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Interim Financial Report
Third quarter ended
March 31, 2017

Trading symbols:
TSX Venture: HEO
Alternext: MNEMO: ALHEO
OTCQX: HEOFF

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

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 results of operations and financial position for the quarter ended March 31, 2017, in comparison with the corresponding period ended March 31, 2016. They should be read in conjunction with the consolidated financial statements and accompanying notes. Comparison of financial situation as at March 31, 2017 to those as at June 30, 2016 is also included. Certain statements set forth in this Management's Discussion and Analysis (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, performance and achievements 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 expressions, 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, based on the current expectations of management, involve a number of risks and uncertainties, known and unknown, which may result in actual and future results, performance and achievements 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 26, 2016 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 Management's Discussion and Analysis or in other communications as a result of new information, future events and other changes.

The following financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures in the present report are expressed in Canadian dollars, unless otherwise indicated.

VISION, MISSION & PROFILE

OUR VISION

Be the best at providing safe and reliable water treatment solutions and technologies.

OUR MISSION

To provide safe and integrated water treatment solutions and outstanding customer care in order to secure long-term relationships.

OUR PROFILE

H_2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users. The Corporation's activities rely on three pillars which are i) water and wastewater projects ("projects"); ii) specialty products and services ("SP&S"), including a complete line of specialty chemicals, consumables, specialized products for the water treatment industry as well as control & monitoring systems; and iii) operation and maintenance services ("O&M") for water and wastewater treatment systems, distribution equipment and associated assets for all of its customers. The Corporation also ensures that water quality meets regulatory requirements.

H_2O Innovation employs approximately 560 resources and has seven locations in North America, one location in Spain and operates thirty-six utilities in seven US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California, Nevada and New Mexico).

NON-IFRS FINANCIAL MEASUREMENTS

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA)" and "Net debt" 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.

The definition of adjusted EBITDA does not take into account the Corporation's gain on purchase price adjustment and acquisition and integration costs. These items are non-recurring in nature and management believes that it allows a better comparison of the Corporation's historical data as well as comparison with the information presented by competitors. The adjusted EBITDA also excludes other expenses otherwise considered in net earnings according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gain) loss and the stock-based compensation. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. The reader can establish the link between adjusted EBITDA and net (loss) earnings 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 adjusted EBITDA to net (loss) earnings

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Net (loss) earnings for the period	**(1,345,695)**	646,422	**(3,521,051)**	872,972
Finance costs – net	**328,485**	233,260	**984,780**	597,514
Income taxes	**(189,262)**	205,077	**(580,855)**	417,930
Depreciation of property, plant and equipment	**191,850**	175,192	**548,314**	447,178
Amortization of intangible assets	**1,272,620**	276,852	**2,774,142**	744,957
Gain on purchase price adjustment	**-**	-	**-**	(375,977)
Unrealized exchange (gain) loss	**(59,586)**	(292,260)	**118,282**	(35,173)
Acquisition and integration costs	**45,867**	781	**1,066,696**	48,199
Stock-based compensation costs	**167,458**	-	**460,069**	-
Adjusted EBITDA	**411,737**	1,245,324	**1,850,377**	2,717,600

The definition of net debt consists of bank overdraft, bank loans, and long-term debt less cash and cash equivalents. The reader can establish the link between net debt and debt. The definition of net debt used by the Corporation may differ from those used by other companies.

Even though net debt is a non-IFRS measure, it is used by management to assess the Corporation's capital management.

	March 31, 2017	June 30, 2016
	$	$
Bank overdraft	**203,674**	520,208
Bank loans	**4,776,745**	5,962,750
Current portion of long-term debt	**2,077,842**	721,973
Long-term debt	**9,617,602**	2,125,282
Less: Cash and cash equivalents	**(2,266,011)**	(3,051,870)
Net debt	**14,409,852**	6,278,343

ACQUISITION OF UTILITY PARTNERS, LLC

On July 26, 2016, the Corporation entered into a share purchase agreement providing for the acquisition of all of the memberships interests of Utility Partners, LLC ("Utility Partners"), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the "Acquisition"). The effective closing date of the acquisition is July 1, 2016.

Utility Partners provides US municipal clients with innovative and cost-effective solutions for water and wastewater treatment plants. At the date of the closing of the acquisition, it operated thirty-four plants in six US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California and Nevada).

H_2O Innovation acquired Utility Partners for an initial purchase price of $22,533,500 (US$17.0 M), on a cash-free, debt-free basis, representing a multiple of 7.6x Utility Partners' adjusted EBITDA[1] for the twelve-month period ended December 31, 2015. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment was established and agreed upon by both parties at $1,075,373 (US$0.8 M) on December 9, 2016 and was paid as at March 31, 2017. The total purchase price consideration amounted to $23,608,873 (US$17.8 M).

The Corporation financed the acquisition with an equity financing, by way of a bought deal private placement and a concurrent additional non-brokered private placement of Corporation's Common shares at a price of $1.20 per common share for total gross proceeds of $23,061,196.

In addition, H_2O Innovation contracted $10 M in credit facilities, which was used, in part, to fund ancillary costs, working capital post acquisition purpose and to support research and innovation initiatives.

This acquisition complements the venture that was started during fiscal year 2015 in leasing and operating and maintenance of water treatment systems. Utility Partners had entered into long-term contracts, mainly with municipalities, that contain multi-year renewal options. It solidifies the business model by adding recurring sales coming from O&M activities, which are very predictable, and therefore counterbalance the lumpiness of revenues coming from sales of water treatment projects.

The purchase price allocation is preliminary and based on management best estimates as at March 31, 2017. The final purchase price allocation is expected to be completed as soon as management has gathered all of the significant information available and considered necessary in order to finalize this allocation especially in regards to intangible assets such as contractual agreements, client relationships, non-compete agreements and trademark.

[1] Utility Partner's adjusted EBITDA is defined as Utility Partners' earnings before interest, taxes, depreciation and amortization adjusted for certain expenses not anticipated to be incurred post-acquisition, non-recurring expenses or gains and gain on disposal of assets and equipment following the termination of a contract.

Selected financial data
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**21,284,643**	14,199,860	**61,111,336**	39,624,778
Gross profit before depreciation and amortization	**5,060,641**	4,522,640	**14,358,617**	11,853,728
Gross profit before depreciation and amortization	**23.8%**	31.8%	**23.5%**	29.9%
Operating expenses	**523,721**	356,160	**1,448,128**	1,009,026
Selling expenses	**1,975,348**	1,679,681	**5,186,872**	4,648,798
Administrative expenses	**2,307,189**	1,289,659	**6,300,002**	3,521,379
Research and development expenses – net	**16,075**	24,126	**131,319**	144,300
Net (loss) earnings	**(1,345,695)**	646,422	**(3,521,051)**	872,972
Basic and diluted (loss) earnings per share	**(0.034)**	0.031	**(0.104)**	0.042
Adjusted EBITDA	**411,737**	1,245,324	**1,850,377**	2,717,600
Adjusted EBITDA over Revenues (%)	**1.9%**	8.8%	**3.0%**	6.9%

Revenues and gross profit before depreciation and amortization

The revenues from the third quarter of fiscal year 2017 totaled $21.3 M, representing a $7.1 M or 49.9% increase, as compared with revenues of $14.2 M for the same quarter of fiscal year 2016. This increase is largely attributable to the acquisition of Utility Partners, effective July 1, 2016 which added significant revenues coming from O&M activities. For this third quarter of fiscal year 2017, 40.9% of the revenues came from O&M, 40.5% of the revenues came from the SP&S and 18.6% came from water treatment projects. The Corporation's business model has fundamentally evolved where 81.4% of the revenues recorded in this third quarter are coming from the O&M and SP&S pillars, considered recurring in nature.

