month period.

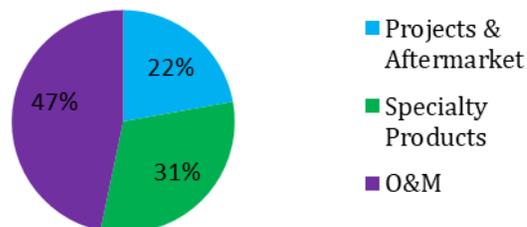


CONSOLIDATED REVENUES

Q2 - FY2019 - Revenues



Q2 - FY2020 - Revenues



Consolidated revenues from our three business pillars, for the three-month period ended on December 31, 2019, increased by \$3.9 M, or 13.5 %, to reach \$33.3 M compared to \$29.4 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which contributed \$1.6 M in revenues during this quarter. The growth is also explained by the increase of \$2.9 M coming from Specialty Products and \$4.0 M coming from O&M, partly offset by the decrease in revenues of \$4.5 M from the Projects & Aftermarket. Hays, which was acquired on December 1st, 2018, contributed \$5.3 M to the revenues of the second quarter of fiscal year 2020, compared to \$1.5 M for the same quarter of fiscal year 2019. The increase is in line with our business plan to grow first the Specialty Products and O&M, as well as prioritize projects with higher profit margins, fueling opportunities for other business pillars.

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 addition of Hays to the O&M business pillar in FY2019, 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 acquired Genesys, a leader in development and manufacturing of specialty chemicals for membrane filtration applications. This transaction will help strengthen H₂O Innovation's specialty chemicals business line in many ways. It will enable the Corporation to build a strong portfolio of products by combining the strengths of both the phosphonate and dendrimer chemistries. This extended and diversified product offering should enable H₂O Innovation to cover a wider range of applications related to membrane filtration, and thus, improve its specialty chemicals' sales. Second, it will allow us to build one of the largest distribution platforms made of almost 100 distributors reselling our specialty chemicals. Finally, the acquisition of Genesys will enable us to expend our manufacturing capabilities in order to ensure continuous manufacturing and supply of specialty chemicals to our customers. It will also allow us to avoid certain commercial tariffs in place and reduce some freight costs to clients at proximity of our manufacturing facilities (UK or California).

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 and an accountable approach for our industrial or municipal customers.

For the three-month period ended December 31, 2019, recurring revenues represented 84.1 % of the Corporation's total revenues, compared to 70.8 % for the comparable quarter of 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

(In thousands of Canadian dollars)	Three-month periods ended				Six-month periods ended			
	2019	2018	December 31, Variation		2019	2018	December 31, Variation	
	\$	\$	\$	%	\$	\$	\$	%
Gross profit margins before depreciation and amortization	8,283	6,244	2,039	32.7	14,974	11,750	3,224	27.4
Gross profit margins before depreciation and amortization (%)	24.8 %	21.3 %	-	-	24.3 %	21.9 %	-	-

The Corporation's gross profit margin before depreciation and amortization stood at \$8.3 M, or 24.8 %, during the second quarter of fiscal year 2020, compared to \$6.2 M, or 21.3 % for the previous fiscal year, representing an increase of \$2.1 M, or 32.7 %. The increase in consolidated gross profit margin is explained by the increase in revenues coming from Specialty Products business pillar, characterized with higher gross profit margins. These higher-margin sales, positively affected by the acquisition of Genesys and the strong growth in Piedmont business line, contributed significantly to increase the gross profit margin before depreciation and amortization in the second quarter of fiscal year 2020. The gross profit margin was also positively impacted by the improvement of the gross profit margins coming from the Projects & Aftermarket business line. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of \$0.1 M for the second quarter of fiscal year 2020.

The Corporation's gross profit margin before depreciation and amortization stood at \$15.0 M, or 24.3 %, for the six-month period ended December 31, 2019, compared to \$11.8 M, or 21.9 % for the same period of last fiscal year, representing an increase of \$3.2 M, or 27.4 %. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of \$0.3 M for the six-month period ended December 31, 2019.

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

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2019	2018	Variation		2019	2018	Variation	
	\$	\$	\$	%	\$	\$	\$	%
General operating expenses	1,698	1,246	452	36.3	3,083	2,574	509	19.8
Selling expenses	2,261	1,990	271	13.6	4,126	3,637	489	13.4
Administrative expenses	1,937	1,671	266	15.9	3,746	3,072	674	21.9
SG&A expenses	5,896	4,907	989	20.2	10,955	9,283	1,672	18.0

The Corporation's SG&A reached \$5.9 M during the second quarter of fiscal year 2020, compared to \$4.9 M for the same period of the previous fiscal year, representing an increase of \$1.0 M, or 20.2 %, while the revenues of the Corporation increased by 13.5 %. The acquisition of Genesys in the second quarter contributed \$0.3 M of this increase. The acquisition of Hays on December 1st, 2018 contributed to \$0.3 M of the SG&A for the second quarter of fiscal year 2020, compared to \$0.2 M for the same period of the previous fiscal year. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of \$0.2 M for the second quarter of fiscal year 2020, as lease expenses were reclassified to depreciation and amortization.

The Corporation's SG&A reached \$11.0 M for the six-month period ended December 31, 2019, compared to \$9.3 M for the same period of the previous fiscal year, representing an increase of \$1.7 M, or 18.0 %, while the revenues of the Corporation increased by 14.5 %. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of \$0.4 M for the six-month period ended December 31, 2019. The acquisition of Genesys in the second quarter also contributed \$0.3 M of this increase. The acquisition of Hays on December 1st, 2018 contributed to \$0.4 M of the SG&A for the six-month period ended December 31, 2019, compared to \$0.2 M for the same period of the previous fiscal year.

General operating expenses reached \$1.7 M during the second quarter of fiscal year 2020, compared to \$1.2 M for the same period of previous fiscal year, representing an increase of \$0.5 M, or 36.3 %. The acquisition of Genesys contributed \$0.1 M of this increase for the quarter. Hays added \$0.2 M since the acquisition occurred on December 1st, 2018. The adoption of IFRS 16 – *Leases* resulted in a decrease of the general operating expenses of \$0.09 M for the second quarter of fiscal year 2020.

General operating expenses reached \$3.1 M for the six-month period ended December 31, 2019, compared to \$2.6 M for the same period of previous fiscal year, representing an increase of \$0.5 M, or 19.8 %. The acquisition of Genesys and Hays contributed \$0.4 M of this increase. Moreover, new hires were needed to support the significant growth of Piedmont business line. The adoption of IFRS 16 – *Leases* resulted in a decrease of the general operating expenses of \$0.2 M for the six-month period ended December 31, 2019.

Selling expenses reached \$2.3 M during the second quarter of fiscal year 2020, compared to \$2.0 M for the same period of previous fiscal year, representing an increase of \$0.3 M, or 13.6 %. 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 acquisition of Genesys during the second quarter also contributed \$0.1 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of \$0.06 M for the second quarter of fiscal year 2020.

Selling expenses reached \$4.1 M for the six-month period ended December 31, 2019, compared to \$3.6 M for the same period of previous fiscal year, representing an increase of \$0.5 M, or 13.4 %. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of \$0.1 M for the six-month period ended December 31, 2019.

The administrative expenses reached \$1.9 M during the second quarter of fiscal year 2020, compared to \$1.7 M for the same period of previous fiscal year, representing an increase of \$0.2 M, or 15.9 %. The acquisition of Genesys on November 15, 2019 contributed \$0.1 M of this increase, as well as hiring in the administrative team to support the growth. The creation of a new procurement department contributed \$0.1 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of \$0.05 M for the second quarter of fiscal year 2020.

