2014 Annual Report

Fiscal year ended
June 30, 2014

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

H_2O Innovation Inc.'s (the "Company" or "H_2O Innovation") President & Chief Executive Officer and Vice President, Finance have signed a statement of management's responsibility regarding financial information included in this Annual Report. The statement – which can be found on page 20– also explains the roles of the Audit Committee and the Board of Directors in respect of financial information included in the Annual Report. This Management's Discussion and Analysis ("MD&A") reviews H_2O Innovation's operating results and financial condition for the years ended June 30, 2014 and 2013. The MD&A should be read in conjunction with the consolidated financial statements for the year ended June 30, 2014 and with the accompanying notes.

Certain statements set forth in this Management's Discussion and Analysis regarding the operations and the activities of H_2O Innovation as well as other communications by the Company 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 Company to be materially different than those indicated. Information about the risk factors to which the Company is exposed is provided in the Annual Information Form dated September 22, 2014 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.

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

VISION, MISSION & PROFILE

OUR VISION

To become the best in North America at providing membrane-related 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 provides integrated technological water treatment solutions based on membrane filtration technology to municipal, energy & mining end-users. H_2O Innovation designs state-of-the-art custom-built water treatment projects for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater. Also, directly through its affiliates, H_2O Innovation provides services and products complementary to its membrane filtration and reverse osmosis systems. These products consist of a complete line of specialty chemicals and consumables and a complete line of couplings. H_2O Innovation employs approximately 130 resources and has six locations in North America.

NON-IFRS FINANCIAL MEASUREMENT

In this MD&A, the Company's management uses measures 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.

The definition of adjusted EBITDA does not take into account the Company's loss on disposal of property, plant and equipment, loss on disposal of intangible assets, stock-based compensation costs, gain on settlement agreement, loss on disposal of investment in a joint venture and share of earnings in a joint venture. The reader can establish the link between adjusted EBITDA and net (loss) earnings. The definition of adjusted EBITDA used by the Company may differ from those used by other companies.

Even though adjusted EBITDA is a non-IFRS measure, it is used by management, analysts, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational standpoint.

Reconciliation of adjusted EBITDA to net (loss) earnings

Years ended June 30,	**2014**	2013
	$	$
Net (loss) earnings for the year	**(1,456,131)**	312,992
Finance costs – net	**571,675**	742,734
Income taxes	**(302,769)**	(167,335)
Depreciation of property, plant and equipment	**294,059**	279,866
Amortization of intangible assets	**950,885**	720,701
Loss on disposal of property, plant and equipment	**5,798**	23,485
Loss on disposal of intangible assets	**721**	-
Stock-based compensation costs	**12,917**	39,619
Gain on settlement agreement	**-**	(404,189)
Loss on disposal of investment in a joint venture	**-**	42,521
Share of (earnings) in a joint venture	**-**	(6,142)
Adjusted EBITDA	**77,155**	1,584,252

The definition of Net debt consists of bank overdraft, bank loans, 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 Company may differ from those used by other companies.

Even though Net debt is a non-IFRS measure, it is used by management, analysts, investors and other financial stakeholders to assess the Company's capital management.

Years ended June 30,	**2014**	2013
	$	$
Bank overdraft	**113,383**	256,701
Bank loans	**3,555,774**	3,375,843
Current portion of long-term debt	**724,996**	2,808,261
Long-term debt	**331,212**	64,996
Less: Cash and cash equivalents	**(497,752)**	(303,936)
Net debt	**4,227,613**	6,201,865

ACQUISITION OF PIEDMONT PACIFIC CORPORATION

On December 5, 2013, the Company acquired all of the issued and outstanding shares of Piedmont Pacific Corporation ("Piedmont"), a company located in Oakland, CA and one of the leading manufacturers in the world of flexible pipe couplings and other pipe fittings for highly corrosive environments. Acquisition cost for this transaction was $4,252,165 ($US3,978,447) including certain working capital adjustments. The acquisition was financed by a private placement and concurrent additional non-brokered private placement of common shares of the Company at a price of $0.23 per Common Shares for total gross proceeds of $8,001,800.

The acquisition of Piedmont will allow the Company to increase its presence in the membrane desalination industry through a large international sales network that the Company intends to maintain and support actively. Moreover, the Company envision multiplying the number of cross selling opportunities coming from its existing sales network of specialty chemicals which sells chemicals daily to the same clients regularly buying couplings. From a financial perspective, we expect the transaction to be immediately accretive to our earnings. We believe it will allow the Company to have 90% of its operating, selling and administrative expenses covered from the gross margin generated by our consumables sales (chemicals, spare parts, maple products, services and now couplings).

Piedmont has been integrated to the current activities of the Company and benefits from the testing, warehousing, packing and shipping capabilities of the existing facility in Vista, CA, thus reducing operating costs. The strong experiences of the Company for local and international shipments of specialty chemicals to its client enables the Company to continue to provide the couplings' clients with an outstanding customer care. Moreover, the engineering experience and capabilities of the Company related to membrane systems design strengthens the product offering and customer support.

The purchase price allocation is final and was completed during the fourth quarter of fiscal year 2014. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

RESULTS OF OPERATIONS

Years ended June 30	**2014**	**2013**	2012
	$	**$**	$
Revenues	**34,831,514**	36,136,901	35,909,907
Gross profit before depreciation and amortization	**9,250,488**	9,251,537	8,275,358
Gross profit before depreciation and amortization	**26.6%**	25.6%	23.0%
Operating expenses	**859,483**	696,079	642,880
Selling expenses	**4,042,511**	3,509,081	3,906,263
Administrative expenses	**4,100,167**	3,533,042	4,206,086
Research and development expenses – net	**220,145**	-	-
Net (loss) earnings	**(1,456,131)**	312,992	(8,054,860)
Basic and diluted (loss) earnings per share	**(0.017)**	0.005	(0.134)
Adjusted EBITDA[(a)]	**77,155**	1,584,252	12,172
Total assets	**33,424,567**	26,920,524	28,469,400
Non-current financial liabilities	**331,212**	64,996	1,562,315

[(a)] See section on “Non-IFRS Financial Measurement”.

Revenues and gross profit before depreciation and amortization

Revenues for fiscal year 2014 decreased by $1.3 M or 3.6% compared to the previous fiscal year. This decline is mainly attributable to the lower level of revenues from water treatment projects deliveries and projects progress, caused by delays beyond our control. However, these projects will be delivered during the next fiscal year. The decline was partly offset by the higher level of revenues from sales of specialty products and services.

In fiscal year 2014, revenues from water treatment projects stood at $17.6 M compared with $22.9 M in fiscal year 2013, while revenues from specialty products and services reached $17.2M in fiscal year 2014 compared with $13.2 M in fiscal year 2013. For the year ended June 30, 2014 sales from specialty products and services, which are of recurring nature, accounted for 49% of total revenues, while this proportion was 37% in the previous fiscal year. The increase of 30% of revenues from sales of specialty products and services is the result of a strategic decision to acquire Piedmont Pacific Corporation Inc, and strengthening our relationship with our customers, providing a steady stream of revenues and creating a direct value to our shareholders.

The acquisition of Piedmont completed on December 5, 2013, is part of this strategy to generate revenues from specialty products. Additional efforts aimed at increasing the organic growth associated with our maple syrup production equipment and products and our specialty chemical products have also paid off. Indeed, our distribution network for maple syrup production equipment now has a total of 30 distributors covering the province of Quebec and the Northeast of the United States, an addition of 3 distributors over the current fiscal year. Furthermore, the additions made to the Professional Water Technology (“PWT”) sales force of specialty chemical products also supported the growth of recurring revenues from specialty products and services.

This strategy for organic growth of revenues from sales of specialty products and services is proven to be winning since it minimizes the impact of revenue volatility associated with revenues derived from water treatment projects, reinforces long-term relationships with its customers and maintain a higher gross profit.

The resulting impact of the shift in the Company’s revenue mix during fiscal year 2014 is reflected in an increase of the gross profit before depreciation and amortization. The Company’s operations in fiscal year 2014 generated a fair 26.6% gross profit, compared with 25.6% in fiscal year 2013. The current year’s revenue mix shows that revenues from specialty products and services represent a higher proportion of total revenues compared to fiscal year 2013 (49% in 2014 vs. 37% in 2013). Despite a decrease of revenues from water treatment projects, the high contribution margin derived from the sales of specialty products and services, which are of recurring nature, helps stabilize the Company’s gross profit before depreciation and amortization and covers a large portion of our fixed costs. It thus, secures a better stability and sustainability in the growth of the Company.

On the other hand, new bookings for water treatment projects secured increased by 134% from $17.9 M during fiscal year 2013 to $41.8 M during current fiscal year. As at June 30, 2014, Company’s sales backlog stands at

$38.3 M compared to $14.1 M as at June 30, 2013. The bookings over revenues ratio of the Company's stood at 2.4 for fiscal year 2014, compared to 0.78 for fiscal year 2013. This is a good indicator that we will assist to an increase of revenues derived from water treatment projects in the coming fiscal year.

To current pipeline of water treatment projects sales remains rich in opportunities which should allow the Company to renew its sales backlog and support its revenue growth. With an enlarged sales team compare to fiscal year 2013, we maintain high bidding activities and business development mainly in Canada and United Sates while supporting our network of international distributors and agents to ensure organic growth.

The following table summarizes the evolution of the Company's revenues and new orders, together with the variations in its backlog over the last eight quarters. The revenues figures attest of the Company's vision and the efforts deployed to grow revenues from specialty products and services while increasing our order backlog.

	2013 FY				**2014 FY**				**2014 FY**	**2013 FY**
	Q1	**Q2**	**Q3**	**Q4(1)**	**Q1**	**Q2(2)**	**Q3(2)**	**Q4(2)**		
Order backlog	$20.4 M	$18.7 M	$15.4 M	**$14.1 M**	$12.4 M	$17.3 M	$23.5 M	**$38.3 M**	**N/A**	N/A
Bookings for water treatment projects	$6.7 M	$4.3 M	$2.6 M	**$4.3 M**	$3.4 M	$9.6 M	$10.6 M	**$18.2 M**	**$41.8 M**	$17.9 M
Revenues from water treatment projects	$7.1 M	$6.0 M	$5.9 M	**$3.9 M**	$5.1 M	$4.7 M	$4.4 M	**$3.4 M**	**$17.6 M**	$22.9 M
Bookings / Revenues Ratio	**0.9**	**0.7**	**0.4**	**1.1**	0.67	2.0	*2.4*	**5.4**	***2.4***	0.78
Revenues from specialty products and services (usually recurrent in nature)	$2.9 M	$3.4 M	$4.0 M	**$2.9 M**	$3.2 M	$4.1 M	$5.4 M	**$4.5 M**	**$17.2 M**	$13.2 M
Total revenues	$10.0 M	$9.4 M	$9.9 M	**$6.8 M**	$8.3 M	$8.8 M	$9.8 M	**$7.9 M**	**$34.8 M**	$36.1 M

(1) On June 27, 2013, the Company terminated a project with a customer in the United States for breach in the contract. The contract value was deducted from the order backlog in the fourth quarter. The equipment has been recorded in the statement of financial position of the Company as finished goods.

(2) On December 5, 2013, the Company acquired all the issued and outstanding shares of Piedmont and the revenues derived from it are included in revenues from specialty products and services.

Operating expenses

Showing an increase of approximately $163,000, operating expenses totaled $0.8 M for this current fiscal year compared to $0.7 M for the previous fiscal year. This increase is due to the integration of Piedmont which required the addition of new positions to solidify the supply chain, develop new suppliers and to ensure technical delivery of Piedmont products. To a lesser extent, the increase is also due to investments since the second half of fiscal year 2013 to support specialty chemicals products improvement and supply chain and logistics.

Selling expenses

Selling expenses have increased by approximately $500,000 and stood at $4.0 M for this current fiscal year compared with the previous fiscal year. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. Indeed, revenues decreased by 3.6% while new bookings increased by 134%.

The increase is due to the hiring of i) sales managers dedicated to identify new water treatment systems and projects opportunities, ii) process and application engineers. The increase of selling expenses is in line with our business plan which objective is to expand our presence in North America in order to increase our water treatment systems' sales on the territory, and iii) the addition of a sales manager for the PWT products line in Florida. The level of bookings reached during fiscal year 2014 indicates that our business plan is taking shape.

Finally, we have increased our market share in Northeastern United States for maple syrup production equipment and products as planned during the current fiscal year, thanks to the support of the sales manager covering that territory, who joined the Company in the second half of fiscal year 2013.

