Interim Financial Report
First quarter ended
September 30, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the quarter ended September 30, 2020, in comparison with the corresponding period ended September 30, 2019. This MD&A should be read in conjunction with the condensed interim consolidation financial statements and the accompanying notes for the period ended September 30, 2020, as well as with the audited annual consolidated financial statements 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 forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 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.

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NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

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

- Earnings before interests, income taxes, depreciation and amortization ("EBITDA")
- Adjusted earnings before interests, income taxes, depreciation and amortization ("Adjusted EBITDA")
- Earnings before administrative costs ("EBAC")
- Net debt
- 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 measurement" to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Corporation presents a quantitative reconciliation of the non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS. Refer to Section "Non-IFRS financial measurement" on page 21 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used in this MD&A.

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. 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.

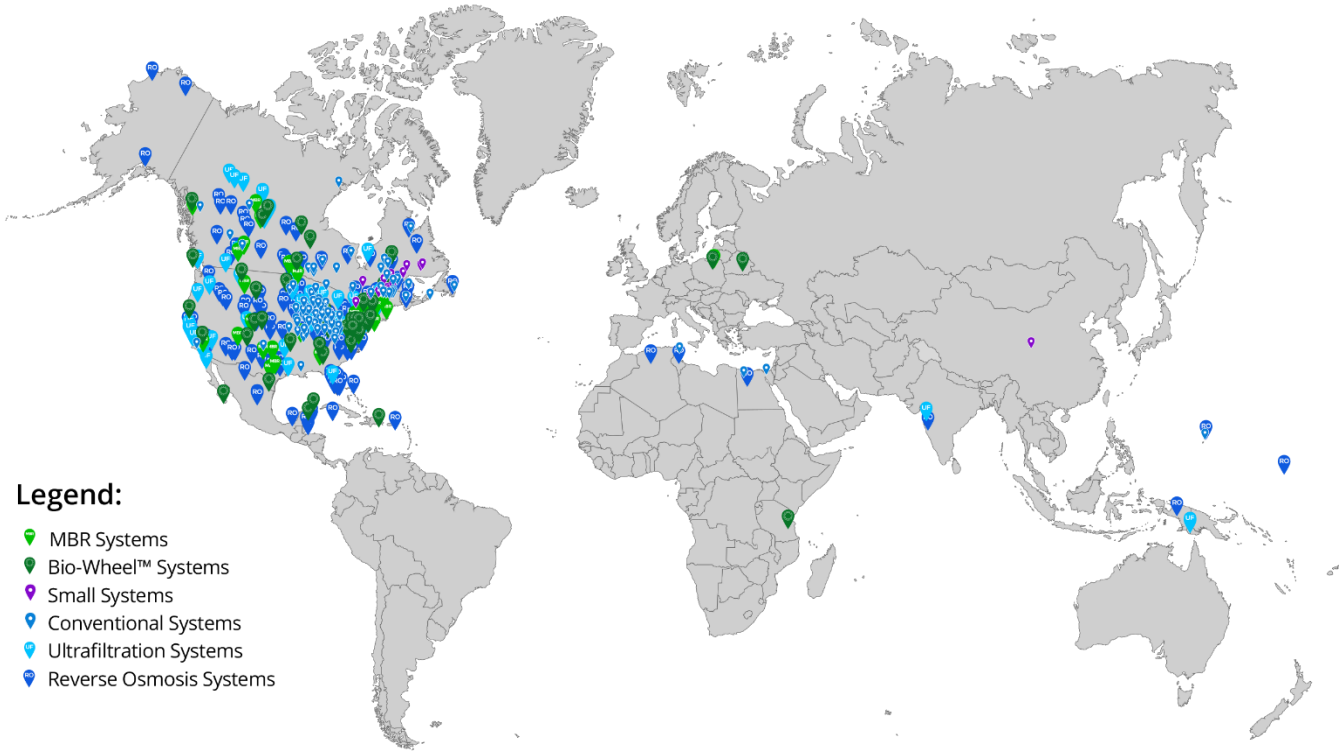
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
680	**+750**	**+70**	**275**

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



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.

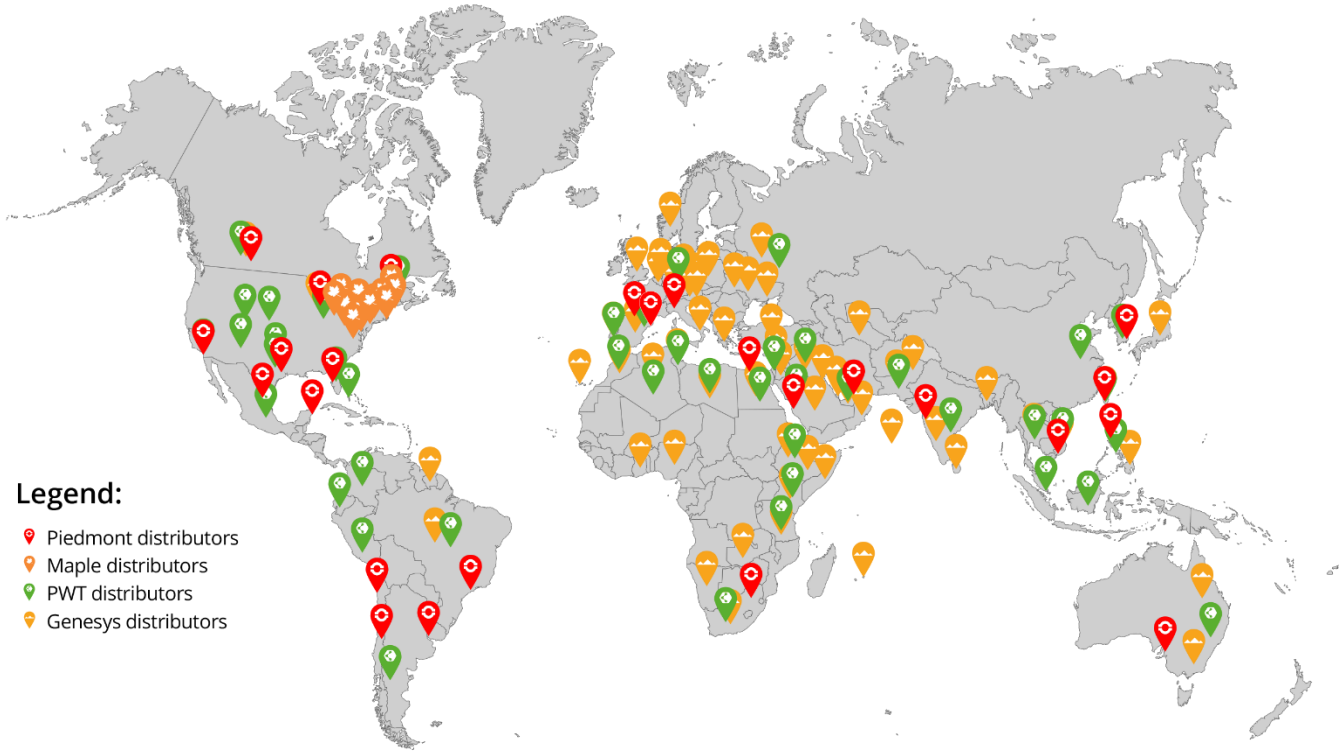
PWT focuses on chemical manufacturing and supply for the membrane industry, with a product line developed around its unique dendrimer-based phosphate-free, antiscalant chemistry for scale and fouling control.

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



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 275 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.

KEY FINANCIAL HIGHLIGHTS

For the three-month period ended September 30, 2020
Compared with the three-month period ended September 30, 2019

Revenues	Recurring Revenues [3]	Recurring Revenues [3]	Consolidated Backlog
$35.0 M	**$31.6 M**	**90.2 %**	**$125.3 M**
↑ $6.8 M or 24.0 %	↑ $9.0 M from $22.6 M	↑ from 80.2 %	↓ 18.3 % from $153.3 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3]
27.1 %	**17.7 %**	**$3.5 M**	**9.9 %**
↑ from 23.8 %	↓ from 17.9 %	↑ 114.3 % from $1.6 M	↑ from 5.8 %

Net earnings (loss)	Cash flow from operating activities	Net debt [3] [4]	Ratio net debt/Adjusted EBITDA [3] [4]
$1.0 M	**$1.3 M**	**$13.3 M**	**0.92**
↑ from ($1.0 M)	↓ 42.4 % from $2.2 M	↑ 25.7 % from $10.5 M	↑ from 0.84

(1) Gross profit margin presented before depreciation and amortization expenses.
(2) Selling, general and administrative expenses.
(3) Refer to the section "Non-IFRS financial measurements" at page 21 of this MD&A.
(4) Compared with the year ended June 30, 2020.

