Interim Financial Report
Third quarter ended
March 31, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the quarter ended December 31, 2017, in comparison with the corresponding period ended December 31, 2016. The MD&A should be read in conjunction with the consolidated financial statements and with the accompanying notes for the quarter ended December 31, 2017. Certain statements set forth in this MD&A regarding the operations and the activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 26, 2017 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events and other changes.

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").

RESULTS OF OPERATIONS

For the three-month and nine-month periods ended March 31, 2018 and 2017

COMPARATIVE FIGURES

The following paragraphs highlight certain information regarding our operations for the three-month and nine-month periods ended March 31, 2018 and March 31, 2017. During the year-end audit of fiscal year 2017, the acquisition of Utility Partners has been considered effective as of July 26, 2016 instead of July 1, 2016, as disclosed in the unaudited interim consolidated financial statements for the period ended March 31, 2017. Therefore, the comparative figures for the nine-month period ended March 31, 2017 have been adjusted accordingly and only eight months of Utility Partners' operations are recorded. The impact on the results for the nine-month period ended March 31, 2017 are as follow: a decrease in revenues of \$2,384,712, a decrease in cost of goods sold of \$2,212,400, a decrease in administrative expenses of \$172,312 and a decrease of amortization of intangible assets related to the acquisition of Utility Partners of \$132,927. The net impact is a decrease of the net loss of \$132,927. The basic and diluted loss per share decreased from (\$0.104) to (\$0.100). The three-month period ended March 31, 2018 has not been affected by this adjustment, as it occurred in July 2016.

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted)[1]
	$	$	**$**	$
Revenues	**26,694,935**	21,284,643	**75,131,862**	58,726,624
Gross profit before depreciation and amortization	**5,793,701**	5,060,641	**16,461,107**	14,186,305
Gross profit before depreciation and amortization (%)	**21.7%**	23.8%	**21.9%**	24.2%
Operating expenses	**1,097,614**	523,721	**2,984,007**	1,448,128
Selling expenses	**2,091,069**	1,975,348	**5,946,817**	5,186,872
Administrative expenses	**1,712,460**	2,307,189	**4,815,143**	6,127,690
Research and development expenses	**-**	16,075	**8,685**	131,319
Net loss	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Basic and diluted loss per share	**(0.000)**	(0.034)	**(0.061)**	(0.100)
Adjusted EBITDA[a]	**1,078,489**	411,737	**3,024,833**	1,850,377
Adjusted EBITDA over revenues (%)	**4.0%**	1.9%	**4.0%**	3.2%

[a] See section on "Non-IFRS Financial Measurement".

(1) The adjusted results disclosed in this MD&A represent the results that should have been recorded in the financial statements for the nine-month period ended March 31, 2017, with the acquisition of Utility Partners dated July 26, 2016, based on the audited financial results for fiscal year 2017. They have been adjusted to include only eight months of Utility Partners' operations.

NON-IFRS FINANCIAL MEASUREMENT

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA)" and "Net debt" are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.

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

Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

RECONCILIATION OF AJDUSTED EBITDA TO NET LOSS

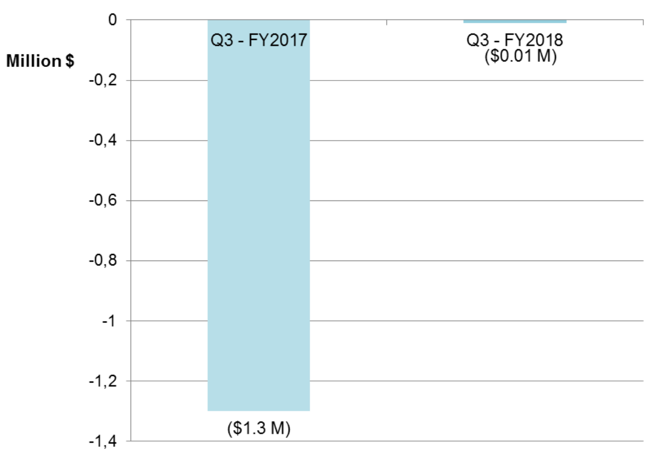
for the three-month and nine-month periods ended March 31, 2018 and 2017

Adjusted EBITDA

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted)
	$	$	**$**	$
Net loss for the period	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Finance costs – net	**75,976**	328,485	**900,551**	984,780
Income taxes	**(124,234)**	(189,262)	**914,482**	(580,855)
Depreciation of property, plant and equipment	**257,705**	191,850	**807,913**	548,314
Amortization of intangible assets	**729,354**	1,272,620	**2,095,023**	2,641,215
Unrealized exchange (gains) / losses	**(34,647)**	(59,586)	**(107,781)**	118,282
Acquisition and integration costs	**-**	45,867	**80,875**	1,066,696
Stock-based compensation costs	**105,934**	167,458	**332,321**	460,069
Net loss on bank fraud	**80,000**	-	**443,364**	-
Adjusted EBITDA	**1,078,489**	411,737	**3,024,833**	1,850,377

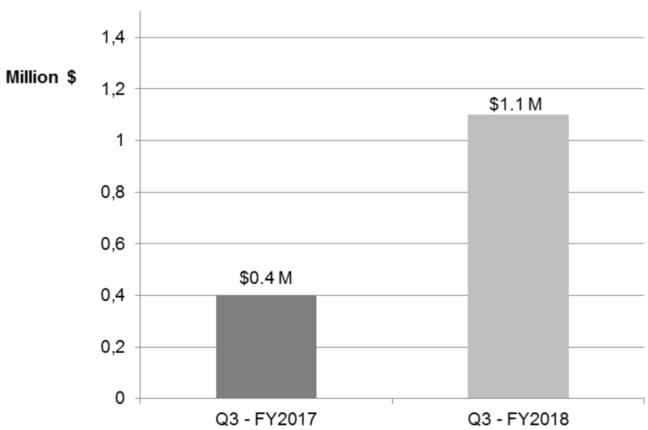
FINANCIAL RESULTS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017

Net Loss



- The net loss decreased by $1.3 M, or 99.1%, to reach ($0.01 M) during the third quarter of fiscal year 2018, from a net loss of ($1.3 M) for the comparable quarter of the previous fiscal year;
- The improvement of the net loss is driven by a sustained revenue growth of 25.4%, while the selling, general and administrative expenses (SG&A) remained stable;
- The net loss for the three-month period ended March 31, 2018 is also improved by a non-recurring adjustment of $0.3 M related to the insurance premiums with Exportation Développement Canada ("EDC");
- Finally, the net loss is impacted by foreign exchange, as most of the revenues are in U.S. dollars, whereas the administrative expenses are primarily incurred in Canadian dollars. The Canadian dollar appreciation noticed during the quarter affected negatively the net results of the Corporation compared to the same quarter of the previous fiscal year.

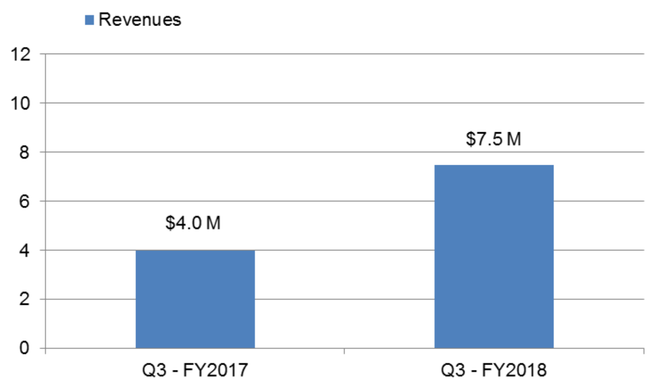
Adjusted EBITDA



- Adjusted EBITDA increased by $0.7 M, or 161.9%, to reach $1.1 M during the third quarter of fiscal year 2018, from $0.4 M for the comparable quarter of fiscal year 2017;
- Improvement of the adjusted EBITDA was driven by the significant increase in revenues of all our business pillars, as well as a decrease of the SG&A as a percentage over revenues;
- Our adjusted EBITDA % improved significantly, reaching 4.0% for the three-month period ended March 31, 2018, compared to 1.9% for the comparable period of the previous fiscal year.

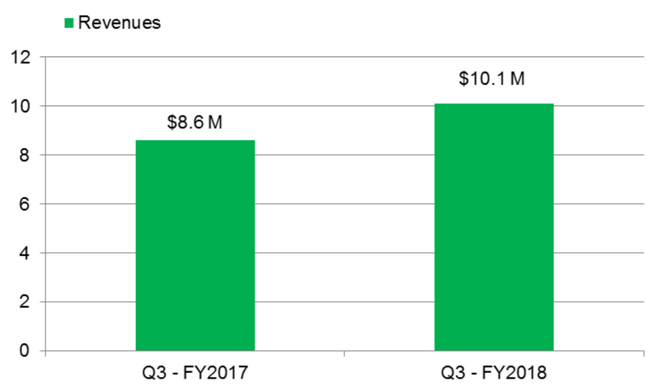
Revenues for the third quarter of fiscal year 2018 increased by $5.4 M or 25.4%, to reach $26.7 M compared to $21.3 M for the third quarter of the previous fiscal year. This increase is fueled by the organic growth of our three business pillars. The Projects business pillar is currently regaining speed after a slowdown in specific projects, which impacted last fiscal year's financial results. More projects are reaching the revenue recognition phase for this quarter compared to the same quarter of fiscal year 2017. SP&S results have been bolstered by the Maple business line, which is showing a faster growth with record results quarter after quarter. The O&M business line is showing a constant growth since the acquisition of Utility Partners, with new projects won and the increase of scope for existing projects supporting this performance. The following tables are illustrating the revenues coming from each of the business pillars.