Administrative expenses

Administrative expenses increased by approximately $567,000 or 16.1% in fiscal year 2014 compared with fiscal year 2013. Salaries and fringe benefits have increased following the addition of personnel to support operations during the second half of fiscal year 2013. Professional fees have increased due to the completion of the mediation initiated in the first quarter of fiscal year 2014 and due to the acquisition of Piedmont, which expenses are non-recurring in nature. In addition, telecommunications and travel expenses have increased also in relation with the acquisition of Piedmont, first to complete the due diligence work and second to accelerate its integration to our current operations. To help with the integration, we have moved Piedmont's office from Oakland to our actual offices located in Vista, California during the year. This way, H_2O maximizes the use of its existing infrastructure and enables Piedmont's customers to benefit from its experience in logistic acquired by the exportation of its specialty chemical products.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 25.8% for fiscal year 2014, up from 21.4% for the previous fiscal year. This increase is attributable to a higher level of SG&A expenses, especially selling expenses to support our business plan aimed at increasing our water treatment systems' sales in North America, combined to a lower level of revenues derived from water treatment projects sales. With the acquisition of Piedmont, management aims to reduce the SG&A ratio to a level similar to last year through an increase of revenues and tighter management of SG&A expenses.

Research and development expenses – net

Management has streamlined the research and development activities into a more structured model to ensure that the objectives included in our 2014 operating plan relying on three pillars: Quality, Innovation and People are met. Therefore, a new function has been identified in the Company's financial statements of earnings (loss) to reflect the decisions made in this plan to support further R&D activities, essential to our organic growth.

For the year ended June 30, 2014, gross research and development expenses totaled $312,047, or 0.9% of revenues. For the year ended June 30, 2014, the Company has recorded $91,902 for tax credits from the Canadian provincial governments for eligible research and development conducted in Canada.

Adjusted EBITDA

Adjusted EBITDA for fiscal year 2014 was $77,155 compared to $1,584,252, for fiscal year 2013. The adjusted EBITDA has significantly varied in fiscal year 2014 due to the severe decline of revenues derived from water treatment projects and the increase of SG&A expenses.

Other losses (gains) – net

Other losses (gains) – net amount to ($29,537) for the year ended June 30, 2014 compared with $38,562 for the year ended June 30, 2013. The increase is mostly due to a lower foreign exchange loss, which is entirely due to exchange rate fluctuations related to working capital items, to the loss on disposal of property, plant and equipment and to other revenues derived from various sources such as rental space activities for equipment not yet delivered.

Finance costs – net

Finance costs – net totalled $571,675 for the year ended June 30, 2014 compared with $742,734 for the previous fiscal year. These expenses relate mostly to the long-term debt. Of this amount, $108,489 represents the theoretical and non-monetary part of interest on long-term debt. This significant decrease is largely attributable to the reimbursement of the Company's long-term debt through a private placement on September 30, 2013 and to the lower level of use of its bank loan due to the bought deal private placement and concurrent non-brokered private placement to support its working capital.

Net (loss) earnings

The net loss was ($1,456,131) or ($0.017) per share for fiscal year 2014 compared with $312,992 or $0.005 per share for fiscal year 2013. This deterioration is attributable due to the severe decline of revenues derived from water treatment projects and the increase of SG&A expenses.

Commitments

The Company has entered into long-term lease agreements expiring in 2015, 2017, 2022 and 2023 which call for lease payments of $4,527,944 for the rental of space. The minimum annual lease payments over the next five years are $618,010 in 2015, $612,384 in 2016, $625,220 in 2017, $479,742 in 2018 and $474,019 in 2019.

Information on share capital

As at September 22, 2014, the Company had 104,632,977 outstanding common shares and 1,737,500 stock options.

FINANCIAL SITUATION

Working capital increased from $2.1 M as at June 30, 2013 (current ratio of 1.17) to $7.4 M as at June 30, 2014 (current ratio of 1.71). The increase is attributable to the $2.4 M, $0.7 M, and $0.3 M increase in accounts receivable, inventories, and accounts payable and accrued liabilities respectively, and the decrease of $0.1 M, $0.3 M and $2.1 M in costs incurred in excess of billings, billings in excess of costs incurred and current portion of long-term debt respectively.

The net debt which stood at $4.2 M as at June 30, 2014 decreased by nearly $2.0 M compared to $6.2 M as at June 30, 2013. This decrease is largely attributable to the reimbursement of a portion of the long-term debt and the increase in cash and cash equivalents.

Equity stood at $22.6 M as at June 30, 2014, compared with $14.4 M as at June 30, 2013. As at June 30, 2014 the net debt equity ratio was 0.19 whereas it was 0.43 as at June 30, 2013, showing that the Company is not over leveraged and has improved its overall financial situation.

Year ended June 30, (in Canadian dollars, except for ratio)	**2014**	**2013**
Working capital	**$7,427,618**	$2,144,985
Working capital ratio	**1.71**	1.18
Net debt(1)	**$4,227,613**	$6,201,865
Equity	**$22,560,883**	$14,426,788
Net debt to equity ratio	**0.19**	0.43

(1) Net debt comprises bank overdraft, bank loans and long-term debt, net of cash and cash equivalents.

As at June 30, 2014 accounts receivable stood at $8.9 M compared with $6.5 M as at June 30, 2013. The increase of $2.4 M is attributable to higher level of invoicing toward the end of the current fiscal year for water treatment projects and to the acquisition of Piedmont. In addition, retentions from customers under manufacturing contracts related to municipal projects executed during the fiscal year 2014 have increased by approximately $0.2 M.

Inventories increased by $0.7 M to $4.7 M as at June 30, 2014 from $4.0 M as at June 30, 2013. Two-third of the variation is attributable to the increase of finished goods manufactured during the summer in preparation for the maple syrup production season, a third of the variation is related to Piedmont's acquisition and the remaining is due to usual fluctuations.

Costs incurred in excess of billings remained fairly stable at $2.1 M as at June 30, 2014 compared to $2.2 M as at June 30, 2013, even though it is subject to differences between project advancement and project invoicing schedules from one project to the other. Billings in excess of costs incurred decreased by $0.3 M to $1.5 M as at June 30, 2014, from $1.8 M as at June 30, 2013. This decrease is also attributable to differences between project advancement and project invoicing schedules.

Accounts payable and accrued liabilities increased by $0.3 M to $4.4 M as at June 30, 2014, from $4.1 M as at June 30, 2013. This is mostly due to an increased number of active projects entering the production phase for which important components were purchased in the second half of fiscal year 2014.

Overall, the acquisition of Piedmont has increased the level of accounts receivable, inventories and accounts payable and accrued liabilities as of June 30, 2014 compared to June 30, 2013.

The decrease in the current portion of long-term debt, the balance of which fell from $2.8 M as at June 30, 2013 to $0.7 M as at June 30, 2014, is explained by the lump sum repayment of $1.2 M for the long-term debt with proceeds from the equity issuance by way of private placement completed on September 30, 2013 and monthly repayments.

For the year June 30, 2014, shareholders' equity increased by $8.2 M to $22.6 M ($14.4 M as at June 30, 2013). The following elements had an impact on shareholders' equity in fiscal year 2014: 1) the issuance of 44,487,154 common shares by way of two equity private placements for a net proceeds of $9,446,509 ; 2) the ($1,456,131) net loss for the year ended June 30, 2014; 3) the Canadian dollar's depreciation generated an unrealized exchange gain of $0.1 M resulting from the translation of foreign operations, mainly those of the U.S. subsidiaries; and 3) the stock-based compensation costs of $12,917.

CASH FLOWS

A comparison of the Company's cash flows for the years ended June 30, 2014 and June 30, 2013 is presented below:

Year ended June 30, (in Canadian dollars)	**2014**	**2013**
	$	$
Cash flows from operating activities	**(2,486,316)**	1,053,500
Cash flows from investing activities	**(4,407,361)**	(425,514)
Cash flows from financing activities	**7,222,255**	(1,026,951)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**8,556**	24,868
Net change	**337,134**	(374,097)
Cash and cash equivalents – Beginning of year	**47,235**	421,332
Cash and cash equivalents – End of year	**384,369**	47,235

Before the change in operating working capital, operating activities generated $85,775 in cash for the year ended June 30, 2014, compared with $1,572,750 of cash generated during the corresponding year ended June 30, 2013. Net cash used by operating activities amounted to ($2,486,316) in fiscal year 2014 compared to $1,053,500 of net cash generated by operating activities during the previous fiscal year. This deterioration is attributable to the significant net loss in fiscal year 2014 compared to a net earnings fiscal year 2013. This significant deterioration is also attributable to a negative change in working capital items, such as:

- Higher volume of activities toward year-end reflected in an increase of the level of accounts receivable as of June 30, 2014 compared to June 30, 2013;
- This higher volume of activities has also increased the level of accounts payable and accrued liabilities in fiscal year 2014 compared to fiscal year 2014;
- A timing difference within the projects production phases affecting the invoicing milestones reached and therefore affecting costs incurred in excess of billings and billings in excess of costs incurred.

For fiscal year 2014, investing activities used net cash of ($4,407,361), mainly attributable to the Piedmont's acquisition for $4,228,184, to the acquisition of property, plant and equipment, namely an update of our servers room and various items for $98,764 and to the acquisition of intangible assets, namely the development of dosage software for our specialty chemicals and various software in the amount of $105,005.

Financing activities generated net cash of $7,222,255 in fiscal year 2014 compared with ($1,026,951) of net cash used during the corresponding fiscal year. Proceeds from the equity issuance by way of private placement in September 2013 generated net cash flows amounting to $1,923,651. These funds were used to reimburse the Company's long-term debts and its bank loans. Proceeds from the bought deal private placement and concurrent additional non-brokered private placement in December 2013 generated net cash flows amounting to $7,365,704. These funds were used to complete the acquisition of Piedmont and to reimburse the Company's bank loans. These had a positive impact on the net debt to equity ratio since management intends to reduce the Company's debt and it had a positive impact on the finance costs which were significantly reduced through the end of fiscal year 2014.

Fourth quarter (unaudited)

	Fourth quarter ended June 30	
	2014	**2013**
	$	$
Revenues	**7,896,401**	6,768,455
Cost of goods sold	**5,778,907**	4,956,027
Gross profit before depreciation and amortization	**2,117,494**	1,812,428
Gross profit before depreciation and amortization	**26.8%**	26.8%
Net loss	**(269,242)**	(532,392)
Basic and diluted earnings (loss) per share	**(0.002)**	(0.008)
Adjusted EBITDA	**(201,458)**	(234,355)

Revenues for the fourth quarter were up by 16% to $7.9 M from $6.8 M for the same quarter of the previous fiscal year. The increase is explained by the increase of $1.7 M in revenues from specialty products and services, coming in part from the acquisition of Piedmont in December 2013 and, to lesser extent, to higher level of sales of maple syrup production equipment. It was toned down by a decrease of $0.6 M of revenues from water treatment projects which suffer from delays in deliveries.

For the quarter ended June 30, 2014, the gross profit before depreciation and amortization remained stable at 26.8%.

The fourth quarter SG&A expenses were somewhat stable and similar to the first three quarters of fiscal year 2014. They stand at $2.4 M in this current quarter compared to $2.0 M in the fourth quarter of fiscal year 2013. The increase is mainly due to the integration completion of Piedmont to our Vista's office and hiring to support its operations and the increase of selling expenses related to bookings secured during the quarter.

The fourth quarter's net loss is caused by the lack of volume in revenues of the Company: notably due to the delays in projects deliveries, the increase in selling expenses related to bookings secured during the current quarter and the completion of Piedmont integration.

Quarterly Summary Financial Information (unaudited)

	Three-month periods ended				**Year ended**
	June 30, 2014	**March 31, 2014**	**December 31, 2013**	**September 30, 2013**	**June 30, 2014**
	$	$	$	$	$
Revenues	7,896,401	9,826,466	8,797,428	8,311,219	34,831,514
Adjusted EBITDA	(201,458)	299,122	(90,179)	69,670	77,155
Net earnings (loss)	(269,242)	(216,314)	(500,581)	(469,994)	(1,456,131)
EPS basic and diluted	(0.002)	(0.001)	(0.006)	(0.008)	(0.017)
Cash flows from operating activities	330,455	(298,938)	(3,012,316)	494,483	(2,486,316)

	Three-month periods ended				**Year ended**
	June 30, 2013	**March 31, 2013**	**December 31, 2012**	**September 30, 2012**	**June 30, 2013**
	$	$	$	$	$
Revenues	6,768,455	9,966,644	9,418,908	9,982,894	36,136,901
Adjusted EBITDA	(234,355)	530,026	561,888	726,693	1,584,252
Net earnings (loss)	(532,392)	86,834	488,854	269,696	312,992
EPS basic and diluted	(0.008)	0.001	0.008	0.004	0.005
Cash flows from operating activities	(107,468)	(1,073,407)	1,024,161	1,210,214	1,053,500

CAPITAL MANAGEMENT

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

The Company 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 Company meet certain financial ratios at fixed points in time. The financial ratios are, as at June 30, 2014:

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.30:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.50:1.00; 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, 2014, the Company was in compliance with the ratios required under its credit facility and long-term debt arrangements.