FIRST QUARTER BUSINESS 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.

- On July 14, 2020, the Corporation announced that Utility Partners, LLC ("UP"), one of its business line dedicated to operation and maintenance services ("O&M") in North America, renewed two (2) O&M contracts. These contracts have a total value of $4.3 M. Furthermore, on September 28, 2020, the Corporation announced that UP has recently been awarded a new O&M contract and renewed an existing project. These contracts, with a total value of $5.1 M, brought the O&M backlog to $84.7 M at the end of the first quarter.

- 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 $40.6 M as at September 30, 2020.

- On October 8, 2020, the Corporation announced it has won the Water Company of the Year award at the 2020 Global Water Awards. This is the highest honor in the international water treatment industry and the first time a Canadian company has received this award. This award was presented to the Corporation for the success of its activities during calendar year 2019.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements	Three-month periods ended September 30,			
		2020		2019
	$	**% (1)**	$	% (1)
Revenues per business pillar				
WTS	**6,242**	**17.8**	8,205	29.1
Specialty products	**11,389**	**32.5**	5,192	18.4
O&M	**17,365**	**49.7**	14,826	52.5
Total revenues	**34,996**	**100.0**	28,223	100.0
Revenues per geographic location				
Canada	**4,011**	**11.5**	3,530	12.5
United States	**22,458**	**64.2**	22,711	80.5
Others	**8,527**	**24.3**	1,982	7.0
Total revenues	**34,996**	**100.0**	28,223	100.0
Recurring revenues (2)	**31,568**	**90.2**	22,639	80.2
Gross profit before depreciation and amortization	**9,477**	**27.1**	6,707	23.8
Selling, general and administrative expenses ("SG&A")	**6,209**	**17.7**	5,052	17.9
Depreciation and amortization	**1,838**	**5.3**	1,654	5.9
Finance costs – net	**579**	**1.7**	453	1.6
Acquisition and integration costs	**58**	**0.2**	489	1.7
Net earnings (loss) for the period	**984**	**2.8**	(1,033)	(3.7)
Basic net earnings (loss) per share	**0.013**	**-**	(0.019)	-
Diluted net earnings (loss) per share	**0.013**	**-**	(0.019)	-
EBITDA (2)	**3,105**	**8.9**	1,065	3.8
Adjusted EBITDA (2)	**3,482**	**9.9**	1,625	5.8
Net cash generated by operating activities	**1,280**	**3.7**	2,224	7.9

Financial position and Cash flows	**September 30, 2020**	June 30, 2020	Variation	
	$	$	$	%
Cash	**7,271**	9,417	(2,146)	(22.8)
Net debt (2)	**13,257**	10,546	2,711	25.7
Net debt-to-Adjusted EBITDA ratio (2)	**0.92**	0.84	-	-
Consolidated backlog	**125,300**	153,329	(28,029)	(18.3)

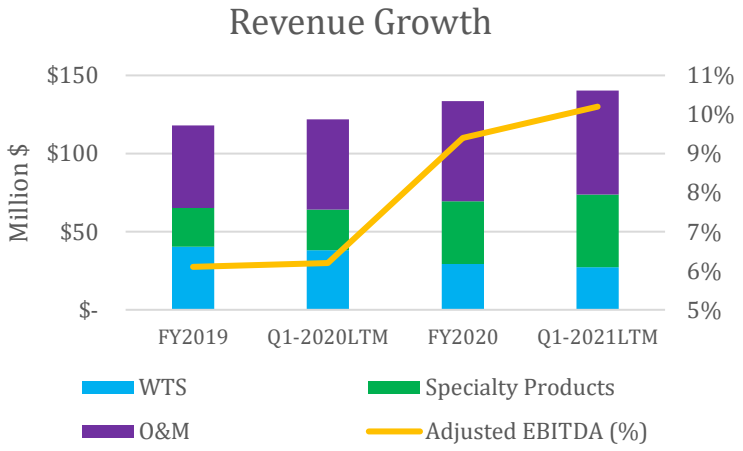
(1) % over revenues.
(2) Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

QUARTERLY FINANCIAL INFORMATION

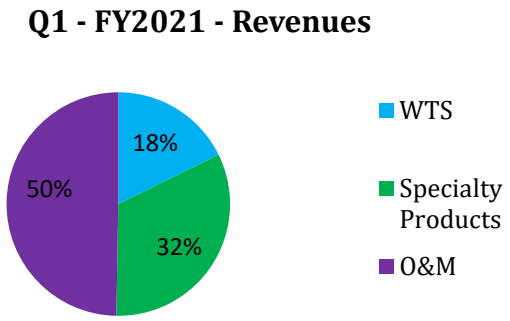
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Last twelve months
	September 30, 2020	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	
	$	**$**	**$**	$	**$**
Revenues	**34,996**	35,979	36,061	33,334	140,370
EBITDA	**3,105**	3,954	(1,442)	1,113	6,730
Adjusted EBITDA	**3,482**	4,832	3,754	2,313	14,381
Adjusted EBITDA over revenues	**9.9 %**	13.4 %	10.4 %	6.9 %	10.2 %
Net earnings (loss)	**984**	813	(3,097)	(909)	(2,209)
Basic net earnings (loss) per share	**0.013**	0.011	(0.040)	(0.014)	(0.030)
Diluted net earnings (loss) per share	**0.013**	0.011	(0.040)	(0.014)	(0.030)
Cash flows from (used in) operating activities	**1,280**	9,567	883	(407)	11,323

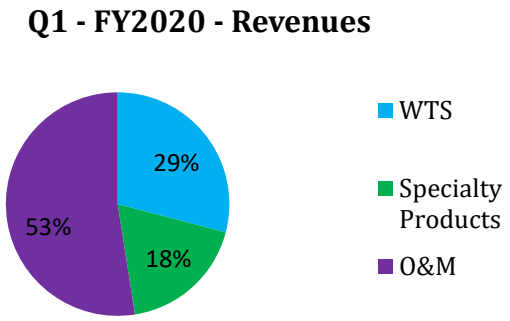
(in thousands of Canadian dollars, except for per share values)	Three-month periods ended				Previous twelve months
	September 30, 2019	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**	
	$	$	$	$	**$**
Revenues	28,223	31,884	32,325	29,378	121,810
EBITDA	1,065	1,689	1,945	910	5,609
Adjusted EBITDA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

The sustained 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 15.2 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $7.6 M, or 6.2 % of revenues to $14.4 M, or 10.2 % in the last twelve months, representing a 89.9 % improvement over a twelve-month period.



CONSOLIDATED REVENUES





Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2020, increased by $6.8 M, or 24.0 %, to reach $35.0 M compared to $28.2 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which contributed $2.8 M in revenues during this quarter, and by the acquisition of GUS on July 1, 2020, which contributed $1.5 M in revenues during this quarter. The growth is also explained by the increase of $3.4 M coming from the organic growth of the Specialty Products business pillar and $1.1 M coming from O&M, partly offset by the decrease in revenues of $2.0 M from 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, or projects that can fuel 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 in FY2019 and more recently GUS, to the O&M business pillar, new opportunities are opening in a strategic geographical market such as the State of Texas. The GUS acquisition consolidates our position as operator of water and wastewater utilities in Texas and will allow us to capture synergies and more efficiencies in our operations management, more specifically in the Greater Houston Area. The State of Texas is still rich in opportunities that we intend to capture with the help of our three business pillars: WTS, Specialty Products and O&M.

With three strong business pillars, the Corporation is 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 offer our customers a unique integrated added value proposition. As the value proposition is allowing our customers to reduce their operating expenses, it also provides a unique competitive advantage for the Corporation and an accountable approach for our industrial or municipal customers.

For the three-month period ended September 30, 2020, recurring revenues represented 90.2 % of the Corporation's total revenues, compared to 80.2 % for the comparable quarter of previous fiscal year. WTS business pillar builds long-term relationships with its customers through Specialty Products and O&M services offering, 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 September 30,			
	2020	2019	Variation	
	$	$	$	%
Gross profit margins [1]	**9,477**	6,707	2,770	41.3
Gross profit margins (%) [1]	**27.1 %**	23.8 %	-	-

(1) Gross profit margins presented before depreciation and amortization.

The Corporation's gross profit margin before depreciation and amortization stood at $9.5 M, or 27.1 %, during the first quarter of fiscal year 2021, compared to $6.7 M, or 23.8 % for the previous fiscal year, representing an increase of $2.8 M, or 41.3 %. The percentage increase of gross profit margin before depreciation and amortization is explained by the business mix, with more sales coming from the Specialty Products business pillar, which are characterized with higher gross profit margins' product, compared to the same quarter of the previous fiscal year. 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 first quarter of fiscal year 2021. Additionally, the WTS business pillar showed an improvement of gross profit margin percentage before depreciation and amortization, in line with the Corporation's strategy.