Projects Business Pillar



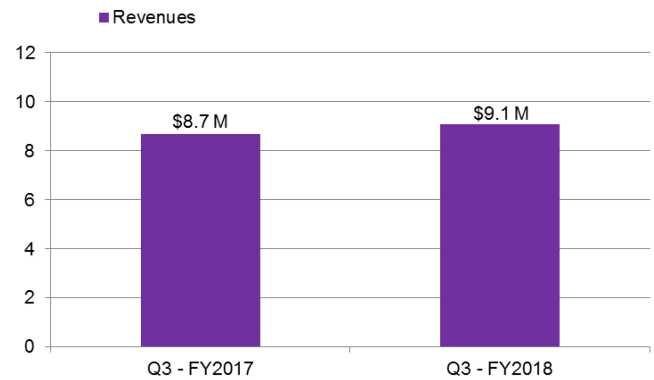
- Projects revenues stood at $7.5 M for the third quarter of fiscal year 2018, compared with $4.0 M for the same quarter of fiscal year 2017, representing a $3.5 M, or 87.7% increase;
- Delayed projects, which led to a slowdown of the Corporation's financial results in fiscal year 2017, have all resumed and are entering into revenue recognition phase;
- One specific project is impacting negatively the financial results, with cost overrun of $0.3 M during the third quarter of fiscal year 2018, due to unexpected delays and costs. Notwithstanding this project, gross profit margin before depreciation would be stable when compared to the same quarter of the previous fiscal year;
- Better portfolio diversification between water and wastewater projects: 24.5% of the projects being wastewater as of March 31, 2018, compared to 16.0% as of March 31, 2017. The wastewater projects are usually characterized by a better gross margin;
- Current pipeline of Projects remains very rich in opportunities, supported by a $55.0 M projects backlog, as of March 31, 2018, compared to $55.7 M for the comparable period of fiscal year 2017.

SP&S Business Pillar



- SP&S revenues stood at $10.1 M for the quarter ended March 31, 2018, from $8.6 M for the comparable quarter of the previous fiscal year, representing a $1.5 M, or 17.0% increase;
- Increase of this business line is boosted by record sales for the Maple activities, showing a 20% increase over the last twelve months;
- Investments have been made in the operating and selling functions to support and fuel the growth of this business line;
- Investments in new products and the addition of new distributors have broadened the existing market and improved our products offering.

O&M Business Pillar



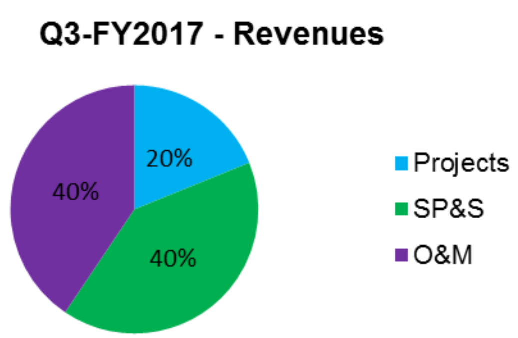
- Recurring revenues of $9.1 M for the third quarter of fiscal year 2018, compared with revenues of $8.7 M for the comparable three-month period of fiscal year 2017, representing a 5.3% increase;
- Notwithstanding the negative impact of $0.4 M due to the appreciation of the Canadian dollar over US dollar, the organic growth would have been 10.1% if compared in US dollar. Compared in US dollars, the O&M business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts increasing our backlog. For the O&M business pillar, the backlog is translating into revenues steadily over the period of the contract;
- The continuous growth of the O&M business pillar is explained by three factors :
  - Addition of a new contract in Texas, which started in January 2018;
  - Scope expansion in some of the existing projects;
  - Consumer price index ("CPI") adjustments on some of the existing projects;
- Our backlog for the O&M business line stands at $68.1 M as at March 31, 2018, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. Backlog as at March 31, 2017 stood at $60.4 M, representing a 12.7% increase over a twelve-month period;
- The growth of this business pillar is expected to continue, with the addition of a new O&M contract in Canada which started on April 1, 2018.

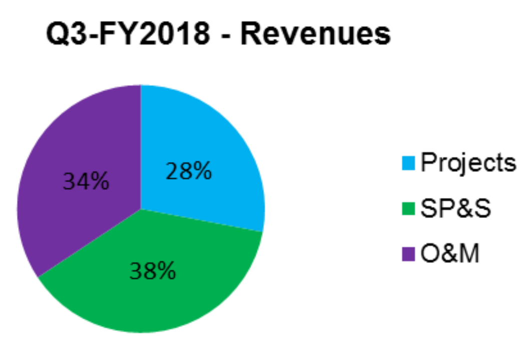
Revenues on a Quarterly Basis

	FY2018			FY2017				Last twelve months	Previous twelve months
	Q1	**Q2**	**Q3**	Q1 (adjusted)	Q2	Q3	Q4	**(Q4 FY2017 & Q1, Q2, Q3 FY2018)**	**(Q4 FY2016 & Q1, Q2, Q3 FY2017)**
Revenues from Projects business pillar(1)	**$8.2 M**	**$6.6 M**	**$7.5 M**	$5.4 M	$3.4 M	$4.0 M	$7.2 M	**$29.5 M**	$17.9 M
Revenues from SP&S business pillar	**$6.0 M**	**$10.6 M**	**$10.1 M**	$5.9 M	$7.7 M	$8.6 M	$7.3 M	**$34.0 M**	$28.1 M
Revenues from O&M business pillar(2)	**$8.4 M**	**$8.6 M**	**$9.1 M**	$6.2 M (adjusted)	$8.8 M	$8.7 M	$9.6 M	**$35.7 M**	$23.7 M (adjusted)
Total revenues	**$22.6 M**	**$25.8 M**	**$26.7 M**	$17.5 M (adjusted)	$19.9 M	$21.3 M	$24.1 M	**$99.2 M**	$69.7 M (adjusted)

(1) Revenues from Projects vary from quarter to quarter and depend on the different milestones reached for revenues recognition.
(2) During the year-end audit, the acquisition of Utility Partners has been considered effective as of July 26, 2016 (instead of July 1, 2016). Therefore, the revenues of the first quarter of fiscal year 2017 have been adjusted accordingly and only 2 months of Utility Partners' operations are recorded in revenues for Q1 2017.

Business mix on revenues and growth strategies





$21.3 M **$26.7 M**

Our business model is allowing us to deliver improved results, and the Corporation can identify benefits of it through all three (3) business pillars. H_2O Innovation has captured multiple cross-selling opportunities between O&M and SP&S business pillars, generated by Utility Partners' existing contracts. The Corporation, through Utility Partners, has secured new O&M projects, using the support of the Projects and SP&S resources.

New territories are opening to the O&M business line, with contracts won in Western Canada and Texas. These are potentially high growth territories, where the O&M activities were not yet established. This will also create the synergies with the Projects and SP&S business pillars, as they are already active in these geographic markets. New contracts have also been won in the State of New-York, with the Corporation providing both the MBR wastewater equipment and O&M services to the same plants.

This quarter is also characterized by the significant increase of the Projects business pillar revenues, with all the projects that were delayed in the previous quarters resuming and entering the revenue recognition phase. The gross profit margin before depreciation of the Projects business is also starting to improve, with a more diversified portfolio mix between water and wastewater projects, as well as municipal and industrial projects.

With three strong business pillars, the Corporation is very well balanced and not dependant on a single source of revenues. As revenues coming from the SP&S and O&M business pillars are recurring in nature, the strategy to grow these two business pillars is proving to be efficient since it reduces revenue volatility associated with the Projects business pillar and thus increases predictability in the Corporation's business model.

For the third quarter ended March 31, 2018, recurring revenues represented 72.1% of the Corporation's total revenues. The SP&S and O&M activities also reinforce long-term relationships with Projects customers, which support the decision to invest in business development and growth of these pillars. The Corporation has a platform to capture cross-selling opportunities, where one pillar will feed the others. All together, these three business pillars provide a unique and accountable business model to better serve our existing and future customers.

At the end of the third quarter of fiscal year 2018, the consolidated backlog stood at $123.1 M compared to $116.1 M in the same quarter of the previous fiscal year, delivering organic growth of 6.0%. The acquisition of Utility Partners during the first quarter of fiscal year 2017 boosted the backlog, and the Corporation was able to secure new O&M and Projects contracts, reinforcing the design-build-operate ("DBO") model. The business model developed over the past years is also translating into a healthy backlog, well balanced between O&M contracts and Projects contracts.

EXPENSES

For the three-month periods ended March 31, 2018 and 2017

	Q3 FY2018(2)	Q3 FY2017(2)	Variance	Significant contributions to variance
Gross Profit Margin(3)	**$5.8 M** 21.7%	**$5.1 M** 23.8%	**+ $0.7 M**	The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenue of all the business lines for the quarter ended March 31, 2018, compared to the previous comparable quarter. However, the gross profit margin % before depreciation and amortization is showing a decrease, explained by the business mix; more revenues coming from Projects and O&M, which are characterized by a lower gross margin % before depreciation and amortization.
Operating Expenses(3)	**$1.1 M** 4.1%	**$0.5 M** 2.5%	**+ $0.6 M**	This increase of $0.6 M is partly due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating ($0.2 M). This classification was not performed during the third quarter of fiscal year 2017, following the acquisition. The remaining balance of the increase is due to the hirings associated with the development of new products, investments to improve our logistic and supply chain activities and to support the increasing volume of operation.
Selling Expenses(3)	**$2.1 M** 7.9%	**$2.0 M** 9.3%	**+ $0.1 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The $0.1 M or 5.9% increase of the selling expenses is mostly due to a reclass of Utility Partners' expenses, from the administrative expenses to the selling expenses ($0.2 M). This classification was not performed during the third quarter of fiscal year 2017, following the acquisition.
Administrative Expenses(3)	**$1.7 M** 6.4%	**$2.3 M** 10.8%	**- $0.6 M**	The decrease of $0.6 M or 25.8% is due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating ($0.2 M) and selling expenses ($0.2 M). This classification was not performed during the third quarter of fiscal year 2017, following the acquisition. The remaining balance of the decrease is due to a tight management of the expenses, as the Corporation's revenues are growing, without impacting the costs proportionally.
SG&A(1) (3)	**$4.9 M** 18.4%	**$4.8 M** 22.6%	**+ $0.1 M**	This decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses.

(1) Selling, General & Administrative Expenses (SG&A) represent the total of the operating, selling and administrative expenses described in the table above.
(2) Percentage (%) of expenses over revenues.
(3) Depreciation and amortization expenses are excluded of these results.

Other (gains) losses – net

Other (gains)/losses – net were stable, amounting to ($34,644) for the three-month periods ended March 31, 2018 and ($65,557) for the three-month periods ended March 31, 2017. Other (gains)/losses for the third quarter consist mainly of foreign exchange gains.

Finance costs – net

Finance costs – net decreased to $0.1 M for the period ended March 31, 2018 compared to $0.3 M for the comparable period of the previous fiscal year. The decrease is partly due to a non-recurring reimbursement of $0.3 M of insurance premiums with Exportation and Development Canada ("EDC"), due to an adjustment of the agreement with the insurer. Without this $0.3 M adjustment, the finance costs – net would present an increase of $0.1 M, from $0.3 M for the three-month period ended March 31, 2017 to reach $0.4 M during this quarter. This increase is explained by the increased use of the bank loans during the quarter, to finance the operations of the Corporation.

