ANNUAL REPORT

Fiscal year ended on June 30, 2020

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.

TABLE OF CONTENT

A WORD FROM THE PRESIDENT

It is with great pride that H_2O Innovation celebrates its 20th anniversary this year. Twenty years of innovation, dedication and excellence. Over the years, we have met many challenges, faced the unpredictable adversity of the global pandemic, built a remarkable team and continue to serve a growing clientele in Canada, in the United States, as well as internationally through a network of passionate, competent and loyal distributors. Our membrane filtration expertise acquired through system's design, manufacturing of specialty chemicals and desalination components, combined with our operation & maintenance know-how and our entrepreneurial boldness, have made H_2O Innovation a reputable emerging player in the global water industry. We have gained respect from our customers by striving continuously for excellence, not being afraid of doing what is good for our customers and beyond. At H_2O Innovation, our strong Company culture and values are allowing us to drive positive changes for continuous improvement to the benefit of our customers, employees, suppliers and shareholders.

The year-end financial results testify to the success of our strategy to focus on building a business relying on recurring sales. In FY2020, our recurring revenues amounted to 86.2%. They are notably driven by (i) our Specialty Products that we manufacture and export to more than 70 countries and by (ii) the operation & maintenance ("O&M") of 200 water and wastewater utilities in North America. Also, thanks to the acquisition of Genesys, completed in the second quarter of our fiscal year, we have been able to double our distribution network, expand our chemical manufacturing capabilities and considerably grow our product line with complementary products.

The acquisition of Genesys combined with our O&M targeted acquisition strategy added to the phenomenal organic growth of our Piedmont business line which delivered, among many other components, new filter housings for the largest desalination plant in the world (Tawelaah, UAE - 900,000 m^3/d), have definitely contributed to position H_2O Innovation among the top-tier of the water industry. Hence, it is with honor and humility that we have seen H_2O Innovation nominated earlier in March, along with 3 other large water companies, as Water Company of the Year by the Global Water Intelligence (GWI, UK).

Despite a slowdown in our Water Technologies & Services business line in the last fiscal year, we remain optimistic for our future as our backlog is growing again and is becoming more diversified with industrial projects. In light of the COVID-19 crisis, we have demonstrated the resiliency of our business model and we believe many opportunities will emerge for us in the coming months and years. Our financial situation is strong, and our balance sheet is not over leveraged, allowing us to navigate through the COVID-19 crisis in a positive manner with multiple opportunities ahead of us.

It is difficult to predict the future, but the last twenty years have shown how our tenacity and ability to adapt to change could influence our journey and foster the emergence of a unique water treatment company combining membrane filtration technologies, specialty products and amazing customer care. It is on these bases that H_2O Innovation looks with confidence to the next twenty years. Our team is ready to take on new challenges, continue to adapt to the needs of our customers and reinvent this exciting, essential and growing water industry.

Frédéric Dugré

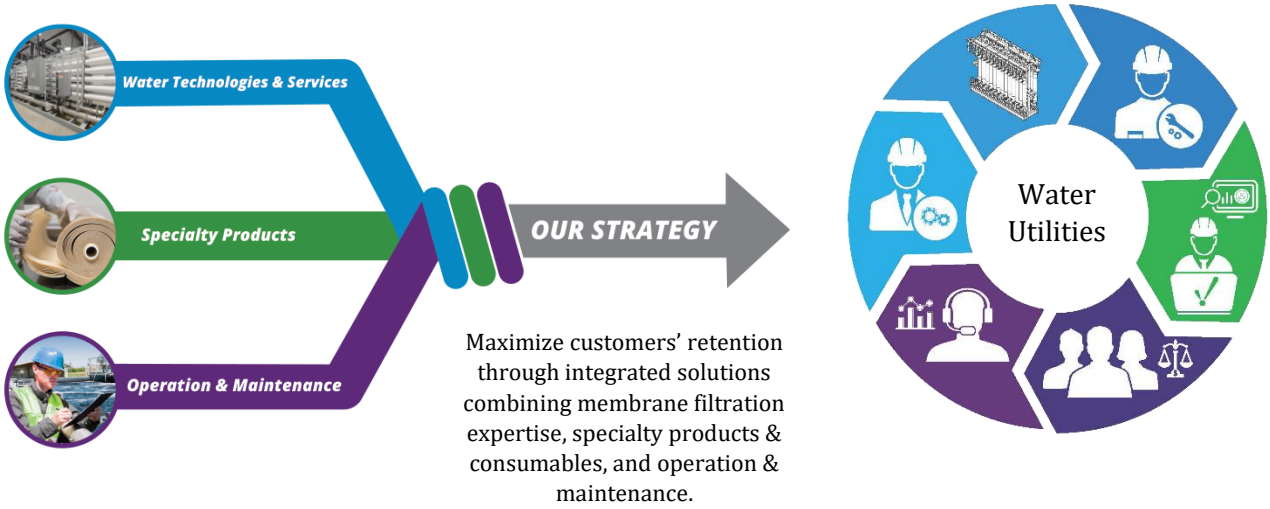
President and CEO

H_2O INNOVATION AT A GLANCE

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.



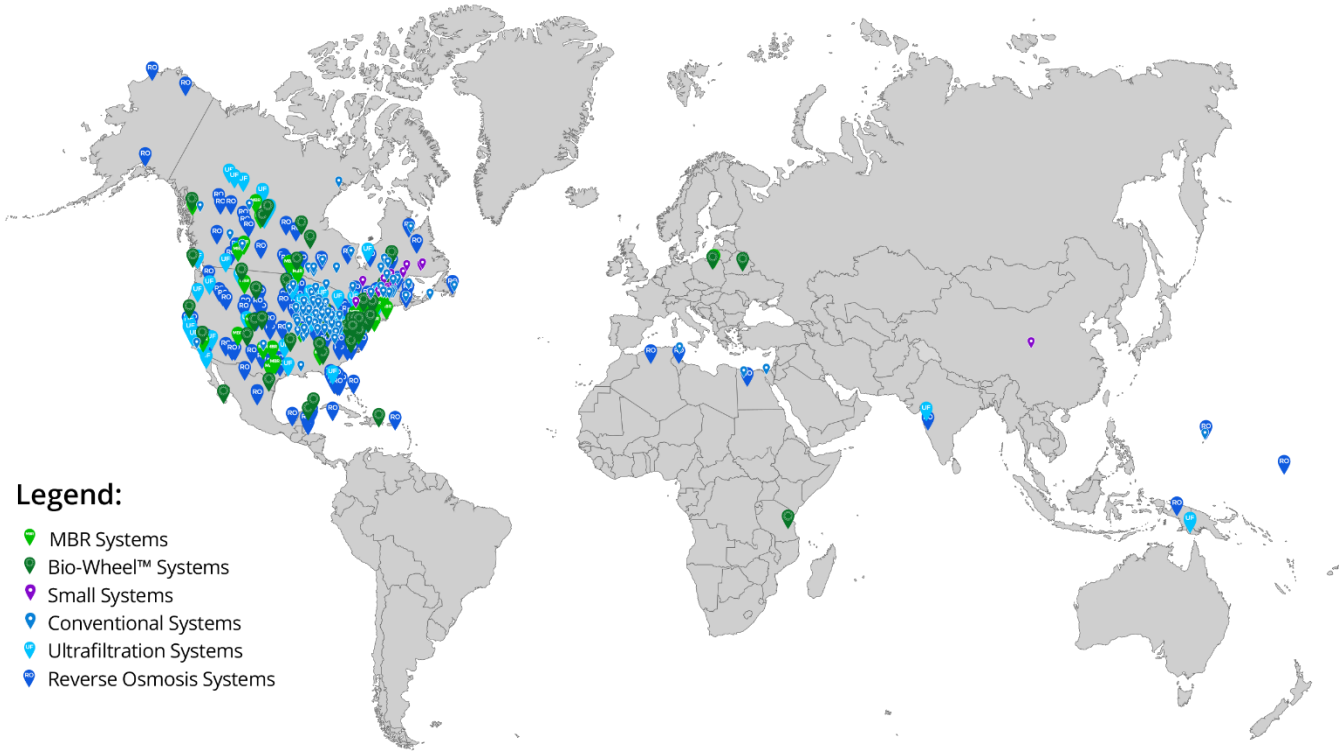
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
680	**+750**	**+70**	**200**

1ST PILLAR - WATER TECHNOLOGIES AND SERVICES ("WTS")

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™.

REFERENCE MAP



CASE STUDY – MONTEVINA WTP, UF SYSTEM

Municipal Drinking Water

113 562 m^3/d (30 MGD)

Los Gatos, California, USA

CHALLENGE

The Montevina WTP, located just outside of Los Gatos in the heart of Silicon Valley, required an upgrade to their existing water treatment facility to use membrane filtration. The retrofit required a compact footprint and superior water treatment results. Treated water quality requirements included a maximum turbidity of less than 0.3 NTU, 100% of the time, an average turbidity of <0.05 NTU, and a minimum LRV score from daily Membrane Integrity Tests of 4.0 log for the membrane system.

SOLUTION

After an extensive process of partnering with a design-build engineering and construction team and bidding against several teams, the partnership between HDR Constructors Inc., H_2O Innovation, and BASF/inge® won. A seven (7)-train ultrafiltration (UF) membrane system was selected as the preferred treatment process for maximum water recovery as well as its ability to fit within the tight available footprint. The modular aspect of the UF treatment trains also lend themselves perfectly to a staged and methodical construction process that allowed for minimal disruption of the existing system during installation. The ancillary equipment was also designed to be downstairs of the UF trains, adding another level of complexity to the design of the system.

The system was designed to handle a present-day filtrate flow of 30 MGD using all seven UF trains. Raw water is pumped from various water sources with different water quality results before entering the pre-treatment portion of the system. The pre-treatment steps include the addition of ACH, KMnO4, Cl2, and NaOH injection, flash mixing, a flocculation basin, and plate settlers.

Once the water has been processed by the pre-treatment system and chemicals, the UF feed pumps send the raw water through 200 micron automated strainers. From there, water is filtered through the UF membrane system. Backwash water that is generated from the membranes is collected and sent to a waste holding tank and then back to the front of the plant. Following the UF membranes, the water is then chlorinated for final disinfection and then pumped to the clearwell before being sent to the city's distribution system.

In addition to the seven (7) UF trains, there are two (2) RO systems provided – one acts as a concentrator of the UF chemical clean solution waste, and the other acts as a softener to treat the filtered water used for the UF cleans. If required, they are configured so that they can operate interchangeably by adjusting valves.

The Montevina WTP is unique in that it is not connected to any wastewater system piping. Because of this, any waste generated by the system that cannot be sent back to the front of the plant must be collected and hauled offsite by a truck. By using the concentrator, the waste produced from the UF cleans is concentrated and reduced, minimizing the water that must be removed from the site and allowing the majority of processed cleaning waste to go back to the front of the plant.

This unique method in combining the use of RO systems with UF cleans increases the effectiveness and reduces the amount of chemicals needed when using the RO as a softener and decreases the amount of waste produced from the site when using the RO as a concentrator.

RESULTS

The UF system supplied for the Montevina WTP is a system designed to fit BASF/inge®'s dizzer® 0.9 MB 70W module.

2ND PILLAR - SPECIALTY PRODUCTS ("SP")

H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry and maple equipment and products through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 70 countries.

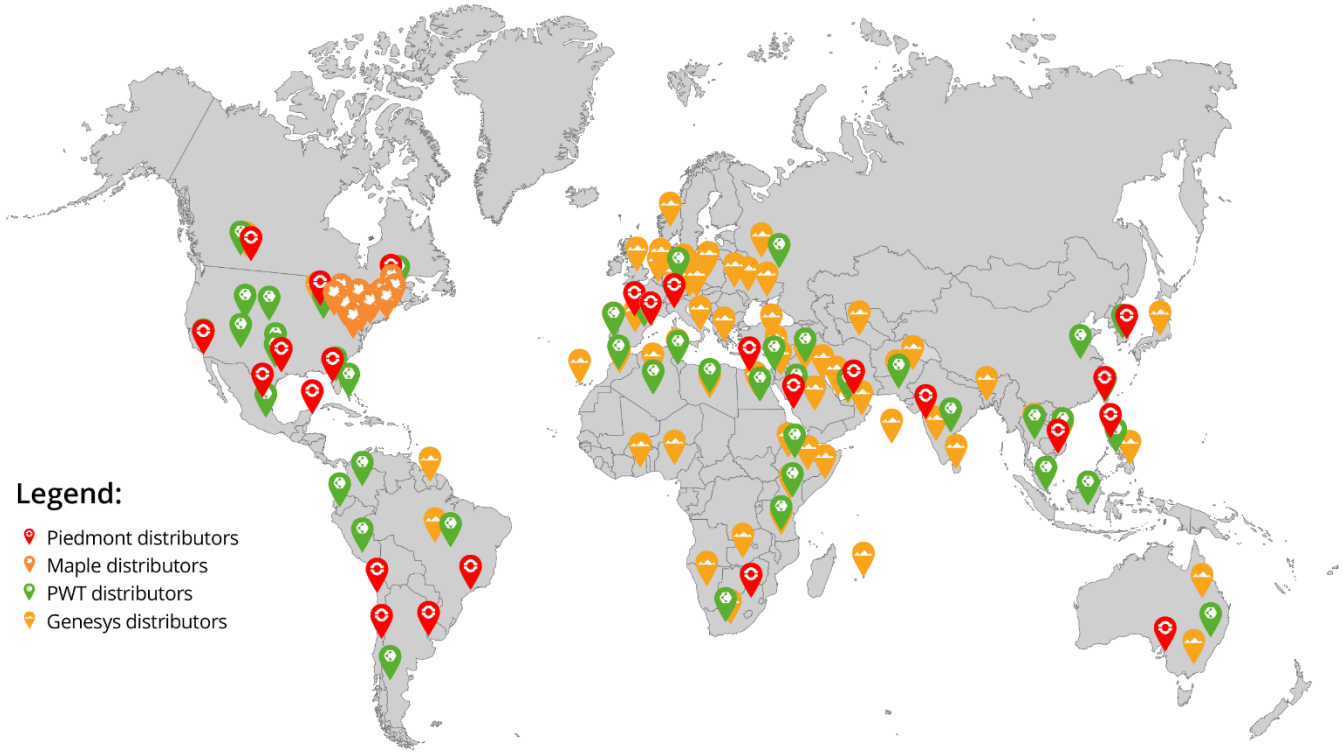
PWT focuses on chemical manufacturing and supply for the membrane industry, with a product line developed around its unique dendrimer-based phosphate-free, antiscalant chemistry for scale and fouling control.

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.

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 and improving efficiency.

DISTRIBUTION NETWORK



CASE STUDY – COCA-COLA FEMSA, REVERSE OSMOSIS PLANT IN MEXICO

PLANT DETAILS

Coca-Cola FEMSA operates a reverse osmosis water treatment plant for its bottling operations in the Boca del Río facility in Veracruz, Mexico. The plant has two reverse osmosis systems, each designed to produce 90 gpm of permeate. As the largest franchise bottler of Coca-Cola products in the world, Coca-Cola FEMSA uses the RO plant to treat blended well and municipal water for use in its products. Pre-treatment of both the municipal and well water includes media filtration to remove iron, carbon beds for chlorine removal, and cartridge filtration to catch any particulates.

PROJECT CHALLENGES

Water quality standards are high for food and beverage manufacturers and Coca-Cola FEMSA was facing some costly challenges in maintaining the quality of their water. They were experiencing high variability in their system performance and were relying heavily on the more costly municipal water instead of their preferred well source. With only 26% of their water sourced water as well, and 74% coming from the municipal system, Coca-Cola FEMSA's water costs were higher than desired. The plant also suffered from excessive membrane scaling, requiring costly cleanings every month and a half. PWT was engaged by Coca-Cola FEMSA to assist with the following improvements at their plant:

- Increase the percentage of well water used in their process to decrease the reliance on municipal water sources;
- Reduce scaling so as to reduce the frequency of membrane cleaning;
- Provide an antiscalant that could be used at a lower dosage than their current product.

PWT PRODUCTS & SERVICES

PWT began working with Coca-Cola FEMSA in April of 2014. After a complete check-up and review of the RO plant and an alkaline, acidic, and silica cleaning of both systems, PWT established the basis for a one-month trial of SpectraGuard™ 100 dendrimer-based antiscalant in one of the RO systems. The plant had been using a competitive phosphonate/polymer blended antiscalant which was maintained in the second RO system for the trial duration to act as the trial control. Initial results showed better performance with the SpectraGuard™ 100 at half the effective dosage of their previous product, but the results did not meet Coca-Cola FEMSA's objectives. Several factors impacted the test results including the system's age, mechanical issues, and pretreatment upsets.

To overcome the impact of the system's age, mechanical issues, and pretreatment upsets was having on the test results, PWT provided a 6 gpm RO pilot plant. This plant was used to not only demonstrate the impact SpectraGuard™ 100 could have on their RO system's scaling issues, but also to understand how improvements to their pretreatment system could improve overall results. When SpectraGuard 100 was used with the pilot plant, they were able to use 100% well water and achieve the system design recovery of 65%.

PROJECT OUTCOMES

PWT recommended a SpectraGuard™ 100 dosage of 2.7 ppm, a reduction of 33% from the 4 ppm of their current antiscalant product. As a result, the Boca del Río plant was able to achieve an immediate reduction in antiscalant costs of $4,000 per RO system per year.

Having an even bigger financial impact were the changes made to reduce reliance on municipal water sources. To achieve this, PWT worked with Coca-Cola FEMSA to identify improvements that included better particulate filtration for more effective removal of suspended solids, automatic flushing of the membranes, and a strategy to minimize growth of bacteria on the membranes. These improvements, along with the use of SpectraGuard™ 100, has eliminated their reliance on municipal water, allowing the plant to exclusively use well water for their production and achieve recovery rates of 65%. Coca-Cola FEMSA was able to realize an annual reduction in water costs by as much as $76,000 by reducing their reliance on the municipal water ($0.697/m^3) in favour of the less expensive well water ($0.324/m^3).

PWT was able to support Coca-Cola FEMSA in achieving their goals and realizing savings of $85,000 per year:

- Reduced antiscalant dosage from 4 ppm to 2.7 ppm with SpectraGuard 100;
- Reducing their membrane cleaning frequency by 50%;
- Changing their water source from 64% municipal water to 100% well water while maintaining a system recovery of 65%.

CASE STUDY – SWRO, ALGERIA

STORY

End 2011, a local company contacted us, looking for an antiscalant to provide to the plant. They had good internal contacts but little process knowledge. The plant staff was also relatively new to the RO process (M&E backgound mostly), giving us an opportunity for a technical sale & establishing a long-term partnership.