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

	Three-month periods ended September 30,			
(In thousands of Canadian dollars)	**2020**	2019	Variation	
	$	$	$	%
SG&A expenses	**6,209**	5,052	1,157	22.9
SG&A expenses of revenues	**17.7 %**	17.9 %	-	-

The Corporation's SG&A reached $6.2 M during the first quarter of fiscal year 2021, compared to $5.1 M for the previous fiscal year, representing an increase of $1.1 M, or 22.9 %, while the revenues of the Corporation increased by 24.0 %. The acquisition of Genesys in the second quarter of the previous fiscal year contributed $0.6 M of this increase. The acquisition of GUS on July 1, 2020 contributed $0.1 M of this increase. Also, following the acquisition of Genesys located in another country (United Kingdom), the Corporation incurred higher professional fees, compared to the same quarter of previous fiscal year. On a sequential basis, when compared to the fourth quarter of last fiscal year, the Corporation's SG&A increased by $0.2 M to $6.2 M, from $6.0 M, partly due to the acquisition of GUS on July 1, 2020. Overall, the percentage of SG&A over revenues is maintained below 18.0 %.

ACQUISITIONS AND INTEGRATION COSTS

(In thousands of Canadian dollars)	Three-month periods ended September 30, 2020	2019	Variation	
	$	$	$	%
Acquisition and integration costs	**58**	489	(431)	(88.1)

The acquisition and integration costs reached $0.1 M during the first quarter of fiscal year 2021, compared to $0.5 M for the same period of previous fiscal year, representing a decrease of $0.4 M, or 88.1 %. During the first quarter of fiscal year 2020, the acquisition and integration costs were related to the acquisition of Genesys, while they are related to the acquisitions of GUS for the first quarter of fiscal year 2021. During the first quarter of fiscal year 2021, the acquisition and integration costs included costs related to the merger and corporate reorganisation of the O&M business pillar.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30, 2020	2019	Variation	
	$	$	$	%
Finance income	**(9)**	(14)	5	(35.7)
Finance costs	**588**	467	121	25.9
Finance costs - net	**579**	453	126	27.8

Finance costs – net stood at $0.6 M for the first quarter of fiscal year 2021, compared with $0.5 M for the same period of previous fiscal year, representing an increase of $0.1 M, or 27.8 % compared to the previous fiscal year. The new term loan of $12.0 M contracted to partially financed the acquisition of Genesys on November 15, 2019 contributed to $0.1 M in finance costs for the first quarter of this fiscal year.

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

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30, 2020	2019	Variation	
	$	$	$	%
EBITDA	**3,105**	1,065	2,040	191.5
Adjusted EBITDA	**3,482**	1,625	1,857	114.3
Adjusted EBITDA (%)	**9.9 %**	5.8 %	-	-

The Corporation's adjusted EBITDA increased by $1.9 M, or 114.3 %, to reach $3.5 M during the first quarter of fiscal year 2021, from $1.6 M for the comparable period of fiscal year 2020. The adjusted EBITDA % improved and reached 9.9 % for the first quarter of fiscal year 2021, compared to 5.8 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins.

NET EARNINGS (LOSS)

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended September 30, **2020**	2019	Variation	
	$	$	$	%
Net earnings (loss)	**984**	(1,033)	2,017	195.3
Basic net earnings (loss) per share	**0.013**	(0.019)	0.032	-
Diluted net earnings (loss) per share	**0.013**	(0.019)	0.032	-

Net earnings amounted to $1.0 M or $0.013 per share for the first quarter of fiscal year 2021 compared to a net loss of ($1.0 M) or ($0.019) per share for the comparable quarter of fiscal year 2020. The variation was impacted by the increase in the Corporation's consolidated revenues, the improvement in gross profit margins, lower acquisition and integration costs and lower taxes costs. Moreover, the SG&A percentage over revenues remained stable.

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.

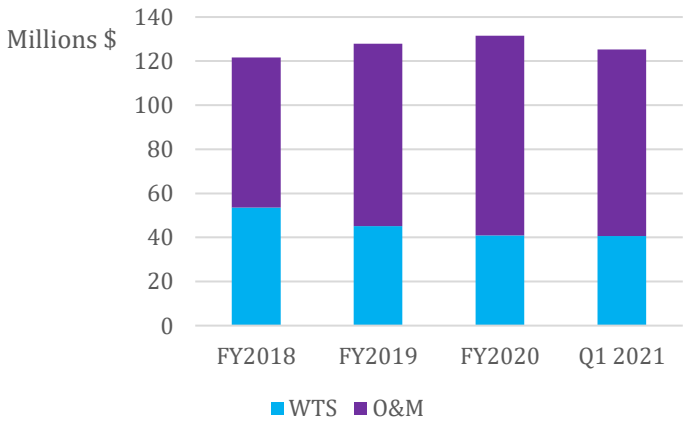
As at September 30, 2020, the combined backlog of secured contracts between WTS and O&M reached $125.3 M compared to $153.3 M as at September 30, 2019. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2021 and beyond. The business model developed 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)	As at September 30, **2020**	2019	Variation	
	$	$	$	%
WTS	**40,600**	40,200	400	1.0
O&M [1]	**84,700**	113,129	(28,429)	(25.1)
Consolidated backlog	**125,300**	153,329	(28,029)	(18.3)

[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 and the acquisition of Gulf Utility Service, Inc. in July 2020 did not impact the backlog, as all of our contracts are evergreen and would not qualify for the remaining performance obligation definition.

The WTS business pillar is showing an increase of 1.0 %, while having a healthier backlog with better projects' diversification. The focus for this business pillar is to improve the gross profit margin prior to focusing on growing the volume of revenues. This business pillar showed a well-balanced backlog, with diversification seen between water and wastewater projects: 42.2 % of the projects being wastewater as of September 30, 2020, compared to 39.3 % as of September 30, 2019. Backlog's diversification is also seen between industrial and municipal projects, with 31.3 % of the projects being industrial as of September 30, 2020, compared to 29.5 % as of September 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.

Our backlog for the O&M business pillar stood at $84.7 M as at September 30, 2020, representing a decrease of 25.1 % compare to the $113.1 M backlog as of September 30, 2019, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The decrease is explained by some contracts approaching their renewal date. O&M long-term contracts have a typical duration of 3 to 5 years and have different anniversary dates for renewal. Therefore, the timing on the renewal of these long-term O&M contracts may create important fluctuations on the O&M backlog. As of September 30, 2019, the backlog was higher because a significant O&M contract was renewed. The O&M backlog doesn't include ''ever-green'' O&M services provided to MUDs and other privately-owned utilities located in Texas.



SEGMENT INFORMATION

As mentioned in Section "H_2O Innovation at a glance", Management analyses the Corporation's results by business pillar. The Corporation evaluates its business pillar performance using Earnings before administrative costs ("EBAC), which is a non-IFRS measure defined in the Section "Non-IFRS financial measurements" at page 21 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the first quarters ended September 30, 2020 and 2019.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended September 30, **2020**	2019	Variation	
	$	$	$	%
Revenues from WTS	**6,242**	8,205	(1,963)	(23.9)
Cost of goods sold	**4,690**	6,540	(1,850)	(28.3)
Gross profit margins[1]	**1,552**	1,665	(113)	(6.8)
Gross profit margins (%)[1]	**24.9 %**	20.3 %	-	-
Selling and general expenses	**857**	1,016	(159)	(15.6)
EBAC[2] from WTS	**695**	649	46	7.1
EBAC[2] over revenues from WTS	**11.1 %**	7.9 %	-	-

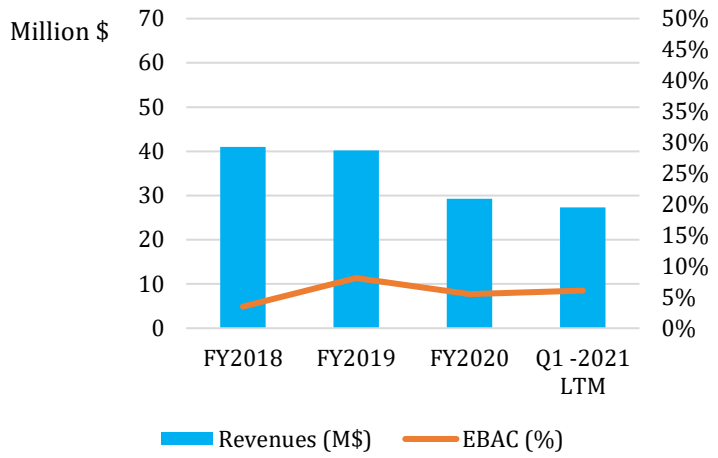
WTS revenues stood at $6.2 M during the first quarter of fiscal year 2021, compared to $8.2 M for the same quarter of last fiscal year, representing a decrease of $2.0 M, or 23.9 %. Although WTS revenues decreased compared to the same quarter of last fiscal year, revenues from WTS for the first quarter of fiscal year 2021 are in line with the expectations following the Corporation's strategic change announced on August 24, 2020.