The administrative expenses reached \$3.7 M for the six-month period ended December 31, 2019, compared to \$3.1 M for the same period of previous fiscal year, representing an increase of \$0.6 M, or 21.9 %. Over the last months, the finance and legal department hired new resources to follow the growth of the company. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of \$0.1 M for the six-month period ended December 31, 2019.

ACQUISITIONS, INTEGRATION AND OTHER RELATED COSTS

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2019	2018	Variation		2019	2018	Variation	
	\$	\$	\$	%	\$	\$	\$	%
Acquisition, integration and other related costs	1,291	403	888	220.3	1,781	436	1,345	308.5

The acquisition, integration and other related costs reached \$1.3 M during the second quarter of fiscal year 2020, compared to \$0.4 M for the same period of previous fiscal year, representing an increase of \$0.9 M, or 220.3 %. For fiscal year 2019, the acquisition, integration and other related costs were related to the acquisition of Hays. This variation is mainly due to the unusual higher transaction fees incurred in connection with the acquisition of Genesys related to the complexity of the transaction, the short form prospectus and the new jurisdiction (UK).

The acquisition, integration and other related costs reached \$1.8 M for the six-month period ended December 31, 2019, compared to \$0.4 M for the same period of previous fiscal year, representing an increase of \$1.4 M, or 308.5 %.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2019	2018	Variation		2019	2018	Variation	
	\$	\$	\$	%	\$	\$	\$	%
Finance income	(15)	(10)	(5)	50.0	(29)	(17)	(12)	70.6
Finance costs	625	979	(354)	(36.2)	1,068	1,517	(449)	(29.6)
Finance costs - net	610	969	(359)	(37.0)	1,039	1,500	(461)	(30.7)

Finance costs – net stood at \$0.6 M for the second quarter of fiscal year 2020, compared with \$1.0 M for the same period of previous fiscal year, representing a decrease of 37.0 % compared to the previous fiscal year. 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 second quarter of this fiscal year.

Finance costs – net stood at \$1.0 M for the six-month period ended December 31, 2019 compared with \$1.5 M for the same period of previous fiscal year, representing a decrease of 30.7 % compared to the previous fiscal year. During the second quarter of fiscal year 2019, the Corporation entered into a credit agreement with a new lender and incurred non-recurring finance costs of \$0.6 M. However, the incremental interest accretion on lease liabilities from the adoption of IFRS 16 - *Leases* contributed to the finance costs in the amount of \$0.2 M for the six-month period ended December 31, 2019.

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 December 31,				Six-month periods ended December 31,			
	2019	2018	Variation		2019	2018	Variation	
	\$	\$	\$	%	\$	\$	\$	%
EBITDA	1,113	910	203	22.3	2,154	2,005	149	7.4
Adjusted EBITDA	2,313	1,377	936	68.0	3,916	2,643	1,273	48.2
Adjusted EBITDA (%)	6.9 %	4.7 %	-	-	6.4 %	4.9 %	-	-

The Corporation's adjusted EBITDA increased by \$0.9 M, or 68.0 %, to reach \$2.3 M during the second quarter of fiscal year 2020, from \$1.4 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 6.9 % for the second quarter of fiscal year 2020, compared to 4.7 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins, partly offset by the increase in 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 6.0 %.

The Corporation's adjusted EBITDA increased by \$1.3 M, or 48.2 %, to reach \$3.9 M for the six-month period ended December 31, 2019, from \$2.6 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 6.4 % for the six-month periods ended December 31, 2019, compared to 4.9 % for the same period of last fiscal year. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 5.3 %.

NET LOSS

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2019	2018	Variation		2019	2018	Variation	
	\$	\$	\$	%	\$	\$	\$	%
Net loss	(909)	(1,212)	303	25.0	(1,945)	(1,535)	(410)	(26.7)
Basic and diluted net loss per share	(0.014)	(0.027)	0.013	-	(0.033)	(0.036)	0.003	-

The net loss amounted to (\$0.9 M) or (\$0.014) per share for the second quarter of fiscal year 2020 compared to a net loss of (\$1.2 M) or (\$0.027) per share for the comparable quarter of fiscal year 2019. The net loss variation was impacted by the higher level of revenues coming from Specialty Products, having a high gross profit margin before depreciation and amortization. The net loss is mainly due to the acquisition, integration and other related costs of \$1.3 M related to the acquisition of Genesys.

The net loss amounted to (\$1.9 M) or (\$0.033) per share for the six-month period ended December 31, 2019 compared to a net loss of (\$1.5 M) or (\$0.036) per share for the comparable period of fiscal year 2019. The net loss variation is mostly due to the acquisition, integration and other related costs in the amount of \$1.8 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 and the adoption of IFRS 16 – *Leases*, which resulted in a depreciation charge for the right-of-use assets.

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.

As at December 31, 2019, the combined backlog of secured contracts between Projects and O&M reached \$142.7 M compared to \$147.7 M as at December 31, 2018. 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 December 31,			
	2019	2018	Variation	
	\$	\$	\$	%
Projects	37,700	52,500	(14,800)	(28.2)
O&M ⁽¹⁾	105,000	95,200	9,800	10.3
Consolidated backlog	142,700	147,700	(5,000)	(3.4)

⁽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 28.2 %, 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 is showing a well-balanced backlog, with diversification seen between water and wastewater projects: 41.7 % of the projects being wastewater as of December 31, 2019, compared to 32.7 % as of December 31, 2018. Backlog’s diversification is also seen between industrial and municipal projects, with 30.0 % of the projects being industrial as of December 31, 2019, compared to 38.8 % as of December 31, 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 \$105.0 M as at December 31, 2019, representing an increase of 10.3 % compare to the \$95.2 M backlog as at December 31, 2018, and comes from renewal of three (3) 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 20 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 three-month and six-month periods ended December 31, 2019 and 2018.

PROJECTS & AFTERMARKET

(In thousands of Canadian dollars)	Three-month periods ended				Six-month periods ended			
	2019	2018	December 31, Variation		2019	2018	December 31, Variation	
	\$	\$	\$	%	\$	\$	\$	%
Revenues from Projects & Aftermarket	7,384	11,866	(4,482)	(37.8)	15,589	22,138	(6,549)	(29.6)
Cost of goods sold	5,926	10,109	(4,183)	(41.4)	12,466	18,337	(5,871)	(32.0)
Gross profit margins ¹	1,458	1,757	(299)	(17.0)	3,123	3,801	(678)	(17.8)
Gross profit margins (%)	19.7 %	14.8 %	-	-	20.0 %	17.2 %	-	-
General operating expenses	209	162	47	29.0	411	370	41	11.1
Selling expenses	898	880	18	2.0	1,712	1,616	96	5.9
EBAC ² from Projects & Aftermarket	351	715	(364)	(50.9)	1,000	1,815	(815)	(44.9)
EBAC ² over revenues from Projects & Aftermarket	4.8 %	6.0 %	-	-	6.4 %	8.2 %	-	-

Projects & Aftermarket revenues stood at \$7.4 M during the second quarter of fiscal year 2020, compared to \$11.9 M for the same quarter of last fiscal year, representing a \$4.5 M, or 37.8 % decrease. This decrease is mainly due to the strategy of improving the gross profit margin of this business pillar, as management is being selective on projects bids prior to growing the volume of revenues. Projects & Aftermarket revenues stood at \$15.6 M for the six-month period ended December 31, 2019, compared with \$22.1 M for the same period of fiscal year, representing a decrease of \$6.5 M, or 29.6 %.