Genesys LF was selected (concentrated antiscalant) for its reduced dose & easier handling. All necessary documentation was provided (approvals, certificates, reference list), and we received our first order in 2012.

A basic training on RO & chemicals was provided on site, to both managers & all operators. This also enabled to get to know all the staff & facilitate cooperation later.

In 2013, a membrane autopsy was performed, followed by our first CIP recommendations & protocol. There were issues in the CIP unit design, so we proposed to re-purpose existing material to create a pre-dissolution system. The first series of CIP's was the real turning point, with our manager supervising the CIP's for 10 consecutive days. All small issues were dealt with as they came along. This also gave the opportunity to work closely with all shift teams, supervisors & the Operations Manager, gaining their trust in the process. Simple organisational advice & basic Health & Safety training were given, well beyond the remit of our chemical supply.

With this high level of trust established, Genesys was given access to all historical data to analyse plant behaviour & do more predictive maintenance. All these arrangements are still in place 7 years later, a testament to our continued relationship & technical excellence.

TECHNICAL ASSISTANCE ALSO MEANS GAINS

The plant was built under a BOO or BOT contract. It is therefore paid per m^3 produced, with any drop in production due to fouling representing a loss of earnings. CIP's only take place in the autumn & winter seasons. Trains to be cleaned are chosen based on the drop in production. dP is never an issue as it remains within very acceptable limits.

CIP details for 1 train :

- Genesol cost per CIP: 5 100 USD
- Extra flow after CIP: 60 m^3/h i.e. 1440 m^3/d
- Water selling price estimate: 0.226 USD/m^3
  → Extra revenue: 325 USD/d
- Payback time per CIP: 15.6 days

The flow gained directly after the CIP slowly drops over time. The estimated average flow benefit over a period of 6 months is ~25 m^3/h.

So in half a year :

- Extra water produced: 109 200 m^3
- Water selling price: 0.226 USD/m^3
  → Extra revenue: 24 700 USD/d
  → Net profit from CIP: 19 600 USD/d
- Return on investment: 4.8 times the initial cost

CASE STUDY – TAWEELAH, UAE

STORY

Piedmont´s unchallenged flagship project during the FY2020 fiscal year was the award and execution of the cartridge filter housing package for the Taweelah project, the largest reverse osmosis desalination plant of the world. Located in Taweelah power and water generation complex, 45 km north of Abu Dhabi (United Arab Emirates), with a capacity of 900,000 m^3/day the Taweelah seawater RO plant will guarantee the water supply of the city of Abu Dhabi throughout the year and will be the first large scale desalination plant in the emirate that combines the production of drinking water with the generation of clean energy.

The award of such a prestigious project on itself was spectacular, considering that we are relatively new in the market with the FRP cartridge filter housing product line and that now we were given the chance to supply the largest FRP cartridge filter housing project ever delivered. No doubt, the fact that we had successfully delivered several large-scale desalination projects in recent years for the same product and with the same customer played clearly in our favor.

PROJECT OUTCOMES

As you can understand, the competition on this project was ferocious. Every single cartridge filter housing company in the world wanted to have this project due to its economics and prestige. However, based on past experience and references, not more than a handful of these companies passed the cut and were preselected. Piedmont was finally selected as the winner in November 2019, because of the all-round best proposal based on engineering, price and project lead times. Timing was of the essence and due to our unrivaled manufacturing capabilities, we were able to meet the extremely demanding project deadlines. Half of the project was successfully delivered within the same FY2020 fiscal year and the remaining will be delivered during the first quarter of FY2021. With this project, Piedmont has sent a clear message to the market, where it is now in a leading position.

The scope of supply included not only the 48 of the largest FRP cartridge filter housing itself, but also the cartridge consumables for the equivalence of one-year´s supply and therewith ensuring significant recurrent revenues.

CASE STUDY – PASCAL THÉRIAULT SUGARBUSH

Since 2010

Saint-Quentin, New Brunswick

65, 000 taps, with 100,000 taps capacity

BEFORE SMARTREK

Owner of a large sugarbush, Pascal Thériault was looking for a system that could help him optimize his work while increasing his productivity. One of the biggest challenges for the maple syrup producer is to have a tight, leak-free tubing network. Managing leaks is a labor-intensive job and several hours spent in the forest. A leak = yield loss. Given the large number of taps in his sugar bush, he had to assign permanent employees to the woods to spot leaks, this was a difficult task due to the labor shortage in his region. It was during a trade show that Mr. Thériault met a distributor of H_2O Innovation who presented him with the patented Smartrek monitoring technology.

MORE INFORMATION ON THE TECHNOLOGY

The H_2O-Smartrek™ leaks monitoring system is a reliable system, highly valued by the producers who have adopted it. The data collected by the sensors is transmitted via radio waves to an application that reads the information and sends complete, easy-to-understand reports.

These reports, created in real-time, identify the location of leaks and efficiently manage the employees assigned to that task. Instead of systematically going through the entire sugarbush tubing, you can go directly to the source of the problem to resolve it quickly. This will help the maple syrup producer save time, and therefore money. It is also possible to visualize the performance of the equipment and production along with measuring the yield increase per tap. The number of sensors can be increased gradually, without any problem, as the installation grows.

SINCE SMARTREK

Pascal Thériault is considered H_2O Innovation's largest Smartrek customer, with more than 300 sensors installed over the past 5 years. The honesty, dynamism, knowledge and valuable advice of our team have led Mr. Thériault to purchase everything he needs for his sugar bush from H_2O Innovation. It is by differentiating ourselves from our competitors and by listening to the needs of the customer, that we have been able to retain and build a trustworthy relationship with him.

3RD PILLAR - OPERATION AND MAINTENANCE ("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, Hays Utility South Corporation, and since July 1, 2020 Gulf Utility Services.

Together, they operate more than 200 utilities in two Canadian provinces and twelve US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast.

REFERENCE MAP

UTILITY PARTNERS

Hays UTILITY CORPORATION South

GULF UTILITY SERVICE, INC.

CASE STUDY – MOSS POINT, MISSISSIPPI

OVERVIEW

In 2009, the City of Moss Point, MS completed construction of a reverse osmosis water treatment facility. At the time, this facility was one of the few RO water treatment systems in the region. The City quickly realized they did not have the proper staffing or expertise to operate this facility and executed an operations agreement with Utility Partners (UP).

CHALLENGES

In 2018, The City was facing a budget crisis with depleting general fund revenue and a thinly stretched utility fund. The City desired for their reverse osmosis plant to remain a flagship facility and a source of pride for its residents, but also recognized that the plant was becoming aged and repairs and upgrades would soon be necessary.

The City did not have the financial means or expertise to determine/prioritize this work and pursued an amendment with Utility Partners to include repairs and consumables that would essentially turn the decision authority over to us to make upgrades and efficiency improvements, and stay within the confines of the budget.

SOLUTION

A large portion of the monthly cost for the facility is electricity, averaging about $17,000 per month. Immediately upon assuming liability for this cost, UP initiated a study with our parent company, H_2O Innovation to evaluate this cost and see if there was potential to lower it. Upon review of this study, it was predicted that an energy savings of 10-15% could be achieved by installing Variable Frequency Drives on each of the motors that pumped into the RO system. In the first few months following the upgrade, we began seeing 15-20% in energy savings, equating to roughly $3,500 per month. Not only is the company saving money, but we are being better stewards of the environment by reducing energy cost. Additionally, these savings equate to more funding we can reinvest into the facility.

RESULTS

Since the successful implementation of energy savings measure, H_2O has assisted with SCADA upgrades that have modernized the system as well as make it more user friendly and accessible. H_2O is currently assisting UP in evaluating and modernizing chemical feeds, in which we are confident will save on chemical costs and also reduce some of the daily stress of operators. We are anticipating a savings on chemicals of greater than 10%.

In less than eight months of the contract amendment, UP and H_2O have achieved savings on chemicals as well as plant consumables while performing upgrades to modernize the facility. The operations experience of Utility Partners, paired with the design-build expertise of H_2O, as well as the direct support from our sister companies, Piedmont and PWT, resulted in very rapid modernization and efficiency upgrades to the City of Moss Point's facility and reduced costs in consumables.

We remain in constant contact with the Mayor and members of the board and they are very pleased to have a partnership with a company that takes as much pride in their facility as its citizens and consistently searches for ways to improve the facility while remaining within the City's budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended
June 30, 2020

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.

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 years and the quarterly period ended June 30, 2020 and 2019. This MD&A should be read in conjunction with the consolidated financial statements and the accompanying notes for the year ended June 30, 2020.

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 2020 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 23, 2020 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.

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 and restructuring costs
- Net debt
- Net debt-to-Adjusted EBITDA ratio
- 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 37 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used in this MD&A.

KEY FINANCIAL HIGHLIGHTS

For the year ended June 30, 2020
Compared with the year ended June 30, 2019

Revenues	Recurring Revenues [3]	Recurring Revenues [3] (%)	Consolidated Backlog
$133.6 M	**$115.1 M**	**86.2 %**	**$125.4 M**
↑ $15.6 M or 13.3 %	↑ $25.6 M from $89.5 M	↑ from 75.9 %	↓ 2.0 % from $127.9 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
26.9 %	**17.8 %**	**$12.5 M**	**9.4 %**
↑ from 23.0 %	↑ from 17.3 %	↑ 73.6 % from $7.2 M	↑ from 6.1 %

Net loss	Earnings before impairment and restructuring costs [3]	Cash flows from operating activities	Net debt [3]
($4.2 M)	**$0.9 M**	**$12.3 M**	**$10.5 M** **Ratio net debt/Adjusted EBITDA of 0.84**
↑ 93.9 % from ($2.2 M)	↑ from ($2.2 M)	↑ 112.9 % from $5.8 M	↑ 7.8 % 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 37 of this MD&A.

FOURTH 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 WTS business pillar was slowed down due to the 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 human resources, the legal department, information technology, operations and communications) continues to meet on a weekly basis. 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. Starting on March 30, 2020, as an extraordinary preventive measure to preserve the solidity of its balance sheet, the Corporation made the decision to reduce the work schedule and, accordingly, the wages of most of its employees, executive officers and members of the Board of Directors. After having carefully monitored the pandemic effects on its financial situation, the Corporation completely and officially lifted these special measures on June 1, 2020 and compensated its employees, executive officers and members of the Board of Directors with an amount equivalent to the wages reduction that affected them.

- 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. The Corporation also announced it was awarded seven (7) new projects in North America. On June 23, 2020, the Corporation announced it was awarded three (3) additional projects in North America, bringing its WTS backlog to $35.9 M.

- The Corporation announced a strategic change in their business alignment. The Water & Wastewater Treatment Projects and Aftermarket Services businesses will be combined into a single business called Water Technologies & Services ("WTS"). This restructuring caused the termination of certain employees at the end of June 2020. However, it is expected to generate some efficiencies in the coming years.

- On June 17, 2020, the Corporation announced it signed a strategic agreement with ceramic membrane manufacturer, Nanostone Water, Inc. ("Nanostone"), and confirms its leading position as a ceramic membrane system integrator in the water industry.

- The Corporation announced a new product range from its independent subsidiary, Genesys, dedicated to the mining industry. The manufacturer of specialty chemicals for water treatment systems, Genesys, launched the Genmine range following three and a half years of exhaustive research and product development. The range includes antiscalants and cleaners designed to tackle issues specific to the treatment of minewater. There is also a software package to help plant operators work out which antiscalant to use and gauge the appropriate dosage level and frequency.

- On June 11, 2020, the Corporation announced its independent subsidiary, PWT, a leading provider in specialty chemicals for membrane filtration, experienced 95% sales growth in the Middle East & Africa ("MEA") and strengthened its presence in the region by appointing more than 10 new distributors over the last year.

SUBSEQUENT EVENT HIGHLIGHTS

- On July 2, 2020, the Corporation announced the acquisition of Gulf Utility Service, Inc. ("GUS"), a company offering complete operation, maintenance and management services to water and wastewater infrastructures for different type of clients such as municipalities, municipal utility districts (commonly known as MUD) and public water systems in the State of Texas (United States). The total purchase price amounts to $3.7 M (US$2.8 M) and is subject to certain adjustments. The Corporation secured an additional long-term debt of $2.1 M in order to complete this acquisition. The remaining portion of the purchase price is financed from the working capital of the Corporation.

  With over 20 years of experience in the operation and maintenance ("O&M") sector of water and wastewater treatment systems, GUS offers its services to approximately 40 municipal and private customers, servicing more than 10,000 users. These additional clients and users are added to the Corporation's O&M customer base in Texas, totaling now 85 customers. On a combined basis, we can now count on 110 employees based in Texas to support our operations and future growth.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements	Three-month periods ended June 30,				Years ended June 30,			
	2020		2019[3]		**2020**		2019[3]	
	$	**% [1]**	$	% [1]	**$**	**% [1]**	$	% [1]
Revenues per business pillar								
WTS	**6,982**	**19.4**	9,162	28.7	**29,298**	**21.9**	40,245	34.1
Specialty products	**11,716**	**32.6**	6,832	21.4	**40,175**	**30.1**	24,943	21.1
O&M	**17,281**	**48.0**	15,890	49.9	**64,124**	**48.0**	52,770	44.8
Total revenues	**35,979**	**100.0**	31,884	100.0	**133,597**	**100.0**	117,958	100.0
Revenues per geographic location								
Canada	**3,564**	**9.9**	3,583	11.2	**16,327**	**12.2**	17,194	14.6
United States	**22,159**	**61.6**	23,574	73.9	**90,247**	**67.6**	88,200	74.8
Others	**10,256**	**28.5**	4,727	14.9	**27,023**	**20.2**	12,564	10.6
Total revenues	**35,979**	**100.0**	31,884	100.0	**133,597**	**100.0**	117,958	100.0
Recurring revenues [2]	**31,379**	**87.2**	25,526	80.1	**115,110**	**86.2**	89,486	75.9
Gross profit before depreciation and amortization	**10,598**	**29.5**	7,824	24.5	**35,908**	**26.9**	27,118	23.0
Total SG&A	**6,016**	**16.7**	5,641	17.7	**23,748**	**17.8**	20,425	17.3
Depreciation and amortization	**1,994**	**5.5**	1,995	6.3	**7,199**	**5.4**	5,325	4.5
Finance costs – net	**529**	**1.5**	219	0.7	**2,037**	**1.5**	2,071	1.8
Acquisition and integration costs	**85**	**0.2**	232	0.7	**1,912**	**1.4**	797	0.7
Restructuring costs	**406**	**1.1**	-	-	**406**	**0.3**	-	-
Impairment of intangibles assets and goodwill	**-**	**-**	-	-	**5,308**	**4.0**	-	-
Net earnings (loss) for the period	**813**	**2.3**	(1,177)	(3.7)	**(4,227)**	**(3.2)**	(2,180)	(1.8)
Basic and diluted net earnings (loss) per share [2]	**0.011**	**-**	(0.021)	-	**(0.061)**	**-**	(0.044)	-
EBITDA [2]	**3,954**	**11.0**	1,688	5.3	**4,690**	**3.5**	5,638	4.8
Adjusted EBITDA [2]	**4,832**	**13.4**	2,374	7.4	**12,524**	**9.4**	7,213	6.1
Earnings before impairment and restructuration costs [2]	**1,219**	**3.4**	(1,177)	(3.7)	**906**	**0.7**	(2,180)	(1.8)

Financial position and Cash flows				
Years ended June 30,	**2020**	2019[3]	Variation	
	$	$	$	%
Cash	**9,417**	6,206	3,211	51.7
Net debt [2]	**10,546**	9,780	766	7.8
Net debt-to-Adjusted EBITDA ratio [2]	**0.84**	1.36	-	-
Net cash generated by operating activities	**12,268**	5,761	6,507	112.9
Consolidated backlog	**125,400**	127,900	(2,500)	(2.0)

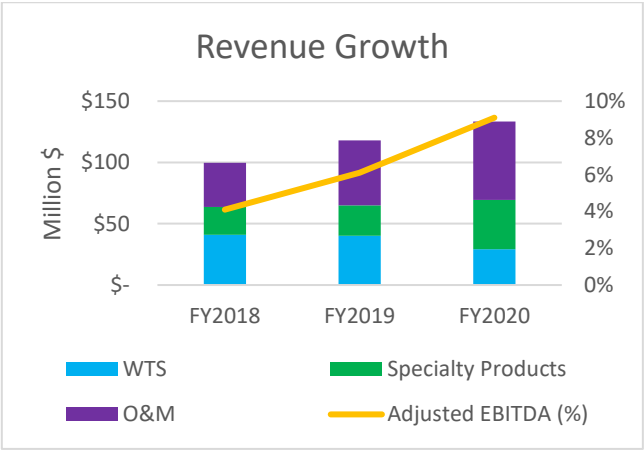
[1] % of revenues.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 37 for detailed information about non-IFRS measures used in this MD&A.
[3] Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – Leases as set out in the accounting policy.

QUARTERLY FINANCIAL INFORMATION

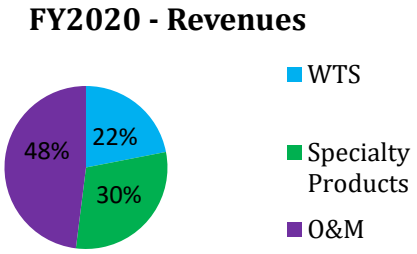
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	Year ended June 30, 2020
	$	**$**	**$**	$	**$**
Revenues	**35,979**	36,061	33,334	28,223	133,597
EBITDA	**3,954**	(1,442)	1,113	1,065	4,690
Adjusted EBITDA	**4,832**	3,754	2,313	1,625	12,524
Adjusted EBITDA over revenues	**13.4 %**	10.4 %	6.9 %	5.8 %	9.4 %
Earnings (loss) before impairment and restructuration costs	**1,219**	1,630	(909)	(1,034)	906
Net earnings (loss)	**813**	(3,097)	(909)	(1,034)	(4,227)
Basic and diluted net earnings (loss) per share	**0.011**	(0.040)	(0.014)	(0.019)	(0.061)
Cash flows from (used in) operating activities	**9,567**	883	(407)	2,225	12,268

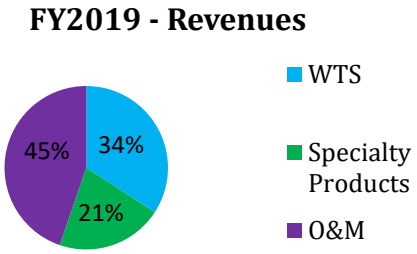
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	Year ended June 30, 2019
	$	$	$	$	**$**
Revenues	31,884	32,325	29,378	24,371	117,958
EBITDA	1,689	1,945	910	1,094	5,638
Adjusted EBITDA	2,375	2,196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

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 13.3 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $7.2 M, or 6.1 % of revenues to $12.5 M, or 9.4 % of revenues in the last twelve months, representing a 73.6 % improvement over a twelve-month period.



