Interim Financial Report
Third quarter ended
March 31, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the quarter ended March 31, 2020, in comparison with the corresponding period ended March 31, 2019. This MD&A should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the quarter ended March 31, 2020, as well as with the audited annual consolidated financial statements for the year ended June 30, 2019.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS, as listed 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")
- Earnings before impairment of intangible assets and goodwill
- Net debt
- Recurring revenues by nature

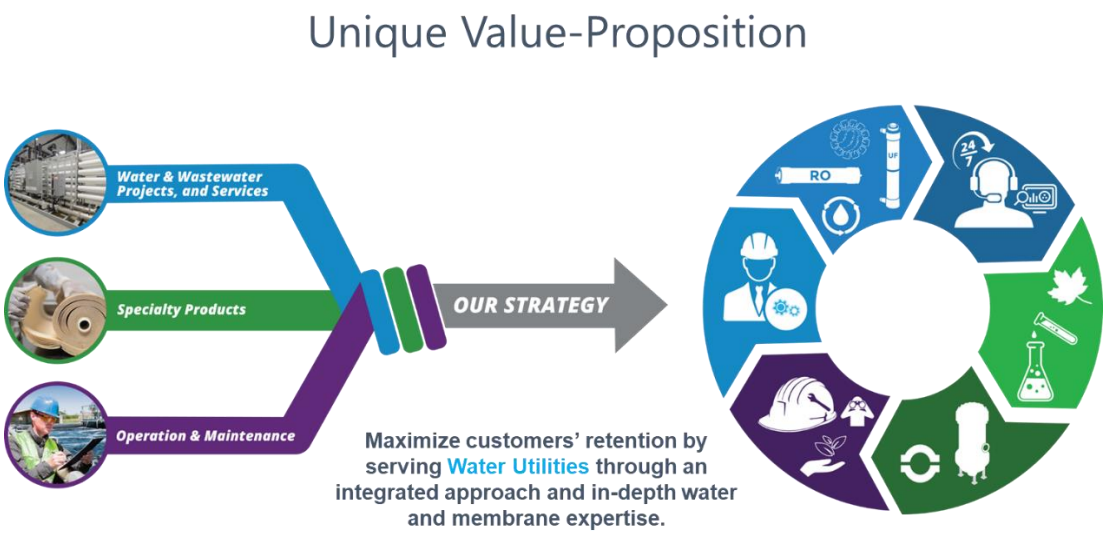
Definition of all non-IFRS measures and additional IFRS measures are provided in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Corporation presents a quantitative reconciliation of the non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS. Refer to Section "Non-IFRS financial measurements" on page 22 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used in this MD&A.

BUSINESS OF THE CORPORATION

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

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

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



OUR OPERATIONS UNDER THREE BUSINESS PILLARS

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

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

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

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

2ND PILLAR - SPECIALTY PRODUCTS

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

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

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

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")

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

Together, they operate more than 200 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 March 31, 2020
Compared with the three-month period ended March 31, 2019

Revenues	Recurring Revenues [3]	Recurring Revenues [3] (%)	Consolidated Backlog
$36.1 M	**$31.8 M**	**88.2 %**	**$143.8 M**
↑ $3.8 M or 11.6 %	↑ $5.3 M from $26.5 M	↑ from 81.9 %	↑ 3.7 % from $138.7 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
28.7 %	**18.8 %**	**$3.8 M**	**10.5 %**
↑ from 23.3 %	↑ from 17.0 %	↑ 71.9 % from $2.2 M	↑ from 6.8 %

Net earnings (loss)	Earnings before impairment [3]	Cash flows from operating activities	Net debt [3] [4]
($3.1 M)	**$1.6 M**	**$0.9 M**	**$18.1 M**
↓ 682.1 % from $0.5 M	↑ 206.4 % from $0.5 M	↑ 461.9 % from ($0.2 M)	↑ 85.2 % 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 22 of this MD&A.
(4) Compared with the year ended June 30, 2019.

KEY BUSINESS HIGHLIGHTS

Employees	Distributors by business line	Number of O&M contracts
631	**Maple - 47** **PWT - 27** **Genesys - 65** **Piedmont - 20**	**74**
↑ 2.3 % from 617		↓ from 76

THIRD QUARTER BUSINESS HIGHLIGHTS

- Since January 2020, the world has been impacted by the unprecedented and evolving COVID-19 pandemic. Being considered as an essential service provider, H_2O Innovation has been able to maintain its operations and maintenance activities, after-sales services, manufacturing and distribution of specialty chemicals, and design and manufacturing of components for desalination and maple farming equipment. Only the Projects business line was slowed down due to limited access to various construction sites. The Corporation will continue to adapt the work environments, encourage physical distancing and promote best hygiene practices, in response to the crisis.

  The internal COVID-19 intervention team (gathering top-management together with human resources, the legal department, operations and communications) continues to meet three times a week. The team is currently working, in collaboration with the managers of the different business lines, on a gradual return-to-work protocol for telework employees.

- Piedmont, H_2O Innovation's specialty products business line, and a global leader in corrosion resistant equipment for desalination plants in the industrial and municipal markets, secured several fiber reinforced polyester (FRP) cartridge filter housings and couplings orders, totalling $3.5 M.

  A purchase order was secured for the FRP filter housing scope for what will be the largest sea water reverse osmosis (SWRO) desalination plant in the World. Located in the Middle East, it will treat up to 900,000 m^3/day. For that same business line, Piedmont has also been awarded other major projects. In Tunisia more specifically, for the second time in a row, the team will be providing FRP filter housings for two (2) medium sized (50,000 m^3/day) SWRO desalination plants. The team will also deliver, in a couple of months, an important project in Saudi Arabi, that will include four (4) FRP units, treating a total of 24,480 m^3/day.

- On February 24, 2020, H_2O Innovation was proud to announce its nomination in two important categories at the Global Water Awards 2020, presented by Global Water Intelligence (GWI). The Corporation qualified among the finalists for Water Company of the year (the highest honor in the water treatment industry) as well as for Project of the Year, for its project with the City of Montevina, in California.

- During the third quarter of fiscal year 2020, the Corporation announced that it has been named to the 2020 OTCQX® Best 50, a ranking of top performing companies traded on the OTCQX Best Market last year.

  The OTCQX Best 50 is an annual ranking of the top 50 U.S. and international companies traded on the OTCQX market. The ranking is calculated based on an equal weighting of one-year total return and daily average dollar volume growth in the previous calendar year. Companies in the 2020 OTCQX Best 50 were ranked based on their performance in 2019.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements	Three-month periods ended March 31,				Nine-month periods ended March 31,			
	2020		2019[3]		**2020**		2019[3]	
	$	**% [1]**	$	% [1]	**$**	**% [1]**	$	% [1]
Revenues per business pillar								
Projects & Aftermarket	**6,726**	**18.7**	8,945	27.7	**22,316**	**22.9**	31,083	36.1
Specialty products	**12,893**	**35.8**	8,033	24.9	**28,459**	**29.2**	18,111	21.0
O&M	**16,442**	**45.6**	15,347	47.5	**46,843**	**48.0**	36,880	42.8
Total revenues	**36,061**	**100.0**	32,325	100.0	**97,618**	**100.0**	86,074	100.0
Revenues per geographic location								
Canada	**5,745**	**15.9**	4,858	15.0	**12,763**	**13.1**	13,611	15.8
United States	**22,337**	**61.9**	23,551	72.9	**68,088**	**69.7**	64,626	75.1
Others	**7,979**	**22.1**	3,916	12.1	**16,767**	**17.2**	7,837	9.1
Total revenues	**36,061**	**100.0**	32,325	100.0	**97,618**	**100.0**	86,074	100.0
Recurring revenues [2]	**31,796**	**88.2**	26,485	81.9	**83,731**	**85.8**	63,960	74.3
Cost of goods sold (COGS)	**25,725**	**71.3**	24,781	76.7	**72,308**	**74.1**	66,780	77.6
Gross profit before depreciation and amortization	**10,336**	**28.7**	7,544	23.3	**25,310**	**25.9**	19,294	22.4
General operating expenses	**1,775**	**4.9**	1,576	4.9	**4,858**	**5.0**	4,250	4.9
Selling expenses	**2,716**	**7.5**	1,923	5.9	**6,842**	**7.0**	5,560	6.5
Administrative expenses	**2,286**	**6.3**	2,002	6.2	**6,032**	**6.2**	4,974	5.8
Total SG&A	**6,777**	**18.8**	5,501	17.0	**17,732**	**18.2**	14,784	17.2
Depreciation and amortization	**1,841**	**5.1**	1,271	3.9	**5,205**	**5.3**	3,330	3.9
Finance costs – net	**469**	**1.3**	352	1.1	**1,508**	**1.5**	1,852	2.2
Other gains – net	**(377)**	**(1.0)**	(31)	(0.1)	**(293)**	**(0.3)**	(5)	(0.0)
Acquisition, integration and other related costs	**46**	**0.1**	129	0.4	**1,827**	**1.9**	565	0.7
Earnings (Loss) before income taxes and impairment	**1,580**	**4.4**	322	1.0	**(669)**	**(0.7)**	(1,232)	(1.4)
Impairment of intangibles assets and goodwill	**5,308**	**14.7**	-	-	**5,308**	**5.4**	-	-
Income Taxes	**(631)**	**(1.7)**	(210)	(0.6)	**(937)**	**(1.0)**	(229)	(0.3)
Net earnings (loss) for the period	**(3,097)**	**(8.6)**	532	1.6	**(5,040)**	**(5.2)**	(1,003)	(1.2)
Basic and diluted net earnings (loss) per share	**(0.040)**	**-**	0.010	-	**(0.079)**	**-**	(0.021)	-
EBITDA [2] before impairment	**3,890**	**10.8**	1,945	6.0	**6,044**	**6.2**	3,950	4.6
Adjusted EBITDA [2]	**3,775**	**10.5**	2,196	6.8	**7,692**	**7.9**	4,839	5.6