The gross profit margins before depreciation and amortization stood at \$1.5 M, or 19.7 % for the second quarter of fiscal year 2020, compared with \$1.8 M, or 14.8 % for the same quarter of last fiscal year, representing a decrease of \$0.3 M, or 17.0 %, but an improvement in terms of % over revenues. The gross profit margins before depreciation and amortization stood at \$3.1 M, or 20.0 % for the six-month period ended December 31, 2019, compared with \$3.8 M, or 17.2 % for the same period of last fiscal year, representing a decrease of \$0.7 M, or 17.8 %.

The general operating expenses and selling expenses stood at \$1.1 M during the second quarter of fiscal year 2020, compared to \$1.0 M, for the same quarter of last fiscal year, representing an increase of \$0.1 M. The general operating

¹ Gross profit margins presented before depreciation and amortization.

² Refer to the section “Non-IFRS financial measurements”. Refer to page 20 for detailed information about non-IFRS measures used in this MD&A.

expenses and selling expenses stood at \$2.1 M for the six-month period ended December 31, 2019, compared to \$2.0 M, for the same period of last fiscal year, representing an increase of \$0.1 M. This increase in the expenses is driven by the addition of salesmen in Aftermarket and process engineers to support the growth of the wastewater activity.

Projects & Aftermarket's EBAC stood at \$0.4 M during the second quarter of fiscal year 2020, compared to \$0.7 M for the same quarter of last fiscal year, representing a decrease of \$0.3 M, or 50.9 %. The decrease is due to the lower level of revenues recognized during the quarter, compared to the same quarter of the previous fiscal year, although the cost structure remained the same. Projects & Aftermarket's EBAC stood at \$1.0 M for the six-month period ended December 31, 2019, compared to \$1.8 M for the same period of last fiscal year, representing a decrease of \$0.8 M, or 44.9 %.

SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended				Six-month periods ended			
	2019	2018	December 31, Variation		2019	2018	December 31, Variation	
	\$	\$	\$	%	\$	\$	\$	%
Revenues from Specialty Products	10,375	5,872	4,503	76.7	15,567	10,078	5,489	54.5
Cost of goods sold	6,329	3,564	2,765	77.6	9,305	5,880	3,425	58.2
Gross profit margins ¹	4,046	2,308	1,738	75.3	6,262	4,198	2,064	49.2
Gross profit margins ¹ (%)	39.0 %	39.3 %	-	-	40.2 %	41.7 %	-	-
General operating expenses	842	629	213	33.9	1,436	1,293	143	11.1
Selling expenses	974	807	167	20.7	1,643	1,386	257	18.5
EBAC ² from Specialty Products	2,230	872	1,358	155.7	3,183	1,519	1,664	109.5
EBAC ² over revenues from Specialty Products	21.5 %	14.9 %	-	-	20.4 %	15.1 %	-	-

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 \$10.4 M during the second quarter of fiscal year 2020, compared to \$5.9 M for the same quarter of last fiscal year, representing an increase of \$4.5 M, or 76.7 %. Of this \$4.5 M revenue increase, \$1.6 M is attributable to the acquisition of Genesys and is representing 1.5 months of revenues following Genesys' acquisition effective November 15, 2019. This increase in revenues for this business pillar is also 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. Specialty Products revenues stood at \$15.6 M for the six-month period ended December 31, 2019, compared to \$10.1 M for the same period of last fiscal year, representing an increase of \$5.5 M, or 54.5 %.

The gross profit margins before depreciation and amortization stood at \$4.0 M, or 39.0 % for the second quarter of fiscal year 2020, compared with \$2.3 M, or 39.3 % for the same quarter of last fiscal year, representing an increase of \$1.7 M in dollar, but a decrease of the gross profit margin in %. The gross profit margin increased by 75% while the revenues increased by 76.7 %. The gross profit margins before depreciation and amortization stood at \$6.3 M, or 40.2 % for the six-month period ended December 31, 2019, compared with \$4.2 M, or 41.7 % for the same period of last fiscal year, representing an increase of \$2.1 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 higher level of revenues coming from Piedmont and Maple business lines.

The general operating expenses and selling expenses stood at \$1.8 M during the second quarter of fiscal year 2020, compared to \$1.4 M, for the same quarter of last fiscal year. The acquisition of Genesys contributed to \$0.3 M of this

¹ Gross profit margins presented before depreciation and amortization.

² Refer to the section "Non-IFRS financial measurements". Refer to page 20 for detailed information about non-IFRS measures used in this MD&A.

increase. The general operating expenses and selling expenses stood at \$3.1 M for the six-month period ended December 31, 2019, compared to \$2.7 M, for the same period of last fiscal year.

Specialty Products EBAC stood at \$2.2 M during the second quarter of fiscal year 2020, compared to \$0.9 M for the same quarter of last fiscal year, representing an increase of \$1.3 M, or 155.7 %. Specialty Products EBAC stood at \$3.2 M for the six-month period ended December 31, 2019, compared to \$1.5 M for the same period of last fiscal year, representing an increase of \$1.7 M, or 109.5 %.

O&M

(In thousands of Canadian dollars)	Three-month periods ended				Six-month periods ended			
	2019	2018	December 31, Variation		2019	2018	December 31, Variation	
	\$	\$	\$	%	\$	\$	\$	%
Revenues from O&M	15,575	11,640	3,935	33.8	30,401	21,533	8,868	41.2
Cost of goods sold	12,796	9,461	3,335	35.2	24,812	17,782	7,030	39.5
Gross profit margins ¹	2,779	2,179	600	27.5	5,589	3,751	1,838	49.0
Gross profit margins (%)	17.8 %	18.7 %	-	-	18.4 %	17.4 %	-	-
General operating expenses	647	455	192	42.2	1,236	911	325	35.7
Selling expenses	389	303	86	28.4	771	635	136	21.4
EBAC ² from O&M	1,743	1,421	322	22.7	3,582	2,205	1,377	62.4
EBAC ² over revenues from O&M	11.2 %	12.2 %	-	-	11.8 %	10.2 %	-	-

O&M revenues stood at \$15.6 M during the second quarter of fiscal year 2020, compared to \$11.6 M for the same quarter of last fiscal year, representing an increase of \$4.0 M, or 33.8 %. Hays, which was acquired during the second quarter of the previous fiscal year, contributed \$5.3 M to the revenues of this business pillar during the quarter compared to \$1.5 M for the second quarter of fiscal year 2019. O&M revenues stood at \$30.4 M for the six-month period ended December 31, 2019, compared to \$21.5 M for the same period of last fiscal year, representing an increase of \$8.9 M, or 41.2 %.

The gross profit margins before depreciation and amortization stood at \$2.8 M, or 17.8 % for the second quarter of fiscal year 2020, compared with \$2.2 M, or 18.7 % for the same quarter of last fiscal year, representing an increase of \$0.6 M, or 27.5 %. The gross profit margins before depreciation and amortization stood at \$5.6 M, or 18.4 % for the six-month period ended December 31, 2019, compared with \$3.8 M, or 17.4 % for the same period of last fiscal year, representing an increase of \$1.8 M, or 49.0 %.

The general operating expenses and selling expenses stood at \$1.0 M during the second 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. The general operating expenses and selling expenses stood at \$2.0 M for the six-month period ended December 31, 2019, compared to \$1.5 M, for the same period of last fiscal year, representing an increase of \$0.5 M.

O&M EBAC stood at \$1.7 M during the second quarter of fiscal year 2020, compared to \$1.4 M for the same quarter of last fiscal year, representing an increase of \$0.3 M, or 22.7 %. O&M EBAC stood at \$3.6 M for the six-month period ended December 31, 2019, compared to \$2.2 M for the same period of last fiscal year, representing an increase of \$1.4 M, or 62.4 %.

¹ Gross profit margins presented before depreciation and amortization.