CONSOLIDATED REVENUES





Consolidated revenues from our three business pillars, for the year ended on June 30, 2020, increased by $15.6 M, or 13.3 %, to reach $133.6 M compared to $118.0 M for the previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which generated $7.2 M in revenues during this year. The growth is also explained by the increase of $8.0 M coming from the organic growth of the Specialty Products business pillar and $11.3 M coming from O&M, partly offset by the decrease in revenues of $10.9 M from the WTS. Such increase is in line with our business plan to grow first the Specialty Products and O&M business pillars, as well as to prioritize projects in WTS business pillar with higher gross 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 services activities, 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 WTS 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 in more than 70 countries. 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 year ended June 30, 2020, recurring revenues represented 86.2 % of the Corporation's total revenues, compared to 75.9 % for the previous fiscal year. The Specialty Products and O&M activities also reinforce long-term relationships with WTS 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 June 30,				Years ended June 30,			
	2020	2019[2]	Variation		**2020**	2019[2]	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins [1]	**10,598**	7,824	2,774	35.5	**35,908**	27,118	8,790	32.4
Gross profit margins (%) [1]	**29.5 %**	24.5 %	-	-	**26.9 %**	23.0 %	-	-

(1) Gross profit margins presented before depreciation and amortization.
(2) 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 $10.6 M, or 29.5 %, during the fourth quarter of fiscal year 2020, compared to $7.8 M, or 24.5 % for the previous fiscal year, representing an increase of $2.8 M, or 35.5 %. The increase in consolidated gross profit margin is mainly 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 fourth quarter of fiscal year 2020. The adoption of IFRS 16 – *Leases* resulted in a decrease of the cost of goods sold (COGS) expenses of $0.1 M for the fourth quarter of fiscal year 2020.

The Corporation's gross profit margin before depreciation and amortization stood at $35.9 M, or 26.9 %, for the year ended June 30, 2020, compared to $27.1 M, or 23.0 % for the previous fiscal year, representing an increase of $8.8 M, or 32.4 %. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of $0.5 M for the year ended June 30, 2020. The increase of gross profit margin before depreciation and amortization in % is explained by the business mix, with more sales coming from the Specialty Products business pillar, which are characterized with higher margins' products.

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

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
General operating expenses	**1,469**	1,443	26	1.8	**6,327**	5,693	634	11.1
Selling expenses	**2,509**	2,183	326	14.9	**9,351**	7,743	1,608	20.8
Administrative expenses	**2,038**	2,015	23	1.1	**8,070**	6,989	1,081	15.5
SG&A expenses	**6,016**	5,641	375	6.6	**23,748**	20,425	3,323	16.3
SG&A expenses of revenues	**16.7 %**	**17.7 %**			**17.8 %**	**17.3 %**		

(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 expenses are fairly stable, decreasing to 16.7 % of revenues for the fourth quarter of fiscal year 2020, compared to 17.7 % for the same period of the previous fiscal year. For the year ended June 30, 2020, the SG&A level reached 17.8 % of revenues, which is fairly stable compared to 17.3 % for the previous fiscal year. The level of SG&A is maintained below 18.0 %.

The Corporation's SG&A reached $6.0 M during the fourth quarter of fiscal year 2020, compared to $5.6 M for the same period of the previous fiscal year, representing an increase of $0.4 M, or 6.6 %, while the revenues of the Corporation increased by 12.8 %. The acquisition of Genesys in the second quarter of this fiscal year contributed $0.6 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.2 M for the fourth quarter of fiscal year 2020, as lease expenses were reclassified to depreciation and amortization.

The Corporation's SG&A reached $23.7 M for the year ended June 30, 2020, compared to $20.4 M for the previous fiscal year, representing an increase of $3.3 M, or 16.3 %, while the revenues of the Corporation increased by 13.3 %. The general increase of SG&A grew faster than the general level of revenues, mainly due to the WTS business pillar, as the

level of revenue decreased while the cost structure remained the same. The acquisition of Genesys in the second quarter also contributed $1.7 M of this increase. The cancellation of marketing activities combined to a reduction in travel, meals and entertainment costs for resources in SG&A expenses generated savings of $0.2 M as a result of COVID-19 pandemic. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.8 M for the year ended June 30, 2020. Overall, the percentage of SG&A over revenues is maintained below 18.0 %.

General operating expenses reached $1.5 M during the fourth quarter of fiscal year 2020, compared to $1.4 M for the previous fiscal year, representing an increase of $0.1 M, or 1.8 %. 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 fourth quarter of fiscal year 2020.

General operating expenses reached $6.3 M for the year ended June 30, 2020, compared to $5.7 M for the previous fiscal year, representing an increase of $0.6 M, or 11.1 %. The acquisition of Genesys contributed $0.5 M of this increase. Moreover, new hires were needed to support the significant growth of Piedmont business line, consequently salaries increased by $0.4 M. The adoption of IFRS 16 – *Leases* resulted in a decrease of the general operating expenses of $0.4 M for the year ended June 30, 2020.

Selling expenses reached $2.5 M during the fourth quarter of fiscal year 2020, compared to $2.2 M for the same period of previous fiscal year, representing an increase of $0.3 M, or 14.9 %. The acquisition of Genesys during the second quarter also contributed $0.5 M of this increase. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of $0.01 M for the fourth quarter of fiscal year 2020. In the fourth quarter of fiscal year 2020, the worldwide restrictions on various forms of transportation and lockdown periods due to the coronavirus pandemic resulted in lower travel expenses of $0.1 M compared to the same period of previous fiscal year.

Selling expenses reached $9.4 M for the year ended June 30, 2020, compared to $7.7 M for the previous fiscal year, representing an increase of $1.7 M, or 20.8 %. The acquisition of Genesys during the second quarter of this fiscal year also contributed $1.1 M of this increase. This increase is also explained by the increased level of revenues, impacting the level of commissions and bonuses recorded for $0.3 M in the Specialty Products business pillar. Moreover, the addition of salesmen in service activities and process engineers resulted in an increase of $0.2 M. The adoption of IFRS 16 – *Leases* resulted in a decrease of the selling expenses of $0.3 M for the year ended June 30, 2020.

The administrative expenses reached $2.0 M during the fourth quarter of fiscal year 2020, compared to $2.0 M for the same period of previous fiscal year, representing an increase of nil. The level of administrative expenses increased, due to the hiring in the administrative team to support the growth but was compensated by the reduction in travel expenses in the fourth quarter. The adoption of IFRS 16 – *Leases* resulted in a decrease of the administrative expenses of $0.04 M for the fourth quarter of fiscal year 2020.

The administrative expenses reached $8.1 M for the year ended June 30, 2020, compared to $7.0 M for the previous fiscal year, representing an increase of $1.1 M, or 15.5 %. Over the last months, the finance and legal department hired new resources to follow the growth of the Corporation, consequently the remuneration increased by $0.8 M this year compared to the previous fiscal year. The creation of a new procurement department also contributed $0.2 M of this increase. 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. The acquisition of Genesys during the second quarter of this fiscal year 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 year ended June 30, 2020.

ACQUISITIONS AND INTEGRATION COSTS

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2020	2019	Variation		**2020**	2019	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition and integration costs	**85**	232	(147)	(63.4)	**1,912**	797	1,115	139.9

The acquisition and integration costs reached $0.1 M during the fourth quarter of fiscal year 2020, compared to $0.2 M for the same period of previous fiscal year, representing a decrease of $0.1 M, or 63.4 %.

The acquisition and integration costs reached $1.9 M for the year ended June 30, 2020, compared to $0.8 M for the previous fiscal year, representing an increase of $1.1 M, or 139.9 %. For fiscal year 2019, the acquisition and integration costs were related to the acquisition of Hays, while they are related to the acquisitions of Genesys and GUS 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 the WTS business pillar mostly impacted by projects being delayed or cancelled. As a result of this analysis, management recognized an impairment charge of $5.3 M against goodwill and intangible assets pertaining to the WTS business pillar.

The decision to review to a lower percentage its growth perspective for the WTS pillar is in line with our strategic decision to further grow the Specialty Products and O&M first, then the WTS, 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 WTS 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 WTS business pillar.

To support its strategic decision, the Corporation announced a strategic change in their business alignment. The Water & Wastewater Treatment Projects and Aftermarket Services businesses is now combined into a single business called Water Technologies & Services ("WTS"). The Corporation's strategy is the change in focus of this business pillar towards customers which will value the long-term services and consumables and create financial sustainability from a more stable revenue stream. The restructuring of this business pillar combined with the notice of cancellation for a major project announced on May 5, 2020, led unfortunately to layoffs. The restructuring costs recognized for the year ended June 30, 2020 were mainly severances and termination costs amounting to $0.4 M.

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 Specialty Products and O&M 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 June 30,				Years ended June 30,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(4)**	(17)	13	(76.5)	**(47)**	(48)	1	(2.1)
Finance costs	**533**	236	297	125.8	**2,084**	2,119	(35)	(1.7)
Finance costs - net	**529**	219	310	141.6	**2,037**	2,071	(34)	(1.6)

(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 fourth quarter of fiscal year 2020, compared with $0.2 M for the same period of previous fiscal year, representing an increase of $0.3 M, or 141.6 % compared to the same period of 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 and the new term loan of $12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019 contributed to $0.2 M in finance costs for the fourth quarter of this fiscal year.

Finance costs – net stood at $2.0 M for the year ended June 30, 2020 compared with $2.1 M for the previous fiscal year, representing a decrease of $0.1 M, or 1.6 % 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 $0.4 M for the year ended June 30, 2020 and the new term loan of $12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019 contributed to $0.4 M in finance costs for the year ended June 30, 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 June 30,				Years ended June 30,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA	**3,954**	1,688	2,266	134.2	**4,690**	5,638	(948)	(16.8)
Adjusted EBITDA	**4,832**	2,374	2,458	103.5	**12,524**	7,213	5,311	73.6
Adjusted EBITDA (%)	**13.4 %**	7.4 %	-	-	**9.4 %**	6.1 %	-	-

(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 $2.4 M, or 103.5 %, to reach $4.8 M during the fourth quarter of fiscal year 2020, compared to $2.4 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 13.4 % for the fourth quarter of fiscal year 2020, compared to 7.4 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins, partly offset by the increase in SG&A. Furthermore, the adoption on July 1, 2019 of IFRS 16 - *Leases* contributed to reduce by $0.3 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 12.5 %.

The Corporation's adjusted EBITDA increased by $5.3 M, or 73.6 %, to reach $12.5 M for the year ended June 30, 2020, compared to $7.2 M for the previous fiscal year. The adjusted EBITDA % improved and reached 9.4 % for the year ended June 30, 2020, compared to 6.1 % for the previous 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 $1.3 M the operating lease expenses for the fiscal year. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 8.4 %.

NET EARNINGS (LOSS)

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended June 30,				Years ended June 30,			
	2020	2019[1]	Variation		**2020**	2019[1]	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings (loss)	**813**	(1,177)	1,990	169.1	**(4,227)**	(2,180)	(2,047)	(93.9)
Basic and diluted net earnings (loss) per share	**0.011**	(0.021)	0.032	-	**(0.061)**	(0.044)	(0.017)	-
Earnings (loss) before impairment and restructuration costs	**1,219**	(1,177)	2,396	-	**906**	(2,180)	3,086	-

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

Net earnings amounted to $0.8 M or $0.011 per share for the fourth quarter of fiscal year 2020 compared to net loss of ($1.2 M) or ($0.021) per share for the comparable quarter of fiscal year 2019. 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 ($4.2 M) or ($0.061) per share for the year ended June 30, 2020 compared to a net loss of ($2.2 M) or ($0.044) per share for the fiscal year 2019. The net loss variation is mostly due to the impairment of $5.3 M taken in the WTS business pillar to reduce the value of the goodwill and intangible assets with related deferred tax impact of ($0.6 M) and restructuring costs of $0.4 M triggered by the restructuring of the WTS business pillar. Without the impact of these non-recurring items, the Corporation would present net earnings of $0.9 M for the year ended June 30, 2020. The net loss is also due to the acquisition and integration costs in the amount of $1.9 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 Genesys during the second quarter of the fiscal year 2020 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 June 30, 2020, the combined backlog of secured contracts between WTS and O&M reached $125.4 M compared to $127.9 M as at June 30, 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 WTS contracts.

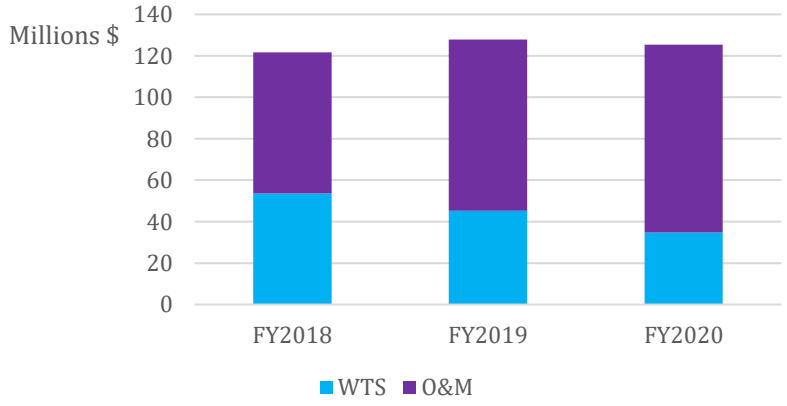
(In thousands of Canadian dollars)	**2020**	As at June 30, 2019	Variation	
	$	$	$	%
WTS	**34,800**	45,200	(10,400)	(23.0)
O&M [1]	**90,600**	82,700	7,900	9.6
Consolidated backlog	**125,400**	127,900	(2,500)	(2.0)

[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 Hays' contracts are evergreen and would not qualify for the remaining performance obligation definition.

The WTS business pillar is showing a decrease of 23.0 % of its backlog as at June 30, 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: 45.5 % of the projects being wastewater as of June 30, 2020, compared to 29.8 % as of June 30, 2019. Backlog's diversification is also seen between industrial and municipal projects, with 27.3 % of the projects being industrial as of June 30, 2020, compared to 38.3 % as of June 30, 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 August 24, 2020, the Corporation announced it was awarded six (6) new municipal and industrial projects in North America. The first project won by the Corporation is for a dual membrane system upgrade of a municipal water treatment plant in Manitoba, with a total project value of $10.0 M. Only the detailed engineering and the 12-month pilot study representing $0.7 M have been added to the backlog following the end of the fiscal year 2020. These new contracts, totaling $17.8 M, brought the Corporation's WTS sales backlog to $42.2 M as at August 24, 2020.

Our backlog for the O&M business pillar stood at $90.6 M as at June 30, 2020, representing an increase of 9.6 % compare to the $82.7 M backlog as at June 30, 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 analyzes 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 37 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the three-month and years ended June 30, 2020 and 2019.

WATER TECHNOLOGIES & SERVICES ("WTS")

	Three-month periods ended June 30,				Years ended June 30,			
(In thousands of Canadian dollars)	**2020**	2019[3]	Variation		**2020**	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**6,982**	9,162	(2,180)	(23.8)	**29,298**	40,245	(10,947)	(27.2)
Cost of goods sold	**5,462**	7,095	(1,633)	(23.0)	**23,402**	32,948	(9,546)	(29.0)
Gross profit margins[1]	**1,520**	2,067	(547)	(26.5)	**5,896**	7,297	(1,401)	(19.2)
Gross profit margins (%)	**21.8 %**	22.6 %	-	-	**20.1 %**	18.1 %	-	-
General operating expenses	**202**	234	(32)	(13.7)	**801**	821	(20)	(2.4)
Selling expenses	**765**	838	(73)	(8.7)	**3,488**	3,214	274	8.5
EBAC[2] from WTS	**553**	995	(442)	(44.4)	**1,607**	3,262	(1,655)	(50.7)
EBAC[2] in % of revenues from WTS	**7.9 %**	10.9 %	-	-	**5.5 %**	8.1 %	-	-

WTS revenues stood at $7.0 M during the fourth quarter of fiscal year 2020, compared to $9.2 M for the same quarter of last fiscal year, representing a $2.2 M, or 23.8 % decrease. WTS revenues stood at $29.3 M for the year ended June 30, 2020, compared with $40.2 M for the previous fiscal year, representing a decrease of $10.9 M, or 27.2 %. On May 5, 2020, the Corporation announced the cancellation of a project worth $9.9 M due to the denial of the permit for the desalination project. This cancellation mainly explains the decrease in revenues for the fourth quarter and the year ended June 30, 2020 compared to the previous fiscal year.

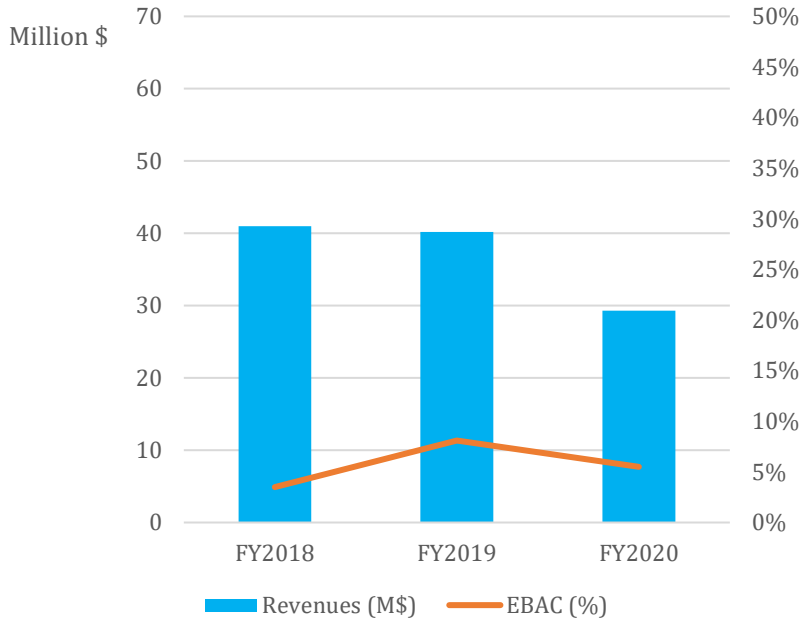
The gross profit margins before depreciation and amortization stood at $1.5 M, or 21.8 % for the fourth quarter of fiscal year 2020, compared with $2.1 M, or 22.6 % for the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $5.9 M, or 20.1 % for the year ended June 30, 2020, compared with $7.3 M, or 18.1 % for the previous fiscal year, representing an improvement of the gross profit margin in % over revenues. The gross profit margin was helped by a higher proportion of service activities, characterized by higher gross profit margins, compared to the previous fiscal year. Our objective is to focus on the growth of service activities, which are recurring in nature and have better gross profit margins, which is in line with the strategy of reducing volatility associated with the WTS business revenues.