Revenues from water treatment projects have declined momentarily to $4.0 M compared to $4.8 M in the corresponding period of the previous fiscal year, representing a 17.0% decrease. This is not unusual since revenues from water treatment projects vary from quarter to quarter and depends on the different milestones reached for revenue recognition. Over the last twelve months, revenues for projects reached $17.9 M, which represent a decrease of 27.8% compared to the previous twelve months where revenues were at $24.8 M. This decrease is explained by the fact that the nature of projects has changed. The actual water treatment projects backlog consists of municipal projects that have a more extensive engineering phase, which phase generates less revenue under the revenue recognition accounting method and this phase tends to spread out over longer periods than what we were used to with our past projects. Once projects are entering into the manufacturing phase, it allows recognition of significantly more revenues as fabrication and assembly moves forward. Also, project execution is sometimes postponed due to situations outside of the control of the Corporation, and therefore impacts revenue recognition. Even though revenues are slower and lumpy, the water treatment projects are still a growth vehicle of the Corporation. The water treatment projects order backlog stood at $56.7 M as at March 31, 2017, compared to $42.1 M a year ago, representing a 34.7% increase over the last twelve months. The increase of bookings is not converting into revenue growth at the same pace, due to the longer period of execution per contract.

During the first quarter of fiscal year 2017, the Corporation launched the flexMBR™. This new technological platform allows us to differentiate ourselves in the very competitive environment of wastewater. Since July 2016, six wastewater projects using this platform have been won, compared to none last year. The flexMBR™, together with the Fiberflex™ are both open-source membrane platforms which, combined to our expertise in membrane applications and selection, allow H_2O Innovation to position itself as a market leader in North America.

Since July 1, 2016, we secured $20.9 M in bookings, with a current pipeline of water treatment projects rich in opportunities, which should allow the Corporation to continue to increase its project order backlog and support its revenue growth. We maintain strong bidding activities and business development mainly in Canada and in United States.

Revenues from SP&S reached $8.6 M compared to $9.4 M in the comparable quarter of the previous fiscal year. Even though it is a decrease of 8.5% compared to the same quarter last year, it is the second best quarterly result of the Corporation's history for the SP&S pillar. Over the last twelve months, revenues reached $28.1 M, which represents an increase of 6.3% compared to the previous twelve months where revenues were at $26.6 M. This increase in SP&S revenues is the direct result of investments made during the last few years in our operating and selling functions to support the growth of this business line. Just over the last six quarters we have developed, launched and acquired new proprietary technologies such as the High Brix™, Smartrek™, Clearlogx® and SPMC™, which boosted revenues up.

Revenues coming from O&M amounted to $8.7 M. These revenues are recurring sales and came mainly from the recently acquired Utility Partners. The backlog related to these O&M contracts stood at $60.4 M as at March 31, 2017 and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. Since the acquisition, the integration plan is moving as expected by management. The change of leadership is transitioning very smoothly. All the contracts that were in renewal phase were successfully renewed, two new contracts have been signed, and cross selling sales between O&M and SP&S have been secured, which generated a $5.5 M increase of backlog in this quarter, from $54.9 M as at December 31, 2016 to $60.4 M as at March 31, 2017.

The business model is shaping up, and we start to see the benefits of it. We recently captured our first bookings of cross selling between O&M and SP&S generated by Utility Partners' existing contract. The Corporation, through Utility Partners, has secured new O&M projects, using the support of the project and SP&S resources. The integration of Utility Partners reached a new level during this quarter and we can now consider this entity fully merged within H_2O Innovation. With three strong business pillars, the Corporation is very well balanced and not dependent on a single source of revenues. As revenues coming from the SP&S and O&M are recurring in nature, the strategy to grow these two business pillars is proven to be efficient since it minimizes the impact of revenue volatility associated with water treatment projects and thus increase predictability in our business model. The SP&S and O&M activities also reinforce long-term relationships with the projects customers and maintain a higher gross profit. The Corporation has a platform to capture cross selling opportunities, where one pillar will feed the others. The focus for fiscal year 2017 is to scale up the business model by maximizing the use of all our resources and sales forces. All together, these three business pillars provide a unique and accountable business model to better serve the Design-Build-Operate opportunities, a fast growing segment in the water industry.

The following table summarizes the evolution of the Corporation's revenues, together with the variations in its consolidated backlog over the last quarters.

	2016 FY				2017 FY			Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	(Q4 FY2016 & Q1, Q2, Q3 FY2017)	(Q4 FY2015 & Q1, Q2, Q3 FY2016)
Consolidated backlog	$38.3 M	$43.1 M	$42.1 M	$38.8 M	**$98.5 M**	**$109.2 M**	**$117.1 M**	**N/A**	N/A
Foreign exchange impact	$1.8 M	$1.1 M	($1.7 M)	($0.2 M)	**$1.3 M**	**$2.5 M**	**$1.2 M**	**N/A**	N/A
Revenues from water treatment projects	$7.2 M	$5.9 M	$4.8 M	$5.1 M	**$5.4 M**	**$3.4 M**	**$4.0 M**	**$17.9 M**	$24.8 M
Revenues from SP&S (usually recurrent in nature)	$5.1 M	$7.3 M	$9.4 M	$5.9 M	**$5.9 M**	**$7.7 M**	**$8.6 M**	**$28.1 M**	$26.6 M
Revenues from O&M (usually recurrent in nature)	-	-	-	-	**$8.5 M**	**$8.8 M**	**$8.7 M**	**$26.0 M**	-
Total revenues	$12.3 M	$13.2 M	$14.2 M	$11 M	**$19.8 M**	**$19.9 M**	**$21.3 M**	**$72.0 M**	$51.3 M

Gross profit margin

In this third quarter of fiscal year 2017, the Corporation generated a 23.8% gross profit before depreciation and amortization, a lower level than the 31.8% gross profit before depreciation and amortization generated in the third quarter of fiscal year 2016. The revenue mix has been modified with the acquisition of Utility Partners which operates in a different model than our previous core activities. Indeed, O&M activities generally generates lower gross margin. Therefore, the integration of Utility Partners into H_2O Innovation, which in this quarter represents 40.9% of the total revenues, puts pressure on the overall gross margin of the Corporation, although increasing the predictability and stability of the financial results.

Operating expenses

Operating expenses have increased by $0.2 M or 47.0%, totaling $0.5 M this quarter compared to $0.4 M for the corresponding quarter of previous fiscal year. This increase is due to hirings for the development of new products and investments to improve our logistics and supply chain activities related to SP&S division.

Selling expenses

Selling expenses have increased by $0.3 M, or 17.6% for this quarter of fiscal year 2017, totaling $2.0 M compared to $1.7 M for the corresponding quarter of the previous fiscal year. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The increase of the selling expenses is mostly due to the participation to tradeshows and to the sales commissions recorded in regards to sales target reached in the SP&S business line. Over the third quarter, we have continued to invest in the commercialisation of the new fiberglass reinforced polyester ("FRP") cartridge filter housing product line, which explains part of the increase of the selling expenses, as well as operating expenses.

Administrative expenses

Administrative expenses increased by $1.0 M or 78.9%, totaling $2.3 M this quarter compared to $1.3 M for the corresponding quarter of the previous fiscal year. The significant increase in administrative expenses is due to the acquisition of Utility Partners and the integration of their corporate team, the increase in salaries and fringe benefits and to the addition of personnel to support our overall operations.

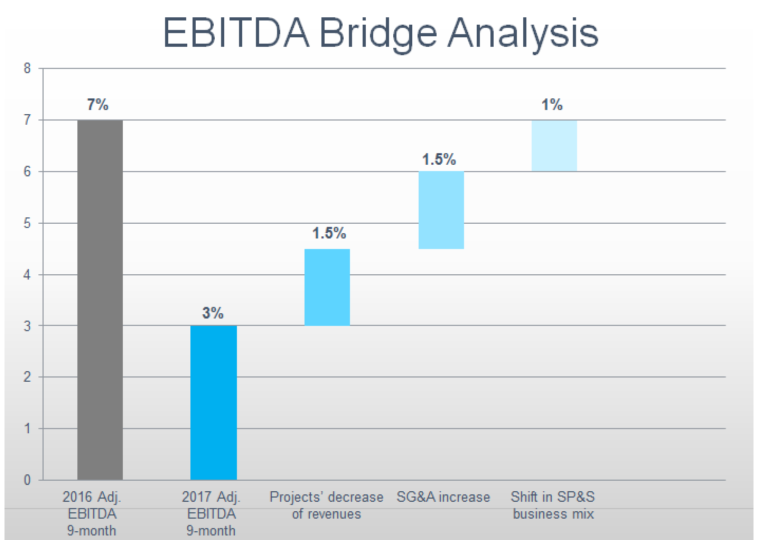
The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 22.6% for this quarter, down from 23.4% for the corresponding quarter of the previous fiscal year. This decrease is mostly attributable to the acquisition of Utility Partners in July 2016 which increased the overall revenues without impacting proportionally the selling and operating expenses.