In order to mitigate its credit risk and increase its bank loans usage capacity, the Corporation insures a portion of its accounts receivable through the insurance coverage of Exportation and Development Canada ("EDC"). The Corporation has given direction to pay all insurance proceeds to the bank. The insurance premiums are recorded in finance costs.

Net loss

The net loss amounted to ($11,599) or ($0.00) per share for the third quarter of fiscal year 2018 compared with a net loss of ($1.3 M) or ($0.034) per share for the third quarter of fiscal year 2017. The net loss improvement is mostly due to sales volume increase and tight management of expenses.

Commitments

The Corporation has entered into long-term lease agreements expiring between 2018 and 2024 which call for lease payments of $6.8 M for the rental of space and supply agreements. The minimum annual payments over the next five years are $2.0 M in 2019, $1.4 M in 2020, $1.4 M in 2021, $1.1 M in 2022 and $0.7 M in 2023.

Information on share capital

As at March 31, 2018, the Corporation had 40,144,214 outstanding common shares and 2,565,334 stock options.

FINANCIAL SITUATION

Periods ended	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	$	$	$	$
Revenues (LTM[1] basis)	**99,169,746**	93,759,454	87,898,356	82,764,508
Accounts receivable	**14,358,697**	17,079,683	16,206,936	13,210,475
Accounts payable	**12,964,366**	11,596,013	14,203,226	12,683,815
Inventories	**6,224,382**	6,202,543	6,140,510	4,917,592

As at March 31, 2018 accounts receivable stood at $14.4 M compared with $13.2 M as at June 30, 2017. The increase of $1.2 M, or 8.7%, is partly attributable to invoicing milestone reached in Projects before the end of the period and the increase in revenue level during the quarter. The increase in accounts receivable explains partially the increase in bank loans, as there is a delay between the cash receipts and the use for operations.

Inventories increased by $1.3 M, or 26.6%, to reach $6.2 M as at March 31, 2018, from $4.9 M as at June 30, 2017. This increase is due to the increase of sales, to support the growing demand for all the business lines, but notably for the Maple activities, for which inventories often need to be on hand. The increase of inventory level also has an impact on the use of the bank loans, as the Corporation need to build up the inventory.

Accounts payable and accrued liabilities were somewhat stable, with a slight increase of $0.3 M, or 2.2%, to $13.0 M as at March 31, 2018, from $12.7 M as at June 30, 2017. The increase is mainly due to the timing of the projects for the period ended March 31, 2018, compared with the period ended June 30, 2017, during which some projects have reached the manufacturing stage, as the equipment is being assembled and for which suppliers are involved.

Periods ended	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	$	**$**	$	$
Costs incurred in excess of billings	**7,664,867**	5,063,962	7,623,076	5,567,267
Billings in excess of costs incurred	**1,963,137**	2,608,393	2,601,593	1,190,909
Work in progress	**5,701,730**	2,455,569	5,021,483	4,376,358

Costs incurred in excess of billings increased by $2.1 M, or 37.7%, to $7.7 M as at March 31, 2018 from $5.6 M as at June 30, 2017, generated by differences between project advancement and project invoicing schedules from one project to the other. Billings in excess of costs incurred increased by $0.8 M, or 64.8% to $2.0 M as at March 31, 2018, from $1.2 M as at June 30, 2017. This increase is also attributable to differences between project advancement and project invoicing schedules. The increase in costs incurred in excess of billings explains partially the increase in bank loans, as there is a delay between the invoicing milestones and the use of financial resources for operations.

As a result, the working capital decreased from $9.0 M as at June 30, 2017 (current ratio of 1.42) to $7.8 M as at March 31, 2018 (current ratio of 1.30).

Periods ended (in Canadian dollars, except for ratio)	March 31, 2018	June 30, 2017
	$	$
Working capital	**7,760,940**	8,992,617
Working capital ratio	**1.30**	1.42
Net debt[(2)]	**14,433,110**	12,591,228
Equity	**40,935,138**	43,302,883
Net debt to equity ratio	**0.35**	0.29

For the nine-month period ended March 31, 2018, shareholders' equity decreased by $2.4 M to $40.9 M ($43.3 M as at June 30, 2017). The elements impacting the shareholders' equity in the third quarter of fiscal year 2018 are: 1) the $2.4 M net loss for the nine-month period ended March 31, 2018; 2) the $0.3 M increase in stock option due to the stock-based compensation costs and subdued by; 3) the Canadian dollar's fluctuation generating an unrealized exchange gain of $0.3 M resulting from the currency translation of foreign operations, mainly those of the U.S. subsidiaries.

(1) Revenues presented on a last twelve months basis

(2) Net debt comprises bank overdraft, bank loans and long-term debt, net of cash and cash equivalents and a guaranteed deposit certificate securing the debt.

Net Debt

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

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

Periods ended	**March 31, 2018**	June 30, 2017
	$	$
Bank overdraft	**50,230**	184,120
Bank loans	**7,775,005**	5,092,607
Current portion of long-term debt	**3,150,535**	2,036,151
Long-term debt	**7,950,848**	9,148,953
Less: Cash and cash equivalents	**(3,493,508)**	(3,870,603)
Less: Guaranteed deposit certificate	**(1,000,000)**	-
Net debt	**14,433,110**	12,591,228

During the second quarter, a loan of $1.0 M was contracted by the Corporation, which is secured by a guaranteed deposit certificate of the same amount. At the expiration date of the guaranteed deposit certificate, the bank will use the cash from the collateral to reimburse the loan in its entirety. Considering that, management has elected to remove from the net debt calculation the specific guaranteed deposit certificate securing the loan of $1.0 M, included in the current portion of long-term debt.

The net debt increased to reach $14.4 M as at March 31, 2018, from $12.6 M as at June 30, 2017. This increase is mainly attributable to the increase of the bank loans of $2.7 M. The bank loans were used by the Corporation to support the Projects business pillar, with significant projects being in the manufacturing phases, the investment in inventories and capital expenditure for the period. The liquidity of the Corporation was also affected by the financial loss caused by a fraud perpetrated by an external party during the first quarter of fiscal year 2018.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2018, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.9 M which expire at various dates through fiscal year 2022. Of these letters of credit, $1.8 M is secured by Exportation Development Canada ("EDC").

CAPITAL MANAGEMENT

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

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

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

Credit facility and long-term debt arrangements require that the Corporation meet the following financial ratios:

- Working capital ratio, defined as current assets divided by current liabilities, greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity, less than or equal to 3.25:1.00; 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 March 31, 2018, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements, except for the fixed charge coverage for which it received a waiver from the lenders. Given the incremental growth in our Project activities, the credit facility needs to be increased to support the Corporation's growth. Management is currently actively in discussions with its current banking and financial partners to renegotiate its credit facility. While there can be no assurance of the success of these initiatives, the Corporation believes that it will be able to obtain new credit facility terms from its lenders.

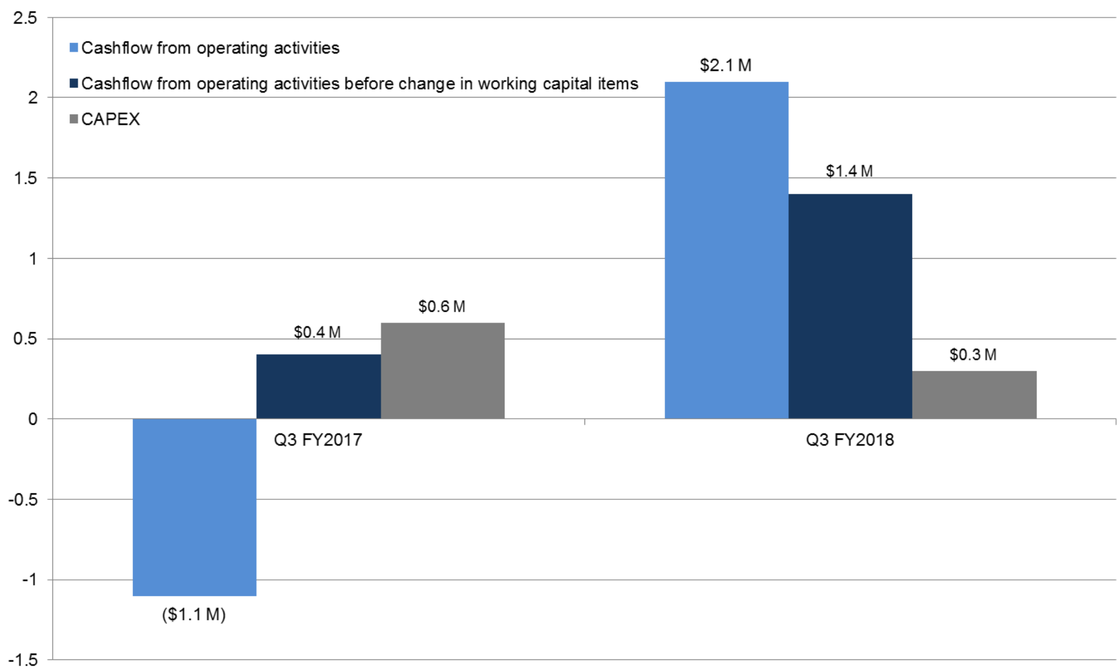
CASH FLOWS AND CAPITAL EXPENDITURE

A comparison of the Corporation's cash flows for the three-month and nine-month periods ended March 31, 2018 and March 31, 2017 is presented below:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cash flows from operating activities	**2,124,159**	(1,135,127)	**(234,664)**	(1,713,808)
Cash flows from investing activities	**(622,781)**	(1,514,571)	**(1,393,829)**	(27,059,074)
Cash flows from financing activities	**(1,240,488)**	(794,534)	**1,378,563**	28,200,971
Effect of exchange rate changes on the balance of cash held in foreign currencies	**129,726**	66,799	**6,725**	102,587
Net change	**390,616**	(3,377,433)	**(243,205)**	(469,324)
Cash and cash equivalents – Beginning of year	**3,052,662**	5,439,770	**3,686,483**	2,531,661
Cash and cash equivalents – End of year	**3,443,278**	2,062,337	**3,443,278**	2,062,337

Cash flows from operating activities

Operating activities generated $2.1 M in cash for the three-month period ended March 31, 2018, compared to ($1.1 M) of cash used for the comparable quarter ended March 31, 2017. This improvement of the cash flows from operating activities is a reflection of the revenue growth and a better management of the resources.