The general operating expenses and selling expenses stood at $1.0 M during the fourth quarter of fiscal year 2020, compared to $1.1 M, for the same quarter of last fiscal year, representing an decrease of $0.1 M. In the fourth quarter of fiscal year 2020. The worldwide restrictions on various forms of transportation and lockdown periods due to the coronavirus pandemic resulted in lower travel expenses of $0.1 M compared to the same period of previous fiscal year. The general operating expenses and selling expenses stood at $4.3 M for the year ended June 30, 2020, compared to $4.0 M, for the previous fiscal year, representing an increase of $0.3 M. This increase in the expenses is driven by the addition of salesmen in service activities and process engineers to support the growth of the wastewater activity.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 37 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.

WTS's EBAC stood at $0.6 M during the fourth quarter of fiscal year 2020, compared to $1.0 M for the same quarter of last fiscal year, representing a decrease of $0.4 M, or 44.4 %. 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. WTS's EBAC stood at $1.6 M for the year ended June 30, 2020, compared to $3.3 M for the previous fiscal year, representing a decrease of $1.7 M, or 50.7 %.

As previously mentioned, the Corporation's strategy is the change in focus of this business pillar towards customers who will value the long-term services and consumables and create financial sustainability from a more stable revenue stream. The restructuring costs recognized for the year ended June 30, 2020 were mainly severances and termination costs amounting to $0.4 M, with anticipated savings of about $0.7 M on an annual basis following the actions taken this fiscal year.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2020	2019[3]	Variation		Years ended June 30, 2020	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**11,716**	6,832	4,884	71.5	**40,175**	24,943	15,232	61.1
Cost of goods sold	**6,582**	3,956	2,626	66.4	**22,924**	14,754	8,170	55.4
Gross profit margins[1]	**5,134**	2,876	2,258	78.5	**17,251**	10,189	7,062	69.3
Gross profit margins[1] (%)	**43.8 %**	42.1 %	-	-	**42.9 %**	40.8 %	-	-
General operating expenses	**805**	504	301	59.7	**3,237**	2,397	840	35.0
Selling expenses	**1,509**	942	567	60.2	**4,451**	3,184	1,267	39.8
EBAC[2] from Specialty Products	**2,820**	1,430	1,390	97.2	**9,563**	4,608	4,955	107.5
EBAC[2] over revenues from Specialty Products	**24.1 %**	20.9 %	-	-	**23.8 %**	18.5 %	-	-

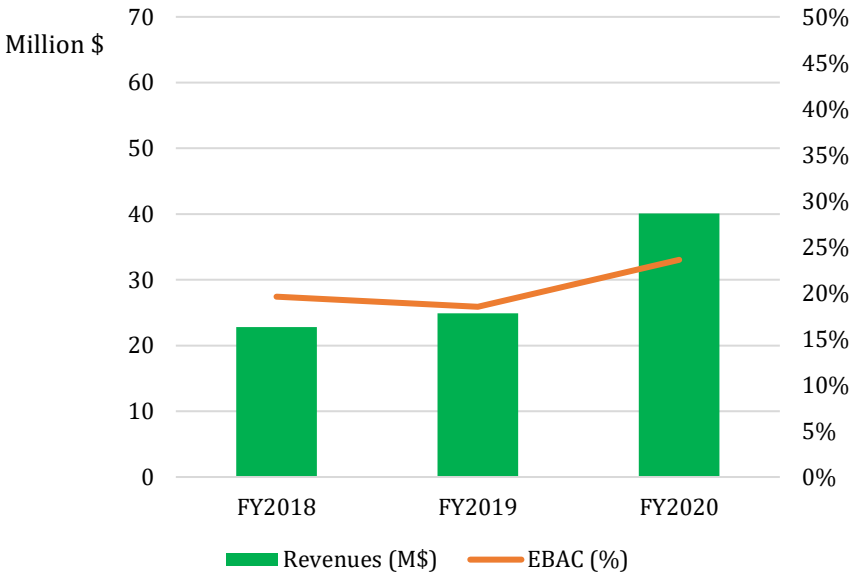
Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry, are recurring by nature. They stood at $11.7 M during the fourth quarter of fiscal year 2020, compared to $6.8 M for the same quarter of last fiscal year, representing an increase of $4.9 M, or 71.5 %. Of this $4.9 M revenue increase, $2.5 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 $40.2 M for the year ended June 30, 2020, compared to $24.9 M for the previous fiscal year, representing an increase of $15.3 M, or 61.1 %. Of this $15.3 M revenue increase, $7.2 M is attributable to the acquisition of Genesys and is representing 7.5 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 a better than expected or improved 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.

The gross profit margins before depreciation and amortization stood at $5.1 M, or 43.8 % for the fourth quarter of fiscal year 2020, compared with $2.9 M, or 42.1 % for the same quarter of last fiscal year, representing an increase of $2.2 M in dollar, as well as an increase of the gross profit margin in %. The gross profit margin increased by 78.5% while the revenues increased by 71.5 %. The gross profit margins before depreciation and amortization stood at $17.3 M, or 42.9 % for the year ended June 30, 2020, compared with $10.2 M, or 40.8 % for the previous fiscal year, representing an increase of $7.1 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, and the addition of Genesys characterized with higher gross profit margins.

The general operating expenses and selling expenses stood at $2.3 M during the fourth quarter of fiscal year 2020, compared to $1.4 M, for the same quarter of last fiscal year. The acquisition of Genesys contributed to $0.7 M of this increase. The general operating expenses and selling expenses stood at $7.7 M for the year ended June 30, 2020, compared to $5.6 M, for the previous fiscal year.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 37 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.

Specialty Products EBAC stood at $2.8 M during the fourth quarter of fiscal year 2020, compared to $1.4 M for the same quarter of last fiscal year, representing an increase of $1.4 M, or 97.2 %. Specialty Products EBAC stood at $9.6 M for the year ended June 30, 2020, compared to $4.6 M for the previous fiscal year, representing an increase of $5.0 M, or 107.5 %.



O&M

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2020	2019[3]	Variation		Years ended June 30, 2020	2019[3]	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**17,281**	15,890	1,391	8.8	**64,124**	52,770	11,354	21.5
Cost of goods sold	**13,337**	13,009	328	2.5	**51,363**	43,138	8,225	19.1
Gross profit margins[1]	**3,944**	2,881	1,063	36.9	**12,761**	9,632	3,129	32.5
Gross profit margins (%)	**22.8 %**	18.1 %	-	-	**19.9 %**	18.3 %	-	-
General operating expenses	**462**	705	(243)	(34.5)	**2,289**	2,475	(186)	(7.5)
Selling expenses	**235**	403	(168)	(41.7)	**1,412**	1,345	67	5.0
EBAC[2] from O&M	**3,247**	1,773	1,474	83.1	**9,060**	5,812	3,248	55.9
EBAC[2] over revenues from O&M	**18.8 %**	11.2 %	-	-	**14.1 %**	11.0 %	-	-

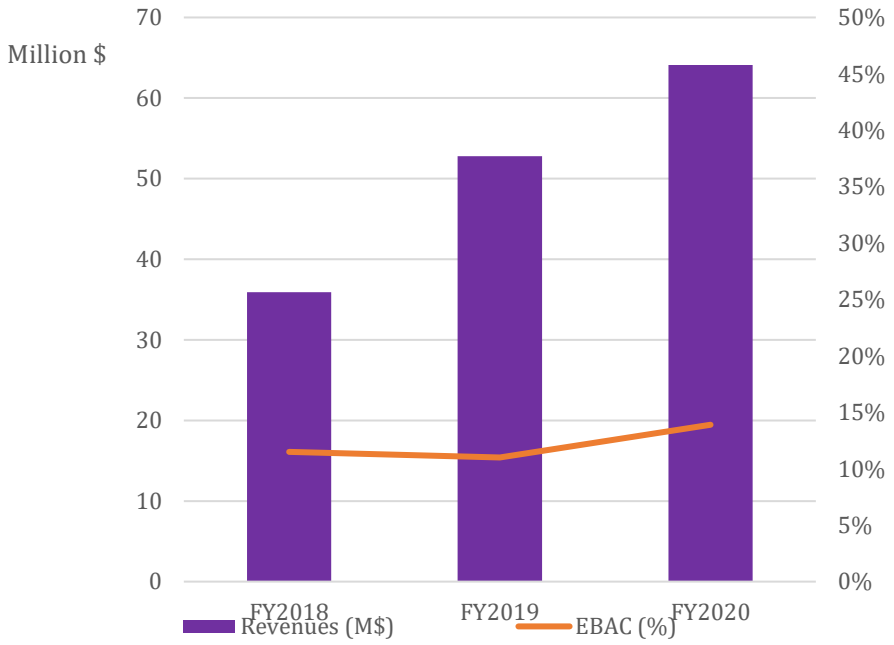
O&M revenues stood at $17.3 M during the fourth quarter of fiscal year 2020, compared to $15.9 M for the same quarter of last fiscal year, representing an increase of $1.4 M, or 8.8 %. This increase is due to organic growth seen in both Utility Partners and Hays. O&M revenues stood at $64.1 M for the year ended June 30, 2020, compared to $52.8 M for the previous fiscal year, representing an increase of $11.3 M, or 21.5 %. Hays, which was acquired during the second quarter of the previous fiscal year, contributed $22.6 M to the revenues of this business pillar during the twelve-month period ended June 30, 2020 compared to $12.3 M for fiscal year 2019.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 37 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 $3.9 M, or 22.8 % for the fourth quarter of fiscal year 2020, compared with $2.9 M, or 18.1 % for the same quarter of last fiscal year, representing an increase of $1.0 M, or 36.9 %. The gross profit margins before depreciation and amortization stood at $12.8 M, or 19.9 % for the year ended June 30, 2020, compared with $9.6 M, or 18.3 % for the previous fiscal year, representing an increase of $3.2 M, or 32.5 %.

The general operating expenses and selling expenses stood at $0.7 M during the fourth quarter of fiscal year 2020, compared to $1.1 M, for the same quarter of last fiscal year, representing a decrease of $0.4 M. The general operating expenses and selling expenses stood at $3.7 M for the year ended June 30, 2020, compared to $3.8 M, for the previous fiscal year.

O&M EBAC stood at $3.2 M during the fourth quarter of fiscal year 2020, compared to $1.8 M for the same quarter of last fiscal year, representing an increase of $1.4 M, or 83.1 %. O&M EBAC stood at $9.1 M for the year ended June 30, 2020, compared to $5.8 M for the previous fiscal year, representing an increase of $3.3 M, or 55.9 %.



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 years ended June 30, 2020 and June 30, 2019 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended June 30,			Years ended June 30,		
	2020	2019[1]	Variation	**2020**	2019[1]	Variation
	$	$	$	**$**	$	$
Cash flows from operating activities before change in working capital items	**4,086**	1,975	2,111	**10,600**	6,165	4,435
Change in working capital items	**5,477**	1,139	4,338	**1,623**	(411)	2,034
	9,563	3,114	6,449	**12,223**	5,754	6,469
Interests received / Income taxes received (paid)	**4**	90	(86)	**45**	7	38
Cash flows from operating activities	**9,567**	3,204	6,363	**12,268**	5,761	6,507
Cash flows from (used in) investing activities	**4,278**	(692)	4,970	**(25,533)**	(7,712)	(17,821)
Cash flows from (used in) financing activities	**(10,678)**	(1,795)	(8,883)	**16,450**	6,552	9,898
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(399)**	(210)	(189)	**26**	(133)	159
Net change	**2,768**	507	2,261	**3,211**	4,468	(1,257)
Cash – Beginning of period	**6,649**	5,699	950	**6,206**	1,738	4,468
Cash – End of period	**9,417**	6,206	3,211	**9,417**	6,206	3,211

(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 $2.8 M during the fourth quarter of fiscal year 2020, compared with an increase of $0.5 M for the comparable quarter of the previous fiscal year. Cash increased by $3.2 M for the year ended June 30, 2020, compared with an increase of $4.5 M for the previous fiscal year. The variations are explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities generated $9.6 M for the quarter ended June 30, 2020, compared to $3.2 M of cash flows generated from operating activities during the same period of previous fiscal year. The increase in the cash flows from operating activities is driven by the increase in revenues as well as by the improvement of the gross profit margins and the change in working capital items.

Cash flows from operating activities generated $12.3 M for the year ended June 30, 2020, compared to $5.8 M of cash flows generated from operating activities during the previous fiscal year. The increase in the cash flows from operating activities is driven by the increase in revenues as well as by the improvement of the gross profit margins and the change in working capital items.

Cash Flows from Investing Activities

Investing activities generated $4.3 M of cash flows for the quarter ended June 30, 2020, compared to ($0.7 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 $0.4 M, compared with investments in property, plant and equipment and intangible assets of $1.6 M for the comparable quarter of the previous fiscal year. The remaining variation is coming from the final purchase price allocation of Genesys' acquisition during the fourth quarter of fiscal year 2020.

Investing activities used ($25.5 M) of cash flows for the year ended June 30, 2020, compared to ($7.7 M) of cash flows used in investing activities during the previous fiscal year. The variation is mainly attributable to the business combination of Genesys for $ 28.1 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 ($10.7 M) for the quarter ended June 30, 2020, compared to ($1.8 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation is partly attributable to bank loans reimbursement of $3.8 M this quarter, compared to a reimbursement of $1.7 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 $0.4 M.

Financing activities generated $16.5 M for the year ended June 30, 2020, compared to $6.6 M of cash flows generated in financing activities during the 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 for the year ended June 30, 2020 for selected information:

(In thousands of Canadian dollars)	**June 30, 2020**	June 30, 2019	Variation		Explanations
	$	$	$	%	
Accounts receivable	**19,291**	19,440	(149)	0.8 %	Accounts receivable remained fairly the same as the previous fiscal year even though the acquisition of Genesys added $2.2 M in accounts receivable.
Inventories	**7,869**	6,739	1,130	16.8 %	The increase in inventory is due to the acquisition of Genesys, which contributed $0.7 M of this increase and significant projects in Piedmont business line delivered after June 30, 2020.
Contract assets	**8,629**	5,880	2,749	46.8 %	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	**15,915**	12,264	3,651	29.8 %	The increase is due to the integration of Genesys, adding $0.6 M of accounts payable and accrued liabilities. This increase is also due to the timing of the payments and purchases for the period ended June 30, 2020, with significant purchase orders standing in the accounts payable at period end.
Contract liabilities	**3,168**	3,111	57	1.8 %	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)	**June 30, 2020**	June 30, 2019[1]	Variation	
	$	$	$	%
Bank loans	**3,415**	7,545	(4,130)	(54.7)
Current portion of long-term debt	**2,782**	1,863	919	49.3
Long-term debt	**13,766**	6,578	7,188	109.3
Less: Cash	**(9,417)**	(6,206)	(3,211)	(51.7)
Net debt	**10,546**	9,780	766	7.8

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

As at June 30, 2020, the net debt stood at $10.5 M, compared with $9.8 M as at June 30, 2019, representing a $0.7 M increase, or 7.8 %. 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 $4.1 M in bank loans and the increase in cash available of $3.2 M. The adoption of IFRS 16 – *Leases* also contributed to reduce $0.8 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 June 30, 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 June 30, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2020, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.8 M which expire at various dates through fiscal year 2022. Of these letters of credit, $1.8 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, restructuring costs and 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 and integration 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 June 30,		**Years ended June 30,**	
(In thousands of Canadian dollars)	**2020**	2019[1]	**2020**	2019[1]
	$	$	**$**	$
Net earnings (loss) for the period	**813**	(1,177)	**(4,227)**	(2,180)
Finance costs – net	**529**	219	**2,037**	2,071
Income taxes	**618**	651	**(319)**	422
Depreciation of property, plant and equipment	**798**	482	**2,880**	1,349
Amortization of intangible assets	**1,196**	1,513	**4,319**	3,976
EBITDA	**3,954**	1,688	**4,690**	5,638
Unrealized exchange (gain) loss	**272**	131	**(344)**	222
Stock-based compensation costs	**54**	75	**223**	308
Changes in fair value of the contingent consideration	**61**	248	**329**	248
Acquisition-related costs and integration costs	**85**	232	**1,912**	797
Impairment of intangible assets and goodwill	**-**	-	**5,308**	-
Restructuring costs	**406**	-	**406**	-
Adjusted EBITDA	**4,832**	2,374	**12,524**	7,213

[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 June 30, 2020	2019[1]	Years ended June 30, 2020	2019[1]
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized overtime	**21,881**	22,248	**82,611**	81,242
Revenue recognized at a point in time	**14,098**	9,636	**50,986**	36,716
	35,979	31,884	**133,597**	117,958
Cost of goods sold	**25,381**	24,060	**97,689**	90,840
Gross profit before depreciation and amortization	**10,598**	7,824	**35,908**	27,118
General operating expenses	**1,469**	1,443	**6,327**	5,693
Selling expenses	**2,509**	2,183	**9,351**	7,743
Earnings before administrative costs (EBAC)	**6,620**	4,198	**20,230**	13,682

[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 36 of this MD&A for reconciliation. Net-debt-to-Adjusted EBITDA ratio is a non-IFRS measure without a standardized definition within IFRS. The Corporation uses this ratio as a measure of financial leverage and it is calculated using our trailing twelve month adjusted EBITDA.

EARNINGS (LOSS) BEFORE IMPAIRMENT AND RESTRUCTURING COSTS

Earnings (loss) before impairment and restructuring costs is defined as the net earnings (loss) before the impairment charges and related deferred tax impact, following the impairment test performed during the third quarter of fiscal year 2020, and restructuring costs. This non-IFRS measure is used by management to evaluate the results of the Corporation before these non-recurring items.