Research and development expenses – net

For the quarter ended March 31, 2017, gross research and development expenses totaled $16,075, or 0.08% of revenues compared to $24,126 or 0.17% for the quarter ended March 31, 2016. For the three-month period ended March 31, 2017, the Corporation has not recorded tax credits from the Canadian and provincial governments for eligible research and development conducted in Canada.

Adjusted EBITDA

Adjusted EBITDA for the quarter was recorded at $411,737, compared with $1,245,324 for the same period ended March 31, 2016. The adjusted EBITDA over revenues represents 1.9%, compared to 8.8% for the same quarter in fiscal year 2016. The EBITDA bridge analysis presented below explains the decrease in adjusted EBITDA for the nine-month period ended March 31, 2017, compared to the adjusted EBITDA for the comparative period of the previous fiscal year.



Other losses / (gains) – net

Other losses / (gains) – net amounting to ($65,557) for the three-month period ended March 31, 2017 compared with ($363,789) for the quarter ended March 31, 2016 are mostly due to the unrealized and realized exchange (gain) loss recorded in the quarter of ($59,586) and $3,636 respectively, compared to ($292,260) and ($56,095) for the comparable quarter of the previous fiscal year.

Finance costs – net

Finance costs – net totalled $328,485 for the three-month period ended March 31, 2017 compared to $233,260 for the comparable period in the previous fiscal year. These expenses result mostly from the long-term debt and they have increased following the acquisition of Utility Partners, for which a long term debt of $10 M has been contracted. Of this amount, $32,227 represents the theoretical and non-monetary part of interest on long-term debt.

Net (loss) earnings

The net loss amounted to ($1,345,695) or ($0.034) per share for the third quarter of fiscal year 2017 compared with net earnings of $646,422 or $0.031 per share for the third quarter of fiscal year 2016. The net loss is largely due to the acquisition of Utility Partners and the related acquisition and integration costs and to a higher level of SG&A expenses, aimed to support the constant growth of the Corporation.

Commitments

The Corporation has entered into long-term lease agreements expiring between 2017 and 2024, which call for lease payments of $5,822,476 for the rental of space. The minimum annual lease payments over the next five years are $1,007,188 in 2017, $1,016,900 in 2018, $1,050,768 in 2019, $1,056,807 in 2020 and $995,996 in 2021.

Information on share capital

As at March 31, 2017, the Corporation had 40,144,214 outstanding shares and 2,565,334 stock options.

FINANCIAL SITUATION

Working capital increased from $8.3 M as at June 30, 2016 (working capital ratio of 1.55) to $11.3 M as at March 31, 2017 (working capital ratio of 1.66). The increase of $2.9 M is attributable to the acquisition of Utility Partners and more specifically to the $4.3 M, $0.9 M and $0.2 M increase in accounts receivables, inventories and prepaid expenses respectively, and to the increase of $1.3 M, $0.6 M and $1.4 M in accounts payable and accrued liabilities, billings in excess of costs incurred as well as current portion of long term debt respectively. These increases are subdued by the decrease of $0.8 M, $0.3 M and $1.2 M in cash and cash equivalents, bank overdraft and bank loans respectively.

The net debt which stood at $14.4 M as at March 31, 2017 increased by $8.1 M compared with $6.3 M as at June 30, 2016. This increase is mainly attributable to the increase of the bank loans, following the acquisition of Utility Partners, but subdued by the reimbursement of a portion of the long-term debt and the cash left to support the Corporation's working capital activities.

Equity stood at $46.0 M as at March 31, 2017, compared with $26.6 M as at June 30, 2016. As at March 31, 2017 the net debt to equity ratio was 0.31 (0.24 as at June 30, 2016), showing that the Corporation is not over leveraged.

(in Canadian dollars, except for ratios)	**Nine-month period ended March 31, 2017**	**Period ended June 30, 2016**
Working capital	$11,280,953	$8,342,714
Working capital ratio	1.66	1.55
Net debt[1]	$14,409,852	$6,278,343
Equity	$45,958,340	$26,645,406
Net debt to equity ratio	0.31	0.24

[1] Net debt comprises bank overdraft, bank loans and the long-term debt, net of cash and cash equivalents.

As at March 31, 2017 accounts receivable stood at $14.5 M compared with $10.2 M as at June 30, 2016. The rise of $4.3 M is partly attributable to the acquisition of Utility Partners, as well as the increase of revenues from SP&S, the maple division being in the midst of its season.

Inventories increased by $0.9 to $5.3 M as at March 31, 2017 compared with $4.4 M as at June 30, 2016. Inventories have increased due to finished goods for the maple syrup production season, which started at the end of the second quarter and is still strong during this third quarter and to support the record high sales for this business line. In addition, finished goods have also increased due to the manufacturing of specialty chemicals to build a higher level of inventories to better respond to demand from customers and expedite deliveries.

Costs incurred in excess of billings increased by $0.2 M to $3.7 M as at March 31, 2017, from $3.5 M as at June 30, 2016, primarily due to a different number of active projects for which there are differences between project advancement and project invoicing schedules. Billings in excess of costs incurred increased by $0.6 M to $1.5 M as at March 31, 2017, from $0.9 M as at June 30, 2016. This increase is also attributable to differences between project advancement and project invoicing schedules.

Accounts payable and accrued liabilities increased by $1.3 M to $8.3 M as at March 31, 2017, from $7.0 M as at June 30, 2016. The increase of accounts payable and accrued liabilities is due to the acquisition of Utility Partners.

The increase of $1.4 M in the current portion of the long-term debt is explained by the long term debt and loan from other entities contracted for the acquisition of Utility Partners in July 2016 and it was reduced by repayment of $1.3 M for the nine-month period ended March 31, 2017.

For the third quarter ended March 31, 2017, shareholders' equity increased by $19.3 M to $46.0 M ($26.6 M as at June 30, 2016). The following elements had an impact on shareholders' equity in the third quarter of fiscal year 2017: 1) issuance of shares for $23,061,196 and related share issue expenses of $1,441,856 for the acquisition of Utility Partners, 2) the ($3,521,051) net loss for the nine-month period ended March 31, 2017, 3) the stock-based compensation costs of $460,069, and 4) the Canadian dollar's depreciation which generated an unrealized exchange gain of $754,576 resulting from the translation of foreign operations, mainly those of the U.S. subsidiaries.

CASH FLOWS

A comparison of the Corporation's cash flows for the periods ended March 31, 2017 and 2016 is presented below:

(in Canadian dollars) (unaudited)	**Three-month period ended March 31, 2017**	Three-month period ended March 31, 2016	**Nine-month period ended March 31, 2017**	Nine-month period ended March 31, 2016
	$	$	**$**	$
Cash flows from operating activities	**(1,135,127)**	(318,078)	**(1,713,808)**	(436,599)
Cash flows from investing activities	**(1,514,571)**	(776,638)	**(27,059,074)**	(3,479,655)
Cash flows from financing activities	**(794,534)**	222,800	**28,200,971**	3,190,762
Effect of exchange rate changes on the balance of cash held in foreign currencies	**66,799**	(81,354)	**102,587**	51,663
Net change	**(3,377,433)**	(953,270)	**(469,324)**	(673,829)
Cash and cash equivalents – Beginning of period	**5,439,770**	1,613,276	**2,531,661**	1,333,835
Cash and cash equivalents – End of period	**2,062,337**	660,006	**2,062,337**	660,006

Operating activities used ($1,135,127) in cash for the three-month period ended March 31, 2017, compared with ($318,078) of cash used during the corresponding period ended March 31, 2016. The increase is mostly due to the net loss before income taxes generated during this quarter, to the addition of Utility Partners, and the increase in non-cash items.

For the third quarter of fiscal year 2017, investing activities used net cash of ($1,514,571), compared with ($776,638) of cash used during the corresponding period ended March 31, 2016. The variation is mainly attributable to an additional investment in business combination of $641,421 for a contingent consideration payable according to the initial contract. To a lesser extent, the combined investments in property, plant and equipment of $562,657 and intangible assets of $404,250, were at a higher level of investment than the comparable quarter.