As at June 30, 2013, the Company was not in compliance with the fixed charge coverage ratio which triggered the reclassification of the long-term debt portion to current liabilities. This reclassification caused the working capital ratio not to be met.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change.

As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

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

Revenue recognition of manufacturing contracts

The stage of completion of any manufacturing contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management applies significant judgments about percentage-of-completion, actual work performed and the estimated costs to be incurred to complete work.

Impairment of goodwill and other non-current assets

At the end of each reporting period, the Company assesses whether there is any indication that the goodwill and non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted. The use of different assumptions could result in different fair values and therefore, in different carrying amounts for goodwill and other non-current assets. If the discount rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the recoverable amount would have been greater or lesser by approximately $1,600,000 and no impairment would have been recorded. If the growth rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the recoverable amount would have been greater or lesser by approximately $1,800,000 and no impairment would have been recorded.

Income taxes measurement

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

Slow moving and obsolete inventory

The value of slow moving and obsolete inventory is based on the Company's assessment of historical usage, estimated future demand and in some cases, the specific risks of loss on specifically identified inventory. The write-down may be reversed if the circumstances which caused it no longer exist.

Stock-based compensations and other stock-based payments

As regards to stock option granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using Black-Scholes pricing model, which required the use of certain assumptions, including future stock price volatility and expected life of instruments. The expected life is estimated using the contractual life of the instrument. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the contractual life. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following revised standards along with any consequential amendments, effective July 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a) Consolidated financial statements, joint arrangements and disclosure of interests in other entities

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10, IFRS 11 and IFRS 12.

As of July 1, 2013, the Company has adopted IFRS 10, 11 and 12, and the amendments of IAS 27 and 28. As of July 1, 2012, the interest held in a joint venture by the Company was recognized as a joint venture and accounted for using the equity method until it disposed of it as of March 31, 2013.

The adoption of these new standards and modification did not have a significant impact on the Company's financial position and consolidated results. Given the insignificant impact of the adoption of these amendments on the statement of financial position, these audited annual consolidated financial statements do not include the statement of financial position as at July 1, 2012.

b) Fair value measurement

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

The adoption of this new standard did not have an impact on the calculation of the fair values in the Company's audited annual consolidated financial statements. Additional disclosures have been added in note 23 of the audited annual consolidated financial statements of the Company.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

Unless otherwise noted, the following revised standard and amendment are effective for annual periods beginning on or after January 1, 2014 (January 1, 2018 for IFRS 9), with earlier application permitted. The Company 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*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and 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 2013, IASB amended IAS 36, *Impairment of Assets*, which provides guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The adoption of these IFRS amendments is not expected to have a significant impact on the financial statements.

IFRIC 21, *Levies*, this interpretation of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', applies to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the extent of the impact of adoption of this standard.

In May 2014, the 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, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2014, the Company had off-balance sheet arrangements consisting of letters of credit amounting to $1.1 M; these letters of credit expire at various dates through fiscal year 2014 and 2015. In these letters of credit, $1.0 M is secured by deposit certificates

FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS

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

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

Overview

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

	Risks			
	Market risks			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	X	X	X	
Guaranteed deposit certificates	X	X	X	
Accounts receivable	X		X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X

Currency risk

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

As at June 30, 2014, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, assuming that all other variables remained constant, net loss for the year ended June 30, 2014 would have been greater or lesser by approximately $82,156 ($72,722 as at June 30, 2013).

The financial assets and liabilities denominated in U.S. dollars included in the Canadian corporation are as follows:

	June 30, 2014	June 30, 2013
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	**23,495**	736
Guaranteed deposit certificates	**16,539**	16,286
Accounts receivable	**959,422**	900,962
	999,456	917,984
FINANCIAL LIABILITIES		
Bank overdraft	**(65,041)**	(42,150)
Bank loans	**(2,055,774)**	(1,895,843)
Accounts payable and accrued liabilities	**(521,767)**	(289,428)
Long-term debt	**-**	(145,002)
	(2,642,582)	(2,372,423)

Cash flow and fair value interest rate risk

In the normal course of business, the Company is exposed to interest rate fluctuation risk as a result of the floating-rate loans, debts receivable, and loans payable and contingent considerations. The Company manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments.

The guaranteed deposit certificates and unsecured bear interest at fixed rates and the Company is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The bank loans bear interest at floating rates and the Company is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2014 and 2013, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Company's net earnings and comprehensive income. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Company to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Company reviews credit limits, monitors aging of accounts receivables and establishes an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2014, the allowance for doubtful accounts was $547,764 ($406,890 as at June 30, 2013).

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

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

	June 30, 2014	June 30, 2013
	$	
Cash and cash equivalents	**497,752**	303,936
Guaranteed deposits certificates	**1,224,846**	1,253,786
Accounts receivable, net of tax credits receivable	**8,713,772**	6,404,140

The Company is also exposed to credit risk due to its cash, its deposit certificate and its investment certificates. The Company has $1,722,598 ($1,557,722 in 2013) in cash and guaranteed deposits certificates with banking institutions that the Company considers at a low risk for loss.
The table below summarizes the ageing of trade accounts receivable as at:

	June 30, 2014	June 30, 2013
	$	$
Current	**4,038,025**	3,748,719
Past due 1 to 30 days	**1,433,157**	483,113
Past due 31 to 90 days	**263,986**	165,551
Past due more than 90 days	**1,947,136**	1,236,838
	7,682,304	5,634,221
Less: Allowance for doubtful accounts	**(547,764)**	(406,890)
Trade accounts receivable	**7,134,540**	5,227,331
Provision for back charges	**-**	(3,155)
Retentions from customers under manufacturing contracts	**1,198,327**	953,731
Tax credits receivable	**194,636**	84,416
Other receivables	**380,904**	206,233
	8,908,408	6,468,556

Liquidity risk

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

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

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

As at June 30, 2014	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	113,383	113,383	-	-	-
Bank loans	3,555,774	3,555,774	-	-	-
Accounts payable	4,417,197	4,417,197	-	-	-
Long-term debt	1,203,336	849,401	327,413	24,328	2,194
Total	9,289,690	8,935,755	327,413	24,328	2,194

As at June 30, 2013	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	256,701	256,701	-	-	-
Bank loans	3,375,843	3,375,843	-	-	-
Accounts payable	4,080,339	4,080,339	-	-	-
Long-term debt	3,392,707	1,294,641	1,346,519	557,716	193,831
Total	11,105,590	9,007,524	1,346,519	557,716	193,831

Fair value

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

The measurement of financial instruments recognized in the statement of financial position at fair value is determined using the following three levels:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are based on observable market data.
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

There was no transfer between the levels during the year.

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

Financial instruments whose fair value approximates carrying value

Cash and cash equivalents, guaranteed deposit certificates, accounts receivable, bank overdraft, bank loans and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Long-term debt

The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Company would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $1,056,208 ($2,873,257 as at June 30, 2013) was determined using Level 2.

RISK FACTORS AND UNCERTAINTIES

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

Competitive environment

In the markets targeted by the Company, competition is based on a number of factors, especially price, technology, application know-how, financing viability, corporate image, product warranty, reliability, distribution network, and after-sale service. Some competitors of the Company have the benefit of relying on larger resources, notably financial, than those of the Company. In the past, the Company noticed that challenging global financial conditions contributed to reduce the number of water treatment projects and increase the competition as well as the number of companies bidding on each project. If such competitive environment persists, profit margins on projects may be lowered and it may adversely affect the Company's business, financial situation and results of operations.

Operating risks

Design and fabrication of water treatment projects involve a high degree of operating risks. Human error in design and fabrication can cause material damage or delays in delivery. The occurrence of any of these events could result in loss of revenues, increased costs and liability to third parties. The Company uses software that has improved the design, drafting, estimation and fabrication of its products to minimize human error. The Company also controls production quality in its plants and is protected by a general insurance coverage.

Fixed Price Contracts

The Company typically enters into fixed price manufacturing contracts based upon estimates of technical risks and total production costs. Such estimates, if materially inaccurate, can result in potential losses related to fulfilling the contractual obligations of the Company.

Capacity to secure performance guarantees

In the industry in which the Company evolves, it is important for the Company to be able to provide required performance guarantees such as bonds or insurance coverage in order to bid for and obtain certain contracts. The capacity of the Company to secure performance guarantees depend among other factors on its financial situation and on the collateral guarantees that the Company is able to provide to a bonding company. The financial situation of the Company and its capacity to provide collateral guarantees can be affected by many different factors and there is no assurance that the Company will always be able to provide the required performance guarantees for any project. If required performance guarantees cannot be provided and the Company cannot enter into an agreement with a customer, the Company may not be able to execute a project for which it had all required technical skills and competitive pricing.

Management and employees

The Company depends on the skills and experience of its management team and other key employees. The Company relies heavily on its ability to attract and retain highly-skilled personnel in a competitive environment. The Company may be unable to recruit, retain, and motivate highly-skilled employees in order to assist the Company's business, especially sales activities that are essential to the success of the Company. Failure to recruit and retain highly-skilled employees may adversely affect the Company's business, financial condition and results of operations.

Capital investment

The business of the Company depends in part upon capital investment of its customers. In many cases such capital expenditures are substantial in relation to a customer operating budget. The technologies of the Company frequently represent a new solution to a customer's water treatment problems, leading to a need to educate the customer about the solutions of the Company. As a result, a significant proportion of the Company's business is made up of orders that are large in relation to total revenues and subject to a sale cycle which may exceed one year as well as to deferment and cancellation.

Current Global Financial Conditions

The Company offers products and services that are primarily designed for the non-residential construction market. Non-residential construction includes municipal, industrial, commercial and institutional sectors. Activity in the non-residential construction market is closely tied to overall changes in the economy. Economic growth and cycles have a direct impact on the level of construction that takes place on an annual basis. The economic recovery, which follows one of the worst economic and financial crisis, still remains fragile. The Company believes that the water industry has a long-term sustained growth curve. During the financial year ended June 30, 2014, investments in water treatment projects have considerably increased; but on a short term basis such growth may be uneven due to the current instability of the global markets.

In addition, the current challenging global financial conditions have been characterized by increased volatility. The difficulties met by financial institutions have contributed to a reduction in liquidity among all financial institutions and have reduced the availability of credit to those institutions and to the issuers who borrow from them. These factors may impact the ability of the Company to obtain equity or debt financing on terms favorable to the Company. As such, continued increased levels of volatility and market turmoil may impact the Company's operations and adversely affect the price of the common shares of the Company.

Implementation of a strategic plan

The commercial strategy of the Company aims at leveraging its hybrid offering of projects and consumables, focusing on the development of niche sectors and concluding acquisitions or alliances with players in strategic geographical regions, strong complimentary product lines or business models. The strategic plan of the Company should be considered under risks perspective, expenses and difficulties frequently encountered by a developing business. The successful viability of the Company's growth strategy may require capital investments larger than those previously expected and nothing warrants that the Company will achieve the desired growth level.

Product Liability and Other Lawsuits

The Company is subject to a variety of potential product liabilities claims and other lawsuits related with its operations, including liabilities and expenses associated with product defects. The Company maintains product liability and other insurance coverage that management of the Company believes is generally in accordance with the market practice in its industry, but there can be no assurance that the Company will always be adequately insured against all such potential liabilities.

Additional financing and dilution

The Company does not exclude raising additional funds by equity financing. In addition, 1,737,500 stock options are currently issued and outstanding.

The exercise of stock options, as well as any new equity financings, represent dilution factors for present and future shareholders.

Market Liquidity

Trading on the Company's common shares is unstable, which could in same period result in a lack of liquidity for those shares. The market price for the common shares of the Company could consequently be subject to wide fluctuations. Factors such as the announcement of significant contracts, technological innovations, new commercial products, patents, a change in regulations, quarterly financial results, future sales of common shares by the Company or current shareholders, and many other factors could have considerable repercussions on the price of the Company's common shares. In addition, the financial markets may experience significant price and value fluctuations that affect the market prices of equity securities of companies that sometimes are unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally may adversely affect the market price of the Company's common shares.

Shortage of Raw Materials

Some of the products manufactured by the Company require specialized raw materials. If such raw material is not available or not available under satisfactory terms and the Company cannot manufacture and provide its customers with the requested product, sales level and relationships of the Company with its customers can be negatively affected.