[1] % over revenues.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 22 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

Financial position and Cash flows	**March 31, 2020**	June 30, 2019[3]	Variation	
	$	$	$	%
Cash	**6,649**	6,206	443	7.1
Net debt [2]	**18,112**	9,780	8,332	85.2
Nine-month periods ended March 31,	**2020**	2019		
Net cash generated by operating activities	**2,701**	2,557	144	5.6
Consolidated backlog	**143,800**	138,700	5,100	3.7

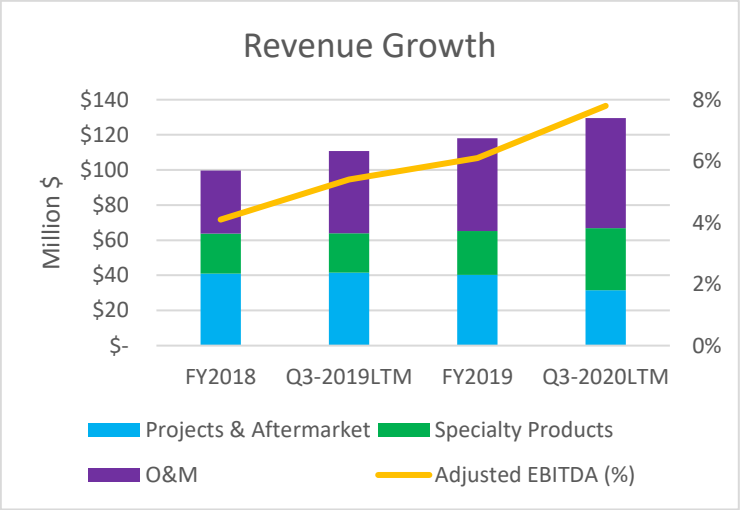
[1] % over revenues.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 22 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

QUARTERLY FINANCIAL INFORMATION

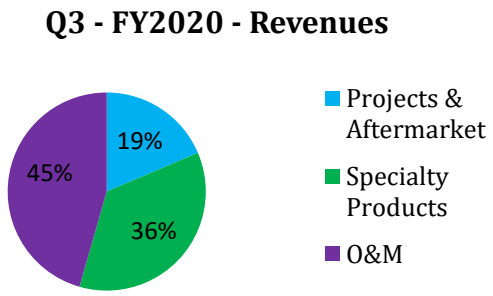
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	Last twelve months
	$	**$**	**$**	$	**$**
Revenues	**36,061**	33,334	28,223	31,884	129,502
EBITDA before impairment	**3,890**	1,113	1,065	1,689	7,757
Adjusted EBITDA	**3,775**	2,313	1,625	2,375	10,088
Adjusted EBITDA over revenues	**10.5 %**	6.9 %	5.8 %	7.4 %	7.8 %
Earnings (loss) before impairment	**1,630**	(909)	(1,033)	(1,177)	(1,489)
Net loss	**(3,097)**	(909)	(1,033)	(1,177)	(6,216)
Basic and diluted net loss per share	**(0.040)**	(0.014)	(0.019)	(0.021)	(0.094)
Cash flows from (used in) operating activities	**883**	(407)	2,224	3,204	5,904

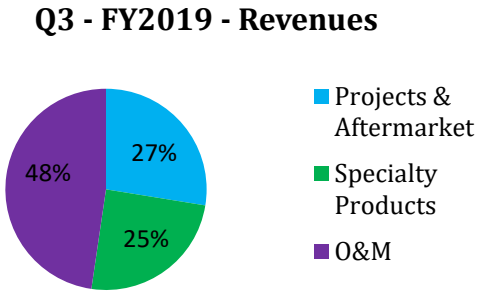
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	Previous twelve months
	$	$	$	$	**$**
Revenues	32,325	29,378	24,371	24,536	110,610
EBITDA before impairment	1,945	910	1,094	635	4,584
Adjusted EBITDA	2,196	1,377	1,265	1,099	5,937
Adjusted EBITDA over revenues	6.8 %	4.7 %	5.2 %	4.5 %	5.4 %
Earnings (loss) before impairment	532	(1,212)	(323)	(1,007)	(2,010)
Net earnings (loss)	532	(1,212)	(323)	(1,007)	(2,010)
Basic and diluted net earnings (loss) per share	0.010	(0.027)	(0.008)	(0.025)	(0.050)
Cash flows from (used in) operating activities	(244)	2,103	698	(1,987)	570

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 17.1 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $5.9 M, or 5.4 % of revenues to $10.1 M, or 7.8 % in the last twelve months, representing a 69.9 % improvement over a twelve-month period.



CONSOLIDATED REVENUES





Consolidated revenues from our three business pillars, for the three-month period ended on March 31, 2020, increased by $3.8 M, or 11.6 %, to reach $36.1 M compared to $32.3 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 $3.1 M in revenues during this quarter. The growth is also explained by the increase of $1.8 M coming from the organic growth of the Specialty Products business line and $1.1 M coming from O&M, partly offset by the decrease in revenues of $2.2 M from the Projects & Aftermarket. The increase is in line with our business plan to grow first the Specialty Products and O&M, as well as to 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, which was closed on November 15, 2019, strengthened H_2O Innovation's specialty chemicals business line in many ways. It enabled 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 enables H_2O Innovation to cover a wider range of applications related to membrane filtration, and thus, improve its specialty chemicals' sales. Second, it allows us to build one of the largest distribution platforms made of almost 100 distributors reselling our specialty chemicals. Finally, the acquisition of Genesys enables us to expend our manufacturing capabilities in order to ensure continuous manufacturing and supply of specialty chemicals to our customers. It also allows 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 March 31, 2020, recurring revenues represented 88.2 % of the Corporation's total revenues, compared to 81.9 % 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 March 31,				Nine-month periods ended March 31,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins before depreciation and amortization	**10,336**	7,544	2,792	37.0	**25,310**	19,294	6,016	31.2
Gross profit margins before depreciation and amortization (%)	**28.7 %**	23.3 %	-	-	**25.9 %**	22.4 %	-	-

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

The Corporation's gross profit margin before depreciation and amortization stood at $10.3 M, or 28.7 %, during the third quarter of fiscal year 2020, compared to $7.5 M, or 23.3 % for the previous fiscal year, representing an increase of $2.8 M, or 37.0 %. 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 third 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 cost of goods sold (COGS) expenses of $0.1 M for the third quarter of fiscal year 2020.

The Corporation's gross profit margin before depreciation and amortization stood at $25.3 M, or 25.9 %, for the nine-month period ended March 31, 2020, compared to $19.3 M, or 22.4 % for the same period of last fiscal year, representing an increase of $6.0 M, or 31.2 %. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of $0.4 M for the nine-month period ended March 31, 2020.

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

(In thousands of Canadian dollars)	Three-month periods ended March 31,				Nine-month periods ended March 31,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
General operating expenses	**1,775**	1,576	199	12.6	**4,858**	4,250	608	14.3
Selling expenses	**2,716**	1,923	793	41.2	**6,842**	5,560	1,282	23.1
Administrative expenses	**2,286**	2,002	284	14.2	**6,032**	4,974	1,058	21.3
SG&A expenses	**6,777**	5,501	1,276	23.2	**17,732**	14,784	2,948	19.9

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

The Corporation's SG&A reached $6.8 M during the third quarter of fiscal year 2020, compared to $5.5 M for the same period of the previous fiscal year, representing an increase of $1.3 M, or 23.2 %, while the revenues of the Corporation increased by 11.6 %. The acquisition of Genesys in the second quarter of this fiscal year contributed $0.7 M of this increase. The general increase of SG&A grew faster than the general level of revenues, mainly due to the first business pillar – Projects & Aftermarket, as the level of revenue decreased while the cost structure remained the same. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.2 M for the third quarter of fiscal year 2020, as lease expenses were reclassified to depreciation and amortization.

The Corporation's SG&A reached $17.7 M for the nine-month period ended March 31, 2020, compared to $14.8 M for the same period of the previous fiscal year, representing an increase of $2.9 M, or 19.9 %, while the revenues of the Corporation increased by 13.4 %. The general increase of SG&A grew faster than the general level of revenues, mainly due to the first business pillar – Projects & Aftermarket, as the level of revenue decreased while the cost structure remained the same. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.6 M for the nine-month period ended March 31, 2020. The acquisition of Genesys in the second quarter also contributed $1.0 M of this increase.

General operating expenses reached $1.8 M during the third quarter of fiscal year 2020, compared to $1.6 M for the same period of previous fiscal year, representing an increase of $0.2 M, or 12.6 %. The acquisition of Genesys contributed $0.2 M of this increase for the quarter. The adoption of IFRS 16 – *Leases* resulted in a decrease of the general operating expenses of $0.1 M for the third quarter of fiscal year 2020.

General operating expenses reached $4.9 M for the nine-month period ended March 31, 2020, compared to $4.3 M for the same period of previous fiscal year, representing an increase of $0.6 M, or 14.3 %. The acquisition of Genesys contributed $0.3 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 $0.3 M for the nine-month period ended March 31, 2020.

Selling expenses reached $2.7 M during the third quarter of fiscal year 2020, compared to $1.9 M for the same period of previous fiscal year, representing an increase of $0.8 M, or 41.2 %. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. This increase is explained by the increased level of revenues, impacting the level of commissions recorded. The acquisition of Genesys during the second quarter also contributed $0.4 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of $0.07 M for the third quarter of fiscal year 2020.

Selling expenses reached $6.8 M for the nine-month period ended March 31, 2020, compared to $5.6 M for the same period of previous fiscal year, representing an increase of $1.2 M, or 23.1 %. This increase is explained by the increased level of revenues, impacting the level of commissions and bonuses recorded, mainly in the Specialty Products business pillar. The acquisition of Genesys during the second quarter of this fiscal year also contributed $0.6 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of $0.2 M for the nine-month period ended March 31, 2020.