² Refer to the section "Non-IFRS financial measurements". Refer to page 20 for detailed information about non-IFRS measures used in this MD&A.

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 three-month and six-month periods ended December 31, 2019 and December 31, 2018 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended				Six-month periods ended			
	2019	2018	December 31, Variation		2019	2018	December 31, Variation	
	\$	\$	\$	%	\$	\$	\$	%
Cash flows from operating activities before change in working capital items	1,306	1,014	292	28.8	2,509	2,178	331	15.2
Change in working capital items	(1,728)	1,189	(2,917)	(245.3)	(720)	719	(1,439)	(200.1)
	(422)	2,203	(2,625)	(119.2)	1,789	2,897	(1,108)	(38.2)
Interests received / Income taxes received (paid)	15	(100)	115	(115.0)	29	(96)	125	(130.2)
Cash flows from (used in) operating activities	(407)	2,103	(2,510)	(119.4)	1,818	2,801	(983)	(35.1)
Cash flows used in investing activities	(28,995)	(6,531)	(22,464)	344.0	(29,495)	(6,863)	(22,632)	329.8
Cash flows from financing activities	28,986	9,499	19,487	205.1	27,805	8,459	19,346	228.7
Effect of exchange rate changes on the balance of cash held in foreign currencies	88	(120)	208	(173.3)	133	(167)	300	(179.6)
Net change	(328)	4,951	(5,279)	(106.6)	261	4,230	(3,969)	(93.8)
Cash – net of bank overdraft – Beginning of period	6,795	1,017	5,778	568.1	6,206	1,738	4,468	257.1
Cash – net of bank overdraft – End of period	6,467	5,968	499	8.4	6,467	5,968	499	8.4

Cash decreased by (\$0.3 M) during the second quarter of fiscal year 2020, compared with an increase of \$5.0 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 used (\$0.4 M) for the quarter ended December 31, 2019, compared to \$2.1 M of cash flows generated from operating activities during the same period of previous fiscal year. The decrease in the cash flows from operating activities is coming from the change in working capital items.

Cash flows from operating activities generated \$1.8 M for the six-month period ended December 31, 2019, compared to \$2.8 M of cash flows generated from operating activities during the same period of previous fiscal year.

Cash Flows from Investing Activities

Investing activities used (\$29.0 M) of cash flows for the quarter ended December 31, 2019, compared to (\$6.5 M) of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to the business acquisition of \$ 27.2 M and the payment of the contingent consideration \$1.5 M related to the acquisition of Hays.

Investing activities used (\$29.5 M) of cash flows for the six-month period ended December 31, 2019, compared to (\$6.9 M) of cash flows used in investing activities during the same period of previous fiscal year.

Cash Flows from Financing Activities

Financing activities generated \$29.0 M for the quarter ended December 31, 2019, compared to \$9.5 M of cash flows generated in financing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to the issuance of common shares along with the term loan of \$12.0 M related with the financing for the acquisition of Genesys.

Financing activities generated \$27.8 M for the six-month period ended December 31, 2019, compared to \$8.5 M of cash flows generated in financing activities during the same period of previous fiscal year.

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between December 31, 2019 and June 30, 2019 for selected information:

(In thousands of Canadian dollars)	December 31, 2019	June 30, 2019	Variation	Explanations
	\$	\$	\$	
Accounts receivable	22,606	19,440	3,166	The increase is mostly attributable to the acquisition of Genesys, adding \$2.4 M in accounts receivable. The growth in Piedmont business line added \$1.5 M in additional receivable compared to June 30, 2019.
Inventories	7,385	6,739	646	The acquisition of Genesys contributed to \$0.5 M of this increase.
Contract assets	5,819	5,880	(61)	The decrease is generated by difference between project advancement and project invoicing schedules from one project to the other.
Accounts payable	14,560	12,264	2,296	The increase is mainly due to the integration of Genesys, adding \$1.2 M of accounts payable and accrued liabilities and a working capital adjustment payable of \$1.0 M to the consolidated results.
Contract liabilities	3,626	3,111	515	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)	December 31, 2019	June 30, 2019	Variation	
	\$	\$	\$	%
Bank loans	6,236	7,545	(1,309)	(17.3)
Current portion of long-term debt	3,171	1,863	1,308	70.2
Long-term debt	15,078	6,578	8,500	129.2
Less: Cash	(6,467)	(6,206)	(261)	(4.2)
Net debt	18,018	9,780	8,238	84.2

As at December 31, 2019, the net debt stood at \$18.0 M, compared with \$9.8 M as at June 30, 2019, representing a \$8.2 M increase, or 84.2 %. This increase is mainly attributable to the term loan of \$12.0 M contracted to partially finance the acquisition of Genesys on November 15, 2019, offset by the reimbursement of \$1.3 M in bank loans. The adoption of IFRS 16 – *Leases* also contributed to reduce \$0.6 M 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 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 December 31, 2019:

- Debt-to-EBITDA ratio, defined as total debt divided by EBITDA
 - not more than 3.50:1.00 at all times until the end of the fiscal year ending June 30, 2020; and
 - not more than 3.00:1.00 at all times thereafter.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures greater than or equal to 1.20:1.00 at all times.

As at December 31, 2019, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2019, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to \$1.9 M which expire at various dates through fiscal year 2022. Of these letters of credit, \$1.9 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 ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended		Six-month periods ended	
	December 31, 2019	2018	December 31, 2019	2018
	\$	\$	\$	\$
Net loss for the period	(909)	(1,212)	(1,945)	(1,535)
Finance costs – net	610	969	1,039	1,500
Income taxes	(297)	72	(304)	(19)
Depreciation of property, plant and equipment	691	288	1,380	567
Amortization of intangible assets	1,018	793	1,984	1,492
EBITDA	1,113	910	2,154	2,005
Unrealized exchange (gain) loss	(241)	(11)	(344)	44
Stock-based compensation costs	54	75	114	158
Changes in fair value of the contingent consideration	96	-	211	-
Acquisition-related costs, integration costs and other costs	1,291	403	1,781	436
Adjusted EBITDA	2,313	1,377	3,916	2,643

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.

(In thousands of Canadian dollars)	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue from external customers:				
Revenue recognized overtime	19,613	20,210	40,023	37,807
Revenue recognized at a point in time	13,721	9,168	21,534	15,942
	33,334	29,378	61,557	53,749
Cost of goods sold	25,051	23,134	46,583	41,999
Gross profit before depreciation and amortization	8,283	6,244	14,974	11,750
General operating expenses	1,698	1,246	3,083	2,574
Selling expenses	2,261	1,990	4,126	3,637
Earnings before administrative costs (EBAC)	4,324	3,008	7,765	5,539

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 19 of this MD&A for reconciliation.