Financing activities used net cash of ($794,534) in the third quarter of fiscal year 2017 compared with $222,800 of net cash generated during the corresponding period ended March 31, 2016. Long-term debts and bank loans were reimbursed in the third quarter of fiscal year 2017, with reimbursements of $588,246 and $47,751 respectively for the current quarter. The reimbursements of debts are subdued by a long term debt of $158,339 contracted for the renovation of the premises. Interest paid during the third quarter of fiscal year 2017 amounted to $316,876.

QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)

(in dollars, except per share data)

	Three-month periods ended				Last twelve months
	March 31, 2017	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	
Revenues	21,284,643	19,957,831	19,868,862	11,042,913	72,154,249
Adjusted EBITDA	411,737	809,625	629,015	157,330	2,007,707
Adjusted EBITDA over revenues	1.9%	4.1%	3.2%	1.4%	2.8%
Net earnings (loss)	(1,345,695)	(1,093,270)	(1,090,273)	(662,775)	(4,192,013)
EPS basic and diluted	(0.034)	(0.027)	(0.027)	(0.032)	(0,12)
Cash flows from operating activities	(1,135,127)	1,083,117	(1,661,798)	3,043,359	1,329,551

	Three-month periods ended				Last twelve months
	March 31, 2016	**December 31, 2015**	**September 30, 2015**	**June 30, 2015**	
Revenues	14,199,860	13,165,590	12,259,328	11,670,028	51,294,806
Adjusted EBITDA	1,245,324	1,030,502	441,773	578,058	3,295,657
Adjusted EBITDA over revenues	8.8%	7.8%	3.6%	5.0%	6.4%
Net earnings (loss)	646,422	174,221	52,329	(284,063)	588,909
EPS basic and diluted	0.031	0.008	0.003	(0.014)	0.028
Cash flows from operating activities	(318,078)	128,382	(227,303)	867,972	450,973

CAPITAL MANAGEMENT

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

The Corporation’s capital is composed of net debt and shareholders’ equity. Net debt consists of bank overdraft, bank loans and long-term debt less cash and cash equivalents. 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 annual financial ratios at fixed points in time. The financial ratios are, as at March 31, 2017:

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.00:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at June 30, 2016, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements, except for the fixed charge coverage for which it received a waiver from the lender.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in note 3 to the consolidated financial statements as at June 30, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2017, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to \$1.3 M, which expire at various dates through fiscal year 2018. In these letters of credit, \$1.2 M is secured by deposit certificates.

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 ("DC&P")

The CEO and the 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 our 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 in National Instrument 52-109.

Internal controls over financial reporting ("ICFR")

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 allows us to conclude that the internal controls over financial reporting are effective for the period ended March 31 2017.

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 March 31, 2017, did not include the controls or procedures of the operations of Utility Partners, which were acquired on July 26, 2016. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of this acquisition in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

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

(in Canadian dollars) (unaudited)	**Three-month period ended March 31, 2017 $**	**Nine-month period ended March 31, 2017 $**
Results		
Revenues	8,694,380	26,011,884
Net Earnings	199,846	1,277,980
Financial Position		
Current Assets		5,025,304
Non-Current Assets [(1)]		11,686,007
Current Liabilities		2,220,249

(1) includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

March 31, 2017

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
Alternext: 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
(Unaudited)

As at	March 31, 2017	June 30, 2016
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**2,266,011**	3,051,870
Guaranteed deposit certificates	**1,370,809**	1,461,462
Accounts receivable (note 4)	**14,499,891**	10,192,683
Inventories (note 5)	**5,308,697**	4,444,810
Costs incurred in excess of billings	**3,722,590**	3,534,972
Prepaid expenses	**1,074,404**	909,369
Income taxes recoverable	**27,283**	-
	28,269,685	23,595,166
Non-current assets		
Property, plant and equipment	**4,032,534**	3,512,648
Intangible assets	**21,179,726**	10,090,969
Other assets	**73,060**	70,366
Related party loans receivable (note 15 a))	**1,250,000**	-
Goodwill (note 3)	**15,165,202**	4,854,647
Deferred income tax assets	**2,929,722**	2,267,227
	72,899,929	44,391,023
LIABILITIES		
Current liabilities		
Bank overdraft	**203,674**	520,208
Bank loans (note 6)	**4,776,745**	5,962,750
Accounts payable and accrued liabilities (note 7)	**8,292,458**	6,999,829
Provisions (note 8)	**151,373**	114,224
Billings in excess of costs incurred	**1,485,972**	912,032
Income taxes payable	**-**	10,775
Deferred rent	**668**	10,661
Current portion of long-term debt (note 9)	**2,077,842**	721,973
	16,988,732	15,252,452
Non-current liabilities		
Long-term debt (note 9)	**9,617,602**	2,125,282
Deferred rent	**100,234**	105,446
Contingent consideration (note 3)	**235,021**	262,437
	26,941,589	17,745,617
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**76,918,285**	55,298,945
Reserve - Stock options (note 10)	**2,336,448**	1,876,379
Deficit	**(36,638,266)**	(33,117,215)
Accumulated other comprehensive income	**3,341,873**	2,587,297
	45,958,340	26,645,406
	72,899,929	44,391,023

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Philippe Gervais
Chairman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine-month periods ended March 31, 2017 and 2016
(Unaudited)

ATTRIBUTABLE TO THE SHAREHOLDERS OF H_2O INNOVATION INC.

				Reserves			
	Common shares Number (note 12)	Share capital (note 10)	Share capital under escrow (note 3)	Stock option (note 10)	Deficit	Accumulated other comprehensive income – Translation adjustment	Total
		$	$	$	$	$	$
Balance as at July 1, 2015	20,926,551	55,298,945	-	1,876,379	(33,327,412)	2,159,574	26,007,486
Net earnings for the period	-	-	-	-	872,972	-	872,972
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	589,208	589,208
Balance as at March 31, 2016	20,926,551	55,298,945	-	1,876,379	(32,454,440)	2,748,782	27,469,666
Balance as at July 1, 2016	**20,926,551**	**55,298,945**	**-**	**1,876,379**	**(33,117,215)**	**2,587,297**	**26,645,406**
Issuance of common shares under private placement (notes 3 and 10)	**19,217,663**	**21,811,196**	**1,250,000**	**-**	**-**	**-**	**23,061,196**
Common shares under private placement released (notes 3 and 10)	**-**	**1,250,000**	**(1,250,000)**	**-**	**-**	**-**	**-**
Share issue expenses (notes 3 and 10)	**-**	**(1,441,856)**	**-**	**-**	**-**	**-**	**(1,441,856)**
Stock-based compensation costs (note 10)	**-**	**-**	**-**	**460,069**	**-**	**-**	**460,069**
Net loss for the period	**-**	**-**	**-**	**-**	**(3,521,051)**	**-**	**(3,521,051)**
Other comprehensive income – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**754,576**	**754,576**
Balance as at March 31, 2017	**40,144,214**	**76,918,285**	**-**	**2,336,448**	**(36,638,266)**	**3,341,873**	**45,958,340**

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three-month and nine-month periods ended March 31, 2017 and 2016
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues (note 14)	**21,284,643**	14,199,860	**61,111,336**	39,624,778
Cost of goods sold (note 11 a))	**16,224,002**	9,677,220	**46,752,719**	27,771,050
Gross profit before depreciation and amortization	**5,060,641**	4,522,640	**14,358,617**	11,853,728
Operating expenses (note 11 a))	**523,721**	356,160	**1,448,128**	1,009,026
Selling expenses (note 11 a))	**1,975,348**	1,679,681	**5,186,872**	4,648,798
Administrative expenses (note 11 a))	**2,307,189**	1,289,659	**6,300,002**	3,521,379
Research and development expenses – net (notes 11 a) and c))	**16,075**	24,126	**131,319**	144,300
Depreciation of property, plant and equipment (note 11 b))	**191,850**	175,192	**548,314**	447,178
Amortization of intangible assets (note 11 b))	**1,272,620**	276,852	**2,774,142**	744,957
Other (gains) losses – net (note 11 d))	**(65,557)**	(363,789)	**20,270**	(550,326)
Operating costs total	**6,221,246**	3,437,881	**16,409,047**	9,965,312
Operating (loss) earnings	**(1,160,605)**	1,084,759	**(2,050,430)**	1,888,416
Acquisition-related costs and integration costs (note 3)	**45,867**	-	**1,066,696**	-
Finance income (note 15 a))	**(9,604)**	(3,841)	**(31,531)**	(11,036)
Finance costs	**338,089**	237,101	**1,016,311**	608,550
Finance costs – net	**328,485**	233,260	**984,780**	597,514
	374,352	233,260	**2,051,476**	597,514
(Loss) Earnings before income taxes	**(1,534,957)**	851,499	**(4,101,906)**	1,290,902
Current income tax expense	**-**	224,356	**11,712**	474,335
Deferred tax benefit	**(189,262)**	(19,279)	**(592,567)**	(56,405)
	(189,262)	205,077	**(580,855)**	417,930
Net (loss) earnings for the period	**(1,345,695)**	646,422	**(3,521,051)**	872,972
(Loss) earnings per share attributable to the equity holders of the Corporation during the period				
Basic and diluted (loss) earnings per share	**(0.034)**	0.031	**(0.104)**	0.042
Weighted average number of basic and diluted shares outstanding (note 12)	**40,144,214**	20,926,551	**33,948,356**	20,926,551