The administrative expenses reached $2.3 M during the third 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 14.2 %. The acquisition of Genesys on November 15, 2019 contributed $0.04 M of this increase, as well as hiring in the administrative team to support the growth. The creation of a new procurement department also contributed $0.1 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of $0.04 M for the third quarter of fiscal year 2020.

The administrative expenses reached $6.0 M for the nine-month period ended March 31, 2020, compared to $5.0 M for the same period of previous fiscal year, representing an increase of $1.0 M, or 21.3 %. Over the last months, the finance and legal department hired new resources to follow the growth of the company, as well as salary increases and bonus provision. Additional non- recurring professional fees of $0.2 M were engaged during the first quarter of this fiscal year to support the new accounting standard adoption (IFRS 15 - *Revenue from contracts with customers*) and the change in segment information. The acquisition of Genesys during the second quarter of this fiscal year also contributed $0.1 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of $0.1 M for the nine-month period ended March 31, 2020.

ACQUISITIONS, INTEGRATION AND OTHER RELATED COSTS

(In thousands of Canadian dollars)	Three-month periods ended March 31,				Nine-month periods ended March 31,			
	2020	2019	Variation		**2020**	2019	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition, integration and other related costs	**46**	129	(83)	(64.3)	**1,827**	565	1,262	223.4

The acquisition, integration and other related costs reached $0.05 M during the third quarter of fiscal year 2020, compared to $0.1 M for the same period of previous fiscal year, representing a decrease of $0.1 M, or 64.3 %.

The acquisition, integration and other related costs reached $1.8 M for the nine-month period ended March 31, 2020, compared to $0.6 M for the same period of previous fiscal year, representing an increase of $1.2 M, or 223.4 %. For fiscal

year 2019, the acquisition, integration and other related costs were related to the acquisition of Hays, while they are related to the acquisition of Genesys for fiscal year 2020.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

In the third quarter of fiscal year 2020, with the COVID-19 pandemic creating uncertainty over the world economic future, the Corporation performed an impairment test for its goodwill and intangible assets. The COVID-19 pandemic forced management to review the forecast of its business pillars with new growth assumptions, notably for its first business pillar, the Projects & Aftermarket – mostly impacted by projects being delayed or cancelled. As a result of this analysis, management recognised an impairment charge of $5.3 M against goodwill and intangible assets pertaining to the Projects & Aftermarket business pillar.

The decision to review to a lower percentage its growth perspective for the Projects & Aftermarket pillar, is in line with our strategic decision to further grow the Specialty Products and O&M first, then the Projects & Aftermarket, due to its unpredictability, challenging execution schedule and lower gross profit margins. For the past two years, the Corporation has strategically decided to target industrial and wastewater projects, which generally generate higher gross profit margins. This remain a focus for the Corporation, however, due to the crisis and uncertainties caused by COVID-19, the growth perspective associated to the Projects & Aftermarket have become less predictable and define in time. Hence, the business plan of this pillar has been revised, causing H_2O Innovation to adjust its growth projections for the first pillar, Projects & Aftermarket.

Management maintains its objective of improving the Corporation's profitability and will remain selective on the projects on which the Corporation intends to bid. Management also maintains its strategy, which aims at growing the second and third business pillars in order to continue to grow recurring revenues, in particular specialty products revenues, which are characterized by higher gross profit margin.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended March 31,				Nine-month periods ended March 31,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(14)**	(14)	-	-	**(43)**	(31)	(12)	38.7
Finance costs	**483**	366	117	32.0	**1,551**	1,883	(332)	(17.6)
Finance costs - net	**469**	352	117	33.2	**1,508**	1,852	(344)	(18.6)

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

Finance costs – net stood at $0.5 M for the third quarter of fiscal year 2020, compared with $0.4 M for the same period of previous fiscal year, representing an increase of $0.1 M, or 33.2 % 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 third quarter of this fiscal year.

Finance costs – net stood at $1.5 M for the nine-month period ended March 31, 2020 compared with $1.9 M for the same period of previous fiscal year, representing a decrease of $0.3 M, or 18.6 % 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. Moreover, the incremental interest accretion on lease liabilities from the adoption of IFRS 16 - *Leases* contributed to the finance costs in the amount of $0.3 M for the nine-month period ended March 31, 2020.

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 March 31,				Nine-month periods ended March 31,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA before impairment	**3,890**	1,945	1,945	100.0	**6,044**	3,950	2,094	53.0
Adjusted EBITDA	**3,775**	2,196	1,579	71.9	**7,692**	4,839	2,853	59.0
Adjusted EBITDA (%)	**10.5 %**	6.8 %	-	-	**7.9 %**	5.6 %	-	-

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

The Corporation's adjusted EBITDA increased by $1.6 M, or 71.9 %, to reach $3.8 M during the third quarter of fiscal year 2020, compared to $2.2 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 10.5 % for the third quarter of fiscal year 2020, compared to 6.8 % 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 $0.4 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 9.4 %.

The Corporation's adjusted EBITDA increased by $2.9 M, or 59.0 %, to reach $7.7 M for the nine-month period ended March 31, 2020, compared to $4.8 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 7.9 % for the nine-month periods ended March 31, 2020, compared to 5.6 % for the same period of last fiscal year. Furthermore, the adoption on July 1, 2019 of IFRS 16 - *Leases* contributed to reduce by $1.0 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 6.9 %.

NET EARNINGS (LOSS)

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended March 31,				Nine-month periods ended March 31,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings (loss)	**(3,097)**	532	(3,629)	682.1	**(5,040)**	(1,003)	(4,037)	(402.5)
Basic and diluted net loss per share	**(0.040)**	0.010	(0.050)	-	**(0.079)**	(0.021)	(0.058)	-
Earnings (loss) before impairment	**1,630**	532	1,098	206.4	**(313)**	(1,003)	690	(68.8)

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

The net loss is mainly due to the non-recurring and non-cash impairment of $5.3 M taken in the Projects & Aftermarket business pillar to reduce the value of the goodwill and intangible assets. The net loss amounted to ($3.1 M) or ($0.040) per share for the third quarter of fiscal year 2020 compared to net earnings of $0.5 M or $0.010 per share for the comparable quarter of fiscal year 2019. Without the impact of the non-recurring and non-cash impairment of $$5.3 M, the Corporation would present net earnings of $1.6 M for the three-month period ended March 31, 2020. The 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 amounted to ($5.0 M) or ($0.079) per share for the nine-month period ended March 31, 2020 compared to a net loss of ($1.0 M) or ($0.021) per share for the comparable period of fiscal year 2019. The net loss variation is mostly due to the impairment of $5.3 M taken in the Projects & Aftermarket business pillar to reduce the value of the goodwill and intangible assets. Without the impact of this non-recurring and non-cash impairment, the Corporation would present a net loss of ($0.3 M) for the nine-month period ended March 31, 2020. The net loss is also due to the acquisition, integration and other related costs in the amount of $1.8 M and 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 March 31, 2020, the combined backlog of secured contracts between Projects and O&M reached $143.8 M compared to $138.7 M as at March 31, 2019. 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 March 31, **2020**	2019	Variation	
	$	$	$	%
Projects	**40,900**	48,100	(7,200)	(15.0)
O&M [1]	**102,900**	90,600	12,300	13.6
Consolidated backlog	**143,800**	138,700	5,100	3.7

[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 15.0 % of its backlog as at March 31, 2020, 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: 38.5 % of the projects being wastewater as of March 31, 2020, compared to 37.7 % as of March 31, 2019. Backlog's diversification is also seen between industrial and municipal projects, with 30.8 % of the projects being industrial as of March 31, 2020, compared to 35.8 % as of March 31, 2019. 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.

On May 5, 2020, the Corporation announced the cancellation of a project worth $9.9 M, included in its backlog as at March 31, 2020 due to the denial of the permit for the desalination project. This cancellation, combined with the award of new contracts after March 31, 2020 totalling $2.3 M, brought the backlog to $33.3 M as at May 5, 2020.

Our backlog for the O&M business pillar stood at $102.9 M as at March 31, 2020, representing an increase of 13.6 % compare to the $90.6 M backlog as at March 31, 2019, 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 22 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 nine-month periods ended March 31, 2020 and 2019.

PROJECTS & AFTERMARKET

	Three-month periods ended March 31,				Nine-month periods ended March 31,			
(In thousands of Canadian dollars)	**2020**	2019[3]	Variation		**2020**	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Projects & Aftermarket	**6,726**	8,945	(2,219)	(24.8)	**22,316**	31,083	(8,767)	(28.2)
Cost of goods sold	**5,474**	7,516	(2,042)	(27.2)	**17,940**	25,853	(7,913)	(30.6)
Gross profit margins[1]	**1,252**	1,429	(177)	(12.4)	**4,376**	5,230	(854)	(16.3)
Gross profit margins (%)	**18.6 %**	16.0 %	-	-	**19.6 %**	16.8 %	-	-
General operating expenses	**188**	217	(29)	(13.4)	**599**	587	12	2.0
Selling expenses	**1,011**	760	251	33.0	**2,723**	2,376	347	14.6
EBAC[2] from Projects & Aftermarket	**53**	452	(399)	(88.3)	**1,054**	2,267	(1,213)	(53.5)
EBAC[2] over revenues from Projects & Aftermarket	**0.8 %**	5.1 %	-	-	**4.7 %**	7.3 %	-	-

Projects & Aftermarket revenues stood at $6.7 M during the third quarter of fiscal year 2020, compared to $8.9 M for the same quarter of last fiscal year, representing a $2.2 M, or 24.8 % 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 $22.3 M for the nine-month period ended March 31, 2020, compared with $31.1 M for the same period of fiscal year, representing a decrease of $8.8 M, or 28.2 %. The Corporation is also suffering from delays on some specific contracts. These delays are out of our control and do not represent a loss in revenues. The projects will resume whenever possible and revenues will be recognized in subsequent quarters.