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. However, there is no guarantee that recurring revenues will last indefinitely. 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 December 31, 2019,			
	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenues	7,384	10,375	15,575	33,334
Recurring revenues	2,083	10,375	15,575	28,033

(In thousands of Canadian dollars)	Six-month period ended December 31, 2019,			
	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenues	15,589	15,567	30,401	61,557
Recurring revenues	4,704	15,567	30,401	50,672

(In thousands of Canadian dollars)

Three-month period ended December 31, 2018,

	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenues	11,866	5,872	11,640	29,378
Recurring revenues	3,296	5,872	11,640	20,808

(In thousands of Canadian dollars)

Six-month period ended December 31, 2018,

	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenues	22,138	10,078	21,533	53,749
Recurring revenues	5,864	10,078	21,533	37,475

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 December 31, 2019:

Six-month period ended December 31, 2019				Total
	Buildings	Automotive equipment	Machinery and equipment	
				\$
Balance at July 1, 2019	7,862	127	787	8,776
Additions	256	-	-	256
Business acquisition	-	93	40	133
Depreciation of right-of-use assets	(532)	(42)	(51)	(625)
Effect of changes in exchange rates	(73)	(3)	(1)	(77)
Net book value as at December 31, 2019	7,513	175	775	8,463

The following table presents the lease liabilities for the Corporation as of December 31, 2019:

	Six-month period ended December 31, 2019
	\$
Balance at July 1, 2019	8,757
Additions	256
Business acquisition	133
Payment of lease liabilities	(760)
Interest expense on lease liabilities	179
Effect of changes in exchange rates	(86)
Lease liabilities as at December 31, 2019	8,479

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 December 31, 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 (DC&P) and Internal Control over Financial Reporting (ICFR)

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at December 31, 2019, did not include the controls or procedures of the operations of Genesys, following its acquisition effective on November 15, 2019. 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 Genesys following its acquisition:

(in thousands of Canadian dollars) (unaudited)

	Three-month period ended December 31, 2019
Results	\$
Revenues	1,597
Net Earnings	389
	As at December 31, 2019
Financial Position	\$
Current Assets	5,087
Non-Current Assets ⁽¹⁾	26,387
Current Liabilities	1,053
Non-Current Liabilities	129

⁽¹⁾ includes fair market value of acquired intangible assets



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

December 31, 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.

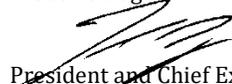
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars) (Unaudited)

As at	December 31, 2019	June 30, 2019
	\$	\$
ASSETS (notes 6 and 8)		
Current assets		
Cash	6,467	6,206
Guaranteed deposit certificates	22	21
Accounts receivable (note 4)	22,606	19,440
Inventories (note 5)	7,385	6,739
Contract assets	5,819	5,880
Income taxes receivable	231	69
Prepaid expenses	1,136	768
	43,666	39,123
Non-current assets		
Property, plant and equipment	7,644	6,552
Intangible assets (note 3)	26,503	21,967
Right-of-use assets (note 2 a)	8,463	-
Other assets	303	234
Related party loans receivable (note 14 a)	1,250	1,250
Goodwill (note 3)	34,884	15,727
Deferred income tax assets	-	144
	122,713	84,997
LIABILITIES		
Current liabilities		
Bank loans (note 6)	6,236	7,545
Accounts payable and accrued liabilities (note 7)	14,560	12,264
Provisions	137	137
Contract liabilities	3,626	3,111
Contingent consideration (notes 3 and 9)	1,246	1,361
Current portion of long-term debt (note 8)	3,171	1,863
Current portion of lease liabilities (note 2 a)	1,182	-
	30,158	26,281
Non-current liabilities		
Long-term debt (note 8)	15,078	6,578
Deferred rent	-	137
Deferred income tax liabilities (note 3)	808	-
Contingent consideration (notes 3 and 9)	-	1,142
Lease liabilities (note 2 a)	7,297	-
	53,341	34,138
SHAREHOLDERS' EQUITY		
Share capital (notes 3 and 10)	106,797	89,057
Reserve - Stock options	3,364	3,250
Reserve - Warrants (notes 3 and 10)	2,824	167
Deficit	(46,029)	(44,084)
Accumulated other comprehensive income	2,416	2,469
	69,372	50,859
	122,713	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 six-month periods ended December 31, 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	-	-	158	-	-	-	158
Net loss for the period	-	-	-	-	(1,535)	-	(1,535)
Issuance of common shares under private placement (notes 3 and 10)	15,745,775	13,069	-	-	-	-	13,069
Issuance of warrants under private placement (notes 3 and 10)	-	-	-	167	-	-	167
Share issue expenses (notes 3 and 10)	-	(871)	-	-	-	-	(871)
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	1,197	1,197
Balance as at December 31, 2018	55,889,989	89,116	3,100	167	(43,439)	4,048	52,992
Balance as at July 1, 2019	55,889,989	89,057	3,250	167	(44,084)	2,469	50,859
Stock-based compensation costs	-	-	114	-	-	-	114
Issuance of common shares under private placement (notes 3 and 10)	20,982,619	19,545	-	-	-	-	19,545
Issuance of warrants under private placement and public offering (notes 3 and 10)	-	-	-	2,657	-	-	2,657
Share issue expenses (notes 3 and 10)	-	(1,805)	-	-	-	-	(1,805)
Net loss for the period	-	-	-	-	(1,945)	-	(1,945)
Other comprehensive loss – Currency translation adjustments	-	-	-	-	-	(53)	(53)
Balance as at December 31, 2019	76,872,608	106,797	3,364	2,824	(46,029)	2,416	69,372

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS

For the three-month and six-month periods ended December 31, 2019 and 2018

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues (note 13)	33,334	29,378	61,557	53,749
Cost of goods sold (note 11 a)	25,051	23,134	46,583	41,999
Gross profit before depreciation and amortization	8,283	6,244	14,974	11,750
General operating expenses (note 11 a)	1,698	1,246	3,083	2,574
Selling expenses (note 11 a)	2,261	1,990	4,126	3,637
Administrative expenses (note 11 a)	1,937	1,671	3,746	3,072
Depreciation of property, plant and equipment and right- of-use assets (notes 2 a) and 11 b)	691	288	1,380	567
Amortization of intangible assets (note 11 b)	1,018	793	1,984	1,492
Other (gains) losses - net (note 11 c)	(17)	24	84	26
Acquisition-related costs, integration costs and other costs (note 3)	1,291	403	1,781	436
Operating costs total	8,879	6,415	16,184	11,804
Loss before finance costs - net and income taxes	(596)	(171)	(1,210)	(54)
Finance income (note 14 a)	(15)	(10)	(29)	(17)
Finance costs	625	979	1,068	1,517
Finance costs - net	610	969	1,039	1,500
Loss before income taxes	(1,206)	(1,140)	(2,249)	(1,554)
Current income tax expense	(34)	3	(7)	6
Deferred tax recovery (expense)	(263)	69	(297)	(25)
	(297)	72	(304)	(19)
Net loss for the period	(909)	(1,212)	(1,945)	(1,535)
Basic and diluted net loss per share (note 12)	(0.014)	(0.027)	(0.033)	(0.036)
Weighted average number of shares outstanding (note 12)	66,609,371	45,449,856	58,584,479	42,797,035