RECONCILIATION OF NET EARNINGS (LOSS) TO EARNINGS (LOSS) BEFORE IMPAIRMENT AND RESTRUCTURING COSTS

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2020	2019[1]	Years ended June 30, 2020	2019[1]
	$	$	**$**	$
Net earnings (loss) for the period	**813**	(1,177)	**(4,227)**	(2,180)
Impairment of intangible assets and goodwill	**-**	-	**5,308**	-
Restructuring costs	**406**	-	**406**	-
Deferred tax impact on impairment	**-**	-	**(581)**	-
Earnings (loss) before impairment and restructuring costs	**1,219**	(1,177)	**906**	(2,180)

[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: service activities, 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 June 30, 2020,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	6,982	11,716	17,281	35,979
Recurring revenues	**2,382**	**11,716**	**17,281**	**31,379**

(In thousands of Canadian dollars)	**Year ended June 30, 2020,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	29,298	40,175	64,124	133,597
Recurring revenues	**10,811**	**40,175**	**64,124**	**115,110**

(In thousands of Canadian dollars)	Three-month period ended June 30, 2019,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	9,162	6,832	15,890	31,884
Recurring revenues	**2,804**	**6,832**	**15,890**	**25,526**

(In thousands of Canadian dollars)	Year ended June 30, 2019,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	40,245	24,943	52,770	117,958
Recurring revenues	**11,773**	**24,943**	**52,770**	**89,486**

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.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

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

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

Impact of COVID-19

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at June 30, 2020, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and intangible assets impairment. As part of this assessment, the Corporation recorded a non-cash impairment charge of $2.7 M against goodwill and $2.6 M against intangible assets (note 9 and 10). The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, property, plant & equipment, finite-life intangible assets, deferred income tax assets, goodwill, provision for onerous contracts and provision for litigations. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Judgments

Determining the lease term of contracts with renewal and termination options – the Corporation as lessee

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. The Corporation has several lease contracts that include extension and termination options. The Corporation applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate.

The Corporation typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Estimates and assumptions

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

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

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

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

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

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

Provision for expected credit losses of accounts receivable and contract assets

The Corporation uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Corporation's historical observed default rates. The Corporation will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The Corporation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Fair value of assets acquired in a business combination

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

Contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Leases - Estimating the incremental borrowing rate

The Corporation cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Corporation would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Corporation 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Corporation estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

FINANCIAL RISK FACTORS

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

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

Overview

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

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

Currency risk

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

As at June 30, 2020, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, EURO or British pound currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2020 would have been greater or lesser by approximately $498 ($53 for the year ended June 30, 2019) and the comprehensive loss would have been greater or lesser by approximately $557 ($294 for the year ended June 30, 2019).

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

As at June 30,	**2020**	2019
	$	$
Financial assets		
Cash	**1,468**	1,089
Accounts receivable	**6,587**	2,822
	8,055	3,911
Financial liabilities		
Bank loans	**(815)**	(3,795)
Accounts payable and accrued liabilities	**(84)**	(929)
	(899)	(4,724)

Cash flow and fair value interest rate risk

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

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

The bank loans and the long-term debt bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. To manage this, the Corporation enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at June 30, 2020 and 2019, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2020, the allowance for doubtful accounts was $171 ($65 as at June 30, 2019).

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

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

As at June 30,	**2020**	2019
	$	$
Cash	**9,417**	6,206
Guaranteed deposit certificates	**22**	21
Accounts receivable, net of tax credits receivable	**19,291**	19,440
Other assets	**301**	234
Related party loans receivable	**1,250**	1,250

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

The table below summarizes the aging of trade accounts receivable:

As at June 30,	**2020**	2019
	$	$
Current	**7,700**	7,996
Past due 1 to 30 days	**2,620**	3,421
Past due 31 to 90 days	**4,377**	3,009
Past due more than 90 days	**1,887**	1,654
	16,584	16,080
Less: Allowance for doubtful accounts	**(171)**	(65)
Trade accounts receivable	**16,413**	16,015
Retentions from customers under project contracts	**2,669**	3,253
Other receivables	**209**	172
	19,291	19,440

Liquidity risk

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

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

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

As at June 30, 2020	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank loans	**3,415**	**3,415**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**15,915**	**15,915**	**-**	**-**	**-**
Long-term debt	**17,686**	**3,287**	**3,513**	**9,748**	**1,138**
Lease liabilities	**10,814**	**1,721**	**1,622**	**1,375**	**6,096**
Contingent consideration	**1,413**	**1,413**	**-**	**-**	**-**
Total	**49,243**	**25,751**	**5,135**	**11,123**	**7,234**

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

Fair value

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

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

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

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

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $16,548 ($8,441 as at June 30, 2019) and was determined to be a level 2 financial instrument.

Contingent consideration
The fair value of the contingent consideration has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the contingent consideration is $1,413 ($2,503 as at June 30, 2019) and was determined to be a level 2 financial instrument.

RISK FACTORS

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

Public Health and COVID-19 pandemic

On March 11, 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. Therefore, over the past months, the COVID-19 pandemic has impacted the world on many levels, and is still impacting to this date, the commercial activities globally. The different governmental emergency measures, the travel restrictions and the temporary business closures have led to global economic uncertainties, including a general reduction of consumer activities and delays in the operations and supply chain. The Corporation has been actively monitoring the development of the COVID-19 pandemic and more particularly its effects on its business and industry. In these unprecedented times, the degree to which the pandemic will affect the Corporation's activities in the future is difficult to predict. Being considered as an essential service and product provider, H_2O Innovation has been able to maintain its operation and maintenance activities, aftersales services, manufacturing and distribution of specialty chemicals, along with the design and manufacturing of components for the water desalination industry and for the maple syrup industry. Only the business line dedicated to water technologies (design, engineering and manufacturing of water and wastewater treatment systems) was slowed down due to limited access to various construction sites. To date, the impact of the COVID-19 pandemic on the Corporation has been and is expected to continue to be manageable, but there are many factors that could affect the Corporation on different, and are hard to predict, levels, such as the duration and magnitude of the pandemic as well as its effects on the global economy and the supply chain. The extent to which the COVID-19 pandemic may impact the Corporation's overall business, business opportunities, results of operations, financial condition and cash flows are outside of the Corporation's control and cannot be accurately predicted at this time.

Operating risks

Different types of events could induce an interruption and/or a loss of the Corporation's operation and production and cause significant delays in operation. To mitigate that risk, the Corporation has located its inventory in different warehouses strategically located and has implemented an emergency plan that is regularly reviewed by the management. In the event that one of the Corporation's location is affected by an event that leads to a business interruption, a significant portion of the Corporation's operations can be moved to another location, or source from another warehouse or subcontractor with whom the Corporation has established good business relationship. The Corporation also maintains business interruption and contingent business interruption insurance coverages.

Design and manufacturing of water treatment systems and specialty products as well as the performance of O&M services involve a significant degree of operating risks. There are a few products that are designed and manufactured by the Corporation, and specialized O&M services performed by Corporation's employees, for which a major failure or human error could cause material damages and personal injury, even death. The occurrence of any of these events could result in criminal prosecutions, financial loss, loss of market and customer confidence, loss of key customer and business interruption, all of which may have an adverse effect on the Corporation's business. The Corporation uses software that has improved the design, drafting, estimation and fabrication of its products to minimize human error and controls production quality in its plants. The Corporation maintains product liability, pollution liability and other insurance coverage that management of the Corporation believes is generally in accordance with the market practice in its industry, but there can be no assurance that the Corporation will always be adequately insured against all such potential liabilities.

Reported performance obligations

Corporation's reported performance obligations are derived from contracts that are considered firm or for which management estimates a certain amount of revenues to be generated from such contracts. Project delays, suspensions, terminations, cancellations or reductions in scope may occur from time to time in the Corporation's industry due to considerations beyond the Corporation's control and may have a material negative impact on the amount of reported performance obligations with a corresponding adverse impact on future revenues and profitability. Furthermore, the risk resulting from the loss of recurrent customers or distributors is considered and would have a noticeable impact on expected revenues and profitability. The likelihood of occurrence is possible, while low, considering the significant amount of competition within the different segments in which the Corporation operates. The Corporation developed broad distribution networks and continues to expand them worldwide by creating convergence and synergies.

Fixed price contracts and renewal

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

Acquisition and expansion

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

International operations, global geopolitical climate and foreign exchange risks

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

In addition, the Corporation's activities outside Canada expose the Corporation to foreign currency exchange risks, mainly as a result of its purchases and sales made in US dollar, Euro, or British Pound, which could adversely impact its operating results. To limit the impact of the fluctuations of the Canadian dollar over the US dollar and other currencies, the Corporation matches, in general and when possible, the cash receipts in a foreign currency with the cash

disbursements in the same foreign currency. As of today, the Corporation does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

Current global financial conditions

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

Competitive environment

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

Liquidity

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

Credit risk

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

Indebtedness

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

Guaranteed deposit certificates and unsecured loans bear interest at fixed rates and the Corporation is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The bank loans bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Capacity to secure performance guarantee

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

Dependence on third parties

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

Cybersecurity and cyber threats

The Corporation relies on the accuracy, reliability, and proper use of information processing systems and management information technology and provides several services to its customers using these information processing systems. Any interruption in these systems could have a material adverse effect on the Corporation's business, financial condition and results of operations. The Corporation has developed and implemented a cybersecurity plan to mitigate the risks associated with cyber threats, breach or loss of data and inadequate users' behaviors. Different controls are currently in place, such as network security, data security, training and awareness. Therefore, all employees of the Corporation who work remotely, occasionally or for a longer period of time during the Covid-19 pandemic, connect themselves to the Corporation's network through a virtual private network (VPN). The Corporation's network is also protected by firewalls controlling incoming and outgoing network traffic based on predetermined security rules. The Corporation also maintain a cyber liability insurance coverage as well as a technology error and omission insurance coverage with respect to all services offered to its customers with respect to electronic or computer-based system or network.

Health & safety

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

During the COVID-19 pandemic, the health and safety of the Corporation's employees has remained a priority in the face of evolving workplace risks and practices related to the pandemic. The Corporation implemented extensive health and

safety measures across all its locations and operations in Canada, the USA, Spain and the UK, based on the guidance and direction from national and local public health authorities. Each location developed an appropriate protocol, which has been reviewed and approved by the Covid-19 Committee, to protect the Corporation's employees, to meet the health and safety requirements and to promote good hygiene practices. Further, if the Corporation is unable to meet the current or future health and safety laws, regulations, guidance and industry standards related to COVID-19, or despite the Corporation's efforts and precautions, employees are exposed and infected by the COVID-19 virus, it could have an adverse effect on the Corporation's abilities to maintain its operation and maintenance services, to produce and manufacture its water technologies and specialty products and to provide its customers with appropriate technical services with respect to their water treatment systems, all of which could have an adverse effect on the Corporation's operations and financial performance.

Key personnel

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

Impairment

In accordance with IFRS, goodwill is assessed for impairment at least once a year by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate. The determination of these estimated cash flows requires the exercise of judgment, which might result in significant variances in the carrying amount of these assets. The Corporation cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Corporation's results of operations and financial position. Financial assets, other than those accounted for at fair value, are assessed for indicators of impairment at all time during a given fiscal year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Corporation may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Corporation's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Corporation's investments could also have a material adverse effect on its financial condition or results of operations.

Market liquidity

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

Additional financing and dilution

The Corporation does not exclude raising additional funds by equity financing to fund its activities or implement its strategic plan. On November 14, 2019, the Corporation issued 20,982,619 new common shares and 10,491,310 Warrants

at a price of $1.40 until November 15, 2021, under the 2019 Placement, as well as 923,794 broker warrants to purchase common shares, which are in addition to the 642,710 broker warrants issued by the Corporation on November 30, 2018 with respect to the 2018 Private Placement (collectively, the "Broker Warrants"). In addition, as of June 30, 2020, there was 2,511,334 stock options currently issued and outstanding. The exercise of the Warrants, the Broker Warrants and stock options, as well as any new equity financings, represent dilution factors for present and future shareholders.

Brexit

Since the acquisition of Genesys in November 2019, the Corporation has business operations in the UK. On January 31, 2020, the UK withdrew from the European Union ("Brexit") and is now in a period of transition until the end of 2020. During this transition period, the UK will negotiate future trading relations with the European Union ("EU"). Until a final agreement has been reached, an exit without a negotiated trade agreement, which would result in the UK losing access to free trade agreements for goods and services with the EU and other countries, continues to be a risk. The inability to reach an agreement prior to the December 31, 2020 deadline could significantly disrupt the free movement of goods, services, and people between the UK and the EU, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe, such as increased tariffs on UK imports and exports and delays at the UK border. To the extent there is a negotiated Brexit, the implementation of any agreements reached, and the changes to current operations and processes resulting therefrom, could have an adverse impact on the Corporation's operation as the Corporation adapts itself to new trading, legal and regulatory frameworks. Given the lack of comparable precedent, it is unclear how Brexit may negatively impact the economies of the UK, the EU countries and other nations, as well as the Corporation's operations in these locations.

The uncertainty related to Brexit has caused volatility in global stock markets and foreign currency exchange rate fluctuations, and the continued uncertainty about the terms and impact of Brexit may maintain such volatility and fluctuations in the future. Brexit could adversely affect UK, regional (including European), and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro, which in turn could adversely affect the Corporation and its customers.

Litigation

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

Intellectual property infringement

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

Implementation of a strategic plan

The commercial strategy of the Corporation aims at leveraging its offering based on 3 pillars, namely WTS, Specialty Products and O&M, by focusing on the development of niche sectors and by concluding acquisitions or alliances with players in strategic geographical regions, complementary product lines or business models. The strategic plan of the

Corporation should be addressed taking into consideration potential risks, expenses and difficulties frequently encountered by growth companies. The successful viability of the Corporation's growth strategy may require capital investments larger than those previously expected, and nothing guarantees that the Corporation will achieve its desired growth level.

Capital investment

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

Development of new products

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

Interest rate risk

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

Insurance coverage risk

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

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

Technological changes

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

Reputation and regulatory risk

Given the nature of its international operations, the Corporation is required to comply with various local, national and international rules, laws, regulations and other legal requirements enforced by governments or other regulatory authorities. In addition, misconduct, fraud, non-compliance with such applicable rules, laws and regulations, or other improper activities by one of the Corporation's employees, agents or partners could have a significant negative impact on the Corporation's business and reputation. The Corporation develops and maintains client relationships in the normal course of business in accordance with high ethical standards as set out in its policies. The risk of non-performance of a contract under the terms agreed upon including the possibility of a default or a significant incident could adversely impact its reputation and influence its future capacity to win projects.

The consequence of reputational risk is a negative impact on the Corporation's public image, which may cause the cancellation of contracts and influence the Corporation's ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Corporation's contracts, alleged or proven non-compliance with laws or regulations by the Corporation's employees, agents, subcontractors, suppliers and/or partners.

Transfer pricing

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

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in Note 2 of the Audited Consolidated Annual Financial Statements for the year ended June 30, 2020.

NEW ACCOUNTING STANDARDS

IFRS 16 - LEASES

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

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

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

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

The adoption of the IFRS had an impact on the consolidated financial position and consolidated 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 2 to 14 years for buildings, 1 to 5 years for automotive equipment and 3 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	(924)
Right-of-use assets	8,984
Accounts payable and accrued liabilities	(7)
Long-term debt	(755)
Deferred rent	(137)
Lease liabilities [1]	8,959

[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	755
Total lease liabilities as at July 1, 2019	**8,959**

[1] At the date of adoption of IFRS 16, the weighted average rate was 4.19 %.

The following tables reconciles the right-of-use assets for the Corporation as of June 30, 2020:

Year ended June 30, 2020	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,866	331	787	8,984
Additions	773	276	17	1,066
Business combination	-	93	34	127
Disposals and write-off	-	-	(31)	(31)
Depreciation of right-of-use assets	(1,111)	(200)	(102)	(1,413)
Effect of changes in exchange rates	170	14	1	185
Right-of-use assets – Net book value as at June 30, 2020	**7,698**	**514**	**706**	**8,918**

The following table presents the lease liabilities for the Corporation as of June 30, 2020:

	Year ended June 30, 2020
	$
Balance at July 1, 2019	8,959
Additions	1,081
Business combination	127
Payment of lease liabilities	(1,733)
Interest expense on lease liabilities	391
Effect of changes in exchange rates	169
Lease liabilities as at June 30, 2020	**8,994**
Current portion	1,368
Non-current portion	7,626

The expense related to short-term leases and low-value assets leases during the year ended June 30, 2020 was $74.

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of June 30, 2020:

	$
Less than one year	1,721
One to five years	5,926
More than five years	3,167
Total undiscounted lease liabilities as at June 30, 2020	**10,814**

IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS

IFRIC 23, Uncertainty over Income Tax Treatments, was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the corporation's tax treatments. A corporation is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Corporation has adopted this interpretation as of July 1, 2019 and has assessed no significant impact as a result of the adoption of this interpretation.

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 Corporation is currently evaluating the impact of adopting these amendments on its consolidated 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 fiscal year allows them to conclude that the internal controls over financial reporting are effective for the year ended June 30, 2020.

Changes in Internal Controls over Financial Reporting

There have been no changes in Corporation's internal control over reporting that occurred during the most recent interim period and year ended June 30, 2020 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, other than changes resulting from the acquisition of Genesys described below.

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 June 30, 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)	Three-month period ended June 30, 2020	Twelve-month period ended June 30, 2020
Results	**$**	**$**
Revenues	2,490	7,184
Net Earnings	351	1,543
		As at June 30, 2020
Financial Position		**$**
Current Assets		5,650
Non-Current Assets [1]		26,288
Current Liabilities		723
Non-Current Liabilities		72

[1] includes fair market value of acquired intangible assets

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements and Management's Discussion and Analysis ("MD&A") of H_2O Innovation Inc. and all other information in the Annual Report are the responsibility of Management and have been reviewed and approved by the Board of Directors.

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

H_2O Innovation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to H_2O Innovation Inc. has been made known to them; and information required to be disclosed in H_2O Innovation Inc.'s filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

H_2O Innovation's CEO and CFO have also evaluated the effectiveness of H_2O Innovation's disclosure controls and procedures as of June 30, 2020. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date. Based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting, based on material weakness' definition set forth in NI 52-109. In compliance with NI 52-109, H_2O Innovation's CEO and CFO have provided a certification related to H_2O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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

The President and Chief Executive Officer	The Chief Financial Officer
Frédéric Dugré	Marc Blanchet

September 23, 2020

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

Independent auditor's report

To the shareholders of
H_2O Innovation Inc.