The gross profit margins before depreciation and amortization stood at $1.3 M, or 18.6 % for the third quarter of fiscal year 2020, compared with $1.4 M, or 16.0 % for the same quarter of last fiscal year, representing an improvement of the

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 22 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

gross profit margin in % over revenues. The gross profit margins before depreciation and amortization stood at $4.4 M, or 19.6 % for the nine-month period ended March 31, 2020, compared with $5.2 M, or 16.8 % for the same period of last fiscal year, representing an improvement of the gross profit margin in % over revenues.

The general operating expenses and selling expenses stood at $1.2 M during the third quarter of fiscal year 2020, compared to $1.0 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 $3.3 M for the nine-month period ended March 31, 2020, compared to $3.0 M, for the same period of last fiscal year, representing an increase of $0.3 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 $0.1 M during the third quarter of fiscal year 2020, compared to $0.5 M for the same quarter of last fiscal year, representing a decrease of $0.4 M, or 88.3 %. 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 $1.1 M for the nine-month period ended March 31, 2020, compared to $2.3 M for the same period of last fiscal year, representing a decrease of $1.2 M, or 53.5 %.

SPECIALTY PRODUCTS

	Three-month periods ended March 31,				Nine-month periods ended March 31,			
(In thousands of Canadian dollars)	**2020**	2019[3]	Variation		**2020**	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**12,893**	8,033	4,860	60.5	**28,459**	18,111	10,348	57.1
Cost of goods sold	**7,037**	4,918	2,119	43.1	**16,342**	10,798	5,544	51.3
Gross profit margins[1]	**5,856**	3,115	2,741	88.0	**12,117**	7,313	4,804	65.7
Gross profit margins[1] (%)	**45.4 %**	38.8 %	-	-	**42.6 %**	40.4 %	-	-
General operating expenses	**996**	600	396	66.0	**2,432**	1,893	539	28.5
Selling expenses	**1,299**	856	443	51.8	**2,942**	2,242	700	31.2
EBAC[2] from Specialty Products	**3,561**	1,659	1,902	114.6	**6,743**	3,178	3,565	112.2
EBAC[2] over revenues from Specialty Products	**27.6 %**	20.7 %	-	-	**23.7 %**	17.5 %	-	-

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 $12.9 M during the third quarter of fiscal year 2020, compared to $8.0 M for the same quarter of last fiscal year, representing an increase of $4.9 M, or 60.5 %. Of this $4.9 M revenue increase, $3.1 M is attributable to the acquisition of Genesys, effective November 15, 2019. The increase in revenues for this business pillar is also supported by significant orders delivered during this quarter for our Piedmont's business line. Specialty Products revenues stood at $28.5 M for the nine-month period ended March 31, 2020, compared to $18.1 M for the same period of last fiscal year, representing an increase of $10.4 M, or 57.1 %. Of this $10.4 M revenue increase, $4.7 M is attributable to the acquisition of Genesys and is representing 4.5 months of revenues following Genesys' acquisition effective November 15, 2019. The increase is also supported by significant sales from our Piedmont business line and by the Maple season, as maple syrup producers are experiencing a healthier year resulting in a higher production, thus increasing the investments they can spend in new capital equipment purchase.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 22 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

The gross profit margins before depreciation and amortization stood at $5.9 M, or 45.4 % for the third quarter of fiscal year 2020, compared with $3.1 M, or 38.8 % for the same quarter of last fiscal year, representing an increase of $2.8 M in dollar, as well as an increase of the gross profit margin in %. The gross profit margin increased by 88.0% while the revenues increased by 60.5 %. The gross profit margins before depreciation and amortization stood at $12.1 M, or 42.6 % for the nine-month period ended March 31, 2020, compared with $7.3 M, or 40.4 % for the same period of last fiscal year, representing an increase of $4.8 M in dollar, as well as an increase 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 $2.3 M during the third quarter of fiscal year 2020, compared to $1.5 M, for the same quarter of last fiscal year. The acquisition of Genesys contributed to $0.6 M of this increase. The general operating expenses and selling expenses stood at $5.4 M for the nine-month period ended March 31, 2020, compared to $4.1 M, for the same period of last fiscal year.

Specialty Products EBAC stood at $3.6 M during the third quarter of fiscal year 2020, compared to $1.7 M for the same quarter of last fiscal year, representing an increase of $1.9 M, or 114.6 %. Specialty Products EBAC stood at $6.7 M for the nine-month period ended March 31, 2020, compared to $3.2 M for the same period of last fiscal year, representing an increase of $3.5 M, or 112.2 %.

O&M

	Three-month periods ended March 31,				Nine-month periods ended March 31,			
(In thousands of Canadian dollars)	**2020**	2019[3]	Variation		**2020**	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**16,442**	15,347	1,095	7.1	**46,843**	36,880	9,963	27.0
Cost of goods sold	**13,214**	12,347	867	7.0	**38,026**	30,129	7,897	26.2
Gross profit margins[1]	**3,228**	3,000	228	7.6	**8,817**	6,751	2,066	30.6
Gross profit margins (%)	**19.6 %**	19.5 %	-	-	**18.8 %**	18.3 %	-	-
General operating expenses	**591**	759	(168)	(22.1)	**1,827**	1,770	57	3.2
Selling expenses	**406**	307	99	32.2	**1,177**	942	235	24.9
EBAC[2] from O&M	**2,231**	1,934	297	15.4	**5,813**	4,039	1,774	43.9
EBAC[2] over revenues from O&M	**13.6 %**	12.6 %	-	-	**12.4 %**	11.0 %	-	-

O&M revenues stood at $16.4 M during the third quarter of fiscal year 2020, compared to $15.3 M for the same quarter of last fiscal year, representing an increase of $1.1 M, or 7.1 %. This increase is due to organic growth seen in both Utility Partners and Hays. O&M revenues stood at $46.8 M for the nine-month period ended March 31, 2020, compared to $36.9 M for the same period of last fiscal year, representing an increase of $9.9 M, or 27.0 %. Hays, which was acquired during the second quarter of the previous fiscal year, contributed $16.1 M to the revenues of this business pillar during the nine-month period ended March 31, 2020 compared to $6.5 M for same period of fiscal year 2019.

The gross profit margins before depreciation and amortization stood at $3.2 M, or 19.6 % for the third quarter of fiscal year 2020, compared with $3.0 M, or 19.5 % for the same quarter of last fiscal year, representing an increase of $0.2 M, or 7.6 %. The gross profit margins before depreciation and amortization stood at $8.8 M, or 18.8 % for the nine-month period ended March 31, 2020, compared with $6.8 M, or 18.3 % for the same period of last fiscal year, representing an increase of $2.0 M, or 30.6 %.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 22 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

The general operating expenses and selling expenses stood at $1.0 M during the third quarter of fiscal year 2020, compared to $1.1 M, for the same quarter of last fiscal year, representing a decrease of $0.1 M. The general operating expenses and selling expenses stood at $3.0 M for the nine-month period ended March 31, 2020, compared to $2.7 M, for the same period of last fiscal year, representing an increase of $0.3 M.

O&M EBAC stood at $2.2 M during the third quarter of fiscal year 2020, compared to $1.9 M for the same quarter of last fiscal year, representing an increase of $0.3 M, or 15.4 %. O&M EBAC stood at $5.8 M for the nine-month period ended March 31, 2020, compared to $4.0 M for the same period of last fiscal year, representing an increase of $1.8 M, or 43.9 %.

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 nine-month periods ended March 31, 2020 and March 31, 2019 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended March 31,			Nine-month periods ended March 31,		
	2020	2019[1]	Variation	**2020**	2019[1]	Variation
	$	$	$	**$**	$	$
Cash flows from operating activities before change in working capital items	**4,005**	2,012	1,993	**6,514**	4,190	2,324
Change in working capital items	**(3,134)**	(2,269)	(865)	**(3,854)**	(1,550)	(2,304)
	871	(257)	1,128	**2,660**	2,640	20
Interests received / Income taxes paid	**12**	13	(1)	**41**	(83)	124
Cash flows from (used in) operating activities	**883**	(244)	1,127	**2,701**	2,557	144
Cash flows used in investing activities	**(316)**	(157)	(159)	**(29,811)**	(7,020)	(22,791)
Cash flows from (used in) financing activities	**(677)**	(112)	(565)	**27,128**	8,347	18,781
Effect of exchange rate changes on the balance of cash held in foreign currencies	**292**	244	48	**425**	77	348
Net change	**182**	(269)	451	**443**	3,961	(3,518)
Cash – Beginning of period	**6,467**	5,968	499	**6,206**	1,738	4,468
Cash – End of period	**6,649**	5,699	950	**6,649**	5,699	950

(1) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

Cash increased by $0.2 M during the third quarter of fiscal year 2020, compared with a decrease of ($0.3 M) for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities generated $0.9 M for the quarter ended March 31, 2020, compared to ($0.2 M) of cash flows used from operating activities during the same period of previous fiscal year. The increase in the cash flows from operating activities is coming from the improvement of the earnings before income taxes and impairment charges.

Cash flows from operating activities generated $2.7 M for the nine-month period ended March 31, 2020, compared to $2.6 M of cash flows generated from operating activities during the same period of previous fiscal year.

Cash Flows from Investing Activities

Investing activities used ($0.3 M) of cash flows for the quarter ended March 31, 2020, compared to ($0.2 M) of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to investments in property, plant and equipment and intangible assets of $0.3 M, compared with investments in property, plant and equipment and intangible assets of $0.2 M for the comparable quarter of the previous fiscal year.