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

For the three-month and six-month periods ended December 31, 2019 and 2018

(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2019	2018	2019	2018
Net loss for the period	(909)	(1,212)	(1,945)	(1,535)
Other comprehensive income - Items that may be reclassified subsequently to net earnings			\$	\$
Currency translation adjustments	(623)	2,052	(53)	1,197
Comprehensive earnings (loss) for the period	(1,532)	840	(1,998)	(338)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and six-month periods ended December 31, 2019 and 2018
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended		Six-month periods ended	
	2019	December 31, 2018	2019	December 31, 2018
	\$	\$	\$	\$
Operating activities				
Loss before income taxes for the period	(1,206)	(1,140)	(2,249)	(1,554)
Non-cash items				
Finance costs – net	610	969	1,039	1,500
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	691	288	1,380	567
Amortization of intangible assets	1,018	793	1,984	1,492
Changes in fair value of contingent consideration (note 9)	96	-	211	-
Others	43	29	30	15
Stock-based compensation costs	54	75	114	158
	1,306	1,014	2,509	2,178
Change in working capital items	(1,728)	1,189	(720)	719
Interests received	15	9	29	17
Income taxes paid	-	(109)	-	(113)
Net cash flows from (used in) operating activities	(407)	2,103	1,818	2,801
Investing activities				
Variation of guaranteed deposit certificate	-	(1)	-	(22)
Variation of other assets	39	6	(67)	33
Acquisition of property, plant and equipment	(358)	(304)	(627)	(641)
Acquisition of intangible assets	(15)	(10)	(140)	(88)
Proceeds from disposal of property, plant and equipment	(7)	-	(7)	77
Payment of contingent consideration (note 9)	(1,487)	-	(1,487)	-
Business combination (note 3)	(27,167)	(6,222)	(27,167)	(6,222)
Net cash flows used in investing activities	(28,995)	(6,531)	(29,495)	(6,863)
Financing activities				
Variation of bank loans	(1,221)	(598)	(1,309)	(712)
Long-term debt contracted (note 8)	12,084	5,310	12,396	5,555
Long-term debt reimbursement (note 8)	(1,033)	(6,362)	(1,751)	(7,004)
Payment of lease liabilities (note 2 a)	(335)	-	(581)	-
Interest paid	(565)	(937)	(1,006)	(1,466)
Financing costs	(341)	(279)	(341)	(279)
Issuance of common shares under private placement and public offering (note 10)	19,545	13,069	19,545	13,069
Share capital issued on warrants under private placement and public offering (note 10)	2,487	-	2,487	-
Shares issue expenses (note 10)	(1,635)	(704)	(1,635)	(704)
Net cash flows from financing activities	28,986	9,499	27,805	8,459
Net change in cash	(416)	5,071	128	4,397
Effect of exchange rate changes on the balance of cash held in foreign currencies	88	(120)	133	(167)
Increase (decrease) in cash	(328)	4,951	261	4,230
Cash – Beginning of period	6,795	1,017	6,206	1,738
Cash – End of period	6,467	5,968	6,467	5,968

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

H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation’s activities rely on three pillars, which are: i) water and wastewater projects, and services (“Projects and Aftermarket”); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) (“Specialty Products”); and iii) operation and maintenance services for water and wastewater 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 six-month period ended December 31, 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 February 11, 2020, 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.

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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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 %.

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

The following tables reconciles the right-of-use assets for the Corporation as of December 31, 2019:

Six-month period ended December 31, 2019	Buildings	Automotive equipment	Machinery and equipment	Total
				\$
Balance at July 1, 2019	7,862	127	787	8,776
Additions	256	-	-	256
Business acquisition	-	93	40	133
Depreciation of right-of-use assets	(532)	(42)	(51)	(625)
Effect of changes in exchange rates	(73)	(3)	(1)	(77)
Net book value as at December 31, 2019	7,513	175	775	8,463

The following table presents the lease liabilities for the Corporation as of December 31, 2019:

	Six-month period ended December 31, 2019
	\$
Balance at July 1, 2019	8,757
Additions	256
Business acquisition	133
Payment of lease liabilities	(760)
Interest expense on lease liabilities	179
Effect of changes in exchange rates	(86)
Lease liabilities as at December 31, 2019	8,479

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.

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

3. Business combination

A. Acquisition of Genesys

Description of the business combination

Effective on November 15, 2019, H₂O Innovation, through its wholly owned subsidiary H₂O Innovation UK Holding Limited, acquired, 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 speciality reverse osmosis (RO) membrane chemicals, antiscalants, cleaners, flocculants and biocides, as well as a 24% interest in Genesys Membrane Products S.L. held by Genesys International Limited. Genesys provides chemicals and services to the membrane industry in almost 70 countries around the world.

H₂O Innovation acquired Genesys for a purchase price of £16.9 M (\$28.5 M), on a cash-free, debt-free basis, fully paid on closing date and subject to customary working capital adjustments. The purchase price has been partially financed by a public offering of 13,335,000 units, each of which entitle the holder thereof to receive one common share (a "Common Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles its holder to purchase one common share of the Corporation (a "Warrant Share"), at a price of \$1.40 per Warrant Share. The units have been issued at a price of \$1.05 for aggregate gross proceeds of approximately \$14.0 M.

The purchase price has also been partially financed by a concurrent private placement, under which the Corporation and the co-lead underwriters entered into subscription agreements with certain institutional shareholders to issue, on a private placement basis, 7,647,619 units, each of which entitle the holder thereof to receive one Common Share and one-half of one common share purchase Warrant, for aggregate gross proceeds of approximately \$8.0 M. The private placement occurred concurrently with the public offering described above.

The purchase price has also been partially financed by a term loan in an amount of \$12.0 M, granted by National Bank of Canada as lender under the amended and restated credit agreement of the Corporation entered into on October 28, 2019 (the "Amended Credit Agreement"). The Corporation has drawn on such term loan the amount needed to supplement the purchase price.

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

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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The preliminary estimates of the fair value of assets acquired and liabilities assumed for the Genesys acquisition based on the estimated fair value on the date of acquisition and available information as at the date of the publication of these interim consolidated financial statements are as follow:

Estimated fair value recognized on acquisition date

November 15, 2019

(In thousands of Canadian dollars)

\$

Assets acquired

Cash and cash equivalents	1,739
Accounts receivable ⁽¹⁾	3,399
Inventory	675
Prepaid expenses	26
Property, plant and equipment	1,928
Right-of-use assets ⁽²⁾	133
Intangible assets	40
Other assets	6

Liabilities assumed

Accounts payable and accrued expenses	(2,367)
Lease liabilities ⁽²⁾	(133)
Deferred tax liabilities	(1,150)

Identifiable net tangible assets acquired

4,296

Intangible assets acquired ⁽³⁾	6,390
Goodwill arising on acquisition ⁽³⁾	19,181

Fair value of net assets acquired

29,867

Consideration

Cash	28,906
Working capital adjustment	961

Total consideration payable

29,867

Cash consideration paid	28,906
Less: Cash acquired	(1,739)

Net cash flow on acquisition

27,167

- (1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with nil of estimated uncollectible amount.
- (2) The Corporation measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.
- (3) The fair value of intangibles and goodwill is based on preliminary estimates. These preliminary estimates are subject to material adjustments until the valuation is completed.

Costs related to the acquisition

Transaction costs of \$1.8 M were expensed and are included in Acquisition-related costs, integration costs and other costs in the Consolidated Statements of Loss. The attributable costs of the issuance of the shares of \$1.8 M have been charged directly to equity as a reduction in the share capital in the Consolidated Statements of Changes in Shareholders' Equity.

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

Determination of fair value

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

The Corporation's preliminary valuation of intangible assets has identified client relationships. The assigned useful life to customer relationships has been estimated to 10 years. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's preliminary calculations, an amount of \$19.2 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition. These estimates are subject to change or revaluation by management.

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

The Corporation's net loss for the three-month and six-month periods ended December 31, 2019 include \$1.6 M in revenues and a \$0.4 M net profit generated from Genesys additional business.

If the business combination had been completed on July 1, 2019, the Corporation's consolidated revenues for the three-month period ended December 31, 2019 would have reached \$38.1 M and consolidated net earnings for the three-month period ended December 31, 2019 would have been \$0.2 M. For the six-month period ended December 31, 2019, consolidated revenues would have reached \$66.3 M, while the consolidated loss for the same period would have been (\$1.0 M).

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a three-month and a six-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition would have occurred on July 1, 2019, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit should Genesys had been acquired on July 1, 2019, the Corporation has:

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

B. Acquisition of Hays Utility South Corporation

Description of the business combination

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

H₂O Innovation acquired Hays for an initial cash consideration of \$6.0 M (US\$4.5 M), a working capital adjustment of \$0.2 M (US\$0.2 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a two-year period, was estimated at \$2.3 M (US\$1.8 M) using the Corporation's best estimate as at the acquisition date. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment amounting to \$0.2 M (US\$0.2 M) was finalized and has been paid by the Corporation as at June 30, 2019.