Opinion

We have audited the consolidated financial statements of **H_2O Innovation Inc.** and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at June 30, 2020 and 2019, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other information

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

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

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Ernst & Young LLP [1]

Quebec City, Canada
September 23, 2020

[1] CPA auditor, CA, public accountancy permit nº A109180

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

As at June 30,	2020	2019
	$	$
ASSETS (notes 12 and 14)		
Current assets		
Cash	**9,417**	6,206
Guaranteed deposit certificates	**22**	21
Accounts receivable (notes 6 and 22)	**19,291**	19,440
Inventories (note 7)	**7,869**	6,739
Contract assets (note 18)	**8,629**	5,880
Income taxes receivable (note 16)	**-**	69
Prepaid expenses	**926**	768
	46,154	39,123
Non-current assets		
Property, plant and equipment (note 8)	**6,923**	6,552
Intangible assets (note 9)	**29,079**	21,967
Right-of-use assets (note 2)	**8,918**	-
Other assets	**301**	234
Related party loans receivable (note 26 a)	**1,250**	1,250
Goodwill (notes 5 and 10)	**26,185**	15,727
Investment in an associate (note 11)	**1,592**	-
Deferred income tax assets (note 16)	**954**	144
	121,356	84,997
LIABILITIES		
Current liabilities		
Bank loans (note 12)	**3,415**	7,545
Accounts payable and accrued liabilities (note 13)	**15,915**	12,264
Income taxes payable (note 16)	**313**	-
Provisions	**208**	137
Contract liabilities (note 18)	**3,168**	3,111
Contingent consideration (notes 5 and 15)	**1,413**	1,361
Current portion of long-term debt (note 14)	**2,782**	1,863
Current portion of lease liabilities (note 2)	**1,368**	-
	28,582	26,281
Non-current liabilities		
Long-term debt (note 14)	**13,766**	6,578
Other non-current financial liabilities (notes 12 and 14)	**371**	-
Deferred rent (note 2)	**-**	137
Contingent consideration (notes 5 and 15)	**-**	1,142
Deferred income tax liabilities (note 16)	**2,398**	-
Lease liabilities (note 2)	**7,626**	-
	52,743	34,138
SHAREHOLDERS' EQUITY		
Share capital (note 17)	**106,872**	89,057
Reserve - Stock options (note 17)	**3,473**	3,250
Reserve – Warrants (notes 5 and 17)	**2,706**	167
Deficit	**(48,311)**	(44,084)
Accumulated other comprehensive income	**3,873**	2,469
	68,613	50,859
	121,356	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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars, except share data)

	Common shares (number) (note 17)	Share capital (note 17)	Reserve – Stock option (note 17)	Reserve – Warrants (note 17)	Deficit	Accumulated other comprehensive income	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)
Adjusted balance as at July 1, 2018	40,144,214	76,918	2,942	-	(41,904)	2,851	40,807
Stock-based compensation costs (note 17)	-	-	308	-	-	-	308
Net loss	-	-	-	-	(2,180)	-	(2,180)
Issuance of common shares under private placement (notes 5 and 17)	15,745,775	13,069	-	-	-	-	13,069
Issuance of warrants under private placement (notes 5 and 17)	-	-	-	167	-	-	167
Share issue expenses (notes 5 and 17)	-	(930)	-	-	-	-	(930)
Other comprehensive loss – Currency translation adjustments	-	-	-	-	-	(382)	(382)
Balance as at June 30, 2019	55,889,989	89,057	3,250	167	(44,084)	2,469	50,859
Balance as at July 1, 2019	**55,889,989**	**89,057**	**3,250**	**167**	**(44,084)**	**2,469**	**50,859**
Stock-based compensation costs (note 17)	**-**	**-**	**223**	**-**	**-**	**-**	**223**
Net loss	**-**	**-**	**-**	**-**	**(4,227)**	**-**	**(4,227)**
Issuance of common shares under private placement and public offering (notes 5 and 17)	**20,982,619**	**19,545**	**-**	**-**	**-**	**-**	**19,545**
Issuance of warrants under private placement and public offering (notes 5 and 17)	**-**	**-**	**-**	**2,759**	**-**	**-**	**2,759**
Share and warrants issue expenses (notes 5 and 17)	**-**	**(1,730)**	**-**	**(220)**	**-**	**-**	**(1,950)**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**1,775**	**1,775**
Other comprehensive income (loss) – Net loss on cash flow hedges						**(371)**	**(371)**
Balance as at June 30, 2020	**76,872,608**	**106,872**	**3,473**	**2,706**	**(48,311)**	**3,873**	**68,613**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS
(in thousands of Canadian dollars, except per share data)

Years ended June 30,	2020	2019
	$	$
Revenues (notes 18 and 25)	133,597	117,958
Cost of goods sold (note 20 a)	97,689	90,840
Gross profit before depreciation and amortization	**35,908**	27,118
General operating expenses (note 20 a)	6,327	5,693
Selling expenses (note 20 a)	9,351	7,743
Administrative expenses (note 20 a)	8,070	6,989
Depreciation of property, plant and equipment and right-of-use assets (notes 2, 8 and 20 b)	2,880	1,349
Amortization of intangible assets (notes 9 and 20 b)	4,319	3,976
Other losses – net (note 20 c)	13	258
Restructuring costs (note 19)	406	-
Acquisition and integration costs (note 5)	1,912	797
Impairment of intangible assets and goodwill (notes 9 and 10)	5,308	-
Operating costs total	**38,586**	26,805
Operating (loss) profit	**(2,678)**	313
Finance income (note 26 a)	(47)	(48)
Finance costs	2,084	2,119
Finance costs – net	2,037	2,071
Share of profit of an associate (note 11)	169	-
Loss before income taxes	**(4,546)**	(1,758)
Current income tax expense (note 16)	562	147
Deferred tax expense (recovery) (note 16)	(881)	275
	(319)	422
Net loss for the year	**(4,227)**	(2,180)
Basic and diluted net loss per share (note 21)	**(0.061)**	(0.044)
Weighted average number of shares outstanding (note 21)	69,018,459	49,289,706

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands of Canadian dollars)

Years ended June 30,	**2020**	2019
	$	$
Net loss for the year	**(4,227)**	(2,180)
Other comprehensive income (loss) - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**1,775**	(382)
Net loss on cash flow hedges	**(371)**	-
Comprehensive loss for the year	**(2,823)**	(2,562)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

Years ended June 30,	2020	2019
	$	$
Operating activities		
Loss before income taxes for the year	**(4,546)**	(1,758)
Non-cash items		
Finance costs – net	**2,037**	2,071
Depreciation of property, plant and equipment and right-of-use assets (notes 2, 8 and 20 b)	**2,880**	1,349
Amortization of intangible assets (notes 9 and 20 b)	**4,319**	3,976
Impairment of intangible assets and goodwill (notes 9 and 10)	**5,308**	-
Changes in fair value of contingent consideration (note 15)	**329**	248
Others	**219**	(29)
Stock-based compensation costs	**223**	308
Share of profit of an associate (note 11)	**(169)**	-
	10,600	6,165
Change in working capital items	**1,623**	(411)
Interests received	**47**	48
Income taxes paid	**(2)**	(41)
Net cash flows from operating activities	**12,268**	5,761
Investing activities		
Variation of guaranteed deposit certificates	**-**	235
Variation of other assets	**(60)**	146
Acquisition of property, plant and equipment	**(906)**	(2,209)
Proceeds from disposal of property, plant and equipment	**-**	105
Acquisition of intangible assets	**(342)**	(257)
Business combination, net of cash acquired (note 5)	**(22,738)**	(5,732)
Payment of contingent consideration (note 15)	**(1,487)**	-
Net cash flows from (used in) investing activities	**(25,533)**	(7,712)
Financing activities		
Variation of bank loans	**(4,130)**	(1,660)
Proceeds from long-term debt contracted (note 14)	**12,000**	6,244
Long-term debt reimbursement (note 14)	**(2,914)**	(8,065)
Payment of lease liabilities (note 2)	**(1,733)**	-
Interest paid	**(1,510)**	(2,010)
Financing costs	**(353)**	13,069
Issuance of common shares and warrants under private placement and public offering (note 17)	**16,768**	(763)
Share and warrants issue expenses (note 17)	**(1,678)**	(263)
Net cash flows from financing activities	**16,450**	6,552
Net change in cash	**3,185**	4,601
Effect of exchange rate changes on the balance of cash held in foreign currencies	**26**	(133)
Increase in cash	**3,211**	4,468
Cash –Beginning of the year	**6,206**	1,738
Cash –End of the year	**9,417**	6,206

See accompanying notes to consolidated financial statements.

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 technologies and services ("WTS"); 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

Statement of Compliance

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

On September 23, 2020, the Board reviewed and approved the consolidated financial statements and authorized its publication.

Reporting and functional currency

The Corporation's reporting currency is the Canadian dollar. The functional currency of the Canadian corporations is the Canadian dollar. The functional currency of the foreign subsidiaries located in the United States of America and in Hong Kong is the US dollar. The functional currency of the foreign subsidiaries located in the United Kingdom is the British pound, except for H_2O Innovation UK Holding Limited for which the functional currency is the Canadian dollar.

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

Principles of consolidation

The consolidated financial statements comprise the accounts of the Corporation, its wholly-owned subsidiaries H_2O Innovation USA Inc., H_2O Innovation USA Holding Inc., Professional Water Technologies, LLC, Piedmont Pacific Corporation, Piedmont Pacific Inc., H_2O Operation & Maintenance Inc., Piedmont Hong Kong Limited, Utility Partners, LLC, Hays Utility South Corporation, and H_2O Innovation UK Holding Limited and its subsidiaries, Genesys Holdings Limited, Genesys Manufacturing Limited and Genesys International Limited.

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

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

Investment in associates
An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those

policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Corporation's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Corporation's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of loss reflects the Corporation's share of the results of operations of the associate. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the Corporation's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Corporation recognizes its share of any changes, when applicable, in the consolidated statement of changes in shareholder's equity. Unrealized gains and losses resulting from transactions between the Corporation and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Corporation's share of profit or loss of an associate is shown on the face of the consolidated statement of loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate. When necessary, adjustments are made to bring the accounting policies in line with those of the Corporation.

After application of the equity method, the Corporation determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Corporation determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Corporation calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the consolidated statement of loss. Upon loss of significant influence over the associate, the Corporation measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Business combinations and goodwill

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

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

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

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

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

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

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

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

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

Foreign currency translation

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

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

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

Fair value measurement

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

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

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

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

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

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

Cash

Cash includes cash and demand deposits.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average costs method for raw materials and finished goods. Also, the Corporation is using the absorption costing method for finished goods. The absorption costing method used by the Corporation includes direct materials, labour and a proportion of manufacturing overhead costs based on the normal operating capacity but excluding borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs necessary to make the sale.

Leases

Leases – after the adoption of IFRS 16 as of July 1, 2019

Refer to the accounting policies in section *New standards, interpretations and amendments adopted*.

Leases – prior to adoption of IFRS 16 as of July 1, 2019

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

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

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

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

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

Other assets

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

Property, plant and equipment

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

Buildings	10-26 years
Machinery and equipment	2-10 years
Computer equipment	3-5 years
Furniture, fixtures and office equipment	2-10 years
Automotive equipment	2-5 years
Containerized units	4-10 years
Leasehold improvements	remaining term of the lease between two and ten years

The depreciation expense is included as "Depreciation of property, plant and equipment and right-of-use assets" in the consolidated statement of loss.

When significant parts of plant and equipment are required to be replaced at intervals, the Corporation depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of loss as incurred.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting period end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

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

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

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

The Corporation is using the following amortization methods:

Intangible assets acquired separately

- Software is amortized using the straight-line method over a period of five (5) or ten (10) years.

Intangible assets acquired in business combinations

- Intellectual property includes the patents, the rights on technologies, technologies and the technical drawings. Intellectual properties and patents are amortized using the straight-line method over a period of seven (7) to twenty (20) years.
- Technical drawings are amortized using the straight-line method over a period of ten (10) years.
- Trademarks with a definite useful life are amortized using the straight-line method over a period of three (3) to seven (7) years.
- Customer relations are amortized using the straight-line method over periods of ten (10) and fifteen (15) years.
- Non-compete agreements are amortized using the straight-line method over a period of six (6) months to ten (10) years.
- Contractual agreements are amortized over the related contract length.
- Distribution network is amortized using the straight-line method over a period of five (5) years.

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

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

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

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

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

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

For assets excluding goodwill, a previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

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

for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of loss.

Impairment of goodwill

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

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

The Corporation has elected to perform its annual impairment test of goodwill as of April 1st of each year.

Financial instruments – initial recognition and subsequent measurement

Classification and measurement

All financial assets and liabilities are recognized initially at fair value, in the case of financial instruments not at fair value through profit and loss (''FVTPL''), plus transaction costs.

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

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the Corporation's own credit risk of that liability is recognized in OCI unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in the consolidated statements of loss and comprehensive income (loss). The remaining amount of change in the fair value of liability is recognized in the consolidated statements of loss. Changes in fair value of a financial liability attributable to the Corporation's own credit risk that are recognized in OCI are not subsequently reclassified to the consolidated statements of loss; instead, they are transferred to retained earnings (deficit), upon derecognition of the financial liability.

The Corporation has made the following financial instrument classifications:

Financial Instrument	IFRS 9 Measurement
Cash	Amortized cost
Guaranteed deposit certificates	Amortized cost
Accounts receivable	Amortized cost
Related party loans receivable	Amortized cost
Bank loans	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Contingent consideration	FVTPL
Other non-current financial liabilities	FVOCI

Impairment

IFRS 9 requires a forward-looking Expected Credit Loss ("ECL") model. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive.

For accounts receivable and contract assets, the Corporation elected to use the simplified approach and assessed the impact of the standard based on lifetime expected credit losses. The Corporation has established a provision that is based on the Corporation's historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment.

For related party loans receivable, the allowance for credit loss ("ACL") is based on the 12-month ECL, referred to as the general approach under IFRS 9. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Corporation considers a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit risk mitigated by Export Development Canada's ("EDC") insurance.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Corporation has transferred its rights to receive cash flows from the asset and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive loss.

Derivative financial instruments and hedge accounting

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 recognized 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 consolidated statement of loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to consolidated statement of 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 recognized asset or liability or an unrecognized 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized 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.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statement of loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Corporation uses interest rate swap contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The ineffective portion relating to interest rate swap contracts is recognized in OCI.

The Corporation designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to the consolidated statement of loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statement of loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the consolidated statement of loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Revenue recognition

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

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

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

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

A contract asset is initially recognized for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade accounts receivable.

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Corporation transfers the related goods or services. Contract liabilities are recognized as revenue when the Corporation performs under the contract (i.e., transfers control of the related goods or services to the customer).

If the Corporation has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Corporation recognizes any impairment loss that has occurred on assets dedicated to that contract.

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

Revenues from aftersales services consist of the number of man hours required to repair water treatment system to which a billing rate per hour is applied and is recognized at a point time.

The Corporation may provide discounts and sales promotional incentives to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. The Corporation applies the most likely estimated discount to be provided to customers using contracted rates and estimating volume rebates provided to customers based on historical spending patterns. Consequently, revenues are recognized net of these estimated promotional incentives.

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

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

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

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

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

Interest income

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

Share capital

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

Share-based payment

The Corporation offers a stock option plan to directors, executive officers, key employees and consultants providing services to the Corporation and accounts for these awards in accordance with *IFRS 2 – Share-based Payment*. Stock options granted to directors, executive officers, key employees and consultants providing services are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding determination of the fair value of equity-settled share-based transactions are set out in note 17 – *Capital Stock*.

The fair value at the grant date of stock options is determined using the Black-Scholes pricing model and is recognized in the consolidated statement of loss as a compensation expense using a graded vesting schedule over the vesting period, based on the Corporation's estimate of the number of shares that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of the

revision of original estimates, if any, is recognized in the consolidated statement of loss such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to the Reserve – stock option.

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

Taxation

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation

authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Segment reporting

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

As required by the chief operating officer, the Corporation operates under three financial reporting segments: i) water technologies and services ("WTS"); 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").

Net loss per share

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

Provisions

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

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

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

Warranties

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

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

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Corporation's 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.

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 consolidated financial position and consolidated 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 2 to 14 years for buildings, 1 to 5 years for automotive equipment and 3 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	(924)
Right-of-use assets	8,984
Accounts payable and accrued liabilities	(7)
Long-term debt	(755)
Deferred rent	(137)
Lease liabilities [1]	8,959

[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	755
Total lease liabilities as at July 1, 2019	**8,959**

[1] At the date of adoption of IFRS 16, the weighted average rate was 4.19 %.

The following tables reconciles the right-of-use assets for the Corporation as of June 30, 2020:

Year ended June 30, 2020	Buildings	Automotive equipment	Machinery and equipment	Total
				$
Balance at July 1, 2019	7,866	331	787	8,984
Additions	773	276	17	1,066
Business combination (note 5)	-	93	34	127
Disposals and write-off	-	-	(31)	(31)
Depreciation of right-of-use assets	(1,111)	(200)	(102)	(1,413)
Effect of changes in exchange rates	170	14	1	185
Right-of-use assets – Net book value as at June 30, 2020	**7,698**	**514**	**706**	**8,918**

The following table presents the lease liabilities for the Corporation as of June 30, 2020:

	Year ended June 30, 2020
	$
Balance at July 1, 2019	8,959
Additions	1,081
Business combination	127
Payment of lease liabilities	(1,733)
Interest expense on lease liabilities	391
Effect of changes in exchange rates	169
Lease liabilities as at June 30, 2020	**8,994**
Current portion	1,368
Non-current portion	7,626

The expense related to short-term leases and low-value assets leases during the year ended June 30, 2020 was $74.

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of June 30, 2020:

	$
Less than one year	1,721
One to five years	5,926
More than five years	3,167
Total undiscounted lease liabilities as at June 30, 2020	**10,814**

IFRIC 23 - Uncertainty over Income Tax Treatments

IFRIC 23, *Uncertainty over Income Tax Treatments*, was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the corporation's tax treatments. A corporation is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Corporation has adopted this interpretation as of July 1, 2019 and has assessed no significant impact as a result of the adoption of this interpretation.

3. Critical accounting estimates, assumptions and judgements

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

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

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

Impact of COVID-19

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at June 30, 2020, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and intangible assets impairment. As part of this assessment, the Corporation recorded a non-cash impairment charge of $2.7 M against goodwill and $2.6 M against intangible assets (notes 9 and 10). The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, property, plant & equipment, finite-life intangible assets, deferred income tax assets, goodwill, provision for onerous contracts and provision for litigations. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Judgments

Determining the lease term of contracts with renewal and termination options – the Corporation as lessee

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. The Corporation has several lease contracts that include extension and termination options. The Corporation applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate.