Development of New Products

From time to time, the Company develops new products of a specialized nature that have inherent risks, namely that either the product does not perform as desired or unacceptable reliability issues render the new product un-merchantable; or supplier risk that required components procured from third party vendors do not perform in an acceptable manner, thereby having an adverse impact on marketability of such new products and on the Company's product liability.

Acquisition and Expansion Risk

The Company may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties. There can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

In connection with acquisitions completed by the Company, there may be liabilities and contingencies, which the Company failed to discover or was unable to quantify in its due diligence, which it conducted prior to the execution of the acquisition, and the Company may not be indemnified for some or all of these liabilities and contingencies. The existence of any material liabilities or contingencies could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, acquisitions may involve a number of special risks including diversion of management's attention, failure to retain key personnel and unanticipated events or circumstances, some or all of which could have a material adverse effect on the Company's performance.

The failure of the Company to manage its acquisition or expansion strategy successfully could have a material adverse effect on the Company's results of operations and financial condition.

Technology and regulatory changes

The water treatment industry is characterized by evolving technologies, competition imposed standards and regulatory requirements which have an impact on the demand and compel the Company to improve its products and services. The evolution of legal, regulatory or local requirements may render obsolete some products and some water treatment processes offered by the Company. The acceptance of new products may also be negatively impacted by the enforcement of new governmental legislation imposing more stringent standards.

The Company is also subject to risks associated with the introduction of new products and applications, especially the non-acceptance on the markets, a delay in the development or a malfunction of the products.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed certificates signed by the Chief Executive Officer ("CEO") and the Vice President, Finance ("VP, Finance") 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 the VP, Finance 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 Company has been made known to them; and
- information required to be disclosed in the Company'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 Vice President, Finance, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the Vice President, Finance concluded that the disclosure controls and procedures are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

Internal controls over financial reporting

The CEO and the VP, Finance 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.

Changes in internal controls over financial reporting

During the year, the Company 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

H_2O Innovation's CEO and VP, Finance have also evaluated the effectiveness of H_2O Innovation's disclosure controls and procedures as of the end of fiscal year 2014. Based on this evaluation, the CEO and the VP, Finance concluded that the disclosure controls and procedures were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of fiscal year 2014. In compliance with NI 52-109, H_2O Innovation's CEO and VP, Finance have provided a certification related to H_2O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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

The President and Chief Executive Officer

Frédéric Dugré

The Vice President, Finance

Josée Riverin, CPA, CA

September 22, 2014

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

For additional information:
Investor Relations
investor@h2oinnovation.com

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

Annual reports and press releases are accessible on our Website: *www.h2oinnovation.com* and on SEDAR.

Deloitte , LLP
925 Grande Allée West
Suite 400
Québec QC G1S 4Z4
Canada

Tel: 418-624-3333
Fax: 418-624-0414
www.deloitte.ca

Independent auditor's report

To the Shareholders of
H_2O Innovation Inc.

We have audited the accompanying consolidated financial statements of H_2O Innovation Inc., which comprise the consolidated statements of financial position as at June 30, 2014 and June 30, 2013, and the consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of H_2O Innovation Inc. as at June 30, 2014 and June 30, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP[1]

September 22, 2014

[1] CPA auditor, CA, public accountancy permit No 107622

H$_2$O INNOVATION INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	June 30, 2014	June 30, 2013
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**497,752**	303,936
Guaranteed deposits certificates (note 7)	**1,224,846**	1,253,786
Accounts receivable (note 8)	**8,908,408**	6,468,556
Inventories (note 9)	**4,705,869**	4,016,558
Costs incurred in excess of billings (note 10)	**2,067,905**	2,203,326
Prepaid expenses	**452,415**	225,493
	17,857,195	14,471,655
Non-current assets		
Property, plant and equipment (note 11)	**1,874,083**	1,878,759
Intangible assets (note 12)	**6,837,264**	4,942,884
Other assets	**44,826**	37,851
Goodwill (notes 6 and 13)	**4,010,148**	2,465,311
Deferred income tax assets (note 18)	**2,801,051**	3,124,064
	33,424,567	26,920,524
LIABILITIES		
Current liabilities		
Bank overdraft	**113,383**	256,701
Bank loans (note 14)	**3,555,774**	3,375,843
Accounts payable and accrued liabilities (note 15)	**4,417,197**	4,080,339
Provisions (note 16)	**77,391**	41,637
Billings in excess of costs incurred (note 10)	**1,491,883**	1,758,432
Income taxes payable (note 18)	**37,475**	2,306
Deferred rent (note 25)	**11,478**	3,151
Current portion of long-term debt (note 17)	**724,996**	2,808,261
	10,429,577	12,326,670
Non-current liabilities		
Long-term debt (note 17)	**331,212**	64,996
Deferred rent (note 25)	**102,895**	102,070
	10,863,684	12,493,736
SHAREHOLDERS' EQUITY		
Share Capital (note 19)	**55,298,945**	45,852,436
Reserve - Stock options (note 19)	**1,873,957**	1,861,040
Reserve – Warrants (note 19)	**-**	141,787
Deficit	**(33,599,837)**	(32,285,493)
Accumulated other comprehensive loss	**(1,012,182)**	(1,142,982)
	22,560,883	14,426,788
	33,424,567	26,920,524

These accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Frédéric Dugré

President and Chief Executive Officer

Philippe Gervais

Chairman of the Board of Directors

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in Canadian dollars)

	Common shares Number	Share Capital (note 19)	Reserves: Stock options (note 19)	Reserves: Warrants (note 19)	Deficit	Accumulated other comprehensive loss – Translation adjustment	Total
		$	$	$	$	$	$
Balance as at July 1, 2012	60,145,823	45,852,436	1,821,421	370,076	(32,826,774)	(1,472,932)	13,744,227
Stock-based compensation costs	-	-	39,619	-	-	-	39,619
Reversal to deficit of expired warrants, net of current income taxes (note 19)	-	-	-	(228,289)	228,289	-	-
Net earnings for the year	-	-	-	-	312,992	-	312,992
Other comprehensive income	-	-	-	-	-	329,950	329,950
Balance as at June 30, 2013	**60,145,823**	**45,852,436**	**1,861,040**	**141,787**	**(32,285,493)**	**(1,142,982)**	**14,426,788**
Balance as at July 1, 2013	60,145,823	45,852,436	1,861,040	141,787	(32,285,493)	(1,142,982)	14,426,788
Issuance of common shares under private placement (note 19)	44,487,154	10,136,805	-	-	-	-	10,136,805
Share issue expenses (note 19)	-	(690,296)	-	-	-	-	(690,296)
Stock-based compensation costs	-	-	12,917	-	-	-	12,917
Reversal to deficit of expired warrants, net of current income taxes (note 19)	-	-	-	(141,787)	141,787	-	-
Net loss for the year	-	-	-	-	(1,456,131)	-	(1,456,131)
Other comprehensive income	-	-	-	-	-	130,800	130,800
Balance as at June 30, 2014	**104,632,977**	**55,298,945**	**1,873,957**	**-**	**(33,599,837)**	**(1,012,182)**	**22,560,883**

These accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in Canadian dollars)

Years ended June 30,	2014	2013
	$	$
Revenues (note 26)	**34,831,514**	36,136,901
Cost of goods sold (note 20a))	**25,581,026**	26,885,364
Gross profit before depreciation and amortization	**9,250,488**	9,251,537
Operating expenses (note 20a))	**859,483**	696,079
Selling expenses (note 20a))	**4,042,511**	3,509,081
Administrative expenses (note 20a))	**4,100,167**	3,533,042
Research and development expenses – net (notes 20a) and 20c))	**220,145**	-
Depreciation of property, plant and equipment (note 20b))	**294,059**	279,866
Amortization of intangible assets (note 20b))	**950,885**	720,701
Other losses / (gains) – net (note 20d))	**(29,537)**	38,562
Operating costs total	**10,437,713**	8,777,331
Operating (loss) earnings	**(1,187,225)**	474,206
Finance income	**(14,209)**	(16,077)
Finance costs	**585,884**	758,811
Finance costs – net	**571,675**	742,734
Gain on settlement agreement	**-**	(404,189)
Loss on disposal of investment in a joint venture	**-**	42,521
Royalties income from a joint venture	**-**	(46,375)
Share of earnings in a joint venture	**-**	(6,142)
Other charges and costs total	**571,675**	328,549
(Loss) Earnings before income taxes	**(1,758,900)**	145,657
Current income tax expense (note 18)	**1,027**	2,306
Deferred tax benefit (note 18)	**(303,796)**	(169,641)
	(302,769)	(167,335)
Net (loss) earnings for the year attributable to shareholders	**(1,456,131)**	312,992
Net (loss) earnings per share attributable to shareholders of the company during the year		
Basic and diluted net (loss) earnings per share	**(0.017)**	0.005
Weighted average number of shares outstanding (note 21)	**87,156,906**	60,145,823

These accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in Canadian dollars)

Years ended June 30,	2014	2013
	$	$
Net (loss) earnings for the year	(1,456,131)	312,992
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	130,800	329,950
Comprehensive income (loss) for the year attributable to shareholders	(1,325,331)	642,942

These accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTs OF CASH FLOWS
(in Canadian dollars)

Years ended June 30,	2014	2013
	$	$
Cash flows from operating activities		
(Loss) Earnings before income taxes for the year	**(1,758,900)**	145,657
Non-cash items		
Finance costs – net	**571,675**	742,734
Depreciation of property, plant and equipment	**294,059**	279,866
Amortization of intangible assets	**950,885**	720,701
Loss on disposal of property, plant and equipment	**5,798**	23,485
Loss on disposal of intangible assets	**721**	-
Gain on settlement agreement	**-**	(404,189)
Deferred rent	**8,620**	(11,502)
Stock-based compensation	**12,917**	39,619
Loss on disposal of investment in a joint venture	**-**	42,521
Share of (earnings) of joint venture	**-**	(6,142)
	85,775	1,572,750
Change in working capital items (note 22a))	**(2,589,020)**	(530,956)
Cash generated by operations	**(2,503,245)**	1,041,794
Interests received	**14,209**	15,986
Income taxes received (paid)	**2,720**	(4,280)
Net cash (used in) generated by operating activities	**(2,486,316)**	1,053,500
Cash flows from investing activities		
Variation of guaranteed deposits certificates	**30,461**	(103,612)
Proceeds on disposal of property, plant and equipment	**-**	13,255
Proceeds on disposal of intangible assets	**676**	-
Acquisition of property, plant and equipment	**(98,764)**	(159,355)
Investment in a joint venture	**-**	(25,453)
Variation of other assets	**(6,545)**	6,316
Acquisition of intangible assets	**(105,005)**	(60,654)
Business combination, net of cash acquired (note 6)	**(4,228,184)**	-
Contingent considerations paid	**-**	(96,011)
Net cash used in investing activities	**(4,407,361)**	(425,514)
Cash flows from financing activities		
Variation of bank loans	**179,931**	507,449
Long-term debt reimbursement	**(1,767,951)**	(910,119)
Interest paid	**(479,080)**	(624,281)
Issuance of shares (note 19)	**9,979,651**	-
Share issue expenses (note 19)	**(690,296)**	-
Net cash (used in) generated by financing activities	**7,222,255**	(1,026,951)
Net change in cash and cash equivalents	**328,578**	(398,965)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**8,556**	24,868
Increase (Decrease) in cash and cash equivalents	**337,134**	(374,097)
Cash and cash equivalents - Beginning of year (note 22b))	**47,235**	421,332
Cash and cash equivalents - End of year (note 22b))	**384,369**	47,235

These accompanying notes are an integral part of the consolidated financial statements.

1. Governing Statutes and Nature of Operations

H_2O Innovation Inc. (the "Company") is incorporated under the *Canada Business Corporations Act*. The Company's mission is to design, develop and market innovative environmentally-friendly water treatment technology and to produce high performance products in the field of membrane filtration and biological and physical water treatment solutions. At the same time and on a smaller scale, the Company continues its manufacturing and equipment distribution operations for the maple industry. The head office of the Company is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

On September 22nd, 2014, the Board reviewed the consolidated financial statements and authorized its publication.

2. Changes in Accounting Policies

The Company has adopted the following revised standards along with any consequential amendments, effective July 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a) Consolidated financial statements, joint arrangements and disclosure of interests in other entities

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10, IFRS 11 and IFRS 12.

As of July 1, 2013, the Company has adopted IFRS 10, 11 and 12, and the amendments of IAS 27 and 28. As of July 1, 2012, the interest held in a joint venture by the Company was recognized as a joint venture and accounted for using the equity method until it disposed of it as of March 31, 2013.