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

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

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

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

Since the initial allocation, the Corporation has determined the final working capital of the acquire and has also obtained evidence to evaluate the fair value of the tangible and intangible assets acquired. Considering 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 related to Hays and Genesys

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)
<hr/>	
Balance as at June 30, 2019	15,727
Plus: Business combination – Genesys	19,181
Effect of foreign exchange differences	(24)
<hr/>	
Balance as at December 31, 2019	34,884

4. Accounts receivable

As at	December 31,	June 30,
	2019	2019
	\$	\$
Trade accounts receivable	20,486	16,080
Retentions from customers under manufacturing contracts	2,166	3,253
Allowance for doubtful accounts	(60)	(65)
<hr/>		
	22,592	19,268
Other receivables	14	172
<hr/>		
	22,606	19,440

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

5. Inventories

As at	December 31, 2019	June 30, 2019
	\$	\$
Raw materials	724	847
Work in progress	370	262
Finished goods	6,291	5,630
	7,385	6,739

6. Bank loans

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement amending its existing credit agreement with respect to credit facilities aggregating an amount of up to \$34.0 M, including two (2) term loans in a maximum amount of \$17.0 M, which term loans are more fully-described in Note 8 – *Long-term debt*.

Under the Amended and Restated 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 \$6.2 M was used as at December 31, 2019. The interest rates on these amounts are distributed as follow:
 - a. \$3.1 M (\$3.5 M as at June 30, 2019) bearing interest at Banker Acceptance + 2.25 % (4.25 % as at December 31, 2019 and 4.00 % as at June 30, 2019);
 - b. \$nil (\$0.2 M as at June 30, 2019) bearing interest at CDN prime rate plus 1.00 % (4.70 % as at June 30, 2019); and
 - c. US\$2.4 M (\$3.1 M as at December 31, 2019 and \$3.8 M as at June 30, 2019) bearing interest at US\$ Libor plus 2.25 % (4.09 % as at December 31, 2019 and 4.40 % as at June 30, 2019).
- (ii) a letter of credit facility for a maximum amount of \$5.0 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 December 31, 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 \$1.9 M (\$0.8 M as at June 30, 2019) was used on this credit facility as at December 31, 2019.

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

- (i) a hedging facility of \$1.5 M, which was unused as at December 31, 2019; and
- (ii) a credit facility enabling the Corporation to use a maximum amount of \$0.4 M on credit cards for Corporation’s related expenses, from which an amount of \$0.1 M was used as at December 31, 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 \$75.0 M for each grantor, and (ii) immovable hypothec on all the real property owned by the Corporation.

Covenants

As at December 31, 2019, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 8 – *Long-term debt*.

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

7. Accounts payable and accrued liabilities

As at	December 31, 2019	June 30, 2019
	\$	\$
Trade accounts payable	6,277	4,876
Other accrued liabilities	8,283	7,388
	14,560	12,264

8. Long-term debt

As at	December 31, 2019	June 30, 2019
	\$	\$
<i>At amortized cost</i>		
Loan, denominated in Canadian dollars (a)(e)(f)	11,295	-
Loan, denominated in Canadian dollars (a)(e)(f)	3,351	3,980
Loan from other entities, denominated in Canadian dollars (b)(e)	2,175	2,444
Loans from other entities, denominated in US dollars (c)	1,125	1,125
Loans from other entities, denominated in Canadian dollars (d)	303	892
	18,249	8,441
Less: Current portion	3,171	1,863
Long-term debt	15,078	6,578

(a) Loans

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 2.25% (4.25 % as at December 31, 2019 and 4.00 % as at June 30, 2019) and an amount of \$343 bearing interest at prime rate plus 1.00% (4.95 % as at December 31, 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 \$164 (\$209 as at June 30, 2019).

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement amending its current credit agreement to add a term loan in an aggregate amount of up to \$12,000 to partially financed the acquisition of Genesys, extend the maturity of certain current facilities and further amend certain provisions of the existing credit agreement. On November 15, 2019, the Corporation requested a draw in the aggregate amount of \$12,000 comprised of an amount of \$11,600 bearing interest at Banker Acceptance rate plus 2.25% (4.26 % as at December 31, 2019) and an amount of \$400 bearing interest at prime rate plus 1.00% (4.95% as at December 31, 2019). This loan is payable in 32 quarterly instalments of \$375, principal only, and is maturing on September 30, 2027 (annual amortization of 12.5% per year of the principal amount). The loan is presented net of financing costs of \$330.

(b) Loan from other entities

On July 18, 2016, an agreement was concluded for a loan amounting to \$5,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (6.45 % as at December 31, 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 \$25 (\$31 as at June 30, 2019).

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

(c) Loans from other entities

As part of the acquisition of Hays, the Corporation has assumed loans totaling \$346 (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 \$1,361 (US\$1,042) 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 \$29 (US\$22), principal and interest, and are maturing through January 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
 - not more than 3.50:1.00 at all times until the end of the fiscal quarter ending June 30, 2020; and
 - not more than 3.00:1.00 at all times thereafter.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures greater than or equal to 1.20:1.00 at all times.

(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 December 31, 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)
<hr/>	
Balance as at June 30, 2019	2,503
Plus: Change in fair value of contingent consideration	211
Less: Payment of contingent consideration	(1,487)
Effect of foreign exchange differences	19
<hr/>	
Balance as at December 31, 2019	1,246

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

10. Capital stock

Private placement

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

On November 14, 2019, the Corporation issued, by way of a public offering, 13,335,000 units, with gross proceeds of \$12,421 and expenses of \$1,099 for net proceeds of \$11,322. The Corporation issued, by way of a concurrent private placement, 7,647,619 units for aggregate gross proceeds of \$7,124 and expenses of \$706 for net proceeds of \$6,418. The private placement occurred concurrently with the public offering described above. The Corporation used the proceeds to complete the acquisition of Genesys (note 3) and to support its working capital.

Warrants

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

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

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

On November 15, 2019, the Corporation issued an aggregate of 10,491,310 non-transferable warrants to the shareholders of the public offering and of the concurrent private placement to purchase one common share per warrant at a price of \$1.40, which warrants are effective until November 14, 2021. The Black & Scholes value was established at \$0.237 per warrant.

On November 15, 2019, the Corporation also issued an aggregate of 923,796 non-transferable warrants to the underwriters of the offering to purchase one common share per warrant at a price of \$1.40, which warrants are effective until May 14, 2021. The Black & Scholes value was established at \$0.184 per warrant.

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

	Shareholders	Underwriters
	November 15, 2019	November 15, 2019
Number of warrants	10,491,310	923,796
Expected dividend yield	0%	0%
Expected volatility	52.82%	51.50%
Risk-free interest rate	1.53%	1.53%
Expected life (years)	2	1.5
Fair value at the grant date	\$0.237	\$0.184

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Share capital

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

As at December 31, 2019, the Corporation has a total of 76,872,608 shares issued (55,889,989 as of June 30, 2019).