The Corporation typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Estimates and assumptions

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

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

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

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

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

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

Provision for expected credit losses of accounts receivable and contract assets
The Corporation uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Corporation's historical observed default rates. The Corporation will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The Corporation's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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

value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of loss and consolidated statement of financial position.

Contingent consideration
Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Leases - Estimating the incremental borrowing rate
The Corporation cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Corporation would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Corporation 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Corporation estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. Accounting standards and amendments issued but not yet adopted

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 Corporation is currently evaluating the impact of adopting these amendments on its consolidated financial statements.

5. Business combinations

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 all the shares outstanding, from arm's-length third parties, of 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 ($28.8 M), on a cash-free, debt-free basis, fully paid on closing date and a subsequent working capital adjustment of £0.5 M ($0.9 M). 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 value of approximately $14.0 M, of which $5.3 M of units subscribed have been settled on a net cash basis against the total consideration paid.

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 new 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 and its subsidiary H_2O Innovation UK Holding Limited entered into on October 28, 2019 (the "Amended Credit Agreement"). The Corporation has drawn on such term loan the amount needed to complete the financing of the final purchase price amounting to $29.7 M.

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

Purchase price allocation on acquisition date (November 15, 2019)

(In thousands of Canadian dollars)	Initial allocation	Adjustments	Final allocation
	$	$	$
Assets acquired			
Cash and cash equivalents	1,739	-	**1,739**
Accounts receivable [1]	3,399	(959)	**2,440**
Inventory	675	46	**721**
Prepaid expenses	26	-	**26**
Income taxes receivable	-	174	**174**
Property, plant and equipment	1,928	88	**2,016**
Right-of-use assets [2]	133	(6)	**127**
Intangible assets	40	(40)	**-**
Investment in an associate	6	1,441	**1,447**
Liabilities assumed			
Accounts payable and accrued expenses	(2,367)	511	**(1,856)**
Lease liabilities [2]	(133)	6	**(127)**
Deferred tax liabilities	(1,150)	(1,334)	**(2,484)**
Identifiable net tangible assets acquired	4,296	(73)	**4,223**
Intangible assets acquired	6,390	(6,390)	**-**
Software	-	131	**131**
Customer relationships	-	12,080	**12,080**
Non-compete agreements	-	465	**465**
Trademark	-	401	**401**
Goodwill arising on acquisition	19,181	(6,740)	**12,441**
Fair value of net assets acquired	29,867	(126)	**29,741**
Consideration			
Cash	28,906	(5,343)	**23,563**
Issuance of units	-	5,264	**5,264**
Working capital adjustment	961	(47)	**914**
Total consideration payable	**29,867**	**(126)**	**29,741**
Cash consideration paid			**23,563**
Working capital adjustment paid			**914**
Less: Cash acquired			**(1,739)**
Net cash flow on acquisition			**22,738**

(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.

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 2020. The original transaction was made in British pounds and converted into Canadian dollars as at the acquisition date.

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

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

Costs related to the acquisition

Transaction costs of $2.0 M were expensed and are included in Acquisition and integration costs and other costs in the Consolidated Statements of Loss. The attributable costs of the issuance of the shares and warrants of $2.0 M have been charged directly to equity as a reduction in the share capital and warrants respectively amounting to $1.8 M and $0.2 M in the Consolidated Statements of Changes in Shareholders' Equity.

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, software, non-compete agreements and trademark. The assigned useful life to customer relationships has been estimated to 15 years and 2 years for non-compete agreements. The assigned useful life to trademark has been estimated to 3 years and 5 years for software. 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.

Goodwill arising from the business combination

Based on management's calculations, an amount of $12.4 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 year ended June 30, 2020 includes $7.2 M in revenues and a $1.5 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 year ended June 30, 2020 would have reached $137.9 M and consolidated net loss for the year ended June 30, 2020 would have been $3.5 M.

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a twelve-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition would have occurred on July 1, 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.

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.

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 acquired company 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 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.

6. Accounts receivable

As at June 30,	**2020**	2019
	$	$
Trade accounts receivable	**16,584**	16,080
Retentions from customers under manufacturing contracts	**2,669**	3,253
Allowance for doubtful accounts	**(171)**	(65)
	19,082	19,268
Other receivables	**209**	172
	19,291	19,440

Trade accounts receivable disclosed above include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable. In some cases, the Corporation holds the legal right to lien construction projects in the event that certain counterparties do not pay their balance within a specified period of time. The gross amount of accounts receivable for which an allowance for doubtful accounts is recorded is $171 ($65 as at June 30, 2019).

(a) Movement in the allowance for doubtful accounts

As at June 30,	2020	2019
	$	$
Balance at beginning of the year	(65)	(93)
Impairment losses recognized on receivables	(112)	(44)
Amounts written off during the year as uncollectible	18	74
Foreign exchange translation	(12)	(2)
Balance at end of the year	(171)	(65)

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

7. Inventories

As at June 30,	2020	2019
	$	$
Raw materials	597	847
Work in progress	130	262
Finished goods	7,142	5,630
	7,869	6,739

As a result of variations in the aging of its inventory of raw materials held in Canada, the Corporation recognized a provision for obsolete inventory of $194 ($118 in fiscal year 2019).

8. Property, plant and equipment

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized units	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2018	74	1,599	3,409	350	431	1,312	1,993	695	**9,863**
Additions	-	15	914	192	23	865	170	30	**2,209**
Business combinations (note 5)	-	-	177	3	30	854	-	-	**1,064**
Disposals and write-offs	-	-	-	(9)	-	(307)	-	-	**(316)**
Effect of foreign currency exchange differences	-	-	(15)	-	(1)	(25)	(6)	(1)	**(48)**
Balance as at June 30, 2019	74	1,614	4,485	536	483	2,699	2,157	724	**12,772**
Additions [(a)]	**-**	**-**	**199**	**87**	**10**	**240**	**509**	**41**	**1,086**
Business combination (note 5)	**213**	**1,665**	**105**	**33**	**-**	**-**	**-**	**-**	**2,016**
Disposals and write-offs	**-**	**-**	**(1,628)**	**(133)**	**(167)**	**(386)**	**(1,065)**	**(1)**	**(3,380)**
Adoption of IFRS 16 (note 2)	**-**	-	**(738)**	-	**-**	**(208)**	**-**	**-**	**(946)**
Effect of foreign currency exchange differences	**(3)**	**(24)**	**71**	**1**	**4**	**84**	**39**	**11**	**183**
Balance as at June 30, 2020	**284**	**3,255**	**2,494**	**524**	**330**	**2,429**	**1,640**	**775**	**11,731**
Accumulated depreciation									
Balance as at June 30, 2018	**-**	(448)	(2,073)	(175)	(225)	(403)	(1,424)	(367)	**(5,115)**
Depreciation expense	**-**	(77)	(307)	(96)	(47)	(491)	(254)	(77)	**(1,349)**
Disposals and write-offs	**-**	-	-	8	-	230	-	-	**238**
Effect of foreign currency exchange differences	**-**	-	7	-	-	(8)	6	1	**6**
Balance as at June 30, 2019	**-**	(525)	(2,373)	(263)	(272)	(672)	(1,672)	(443)	**(6,220)**
Depreciation expense	**-**	**(118)**	**(363)**	**(127)**	**(52)**	**(554)**	**(205)**	**(48)**	**(1,467)**
Disposals and write-offs	-	-	**1,616**	**131**	**165**	**107**	**935**	**-**	**2,954**
Adoption of IFRS 16 (note 2)	-	-	**22**	**-**	**-**	**-**	**-**	**-**	**22**
Effect of foreign currency exchange differences	**-**	**1**	**(32)**	**(1)**	**(3)**	**(24)**	**(29)**	**(9)**	**(97)**
Balance as at June 30, 2020	**-**	**(642)**	**(1,130)**	**(260)**	**(162)**	**(1,143)**	**(971)**	**(500)**	**(4,808)**
Net amount as at June 30, 2019	**74**	**1,089**	**2,112**	**273**	**211**	**2,027**	**485**	**281**	**6,552**
Net amount as at June 30, 2020	**284**	**2,613**	**1,364**	**264**	**168**	**1,286**	**669**	**275**	**6,923**

(a) The non-cash additions of property and equipment amounted to $0.2 M in the year ended June 30, 2020 ($1.6 M as at June 30, 2019).

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

9. Intangible assets

Cost	Software	Intellectual property	Trademarks	Customer relations	Distribution network	Contractual agreements	Non-Compete agreements	Deferred development costs	Total
	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2018	2,726	10,456	2,433	13,599	1,665	2,243	3,923	750	**37,795**
Additions	137	5	-	-	-	-	-	115	**257**
Business combination (note 5)	25	-	-	6,424	-	7	652	-	**7,108**
Disposals and write-offs	-	(15)	-	(35)	-	-	-	-	**(50)**
Effect of foreign currency exchange differences	(2)	(55)	(12)	(188)	(10)	(14)	(35)	(1)	**(317)**
Balance as at June 30, 2019	**2,886**	**10,391**	**2,421**	**19,800**	**1,655**	**2,236**	**4,540**	**864**	**44,793**
Additions	**133**	**17**	**-**	**-**	**-**	**-**	**-**	**192**	**342**
Business combination (note 5)	**131**	**-**	**401**	**12,080**	**-**	**-**	**465**	**-**	**13,077**
Disposals and write-offs	**(17)**	**-**	**(3)**	**-**	**-**	**(7)**	**-**	**(12)**	**(39)**
Effect of foreign currency exchange differences	**10**	**497**	**72**	**935**	**62**	**84**	**170**	**4**	**1,834**
Balance as at June 30, 2020	**3,143**	**10,905**	**2,891**	**32,815**	**1,717**	**2,313**	**5,175**	**1,048**	**60,007**
Accumulated amortization									
Balance as at June 30, 2018	(298)	(7,072)	(946)	(6,739)	(1,665)	(1,517)	(759)	(46)	**(19,042)**
Amortization expense	(295)	(679)	(170)	(1,355)	-	(379)	(809)	(289)	**(3,976)**
Disposals and write-offs	-	5	-	35	-	-	-	-	**40**
Effect of foreign currency exchange differences	1	47	6	59	10	14	15	-	**152**
Balance as at June 30, 2019	(592)	(7,699)	(1,110)	(8,000)	(1,655)	(1,882)	(1,553)	(335)	**(22,826)**
Amortization expense	**(302)**	**(713)**	**(257)**	**(2,096)**	**-**	**(208)**	**(614)**	**(129)**	**(4,319)**
Impairment	**(772)**	**(1,201)**	**(232)**	**(323)**	**-**	**-**	**-**	**(112)**	**(2,640)**
Disposals and write-offs	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**3**	**5**
Effect of foreign currency exchange differences	**(14)**	**(408)**	**(36)**	**(490)**	**(62)**	**(73)**	**(64)**	**(1)**	**(1,148)**
Balance as at June 30, 2020	**(1,680)**	**(10,021)**	**(1,633)**	**(10,909)**	**(1,717)**	**(2,163)**	**(2,231)**	**(574)**	**(30,928)**
Net amount as at June 30, 2019	**2,294**	**2,692**	**1,311**	**11,800**	**-**	**354**	**2,987**	**529**	**21,967**
Net amount as at June 30, 2020	**1,463**	**884**	**1,258**	**21,906**	**-**	**150**	**2,944**	**474**	**29,079**

10. Goodwill

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	**12,441**
Less: Impairment of goodwill	**(2,668)**
Effect of foreign exchange differences	**685**
Balance as at June 30, 2020	**26,185**

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

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to each CGU is as follows:

	WTS		Specialty Products		O&M	
As at June 30,	**2020**	2019	**2020**	2019	**2020**	2019
	$	$	**$**	$	**$**	$
Goodwill	**-**	2,434	**16,330**	3,795	**9,855**	9,498
Intangible assets with indefinite useful lives	**-**	-	**440**	440	**-**	-

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.

WTS group of CGUs
The recoverable amount of the cash-generating unit of $8.7 M was established by calculating its value in use which is perform using discounted cash flow projections that are based on a one-year financial budget approved by the Board of Directors. 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 19.78 % (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 %). As a result of this analysis, management recognized an impairment charge of $2.7 M against goodwill and $2.6 M against intangible assets. The impairment charge is recorded as impairment of intangible assets and goodwill in the statement of profit or loss.

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 15.9 % (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 %). As a result of the updated analysis, there is headroom of $5.7 M and management did not identify an impairment for this CGU.

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 14.6 % (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 %). As a result of the updated analysis, management did not identify an impairment for this CGU.

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

Sensitivity to changes in assumptions
For the WTS group of CGUs, if the discount rate had increased by 1.0 % compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be an additional impairment of $0.5 M. If the growth rate had decreased by 1.0 % compared to the assumption taken by the Corporation, there would be an additional impairment of $0.2 M.

For the Specialty Products group of CGUs, if the discount rate had increased by 1.0 % compared to the assumption taken by the Corporation, assuming other variables remain constant, the recoverable amount would approximate the carrying value. If the growth rate had decreased by 1.0 % compared to the assumption taken by the Corporation, assuming other variables remain constant, the recoverable amount would approximate the carrying value.

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

11. Investment in an associate

The Corporation has a 24 % interest in Genesys Membrane Products S.L., which is held by Genesys International Limited which was valued at fair value at the date of the acquisition of Genesys. Genesys Membrane Products S.L. is a private entity located in Spain that is not listed on any public exchange, with fiscal year ending December 31. The Corporation's interest in Genesys Membrane Products S.L. is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarized financial information of the Corporation's investment in Genesys Membrane Products S.L.:

As at June 30,	**2020**
	$
Opening balance as at November 15, 2019	**1,447**
The Corporation's share of profit	**169**
Effect of foreign exchange differences	**(24)**
Balance as at June 30, 2020	**1,592**

12. Bank loans

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement amending its existing credit agreement with respect to its operating credit facility and long term financing for a maximum 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 14 – *Long-term debt*. The credit facility was increased by a new term loan in an amount of $12.0 M to acquire Genesys.

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 $3.4 M was used as at June 30, 2020 ($7.5 M as at June 30, 2019). The interest rates on these amounts are distributed as follow:
   - *a.* $2.1 M ($3.5 M as at June 30, 2019) bearing interest at Banker Acceptance + 2.25 % (2.81 % as at June 30, 2020 and 4.00 % as at June 30, 2019);
   - *b.* $0.5 M ($0.2 M as at June 30, 2019) bearing interest at CDN prime rate plus 1.00 % (3.45 % as at June 30, 2020 and 4.70 % as at June 30, 2019); and
   - *c.* US$0.6 M ($0.8 M as at June 30, 2020 and $3.8 M as at June 30, 2019) bearing interest at US$ Libor plus 2.25 % (2.43 % as at June 30, 2020 and 4.40 % as at June 30, 2019).

(ii) a letter of credit facility for a maximum amount of $5.0 M for the issuance of letters of credit entirely secured by Exportation Development Canada (''EDC''), from which an amount of $1.8 M ($0.8 M as at June 30, 2019) was used on this credit facility as at June 30, 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 $0.4 M was used as at June 30, 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 $0.04 M was used as at June 30, 2020 ($0.1 M as at June 30, 2019).

In order to secure these credit facilities, 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 June 30, 2020, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 14 – *Long-term debt*.

13. Accounts payable and accrued liabilities

As at June 30,	2020	2019
	$	$
Trade accounts payable	**5,094**	4,876
Other accrued liabilities	**10,821**	7,388
	15,915	12,264

14. Long-term debt

As at June 30,	2020	2019
	$	$
At amortized cost		
Loan, denominated in Canadian dollars (a)(e)(f)	**13,525**	3,980
Loan from other entities, denominated in Canadian dollars (b)(e)	**2,043**	2,444
Loans from other entities, denominated in US dollars (c)	**708**	1,125
Loans from other entities, denominated in Canadian dollars (d)	**272**	892
	16,548	8,441
Less: Current portion	**2,782**	1,863
Long-term debt	**13,766**	6,578

(a) Loan

On November 28, 2018, a credit agreement was concluded for a term facility of a maximum amount of $5,000 to be used by the Corporation exclusively to refinance specific existing loans. On December 19, 2018, the Corporation requested a draw in the aggregate amount of $4,743 comprised of an amount of $4,400 bearing interest at Banker Acceptance rate plus 2.25 % (2.77 % as at June 30, 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 June 30, 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 $124 ($209 as at June 30, 2019).

On February 28, 2020, the Corporation contracted an interest rate swap with notional amount of $3.4 M, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.94 % plus a premium of 2.25 % based on a financial ratio. As at June 30, 2020, the fair value of this swap was $64. This interest rate swap has been designated as a hedging item.

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 finance the acquisition of Genesys. 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 % (2.77 % as at June 30, 2020) and an amount of $400 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2020). This loan is payable in 32 quarterly instalments of $375, principal only, and is maturing on November 28, 2022 (annual amortization of 12.5 % per year of the principal amount). The loan is presented net of financing costs of $267.

On February 5, 2020, the Corporation contracted an interest rate swap with notional amount of $11.6 M, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.94 % plus a premium of 2.25 % based on a financial ratio. As at June 30, 2020, the fair value of this swap amounted to $307. This interest rate swap has been designated as a 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 June 30, 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 $19 ($31 as at June 30, 2019).

(c) Loans from other entities
The Corporation acquired financing agreements totaling $979 (US$721) 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 $19 (US$14), principal and interest, and are maturing through March 2023 to June 2025.

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

(e) These long-term debt arrangements require that the Corporation meet the following financial ratios:
- Debt-to-EBITDA ratio, defined as total debt divided by EBITDA
  - not more than 3.50:1.00 at all times until the end of the 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 June 30, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

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

As at June 30,	**2020**	2019
	$	$
Long-term debt, at beginning of the year	**8,441**	10,077
Adoption of IFRS 16 (note 2)	**(755)**	-
Increase in long-term debt	**12,180**	6,244
Repayment of long-term debt	**(3,178)**	(8,065)
Debt acquired through business combinations (note 5)	**-**	347
Financing costs	**(353)**	(263)
Amortization of financing costs	**182**	108
Effect of foreign exchange differences	**31**	(7)
Long-term debt, at end of the year	**16,548**	8,441

The annual principal instalments due on the long-term debt are $2.8 M in 2021, $3.1 M in 2022, $9.6 M in 2023, $0.9 M in 2024 and $0.1 M thereafter. The new term loan of $12 M to partially finance the acquisition of Genesys is renewable on November 28, 2022. However, the Corporation intends to renew this credit facility. The Corporation had non-cash settlement of long-term debt of $0.3 M and non-cash increase in long-term debt of $0.2 M.