The adoption of these new standards and modification did not have a significant impact on the Company's financial position and consolidated results. Given the insignificant impact of the adoption of these amendments on the consolidated statement of financial position, these audited annual consolidated financial statements do not include the statement of financial position as at July 1, 2012.

b) Fair value measurement

IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

The adoption of this new standard did not have an impact on the calculation of the fair values in the Company's audited annual consolidated financial statements. Additional disclosures have been added in note 23 of the audited annual consolidated financial statements of the Company.

3. Basis of Preparation and Summary of Significant Accounting Policies

Statement of Compliance

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

Presentation currency

The Company's reporting currency is the Canadian dollar. The functional currency of the Canadian corporation is the Canadian dollar. The functional currency of the foreign subsidiaries located in the United States of America is the US dollar. The functional currency of the joint venture was the Indian rupee until the termination of the agreement.

Principles of consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries H_2O Innovation USA Inc., H_2O Innovation USA Holding Inc., Professional Water Technologies, LLP and Piedmont Pacific Corporation.

Interest in a joint venture
A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Company's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint venture) are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

When the Company transacts with the joint venture, profits and losses are eliminated to the extent of the Company's interest in the joint venture.

Subsidiaries
Subsidiaries are all entities over which the Company has control. Control exists when the Company has all three of the following elements: the power to direct the relevant activities of the subsidiary, exposure or rights to variable returns from its involvement with the subsidiary; and the ability to use its power over the subsidiary to affect the amount of the Company's returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair

values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the consolidated statement of income (loss) as incurred.

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IAS 39 Financial Instruments: recognition and measurement or IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in the consolidated statement of income (loss).

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in the consolidated statement of income (loss). Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the consolidated statement of income (loss) where such treatment would be appropriate if that interest were disposed of.

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

Foreign currency translation

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

Fair value measurement

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

The Company has an established control framework with respect to the measurement of fair values. Management has the responsibility for overseeing fair value measurements.

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

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

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

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

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

Financial assets and liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's financial assets comprise mainly cash and cash equivalents, guaranteed deposit certificates and accounts receivable. The Company's financial liabilities comprise mainly bank overdraft, bank loans, accounts payable and accrued liabilities and long-term debt.

Recognition

The Company recognizes a financial instrument on its consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value and their subsequent measurement depends on their classification as described below:

Classification

Cash and cash equivalents	Loans and receivables
Guaranteed deposit certificates	Loans and receivables
Accounts receivable	Loans and receivables
Bank overdraft	Other financial liabilities
Bank loans	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Measurement
Loans and receivables and other financial liabilities are initially measured at their fair value plus transaction costs. Subsequently, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has evaluated the fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms.

Cash and cash equivalents

Cash includes cash and demand deposits. Cash equivalents include very liquid investments convertible into a known cash amount and maturing within less than three months from the date of acquisition. The Company considers bank overdraft in its cash and cash equivalents.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in first out method for raw materials and finished goods. Also, the Company is using the absorption costing method for finished goods. The absorption costing method used by the Company includes direct materials, labour and manufacturing overhead expenses.

Property, plant and equipment

All property, plant and equipment is shown at cost less depreciation and impairment. Cost includes expenditures that are attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful economic life. Moulds are amortized on a units of production basis over expected total production per mould. For the buildings, component depreciation accounting is also used for components that have different useful economic life, as follows:

Buildings	25-40 years
Machinery and equipment	10 years
Computer equipment	5 years
Furniture, fixtures and office equipment	10 years
Automotive equipment	5 years
Containerized unit for lease	4 years
Moulds	3-5 years
Leasehold improvements	Remaining term of the lease between two and ten years

The depreciation expense is included in the consolidated statement of income (loss) as “Depreciation of property, plant and equipment”.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in Canadian dollars)

Intangible assets

Intangible assets acquired are recorded at cost less subsequent amortization and impairment. They are amortized over their estimated useful lives. The amortization expense is included in the consolidated statement of income (loss) as “Amortization of intangible assets”.
The Company is using the following amortization methods:

Intangible assets acquired separately

- Software is amortized using the straight-line method over a period of seven (7) years.

Intangible assets acquired in business combinations

- Rights on technologies and technologies are amortized using the straight-line method over periods of seven (7) and fifteen (15) years.
- Patents and intellectual property are amortized using the straight-line method over a period of fifteen (15) years.
- Trademarks with a definite useful life are amortized using the straight-line method over a period of seven (7) years.
- Trademarks with indefinite useful life are not amortized but are subject to impairment review annually because the Company controls it with no contractual or legal expiration date and there is no foreseeable time limit to its useful economic life.
- Customer relations are amortized using the straight-line method over periods of five (5), ten (10) and fifteen (15) years.
- Distribution network is amortized using the straight-line method over a period of five (5) years.
- Technical drawings are amortized using the straight-line method over a period of ten (10) years.
- Customer backlog is amortized over its related sales period, approximately four (4) months.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer’s previously held interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, the Company’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity in the acquire (if any), the excess is recognised immediately in the consolidated statement of income (loss) as a bargain purchase gain.

Goodwill is not amortised but it is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units or a group of cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The Company has elected to perform its annual impairment test of goodwill during the third quarter of each year.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Other assets

Other assets are mainly composed of security deposits and are recorded at cost.

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income (loss).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of consumables
Revenue from the sale of consumables and consignment inventory is recognised when the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Manufacturing contracts
Manufacturing contracts are within the scope of *IAS 11 – Construction contracts*. Where the outcome of a manufacturing contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the percentage-of-completion of the contract such as but not limited to approval of drawings, acceptance of piping and instrumentation diagrams, assembly, inspection, start-up and acceptance of the equipment which represent proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work and claims are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where outcome of a manufacturing contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred if it is probable that it will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

Interest revenue
Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably using the effective interest rate applicable.

Share Capital

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

Share-Based Payment

The Company offers a stock option plan to directors, executive officers, key employees and consultants providing services to the Company and accounts for these awards in accordance with IFRS 2 – Share-based Payment. Stock options granted to directors, executive officers, key employees and consultants providing services are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding determination the fair value of equity-settled share-based transactions are set out in note 19.

The fair value at the grant date of stock options is determined using the Black-Scholes pricing model and is recognized in the consolidated statement of income (loss) as a compensation expense using a graded vesting schedule over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is recognized in the consolidated statement of income (loss) such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to the Reserve – stock option.

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

Warrants

The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model and is recorded in the Reserve – Warrants in shareholders' equity. When warrants are exercised, the corresponding Reserve - Warrants and the proceeds received by the Company are credited to Share capital. When warrants are expired, the corresponding Reserve – Warrants is credited to Deficit.

Research and Development Expenses and Tax Credits for a Company Established under the Carrefour de la Nouvelle Economie ("CNE") relating to Research and Development

Research costs are expensed as incurred. However, development costs are deferred when they meet generally accepted criteria for deferral to the extent that their recovery is reasonably assured.

Tax credits to a company established under the CNE relating to research and development are accounted for during the year in which the costs are incurred, provided that the Company is reasonably certain that the credits will be received. These tax credits are presented against the research and development costs.

These tax credits must be examined by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

The Company is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government ("Federal") and the government of the Province of Quebec ("Provincial"). Federal SR&ED tax credits are earned on qualified Canadian SR&ED expenditures at a rate of 20% and can only be used to offset Federal income taxes otherwise payable. Refundable Provincial SR&ED tax credits are generally earned on qualified salaries, subcontracting and university contract expenses incurred in the Province of Quebec, at a rate of 37.5% of eligible base amounts.

Tax credits and grants are accounted for using the cost reduction method. Accordingly, tax credits and grants are recorded as a reduction of the related expenses or capital expenditures in the period the expenses are incurred, provided that the Company has reasonable assurance the credits or grants will be realized.

Taxation

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

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

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

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

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Segment Reporting

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

Segment revenue represents sales by each segment. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Net earnings (loss) per share

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

Provisions

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

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

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

Warranties

Provisions for the expected cost of warranty obligations are recognised at the date of the sale of relevant products, at the management's best estimate of the expenditure required to settle the Company's obligation.

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

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

4. Critical accounting estimates, assumptions and judgements

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

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change.

As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

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

Revenue recognition of manufacturing contracts
The stage of completion of any manufacturing contract is assessed by management by taking into consideration all information available at the reporting date. In this process, management applies significant judgments about percentage-of-completion, actual work performed and the estimated costs to be incurred to complete work.

Impairment of goodwill and other non-current assets
At the end of each reporting period, the Company assesses whether there is any indication that the goodwill and non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted. The use of different assumptions could result in different fair values and therefore, in different carrying amounts for goodwill and other non-current assets. If the discount rate had increased or decreased by 1% compared to the assumption

taken by the Company, assuming other variables remain constant the recoverable amount would have been greater or lesser by approximately $1,600,000 and no impairment would have been recorded. If the growth rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the recoverable amount would have been greater or lesser by approximately $1,800,000 and no impairment would have been recorded.

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

Slow moving and obsolete inventory
The value of slow moving and obsolete inventory is based on the Company's assessment of historical usage, estimated future demand and in some cases, the specific risks of loss on specifically identified inventory. The write-down may be reversed if the circumstances which caused it no longer exist.

Stock-based compensations and other stock-based payments
As regards to stock option granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using Black-Scholes pricing model, which required the use of certain assumptions, including future stock price volatility and expected life of instruments. The expected life is estimated using the contractual life of the instrument. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the contractual life. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest.

5. Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standard and amendment are effective for annual periods beginning on or after January 1, 2014 (January 1, 2018 for IFRS 9), with earlier application permitted. The Company 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*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and 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 2013, IASB amended IAS 36, *Impairment of Assets*, which provides guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The adoption of these IFRS amendments is not expected to have a significant impact on the consolidated financial statements.

IFRIC 21, *Levies*, this interpretation of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', applies to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the extent of the impact of adoption of this standard.

In May 2014, the 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, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

6. Business Combination

Description of the business combination

On December 5, 2013, the Company acquired all of the issued and outstanding shares of Piedmont Pacific Corporation ("Piedmont"), a company located in Oakland, CA and one of the leading manufacturers in the world of flexible pipe couplings and other pipe fittings for highly corrosive environments. Acquisition cost for this transaction was $4,252,165 ($US3,978,447) including certain working capital adjustments. The acquisition was financed by a private placement and concurrent additional non-brokered private placement of common shares of the Company at a price of $0.23 per Common Shares for total gross proceeds of $8,001,800.

Piedmont was integrated to the current activities of the Company and is using the testing, warehousing, packing and shipping capabilities of the existing facility in Vista, CA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in Canadian dollars)

Assets acquired and liabilities assumed at the acquisition date

	December 5, 2013 $
Assets	
Current assets	
Cash and cash equivalents	23,981
Accounts receivable	498,140
Inventories	268,148
	790,269
Non-current assets	
Property, plant and equipment	
Machinery and equipment	13,787
Moulds	180,627
Intangible assets	
Customer backlog	59,425
Client relationships	2,079,885
Technical drawings	59,425
Trademark	470,272
Total	3,653,690
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	(263,461)
Income taxes payable	(34,434)
Deferred income tax liabilities	(616,911)
Total	(914,806)
Identifiable net assets acquired	2,738,884

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 2014. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(in Canadian dollars)

Sources and uses of funds at the transaction closing date

	December 5, 2013 $
Sources	
Private placement (note 19)	7,095,200
Concurrent additional non-brokered private placement (note 19)	906,600
	8,001,800
Uses	
Cash consideration transferred	(4,252,165)
Share issue expenses (note 19)	(636,096)
Working capital for the Company's current activities	(3,113,539)
	-

The balance of purchase price of a business combination to be paid was estimated based on the excess of net assets over the net book value agreed upon in the share purchase agreement as of the transaction closing date.

Costs related to the acquisition

The total acquisition-related costs amounted to $58,978 and are included in administrative expenses in the Audited Annual Consolidated Statement of earnings (loss).

Determination of fair value

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

Accounts receivable, inventories, accounts payable and accrued liabilities and income taxes payable arising from a business combination are recognized at their fair value, which is not substantially different from their gross contractual value and expected receipts and disbursements.

The Company's valuation of intangible assets has identified customer backlog, client relationships, technical drawings and trademark. The assigned useful lives are 4 months for customer backlog, 10 years for client relationships, 10 years for technical drawings 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

	December 5, 2013 $
Cash consideration transferred and balance of purchase price payable	4,252,165
Less:	
Fair value of net identifiable acquired assets	(2,738,884)
Goodwill	1,513,281

The goodwill recognized from this business combination is not amortized and is not deductible for U.S. tax purposes.

Goodwill of $1,513,281 stems essentially from the synergies with other activities of the Company, the economic value of the workforce acquired as well as intangible assets that do not meet the criteria for separate recognition.