Cash flows from investing activities

For the third quarter of fiscal year 2018, investing activities used net cash of ($0.6 M) compared to ($1.5 M) used in investing activities for the comparable period of the previous fiscal year. This quarter's investments are mainly attributable to the acquisition of property, plant and equipment of $0.3 M and to investments in intangible assets of $0.3 M. The significant level of cash used in investing activities for the comparable period is mainly attributable to the business combination of Utility Partners in fiscal year 2017 and the related working capital adjustment paid for the acquisition.

Cash flows from financing activities

Financing activities used net cash of ($1.2 M) in the third quarter of fiscal year 2018 compared with ($0.8 M) of net cash used during the corresponding period ended March 31, 2017. During this quarter, the Corporation reimbursed $0.7 M of long-term debt. The use of the bank loans increased during the quarter, with a $0.2 M increase for the three-month period ended March 31, 2018. Interest paid during the third quarter of fiscal year 2018 amounted to $0.4 M.

QUARTERLY SUMMARY FINANCIAL INFORMATION (UNAUDITED)

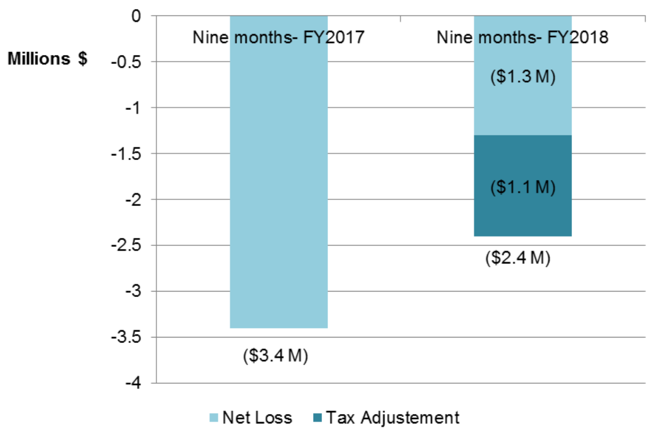
	Three-month periods ended				
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**Last twelve months**
	$	$	$	$	**$**
Revenues	**26,694,935**	25,818,929	22,617,998	24,037,884	**99,169,746**
Adjusted EBITDA	**1,078,489**	1,358,281	588,063	(20,486)	**3,004,347**
Adjusted EBITDA over revenues	**4.0%**	5.3%	2.6%	(0.1%)	**3.0%**
Net loss	**(11,599)**	(1,340,441)	(1,089,875)	(1,742,862)	**(4,184,777)**
Basic and diluted loss per share	**(0.000)**	(0.033)	(0.027)	(0.045)	**(0.104)**
Cash flows from (used in) operating activities	**2,124,159**	615,871	(2,974,694)	3,521,086	**3,286,422**

	Three-month periods ended				
	March 31, 2017	**December 31, 2016**	**September 30, 2016** (adjusted)	**June 30, 2016**	**Last twelve months**
	$	$	$	$	**$**
Revenues	21,284,643	19,957,831	17,484,150	11,042,913	**69,769,537**
Adjusted EBITDA	411,737	809,625	629,015	157,330	**2,007,707**
Adjusted EBITDA over revenues	1.9%	4.1%	3.6%	1.4%	**2.9%**
Net loss	(1,345,695)	(1,093,270)	(949,159)	(714,003)	**(4,102,127)**
Basic and diluted loss per share	(0.034)	(0.027)	(0.024)	(0.034)	**(0.12)**
Cash flows from (used in) operating activities	(1,135,127)	1,083,117	(1,661,798)	3,045,440	**1,331,632**

The significant growth of the Corporation and the scalability of the business model over the past year are clearly shown when comparing both twelve months period. Revenues for the last twelve months show an increase of 42.1% compared to the previous twelve months period, evidenced of the organic and acquisition growth.

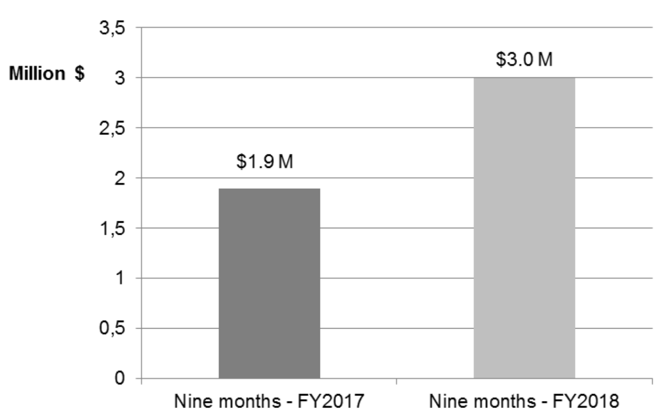
FINANCIAL RESULTS FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2018 AND 2017

Net Loss



- The net loss decreased by $1.0 M, or 27.9%, to reach ($2.4 M) during the nine-month period ended March 31, 2018, from a net loss of ($3.4 M) for the comparable period of the previous fiscal year;
- The net loss is impacted by the Corporation's general performance improvement, notably the significant increase in revenue and a better management of the resources;
- The net loss is also significantly impacted by the Tax Cuts and Jobs Act, a tax legislation reducing the federal tax rate enacted by the U.S. government during the second quarter of fiscal year 2018, leading to an additional deferred tax expense of $1.1 M for this period. Without the $1.1 M impact from the new U.S. tax legislation, net loss would have been ($1.3 M);
- Finally, the net loss is also impacted by foreign exchange, as most of the revenues are in U.S. dollars, whereas the administrative expenses are primarily incurred in Canadian dollars. The Canadian dollar appreciation noticed during the quarter affected negatively the net results of the Corporation compared to the same period of the previous fiscal year.

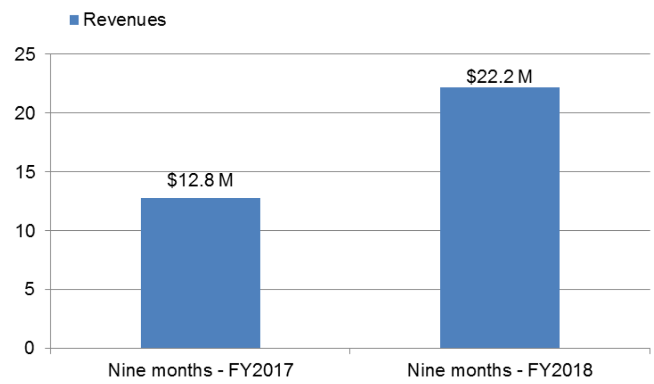
Adjusted EBITDA



- Adjusted EBITDA increased by $1.1 M, or 63.5%, to reach $3.0 M for the nine-month period ended March 31, 2018, from $1.9 M for the comparable period of fiscal year 2017;
- Improvement of the adjusted EBITDA was driven by the significant increase in revenues of all our business pillars, as well as a decrease of the SG&A as a percentage over revenues;
- Our adjusted EBITDA % improved significantly, reaching 4.0% for the nine-month period ended March 31, 2018, compared to 3.2% for the comparable period of the previous fiscal year;

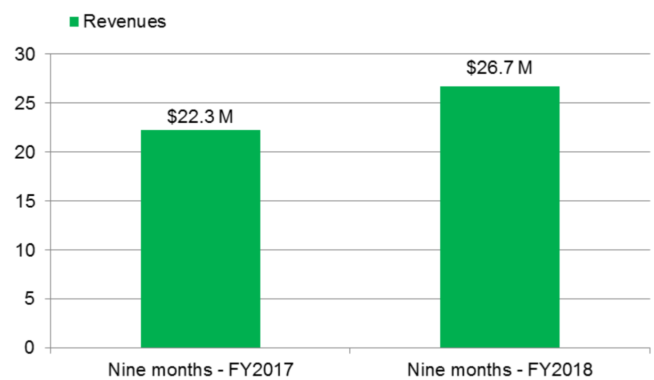
Revenues for the nine-month period ended March 31, 2018 increased by $16.4 M or 27.9%, to reach $75.1 M compared to $58.7 M for the comparable period of the previous fiscal year. This increase is fueled by the organic growth of the three business pillars. The Projects business pillar is currently regaining speed after a slowdown in specific projects, which impacted last fiscal year's financial results. SP&S results have been bolstered by the Maple business line, which is showing a faster growth with record results. The following tables are illustrating the revenues coming from each business pillars.

Projects Business Pillar



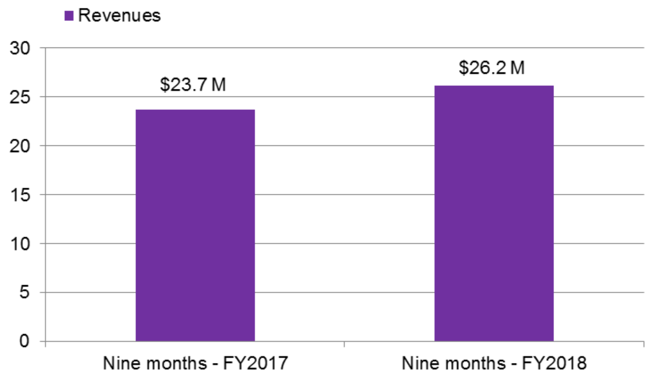
- Projects revenues stood at $22.2 M for the nine-month period ended on March 31, 2018, compared with $12.8 M for the same period of fiscal year 2017, representing a $9.4 M, or 73.6% increase;
- Delayed projects, which led to a slowdown of the Corporation's financial results in fiscal year 2017, have all resumed and are entering into revenue recognition phase;
- One specific project is impacting negatively the financial result, with cost overrun of $0.4 M during the nine-month period ended March 31, 2018, due to unexpected delays and costs. Notwithstanding this project, gross profit margin before depreciation would be stable when compared to the same period of the previous fiscal year;
- Better portfolio diversification between water and wastewater projects: 24.5% of the projects being wastewater as of March 31, 2018, compared to 16.0% as of March 31, 2017, having a positive impact on the gross margin before depreciation and amortization.

SP&S Business Pillar



- 19.9% increase in SP&S revenues, standing at $26.7 M for the nine-month period ended on March 31, 2018, from $22.3 M for the comparable quarter of the previous fiscal year;
- Record sales for the Maple business line, showing a 20% increase over the last twelve months;
- Investments have been made in the operating and selling functions to support and fuel the growth of this business line;
- Investments in new products and the addition of new distributors have broadened the existing market and improved our products offering;
- First significant project signed for the filter housing product line, to position ourselves and obtain references.