Investing activities used ($29.8 M) of cash flows for the nine-month period ended March 31, 2020, compared to ($7.0 M) of cash flows used in investing activities during the same period of previous fiscal year. The variation is mainly attributable to the business acquisition of Genesys for $ 27.2 M and the payment of the contingent consideration $1.5 M related to the acquisition of Hays.

Cash Flows from Financing Activities

Financing activities used ($0.7 M) for the quarter ended March 31, 2020, compared to ($0.1 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation is partly attributable to the long-term debt reimbursement of $0.8 M this quarter, compared to a reimbursement of $0.5 M the same quarter of the previous fiscal year, as well as the adoption of IFRS 16 – *Leases*, which resulted in payment of lease liabilities of $0.3 M.

Financing activities generated $27.1 M for the nine-month period ended March 31, 2020, compared to $8.3 M of cash flows generated in financing activities during the same period of previous fiscal year. The variation is partly 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.

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between March 31, 2020 and June 30, 2019 for selected information:

(In thousands of Canadian dollars)	**March 31, 2020**	June 30, 2019	Variation	Explanations
	$	$	$	
Accounts receivable	**27,029**	19,440	7,589	The increase is mostly attributable to the acquisition of Genesys, adding $3.4 M in accounts receivable. The growth in Piedmont business line also added $2.5 M in additional receivables compared to June 30, 2019. Although the level of accounts receivable is higher than usual, significant accounts receivable are insured and have been collected in April 2020.
Inventories	**7,029**	6,739	290	The increase in inventory is due to the acquisition of Genesys, which contributed $0.6 M of this increase, while the inventory of the Maple business line has decreased, given that maple season is almost over.
Contract assets	**6,099**	5,880	219	The increase is generated by the difference between project advancement and project invoicing schedules from one project to the other.
Accounts payable and accrued liabilities	**14,368**	12,264	2,104	The increase is mainly due to the integration of Genesys, adding $1.0 M of accounts payable and accrued liabilities and a working capital adjustment payable of $1.0 M to complete the acquisition of Genesys.
Contract liabilities	**4,255**	3,111	1,144	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)	**March 31, 2020**	June 30, 2019[1]	Variation	
	$	$	$	%
Bank loans	**7,182**	7,545	(363)	(4.8)
Current portion of long-term debt	**2,809**	1,863	946	50.8
Long-term debt	**14,770**	6,578	8,192	124.5
Less: Cash	**(6,649)**	(6,206)	(443)	(7.1)
Net debt	**18,112**	9,780	8,332	85.2

[1] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

As at March 31, 2020, the net debt stood at $18.1 M, compared with $9.8 M as at June 30, 2019, representing a $8.3 M increase, or 85.2 %. This increase is mainly attributable to the term loan of $12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019, offset by the reimbursement of $0.4 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 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 March 31, 2020:

- 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 March 31, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2020, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $2.2 M which expire at various dates through fiscal year 2022. Of these letters of credit, $2.2 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, the stock-based compensation costs and the impairment of intangible assets and goodwill. 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 earnings (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 EARNINGS (LOSS) TO EBITDA AND TO ADJUSTED EBITDA

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
(In thousands of Canadian dollars)	**2020**	2019[1]	**2020**	2019[1]
	$	$	**$**	$
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Finance costs – net	**469**	352	**1,508**	1,852
Income taxes	**(631)**	(210)	**(937)**	(229)
Depreciation of property, plant and equipment	**702**	300	**2,082**	867
Amortization of intangible assets	**1,139**	971	**3,123**	2,463
Impairment of intangible assets and goodwill	**5,308**	-	**5,308**	-
EBITDA before impairment	**3,890**	1,945	**6,044**	3,950
Unrealized exchange (gain) loss	**(273)**	47	**(616)**	91
Stock-based compensation costs	**55**	75	**169**	233
Changes in fair value of the contingent consideration	**57**	-	**268**	-
Acquisition-related costs, integration costs and other costs	**46**	129	**1,827**	565
Adjusted EBITDA	**3,775**	2,196	**7,692**	4,839

[1] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

EARNINGS BEFORE ADMINISTRATIVE COSTS ("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 March 31, 2020	2019[1]	Nine-month periods ended March 31, 2020	2019[1]
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized overtime	**20,707**	21,187	**60,730**	58,994
Revenue recognized at a point in time	**15,354**	11,138	**36,888**	27,080
	36,061	32,325	**97,618**	86,074
Cost of goods sold	**25,725**	24,781	**72,308**	66,780
Gross profit before depreciation and amortization	**10,336**	7,544	**25,310**	19,294
General operating expenses	**1,775**	1,576	**4,858**	4,250
Selling expenses	**2,716**	1,923	**6,842**	5,560
Earnings before administrative costs (EBAC)	**5,845**	4,045	**13,610**	9,484

[1] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

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 22 of this MD&A for reconciliation.

EARNINGS (LOSS) BEFORE IMPAIRMENT

Earnings (loss) before impairment is defined as the net earnings (loss) before the impairment charges taken following the impairment test performed during the third quarter of fiscal year 2020. This non-IFRS measure is used by management to evaluate the results of the Corporation before this non-recurring item.

RECONCILIATION OF NET EARNINGS (LOSS) TO EARNINGS (LOSS) BEFORE IMPAIRMENT

(In thousands of Canadian dollars)	Three-month periods ended March 31, 2020	2019[1]	Nine-month periods ended March 31, 2020	2019[1]
	$	$	**$**	$
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Impairment of intangible assets and goodwill	**5,308**	-	**5,308**	-
Deferred tax impact on impairment	**(581)**	-	**(581)**	-
Earnings (loss) before impairment	**1,630**	532	**(313)**	(1,003)

[1] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.

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 March 31, 2020,**			
	Projects and Aftermarket	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	6,726	12,893	16,442	36,061
Recurring revenues	**2,461**	**12,893**	**16,442**	**31,796**

(In thousands of Canadian dollars)	**Nine-month period ended March 31, 2020,**			
	Projects and Aftermarket	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	22,316	28,459	46,843	97,618
Recurring revenues	**8,429**	**28,459**	**46,843**	**83,731**

(In thousands of Canadian dollars)	Three-month period ended March 31, 2019,			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenues	8,945	8,033	15,347	32,325
Recurring revenues	**3,105**	**8,033**	**15,347**	**26,485**

(In thousands of Canadian dollars)	Nine-month period ended March 31, 2019,			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenues	31,083	18,111	36,880	86,074
Recurring revenues	**8,969**	**18,111**	**36,880**	**63,960**

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, except for the update mentioned below.

On March 11, 2020 the World Health Organization (WHO) declared COVID-19 (Coronavirus) outbreak as a "pandemic", namely, the worldwide spread of a new disease. All countries where the Corporation does business have declared a state of emergency and/or state of public health emergency and implemented extraordinary measures to limit the spread of the COVID-19, such as stay-at-home orders and lockdowns. The outbreak and ensuing government restrictions raise corporate governance concerns and come with inherent commercial and operational risks due to potential disruptions to the Corporation's supply chains, instances of high absenteeism, and/or travel risks.

As a result of the COVID-19 pandemic, the Corporation has temporarily closed all of its offices in Canada, in the United States, in UK and in Spain and has transitioned all staff to work from home. Manufacturing facilities of specialty chemical products and assembling of water treatment systems remain open with a limited number of employees as well as the water and wastewater treatment plants where the Corporation provides operation and maintenance services as the activities of the Corporation are considered "essential services" by the different levels of government either in Canada, in the United States than in the UK. All sanitary rules and recommendations have been, and are still, strictly followed.

Ever-expanding governmental restrictions on travel, movement, and large gatherings have resulted in significant business interruptions and widespread event and travel cancellations resulting in adverse effects to the performance of the Corporation's stock liquidity and price. Further, there is no assurance that the ripple effect of COVID-19 will not continue to affect the performance of the Corporation for a considerable period of time in the future.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in Note 2 of 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 16 standard had an impact on the balance sheet and statement of loss as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense from the liability recorded.

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

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

- *Right-of-Use Assets*

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

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are amortized over the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes renewal options only if the Corporation is reasonably certain to exercise the options. Lease terms range from 1 to 14 years for buildings, 1 to 4 years for automotive equipment and 1 to 10 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 March 31, 2020:

Nine-month period ended March 31, 2020:	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,862	127	787	8,776
Additions	768	-	17	785
Business acquisition	-	93	34	127
Disposals and write-off	-	-	(32)	(32)
Depreciation of right-of-use assets	(816)	(69)	(76)	(961)
Effect of changes in exchange rates	426	11	4	441
Net book value as at March 31, 2020	**8,240**	**162**	**734**	**9,136**

The following table presents the lease liabilities for the Corporation as of March 31, 2020:

	Nine-month period ended March 31, 2020
	$
Balance at July 1, 2019	8,757
Additions	785
Business acquisition	127
Payment of lease liabilities	(1,173)
Interest expense on lease liabilities	256
Effect of changes in exchange rates	447
Lease liabilities as at March 31, 2020	**9,199**

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

The Corporation uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks and interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign location.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in

offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Corporation has only elected to designate hedging relationships with regards to interest rate swap contracts to mitigate the interest rate risk variation on long-term debt.

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 Corporation 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 March 31, 2020.