The gross profit margins before depreciation and amortization stood at $1.6 M, or 24.9 % for the first quarter of fiscal year 2021, compared with $1.7 M, or 20.3 % for the same quarter of last fiscal year, representing a decrease of $0.1 M, or 6.8 %, but an improvement in terms of % over revenues. The gross profit margin was helped by a higher proportion of service activities, characterized by higher gross profit margins, compared to the same quarter of last fiscal year. Our objective is to focus on the growth of service activities, which are recurring by nature and have better gross profit margins, which is in line with the strategy of reducing volatility associated with the WTS business revenues.

The selling and general expenses stood at $0.9 M during the first quarter of fiscal year 2021, compared to $1.0 M, for the same quarter of last fiscal year, representing a decrease of $0.1 M. The worldwide restrictions on various forms of transportation and lockdown periods due to the coronavirus pandemic resulted in lower travel expenses and tradeshow expenses of $0.1 M compared to the same period of previous fiscal year. Also, the decrease in selling and general expenses is driven by the restructuring implemented by the Corporation in the fourth quarter of fiscal year 2020.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

WTS' EBAC stood at $0.7 M during the first quarter of fiscal year 2021, compared to $0.6 M for the same quarter of last fiscal year, representing an increase of $0.1 M, or 7.1 %. The increase of WTS' EBAC in dollar and in % is driven by the improvement of the gross profit margin before depreciation and amortization in % and the reduction of the cost structure, which will generate anticipated savings of about $0.7 M on an annual basis.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended September 30, **2020**	2019	Variation	
	$	$	$	%
Revenues from Specialty Products	**11,389**	5,192	6,197	119.4
Cost of goods sold	**6,597**	2,976	3,621	121.7
Gross profit margins[1]	**4,792**	2,216	2,576	116.2
Gross profit margins (%)[1]	**42.1 %**	42.7 %	-	-
Selling and general expenses	**2,068**	1,264	804	63.6
EBAC[2] from Specialty Products	**2,724**	952	1,772	186.1
EBAC[2] over revenues from Specialty Products	**23.9 %**	18.3 %	-	-

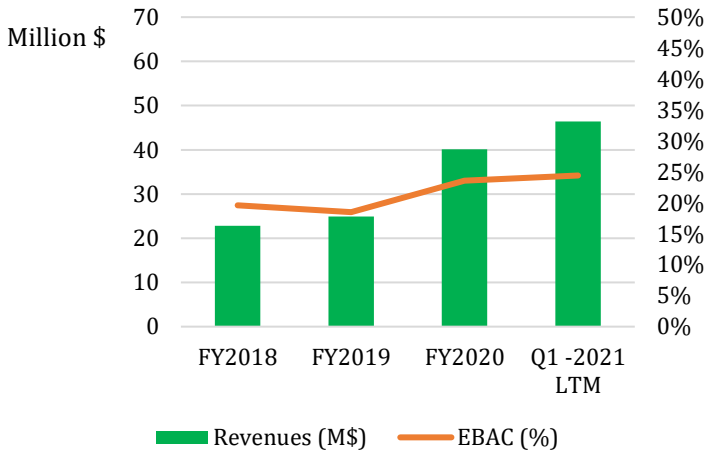
Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry, are recurring by nature. They stood at $11.4 M during the first quarter of fiscal year 2021, compared to $5.2 M for the same quarter of last fiscal year, representing an increase of $6.2 M, or 119.4 %. Of this $6.2 M revenue increase, $2.8 M is attributable to the acquisition of Genesys, effective November 15, 2019. The growth for this business pillar is also supported by significant orders delivered during this quarter for our Piedmont's business line.

The gross profit margins before depreciation and amortization stood at $4.8 M, or 42.1 % for the first quarter of fiscal year 2021, compared with $2.2 M, or 42.7 % for the same quarter of last fiscal year, representing an increase of $2.6 M in dollar, but the gross profit margin in % remained fairly stable. This variation is mainly due to the business mix within this business pillar, with a higher level of revenues coming from Piedmont's business line, showing a lower gross profit margins this quarter. The acquisition of Genesys contributed $1.5 M to the gross profit margins before depreciation and amortization this quarter.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

The selling and general expenses stood at $2.1 M during the first quarter of fiscal year 2021, compared to $1.3 M, for the same quarter of last fiscal year, representing an increase of $0.8 M. The acquisition of Genesys contributed $0.6 M of this increase. This increase is also explained by the increased level of revenues in Piedmont's business line, impacting the level of commissions recorded for $0.2 M compared to the same quarter of last fiscal year.

Specialty Products' EBAC stood at $2.7 M during the first quarter of fiscal year 2021, compared to $1.0 M for the same quarter of last fiscal year, representing an increase of $1.7 M, or 186.1 %. Specialty Products' EBAC was positively affected by the acquisition of Genesys and the higher level of revenues coming from Piedmont's business line.



O&M

(In thousands of Canadian dollars)	Three-month periods ended September 30, **2020**	2019	Variation	
	$	$	$	%
Revenues from O&M	**17,365**	14,826	2,539	17.1
Cost of goods sold	**14,232**	12,000	2,232	18.6
Gross profit margins[1]	**3,133**	2,826	307	10.9
Gross profit margins (%)[1]	**18.0 %**	19.1 %	-	-
Selling and general expenses	**846**	973	(127)	(13.1)
EBAC[2] from O&M	**2,287**	1,853	434	23.4
EBAC[2] over revenues from O&M	**13.2 %**	12.5 %	-	-

O&M revenues stood at $17.4 M during the first quarter of fiscal year 2021, compared to $14.8 M for the same quarter of last fiscal year, representing an increase of $2.6 M, or 17.1 %. GUS, which was acquired on July 1, 2020, contributed $1.5 M to the revenues of this business pillar during the quarter. The increase in revenues is also due to organic growth seen in both Utility Partners and Hays.

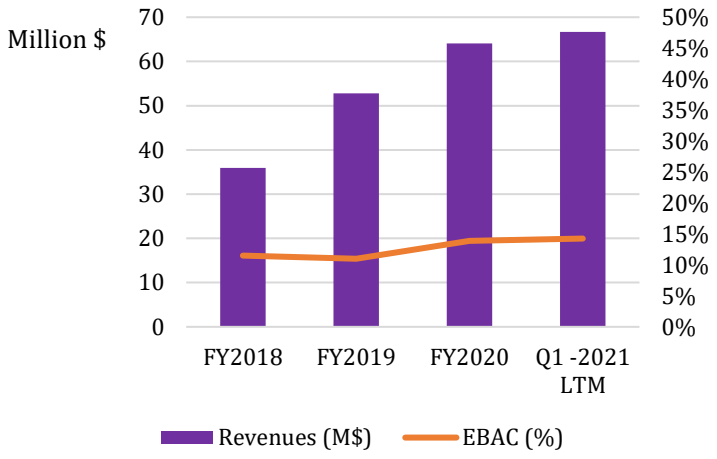
The gross profit margins before depreciation and amortization stood at $3.1 M, or 18.0 % for the first quarter of fiscal year 2021, compared with $2.8 M, or 19.1 % for the same quarter of last fiscal year, representing an increase of $0.3 M, or 10.9 %. The acquisition of GUS this quarter contributed $0.4 M to the gross profit margins before depreciation and

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

amortization. The gross profit margins before depreciation and amortization in % was affected by the increase in insurance costs and workers' compensation costs compared to the same quarter of last fiscal year.

The selling and general expenses stood at $0.8 M during the first quarter of fiscal year 2021, compared to $1.0 M, for the same quarter of last fiscal year, representing a decrease of $0.2 M. The variation is explained by the reduction in travel expenses as a result of COVID-19 and the termination of a salesman and a regional VP in June 2020.

O&M's EBAC stood at $2.3 M during the first quarter of fiscal year 2021, compared to $1.9 M for the same quarter of last fiscal year, representing an increase of $0.4 M, or 23.4 %. The acquisition of GUS contributed to the improved O&M's EBAC. After only three months following the GUS acquisition, some cost synergies have already been captured.



LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOWS ANALYSIS

A comparison of the Corporation's cash flows for the quarters ended September 30, 2020 and 2019 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended September 30, **2020**	2019	Variation	
	$	$	$	%
Cash flows from operating activities before change in working capital items	**3,122**	1,226	1,896	154.6
Change in working capital items	**(1,851)**	984	(2,835)	(288.1)
	1,271	2,210	(939)	(42.5)
Interests received / Income taxes paid	**9**	14	(5)	(35.7)
Cash flows from operating activities	**1,280**	2,224	(944)	(42.4)
Cash flows used in investing activities	**(3,147)**	(501)	(2,646)	(528.1)
Cash flows used in financing activities	**(244)**	(1,182)	938	79.4
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(35)**	48	(83)	(172.9)
Net change	**(2,146)**	589	(2,735)	(464.3)
Cash – Beginning of period	**9,417**	6,206	3,211	51.7
Cash – End of period	**7,271**	6,795	476	7.0

Cash decreased by $2.1 M during the first quarter of fiscal year 2021, compared with an increase of $0.6 M for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities reached $1.3 M for the quarter ended September 30, 2020, compared to $2.2 M of cash flows generated from operating activities during the comparable quarter of the previous fiscal year. The cash flows for the three months ended September 30, 2020 resulted primarily from the net earnings of $1.0 M, plus $2.1 M of non-cash adjustments to the net earnings consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs - net, partially offset by the share of profit of an associate and deferred taxes, and $1.8 M in unfavorable changes in working capital items. In comparison, the cash flows for the three months ended September 30, 2019 resulted primarily from the net loss of $1.0 M, plus $2.2 M of non-cash adjustments to the net loss consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs – net, partially offset by deferred taxes, and $1.0 M in favorable changes in working capital items.

Cash Flows from Investing Activities

Investing activities used $3.1 M of cash flows for the quarter ended September 30, 2020, compared to $0.5 M of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to the business combination of GUS for $2.6 M during the quarter.

Cash Flows from Financing Activities

Financing activities used $0.2 M for the quarter ended September 30, 2020, compared to $1.2 M of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation is mainly attributable to the bank loans reimbursement of $0.8 M this quarter, compensated by the long-term debt contracted of $2.1 M following the acquisition of GUS on July 1, 2020. During the first quarter of fiscal year 2021, the Corporation received proceeds from the exercise of warrants in the amount of $0.2 M.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)	**September 30, 2020**	June 30, 2020	Variation		Explanations
	$	$	$	%	
Accounts receivable	**21,914**	19,291	2,623	13.6 %	The increase is mostly attributable to the significant deliveries in Piedmont's business line. Also, the acquisition of GUS added $0.6 M in accounts receivable.
Inventories	**8,443**	7,869	574	7.3 %	The increase in inventory is partly due to the acquisition of GUS, which contributed $0.1 M of this increase. The growth is also driven by the work in progress in Maple's business line in order to prepare for the Maple season, compensated by deliveries in Piedmont's business line this quarter.
Contract assets	**6,888**	8,629	(1,741)	(20.2 %)	The decrease is mostly attributable to significant deliveries or invoicing in Piedmont's business line during the quarter, offset by the acquisition of GUS, which added $0.4 M in contract assets.
Accounts payable	**16,200**	15,915	285	1.8 %	Accounts payable remained fairly the same as of June 30, 2020 even though the acquisition of GUS added $0.5 M of accounts payable and accrued liabilities.
Contract liabilities	**1,771**	3,168	(1,397)	(44.1 %)	The decrease is attributable to the difference between project advancement and project invoicing schedules.

NET DEBT

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

(In thousands of Canadian dollars)	**September 30, 2020**	June 30, 2020	Variation	
	$	$	$	%
Bank loans	**2,638**	3,415	(777)	(22.8)
Current portion of long-term debt	**3,334**	2,782	552	19.8
Long-term debt	**14,556**	13,766	790	5.7
Less: Cash	**(7,271)**	(9,417)	2,146	22.8
Net debt	**13,257**	10,546	2,711	25.7

As at September 30, 2020, the net debt stood at $13.3 M, compared with $10.5 M as at June 30, 2020, representing a $2.8 M increase, or 25.7 %. This increase is mainly attributable to the term loan of $2.1 M contracted to partially financed the acquisition of GUS on July 1, 2020 and the decrease in cash available of $2.1 M, offset by the reimbursement of $0.8 M in bank loans and of $0.8 M in long-term debt.

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 September 30, 2020:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.00:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures:
  - of at least 1.10:1:00 at all times until the end of the quarter ending on June 30, 2021; and
  - of at least 1.20:1.00 at all times thereafter.

As at September 30, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2020, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.9 M which expire at various dates through fiscal year 2024. Of these letters of credit, $1.9 M is secured by EDC.

NON-IFRS FINANCIAL MEASUREMENTS

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements presented below are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.

EBITDA AND ADJUSTED EBITDA

EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition 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 AJDUSTED EBITDA

	Three-month periods ended September 30,	
(In thousands of Canadian dollars)	**2020**	2019
	$	$
Net earnings (loss) for the period	**984**	(1,033)
Finance costs – net	**579**	453
Income taxes	**(296)**	(9)
Depreciation of property, plant and equipment and right-of-use assets	**789**	689
Amortization of intangible assets	**1,049**	965
EBITDA	**3,105**	1,065
Unrealized exchange (gain) loss	**214**	(103)
Stock-based compensation costs	**43**	60
Changes in fair value of the contingent considerations	**62**	114
Acquisition and integration costs	**58**	489
Adjusted EBITDA	**3,482**	1,625

EARNINGS BEFORE ADMINISTRATIVE COSTS ("EBAC")

The definition of EBAC means the earnings before depreciation and amortization reduced by the selling and general 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 September 30, **2020**	2019
	$	$
Revenue from external customers:		
Revenue recognized over time	**20,793**	20,410
Revenue recognized at a point in time	**14,203**	7,813
	34,996	28,223
Cost of goods sold	**25,519**	21,516
Gross profit before depreciation and amortization	**9,477**	6,707
Selling and general expenses	**3,771**	3,253
Earnings before administrative costs (EBAC)	**5,706**	3,454

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 20 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.

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 coming from a business with a recurring customer sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. Corporation's recurring revenues are coming from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.

(In thousands of Canadian dollars)	**Three-month period ended September 30, 2020,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	6,242	11,389	17,365	34,996
Recurring revenues	**2,814**	**11,389**	**17,365**	**31,568**

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

CLAIMS AND LITIGATION

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

FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risks: credit risks, liquidity risks and market risks (including currency risk and interest risk). The interim consolidated financial statements and interim MD&A did not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the audited annual financial statements of the Corporation for the year ended June 30, 2020. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

RISK FACTORS

For a detailed description of risk factors associated with the Corporation, please refer to the "Risks factors" section of the Corporation's annual information form date September 23, 2020. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

COVID-19 pandemic

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, since the beginning of the pandemic, to maintain its operations and activities. As most of the countries are facing a second wave of COVID-19 cases, the Corporation continues to adapt its work environments to meet the recommendations of the government and of local public health authorities, encourage physical distancing and promote best hygiene practices, in response to the crisis. The internal COVID-19 intervention team meets on a regular basis to assess the situation at the different Corporation's locations and to monitor the health of its employees.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Corporation has reviewed its estimates, judgments and assumptions used in the preparation of its interim condensed consolidated financial statements, including the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill, estimated losses on revenue from fixed-fee arrangement contracts, the credit risk of its counterparties, and the estimates and judgments used for the measurement of its deferred tax assets. The estimates, judgments and assumptions used were the same as those applied in the Corporation's last annual audited financial statements for the year ended June 30, 2020.

As the situation is dynamic and the impact of COVID-19 on the Corporation's operations and financial conditions will be impacted by the duration of government-mandated measures and overall customer demand, revisions may be required in future periods to estimates and assumptions. Although management expects COVID-19 related disruptions to continue during fiscal 2021, management believes that the Corporation's long-term estimates and assumptions do not require further revisions, however management continues to monitor and evaluate the situation and its impact on the Corporation's business.

ACCOUNTING POLICIES

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

NEW ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2020, except for the adoption of new standards effective as of July 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the condensed interim consolidated financial statements of the Corporation, but may impact future periods should the Corporation enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the condensed interim consolidated financial statements of, nor is there expected to be any future impact to the Corporation.

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

The CEO and the CFO have also designed internal controls over financial reporting or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission 2013 (COSO 2013) on Internal Control – Integrated Framework. The work performed during the quarter allows them to conclude that the internal controls over financial reporting are effective for the three-month period ended September 30, 2020.