For impairment test purposes, goodwill has been allocated to the Company's cash-generating unit, United States. Notes 12 and 13 provides a roll-forward of the net book value balances of intangible assets and goodwill.

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

The Company's loss for the year ended June 30, 2014 includes $2,032,919 in revenues and a $310,630 profit generated from Piedmont additional business.

If the business combination had been completed on July 1, 2013, the Company's consolidated revenues for the year ended June 30, 2014 would have totalled $35,681,839 and consolidated loss for the year ended June 30, 2014 would have been ($1,454,190).

The Company 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 Company if the acquisition actually occurred on July 1, 2013, nor the profit that may be achieved in the future.

To determine the Company's pro forma consolidated revenues and profit if Piedmont had been acquired on July 1, 2013, the Company:

- 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 Company's net indebtedness after the business combination.
- Calculated an additional income tax expense to reflect the pro forma adjustments described above.

7. Guaranteed deposit certificates

	June 30, 2014	June 30, 2013
	$	$
Guaranteed deposit certificates in escrow for sales contract execution and performance, bearing interest at 0.90% and matured in September 2013	**-**	30,960
Guaranteed deposit certificate , held as collateral for letters of credit bearing interest at 1.15% (at 1.15% as at June 30, 2013) and maturing in July 2014	**1,000,662**	1,000,630
Guaranteed deposit certificate held as collateral for a lease agreement, bearing interest at 0.90% (at 0.90% as at June 30, 2013) and maturing in October 2014	**100,636**	100,636
Guaranteed deposit certificate denominated in US dollars held as collateral for a letter of credit, bearing interest at 0.10% (0.10% as at June 30, 2013) and maturing in September 2014	**16,539**	16,286
Guaranteed deposit certificate held as collateral for a lease agreement, bearing interest at 0.20% (0.20% as at June 30, 2014) and maturing in February 2015	**107,009**	105,274
	1,224,846	1,253,786

(in Canadian dollars)

8. Accounts Receivable

	June 30, 2014	June 30, 2013
	$	$
Trade accounts receivable	**7,682,304**	5,634,221
Retentions from customer under manufacturing contracts	**1,198,327**	953,731
Allowance for doubtful accounts (i)	**(547,764)**	(406,890)
Allowance for back charge	**-**	(3,155)
	8,332,867	6,177,907
Tax credits receivable	**194,636**	84,416
Other receivables	**380,904**	206,233
	8,908,408	6,468,556

As at June 30, 2014, retentions held by customers for contract work amounted to $1,198,327 ($953,731 as at June 30, 2013).

Trade accounts receivable disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable. In some cases, the Company holds the legal right to lien construction projects in the event that certain counterparties do not pay their balance within a specified period of time.

(i) Movement in the allowance for doubtful accounts

	June 30, 2014	June 30, 2013
	$	$
Balance at beginning of the year	**(406,890)**	(258,230)
Impairment losses recognised on receivables	**(196,360)**	(190,492)
Amounts written off during the year as uncollectible	**55,605**	42,162
Foreign exchange translation gains and losses	**(119)**	(330)
Balance at end of the year	**(547,764)**	(406,890)

9. Inventories

	June 30, 2014	June 30, 2013
	$	
Raw materials	**971,227**	1,058,976
Finished goods	**3,734,642**	2,957,582
	4,705,869	4,016,558

As a result of variations in the ageing of its inventory of raw materials in Canada and in United States, the Company recognized an inventory provision for the year of $132,414 ($62,622 in fiscal year 2013).

(in Canadian dollars)

10. Work in progress

	June 30, 2014	June 30, 2013
	$	$
Construction costs incurred plus recognised profits less recognised losses to date	**37,765,343**	39,531,903
Less: Progress billings	**(37,189,321)**	(39,087,009)
Net statement of financial position for ongoing contracts	**576,022**	444,894

Recognised and included in the consolidated financial statements as amounts due:		
From customers under construction contracts	**2,067,905**	2,203,326
To customers under construction contracts	**(1,491,883)**	(1,758,432)
	576,022	444,894

11. Property, plant and equipment

	June 30, 2014	June 30, 2013
	$	
Cost	**4,141,162**	4,048,288
Accumulated depreciation and impairment	**(2,267,079)**	(2,169,529)
	1,874,083	1,878,759

Land	**33,000**	33,000
Buildings	**949,417**	953,882
Machinery and equipment	**335,382**	370,797
Computer equipment	**109,591**	168,426
Furniture, fixtures and office equipment	**90,130**	97,185
Automotive equipment	**53,971**	83,577
Containerized unit for lease	**29,894**	41,852
Moulds	**166,497**	-
Leasehold improvements	**106,201**	130,040
	1,874,083	1,878,759

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in Canadian dollars)

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized unit for lease	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2012	25,000	1,078,865	1,678,478	760,905	317,395	292,754	-	247,078	**4,400,475**
Additions	8,000	3,129	9,715	46,334	2,725	34,197	47,830	7,425	**159,355**
Disposals	-	-	-	-	(12,836)	(65,212)	-	(29,034)	**(107,082)**
Write-off of fully depreciated assets	-	-	-	(431,879)	-	-	-	-	**(431,879)**
Effect of foreign currency exchange differences	-	-	12,652	1,397	2,302	5,482	-	5,586	**27,419**
Balance as at June 30, 2013	33,000	1,081,994	1,700,845	376,757	309,586	267,221	47,830	231,055	**4,048,288**
Cumulated depreciation									
Balance as at June 30, 2012	-	(85,224)	(1,255,341)	(562,679)	(203,738)	(199,324)	-	(67,474)	**(2,373,780)**
Depreciation expense	-	(42,888)	(66,979)	(76,036)	(16,693)	(33,167)	(5,978)	(38,125)	**(279,866)**
Disposals	-	-	-	-	9,631	53,107	-	7,604	**70,342**
Write-off of fully depreciated assets	-	-	-	431,879	-	-	-	-	**431,879**
Effect of foreign currency exchange differences	-	-	(7,728)	(1,495)	(1,601)	(4,260)	-	(3,020)	**(18,104)**
Balance as at June 30, 2013	-	(128,112)	(1,330,048)	(208,331)	(212,401)	(183,644)	(5,978)	(101,015)	**(2,169,529)**
Net amount as at June 30, 2013	33,000	953,882	370,797	168,426	97,185	83,577	41,852	130,040	**1,878,759**

(in Canadian dollars)

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized unit for lease	Moulds	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$	
Balance as at June 30, 2013	33,000	1,081,994	1,700,845	376,757	309,586	267,221	47,830	-	231,055	**4,048,288**
Additions	-	40,816	19,144	10,642	9,447	-	-	5,372	13,343	**98,764**
Business combination (note 6)	-	-	13,787	-	-	-	-	180,627	-	**194,414**
Disposals	-	-	-	-	-	(35,650)	-	-	-	**(35,650)**
Write-off of fully depreciated assets	-	-	-	(37,528)	-	(134,954)	-	-	-	**(172,482)**
Effect of foreign currency exchange differences	-	-	6,049	(15)	1,037	(1,557)	-	(394)	2,708	**7,828**
Balance as at June 30, 2014	33,000	1,122,810	1,739,825	349,856	320,070	95,060	47,830	185,605	247,106	**4,141,162**
Cumulated depreciation										
Balance as at June 30, 2013	-	(128,112)	(1,330,048)	(208,331)	(212,401)	(183,644)	(5,978)	-	(101,015)	**(2,169,529)**
Depreciation expense	-	(45,281)	(70,238)	(69,211)	(16,833)	(23,890)	(11,958)	(18,739)	(37,909)	**(294,059)**
Disposals	-	-	-	-	-	29,852	-	-	-	**29,852**
Write-off of fully depreciated assets	-	-	-	37,528	-	134,954	-	-	-	**172,482**
Effect of foreign currency exchange differences	-	-	(4,157)	(251)	(706)	1,639	-	(369)	(1,981)	**(5,825)**
Balance as at June 30, 2014	-	(173,393)	(1,404,443)	(240,265)	(229,940)	(41,089)	(17,936)	(19,108)	(140,905)	**(2,267,079)**
Net amount as at June 30, 2014	33,000	949,417	335,382	109,591	90,130	53,971	29,894	166,497	106,201	**1,874,083**

(in Canadian dollars)

12. Intangible Assets

	June 30, 2014	June 30, 2013
	$	$
Cost	**16,402,383**	13,452,918
Accumulated amortization and impairment	**(9,565,119)**	(8,510,034)
	6,837,264	4,942,884

Software	**188,161**	172,745
Software in progress	**6,481**	-
Patents	**1,878,721**	2,052,330
Rights on technologies	**14,362**	-
Technologies	**-**	-
Trademarks	**593,504**	181,817
Customer relations	**2,480,369**	582,280
Distribution network	**10,457**	208,121
Intellectual property	**1,609,344**	1,745,591
Technical drawings	**55,865**	-
	6,837,264	4,942,884

Cost	**Software**	**Patents**	**Rights on technologies**	**Technologies**	**Trademarks**	**Customer relations**	**Distribution network**	**Intellectual property**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance as at June 30, 2012	432,323	3,393,627	377,592	1,099,548	489,233	3,598,350	1,287,317	2,311,087	12,989,077
Additions	60,654	-	-	-	-	-	-	-	60,654
Effect of foreign currency exchange differences	1,936	112,568	-	36,396	15,226	117,950	42,612	76,499	403,187
Balance as at June 30, 2013	494,913	3,506,195	377,592	1,135,944	504,459	3,716,300	1,329,929	2,387,586	13,452,918
Accumulated amortization									
Balance as at June 30, 2012	(269,080)	(1,203,695)	(377,592)	(1,099,548)	(254,752)	(2,965,915)	(891,956)	(467,354)	(7,529,892)
Amortization expense	(51,945)	(200,861)	-	-	(57,470)	(67,257)	(191,290)	(151,878)	(720,701)
Impairment of intangible assets	-	-	-	-	-	-	-	-	-
Effect of foreign currency exchange differences	(1,143)	(49,309)	-	(36,396)	(10,420)	(100,848)	(38,562)	(22,763)	(259,441)
Balance as at June 30, 2013	(322,168)	(1,453,865)	(377,592)	(1,135,944)	(322,642)	(3,134,020)	(1,121,808)	(641,995)	(8,510,034)
Net amount as at June 30, 2013	172,745	2,052,330	-	-	181,817	582,280	208,121	1,745,591	4,942,884

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in Canadian dollars)

Cost	Software	Software in progress	Patents	Rights on technologies	Technologies	Trademarks	Customer relations	Distribution network	Intellectual property	Technical drawings	Customer Backlog	Total
	$	$	$	$	$	$	$	$	$			$
Balance as at June 30, 2013	494,913	-	3,506,195	377,592	1,135,944	504,459	3,716,300	1,329,929	2,387,586	-	-	13,452,918
Additions	72,215	6,481	10,733	15,000	-	576	-	-	-	-	-	105,005
Business combination (note 6)	-	-	-	-	-	470,272	2,079,885	-	-	59,425	59,425	2,669,007
Disposals	(1,735)	-	-	-	-	-	-	-	-	-	-	(1,735)
Effect of foreign currency exchange differences	807	-	50,669	-	16,416	6,076	49,697	19,219	34,504	(100)	(100)	177,188
Balance as at June 30, 2014	566,200	6,481	3,567,597	392,592	1,152,360	981,383	5,845,882	1,349,148	2,422,090	59,325	59,325	16,402,383
Accumulated amortization												
Balance as at June 30, 2013	(322,168)	-	(1,453,865)	(377,592)	(1,135,944)	(322,642)	(3,134,020)	(1,121,808)	(641,995)	-	-	(8,510,034)
Amortization expense	(56,440)	-	(215,409)	(638)	-	(61,376)	(188,327)	(202,449)	(162,904)	(3,491)	(59,851)	(950,885)
Disposals	338	-	-	-	-	-	-	-	-	-	-	338
Effect of foreign currency exchange differences	231	-	(19,602)	-	(16,416)	(3,861)	(43,166)	(14,434)	(7,847)	31	526	(104,538)
Balance as at June 30, 2014	(378,039)	-	(1,688,876)	(378,230)	(1,152,360)	(387,879)	(3,365,513)	(1,338,691)	(812,746)	(3,460)	(59,325)	(9,565,119)
Net amount as at June 30, 2014	188,161	6,481	1,878,721	14,362	-	593,504	2,480,369	10,457	1,609,344	55,865	-	6,837,264

(in Canadian dollars)

13. Goodwill

The change in carrying value is as follows:

	$
Balance as at June 30, 2012	2,386,322
Effect of foreign exchange differences	78,989
Balance as at June 30, 2013	2,465,311
Plus: Business combination (note 6)	**1,513,281**
Effect of foreign exchange differences	**31,556**
Balance as at June 30, 2014	**4,010,148**

Goodwill and trademark with indefinite life have been allocated to the Company's cash-generating unit, United States and Canada, for impairment testing purposes. The carrying amount of goodwill and trademark with indefinite life were allocated to cash-generating units as follows:

	June 30, 2014	June 30, 2013
	$	$
Canada	**-**	-
United States		
Goodwill	**4,010,148**	2,465,311
Trademark with indefinite life	**469,480**	-
	4,479,628	2,465,311

The Company carries out its impairment test annually or more frequently if there is an indicator of impairment. The Company has aggregated its cash-generating units into countries for the purposes of the goodwill and trademark with indefinite life impairment test. The carrying values of the goodwill and trademark with indefinite life have been allocated for impairment testing purposes to these CGU groups.