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three-month and nine-month periods ended March 31, 2017 and 2016
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Net (loss) earnings for the period	**(1,345,695)**	646,422	**(3,521,051)**	872,972
Other comprehensive income – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**(453,158)**	(1,582,417)	**754,576**	589,208
Comprehensive (loss) income for the period	**(1,798,853)**	(935,995)	**(2,766,475)**	1,462,180

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and nine-month periods ended March 31, 2017 and 2016
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cash flows from operating activities				
(Loss) Earnings before income taxes for the period	**(1,534,957)**	851,499	**(4,101,906)**	1,290,902
Non-cash items				
Finance costs – net	**328,485**	233,260	**984,780**	597,514
Depreciation of property, plant and equipment	**191,850**	175,192	**548,314**	447,178
Amortization of intangible assets	**1,272,620**	276,852	**2,774,142**	744,957
Gain on purchase price adjustment (note 11 d))	**-**	-	**-**	(375,977)
Unrealized exchange (loss) gain on long-term debt	**(21,014)**	(159,758)	**63,483**	(30,489)
Deferred rent	**(5,680)**	(2,513)	**(17,019)**	(7,482)
Stock-based compensation	**167,458**	-	**460,069**	-
	398,762	1,374,532	**711,863**	2,666,603
Change in working capital items (note 13 a))	**(1,494,077)**	(1,688,165)	**(2,406,854)**	(3,087,139)
Cash used in operations	**(1,095,315)**	(313,633)	**(1,694,991)**	(420,536)
Interests received	**9,604**	3,841	**31,531**	11,036
Income taxes paid	**(49,416)**	(8,286)	**(50,348)**	(27,099)
Net cash used in operating activities	**(1,135,127)**	(318,078)	**(1,713,808)**	(436,599)
Cash flows from investing activities				
Variation of guaranteed deposits certificates	**97,603**	(1,051)	**92,587**	57,370
Variation of other assets	**(3,846)**	(1,184)	**(1,321)**	(11,475)
Business Combination (note 3)	**(641,421)**	-	**(24,219,047)**	-
Related party loans receivable (note 15 a))	**-**	-	**(1,250,000)**	-
Acquisition of property, plant and equipment	**(562,657)**	(283,583)	**(910,316)**	(1,002,330)
Assets acquired through business combination (note 3)	**-**	-	**-**	(1,976,000)
Payment received on purchase price adjustment (note 11 d))	**-**	-	**-**	375,977
Acquisition of intangible assets	**(404,250)**	(490,820)	**(770,977)**	(923,197)
Net cash used in investing activities	**(1,514,571)**	(776,638)	**(27,059,074)**	(3,479,655)
Cash flows from financing activities				
Variation of bank loans	**(47,751)**	738,180	**(1,186,005)**	1,800,008
Long-term debt reimbursement	**(588,246)**	(277,351)	**(1,283,718)**	(642,899)
Long-term debt contracted (note 9)	**158,339**	-	**10,200,059**	2,634,600
Interest paid	**(316,876)**	(238,029)	**(984,084)**	(600,947)
Financing costs (note 9)	**-**	-	**(164,621)**	-
Issuance of common shares under private placement (note 10)	**-**	-	**23,061,196**	-
Share issue expense (note 10)	**-**	-	**(1,441,856)**	-
Net cash generated by (used in) financing activities	**(794,534)**	222,800	**28,200,971**	3,190,762
Net change in cash and cash equivalents	**(3,444,232)**	(871,916)	**(571,911)**	(725,492)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**66,799**	(81,354)	**102,587**	51,663
Decrease in cash and cash equivalents	**(3,377,433)**	(953,270)	**(469,324)**	(673,829)
Cash and cash equivalents - Beginning of period (note 13 b))	**5,439,770**	1,613,276	**2,531,661**	1,333,835
Cash and cash equivalents - End of period (note 13 b))	**2,062,337**	660,006	**2,062,337**	660,006

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation's activities rely on three pillars which are: i) water and wastewater projects; ii) specialty products and services, including a complete line of specialty chemicals, consumables, and specialized products for the water treatment industry as well as control and monitoring systems; and iii) operation and maintenance services for water and wastewater treatment systems. The head office of the Corporation is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

2. Basis of Preparation

Basis of preparation

The Corporation's financial statements are presented in Canadian dollars. All values are rounded at the nearest dollar, except otherwise indicated.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34").

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2016 were consistently applied to all periods presented. Please refer to note 2 in the Corporation's consolidated financial statements for the year ended June 30, 2016 for a complete description of the Corporation's significant accounting policies.

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, 2016 and remained unchanged for the nine-month period ended March 31, 2017.

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

These condensed interim consolidated financial statements are intended to provide an update on 2016 annual statements. Accordingly they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's 2016 annual audited consolidated financial statements.

On May 12, 2017 the Board reviewed the accompanying condensed interim consolidated financial statements and authorized its publication.

Standards and interpretations issued to be adopted at a later date

The following revised standards are effective for annual periods beginning on or after January 1, 2018 for IFRS 9 and for IFRS 15, and January 1, 2019 for IFRS 16, with earlier application permitted. The Corporation has not yet assessed the impact of these standard and amendment or determined whether it will early adopt them.

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* with a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through the statement of income (loss). IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of income (loss) or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of income (loss) to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

In May 2014, the *International Accounting Standards Board ("*IASB") released IFRS 15, *Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue, Barter Transactions Involving Advertising Service*). IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

On January 13, 2016, the IASB issued IFRS 16, *Leases*, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17, *Leases* and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 will be effective as of January 1st, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenues from Contracts with Customers.* The Corporation has not yet examined the impacts of this new standard.

3. Business Combinations

A. Acquisition of Utility Partners, LLC

Description of the business combination

On July 26, 2016, the Corporation entered into a share purchase agreement providing for the acquisition of all of the memberships interests of Utility Partners, LLC ("Utility Partners"), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the "acquisition"). The effective date of the acquisition is July 1, 2016.

Utility Partners provides US municipal clients with innovative and cost-effective solutions for water and wastewater treatment plants. At the date of the closing of the acquisition, it operated thirty-four (34) plants in six (6) US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California and Nevada).

H_2O Innovation acquired Utility Partners for an initial purchase price of $22,533,500 (US$17.0 M), on a cash-free, debt-free basis, representing a multiple of 7.6x Utility Partners' adjusted EBITDA[1] for the twelve-month period ended December 31, 2015. The purchase price was subject to customary working capital adjustments as of the closing

[1] Utility Partner's adjusted EBITDA is defined as Utility Partners' earnings before interest, taxes, depreciation and amortization adjusted for certain expenses not anticipated to be incurred post-acquisition, non-recurring expenses or gains and gain on disposal of assets and equipment following the termination of a contract.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

date. The working capital adjustment was established and agreed upon by both parties at $1,075,373 (US$0.8 M) on December 9, 2016 and was paid as at March 31, 2017. The total purchase price consideration amounted to $23,608,873 (US$ 17.8 M).

The Corporation financed the acquisition with an equity financing, by way of a bought deal private placement and a concurrent additional non-brokered private placement of Corporation's Common shares at a price of $1.20 per common share for total gross proceeds of $23,061,196.