O&M Business Pillar



- Recurring revenues of $26.2 M for the nine-month period ended on March 31, 2018, compared with revenues of $23.7 M for the comparable nine-month period of fiscal year 2017, representing a 10.8% increase;
- Notwithstanding the negative impact of $1.2 M due to the appreciation of the Canadian dollar over US dollar, the organic growth would have been 15.7% if compared in US dollar. Compared in US dollars, the O&M business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts increasing our backlog. For the O&M business pillar, the backlog is translating into revenues steadily over the period of the contract;
- All contracts expiring during the year following the acquisition have been renewed successfully. Five new O&M contracts have been added since the acquisition of Utility Partners, showing a successful integration and sustained organic growth;
- Large-scale operation and maintenance contract won in Western Canada, representing the first contract for this business line in Canada. This contract will translate into revenues during the fourth quarter.

EXPENSES

For the nine-month periods ended March 31, 2018 and 2017

	Nine-month period ended March 31, 2018[2]	Nine-month period ended March 31, 2017[2]	Variance	Significant contributions to variance
Gross Profit Margin[3]	**$16.5 M** 21.9%	**$14.2 M** 24.2%	**+ $2.3 M**	The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenue, of all the business line for this nine-month period ended March 31, 2018, compared to the previous comparable period. The gross profit margin before depreciation and amortization % decreased, due to a change in the revenue mix, although increasing predictability of the Corporation's results.
Operating Expenses[3]	**$3.0 M** 4.0%	**$1.4 M** 2.4%	**+ $1.6 M**	This increase of $1.6 M is partly due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating expenses ($0.5 M). This classification was not performed during the nine-month period ended on March 31, 2017, following the acquisition. The remaining balance of the increase is due to the hirings associated with the development of new products, investments to improve our logistic and supply chain activities and to support the increasing volume of operation.
Selling Expenses[3]	**$6.0 M** 7.9%	**$5.2 M** 8.5%	**+ $0.8 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The $0.8 M or 14.7% increase of the selling expenses is mostly due to a reclass of Utility Partners' expenses, from the administrative expenses to selling expenses ($0.6 M). This classification was not performed during the nine-month period ended March 31, 2017, following the acquisition. The remaining balance of the increase is in line with the increase of revenues, generating more commissions. Selling expenses were also impacted by the addition of sales resources to develop new geographic markets and support the future growth.
Administrative Expenses[3]	**$4.8 M** 6.4%	**$6.1 M** 10.0%	**- $1.3 M**	The decrease of $1.3 M or 19.1% is due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating ($0.5 M) and selling expenses ($0.6 M). This classification was not performed during the nine-month period ended on March 31, 2017, following the acquisition.
SG&A[1][3]	**$13.7 M** 18.3%	**$12.8 M** 21.7%	**+ $0.9 M**	This decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the SG&A expenses.

(1) Selling, General & Administrative Expenses (SG&A) represent the total of the operating, selling and administrative expenses described in the table above.
(2) Percentage (%) of expenses over revenues.
(3) Depreciation and amortization expenses are excluded of these results.

Other (gains) losses – net

Other (gains) losses – net increased, amounting to \$0.3 M for the nine-month periods ended March 31, 2018, compared to \$0.02 M for the comparable period. This increase is mostly due to a net loss of \$0.4 M due to an external fraud perpetrated through the Corporation's banking online platform during the first quarter of fiscal year 2018.

Finance costs – net

Finance costs – net decreased, to \$0.9 M for the nine-month period ended March 31, 2018 compared to \$1.0 M for the comparable period of the previous fiscal year. The decrease is due to a non-recurring reimbursement of \$0.3 M of insurance premiums with Exportation and Development Canada ("EDC"), due to an adjustment of the agreement with the insurer. Without this \$0.3 M adjustment, the finance costs – net would present an increase of \$0.2 M, from \$1.0 M for the nine-month period ended March 31, 2017 to reach \$1.2 M during the current period. This increase is explained by the increased use of the bank loans during the period, to finance the operations of the Corporation.

In order to mitigate its credit risk and increase its bank loans usage capacity, the Corporation insures a portion of its accounts receivable through the insurance coverage of Exportation and Development Canada ("EDC"). The Corporation has given direction to pay all insurance proceeds to the bank. The insurance premiums are recorded in finance costs.

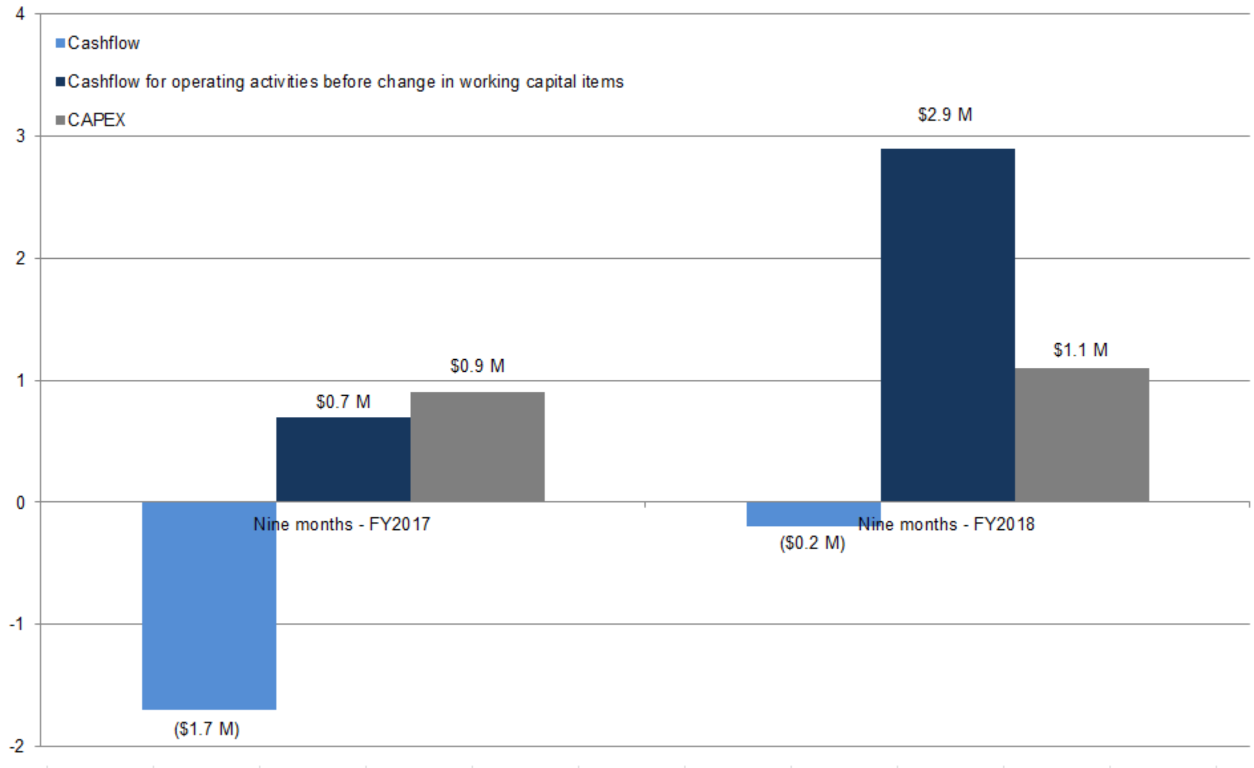
Net loss

The net loss amounted to (\$2.4 M) or (\$0.061) per share for the nine-month period ended March 31, 2018 compared with a net loss of (\$3.4 M) or (\$0.100) per share for the nine-month period ended March 31, 2017. The net loss is partly caused by a new tax legislation from the U.S. government. During the nine-month period ended March 31, 2018, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35 to 21 percent. This is the only significant change impacting the Corporation, with a \$1.1 M negative impact on the net loss. The Corporation's results were also impacted by an external fraud that occurred during the first quarter of fiscal year 2018, causing a net loss of (\$0.4 M). Without the \$1.1 M impact from the new U.S. tax legislation and the \$0.4 M impact from the fraud, the net loss would have been (\$0.9 M), or (\$0.02), showing the internal growth and the control of expenses.

CASH FLOWS AND CAPITAL EXPENDITURE

Cash flows from operating activities

Operating activities used ($0.2 M) in cash for the nine-month period ended March 31, 2018, compared to ($1.7 M) of net cash used for the comparable period ended March 31, 2017. This improvement of the cash flows from operating activities is a reflection of the revenue growth and a better management of the resources.



Cash flows from investing activities

For the nine-month period ended March 31, 2018, investing activities used net cash of ($1.4 M), compared to ($27.1 M) used in investing activities for the comparable period of the previous fiscal year. This year investments are mainly attributable to the acquisition of property, plant and equipment of $1.1 M and to investments in intangible assets of $0.5 M. The significant level of cash used in investing activities for the comparable period is mainly attributable to the business combination of Utility Partners in fiscal year 2017 and the related working capital adjustment paid for the acquisition.

Cash flows from financing activities

Financing activities generated net cash of $1.4 M for the nine-month period ended March 31, 2018 compared with $28.2 M of net cash generated during the corresponding period ended March 31, 2017. During the nine-month period ended March 31, 2018, the Corporation contracted $1.6 M of long-term debt and reimbursed $1.7 M of long-term debt. The use of bank loans increased by $2.7 M for the nine-month period ended March 31, 2018. Interest paid during the nine-month period ended March 31, 2018 amounted to $1.2 M. The significant level of cash generated by financing activities for the comparable period of fiscal year 2017 was due to the financing for the acquisition of Utility Partners.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in note 3 to the consolidated financial statements as at June 30, 2017.

CONTROLS AND PROCEDURES

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

Disclosure controls and procedures ("DC&P")

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

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

An evaluation was carried out, under the supervision of the CEO and the CFO of the effectiveness of the Corporation's disclosure controls and procedures. Following such evaluation, the management concluded that one of the disclosure controls and procedures was not effective by using the criteria set forth by NI 52-109, as further explained in the paragraph below.

Internal controls over financial reporting ("ICFR")

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commission 2013* (COSO 2013) on Internal Control – Integrated Framework. The work performed allows us to conclude that the internal controls over financial reporting are effective for the period ended March 31, 2018.