Changes in Internal Controls over Financial Reporting

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

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

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at September 30, 2020, did not include the controls or procedures of the operations of Genesys, following its acquisition effective on November 15, 2019 and GUS, following its acquisition effective on July 1, 2020. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of these acquisitions in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

The following table summarizes the financial information, including fair market value of acquired intangible assets, for Genesys following its acquisition:

(in thousands of Canadian dollars) (unaudited)	**Three-month period ended September 30, 2020**
Results	**$**
Revenues	2,809
Net Earnings	561
	As at September 30, 2020
Financial Position	**$**
Current Assets	6,901
Non-Current Assets [1]	26,251
Current Liabilities	1,198
Non-Current Liabilities	65

[1] includes fair market value of acquired intangible assets

The following table summarizes the financial information, including fair market value of acquired intangible assets, for GUS following its acquisition:

(in thousands of Canadian dollars) (unaudited)	**Three-month period ended September 30, 2020**
Results	**$**
Revenues	1,475
Net Earnings	160

	As at September 30, 2020
Financial Position	**$**
Current Assets	1,364
Non-Current Assets [1]	3,079
Current Liabilities	620
Non-Current Liabilities	68

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2020

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

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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

As at	September 30, 2020	June 30, 2020
	$	$
ASSETS (notes 7 and 9)		
Current assets		
Cash	**7,271**	9,417
Guaranteed deposit certificates	**22**	22
Accounts receivable (note 4)	**21,914**	19,291
Inventories (note 5)	**8,443**	7,869
Contract assets	**6,888**	8,629
Prepaid expenses	**730**	926
	45,268	46,154
Non-current assets		
Property, plant and equipment	**7,245**	6,923
Intangible assets	**30,037**	29,079
Right-of-use assets	**8,545**	8,918
Other assets	**443**	301
Related party loans receivable (note 14 a)	**1,250**	1,250
Goodwill (note 3)	**26,607**	26,185
Investment in an associate (note 6)	**1,714**	1,592
Deferred income tax assets	**834**	954
	121,943	121,356
LIABILITIES		
Current liabilities		
Bank loans (note 7)	**2,638**	3,415
Accounts payable and accrued liabilities (note 8)	**16,200**	15,915
Income taxes payable	**470**	313
Provisions	**207**	208
Contract liabilities	**1,771**	3,168
Contingent considerations (notes 3 and 10)	**1,447**	1,413
Current portion of long-term debt (note 9)	**3,334**	2,782
Current portion of lease liabilities	**1,513**	1,368
	27,580	28,582
Non-current liabilities		
Long-term debt (note 9)	**14,556**	13,766
Other non-current financial liabilities (notes 7 and 9)	**331**	371
Contingent considerations (notes 3 and 10)	**906**	-
Deferred income tax liabilities	**2,300**	2,398
Lease liabilities	**7,135**	7,626
	52,808	52,743
SHAREHOLDERS' EQUITY		
Share capital	**107,095**	106,872
Reserve - Stock options	**3,516**	3,473
Reserve – Warrants (note 3)	**2,653**	2,706
Deficit	**(47,327)**	(48,311)
Accumulated other comprehensive income	**3,198**	3,873
	69,135	68,613
	121,943	121,356

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré

President and Chief Executive Officer

Lisa Henthorne

Chairwoman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended September 30, 2020 and 2019
(in thousands of Canadian dollars, except share data) (Unaudited)

	Common shares (number)	Share capital	Reserve – Stock option	Reserve – Warrants	Deficit	Accumulated other comprehensive income	Total
		$	$		$	$	$
Balance as at July 1, 2019	55,889,989	89,057	3,250	167	(44,084)	2,469	50,859
Stock-based compensation costs	-	-	60	-	-	-	60
Net loss for the period	-	-	-	-	(1,033)	-	(1,033)
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	570	570
Balance as at September 30, 2019	55,889,989	89,057	3,310	167	(45,117)	3,039	50,456
Balance as at July 1, 2020	**76,872,608**	**106,872**	**3,473**	**2,706**	**(48,311)**	**3,873**	**68,613**
Stock-based compensation costs	**-**	**-**	**43**	**-**	**-**	**-**	**43**
Net earnings for the period	**-**	**-**	**-**	**-**	**984**	**-**	**984**
Shares issued on warrants exercised	**204,771**	**223**	**-**	**(53)**	**-**	**-**	**170**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**(715)**	**(715)**
Other comprehensive income (loss) – Gain on cash flow hedges	**-**	**-**	**-**	**-**	**-**	**40**	**40**
Balance as at September 30, 2020	**77,077,379**	**107,095**	**3,516**	**2,653**	**(47,327)**	**3,198**	**69,135**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three-month periods ended September 30, 2020 and 2019
(in thousands of Canadian dollars, except per share data) (Unaudited)

Three-month periods ended September 30,	**2020**	2019
	$	$
Revenues (note 13)	**34,996**	28,223
Cost of goods sold (note 11 a)	**25,519**	21,516
Gross profit before depreciation and amortization	**9,477**	6,707
Selling, general and administrative expenses (note 11 a)	**6,209**	5,052
Depreciation of property, plant and equipment and right-of-use assets (note 11 b)	**789**	689
Amortization of intangible assets (note 11 b)	**1,049**	965
Other losses – net (note 11 c)	**193**	101
Acquisition and integration costs (note 3)	**58**	489
Operating costs total	**8,298**	7,296
Operating (loss) profit	**1,179**	(589)
Finance income (note 14 a)	**(9)**	(14)
Finance costs	**588**	467
Finance costs – net	**579**	453
Share of profit of an associate (note 6)	**88**	-
Earnings (loss) before income taxes	**688**	(1,042)
Current income tax expense	**155**	26
Deferred tax recovery	**(451)**	(35)
	(296)	(9)
Net earnings (loss) for the period	**984**	(1,033)
Basic net earnings (loss) per share (note 12)	**0.013**	(0.019)
Diluted net earnings (loss) per share (note 12)	**0.013**	(0.019)
Weighted average number of shares outstanding (note 12) – Basic	**74,323,976**	53,258,504
Weighted average number of shares outstanding (note 12) – Diluted	**75,686,211**	53,258,504

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
For the three-month periods ended September 30, 2020 and 2019
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2020**	2019
	$	$
Net earnings (loss) for the period	**984**	(1,033)
Other comprehensive income (loss) - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**(715)**	570
Gain on cash flow hedges	**40**	-
Comprehensive earnings (loss) for the period	**309**	(463)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended September 30, 2020 and 2019
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2020**	2019
	$	$
Operating activities		
Earnings (loss) before income taxes for the period	**688**	(1,042)
Non-cash items		
Finance costs – net	**579**	453
Depreciation of property, plant and equipment and right-of-use assets	**789**	689
Amortization of intangible assets	**1,049**	965
Changes in fair value of contingent considerations (note 10)	**62**	114
Others	**-**	(13)
Stock-based compensation costs	**43**	60
Share of profit of an associate (note 6)	**(88)**	-
	3,122	1,226
Change in working capital items	**(1,851)**	984
Interests received	**9**	14
Net cash flows from operating activities	**1,280**	2,224
Investing activities		
Variation of guaranteed deposit certificate	**-**	(1)
Variation of other assets	**(148)**	(106)
Acquisition of property, plant and equipment	**(325)**	(269)
Acquisition of intangible assets	**(51)**	(125)
Business combination, net of cash acquired (note 3)	**(2,623)**	-
Net cash flows used in investing activities	**(3,147)**	(501)
Financing activities		
Variation of bank loans	**(777)**	(88)
Proceeds from long-term debt contracted (note 9)	**2,100**	312
Long-term debt reimbursement (note 9)	**(778)**	(719)
Payment of lease liabilities	**(448)**	(246)
Interest paid	**(437)**	(441)
Financing costs	**(74)**	-
Warrants exercised	**170**	-
Net cash flows used in financing activities	**(244)**	(1,182)
Net change in cash	**(2,111)**	541
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(35)**	48
Increase (decrease) in cash	**(2,146)**	589
Cash – Beginning of period	**9,417**	6,206
Cash – End of period	**7,271**	6,795

See accompanying notes to consolidated financial statements.

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

1. Description of business

H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation's activities rely on three pillars, which are: i) water 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

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

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2020 were consistently applied to all periods presented in this document, except for the adoption of new standards effective as of July 1, 2020, as discussed below.

These condensed interim consolidated financial statements are intended to provide an update on the Corporation's audited consolidated annual financial statements for the year ended June 30, 2020. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's audited consolidated annual financial statements for the year ended June 30, 2020.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2020 and remained unchanged for the three-month period ended September 30, 2020.

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

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

On November 9, 2020, the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

Assessment of COVID-19 impact

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Corporation has reviewed its estimates, judgments and assumptions used in the preparation of its interim condensed consolidated financial statements, including the determination of whether indicators of impairment exist for its tangible and intangible assets, including goodwill, estimated losses on revenue from fixed-fee arrangement contracts, the credit risk of its counterparties, and the estimates and judgments used for the measurement of its deferred tax assets. The estimates, judgments and assumptions used were the same as those applied in the Corporation's last annual audited financial statements for the year ended June 30, 2020.