In addition, H_2O Innovation contracted $10 M in credit facilities, which was used, in part, to fund ancillary costs, working capital post acquisition purpose and to support research and innovation initiatives.

Estimated fair value recognized on acquisition date

	July 26, 2016 $
Assets acquired	
Cash and cash equivalents	**31,247**
Accounts receivable	**3,048,674**
Prepaid expenses	**650,265**
Property, plant and equipment	
Machinery and equipment	**30,098**
Intangible assets	
Client relationships	**6,203,348**
Contractual agreements	**2,399,147**
Non-compete agreements – renewal	**1,988,250**
Non-compete agreements – others	**1,961,740**
Trademark	**770,116**
Liabilities assumed	
Accounts payable and accrued expenses	**(2,559,160)**
Identifiable net assets acquired	**14,523,725**
Goodwill arising on acquisition	**9,085,148**
Purchase price consideration	**23,608,873**

The purchase price allocation shown above is preliminary and based on management's best estimates as at March 31, 2017. The final purchase price allocation is expected to be completed as soon as management has gathered all of the significant information available and considered necessary in order to finalize this allocation, especially in regards to intangible assets.

All of the intangible assets and the goodwill acquired are expected to be deductible for tax purposes.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Sources and uses of funds at the transaction closing date

	July 26, 2016 $
Sources	
Private placement (note 10)	**21,160,196**
Additional private placement (note 10)	**1,901,000**
Bank loan (note 9)	**10,000,000**
	33,061,196
Uses	
Initial cash consideration transferred	**(22,533,500)**
Cash transferred for working capital adjustment	**(1,075,373)**
Acquisition and integration costs	**(1,066,696)**
Share issuance costs (note 10)	**(1,441,856)**
Financing costs (note 9)	**(164,621)**
Related party loans receivable (note 15 a))	**(1,250,000)**
Working capital for the Corporation's current activities	**(5,529,150)**
	-

Costs related to the acquisition

The total acquisition-related and integration costs amounted to $2,673,173 and are included in the financial statements as follows: share issuance costs totalled $1,441,856 are included in the share capital caption in the Consolidated Statement of Changes in Shareholders' Equity, financing costs totalling $164,621 are included in the long-term debt and $1,066,696 of acquisition and integration costs are included 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 valuation of intangible assets has identified contractual agreements, client relationships, non-compete agreements and trademark. The assigned useful lives are based on the remaining duration of the contracts for contractual agreements, 10 years for client relationships, 5 years for non-compete agreements and undefined for trademark. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's preliminary calculations, an amount of $9,085,148 of goodwill has been attributed to the transaction and stems essentially from the synergies with other activities of the Corporation, the economic value of the workforce acquired as well as intangible assets that do not meet the criteria for separate recognition. These estimates are subject to change or revaluation by management.

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

The Corporation's loss for the three-month period ended March 31, 2017 includes $8,694,380 in revenues and a $199,846 profit and for the nine-month period ended March 31, 2017 includes $26,011,884 in revenues and a $1,277,980 profit, generated from Utility Partners additional business and no pro forma figures have been used since the effective date of the acquisition is July 1, 2016.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

B. Acquisition of the assets of Clearlogx

Description of the business combination

On October 21, 2015, the Corporation acquired all of the assets of Clearlogx pertaining to its unique Clearlogx® control technology. In addition to the Clearlogx® technology, the Corporation purchased Clearlogx's business related to the sale of coagulants for conventional and membrane filtration systems. This acquisition was made for a total consideration of $1.97 M (US$1.5 M), with potential earn-out payments over a period of three (3) years following the effective date of the transaction. The acquisition of these assets was accounted for using the purchase method. The assets results have been consolidated as of October 21, 2015. This acquisition was entirely financed with a long-term bank loan of $2.63 M (US$2 M) borrowed from BMO Bank and secured at 75% by EDC, allowing the Corporation to reduce its interest rate.

Assets acquired at the acquisition date

	October 21, 2015
Assets	**$**
Non-current assets	
Property, plant and equipment	
Machinery and equipment	**9,223**
Intangible assets	
Customer backlog	**33,847**
Client relationships	**194,649**
Intellectual property	**1,087,211**
Trademark	**490,362**
Identifiable net assets acquired	**1,815,292**
Goodwill arising on acquisition	**1,038,989**
Purchase price consideration	**2,854,281**

The purchase price allocation shown above is final and is a summary of the assets acquired and the consideration transferred at fair value as at the acquisition date. It was completed during the second quarter of fiscal year 2017. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

In the intangible assets' tax treatment, 75% of the intellectual property and the trademark acquired will be treated as eligible assets with related tax deductions and 25% as non-deductible. The goodwill, the customer backlog and the client relationship are expected to be deductible for tax purposes.

Sources and uses of funds at the transaction closing date

	October 21, 2015
Sources	**$**
Bank loan (note 6)	**2,634,600**
Working capital	**655,850**
	3,290,450
Uses	
Initial cash consideration transferred	**(1,976,250)**
Working capital for the Corporation's current activities	**(437,758)**
Contingent consideration paid	**(641,421)**
Contingent consideration (unpaid as of March 31, 2017)	**(235,021)**
	-

The contingent consideration was estimated based on certain forecasted revenues and determined earnings before income taxes, depreciation and amortization (EBITDA) over a three year period.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Costs related to the acquisition

The total acquisition-related costs amounted to $58,106 and have been included in administrative expenses in the Consolidated Statements of Earnings (Loss) from October 21, 2015 to June 30, 2016.

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 customer backlog, client relationships, intellectual property and trademark. The assigned useful lives are 3.5 months for customer backlog, 10 years for client relationships, 10 years for intellectual property and undefined for trademark. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's calculations, goodwill amounting to $1,038,989 has been attributed to the transaction. In the goodwill tax treatment, it is expected to be deductible for tax purposes.

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

The Corporation's loss for the three-month period ended December 31, 2016 includes $121,385 in revenues and a $38,096 profit and for the six-month period ended December 31, 2016 includes $848,677 in revenues and a $30,862 profit, generated from Clearlogx additional business.

If the business combination had been completed on July 1, 2015, the Corporation's consolidated revenues for the year ended June 30, 2016 would have totalled $50,758,311 and consolidated earnings for the year ended June 30, 2016 would have been $211,150.

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a twelve-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition actually occurred on July 1, 2015, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit if Clearlogx had been acquired on July 1, 2015, the Corporation:

- Calculated depreciation of property, plant and equipment and amortization of other acquired intangible assets based on the fair value arising from initial recognition of the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements;
- calculated the borrowing costs on the Corporation's net indebtedness after the business combination; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

Goodwill following the business combinations related to Utility Partners and Clearlogx

The change in carrying value of the goodwill is as follows:

	$
Balance as at June 30, 2015	4,694,166
Effect of foreign exchange differences	160,481
Balance as at June 30, 2016	4,854,647
Plus : Business combination – Utility Partners	**9,085,148**
Business combination – Clearlogx	**1,038,989**
Effect of foreign exchange differences	**186,418**
Balance as at March 31, 2017	**15,165,202**

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

4. Accounts Receivable

	As at March 31, 2017	As at June 30, 2016
	$	$
Trade accounts receivable	**11,083,721**	8,115,997
Retentions from customers under manufacturing contracts	**2,226,846**	1,012,846
	13,310,567	9,128,843
Tax credits receivable	**68,027**	83,395
Other receivables	**1,121,297**	980,445
	14,499,891	10,192,683

No allowance for doubtful accounts has been recorded as of March 31, 2017 (nil as of June 30, 2016).

5. Inventories

	As at March 31, 2017	As at June 30, 2016
	$	$
Raw materials	**1,439,673**	1,201,951
Finished goods	**3,869,024**	3,242,859
	5,308,697	4,444,810

6. Bank loans

The bank loans for an authorized amount of $5,000,000 or US$5,000,000 ($6,649,500) bearing interest at CDN prime rate plus 1.00% (3.70% as at March 31, 2017 and June 30, 2016) and at US prime rate plus 1.00% (5.50% as at March 31, 2017 and 5.0% as at June 30, 2016) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at March 31, 2017, $3,072,490 was used on this line of credit ($3,832,858 as at June 30, 2016).