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 March 31, 2020, 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 March 31, 2020**	**Nine-month period ended March 31, 2020**
Results	**$**	**$**
Revenues	3,097	4,694
Net Earnings	783	1,192

Financial Position	**As at March 31, 2020** **$**
Current Assets	5,732
Non-Current Assets [1]	26,391
Current Liabilities	822
Non-Current Liabilities	83

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2020

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	March 31, 2020	June 30, 2019
	$	$
ASSETS (notes 7 and 9)		
Current assets		
Cash	**6,649**	6,206
Guaranteed deposit certificates	**22**	21
Accounts receivable (note 4)	**27,029**	19,440
Inventories (note 5)	**7,029**	6,739
Contract assets	**6,099**	5,880
Income taxes receivable	**181**	69
Prepaid expenses	**1,199**	768
	48,208	39,123
Non-current assets		
Property, plant and equipment	**7,803**	6,552
Intangible assets (notes 3 and 6)	**23,967**	21,967
Right-of-use assets (note 2 a)	**9,136**	-
Other assets	**349**	234
Related party loans receivable (note 15 a)	**1,250**	1,250
Goodwill (notes 3 and 6)	**33,431**	15,727
Deferred income tax assets	**114**	144
	124,258	84,997
LIABILITIES		
Current liabilities		
Bank loans (note 7)	**7,182**	7,545
Accounts payable and accrued liabilities (note 8)	**14,368**	12,264
Provisions	**163**	137
Contract liabilities	**4,255**	3,111
Contingent consideration (notes 3 and 10)	**1,402**	1,361
Current portion of long-term debt (note 9)	**2,809**	1,863
Current portion of lease liabilities (note 2 a)	**1,272**	-
	31,451	26,281
Non-current liabilities		
Long-term debt (note 9)	**14,770**	6,578
Deferred rent (note 2 a)	**-**	137
Contingent consideration (notes 3 and 10)	**-**	1,142
Lease liabilities (note 2 a)	**7,927**	-
	54,148	34,138
SHAREHOLDERS' EQUITY		
Share capital (notes 3 and 11)	**106,755**	89,057
Reserve - Stock options	**3,419**	3,250
Reserve – Warrants (notes 3 and 11)	**2,824**	167
Deficit	**(49,124)**	(44,084)
Accumulated other comprehensive income	**6,236**	2,469
	70,110	50,859
	124,258	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 nine-month periods ended March 31, 2020 and 2019
(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	-	-	233	-	-	-	233
Issuance of common shares under private placement (notes 3 and 11)	15,745,775	13,069	-	-	-	-	13,069
Issuance of warrants under private placement (notes 3 and 11)	-	-	-	167	-	-	167
Share issue expenses (notes 3 and 11)	-	(920)	-	-	-	-	(920)
Net loss for the period	-	-	-	-	(1,003)	-	(1,003)
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	662	662
Balance as at March 31, 2019	55,889,989	89,067	3,175	167	(42,907)	3,513	53,015
Balance as at July 1, 2019	**55,889,989**	**89,057**	**3,250**	**167**	**(44,084)**	**2,469**	**50,859**
Stock-based compensation costs	**-**	**-**	**169**	**-**	**-**	**-**	**169**
Issuance of common shares under private placement (notes 3 and 11)	**20,982,619**	**19,545**	**-**	**-**	**-**	**-**	**19,545**
Issuance of warrants under private placement and public offering (notes 3 and 11)	**-**	**-**	**-**	**2,657**	**-**	**-**	**2,657**
Share issue expenses (notes 3 and 11)	**-**	**(1,847)**	**-**	**-**	**-**	**-**	**(1,847)**
Net loss for the period	**-**	**-**	**-**	**-**	**(5,040)**	**-**	**(5,040)**
Other comprehensive loss – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**3,767**	**3,767**
Balance as at March 31, 2020	**76,872,608**	**106,755**	**3,419**	**2,824**	**(49,124)**	**6,236**	**70,110**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three-month and nine-month periods ended March 31, 2020 and 2019
(in thousands of Canadian dollars, except per share data) (Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Revenues (note 14)	**36,061**	32,325	**97,618**	86,074
Cost of goods sold (notes 12 a) and 14)	**25,725**	24,781	**72,308**	66,780
Gross profit before depreciation and amortization	**10,336**	7,544	**25,310**	19,294
General operating expenses (note 12 a)	**1,775**	1,576	**4,858**	4,250
Selling expenses (note 12 a)	**2,716**	1,923	**6,842**	5,560
Administrative expenses (note 12 a)	**2,286**	2,002	**6,032**	4,974
Depreciation of property, plant and equipment and right-of-use assets (notes 2 a) and 12)	**702**	300	**2,082**	867
Amortization of intangible assets (note 12)	**1,139**	971	**3,123**	2,463
Impairment of intangible assets and goodwill (note 6)	**5,308**	-	**5,308**	-
Other gains – net (note 12 c)	**(377)**	(31)	**(293)**	(5)
Acquisition-related costs, integration costs and other costs (note 3)	**46**	129	**1,827**	565
Operating costs total	**13,595**	6,870	**29,779**	18,674
Earnings (loss) before finance costs - net and income taxes	**(3,259)**	674	**(4,469)**	620
Finance income (note 15 a)	**(14)**	(14)	**(43)**	(31)
Finance costs	**483**	366	**1,551**	1,883
Finance costs – net	**469**	352	**1,508**	1,852
Earnings (loss) before income taxes	**(3,728)**	322	**(5,977)**	(1,232)
Current income tax expense (recovery)	**77**	(21)	**69**	(15)
Deferred tax recovery	**(708)**	(189)	**(1,006)**	(214)
	(631)	(210)	**(937)**	(229)
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Basic and diluted net earnings (loss) per share (note 13)	**(0.040)**	0.010	**(0.079)**	(0.021)
Weighted average number of shares outstanding (note 13)	**76,872,608**	55,889,989	**63,801,469**	47,969,005

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
For the three-month and nine-month periods ended March 31, 2020 and 2019
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
			$	$
Net earnings (loss) for the period	**(3,097)**	532	**(5,040)**	(1,003)
Other comprehensive income - Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**3,820**	(535)	**3,767**	662
Comprehensive earnings (loss) for the period	**723**	(3)	**(1,273)**	(341)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and nine-month periods ended March 31, 2020 and 2019
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Operating activities				
Earnings (loss) before income taxes for the period	**(3,728)**	322	**(5,977)**	(1,232)
Non-cash items				
Finance costs – net	**469**	352	**1,508**	1,852
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	**702**	300	**2,082**	867
Amortization of intangible assets	**1,139**	971	**3,123**	2,463
Impairment of intangible assets and goodwill (note 6)	**5,308**	-	**5,308**	-
Changes in fair value of contingent consideration (note 10)	**57**	-	**268**	-
Others	**3**	(8)	**33**	7
Stock-based compensation costs	**55**	75	**169**	233
	4,005	2,012	**6,514**	4,190
Change in working capital items	**(3,134)**	(2,269)	**(3,854)**	(1,550)
Interests received	**14**	14	**43**	31
Income taxes paid	**(2)**	(1)	**(2)**	(114)
Net cash flows from (used in) operating activities	**883**	(244)	**2,701**	2,557
Investing activities				
Variation of guaranteed deposit certificate	**-**	(1)	**-**	(23)
Variation of other assets	**(20)**	27	**(87)**	60
Acquisition of property, plant and equipment	**(271)**	(149)	**(898)**	(790)
Acquisition of intangible assets	**(21)**	(34)	**(161)**	(122)
Proceeds from disposal of property, plant and equipment	**(4)**	-	**(11)**	77
Payment of contingent consideration (note 10)	**-**	**-**	**(1,487)**	-
Business combination (note 3)	**-**	-	**(27,167)**	(6,222)
Net cash flows used in investing activities	**(316)**	(157)	**(29,811)**	(7,020)
Financing activities				
Variation of bank loans	**946**	733	**(363)**	21
Long-term debt contracted (note 9)	**44**	-	**12,440**	5,555
Long-term debt reimbursement (note 9)	**(837)**	(475)	**(2,588)**	(7,479)
Payment of lease liabilities (note 2 a)	**(336)**	-	**(917)**	-
Interest paid	**(439)**	(337)	**(1,445)**	(1,803)
Financing costs	**(12)**	16	**(353)**	(263)
Issuance of common shares under private placement and public offering (note 11)	**-**	-	**19,545**	13,069
Share capital issued on warrants under private placement and public offering (note 11)	**-**	-	**2,487**	-
Shares issue expenses (note 11)	**(43)**	(49)	**(1,678)**	(753)
Net cash flows from (used in) financing activities	**(677)**	(112)	**27,128**	8,347
Net change in cash	**(110)**	(513)	**18**	3,884
Effect of exchange rate changes on the balance of cash held in foreign currencies	**292**	244	**425**	77
Increase (decrease) in cash	**182**	(269)	**443**	3,961
Cash – Beginning of period	**6,467**	5,968	**6,206**	1,738
Cash – End of period	**6,649**	5,699	**6,649**	5,699

See accompanying notes to consolidated financial statements.

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

1. Description of business

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

2. Basis of preparation

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

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

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

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2019 and remained unchanged for the nine-month period ended March 31, 2020, except for the impairment of our assets and cash generating units (CGUs).

As a result of the continued and uncertain economic and business impact of the coronavirus disease 2019 ("COVID-19'') pandemic, we have reviewed the estimates, judgments and assumptions used in the preparation of our financial statements, including with respect to: the determination of whether indicators of impairment exist for our assets and CGUs and the underlying assumptions used in the measurement of the recoverable amount of such assets or CGUs. We have also assessed the impact of COVID-19 on the estimates and judgments used in connection with our measurement of deferred tax assets, the credit risk of our customers and the valuation of our inventory.

Except for impairment of our assets and CGUs, we determined that no significant revisions to such estimates, judgments or assumptions were required for these condensed interim consolidated financial statements. However, revisions may be required in future periods to the extent that the negative impacts on our business arising from COVID-19 continue or worsen. Any such revision (due to COVID-19 or otherwise) may result in, among other things, write-downs or impairments to our assets or CGUs, and/or adjustments to the carrying amount of our accounts receivable and/or inventories, or to the valuation of our deferred tax assets, any of which could have a material impact on our results of operations and financial condition. While we believe the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on our results of operations and financial condition, including the duration and effect of government-mandated production site closures and the impact on overall customer demand, cannot be reasonably estimated at this time.

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

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 May 12, 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.

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.

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

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 14 years for buildings, 1 to 4 years for automotive equipment and 1 to 10 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).