The recoverable amount of these cash-generating units was determined based on a value-in use calculation which uses cash flow projections based on financial budgets approved by the Board of Directors.

Cash flow projections during the budget period are based on the same expected gross profit throughout the budget period. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of each of the cash-generating units.

The key assumptions to which the recoverable amounts of each of the CGU groups are most sensitive include growth rates for revenue, future gross profits on projects, products and services and discount rates applied to cash flow projections. Cash flows and future gross profit were projected based on past experience and actual operating results using forecasts approved by management. The discount rates were based on the Company's weighted average cost of capital using a standard capital structure and reflect specific risks related to the CGU groups under review. The calculation of the recoverable amounts was based on the following key assumptions:

As at June 30, 2014	**Growth rate for the terminal period**	**Post-tax discount rate**
Canada	3.0%	16.2%
United States	3.0%	16.2%

As at June 30, 2013	**Growth rate for the terminal period**	**Post-tax discount rate**
Canada	3.0%	14.8%
United States	3.0%	14.8%

(in Canadian dollars)

In the third quarter of fiscal year 2014, the Company assessed the recoverable amount of the cash-generating unit “United States” at $24,062,000 and did not recognized any goodwill and trademark with indefinite life impairment loss (nil in fiscal year 2013). The fair value less costs to sell was used to determine the recoverable amount of this cash-generating unit by applying new discounted projections of future cash flows based on a five-year financial forecast approved by management, based on past experience and consistent with external sources of information.

14. Bank loans

The bank loans for an authorized amount of $2,000,000 and US$2,000,000 bearing interest at CDN prime rate plus 1.00% (4.0% as at June 30, 2014) and at US prime rate plus 1.00% (4.75% as at June 30, 2014) are secured by an assignment of book debtors and inventories. These are renegotiable in November 2014 and are secured in part by Export Development Canada (“EDC”).

The Company has a credit facility enabling it to issue letters of credit for a maximum amount of $2,000,000. This credit facility bears interest at prime rate plus 1.0% (4.0% as at June 30, 2014) and is renegotiable on November 30, 2014. The credit facility is secured by a guaranteed deposit certificate ($1,000,662 as at June 30, 2014). As at June 30, 2014, the Company issued $1,111,337 in letters of credit under this credit facility.

<u>Covenants</u>
The Company have undertaken to maintain covenants on a monthly basis in respect of the bank loans described above. The Company’s bank facilities are to be renegotiated on November 30, 2014.

15. Accounts Payable and Accrued Liabilities

	June 30, 2014	June 30, 2013
	$	$
Trade accounts payable	**2,868,518**	2,178,120
Other accrued liabilities and accounts payable	**1,548,679**	1,902,219
	4,417,197	4,080,339

16. Provisions

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

	$
Balance as at June 30, 2012	40,543
Additional provisions recognised	77,745
Less: Payments	(79,163)
Effects of foreign exchange differences	2,512
Balance as at June 30, 2013	41,637
Additional provisions recognised	**123,608**
Plus: Allocation received	**62,964**
Less: Payments	**(154,261)**
Effect of foreign exchange differences	**3,443**
Balance as at June 30, 2014	**77,391**

17. Long-Term Debt

	June 30, 2014	June 30, 2013
	$	$
Unsecured – at amortised cost		
Bank loan, denominated in Canadian dollars (a) (e)	**242,625**	1,076,696
Loan from other entities, denominated in Canadian dollars (b) (e)	**747,648**	1,568,924
Loans from shareholders, denominated in US dollars (c)	**-**	145,003
Loans from other entities, denominated in US dollars (d)(e)	**65,935**	82,634
	1,056,208	2,873,257
Less : Current portion	**724,996**	2,808,261
Long-term debt	**331,212**	64,996

(a) Bank loan
The bank loan of $242,625 bearing interest at 12.25% (effective rate of 25.3%) since an agreement was concluded on April 23, 2013 giving four options of three-month moratorium starting in April 2013 with an initial increase of 0.50% of the interest rate applicable and an increase of 0.125% of the interest rate applicable upon each used moratorium on the repayment of principal. On September 30, 2013, the Company used the proceeds from an equity private placement (note 19) to reimbursed $500,000 of its bank loan. The bank loan is repayable in monthly instalments, maturing on December 1, 2014.

(b) Loans from other entities
The loan of $746,648 bearing interest at 11.75% (effective rate of 21.0%) since an agreement was concluded on April 23, 2013 giving four options of three-month moratorium starting in April 2013 with an initial increase of 0.50% of the interest rate applicable and an increase of 0.125% of the interest rate applicable upon each used moratorium on the repayment of principal. On September 30, 2013, the Company used the proceeds from an equity private placement (note 19) to reimbursed $500,000 of its loan from other entities. The bank loan is repayable in monthly instalments maturing January 1, 2016. Upon the issue of this loan, the Company issued 1,000,000 warrants, each warrant entitling the holder to the purchase of one share at a price of $0.50 which expired on December 30, 2013.

(c) Loans from shareholders
On September 30, 2013, The Company issued 714,312 common shares to reimburse the loans from shareholders amounting to $157,154.

(d) Loans from other entities
A loan of $65,936 ($US 61,795), bearing interest at 8.5% payable in monthly instalments of $1,998 ($US 1,900) and maturing July 1, 2017.

(e) The annual principal instalments due on the long-term debt are $724,996 in 2015, $305,948 in 2016, $23,070 in 2017 and $2,194 in 2018.

(in Canadian dollars)

18. Income Taxes

Income tax recoveries are detailed as follows:

	June 30, 2014 $	June 30, 2013 $
Current tax expense:		
Current period	**999**	1,979
Adjustment for prior periods	**28**	327
	1,027	2,306
Deferred tax recovery:		
Origination and reversal of temporary differences	**(447,650)**	68,812
Reduction (increase) in tax rate	**(99,329)**	(54,770)
Adjustment for prior periods	**243,183**	(183,683)
	(303,796)	(169,641)
Income taxes	**(302,769)**	(167,335)

Reconciliation of the Company's effective income tax recovery:

The standard rate of the Canadian corporate income tax is 26.20% (26.24% for 2013).The decrease is caused by a change in the allocation of revenues in the respective Canadian provinces partially offset by an increase of the Ontario tax rate. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the expense for 2014 and 2013.

	June 30, 2014 $	June 30, 2013 $
(Loss) Earnings before income taxes	**(1,758,900)**	145,657
Income taxes at the standard rate of Canadian corporate tax of 26.20 % (26.24% in 2013)	**(460,696)**	38,320
Tax effect from:		
Changes in statutory rates	**(99,419)**	(54,770)
Utilization of tax benefits previously unrecorded	**241,183**	(183,683)
Changes in fair value of contingent considerations and unwinding of interest	**-**	8,080
Gain on settlement agreement	**-**	(106,039)
Non-deductible stock-based payments	**3,384**	10,394
Joint venture results reported net of tax	**-**	(2,623)
Tax credits	**-**	(18,306)
Items not affecting earnings	**(38,514)**	-
Non-deductible items	**26,594**	21,303
Other	**24,699**	120,089
Total income tax recovery	**(302,769)**	(167,335)

Deferred tax assets and liabilities

	June 30, 2014 $	June 30, 2013 $
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	**5,215,051**	5,042,064
Deferred tax liabilities	**(2,414,000)**	(1,918,000)
Net deferred tax assets	**2,801,051**	3,124,064

(in Canadian dollars)

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

	Balance as at July 1, 2013 $	Recognized in earnings $	Recognized in equity $	Recognized through business combination (note 6) $	Balance as at June 30, 2014 $
Non-capital losses	405,400	695,677	-	-	1,101,077
Property, plant and equipment	28,308	(38,220)	-	-	(9,912)
Intangible assets	(425,098)	35,980	-	(616,911)	(1,006,029)
U.S. interests not deducted and deferred	2,984,022	(389,515)	-	-	2,594,507
Other assets	131,432	(10,024)	-	-	121,408
Foreign exchange difference recognized in equity	-	9,898	(9,898)	-	-
	3,124,064	303,796	(9,898)	(616,911)	2,801,051

	Balance as at July 1, 2012 $	Recognized in earnings $	Recognized in equity $	Balance as at June 30, 2013 $
Non-capital losses	879,442	(474,042)	-	405,400
Property, plant and equipment	(6,000)	34,308	-	28,308
Intangible assets	(287,293)	(137,805)	-	(425,098)
U.S. interests not deducted and deferred	2,308,000	676,022	-	2,984,022
Other assets	64,000	67,432	-	131,432
Foreign exchange difference recognized in equity	-	3,726	(3,726)	-
	2,958,149	169,641	(3,726)	3,124,064

At June 30, 2014, the Company had the following tax losses carried forward available to reduce taxable income in the future, and investment tax credits carryovers to reduce income tax payable, and in respect of which the Company has not recognized a deferred tax on those from Canada.

Tax losses carried forward expire as follows:	Date	Canada	USA
		$	$
	2014	13,000	-
	2016	69,000	-
	2027	2,330,000	-
	2028	2,619,000	-
	2029	1,000	-
	2030	672,000	1,572,000
	2032	-	605,000
	2033	-	479,000
	2034	2,553,000	-
		8,257,000	**2,656,000**

Investment tax credits expire as follows:	Date	Canada
	2020	9,000
	2021	76,000
	2022	141,000
	2023	51,000
	2025	36,000
	2026	22,000
	2027	38,000
	2028	6,000
	2029	21,000
		400,000

(in Canadian dollars)

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

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

As at June 30, 2014	Canada	United States
	$	$
Tax losses carried forward	2,165,699	-
Development and exploration expenses	518,000	-
Capital losses	75,000	-
Research and development expenses	625,000	-
Property, plant and equipment	1,182,000	-
Intangible assets	124,975	-
Financing expenses	148,000	-
Other assets	20,000	-
	4,858,674	**-**

As at June 30, 2013	Canada	United States
	$	$
Tax losses carried forward	2,095,751	591,271
Development and exploration expenses	640,000	-
Capital losses	84,000	-
Research and development expenses	578,000	-
Property, plant and equipment	1,126,000	-
Intangible assets	139,293	-
Financing expenses	8,000	-
Other assets	15,000	-
	4,686,044	591,271

19. Capital Stock

Share Capital

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

On September 30, 2013, the Company issued, by way of an equity private placement, 9,704,546 common shares with gross proceeds of $2,135,005, expenses of $54,200 for a net proceeds of $2,080,805. The Company used the proceeds to reimburse partially its long-term debt and to support its working capital. Among the common shares issued in connection with this offering, 714,312 common shares were issued to reimburse the loans from shareholders amounting to $157,154.

On December 5, 2013, the Company issued, by way of a bought deal private placement and concurrent additional non-brokered private placement, 34,782,608 common shares with gross proceeds of $8,001,800, expenses of $636,096 for net proceeds of $7,365,704. The Company used the proceeds to complete the acquisition of Piedmont (note 6) and to support its working capital.

Stock options

The Company 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 Company. 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 5,500,000.

(in Canadian dollars)

For the year ended June 30, 2014, the Company recorded $12,917 ($39,619 in 2013) as stock-based compensation for options granted to its directors, officers and key employees.

The following table summarizes the situation of the Company's stock-based compensation plan as at June 30, 2014 and June 30, 2013 and the change during the years ended on these dates:

Years ended June 30,		**2014**		2013
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**2,124,500**	**0.57**	2,477,000	0.70
Expired	**(387,000)**	**0.71**	(352,500)	1.50
Outstanding - End of year	**1,737,500**	**0.53**	2,124,500	0.57

As at June 30, 2014, the following stock options were granted:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)	Weighted average exercise price
$				$
0.50	Directors	290,000	6.37	0.08
0.75	Directors	225,000	5.41	0.10
0.50	Employees	1,222,500	6.23	0.35
		1,737,500	6.16	0.53

As at June 30, 2014, the following stock options could be exercised:

Exercise price	Number of shares	Weighted average exercise price
$		$
0.50	1,357,500	0.43
0.75	225,000	0.10
	1,582,500	0.53

Warrants

In the course of its financing transactions made during fiscal year 2011 and previous years, the Company issued warrants entitling them the right to acquire shares at a predetermined price. Each warrant issued entitles the holder to acquire one common share of the Company.