The Corporation has an authorized credit facility available of $2,000,000 or US$2,000,000 ($2,659,800) bearing interest at CDN prime rate plus 1.00% (3.70% as at March 31, 2017 and June 30, 2016) and at US prime rate plus 1.00% (5.50% as at March 31, 2017 and 5.0% as at June 30, 2016). This credit facility is secured by EDC. As at March 31, 2017, $1,704,255 was used on this credit facility ($2,129,892 as at June 30, 2016).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. This credit facility is secured either by EDC or guaranteed deposit certificate. As at March 31, 2017, $197,364 was used on this credit facility ($487,550 as at June 30, 2016).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. The credit facility is secured by $1,015,655 in guaranteed deposit certificate ($1,010,057 as at June 30, 2016). As at March 31, 2017, the Corporation issued $1,000,000 in letters of credit under this credit facility ($1,000,000 as at June 30, 2016).

The Corporation has access to hedging facility of $500,000. This facility is secured by EDC and is unused as at March 31, 2017 (unused as at June 30, 2016).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Corporation has a credit facility enabling it to use a maximum amount of $400,000 on credit card for Corporation related expenses. This credit facility is secured by $254,023 in guaranteed deposit certificate ($252,623 as at June 30, 2016). As at March 31, 2017, $52,183 was used on this credit facility ($110,507 as at June 30, 2016).

The Corporation has a letter of credit amounting to $66,495 ($64,580 as at June 30, 2016) which is secured by a $67,490 guaranteed deposit certificate ($65,381 as at June 30, 2016).

The Corporation still has letters of credit amounting to $21,699 ($121,074 as at June 30, 2016) with its previous bank, which are secured by a $33,692 guaranteed deposit certificate ($133,401 as at June 30, 2016).

Covenants

The Corporation have undertaken to maintain covenants on a yearly basis in respect of the bank loans described above.

7. Accounts Payable and Accrued Liabilities

	As at March 31, 2017	As at June 30, 2016
	$	$
Trade accounts payable	**5,853,957**	2,275,716
Other accrued liabilities and accounts payable	**2,438,501**	4,724,113
	8,292,458	6,999,829

8. Provisions

The change in carrying value of the provision for warranties is as follows:

	$
Balance as at June 30, 2015	84,272
Additional provisions recognised	33,500
Less: Payments	(12,338)
Effect of foreign exchange differences	8,790
Balance as at June 30, 2016	114,224
Additional provisions recognised	**34,000**
Effect of foreign exchange differences	**3,149**
Balance as at March 31, 2017	**151,373**

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

9. Long-Term Debt

	As at March 31, 2017	As at June 30, 2016
	$	$
Unsecured – at amortised cost		
Bank loan, denominated in Canadian dollars (a)	**4,374,936**	-
Loan from other entities, denominated in Canadian dollars (b)	**4,780,722**	-
Bank loan, denominated in US dollars (c)	**1,906,190**	2,238,946
Bank loan, denominated in Canadian dollars (d)	**434,320**	536,200
Loan from other entities, denominated in Canadian dollars (e)	**-**	41,525
Loan from other entities, denominated in US dollars (f)	**10,153**	30,584
Loan from other entities, denominated in Canadian dollars (g)	**34,836**	-
Loan from other entities, denominated in Canadian dollars (h)	**154,287**	-
	11,695,444	2,847,255
Less : Current portion	**2,077,842**	721,973
Long-term debt	**9,617,602**	2,125,282

(a) Bank loan
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 1.5% (4.2% as at March 31, 2017), payable in 72 monthly instalments of $69,444, principal only, maturing on July 18, 2022.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (5.2% as at March 31, 2017), payable in 96 monthly instalments of $52,083, principal only, reimbursement starting the 14^{th} day of six-month following the disbursement, maturing on December 4, 2024.

(c) Bank loan
On October 20, 2015, an agreement was concluded for a loan amounting to $2,659,800 (US$2,000,000), to finance the acquisition of all the assets of Clearlogx' control technology and its specialty coagulant. The loan bears interest at prime rate plus 1.0% (5.50% as at March 31, 2017), payable in 60 monthly instalments of $44,330 (US$33,333), principal only, maturing on October 20, 2020. Long-term debt arrangements require that the Corporation meet the following financial ratios at fixed points in time;

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.00:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

(d) Bank loan
On September 20, 2014, an agreement was concluded for a loan amounting up to $460,000, secured by a first rank hypothec on the Ham-Nord plant, representing a carrying value of $1,300,000, bearing interest at prime rate plus 1.05% (5.75% as at March 31, 2017), payable in one instalment of $4,120 on September 23, 2015 and 131 monthly instalments of $3,480, principal only, maturing on August 23, 2026.

On April 13, 2016, an agreement was concluded for a loan amounting up to $565,000, bearing interest at floating prime rate plus 1.0% (5,70% as at March 31, 2017), payable in one instalment of $8,360 on June 23, 2016 and 71 monthly instalments of $7,840, principal only, maturing on May 23, 2022.

(e) Loan from other entities
The loan bearing interest at 12% (effective rate of 17.5%) was fully repaid on July 1, 2016.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(f) Loans from other entities
The loan of $17,416 ($US 13,096), bearing interest at 8.5%, is payable in monthly instalments of $2,527 ($US 1,900) and is maturing on July 1, 2017.

(g) Loans from other entities
On July 12, 2016, an agreement was concluded for a loan of $36,900 bearing interest at 3.4% payable in monthly instalments of $801 and maturing July 12, 2021.

(h) Loans from other entities
The Corporation entered into a loan agreement of $158,339 for the renovation of the premises. The loan bears interest at 6.83% and is payable in 87 monthly instalments of $2,921, principal and interest, and is maturing in June 2022.

10. Capital Stock

Private placement

On July 26, 2016, the Corporation issued, by way of a bought deal private placement and concurrent additional non-brokered private placement, 19,217,663 common shares with gross proceeds of $23,061,196, expenses of $1,441,856 for net proceeds of $21,619,340. The Corporation used the proceeds to complete the acquisition of Utility Partners (note 3) and to support its working capital.

Stock options

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

On July 26, 2016, the Corporation granted a total of 2,303,334 stock options issued to members of top management with a vesting period of eight years as an incentive to participate in the long-term development of the Corporation and the growth of the shareholder's value. The stock options entitle their holders to acquire one common share of the Corporation at a price of $1.65 before July 24, 2026. The Black & Scholes value was established at $0.856 per option.

The table below shows the assumptions used in determining stock-based compensation costs under the Black & Scholes option pricing model:

Nine-month period ended March 31,	**2017**
Number of stock options	**2,303,334**
Expected dividend yield	**0%**
Expected volatility	**48%**
Risk-free interest rate	**0.81%**
Expected life (years)	**8**
Fair value at the grant date	**$0.856**

For the three-month period ended March 31, 2017, the Corporation recorded $167,458 (nil in fiscal year 2016) as stock-based compensation for options granted to members of top management and $460,069 (nil in fiscal year 2016) for the nine-month period ended March 31, 2017.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the activity under the Corporation's stock-based compensation plan.

	Nine-month period ended March 31, 2017		Year ended June 30, 2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of period	**262,000**	**2.64**	331,500	2.64
Granted	**2,303,334**	**1.65**	-	-
Forfeited	**-**	**-**	(13,000)	2.50
Expired	**-**	**-**	(56,500)	2.68
Outstanding - End of period	**2,565,334**	**1.75**	262,000	2.64

11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Material	**6,321,655**	6,887,910	**21,370,502**	19,476,437
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**103,123**	454,576	**(2,971,182)**	1,406,766
Salaries and fringe benefits	**10,569,700**	4,083,739	**29,900,886**	11,099,932
Subcontractors and professional fees	**537,733**	331,696	**1,960,867**	1,262,514
Rent, electricity, insurance and office expenses	**576,589**	476,612	**1,607,753**	1,436,304
Telecommunications and travel expenses	**943,440**	533,059	**2,883,029**	1,486,765
Bad debt expenses	**-**	13,864	**-**	132,616
Share based compensation	**167,458**	-	**460,069**	-
Other expenses	**1,826,637**	245,390	**4,607,116**	793,219
Total cost of goods sold, operating, selling, administrative and research and development expenses	**21,046,335**	13,026,846	**59,819,040**	37,094,553