Changes in internal controls over financial reporting

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

March 31, 2018

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

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

As at	March 31, 2018	June 30, 2017
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**3,493,508**	3,870,603
Guaranteed deposit certificates	**1,313,483**	1,371,591
Accounts receivable (note 4)	**14,358,697**	13,210,475
Inventories (note 5)	**6,224,382**	4,917,592
Costs incurred in excess of billings	**7,664,867**	5,567,267
Prepaid expenses	**996,528**	1,449,007
	34,051,465	30,386,535
Non-current assets		
Property, plant and equipment	**4,446,373**	4,167,162
Intangible assets	**18,698,448**	20,419,906
Other assets	**398,055**	563,564
Related party loans receivable (note 16 a)	**1,250,000**	1,250,000
Goodwill (note 3)	**14,209,256**	14,300,722
Deferred income tax assets	**2,268,034**	3,082,941
	75,321,631	74,170,830
LIABILITIES		
Current liabilities		
Bank overdraft	**50,230**	184,120
Bank loans (note 6)	**7,775,005**	5,092,607
Accounts payable and accrued liabilities (note 7)	**12,964,366**	12,683,815
Provisions (note 8)	**131,681**	151,718
Billings in excess of costs incurred	**1,963,137**	1,190,909
Income taxes payable	**24,376**	53,930
Deferred rent	**-**	668
Contingent consideration (note 10)	**231,195**	-
Current portion of long-term debt (note 9)	**3,150,535**	2,036,151
	26,290,525	21,393,918
Non-current liabilities		
Long-term debt (note 9)	**7,950,848**	9,148,953
Deferred rent	**145,120**	92,392
Contingent consideration (note 10)	**-**	232,683
	34,386,493	30,867,946
SHAREHOLDERS' EQUITY		
Share capital (note 11)	**76,918,285**	76,918,285
Reserve - Stock options (note 11)	**2,836,226**	2,503,905
Deficit	**(40,741,344)**	(38,299,429)
Accumulated other comprehensive income	**1,921,971**	2,180,123
	40,935,138	43,302,884
	75,321,631	74,170,830

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

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Philippe Gervais
Chairman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine-month periods ended March 31, 2018 and 2017
(Unaudited)

	Common shares (Number) (note 11)	Share capital (note 11)	Stock option (note 11)	Deficit	Accumulated other comprehensive income (loss) – Translation adjustment	Total
		$	$	$	$	$
Balance as at July 1, 2016	20,926,551	55,298,945	1,876,379	(33,168,443)	2,587,297	26,594,178
Issuance of common shares under private placement (notes 3 and 11)	19,217,663	23,061,196	-	-	-	23,061,196
Share issue expenses (notes 3 and 11)	-	(1,441,856)	-	-	-	(1,441,856)
Stock-based compensation costs (note 11)	-	-	460,069	-	-	460,069
Net loss for the period (Adjusted, note 3)	-	-	-	(3,388,124)	-	(3,388,124)
Other comprehensive income – Currency translation adjustments	-	-	-	-	754,576	754,576
Balance as at March 31, 2017 (Adjusted, note 3)	40,144,214	76,918,285	2,336,448	(36,556,567)	3,341,873	46,040,039
Balance as at July 1, 2017	**40,144,214**	**76,918,285**	**2,503,905**	**(38,299,429)**	**2,180,123**	**43,302,884**
Stock-based compensation costs (note 11)	**-**	**-**	**332,321**	**-**	**-**	**332,321**
Net loss for the period	**-**	**-**	**-**	**(2,441,915)**	**-**	**(2,441,915)**
Other comprehensive loss – Currency translation adjustments	**-**	**-**	**-**	**-**	**(258,152)**	**(258,152)**
Balance as at March 31, 2018	**40,144,214**	**76,918,285**	**2,836,226**	**(40,741,344)**	**1,921,971**	**40,935,138**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
For the three-month and nine-month periods ended March 31, 2018 and 2017
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017 (Adjusted, note 3)
	$	$	**$**	$
Revenues (note 15)	**26,694,935**	21,284,643	**75,131,862**	58,726,624
Cost of goods sold (note 12 a)	**20,901,234**	16,224,002	**58,670,755**	44,540,319
Gross profit before depreciation and amortization	**5,793,701**	5,060,641	**16,461,107**	14,186,305
Operating expenses (note 12 a)	**1,097,614**	523,721	**2,984,007**	1,448,128
Selling expenses (note 12 a)	**2,091,069**	1,975,348	**5,946,817**	5,186,872
Administrative expenses (note 12 a)	**1,712,460**	2,307,189	**4,815,143**	6,127,690
Research and development expenses (note 12 c)	**-**	16,075	**8,685**	131,319
Depreciation of property, plant and equipment (note 12 b)	**257,705**	191,850	**807,913**	548,314
Amortization of intangible assets (note 12 b)	**729,354**	1,272,620	**2,095,023**	2,641,215
Other (gains) losses – net (note 12 d)	**(34,644)**	(65,557)	**349,526**	20,270
Operating costs total	**5,853,558**	6,221,246	**17,007,114**	16,103,808
Operating loss	**(59,857)**	(1,160,605)	**(546,007)**	(1,917,503)
Acquisition-related costs and integration costs (note 3)	**-**	45,867	**80,875**	1,066,696
Finance income (note 16 a)	**(9,736)**	(9,604)	**(30,619)**	(31,531)
Finance costs (note 14 c)	**85,712**	338,089	**931,170**	1,016,311
Finance costs – net	**75,976**	328,485	**900,551**	984,780
	75,976	374,352	**981,426**	2,051,476
Loss before income taxes	**(135,833)**	(1,534,957)	**(1,527,433)**	(3,968,979)
Current income tax expense (benefit)	**(1,358)**	-	**123,502**	11,712
Deferred tax expense (benefit)	**(122,876)**	(189,262)	**790,980**	(592,567)
	(124,234)	(189,262)	**914,482**	(580,855)
Net loss for the period	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Net loss per share				
Basic and diluted loss per share	**(0.000)**	(0.034)	**(0.061)**	(0.100)
Weighted average number of basic and diluted shares outstanding (note 13)	**40,144,214**	40,144,214	**40,144,214**	33,948,356

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three-month and nine-month periods ended March 31, 2018 and 2017
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017 (Adjusted, note 3)
	$	$	**$**	$
Net loss for the period	**(11,599)**	(1,345,695)	**(2,441,915)**	(3,388,124)
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**1,169,943**	(453,158)	**(258,152)**	754,576
Comprehensive loss for the period	**(1,158,344)**	(1,798,853)	**(2,700,067)**	(2,633,548)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and nine-month periods ended March 31, 2018 and 2017
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017 (Adjusted, note 3)
	$	$	**$**	$
Cash flows from operating activities				
Loss before income taxes for the period	**(135,833)**	(1,534,957)	**(1,527,433)**	(3,968,979)
Non-cash items				
Finance costs – net (note 14 c)	**384,008**	328,485	**1,208,583**	984,780
Depreciation of property, plant and equipment	**257,705**	191,850	**807,913**	548,314
Amortization of intangible assets	**729,354**	1,272,620	**2,095,023**	2,641,215
Unrealized exchange (gain) loss on long-term debt	**37,350**	(21,014)	**(19,017)**	63,483
Deferred rent	**(1,970)**	(5,680)	**51,389**	(17,019)
Stock-based compensation	**105,934**	167,458	**332,321**	460,069
	1,376,548	398,762	**2,948,779**	711,863
Change in working capital items (note 14 a)	**779,275**	(1,494,077)	**(3,045,211)**	(2,406,854)
Cash generated by (used in) operations	**2,155,823**	(1,095,315)	**(96,432)**	(1,694,991)
Interests received	**9,736**	9,604	**30,619**	31,531
Income taxes paid	**(41,400)**	(49,416)	**(168,851)**	(50,348)
Net cash generated by (used in) operating activities	**2,124,159**	(1,135,127)	**(234,664)**	(1,713,808)
Cash flows from investing activities				
Variation of guaranteed deposits certificates	**(2,494)**	97,603	**56,343**	92,587
Variation of other assets	**22,315**	(3,846)	**161,003**	(1,321)
Business combination (note 3)	**-**	(641,421)	**-**	(24,219,047)
Related party loans receivable (note 16 a)	**-**	-	**-**	(1,250,000)
Acquisition of property, plant and equipment	**(346,930)**	(562,657)	**(1,091,761)**	(910,316)
Acquisition of intangible assets	**(295,672)**	(404,250)	**(519,414)**	(770,977)
Net cash used in investing activities	**(622,781)**	(1,514,571)	**(1,393,829)**	(27,059,074)
Cash flows from financing activities				
Variation of bank loans	**(201,653)**	(47,751)	**2,682,398**	(1,186,005)
Long-term debt reimbursement	**(654,104)**	(588,246)	**(1,694,031)**	(1,283,718)
Long-term debt contracted (note 9)	**-**	158,339	**1,600,786**	10,200,059
Interest paid	**(384,731)**	(316,876)	**(1,210,590)**	(984,084)
Financing costs (note 9)	**-**	-	**-**	(164,621)
Issuance of common shares under private placement (note 11)	**-**	-	**-**	23,061,196
Share issue expense (note 11)	**-**	-	**-**	(1,441,856)
Net cash generated by (used in) financing activities	**(1,240,488)**	(794,534)	**1,378,563**	28,200,971
Net change in cash and cash equivalents	**260,890**	(3,444,232)	**(249,930)**	(571,911)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**129,726**	66,799	**6,725**	102,587
Increase (decrease) in cash and cash equivalents	**390,616**	(3,377,433)	**(243,205)**	(469,324)
Cash and cash equivalents - Beginning of period (note 14 b)	**3,052,662**	5,439,770	**3,686,483**	2,531,661
Cash and cash equivalents - End of period (note 14 b)	**3,443,278**	2,062,337	**3,443,278**	2,062,337

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

1. Description of Business

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

2. Basis of Preparation

Basis of preparation

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

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

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2017 were consistently applied to all periods presented. Please refer to note 2 in the Corporation's consolidated financial statements for the year ended June 30, 2017 for a complete description of the Corporation's significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2017 and remained unchanged for the nine-month period ended March 31, 2018.

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

These condensed interim consolidated financial statements are intended to provide an update on 2017 annual statements. Accordingly they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's 2017 annual audited consolidated financial statements.

On May 14, 2018 the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

3. Business Combinations

Acquisition of Utility Partners, LLC

Comparative figures

During the year-end audit of fiscal year 2017, the acquisition of Utility Partners has been considered effective as of July 26, 2016 instead of July 1, 2016, as disclosed in the unaudited interim consolidated financial statements for the period ended March 31, 2017. Therefore, the comparative figures for the nine-month period ended March 31, 2017 have been adjusted accordingly and only eight months of Utility Partners' operations are recorded. The impact on the results for the nine-month period ended March 31, 2017 are as follow: a decrease in revenues of $2,384,712, a decrease in cost of goods sold of $2,212,400, a decrease in administrative expenses of $172,312 and a decrease of amortization of intangible assets related to the acquisition of Utility Partners of $132,927. The net impact is a decrease of the net loss $132,927. The basic and diluted loss per share decreased from ($0.104) to ($0.100).