11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Material	10,173	10,148	18,212	18,416
Salaries and fringe benefits	15,229	12,479	29,256	22,849
Subcontractors and professional fees	2,665	2,249	4,698	4,262
Rent, electricity, insurance and office expenses	986	567	1,813	1,236
Telecommunications and travel expenses	810	1,127	1,556	2,029
Share based compensation	54	75	114	158
Other expenses	1,030	1,396	1,889	2,332
Total cost of goods sold, operating, selling and administrative expenses	30,947	28,041	57,538	51,282
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	691	288	1,380	567
Amortization of intangible assets	1,018	793	1,984	1,492
Costs including depreciation and amortization	32,656	29,122	60,902	53,341

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 and six-month periods ended December 31, 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		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of goods sold	625	240	1,253	471
General operating expenses	1	1	3	2
Selling expenses	26	11	51	23
Administrative expenses	39	36	73	71
	691	288	1,380	567

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

Amortization of intangible assets by function	Three-month periods ended		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of goods sold	223	149	446	296
Selling expenses	717	571	1,381	1,052
Administrative expenses	78	73	157	144
	1,018	793	1,984	1,492

Cost per function including depreciation and amortization	Three-month periods ended		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of goods sold	25,899	23,523	48,282	42,766
General operating expenses	1,699	1,247	3,086	2,576
Selling expenses	3,004	2,572	5,558	4,712
Administrative expenses	2,054	1,780	3,976	3,287
	32,656	29,122	60,902	53,341

c) Other (gains) losses - net

	Three-month periods ended		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Unrealized exchange (gain) loss	(241)	(11)	(344)	44
Realized exchange loss	87	50	194	11
Other (gains) losses	41	(15)	23	(29)
Changes in fair value of contingent consideration	96	-	211	-
	(17)	24	84	26

12. 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		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net loss	(\$909)	(\$1,212)	(\$1,945)	(\$1,535)
Basic and diluted weighted average number of share outstanding	66,609,371	45,449,856	58,584,479	42,797,035
Basic and diluted net loss per share	(\$0.014)	(\$0.027)	(\$0.033)	(\$0.036)

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

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.

	December 31, 2019	June 30, 2019
Stock options	2,511,334	2,554,334
Warrants	12,057,816	642,710

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

13. 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.

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

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 periods ended December 31, 2019			
	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenue from external customers:				
Revenue recognized overtime	4,038	-	15,575	19,613
Revenue recognized at a point in time	3,346	10,375	-	13,721
	7,384	10,375	15,575	33,334
Cost of goods sold	5,926	6,329	12,796	25,051
Gross profit before depreciation and amortization	1,458	4,046	2,779	8,283
General operating expenses	209	842	647	1,698
Selling expenses	898	974	389	2,261
Earnings before administrative costs (EBAC)	351	2,230	1,743	4,324
Administrative expenses				1,937
Depreciation of property, plant and equipment and right-of-use assets				691
Amortization of intangible assets				1,018
Other losses – net				(17)
Acquisition-related costs, integration costs and other costs				1,291
Finance costs – net				610
Loss before income taxes				(1,206)

	For the six-month period ended December 31, 2019			
	Projects and Aftermarket	Specialty Products	O&M	Total
	\$	\$	\$	\$
Revenue from external customers:				
Revenue recognized overtime	9,622	-	30,401	40,023
Revenue recognized at a point in time	5,967	15,567	-	21,534
	15,589	15,567	30,401	61,557
Cost of goods sold	12,466	9,305	24,812	46,583
Gross profit before depreciation and amortization	3,123	6,262	5,589	14,974
General operating expenses	411	1,436	1,236	3,083
Selling expenses	1,712	1,643	771	4,126
Earnings before administrative costs (EBAC)	1,000	3,183	3,582	7,765
Administrative expenses				3,746
Depreciation of property, plant and equipment and right-of-use assets				1,380
Amortization of intangible assets				1,984
Other losses – net				84
Acquisition-related costs, integration costs and other costs				1,781
Finance costs – net				1,039
Loss before income taxes				(2,249)

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

	For the three-month periods ended December 31, 2018			
	Projects and Aftermarket \$	Specialty Products \$	O&M \$	Total \$
Revenue from external customers:				
Revenue recognized overtime	8,570	-	11,640	20,210
Revenue recognized at a point in time	3,296	5,872	-	9,168
	11,866	5,872	11,640	29,378
Cost of goods sold	10,109	3,564	9,461	23,134
Gross profit before depreciation and amortization	1,757	2,308	2,179	6,244
General operating expenses	162	629	455	1,246
Selling expenses	880	807	303	1,990
Earnings before administrative costs (EBAC)	715	872	1,421	3,008
Administrative expenses				1,671
Depreciation of property, plant and equipment				288
Amortization of intangible assets				793
Other losses – net				24
Acquisition-related costs, integration costs and other costs				403
Finance costs – net				969
Loss before income taxes				(1,140)

	For the six-month period ended December 31, 2018			
	Projects and Aftermarket \$	Specialty Products \$	O&M \$	Total \$
Revenue from external customers:				
Revenue recognized overtime	16,274	-	21,533	37,807
Revenue recognized at a point in time	5,864	10,078	-	15,942
	22,138	10,078	21,533	53,749
Cost of goods sold	18,337	5,880	17,782	41,999
Gross profit before depreciation and amortization	3,801	4,198	3,751	11,750
General operating expenses	370	1,293	911	2,574
Selling expenses	1,616	1,386	635	3,637
Earnings before administrative costs (EBAC)	1,815	1,519	2,205	5,539
Administrative expenses				3,072
Depreciation of property, plant and equipment				567
Amortization of intangible assets				1,492
Other losses – net				26
Acquisition-related costs, integration costs and other costs				436
Finance costs – net				1,500
Loss before income taxes				(1,554)

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

Geographical information

	Three-month periods ended		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues from external customers				
Revenue according to geographic location				
Canada	3,488	4,561	7,018	8,753
United States	23,040	22,947	45,751	41,075
Spain	1,151	89	1,220	251
Chile	888	86	924	205
Saudi Arabia	1,596	6	2,061	88
Other	3,171	1,689	4,583	3,377
	33,334	29,378	61,557	53,749

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

As at	December 31,	June 30,
	2019	2019
	\$	\$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	8,196	7,006
United States	41,681	37,240
United Kingdom	27,617	-
	77,494	44,246

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

14. 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 \$1,031 as at December 31, 2019 (\$1,146 as at June 30, 2019).

An amount of \$8 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 December 31, 2019 and \$16 for the six-month period ended December 31, 2019 (\$8 for the three-month period ended December 31, 2018 and \$16 for the six-month period ended December 31, 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		Six-month periods ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Short-term benefits ⁽¹⁾	676	659	948	901
Post-employment benefits ⁽²⁾	36	33	72	61
Share-based payments	54	75	114	158
	766	767	1,134	1,120

⁽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.

15. Comparative figures

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

GENERAL INFORMATION

Board of Directors

Lisa Henthorne, Chairwoman of the Board of Directors ⁽¹⁾⁽³⁾

Robert Comeau, Director ⁽¹⁾⁽²⁾

Pierre Côté, Director⁽⁴⁾

Stéphane Guérin, Director

Frédéric Dugré, President, Chief Executive Officer and Director

Richard Hoel, Director and Vice Chairman of the Board of Directors ⁽¹⁾⁽²⁾⁽³⁾

René Vachon, Director⁽²⁾⁽³⁾

Management

Frédéric Dugré, President and Chief Executive Officer ⁽⁴⁾

Marc Blanchet, Chief Financial Officer

Guillaume Clairet, Chief Operating Officer ⁽⁴⁾

Edith Allain, Secretary

Denis Guibert, Vice President & Managing Director of WWTP⁽⁵⁾

Gregory Madden, Vice President & Managing Director of Aftermarket

Rock Gaulin, Vice President & Managing Director of Maple

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

⁽¹⁾ Executive Committee

⁽²⁾ Audit Committee

⁽³⁾ Governance, Remuneration and Risks Committee

⁽⁴⁾ Projects, Operation and Innovation Committee

⁽⁵⁾ Water and Wastewater Treatment Projects

⁽⁶⁾ Operation and Maintenance

Advisory Members

Elisa Speranza ⁽³⁾⁽⁴⁾

Leonard Graziano ⁽⁴⁾

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

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