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 earnings (loss), as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses – net, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month and nine-month periods ended March 31, 2017 and 2016; and ii) the amounts of cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses – net, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cost of goods sold	**147,483**	136,615	**424,575**	349,033
Operating expenses	**693**	717	**2,205**	1,907
Selling expenses	**9,697**	10,338	**30,054**	28,729
Administrative expenses	**33,977**	27,522	**91,480**	67,509
	191,850	175,192	**548,314**	447,178

Amortization by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cost of goods sold	**192,576**	123,102	**437,131**	360,084
Selling expenses	**1,066,298**	105,753	**2,256,990**	309,465
Administrative expenses	**13,746**	47,997	**80,021**	75,408
	1,272,620	276,852	**2,774,142**	744,957

Cost per function including depreciation and amortization of intangible assets	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cost of goods sold	**16,564,061**	9,936,937	**47,614,425**	28,480,167
Operating expenses	**524,413**	356,876	**1,450,332**	1,010,932
Selling expenses	**3,051,344**	1,795,771	**7,473,917**	4,986,991
Administrative expenses	**2,354,912**	1,365,180	**6,471,503**	3,664,298
Research and development expenses – net	**16,075**	24,126	**131,319**	144,300
	22,510,805	13,478,890	**63,141,496**	38,286,688

c) Research and development expenses – net

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2017	2016	**2017**	2016
	$	$		**$**
Gross research and development expenses	**16,075**	24,126	**131,319**	144,300
Research and development tax credits and grants	**-**	-	**-**	-
	16,075	24,126	**131,319**	144,300

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

d) Other (gains) losses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Realized exchange (gain) loss	**3,636**	(56,095)	**(49,976)**	(117,884)
Unrealized exchange (gain) loss	**(59,586)**	(292,260)	**118,282**	(35,173)
Other revenues (a)	**(9,607)**	(15,434)	**(48,036)**	(397,269)
	(65,557)	(363,789)	**20,270**	(550,326)

(a) Other revenues
In July 2015, an amount of $375,977 has been recorded following the indemnification by Piedmont's sellers due to a breach of certain of their representations and warranties contained in the Share Purchase Agreement dated December 5, 2013.

12. (Loss) earnings per share

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
Net (loss) earnings	**(1,345,695)**	$646,422	**(3,521,051)**	$872,972
Basic and diluted weighted average number of shares outstanding	**40,144,214**	20,926,551	**33,948,356**	20,926,551
Basic and diluted net (loss) earnings per share	**($0.034)**	$0.031	**($0.104)**	$0.042

Items excluded from the calculation of diluted net (loss) earnings per share because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect		
Stock options	**2,565,334**	262,000

For the three-month periods and the nine-month periods ended March 31, 2017 and 2016, the diluted net (loss) earnings per share was the same as the basic net (loss) earnings per share, since the effect of the assumed exercise of stock options and warrants to purchase common share is anti-dilutive. Accordingly, the diluted net (loss) earnings per share for these periods were calculated using the basic weighted average number of shares outstanding.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

13. Cash Flows

a) The change in non-cash working capital items is as follows:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Accounts receivable	**1,034,619**	(1,577,106)	**(237,508)**	(1,961,164)
Inventories	**(8,159)**	1,115,971	**(932,560)**	(315,632)
Costs incurred in excess of billings	**(122,415)**	229,188	**(117,544)**	(2,899,720)
Prepaid expenses	**(250,914)**	(138,758)	**(283,175)**	110,960
Accounts payable and accrued liabilities	**(1,723,151)**	(1,179,898)	**(1,426,277)**	2,238,625
Provisions	**28,000**	16,579	**34,000**	25,336
Billings in excess of costs incurred	**(452,057)**	(154,141)	**556,210**	(285,544)
	(1,494,077)	(1,688,165)	**(2,406,854)**	(3,087,139)

b) Cash and cash equivalents consist of the following:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Beginning of period				
Cash and cash equivalents	**5,803,393**	1,780,287	**3,051,869**	1,335,887
Bank overdraft	**(363,623)**	(167,011)	**(520,208)**	(2,052)
	5,439,770	1,613,276	**2,531,661**	1,333,835

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
End of period				
Cash and cash equivalents	**2,266,011**	1,148,748	**2,266,011**	1,148,748
Bank overdraft	**(203,674)**	(488,742)	**(203,674)**	(488,742)
	2,062,337	660,006	**2,062,337**	660,006

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

14. Segment Information

Products from which reportable segments derive their revenues

The Corporation operates under a single reportable segment consisting of delivering drinking water and process water production and wastewater treatment systems, including related services.

The following is an analysis of the Corporation's revenues for the period for the continuing operations.

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues from sales of consumables	**8,612,269**	9,414,173	**22,296,928**	21,739,967
Projects contracts revenues	**3,974,025**	4,785,687	**12,788,486**	17,884,811
Operation and maintenance revenues	**8,698,349**	-	**26,025,922**	-
	21,284,643	14,199,860	**61,111,336**	39,624,778

Geographical information

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
Revenue from external customers	**2017**	2016	**2017**	2016
	$	$	**$**	$
Revenue according to geographic location				
Canada	**5,380,707**	4,273,932	**15,064,289**	9,380,802
United States	**14,416,471**	7,191,802	**41,871,111**	23,660,466
China	**527,375**	480,861	**1,334,511**	1,151,450
United Arab Emirates	**51,714**	118,790	**182,917**	864,994
Korea	**46,227**	77,860	**192,536**	368,968
Mexico	**140,300**	73,906	**242,151**	335,303
Saudi Arabia	**157,238**	1,296	**299,578**	138,568
Malaysia	**83,459**	144,263	**337,026**	437,718
France	**63**	2,684	**422,727**	4,371
India	**67,028**	91,022	**153,845**	164,103
South Africa	**67,661**	102,206	**102,347**	102,206
Spain	**74,735**	1,150,928	**198,577**	1,236,463
Other	**271,665**	490,310	**709,721**	1,779,366
	21,284,643	14,199,860	**61,111,336**	39,624,778

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

	As at March 31, 2017	As at June 30, 2016
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**6,354,878**	6,331,073
United States	**34,022,584**	12,127,191
	40,377,462	18,458,264

15. Related parties disclosure

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 $1,250,000 (the “Loans”), effective as of July 26, 2016, in order for them to acquire common shares as part of the additional placement (notes 3 and 10). These loans are repayable in one single installment on the 8th anniversary of the effective date and they can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,822,915 as at March 31, 2017.

An amount of $7,192 was paid to the Corporation in regards of these loans and recorded as Finance income in the Consolidated Statements of Earnings (Loss) for the three-month period ended March 31, 2017 and $20,719 for the nine-month period ended March 31, 2017.

b) Compensation of key management and Board of Directors

The remuneration of members of key management and of the Board of Directors during the period was as follows:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Short-term benefits	**280,863**	230,128	**1,236,824**	940,778
Post-employment benefits	**32,464**	10,744	**82,688**	29,183
Share-based payments	**167,458**	-	**460,069**	-
	480,785	240,872	**1,779,581**	969,961

The remuneration of key management and Board of Directors is determined by the corporate governance, remuneration and risks committee having regards to the performance of individuals and market trends.

16. Comparative figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

GENERAL INFORMATION

Board of Directors

Philippe Gervais, Chairman of the Board(1)(4)
Frédéric Dugré, President, Chief Executive Officer and Director
Pierre Côté, Director(3)
Élaine C. Phénix, Director(1)(2)
Jean-Réal Poirier, Director(2)(3)
Richard Hoel, Director(1)
Lisa Henthorne, Director(2)(3)(4)
Laurence E. Gamst, Director(1)
Peter K. Dorrins, Director(2)

Management

Frédéric Dugré, President and Chief Executive Officer(3)(4)
Marc Blanchet, Chief Financial Officer and Secretary
Guillaume Clairet, Chief Operating Officer(3)(4)
Josée Riverin, Vice President, Finance
Denis Guibert, Vice President and General Manager, Engineering
Gregory Madden, Vice President, Specialty Products and Services
Rock Gaulin, Vice President, Manufacturing and Operations
William Douglass, Vice President, Operation and Maintenance

(1) Audit Committee
(2) Governance, Remuneration and Risks Committee
(3) Technology and Projects Committee
(4) Operation and Maintenance Committee

Legal Counsel
McCarthy Tétrault LLP

Independent Auditors
Deloitte LLP

Transfer Agent
CST Trust Company

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