Description of the business combination

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

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

H_2O Innovation acquired Utility Partners for an initial purchase price of $22,421,300 (US$17.0 M), on a cash-free, debt-free basis. The total purchase price consideration, including working capital adjustment, amounted to $23,491,318 (US$ 17.8 M). The Corporation financed the acquisition with an equity financing, by way of a bought deal private placement and a concurrent additional non-brokered private placement of Corporation’s Common shares at a price of $1.20 per common share for total gross proceeds of $23,061,196.

In addition, H_2O Innovation contracted $10.0 M in credit facilities, which was used, in part, to fund ancillary costs, working capital post acquisition purpose and to support research and innovation initiatives.

Fair value recognized on acquisition date

	July 26, 2016
	$
Assets acquired	
Cash and cash equivalents	**31,091**
Accounts receivable	**3,033,494**
Prepaid expenses	**651,940**
Property, plant and equipment	
Machinery and equipment	**635,966**
Intangible assets	
Customer relations	**6,207,502**
Contractual agreements	**2,246,647**
Non-compete agreements	**3,930,322**
Trademark	**766,281**
Liabilities assumed	
Accounts payable and accrued expenses	**(2,546,417)**
Identifiable net assets acquired	**14,956,826**
Goodwill arising on acquisition	**8,534,492**
Purchase price consideration	**23,491,318**

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 2017. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

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

Sources and uses of funds at the transaction closing date

	July 26, 2016
	$
Sources	
Private placement (note 11)	**21,160,196**
Additional private placement (note 11)	**1,901,000**
Long-term debt (note 9)	**10,000,000**
	33,061,196
Uses	
Initial cash consideration transferred	**(22,421,300)**
Cash transferred for working capital adjustment	**(1,070,018)**
Acquisition and integration costs	**(1,147,671)**
Share issuance costs (note 11)	**(1,441,856)**
Financing costs (note 9)	**(164,621)**
Related party loans receivable (note 16 a)	**(1,250,000)**
Working capital for the Corporation's current activities	**(5,565,730)**
	-

Costs related to the acquisition

The total acquisition-related and integration costs amounted to $2,754,148 and are included in the financial statements as follows: share issuance costs totalled $1,441,856 are included in the share capital caption in the Consolidated Statement of Changes in Shareholders' Equity, financing costs totalling $164,621 are included in the long-term debt and $1,147,671 of acquisition and integration costs are included in the Consolidated Statements of Earnings (Loss).

Determination of fair value

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

The Corporation's valuation of intangible assets has identified contractual agreements, customer relations, non-compete agreements and trademark. The assigned useful lives are based on the remaining duration of the contracts for contractual agreements, 10 years for customer relations, 10 years for non-compete agreements and 7 years for trademark. Significant assumptions used in the determination of fair value of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization.

Goodwill arising from the business combination

Based on management's calculations, an amount of $8,534,492 of goodwill has been attributed to the transaction and stems essentially from the synergies with other activities of the Corporation, the economic value of the workforce acquired as well as intangible assets that do not meet the criteria for separate recognition.

Goodwill following the business combinations

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

	$
Balance as at June 30, 2016	5,893,636
Business combination – Utility Partners	8,534,492
Effect of foreign exchange differences	(127,406)
Balance as at June 30, 2017	14,300,722
Effect of foreign exchange differences	**(91,466)**
Balance as at March 31, 2018	**14,209,256**

4. Accounts Receivable

As at	March 31, 2018	June 30, 2017
	$	$
Trade accounts receivable	**9,415,920**	10,023,986
Retentions from customers under manufacturing contracts	**2,736,365**	1,980,423
Allowance for doubtful accounts	**(47,369)**	-
	12,104,916	12,004,409
Tax credits receivable	**26,694**	45,527
Other receivables	**2,227,087**	1,160,539
	14,358,697	13,210,475

5. Inventories

As at	March 31, 2018	June 30, 2017
	$	$
Raw materials	**1,517,640**	1,157,069
Finished goods	**4,706,742**	3,760,523
	6,224,382	4,917,592

6. Bank loans

The Corporation as an authorized credit facility available of US$5,000,000 ($6,447,000) bearing interest at CDN prime rate plus 1.00% (4.45% as at March 31, 2018 and 3.70% as at June 30, 2017) and at US prime rate plus 1.00% (6.25% as at March 31, 2018 and 5.75% as at June 30, 2017) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at March 31, 2018, $5,040,680 was used on this line of credit ($3,396,231 as at June 30, 2017).

The Corporation has an authorized credit facility available of US$2,000,000 ($2,578,800) bearing interest at CDN prime rate plus 1.00% (4.45% as at March 31, 2018 and 3.70% as at June 30, 2017) and at US prime rate plus 1.00% (6.25% as at March 31, 2018 and 5.75% as at June 30, 2017). This credit facility is secured by EDC. As at March 31, 2018, $2,734,325 was used on this credit facility ($1,696,376 as at June 30, 2017).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. This credit facility is secured either by EDC or guaranteed deposit certificate. As at March 31, 2018, $779,605 was used on this credit facility ($292,585 as at June 30, 2017).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. The credit facility is secured by EDC ($1,017,526 in guaranteed deposit certificate as at June 30, 2017). As at March 31, 2018, the Corporation issued $1,000,000 in letters of credit under this credit facility ($1,000,000 as at June 30, 2017).

The Corporation has access to hedging facility of $500,000. This facility is secured by EDC and is unused as at March 31, 2018 (unused as at June 30, 2017).

The Corporation has a credit facility enabling it to use a maximum amount of $250,000 on credit card for Corporation's related expenses. This credit facility is secured by $256,024 in guaranteed deposit certificate ($254,498 as at June 30, 2017). As at March 31, 2018, $68,626 was used on this credit facility ($55,269 as at June 30, 2017).

The Corporation still has letters of credit amounting to $21,038 ($21,173 as at June 30, 2017) with its previous bank, which are secured by a $33,827 guaranteed deposit certificate ($33,717 as at June 30, 2017).

Covenants

As at March 31, 2018, the Corporation was in compliance with the ratios required under its credit facility, as described in note 9 – Long-term debt, and long-term debt arrangements, except for the fixed charge coverage for which it received a waiver from the lenders.

7. Accounts Payable and Accrued Liabilities

As at	March 31, 2018	June 30, 2017
	$	$
Trade accounts payable	**9,711,737**	8,056,117
Other accrued liabilities and accounts payable	**3,252,629**	4,627,698
	12,964,366	12,683,815

8. Provisions

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

	$
Balance as at June 30, 2017	151,718
Additional provisions recognized	**8,945**
Less : Reversal of unused provision	**(27,389)**
Effect of foreign exchange differences	**(1,593)**
Balance as at March 31, 2018	**131,681**

9. Long-Term Debt

As at	March 31, 2018	June 30, 2017
	$	$
Unsecured – at amortised cost		
Loan, denominated in Canadian dollars (a)(h)	**4,565,389**	4,242,440
Loan from other entities, denominated in Canadian dollars (b)(h)	**4,170,943**	4,628,474
Loan, denominated in US dollars (c)(h)	**1,332,380**	1,730,266
Loan, denominated in Canadian dollars (d)	**743,480**	400,360
Loan from other entities, denominated in Canadian dollars (e)	**26,576**	32,772
Loan from other entities, denominated in Canadian dollars (f)	**128,989**	148,124
Loan from other entities, denominated in Canadian dollars (g)	**129,530**	-
Loan from other entities, denominated in Canadian dollars	**4,096**	-
Loan from other entities, denominated in US dollars	**-**	2,668
	11,101,383	11,185,104
Less : Current portion of long-term debt	**3,150,535**	2,036,151
Long-term debt	**7,950,848**	9,148,953

(a) Loan
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 1.5% (4.95% as at March 31, 2018), payable in 72 monthly instalments of $69,444, principal only, maturing on July 18, 2022. The loan is presented net of financing costs of $45,722.

On October 17, 2017, an agreement was concluded for a loan amounting to $1,000,000, to secure the bond line. The loan bears interest at prime rate (3.45% as at March 31, 2018) and the principal is to be paid on May 21, 2018. The loan is secured by $1,016,650 in guaranteed deposit certificate.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (5.95% as at March 31, 2018), payable in 96 monthly instalments of $52,083, principal only, reimbursement starting the 14th day of six-month following the disbursement, maturing on December 4, 2024. The loan is presented net of financing costs of $47,807.

(c) Loan
On October 20, 2015, an agreement was concluded for a loan amounting to $2,578,000 (US$2,000,000), to finance the acquisition of all the assets of Clearlogx®'s control technology and its specialty coagulant business line. The loan bears interest at prime rate plus 1.0% (6.25% as at March 31, 2018), payable in 60 monthly instalments of $42,980 (US$33,333), principal only, maturing on October 20, 2020.

(d) Loans
On September 20, 2014, an agreement was concluded for a loan amounting up to $460,000, secured by a first rank hypothec on the Ham-Nord plant, representing a carrying value of $1,240,000, bearing interest at floating prime rate plus 1.05% (6.55% as at March 31, 2018), payable in one instalment of $4,120 on September 23, 2015 and 131 monthly instalments of $3,480, principal only, maturing on August 23, 2026.

On April 13, 2016, an agreement was concluded for a loan amounting up to $565,000, bearing interest at floating prime rate plus 1.0% (6.50% as at March 31, 2018), payable in one instalment of $8,360 on June 23, 2016 and 71 monthly instalments of $7,840, principal only, maturing on May 23, 2022.

(e) Loan from other entities
On July 12, 2016, an agreement was concluded for a loan of $41,720 bearing interest at 3.4% payable in monthly instalments of $801 and maturing July 12, 2021.

(f) Loan from other entities
The Corporation entered into an agreement for a loan of $200,000 for the renovation of the premises. The loan bears interest at 6.83% and is payable in 87 monthly instalments of $2,921, principal and interest, and is maturing in June 2022.

(g) Loan from other entities
On October 12, 2017, an agreement was concluded for a loan of $150,700 to finance the acquisition of equipment. The loan bears interest at 5.34% and is payable in 48 monthly instalments of $3,463, principal and interest, and is maturing in August 2021.