The warrants outstanding as at June 30, 2014 and June 30, 2013 and the change during the years ended on those dates are summarized in the following table:

Years ended June 30,		**2014**		2013
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding, beginning of year	**1,000,000**	**0.50**	2,250,000	0.83
Expired	**(1,000,000)**	**0.50**	(1,250,000)	1.10
Outstanding, end of year	**-**	**-**	1,000,000	0.50

(in Canadian dollars)

20. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	2014	2013
	$	$
Material	**18,321,869**	18,228,038
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**(367,997)**	64,697
Salaries and fringe benefits	**10,401,203**	9,078,229
Subcontractors and professional fees	**1,524,354**	3,033,821
Rent, electricity, insurance and office expenses	**2,283,064**	1,357,876
Telecommunications and travel expenses	**1,195,042**	1,130,536
Bad debt expenses	**196,360**	190,492
Other expenses	**1,249,437**	1,539,877
Total cost of goods sold, operating, selling and administrative expenses and research and development expenses - net	**34,803,332**	34,623,566

b) Depreciation and amortization

The Company has elected to present depreciation and amortization as a separate line item in its consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the years ended June 30, 2014 and 2013 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 years as noted above.

Depreciation by function	2014	2013
	$	$
Cost of goods sold	**176,005**	140,370
Operating expenses	**3,470**	3,802
Selling expenses	**37,178**	44,875
Administrative expenses	**77,406**	90,819
	294,059	279,866

Amortization by function	2014	2013
	$	$
Cost of goods sold	**380,252**	352,726
Selling expenses	**514,210**	316,030
Administrative expenses	**56,423**	51,945
	950,885	720,701

Cost per function including depreciation, amortization and impairment of intangible assets	2014	2013
	$	$
Cost of goods sold	**26,137,283**	27,378,460
Operating expenses	**862,953**	699,881
Selling expenses	**4,593,899**	3,869,986
Administrative expenses	**4,233,996**	3,675,806
Research and development expenses – net	**220,145**	-
	36,048,276	35,624,133

(in Canadian dollars)

c) Research and development expenses – net

Years ended June 30,	2014	2013
	$	$
Gross research and development expenses	312,047	-
Research and development tax credits and grants	(91,902)	-
	220,145	-

d) Other (gains) losses – net

Years ended June 30,	2014	2013
	$	$
Exchange (gain) loss	12,123	30,320
Other revenues	(48,179)	(15,243)
Loss on disposal of property, plant and equipment	5,798	23,485
Loss on disposal of intangible assets	721	-
	(29,537)	38,562

21. 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 earnings (loss) per share:

Years ended June 30,	2014	2013
Net earnings (loss)	($1,456,131)	$312,992
Basic and diluted weighted average number of share outstanding	87,156,906	60,145,823
Items excluded from the calculation of diluted net earnings (loss) per share because the exercise price was greater than the average market price of the common shares		
Stock options	1,582,500	2,124,500
Warrants (number of equivalent shares)	-	1,000,000

For the years ended June 30, 2014 and 2013, there was no difference in the basic and diluted weighted average number of shares outstanding, since the effect of the stock options and warrants would have been anti-dilutive. Accordingly, the diluted earnings (loss) per share for these years is calculated using the basic weighted average number of shares outstanding.

(in Canadian dollars)

22. Cash Flows

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

Years ended June 30,	2014	2013
	$	$
Accounts receivable	**(1,905,620)**	2,922,987
Inventories	**(385,379)**	(1,665,780)
Costs incurred in excess of billings	**134,413**	(50,840)
Prepaid expenses	**(226,452)**	(91,665)
Accounts payable and accrued liabilities	**43,559**	(1,724,488)
Provisions	**34,824**	(1,418)
Billings in excess of work in process	**(284,365)**	80,248
	(2,589,020)	(530,956)

b) Cash and cash equivalents consist of the following:

As at June 30,	2014	2013
	$	$
Beginning of year		
Cash and cash equivalents	**303,936**	576,542
Bank overdraft	**(256,701)**	(155,210)
	47,235	421,332
End of year		
Cash and cash equivalents	**497,752**	303,936
Bank overdraft	**(113,383)**	(256,701)
	384,369	47,235

23. Financial Risk Management

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

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

Overview

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

	Risks			
	Market risks			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	X	X	X	
Guaranteed deposits certificates	X	X	X	
Accounts receivable	X		X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X

Currency risk

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

As at June 30, 2014, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, assuming that all other variables remained constant, net loss for the year ended June 30, 2014 would have been greater or lesser by approximately $82,156 ($72,722 as at June 30, 2013).

The financial assets and liabilities denominated in U.S. dollars included in the Canadian corporation are as follows:

	June 30, 2014	June 30, 2013
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	**23,495**	736
Guaranteed deposits certificates	**16,539**	16,286
Accounts receivable	**959,422**	900,962
	999,456	917,984
FINANCIAL LIABILITIES		
Bank overdraft	**(65,041)**	(42,150)
Bank loans	**(2,055,774)**	(1,895,843)
Accounts payable and accrued liabilities	**(521,767)**	(289,428)
Long-term debt	**-**	(145,002)
	(2,642,582)	(2,372,423)

Cash flow and fair value interest rate risk

In the normal course of business, the Company is exposed to interest rate fluctuation risk as a result of the floating-rate loans, debts receivable and loans payable. The Company manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments.

The guaranteed deposit certificates and unsecured loans bear interest at fixed rates and the Company is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations.

The bank loans bear interest at floating rates and the Company is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2014 and 2013, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Company's net earnings and comprehensive income. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Company to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Company reviews credit limits, monitors aging of accounts receivables and establishes an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2014, the allowance for doubtful accounts was $547,764 ($406,890 as at June 30, 2013).

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

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

	June 30, 2014	June 30, 2013
	$	$
Cash and cash equivalents	**497,752**	303,936
Guaranteed deposits certificates	**1,224,846**	1,253,786
Accounts receivable, net of tax credits receivable	**8,713,772**	6,384,140

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in Canadian dollars)

The Company is also exposed to credit risk due to its cash, its deposit certificate and its investment certificates. The Company has $1,722,598 ($1,557,722 in 2013) in cash and guaranteed deposits certificates with banking institutions that the Company considers at a low risk for loss.

The table below summarizes the ageing of trade accounts receivable as at:

	June 30, 2014	June 30, 2013
	$	$
Current	**4,038,025**	3,748,719
Past due 1 to 30 days	**1,433,157**	483,113
Past due 31 to 90 days	**263,986**	165,551
Past due more than 90 days	**1,947,136**	1,236,838
	7,682,304	5,634,221
Less: Allowance for doubtful accounts	**(547,764)**	(406,890)
Trade accounts receivable	**7,134,540**	5,227,331
Provision for back charges	**-**	(3,155)
Retentions from customers under manufacturing contracts	**1,198,327**	953,731
Tax credits receivable	**194,636**	84,416
Other receivables	**380,904**	206,233
	8,908,408	6,468,556

Liquidity risk

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

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

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

As at June 30, 2014	**Carrying amount**	**0 - 1 year**	**1 - 2 years**	**2 - 3 years**	**4 years and more**
	$	$	$	$	$
Bank overdraft	113,383	113,383	-	-	-
Bank loans	3,555,774	3,555,774	-	-	-
Accounts payable and accrued liabilities	4,417,197	4,417,197	-	-	-
Long-term debt	1,203,336	849,401	327,413	24,328	2,194
Total	9,289,690	8,935,755	327,413	24,328	2,194

As at June 30, 2013	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	256,701	256,701	-	-	-
Bank loans	3,375,843	3,375,843	-	-	-
Accounts payable and accrued liabilities	4,080,339	4,080,339	-	-	-
Long-term debt	3,392,707	1,294,641	1,346,519	557,716	193,831
Total	11,105,590	9,007,524	1,346,519	557,716	193,831

Fair value

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

There was no transfer between the levels during the year.

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

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

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Company would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $1,056,208 ($2,873,257 as at June 30, 2013) was determined using Level 2 and is disclosed in note 17.

24. Capital Management

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

The Company 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 Company meet certain financial ratios at fixed points in time. The financial ratios are, as at June 30, 2014:

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.30:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.50:1.00; 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, 2014, the Company was in compliance with the ratios required under its credit facility and long-term debt arrangements.

As at June 30, 2013, the Company was not in compliance with the fixed charge coverage ratio which triggered the reclassification of the long-term debt portion to current liabilities. This reclassification caused the working capital ratio not to be met.

(in Canadian dollars)

25. Leases

Leasing arrangements

Operating leases relate to leases of premises with lease terms of between 1 and 10 years. The Company has an option to renew the lease for one premise for an additional term of 5 years. The Company does not have an option to purchase the leased premises at the expiry of the lease periods.

Payments recognised as an expense

Years ended June 30,	**2014**	2013
	$	$
Minimum lease payments	**618,010**	567,605
	618,010	567,605

Non-cancellable operating lease commitments

	June 30, 2014	**June 30, 2013**
	$	$
Not later than 1 year	**618,010**	567,605
Later than 1 year and not later than 5 years	**2,191,365**	2,060,390
Later than 5 years	**1,718,568**	1,992,423
	4,527,943	4,620,418

Liabilities recognised in respect of non-cancellable operating leases

	June 30, 2014	**June 30, 2013**
	$	$
Deferred rents		
Current	**11,478**	3,151
Non-current	**102,895**	102,070
	114,373	105,221

26. Segment Information

Products from which reportable segments derive their revenues

The Company 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 Company's revenues for the year for the continuing operations.

Years ended June 30,	**2014**	2013
	$	$
Revenues from sales of consumables	**17,184,963**	13,191,645
Manufacturing contracts revenues	**17,646,551**	22,945,256
	34,831,514	36,136,901

Geographical information

The Company is domiciled in Canada. The result of its revenue from external customers in Canada is $12,417,767 ($16,543,641 in 2013), and the total revenue from external customers from other countries is $22,413,747 ($19,593,260 in 2013). Detailed information for the Company's markets is as follows:

(in Canadian dollars)

Years ended June 30,	2014	2013
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**12,417,767**	16,543,641
United States	**17,927,812**	16,290,613
Tunisia	**208,601**	844,658
China	**1,422,457**	1,403,057
United Arab Emirates	**927,447**	-
Oman	**246,246**	-
Switzerland	**211,766**	-
Mexico	**193,926**	-
Israel	**172,186**	-
Egypt	**-**	94,286
Other	**1,103,306**	960,646
	34,831,514	36,136,901

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

As at June 30,	2014	2013
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**1,561,921**	1,693,898
United States	**11,159,574**	7,593,056
	12,721,495	9,286,954

Information about major customers

The Company did not derived more than ten percent (10%) of its revenues from a single external customer in fiscal years 2014 and 2013.

27. Related parties disclosure

Compensation of key management personnel

The remuneration of members of key management personnel during the year was as follows:

Years ended June 30,	2014	2013
	$	$
Short-term benefits	**1,180,751**	858,513
Post-employment benefits	**11,611**	10,405
Share-based payments	**12,116**	33,213
	1,204,478	902,131

The remuneration of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The Company paid interest in the amount of $4,788 ($US 4,628) on loans from shareholders for the year ended June 30, 2014 ($21,117 ($US23,161) in fiscal year 2013)

GENERAL INFORMATION

Board of Directors
Philippe Gervais, Chairman of the Board (1)
Frédéric Dugré, President, Chief Executive Officer and Director (3)
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)
Laurence E. Gamst, Director (1)

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

Key Management
Frédéric Dugré, President & CEO
Josée Riverin, VP Finance
Marc Blanchet, VP Corporate and Legal Affairs & Secretary of the Board
Guillaume Clairet, Executive VP

Legal Counsel
McCarthy Tétrault S.E.N.C.R.L.

Auditors
Deloitte LLP

Transfer Agent
CST Trust Company

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

investor@h2oinnovation.com
www.h2oinnovation.com

Plants (North America)
201, 1st Avenue
Ham-Nord, Quebec G0P 1A0

1048, La Mirada Court
Vista, California 92081

8900, 109th Ave N, Suite 1000
Champlin, Minnesota 55316

Sales and Engineering Offices
1046, 18th Ave SE
Calgary, Alberta T2G 1L6

5100, South Service Road, Unit 17
Burlington, Ontario L7L 6A5