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

Impact on transition to IFRS 16 - Leases

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

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

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

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

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

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

The following tables reconciles the right-of-use assets for the Corporation as of March 31, 2020:

Nine-month period ended March 31, 2020	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,862	127	787	8,776
Additions	768	-	17	785
Business combination	-	93	34	127
Disposals and write-off	-	-	(32)	(32)
Depreciation of right-of-use assets	(816)	(69)	(76)	(961)
Effect of changes in exchange rates	426	11	4	441
Right-of-use assets – Net book value as at March 31, 2020	**8,240**	**162**	**734**	**9,136**

The following table presents the lease liabilities for the Corporation as of March 31, 2020:

	Nine-month period ended March 31, 2020
	$
Balance at July 1, 2019	8,757
Additions	785
Business combination	127
Payment of lease liabilities	(1,173)
Interest expense on lease liabilities	256
Effect of changes in exchange rates	447
Lease liabilities as at March 31, 2020	**9,199**

b) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks and interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in Other Comprehensive Income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign location.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Corporation has only elected to designate hedging relationships with regards to interest rate swap contracts to mitigate the interest rate risk variation on long-term debt.

c) Amendments issued to be adopted at a later date

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

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

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

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

3. Business combination

A. Acquisition of Genesys

Description of the business combination

Effective on November 15, 2019, H_2O Innovation, through its wholly owned subsidiary H_2O 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.

H_2O 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
(in thousands of Canadian dollars, except per share data) (Unaudited)

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

(In thousands of Canadian dollars)	November 15, 2019 $
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]	**127**
Intangible assets	**40**
Other assets	**6**
Liabilities assumed	
Accounts payable and accrued expenses	**(2,367)**
Lease liabilities [2]	**(127)**
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.

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Determination of fair value

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 nine-month periods ended March 31, 2020 include $3.1 M and $4.7 M in revenues and a $0.8 M and $1.2 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 March 31, 2020 would have reached $36.1 M and consolidated net loss for the three-month period ended March 31, 2020 would have been ($2.8). For the nine-month period ended March 31, 2020, consolidated revenues would have reached $102.3 M, while the consolidated net loss for the same period would have been ($3.8 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 nine-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.

H_2O Innovation acquired Hays for an initial cash consideration of $6.0 M (US$4.5 M), a working capital adjustment of $0.2 M (US$0.2 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a two-year period, was estimated at $2.3 M (US$1.8 M) using the Corporation's best estimate as at the acquisition date. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment amounting to $0.2 M (US$0.2 M) was finalized and has been paid by the Corporation as at June 30, 2019.

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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 H_2O Innovation's business model by adding recurring sales coming from O&M activities, which are predictable, and therefore counterbalances the less predictable revenues coming from sales of water treatment projects.

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

(In thousands of Canadian dollars)	**Final allocation**
	$
Assets acquired	
Cash	**457**
Accounts receivable [1]	**163**
Contract assets	**1,482**
Inventory	**156**
Property, plant and equipment	**1,064**
Other assets	**221**
Customer relationships	**6,424**
Non-compete agreements	**652**
Trademark	**-**
Liabilities assumed	
Accounts payable and accrued expenses	**(1,445)**
Notes payable	**(347)**
Deferred tax liabilities	**(1,667)**
Identifiable net assets acquired	**7,160**
Goodwill arising on acquisition	**1,328**
Fair value of net assets acquired	**8,488**
Consideration	
Cash	**5,954**
Fair value of contingent consideration payable	**2,299**
Working capital adjustment	**235**
Total consideration payable	**8,488**
Cash consideration paid	**5,954**
Working capital adjustment paid	**235**
Less: Cash acquired	**(457)**
Net cash flow on acquisition	**5,732**

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

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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)
Balance as at June 30, 2019	15,727
Plus: Business combination – Genesys	**19,181**
Less: Impairment of goodwill (note 6)	**(2,668)**
Effect of foreign exchange differences	**1,191**
Balance as at March 31, 2020	**33,431**

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4. Accounts receivable

As at	March 31, 2020	June 30, 2019
	$	$
Trade accounts receivable	**24,340**	16,080
Retentions from customers under manufacturing contracts	**2,158**	3,253
Allowance for doubtful accounts	**(124)**	(65)
	26,374	19,268
Other receivables	**655**	172
	27,029	19,440

5. Inventories

As at	March 31, 2020	June 30, 2019
	$	$
Raw materials	**506**	847
Work in progress	**205**	262
Finished goods	**6,318**	5,630
	7,029	6,739

6. Impairment testing of goodwill and intangible assets

The Corporation performs its annual impairment test on April 1st of each year and when circumstances indicated that the carrying value may be impaired. The Corporation's impairment test for goodwill and intangible assets with indefinite lives is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units ("CGU") were disclosed in the annual consolidated financial statements for the year ended June 30, 2019.

The Corporation considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at March 31, 2020, the market capitalisation of the Corporation was below the book value of its equity, indicating a potential impairment of goodwill. In addition, the recent outbreak of COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. The overall decline in global equity markets, as well as ongoing economic uncertainty, impacted the Corporation's business pillars differently, depending on their respective activities, their geographical location and their supply chains. As a result, management performed an impairment test as at March 31, 2020 for each group of CGU.

Projects & Aftermarket group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 13.7 % (June 30, 2019: 18.5 %) was applied. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate (June 30, 2019: 3.0 %). All other assumptions remained consistent with those disclosed in the annual financial statements for the year ended June 30, 2019. As a result of this analysis, management recognised an impairment charge of $2.7 M against goodwill and $2.6 M against intangible assets previously carried at $2.7 M and $2.6 M respectively. The impairment charge is recorded as impairment of intangible assets and goodwill in the statement of profit or loss.

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Specialty Products group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 14.4 % (June 30, 2019: 18.1 %) was applied. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate (June 30, 2019: 3.0 %). All other assumptions remained consistent with those disclosed in the annual financial statements for the year ended June 30, 2019. As a result of the updated analysis, management did not identify an impairment for this cash-generating unit to which goodwill and intangible assets of $33.1 M is allocated.

O&M group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 13.3 % (June 30, 2019: 16.4 %) was applied. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate (June 30, 2019: 3.0 %). All other assumptions remained consistent with those disclosed in the annual financial statements for the year ended June 30, 2019. As a result of the updated analysis, management did not identify an impairment for this cash-generating unit to which goodwill and intangible assets of $24.4 M is allocated.

Sensitivity to changes in assumptions
For the Projects & Aftermarket group of CGUs, if the discount rate had increased by 1.0% for each identifiable CGU or group of CGUs compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be no additional impairment. If the growth rate had decreased by 1.0% for each identifiable CGU or group of CGUs compared to the assumption taken by the Corporation, there would be no additional impairment.

For the Specialty Products and O&M group of CGUs, there are no significant changes to the sensitivity information disclosed in the annual consolidated financial statements for the year ended June 30, 2019.

7. 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 9 – *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 $7.2 M was used as at March 31, 2020. The interest rates on these amounts are distributed as follow:
   - *a.* $2.9 M ($3.5 M as at June 30, 2019) bearing interest at Banker Acceptance + 2.25 % (3.95 % as at March 31, 2020 and 4.00 % as at June 30, 2019);
   - *b.* $0.2 M ($0.2 M as at June 30, 2019) bearing interest at CDN prime rate plus 1.00 % (3.45 % as at March 31, 2020 and 4.70 % as at June 30, 2019);
   - *c.* US$2.4 M ($3.4 M as at March 31, 2020 and $3.8 M as at June 30, 2019) bearing interest at US$ Libor plus 2.25 % (3.17 % as at March 31, 2020 and 4.40 % as at June 30, 2019); and
   - *d.* US$0.5 M ($0.7 M as at March 31, 2020 and $nil as at June 30, 2019) bearing interest at US$ base rate plus 1.00% (4.75 % as at March 31, 2020).

(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 $2.2 M ($0.8 M as at June 30, 2019) was used as at March 31, 2020.

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, from which an amount of $0.5 M was used as at March 31, 2020 (unused as at June 30, 2019); and

(ii) a credit facility enabling the Corporation to use a maximum amount of $0.4 M on credit cards for Corporation's related expenses, from which an amount of $0.1 M was used as at March 31, 2020 ($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 March 31, 2020, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 9 – *Long-term debt*.

8. Accounts payable and accrued liabilities

As at	**March 31, 2020**	June 30, 2019
	$	$
Trade accounts payable	**5,053**	4,876
Other accrued liabilities	**9,315**	7,388
	14,368	12,264

9. Long-term debt

As at	**March 31, 2020**	June 30, 2019
	$	$
At amortized cost		
Loans, denominated in Canadian dollars (a)(e)(f)	**14,063**	3,980
Loan from other entities, denominated in Canadian dollars (b)(e)	**2,040**	2,444
Loans from other entities, denominated in US dollars (c)	**1,187**	1,125
Loans from other entities, denominated in Canadian dollars (d)	**289**	892
	17,579	8,441
Less: Current portion	**2,809**	1,863
Long-term debt	**14,770**	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% (3.91 % as at March 31, 2020 and 4.00 % as at June 30, 2019) and an amount of $343 bearing interest at prime rate plus 1.00% (3.45 % as at March 31, 2020 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 $143 ($209 as at June 30, 2019).

The Corporation contracted interest rate swap, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap with notional amount of $3.4 M as at February 28, 2020, the Corporation pays fixed interest rate of 1.94% plus a premium of 2.25% based on a financial ratio. As at March 31, 2020, the fair value of this swap was nil. This interest rate swap has been designated as hedging item.

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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% (3.91 % as at March 31, 2020) and an amount of $400 bearing interest at prime rate plus 1.00% (3.45 % as at March 31, 2020). 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 $321.