(h) These long-term debt arrangements require that the Corporation meet the following financial ratios:
- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 3.25:1.00; 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.

Covenants
As at March 31, 2018, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements, except for the fixed charge coverage for which it received a waiver from the lenders.

Given the incremental growth in our Project activities, the credit facility needs to be increased to support the Corporation's growth. Management is currently actively in discussions with its current banking and financial partners to renegotiate its credit facility. While there can be no assurance of the success of these initiatives, the Corporation believes that it will be able to obtain new credit facility terms from its lenders.

10. Contingent consideration

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

	$
Balance as at June 30, 2017	232,683
Effect of foreign exchange differences	**(1,488)**
Balance as at March 31, 2018	**231,195**

11. Capital Stock

Private placement

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

Share Capital

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

As at March 31, 2018, the Corporation has a total of 40,144,214 shares issued (40,144,214 as of June 30, 2017).

Stock options

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

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

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

	July 26, 2016
Number of stock options	**2,303,334**
Expected dividend yield	**0%**
Expected volatility	**48%**
Risk-free interest rate	**0.81%**
Expected life (years)	**8**
Fair value at the grant date	**$0.856**

For the three-month period ended March 31, 2018, the Corporation recorded $105,934 ($167,458 for the three-month period ended March 31, 2017) as stock-based compensation for options granted to members of top management and $332,321 for the nine-month period ended March 31, 2018 ($460,069 in 2017 for the nine-month period ended March 31, 2017).

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

	Nine-month period ended March 31, 2018		Year ended June 30, 2017	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of period	**2,565,334**	**1.75**	262,000	2.64
Granted	**-**	**-**	2,303,334	1.65
Outstanding - End of period	**2,565,334**	**1.75**	2,565,334	1.75

12. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted, note 3)
	$	$	**$**	$
Material	**7,876,828**	6,321,655	**21,008,175**	21,350,764
Changes in inventories of raw material and finished goods	**2,528,646**	103,123	**7,121,742**	(2,971,182)
Salaries and fringe benefits	**10,997,474**	10,569,700	**31,616,513**	28,031,250
Subcontractors and professional fees	**1,930,112**	537,733	**5,649,119**	2,026,439
Rent, electricity , insurance and office expenses	**572,482**	576,589	**1,568,979**	1,603,203
Telecommunications and travel expenses	**1,081,717**	943,440	**3,145,420**	2,738,275
Bad debt expenses	**34,037**	-	**46,801**	-
Share based compensation	**105,934**	167,458	**332,321**	460,069
Other expenses	**675,147**	1,826,637	**1,936,337**	4,195,510
Total cost of goods sold, operating, selling, administrative and research and development expenses	**25,802,377**	21,046,335	**72,425,407**	57,434,328

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month and nine-month periods ended March 31, 2018 and 2017; and ii) the amounts of cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Cost of goods sold	**215,548**	147,483	**687,982**	424,575
Operating expenses	**763**	693	**2,158**	2,205
Selling expenses	**10,037**	9,697	**29,054**	30,054
Administrative expenses	**31,357**	33,977	**88,719**	91,480
	257,705	191,850	**807,913**	548,314

Amortization by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted, note 3)
	$	$	**$**	$
Cost of goods sold	**137,508**	192,576	**332,179**	437,131
Selling expenses	**560,105**	1,066,298	**1,668,217**	2,124,063
Administrative expenses	**31,741**	13,746	**94,627**	80,021
	729,354	1,272,620	**2,095,023**	2,641,215

Cost per function including depreciation and amortization of intangible assets	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted, note 3)
	$	$	**$**	$
Cost of goods sold	**21,254,290**	16,564,061	**59,690,916**	45,402,024
Operating expenses	**1,098,377**	524,413	**2,986,165**	1,450,332
Selling expenses	**2,661,211**	3,051,344	**7,644,088**	7,340,991
Administrative expenses	**1,775,558**	2,354,912	**4,998,489**	6,299,191
Research and development expenses	**-**	16,075	**8,685**	131,319
	26,789,436	22,510,805	**75,328,343**	60,623,857

c) Research and development expenses

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Research and development expenses	**-**	16,075	**8,685**	131,319
	-	16,075	**8,685**	131,319

d) Other (gains) losses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Realized exchange (gain) loss	**19,778**	3,636	**143,477**	(49,976)
Unrealized exchange (gain) loss	**(34,647)**	(59,586)	**(107,781)**	118,282
Other (income) expense (a)	**(19,775)**	(9,607)	**313,830**	(48,036)
	(34,644)	(65,557)	**349,526**	20,270

(a) During the first quarter of fiscal year 2018, the Corporation was victim of an external fraud perpetrated through its banking online platform, which led to a net loss of $363,364.

13. Loss per share

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017 (adjusted, note 3)
Net loss	**($11,599)**	($1,345,695)	**($2,441,915)**	($3,388,124)
Basic and diluted weighted average number of shares outstanding	**40,144,214**	40,144,214	**40,144,214**	33,948,356
Basic and diluted net loss per share	**($0.000)**	($0.034)	**($0.061)**	($0.100)

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

For the three-month period and the nine-month periods ended March 31, 2018 and 2017, the diluted net loss per share was the same as the basic net loss per share, since the effect of the assumed exercise of stock options and warrants to purchase common share is anti-dilutive. Accordingly, the diluted net loss per share for these periods was calculated using the basic weighted average number of shares outstanding.

14. Cash Flows

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Accounts receivable	**3,066,617**	1,034,619	**(1,133,267)**	(237,508)
Inventories	**14,542**	(8,159)	**(1,304,581)**	(932,560)
Costs incurred in excess of billings	**(2,489,552)**	(122,415)	**(2,083,784)**	(117,544)
Prepaid expenses	**(200,541)**	(250,914)	**443,792**	(283,175)
Accounts payable and accrued liabilities	**1,075,195**	(1,723,151)	**289,239**	(1,426,277)
Provisions	**8,923**	28,000	**(18,771)**	34,000
Billings in excess of costs incurred	**(695,909)**	(452,057)	**762,161**	556,210
	779,275	(1,494,077)	**(3,045,211)**	(2,406,854)

b) Cash and cash equivalents consist of the following:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Beginning of period				
Cash and cash equivalents	**3,373,489**	5,803,393	**3,870,603**	3,051,869
Bank overdraft	**(320,827)**	(363,623)	**(184,120)**	(520,208)
	3,052,662	5,439,770	**3,686,483**	2,531,661

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
End of period				
Cash and cash equivalents	**3,493,508**	2,266,011	**3,493,508**	2,266,011
Bank overdraft	**(50,230)**	(203,674)	**(50,230)**	(203,674)
	3,443,278	2,062,337	**3,443,278**	2,062,337

c) Finance costs - net:

During the third quarter of fiscal year 2018, the Corporation's recorded a non-recurring gain of $0.3 M for premium insurance receivable related to its insurance with EDC. This is an adjustment based on a recalculation by the insurer. This amount is recorded in the finance costs, as it is use to insure the accounts receivable to increase the bank loans usage capacity. This amount was not received as at March 31, 2018 and is excluded from the Finance costs – net presented in the Condensed interim consolidated statements of cash flows.

15. Segment Information

Products from which reportable segments derive their revenues

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

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

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017 (adjusted, note 3)
	$	$	**$**	$
Revenues from sales of consumables	**10,087,115**	8,612,269	**26,737,452**	22,296,928
Projects contracts revenues	**7,470,530**	3,974,025	**22,203,976**	12,788,486
Operation and maintenance revenues	**9,137,290**	8,698,349	**26,190,434**	23,641,210
	26,694,935	21,284,643	**75,131,862**	58,726,624

Geographical information

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
Revenue from external customers	**2018**	2017	**2018**	2017 (adjusted, note 3)
	$	$	**$**	$
Revenue according to geographic location				
Canada	**6,103,694**	5,380,707	**16,438,668**	15,064,289
United States	**17,976,884**	14,416,471	**51,625,469**	39,486,399
China	**691,988**	527,375	**1,331,568**	1,334,511
Egypt	**40,027**	-	**1,231,820**	99,236
Korea	**183,956**	46,227	**1,177,689**	192,536
Other	**1,698,386**	913,863	**3,326,648**	2,549,653
	26,694,935	21,284,643	**75,131,862**	58,726,624

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

As at	**March 31, 2018**	June 30, 2017
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**6,417,019**	6,418,968
United States	**30,937,058**	33,882,263
	37,354,077	40,301,231

16. Related parties disclosure

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250,000 (the “Loans”), effective as of July 26, 2016, in order for them to acquire common shares as part of the additional placement (notes 3 and 11). These loans are repayable in one single installment on the 8th anniversary of the effective date and they can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,166,667 as at March 31, 2018.

An amount of $7,192 was paid to the Corporation in regards of these loans and recorded as Finance income in the Consolidated Statements of Loss for the three-month period ended March 31,2018 and $22,774 for the nine-month period ended March 31, 2018 ($7,192 for the three-month ended March 31, 2017 and $20,719 for the nine-month period ended March 31, 2017).

b) Compensation of key management and Board of Directors

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

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2018	2017	**2018**	2017
	$	$	**$**	$
Short-term benefits	**290,616**	280,863	**1,109,863**	1,236,824
Post-employment benefits	**38,994**	32,464	**77,481**	82,688
Share-based payments	**105,934**	167,458	**332,321**	460,069
	435,544	480,785	**1,519,665**	1,779,581

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

17. Comparative figures

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

GENERAL INFORMATION

Board of Directors

Philippe Gervais, Chairman of the Board[1]
Frédéric Dugré, President, Chief Executive Officer and Director
Pierre Côté, Director[3]
Élaine C. Phénix, Director[1,2]
Jean-Réal Poirier, Director[2,3]
Richard Hoel, Director[1]
Lisa Henthorne, Director[2,3,4]
Stephen A. Davis, Director[2]
Robert Comeau, Director[1]

Management

Frédéric Dugré, President and Chief Executive Officer[3,4]
Marc Blanchet, Chief Financial Officer and Secretary
Guillaume Clairet, Chief Operating Officer[3,4]
Denis Guibert, Vice President and General Manager, Engineering
Gregory Madden, Vice President, Aftermarket and Digital Solutions
Rock Gaulin, Vice President, Manufacturing and Operations
William Douglass, Vice President, Operation and Maintenance

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

Advisory Members
Operation and Maintenance Committee

Elisa Speranza
Leonard Graziono

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

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AST Trust Company (Canada)

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