As the situation is dynamic and the impact of COVID-19 on the Corporation's operations and financial conditions will be impacted by the duration of government-mandated measures and overall customer demand, revisions may be required in future periods to estimates and assumptions. Although management expects COVID-19 related disruptions to continue during fiscal 2021, management believes that the Corporation's long-term estimates and assumptions do not require further revisions, however management continues to monitor and evaluate the situation and its impact on the Corporation's business.

New accounting policy

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2020, except for the adoption of new standards effective as of July 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the condensed interim consolidated financial statements of the Corporation, but may impact future periods should the Corporation enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material
The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the condensed interim consolidated financial statements of, nor is there expected to be any future impact to the Corporation.

3. Business combination

A. Acquisition of Gulf Utility Service, Inc.

Description of the business combination

On June 30, 2020, the Corporation entered into a share purchase agreement pertaining to the acquisition of all the issued and outstanding shares of Gulf Utility Service, Inc. ("GUS"), a privately-owned 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 effective date of the acquisition is July 1, 2020.

H_2O Innovation acquired GUS for an initial cash consideration of $2.5 M (US$1.9 M), a working capital adjustment of $0.2 M (US$0.1 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a period of 18 months, was estimated at $0.9 M (US$0.7 M) using the Corporation's best estimate as at the acquisition date and as at September 30, 2020. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustments were not final as of the date of the financial statements and have been estimated at $0.2 M by management as at September 30, 2020.

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.

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

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

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

The preliminary estimates of the fair value of assets acquired and liabilities assumed for the GUS acquisition based on the estimated fair value on the date of acquisition and available information as at the date of the publication of these interim consolidated financial statements are as follow:

Estimated fair value recognized on acquisition date (July 1, 2020)

(In thousands of Canadian dollars)	July 1, 2020 $
Assets acquired	
Cash	**121**
Accounts receivable [1]	**467**
Inventory	**170**
Contract assets	**293**
Prepaid expenses	**106**
Property, plant and equipment	**368**
Right-of-use assets [2]	**151**
Other assets	**80**
Liabilities assumed	
Accounts payable and accrued expenses	**(416)**
Lease liabilities [2]	**(151)**
Deferred tax liabilities	**(507)**
Identifiable net tangible assets acquired	**682**
Intangible assets acquired [3]	**2,284**
Goodwill arising on acquisition [3]	**702**
Fair value of net assets acquired	**3,668**
Consideration	
Cash	**2,546**
Contingent consideration	**924**
Working capital adjustment	**198**
Total consideration payable	**3,668**
Cash consideration paid	**2,546**
Working capital adjustment paid	**198**
Less: Cash acquired	**(121)**
Net cash flow on acquisition	**2,623**

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

Costs related to the acquisition

Transactions costs of $0.04 M were expensed and are included in Acquisition and integration costs in the condensed interim consolidated financial statements in the Consolidated Statements of Earnings (Loss).

Determination of fair value

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

The Corporation's preliminary valuation of intangible assets has identified client relationships and non-compete agreements. The assigned useful lives are 10 years for client relationships and 42 months 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. These estimates are subject to change or revaluation by management.

Goodwill arising from the business combination

Based on management's preliminary calculations, an amount of $0.7 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition.

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

The Corporation's earnings for the three-month period ended September 30, 2020 includes $1.5 M in revenues and $0.2 M net earnings, generated from GUS additional business and no pro forma figures have been used since the effective date of the acquisition is July 1, 2020.

B. 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 specialty 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.

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

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 H2O 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.

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

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash and cash equivalents	**1,739**
Accounts receivable (1)	**2,440**
Inventory	**721**
Prepaid expenses	**26**
Income taxes receivable	**174**
Property, plant and equipment	**2,016**
Right-of-use assets (2)	**127**
Intangible assets	**-**
Investment in an associate	**1,447**
Liabilities assumed	
Accounts payable and accrued expenses	**(1,856)**
Lease liabilities (2)	**(127)**
Deferred tax liabilities	**(2,484)**
Identifiable net tangible assets acquired	**4,223**
Intangible assets acquired	
Software	**131**
Customer relationships	**12,080**
Non-compete agreements	**465**
Trademark	**401**
Goodwill arising on acquisition	**12,441**
Fair value of net assets acquired	**29,741**
Consideration	
Cash	**23,563**
Issuance of units	**5,264**
Working capital adjustment	**914**
Total consideration payable	**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.

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

The purchase price allocation shown above is final and is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. It was completed during the fourth quarter of fiscal year 2020. The original transaction was made in British pounds and converted into Canadian dollars as at the acquisition date.

Since the initial allocation, which occurred in the three months period ended December 31, 2019, 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

The total acquisition and integration costs pertaining to the Genesys acquisition amounted to $2.0 M. 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 during the previous fiscal year.

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. These estimates are subject to change or revaluation by management.

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.

Goodwill following the business combinations related to Genesys and GUS

The change in carrying value is as follows:

	Total
	$
Balance as at June 30, 2019	15,727
Plus: Business combination – Genesys (note 3)	12,441
Less: Impairment of goodwill	(2,668)
Effect of foreign exchange differences	685
Balance as at June 30, 2020	26,185
Plus: Business combination – GUS (note 3)	**702**
Effect of foreign exchange differences	**(280)**
Balance as at September 30, 2020	**26,607**

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

4. Accounts receivable

As at	September 30, 2020	June 30, 2020
	$	$
Trade accounts receivable	**19,480**	16,584
Hold back from customers under manufacturing contracts	**2,421**	2,669
Allowance for doubtful accounts	**(175)**	(171)
	21,726	19,082
Other receivables	**188**	209
	21,914	19,291

5. Inventories

As at	September 30, 2020	June 30, 2020
	$	$
Raw materials	**918**	597
Work in progress	**419**	130
Finished goods	**7,106**	7,142
	8,443	7,869

6. 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.:

	Total
	$
Opening balance as at June 30, 2020	1,592
The Corporation's share of profit	**88**
Effect of foreign exchange differences	**34**
Balance as at September 30, 2020	**1,714**

7. Bank loans

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement with respect to its operating and long-term credit facilities aggregating, at that time, an amount of up to $34.0 M. On June 30, 2020, the Corporation entered into the First Amendment to Amended and Restated Credit Agreement amending its existing credit agreement by increasing its long-term credit facilities by an amount of $2.1 M, used to partially finance the GUS acquisition. Therefore, following the execution of the First Amendment to Amended and Restated Credit Agreement, the Corporation's operating and long-term credit facilities are now aggregating a amount of up to $36.1 M, including three (3) term loans in a maximum amount of $19.1 M, which term loans are more fully-described in Note 9 – *Long-term debt.*

Under its current credit agreement, as amended from time to time, 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 $2.6 M was used as at September 30, 2020. The interest rates on these amounts are distributed as follow:
   - *a.* $2.1 M ($2.1 M as at June 30, 2020) bearing interest at Banker Acceptance + 2.25 % (2.77 % as at September 30, 2020 and 2.81 % as at June 30, 2020);
   - *b.* $nil ($0.5 M as at June 30, 2020) bearing interest at CDN prime rate plus 1.00 % (3.45 % as at June 30, 2020);
   - *c.* US$nil ($0.8 M as at June 30, 2020) bearing interest at US$ Libor plus 2.25 % (2.43 % as at June 30, 2020); and
   - *d.* US$0.4 M ($0.5 M as at September 30, 2020 and $nil as at June 30, 2020) bearing interest at US$ base rate plus 1.00 % (4.75 % as at September 30, 2020).

(ii) a letter of credit facility for a maximum amount of $5.0 M for the issuance of letters of credit entirely secured by Exportation Development Canada ("EDC"), from which an amount of $1.9 M ($1.8 M as at June 30, 2020) was used on this credit facility as at September 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 $0.3 M was used as at September 30, 2020 ($0.4 M as at June 30, 2020); and

(ii) a credit facility enabling the Corporation to use a maximum amount of $0.4 M on credit cards for Corporation's related expenses, from which an amount of $0.1 M was used as at September 30, 2020 ($0.04 M as at June 30, 2020).

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 September 30, 2020, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 9 – *Long-term debt*.