The Corporation contracted interest rate swap, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap with notional amount of $11.6 M as at February 5, 2020, the Corporation pays fixed interest rate of 1.94% plus a premium of 2.25% based on a financial ratio. As at March 31, 2020, the fair value of this swap amounted to nil. This interest rate swap has been designated as hedging item.

(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% (4.95 % as at March 31, 2020 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. On March 24, 2020, the Corporation amended the loan agreement with new terms of reimbursement allowing the Corporation to postpone capital repayment until January 14, 2021. The final maturity date was amended for September 14, 2024. The loan is presented net of financing costs of $22 ($31 as at June 30, 2019).

(c) Loans from other entities
As part of the acquisition of Hays, the Corporation has assumed loans totaling $373 (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 $13 (US$9), principal and interest, and are maturing through February 2019 to July 2022.

The Corporation acquired financing agreements totaling $1,510 (US$1,073) 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 $31 (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 March 31, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

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10. Contingent consideration

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

	$
Balance as at June 30, 2018	-
Contingent consideration – Hays (note 3)	2,299
Plus: Change in fair value of contingent consideration	248
Effect of foreign exchange differences	(44)
Balance as at June 30, 2019	2,503
Plus: Change in fair value of contingent consideration	**268**
Less: Payment of contingent consideration	**(1,487)**
Effect of foreign exchange differences	**118**
Balance as at March 31, 2020	**1,402**

11. 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 $1,126 for net proceeds of $11,295. The Corporation issued, by way of a concurrent private placement, 7,647,619 units for aggregate gross proceeds of $7,124 and expenses of $721 for net proceeds of $6,403. 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**
Total value of warrants granted	**$167**

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.

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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 November 15, 2019	Underwriters 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**
Total value of warrants granted	**$2,487**	**$170**

Share capital

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

As at March 31, 2020, the Corporation has a total of 76,872,608 shares issued (55,889,989 as of June 30, 2019).

12. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Material	**10,857**	10,266	**29,069**	28,682
Salaries and fringe benefits	**17,022**	14,340	**46,278**	37,189
Subcontractors and professional fees	**1,745**	1,179	**6,443**	5,441
Rent, electricity, insurance and office expenses	**1,073**	779	**2,886**	2,015
Telecommunications and travel expenses	**811**	1,068	**2,367**	3,097
Share based compensation	**55**	75	**169**	233
Bad debt expenses	**70**	20	**70**	20
Other expenses	**869**	2,555	**2,758**	4,887
Total cost of goods sold, operating, selling and administrative expenses	**32,502**	30,282	**90,040**	81,564
Depreciation of property, plant and equipment and right-of-use assets (note 2 a)	**702**	300	**2,082**	867
Amortization of intangible assets	**1,139**	971	**3,123**	2,463
Costs including depreciation and amortization	**34,343**	31,553	**95,245**	84,894

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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 nine-month periods ended March 31, 2020 and 2019; 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 March 31,**		**Nine-month periods ended March 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Cost of goods sold	**638**	248	**1,891**	719
General operating expenses	**1**	1	**4**	3
Selling expenses	**25**	14	**76**	37
Administrative expenses	**38**	37	**111**	108
	702	300	**2,082**	867

Amortization of intangible assets by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Cost of goods sold	**226**	150	**672**	446
Selling expenses	**835**	749	**2,217**	1,801
Administrative expenses	**78**	72	**234**	216
	1,139	971	**3,123**	2,463

Cost per function including depreciation and amortization	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Cost of goods sold	**26,589**	25,179	**74,871**	67,945
General operating expenses	**1,776**	1,577	**4,862**	4,253
Selling expenses	**3,576**	2,686	**9,135**	7,398
Administrative expenses	**2,402**	2,111	**6,377**	5,298
	34,343	31,553	**95,245**	84,894

c) Other gains – net

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	**$**
Unrealized exchange (gain) loss	**(273)**	47	**(616)**	91
Realized exchange (gain) loss	**(144)**	(73)	**50**	(62)
Other (gains) losses	**(17)**	(5)	**5**	(34)
Changes in fair value of contingent consideration	**57**	-	**268**	-
	(377)	(31)	**(293)**	(5)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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13. Net earnings (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 March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
Net earnings (loss)	**($3,097)**	$532	**($5,040)**	($1,003)
Basic and diluted weighted average number of share outstanding	**76,872,608**	55,889,989	**63,801,469**	47,969,005
Basic and diluted net earnings (loss) per share	**($0.040)**	$0.010	**($0.079)**	($0.021)

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.

	March 31, 2020	June 30, 2019
Stock options	**2,511,334**	2,554,334
Warrants	**12,057,816**	642,710

For the three-month and nine-month periods ended March 31, 2020 and 2019, the diluted net earnings (loss) per share was the same as the basic net earnings (loss) per share, since the effect of stock options and warrants would have been anti-dilutive. Accordingly, the diluted net earnings (loss) per share for these periods is calculated using the basic weighted average number of shares outstanding.

14. 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
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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 March 31, 2020			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	4,265	-	16,442	20,707
Revenue recognized at a point in time	2,461	12,893	-	15,354
	6,726	12,893	16,442	36,061
Cost of goods sold	5,474	7,037	13,214	25,725
Gross profit before depreciation and amortization	1,252	5,856	3,228	10,336
General operating expenses	188	996	591	1,775
Selling expenses	1,011	1,299	406	2,716
Earnings before administrative costs (EBAC)	53	3,561	2,231	5,845
Administrative expenses				2,286
Depreciation of property, plant and equipment and right-of-use assets				702
Amortization of intangible assets				1,139
Impairment of intangible assets and goodwill				5,308
Other gains – net				(377)
Acquisition-related costs, integration costs and other costs				46
Finance costs – net				469
Earnings (loss) before income taxes				(3,728)

	For the nine-month period ended March 31, 2020			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	13,887	-	46,843	60,730
Revenue recognized at a point in time	8,429	28,459	-	36,888
	22,316	28,459	46,843	97,618
Cost of goods sold	17,940	16,342	38,026	72,308
Gross profit before depreciation and amortization	4,376	12,117	8,817	25,310
General operating expenses	599	2,432	1,827	4,858
Selling expenses	2,723	2,942	1,177	6,842
Earnings before administrative costs (EBAC)	1,054	6,743	5,813	13,610
Administrative expenses				6,032
Depreciation of property, plant and equipment and right-of-use assets				2,082
Amortization of intangible assets				3,123
Impairment of intangible assets and goodwill				5,308
Other gains – net				(293)
Acquisition-related costs, integration costs and other costs				1,827
Finance costs – net				1,508
Earnings (loss) before income taxes				(5,977)

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

	For the three-month periods ended March 31, 2019			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	5,840	-	15,347	21,187
Revenue recognized at a point in time	3,105	8,033	-	11,138
	8,945	8,033	15,347	32,325
Cost of goods sold	7,516	4,918	12,347	24,781
Gross profit before depreciation and amortization	1,429	3,115	3,000	7,544
General operating expenses	217	600	759	1,576
Selling expenses	760	856	307	1,923
Earnings before administrative costs (EBAC)	452	1,659	1,934	4,045
Administrative expenses				2,002
Depreciation of property, plant and equipment				300
Amortization of intangible assets				971
Other gains – net				(31)
Acquisition-related costs, integration costs and other costs				129
Finance costs – net				352
Earnings (loss) before income taxes				322

	For the nine-month period ended March 31, 2019			
	Projects and Aftermarket	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized overtime	22,114	-	36,880	58,994
Revenue recognized at a point in time	8,969	18,111	-	27,080
	31,083	18,111	36,880	86,074
Cost of goods sold	25,853	10,798	30,129	66,780
Gross profit before depreciation and amortization	5,230	7,313	6,751	19,294
General operating expenses	587	1,893	1,770	4,250
Selling expenses	2,376	2,242	942	5,560
Earnings before administrative costs (EBAC)	2,267	3,178	4,039	9,484
Administrative expenses				4,974
Depreciation of property, plant and equipment				867
Amortization of intangible assets				2,463
Other gains – net				(5)
Acquisition-related costs, integration costs and other costs				565
Finance costs – net				1,852
Earnings (loss) before income taxes				(1,232)

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

Geographical information

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Revenues from external customers				
Revenue according to geographic location				
Canada	**5,745**	4,858	**12,763**	13,611
United States	**22,337**	23,551	**68,088**	64,626
Spain	**1,384**	674	**2,604**	925
China	**1,347**	819	**1,966**	1,571
United Arab Emirates	**947**	56	**1,102**	1,068
Saudi Arabia	**284**	100	**2,345**	188
Korea	**305**	1,340	**486**	1,497
Chile	**364**	65	**1,288**	270
Other	**3,348**	862	**6,976**	2,318
	36,061	32,325	**97,618**	86,074

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

As at	**March 31, 2020**	June 30, 2019
	$	$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	**6,269**	7,006
United States	**40,651**	37,240
United Kingdom	**27,417**	-
	74,337	44,246

15. 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 $656 as at March 31, 2020 ($1,146 as at June 30, 2019).

An amount of $7 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of earnings (loss) for the three-month period ended March 31, 2020 and $23 for the nine-month period ended March 31, 2020 ($7 for the three-month period ended March 31, 2019 and $23 for the nine-month period ended March 31, 2019).

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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 March 31,		Nine-month periods ended March 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Short-term benefits [1]	**282**	269	**1,230**	1,170
Post-employment benefits [2]	**35**	27	**107**	88
Share-based payments	**55**	75	**169**	233
	372	371	**1,506**	1,491

[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.

16. 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 WWWTP[(5)]
Gregory Madden, Vice President & Managing Director of Aftermarket
Rock Gaulin, Vice President & Managing Director of Maple
William Douglass, Vice President & Managing Director of O&M[(6)]

Advisory Members

Elisa Speranza [(3)(4)]
Leonard Graziano [(4)]

(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

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

AST Trust Company (Canada)

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