15. Contingent consideration

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

	$
Balance as at June 30, 2018	-
Contingent consideration – Hays (note 5)	2,299
Plus: Change in fair value of contingent consideration	248
Effect of foreign exchange differences	(44)
Balance as at June 30, 2019	2,503
Plus: Change in fair value of contingent consideration	**329**
Less: Payment of contingent consideration	**(1,487)**
Effect of foreign exchange differences	**68**
Balance as at June 30, 2020	**1,413**

16. Income taxes

Income tax expenses (recovery) are detailed as follows:

As at June 30,	**2020**	2019
	$	$
Current tax expense:		
Current period	**629**	99
Adjustment for prior periods	**(67)**	48
	562	147
Deferred tax expense:		
Origination and reversal of temporary differences	**(873)**	262
Reduction in tax rate	**6**	86
Adjustment for prior periods	**(14)**	(73)
	(881)	275
Income taxes	**(319)**	422

Reconciliation of the Corporation's effective income tax expense

The Canadian statutory tax rate is 26.50 % (26.67 % for 2019). The following is a reconciliation of income taxes calculated at the Canadian statutory tax rate to the expense for 2020 and 2019.

As at June 30,	**2020**	2019
	$	$
Loss before income taxes	**(4,546)**	(1,758)
Income taxes at the Canadian statutory tax rate of 26.50 % (26.67 % in 2019)	**(1,205)**	(469)
Tax effect from:		
Effect of differences in tax rates in other jurisdictions	**192**	77
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**318**	182
Changes in statutory rates	**(29)**	304
Non-deductible stock-based payments	**59**	82
Utilization of tax benefits previously recorded	**(68)**	-
Adjustments in respect of prior years	**(81)**	(25)
Non-deductible items	**466**	237
Other	**29**	34
Total income tax expense	**(319)**	422

Deferred tax (liabilities) assets

As at June 30,	**2020**	2019
	$	$
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	**954**	144
Deferred tax liabilities	**(2,398)**	-
Net deferred tax (liabilities) assets	**(1,444)**	144

Deferred tax assets of $1.0 M were recognized as at June 30, 2020 (net deferred tax assets of $0.1 M as at June 30, 2019) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, and projections for future taxable income, management believes it is probable the Corporation will realized the benefits of these deductible differences and operating losses carried forward. See Note 3 – Critical accounting estimates, assumptions and judgements for more information on how the Corporation determines the extent to which deferred income tax assets are recognized.

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

	Balance as at July 1, 2019	Recognized in earnings	Recognized in equity	Business combination	Balance as at June 30, 2020
	$	$	$	$	$
Non-capital losses	135	(58)	4	-	**81**
Property, plant and equipment	(484)	30	(17)	-	**(471)**
Intangible assets	1,215	484	13	(2,484)	**(772)**
Goodwill	(3,045)	534	(72)	-	**(2,583)**
Lease obligations	-	58	1	-	**59**
U.S. interests not deducted and deferred	1,838	(271)	66	-	**1,633**
Other assets	485	104	20	-	**609**
	144	**881**	**15**	**(2,484)**	**(1,444)**

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

At June 30, 2020, the Corporation had the following tax losses carried forward available to reduce taxable income in the future, and in respect of which the Corporation has not recognized a deferred tax on those from Canada.

Tax losses carried forward expire as follows:	Date	Canada
		$
	2027	1,656
	2028	2,619
	2029	1
	2030	672
	2034	2,612
	2035	205
	2036	305
	2037	2,930
	2038	1,535
	2039	917
	2040	223
		13,675

At June 30, 2020, the Corporation had the following investment tax credits carryovers to reduce income tax payable in the future, and in respect of which the Corporation has not recognized an asset.

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

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

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

	Canada	Canada
As at June 30,	**2020**	2019
	$	$
Tax losses carried forward	**13,675**	13,799
Exploration expenses	**1,779**	1,779
Capital losses	**504**	501
Research and development expenses	**2,229**	2,229
Property, plant and equipment	**7,190**	5,339
Financing and share issue expenses	**2,733**	1,669
Others	**52**	268
	28,162	25,584

17. 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 5) and to support its working capital.

On November 14, 2019, the Corporation issued, by way of a public offering, 13,335,000 units, each of which entitle the holder thereof to receive one common share and one-half of one warrant. The gross value was approximately $14,001, ($12,421 in aggregate for the shares and $1,581 for the warrants), less issuance cost of $1,192 for net value of $12,810.

The Corporation issued, by way of a concurrent private placement, 7,647,619 units, each of which entitle the holder thereof to receive one common share and one-half of one warrant. The value of the private placement transaction was approximately $8,030, ($7,124 in aggregate for the shares and $906 for the warrants), less issuance cost of $758 for net value of $7,272. The private placement occurred concurrently with the public offering described above. The Corporation used the proceeds to complete the acquisition of Genesys (note 5) and to support its working capital.

Warrants

On November 30, 2018, the Corporation issued an aggregate of 642,710 non-transferable warrants to the underwriters of the bought deal private placement to purchase one common share per warrant at a price of $0.83, which warrants are effective until November 30, 2020. The Black & Scholes value was established at $0.26 per warrant for a total value of $167.

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

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

On November 15, 2019, the Corporation issued an aggregate of 10,491,310 non-transferable warrants to the shareholders of the public offering and of the concurrent private placement to purchase one common share per warrant at a price of $1.40, which warrants are effective until November 14, 2021. The Black & Scholes value was established at $0.237 per warrant for a total value of $2,487 less issuance cost of $220.

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 $1.05, which warrants are effective until May 14, 2021. The Black & Scholes value was established at $0.295 per warrant for a total value of $272.

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

	Units holders 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**	**$0.295**

Share capital

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

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

Stock options

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

For the year ended June 30, 2020, the amount recorded as stock-based compensation for options granted to its directors, officers and key employees is $223 ($308 in fiscal year 2019).

The following table summarizes the situation of the Corporation's stock-based compensation plan as at June 30, 2020 and June 30, 2019 and the change during the years ended on these dates:

Years ended June 30,	**2020**		2019	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**2,554,334**	**1.75**	2,554,334	1.75
Granted	**-**	**-**	-	-
Expired	**(43,000)**	**3.23**	-	-
Forfeited	**-**	**-**	-	-
Outstanding - End of year	**2,511,334**	**1.72**	2,554,334	1.75
Exercisable – End of year	**1,071,750**	**1.82**	826,834	1.95

The range of exercise prices for options outstanding at the end of the year was $1.65 to $3.75 ($1.65 to $3.75 in fiscal year 2019).

As at June 30, 2020, the following stock options were outstanding:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)
$			
3.75	Directors	4,000	0.04
2.50	Employees	188,000	0.37
2.50	Directors	16,000	0.23
1.65	Employees	2,303,334	4.08
		2,511,334	3.77

18. Contract assets and contract liabilities

Contract assets and contract liabilities are as follow:

As at June 30,	**2020**	2019
	$	$
Construction costs related to projects incurred plus recognized profits less recognized losses to date	**63,885**	61,878
Less: progress billings	**(58,424)**	(59,109)
Consolidated statement of financial position for ongoing projects contracts	**5,461**	2,769

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

As at June 30,	**2020**	2019
	$	$
From customers under project contracts (contract assets)	**8,629**	5,880
To customers under project contracts (contract liabilities)	**(3,168)**	(3,111)
Consolidated statement of financial position for ongoing projects contracts	**5,461**	2,769

During the year, $2,750 of revenues were recorded for amounts included in contract liability at the beginning of the year ($1,877 in fiscal year 2019).

Remaining performance obligations

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at June 30, 2020, on all contracts with customers, is expected to be recognized in revenues as follows:

	2021	**2022**	**2023**	**Thereafter**	**Total**
WTS	$13.6 M	$7.3 M	$13.9 M	-	$34.8 M
O&M	$35.0 M	$22.4 M	$13.7 M	$19.5 M	$90.6 M

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

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

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

19. Restructuring costs

During fiscal year, the Corporation implemented a strategic change in its business alignment. The Water & Wastewater Treatment Projects and Aftermarket Services business lines are now combined into a single business called WTS. The Corporation's strategy is the change in focus of this business pillar towards customers which will value the long-term services and consumables and create financial sustainability from a more stable revenue stream. The restructuring of this business pillar combined with the notice of cancellation for a major project announced on May 5, 2020, led unfortunately to layoffs. The restructuring costs recognized for the year ended June 30, 2020 were mainly severances and termination costs amounting to $0.4 M.

20. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	2020	2019
	$	$
Material	**39,637**	37,291
Salaries and fringe benefits	**63,267**	54,288
Subcontractors and professional fees	**8,026**	8,177
Rent, electricity, insurance and office expenses	**3,756**	3,262
Telecommunications and travel expenses	**2,869**	4,278
Bad debt expenses	**118**	47
Share based compensation	**223**	308
Other expenses	**3,541**	3,614
Total cost of goods sold, operating, selling and administrative expenses	**121,437**	111,265
Depreciation of property, plant and equipment and right-of-use assets (note 2 and 8)	**2,880**	1,349
Amortization of intangible assets (note 9)	**4,319**	3,976
Costs including depreciation and amortization	**128,636**	116,590

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, general operating expenses, selling expenses and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the years ended June 30, 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

Years ended June 30,	2020	2019
	$	$
Cost of goods sold	**2,624**	1,151
General operating expenses	**5**	5
Selling expenses	**102**	51
Administrative expenses	**149**	142
	2,880	1,349

Amortization of intangible assets by function

Years ended June 30,	2020	2019
	$	$
Cost of goods sold	**733**	691
Selling expenses	**3,285**	2,990
Administrative expenses	**301**	295
	4,319	3,976

Cost per function including depreciation and amortization

Years ended June 30,	2020	2019
	$	$
Cost of goods sold	101,046	92,682
General operating expenses	6,332	5,698
Selling expenses	12,738	10,784
Administrative expenses	8,520	7,426
	128,636	116,590

c) Other losses – net

Years ended June 30,	2020	2019
	$	$
Unrealized exchange (gain) loss	(344)	222
Realized exchange (gain) loss	74	(114)
Other gains	(46)	(98)
Changes in fair value of contingent consideration (note 15)	329	248
	13	258

21. Net loss per share

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

Years ended June 30,	2020	2019
Net loss	($4,227)	($2,180)
Basic and diluted weighted average number of share outstanding	69,018,459	49,289,706
Basic and diluted net loss per share	($0.061)	($0.044)

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

	2020	2019
Stock options	2,511,334	2,554,334
Warrants	12,057,816	642,710

For the years ended June 30, 2020 and 2019, the diluted net loss per share was the same as the basic net loss per share, since the effect of stock options and warrants would have been anti-dilutive. Accordingly, the diluted net loss per share for each year is calculated using the basic weighted average number of shares outstanding.

22. Financial risk management

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

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

Overview

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

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

Currency risk

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

As at June 30, 2020, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, EURO or British pound currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2020 would have been greater or lesser by approximately $498 ($53 for the year ended June 30, 2019) and the comprehensive loss would have been greater or lesser by approximately $557 ($294 for the year ended June 30, 2019).

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

As at June 30,	**2020**	2019
	$	$
Financial assets		
Cash	**1,468**	1,089
Accounts receivable	**6,587**	2,822
	8,055	3,911
Financial liabilities		
Bank loans	**(815)**	(3,795)
Accounts payable and accrued liabilities	**(84)**	(929)
	(899)	(4,724)

Cash flow and fair value interest rate risk

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

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

The bank loans and the long-term debt bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. To manage this, the Corporation enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at June 30, 2020 and 2019, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2020, the allowance for doubtful accounts was $171 ($65 as at June 30, 2019).

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

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

As at June 30,	**2020**	2019
	$	$
Cash	**9,417**	6,206
Guaranteed deposit certificates	**22**	21
Accounts receivable	**19,291**	19,440
Other assets	**301**	234
Related party loans receivable	**1,250**	1,250

The Corporation holds cash and guaranteed deposits certificates with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares (see note 26a) that the Corporation considers at a low risk for loss.

The table below summarizes the aging of trade accounts receivable:

As at June 30,	**2020**	2019
	$	$
Current	**7,700**	7,996
Past due 1 to 30 days	**2,620**	3,421
Past due 31 to 90 days	**4,377**	3,009
Past due more than 90 days	**1,887**	1,654
	16,584	16,080
Less: Allowance for doubtful accounts	**(171)**	(65)
Trade accounts receivable	**16,413**	16,015
Retentions from customers under project contracts	**2,669**	3,253
Other receivables	**209**	172
	19,291	19,440

Liquidity risk

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

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

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

As at June 30, 2020	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank loans	**3,415**	**3,415**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**15,915**	**15,915**	**-**	**-**	**-**
Long-term debt	**17,686**	**3,287**	**3,513**	**9,748**	**1,138**
Lease liabilities	**10,814**	**1,721**	**1,622**	**1,375**	**6,096**
Contingent consideration	**1,413**	**1,413**	**-**	**-**	**-**
Total	**49,243**	**25,751**	**5,135**	**11,123**	**7,234**

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

Fair value

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

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

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

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

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $16,548 ($8,441 as at June 30, 2019) and was determined to be a level 2 financial instrument.

Contingent consideration
The fair value of the contingent consideration has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the contingent consideration is $1,413 ($2,503 as at June 30, 2019) and was determined to be a level 2 financial instrument.

23. Capital management

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth while at the same time taking a prudent approach towards financial leverage and financial risk.

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of bank loans and long-term debt less cash. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

The Corporation monitors its performance through different ratios such as those required under its credit facility and long-term debt arrangements.

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios at fixed points in time. The financial ratios are, as at June 30, 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 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.

As at June 30, 2020 and 2019, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements.

24. Commitments and contingencies

Commitments

As at June 30, 2020, the Corporation had commitments relating to purchase agreements with specific suppliers. The minimum payments over the next five years are as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
Purchase agreements commitments	$2,102	$941	$398	$398	$398	$497	$4,734

Legal claim contingency

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

25. Segment information

Products from which reportable segments derive their revenues

For management purposes, the Corporation is organized into business pillars based on its different products and services. The Corporation operates under three distinct reportable segment consisting of: i) water technologies and services ("WTS"); 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 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

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

	For the year ended June 30, 2020			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized overtime	**18,487**	**-**	**64,124**	**82,611**
Revenue recognized at a point in time	**10,811**	**40,175**	**-**	**50,986**
	29,298	**40,175**	**64,124**	**133,597**
Cost of goods sold	**23,402**	**22,924**	**51,363**	**97,689**
Gross profit before depreciation and amortization	**5,896**	**17,251**	**12,761**	**35,908**
General operating expenses	**801**	**3,237**	**2,289**	**6,327**
Selling expenses	**3,488**	**4,451**	**1,412**	**9,351**
Earnings before administrative costs (EBAC)	**1,607**	**9,563**	**9,060**	**20,230**
Administrative expenses				**8,070**
Depreciation of property, plant and equipment and right-of-use assets				**2,880**
Amortization of intangible assets				**4,319**
Impairment of intangible assets and goodwill				**5,308**
Other losses – net				**13**
Restructuring costs				**406**
Acquisition and integration costs				**1,912**
Share of profit of an associate				**(169)**
Finance costs – net				**2,037**
Loss before income taxes				**(4,546)**

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

Geographical information

Years ended June 30,	2020	2019
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**16,327**	17,194
United States	**90,247**	88,200
Spain	**8,131**	1,685
Saudi Arabia	**3,156**	541
China	**2,928**	2,879
United Arab Emirates	**1,720**	1,156
Chile	**1,069**	348
Korea	**560**	1,657
Other	**9,459**	4,298
	133,597	117,958

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

As at June 30,	2020	2019
	$	$
Non-current assets excluding other assets, financial instruments and deferred tax assets according to geographic location		
Canada	**6,058**	7,006
United States	**38,225**	37,240
United Kingdom	**26,822**	-
	71,105	44,246

Information about major customers

For the fiscal years ended June 30, 2020 and June 30, 2019, no customer accounted for more than ten percent (10%) of its revenues.

26. 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 2.01% (2.5% as at June 30, 2019), payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,083 as at June 30, 2020 ($1,146 as at June 30, 2019).

An amount of $23 was paid to the Corporation in regards of these loans and recorded as finance income in the consolidated statements of loss for the year ended June 30, 2020 ($31 for the year ended June 30, 2019).

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:

Years ended June 30,	**2020**	2019
	$	$
Short-term benefits [1]	**1,477**	1,421
Post-employment benefits [2]	**139**	111
Share-based payments	**223**	308
	1,839	1,840

[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 recognized 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.

27. Events after the reporting period

On July 1, 2020, the Corporation acquired all of the membership interests of Gulf Utility Service, Inc. (''GUS'') for a cash consideration of $3.7 M (US$2.8 M) and is subject to certain adjustments. The Corporation secured an additional long-term debt of $2.1 M in order to complete this acquisition. The remaining portion of the purchase price is financed from the working capital of the Corporation.

Gulf Utility Service, Inc. is a US-based company offering complete operation, maintenance and management services to water and wastewater infrastructures for different type of clients such as municipalities, municipal utility districts (commonly known as MUD) and public water systems in the State of Texas (United States).

Due to the short period between the acquisition of the membership interests of Gulf Utility Service, Inc. and the date of issuance of these consolidated financial statements, the fair value of the tangible and intangible assets acquired has not yet been determined. Consequently, the initial accounting of the transaction has not been completed.

28. 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]
Gregory Madden, Chief Strategy Officer
Edith Allain,, Secretary
Denis Guibert, Vice President & Managing Director of WTS [5]
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 Technologies and Services
[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)

OFFICES AND PLANTS

Head Office

330, rue St-Vallier Est, Suite 340
Quebec City, Quebec, G1K 9C5
Phone: 418.688.0170
Fax: 418.688.9259

investor@h2oinnovation.com
www.h2oinnovation.com

Manufacturing Plants

201 1st Avenue
Ham-Nord, Quebec, G0P 1A0

1048 La Mirada Court
Vista, California 92081

8900, 109th Ave N, Suite 1000
Champlin, Minnesota 553160

3a Aston Way
Middlewich, Cheshire, CW10 0HS UK

Offices

1046 18th Ave SE
Calgary, Alberta T2G 1L6

5500 North Service Road, Suite 207
Burlington, Ontario L7L 6W6

Uribitarte no 18, 6ª planta
Bilbao, Spain 48001

1710 23rd Avenue,
Gulfport, Mississippi 39501

7220 S. Cinnamon Road, Suite 110
Las Vegas, Nevada 89113

2200 Sciaaca Road
Spring, Texas 77373

12337 Jones Road, Suite 320
Houston, Texas 77070