8. Accounts payable and accrued liabilities

As at	September 30, 2020	June 30, 2020
	$	$
Trade accounts payable	**7,277**	5,094
Other accrued liabilities	**8,923**	10,821
	16,200	15,915

9. Long-term debt

As at	September 30, 2020	June 30, 2020
	$	$
At amortised cost		
Loans denominated in Canadian dollars (a)(e)(f)	**14,891**	13,525
Loan denominated in Canadian dollars (b)(e)	**2,045**	2,043
Loans denominated in US dollars (c)	**700**	708
Loans denominated in Canadian dollars (d)	**254**	272
	17,890	16,548
Less: Current portion	**3,334**	2,782
Long-term debt	**14,556**	13,766

(a) Loans denominated in Canadian dollars

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 % (2.73 % as at September 30, 2020 and 2.77 % as at June 30, 2020) and an amount of $343 bearing interest at prime rate plus 1.00 % (3.45 % as at September 30, 2020 and 3.45 % as at June 30, 2020). 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 $107 ($124 as at June 30, 2020).

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 September 30, 2020, the fair value of this swap was $55 ($64 as at June 30, 2020). 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 % (2.73 % as at September 30, 2020 and 2.77 % as at June 30, 2020) and an amount of $400 bearing interest at prime rate plus 1.00 % (3.45 % as at September 30, 2020 and 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 $234 ($267 as at June 30, 2020).

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 September 30, 2020, the fair value of this swap amounted to $276 ($307 as at June 30, 2020). This interest rate swap has been designated as a hedging item.

On June 30, 2020, the Corporation entered into a First Amendment to Amended and Restated Credit Agreement amending its current credit agreement to add a term loan in an aggregate amount of up to $2,100 to partially finance the acquisition of GUS. On July 2, 2020, the Corporation request a draw in the aggregate amount of $2,100 bearing interest at prime rate plus 1.00 % (3.45 % as at September 30, 2020). This loan is payable in 60 monthly instalments of $35, principal only, and is maturing on June 30, 2025. The loan is presented net of financing costs of $67.

(b) Loan denominated in Canadian dollars
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 September 30, 2020 and 4.95 % as at June 30, 2020). 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 $17 ($19 as at June 30, 2020).

(c) Loans denominated in US dollars
The Corporation acquired financing agreements totaling $1,009 (US$758) 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 $20 (US$15), principal and interest, and are maturing through March 2023 to September 2025.

(d) Loans denominated in Canadian dollars
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:
- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.00:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures:
  - of at least 1.10:1:00 at all times until the end of the quarter ending on June 30, 2021; and
  - of at least 1.20:1.00 at all times thereafter.

(f) This long-term debt arrangement is secured by a first ranking (i) movable hypothec on the universality of all the Corporation's present and future assets, and (ii) immovable hypothec on all the real property owned by the Corporation.

Covenants

As at September 30, 2020, the Corporation was in compliance with the ratios required under its credit agreements.

10. Contingent considerations

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

	$
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
Plus: Change in fair value of contingent considerations	**62**
Plus: Contingent consideration – GUS (note 3)	**924**
Effect of foreign exchange differences	**(46)**
Balance as at September 30, 2020	**2,353**
Less: Current portion	**1,447**
Contingent considerations	**906**

11. Additional information about the nature of costs components

a) Expenses by nature

Three-month periods ended September 30,	**2020**	2019
	$	$
Material	**13,083**	8,039
Salaries and fringe benefits	**14,119**	14,027
Subcontractors and professional fees	**2,047**	2,034
Rent, electricity, insurance and office expenses	**970**	827
Telecommunications and travel expenses	**450**	747
Bad debt expenses	**14**	-
Share based compensation	**43**	60
Other expenses	**1,002**	834
Total cost of goods sold, selling, general and administrative expenses	**31,728**	26,568
Depreciation of property, plant and equipment and right-of-use assets	**789**	689
Amortization of intangible assets	**1,049**	965
Costs including depreciation and amortization	**33,566**	28,222

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, general operating expenses, selling expenses and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month periods ended September 30, 2020 and 2019; and ii) the amounts of cost of goods sold, selling, general and administrative expenses, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

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

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

Three-month periods ended September 30,	**2020**	2019
	$	$
Cost of goods sold	**509**	629
Selling, general and administrative expenses	**280**	60
	789	689

Amortization of intangible assets by function

Three-month periods ended September 30,	**2020**	2019
	$	$
Cost of goods sold	**58**	223
Selling, general and administrative expenses	**991**	742
	1,049	965

Cost per function including depreciation and amortization

Three-month periods ended September 30,	**2020**	2019
	$	$
Cost of goods sold	**26,086**	22,368
Selling, general and administrative expenses	**7,480**	5,854
	33,566	28,222

c) Other losses – net

Three-month periods ended September 30,	**2020**	2019
	$	**$**
Unrealized exchange (gain) loss	**214**	(103)
Realized exchange (gain) loss	**(62)**	107
Other gains	**(21)**	(17)
Changes in fair value of contingent considerations	**62**	114
	193	101

12. Net earnings (loss) per share

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

Three-month periods ended September 30,	**2020**	2019
Net earnings (loss)	**$984**	($1,033)
Basic weighted average number of share outstanding	**74,323,976**	53,258,504
Effects of dilution from:		
Warrants if not anti-dilutive	1,362,235	-
Weighted average number of share outstanding adjusted for the effect of dilution	**75,686,211**	53,258,504
Basic net earnings (loss) per share	**$0.013**	($0.019)
Diluted net earnings (loss) per share	**$0.013**	($0.019)

The following items are excluded from the calculation of basic and diluted net earnings (loss) per share because their exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect:

Three-month periods ended September 30,	**2020**	2019
Stock options	**2,319,334**	2,511,334
Warrants	**10,490,810**	12,057,816

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

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

	For the three-month period ended September 30, 2020			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**3,428**	-	**17,365**	**20,793**
Revenue recognized at a point in time	**2,814**	**11,389**	-	**14,203**
	6,242	**11,389**	**17,365**	**34,996**
Cost of goods sold	**4,690**	**6,597**	**14,232**	**25,519**
Gross profit before depreciation and amortization	**1,552**	**4,792**	**3,133**	**9,477**
Selling and general expenses	**857**	**2,068**	**846**	**3,771**
Earnings before administrative costs (EBAC)	**695**	**2,724**	**2,287**	**5,706**
Administrative expenses				**2,438**
Depreciation of property, plant and equipment and right-of-use assets				**789**
Amortization of intangible assets				**1,049**
Other losses – net				**193**
Acquisition and integration costs				**58**
Share of profit of an associate				**(88)**
Finance costs – net				**579**
Earnings before income taxes				**688**

	For the three-month period ended September 30, 2019			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	5,584	-	14,826	20,410
Revenue recognized at a point in time	2,621	5,192	-	7,813
	8,205	5,192	14,826	28,223
Cost of goods sold	6,540	2,976	12,000	21,516
Gross profit before depreciation and amortization	1,665	2,216	2,826	6,707
Selling and general expenses	1,016	1,264	973	3,253
Earnings before administrative costs (EBAC)	649	952	1,853	3,454
Administrative expenses				1,799
Depreciation of property, plant and equipment and right-of-use assets				689
Amortization of intangible assets				965
Other losses – net				101
Acquisition and integration costs				489
Finance costs – net				453
Loss before income taxes				(1,042)

Geographical information

Three-month periods ended September 30,	2020	2019
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**4,011**	3,530
United States	**22,458**	22,711
United Arab Emirates	**2,326**	64
Saudi Arabia	**2,367**	465
Chile	**628**	36
China	**394**	116
Other	**2,812**	1,301
	34,996	28,223

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

As at	September 30, 2020	June 30, 2020
	$	$
Non-current assets excluding other assets, financial instruments, investment in an associate and deferred income tax asset according to geographic location		
Canada	**5,903**	6,058
United States	**39,970**	38,225
United Kingdom	**26,561**	26,822
	72,434	71,105

14. Related party disclosure and remuneration

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of a non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.01 %, 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 $1,563 as at September 30, 2020 ($1,083 as at June 30, 2020).

An amount of $6 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of earnings (loss) for the three-month period ended September 30, 2020 ($7 for the three-month period ended September 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:

Three-month periods ended September 30,	**2020**	2019
	$	$
Short-term benefits [1]	**368**	272
Post-employment benefits [2]	**41**	37
Share-based payments	**43**	60
	452	369

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

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

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

15. Comparative figures

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

GENERAL INFORMATION

Board of Directors

Lisa Henthorne, Chairwoman of the Board of Directors [(1)(3)]
Robert Comeau, Director [(1)(2)]
Pierre Côté, Director[(4)]
Stéphane Guérin, Director
Frédéric Dugré, President, Chief Executive Officer and Director
Richard Hoel, Director and Vice Chairman of the Board of Directors [(1)(2)(3)]
René Vachon, Director[(2)(3)]

Management

Frédéric Dugré, President and Chief Executive Officer [(4)]
Marc Blanchet, Chief Financial Officer
Guillaume Clairet, Chief Operating Officer [(4)]
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)

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