2012 Annual Report

Fiscal year ended
June 30, 2012

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

H_2O Innovation Inc.'s (the "Company" or "H_2O Innovation") President & Chief Executive Officer and Vice President, Finance have signed a statement of management's responsibility regarding financial information included in this Annual Report. The statement – which can be found on page 22 – also explains the roles of the Audit Committee and the Board of Directors in respect of financial information included in the Annual Report. This Management's Discussion and Analysis ("MD&A") reviews H_2O Innovation's operating results and financial condition for the years ended June 30, 2012 and 2011. The MD&A should be read in conjunction with the consolidated financial statements for the year ended June 30, 2012 and with the accompanying notes.

Certain statements set forth in this Management's Discussion and Analysis regarding the operations and the activities of H_2O Innovation as well as other communications by the Company to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Company to be materially different than those indicated. Information about the risk factors to which the Company is exposed is provided in the Annual Information Form dated September 25, 2012 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this Management's Discussion and Analysis or in other communications as a result of new information, future events and other changes.

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

VISION, MISSION & PROFILE

OUR VISION

To become the best in North America, working through consulting engineers, at customizing water treatment systems based on comprehensive analytical and strong technical capabilities aimed at maximizing the efficiency, performance and longevity of systems and by this, create sustained and growing value for our shareholders.

OUR MISSION

To provide safe, integrated and customized water treatment solutions in a changing environment.

OUR PROFILE

H_2O Innovation provides integrated technological water treatment solutions based on membrane filtration technology to municipal, energy & mining end-users. H_2O Innovation designs state-of-the-art custom-built water treatment systems for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater, while providing a complete line of specialty chemicals and consumables for membrane filtration and reverse osmosis systems. With more than 110 employees and seven locations in North America, H_2O Innovation is also a founding partner of H_2O Innovation India, a joint venture based in Mumbai, India.

NON-IFRS FINANCIAL MEASUREMENT

In this MD&A, the Company's management uses a measure that is not in accordance with IFRS. The measurement "Adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA)" is not defined by IFRS and cannot be formally presented in consolidated financial statements. The definition of adjusted EBITDA does not take into account the Company's changes in fair value of contingent considerations, impairment of intangible assets, impairment of goodwill, stock-based compensation costs and share of (earnings) loss in a joint venture. The reader can establish the link between adjusted EBITDA and net loss. The definition of adjusted EBITDA used by the Company may differ from those used by other companies.

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

Reconciliation of adjusted EBITDA to net loss

Years ended June 30,	**2012**	2011
	$	$
Net loss for the year	**(8,054,860)**	(1,359,380)
Finance costs – net	**908,172**	917,131
Income taxes	**(2,507,158)**	(490,688)
Depreciation of property, plant and equipment	**306,272**	300,002
Amortization of intangible assets	**614,308**	948,483
Changes in fair value of contingent considerations	**(280,142)**	(273,317)
Impairment of goodwill	**8,221,423**	-
Impairment of intangible assets	**378,728**	-
Stock-based compensation costs	**86,469**	288,367
Share of (earnings) loss in a joint venture	**322,250**	(5,306)
Adjusted EBITDA	**(4,538)**	325,292

RESULTS OF OPERATIONS

Years ended June 30	2012	2011	2010[(a)]
	$	**$**	**$**
Revenues	**35,909,907**	27,632,266	27,727,556
Gross profit	**8,275,358**	8,164,191	7,006,006
Gross profit	**23.0%**	29.5%	25.3%
Operating expenses	**642,880**	1,225,331	1,127,510
Selling expenses	**3,906,263**	3,689,387	4,521,552
Administrative expenses	**4,206,086**	3,467,886	3,493,640
Net loss	**(8,054,860)**	(1,359,380)	(9,997,917)
Basic and diluted loss per share	**(0.134)**	(0.023)	(0.181)
Adjusted EBITDA[(b)]	**(4,538)**	325,292	(2,821,046)
Total assets	**28,469,400**	34,653,265	36,925,752
Non-current financial liabilities	**1,562,315**	3,958,024	2,923,730

[(a)] These amounts have been established in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and have not been restated to reflect the impact of the transition from Canadian GAAP to IFRS, as mentioned in Note 2 to the consolidated financial statements.
[(b)] See section on "Non-IFRS Financial Measurement".

Revenues and gross profit

Revenues increased by $8.3 M in fiscal year 2012 compared to fiscal 2011, up by nearly 30%. As we started fiscal year 2012 with our highest order backlog ever – at $35.3 M –, revenue growth was expected for the second half of the year as project execution advanced. Throughout the year, we eventually saw our order backlog's largest projects move from their initial design and engineering phases to the higher revenue-generating phase. During the second half of fiscal 2012, several large municipal and industrial projects entered production phase and reached invoicing milestones, contributing to higher invoicing converted into revenues during that period.

In fiscal 2012, both business sectors of the Company recorded increased revenues compared with fiscal 2011. Revenues from water treatment systems stood at $22.7 M compared with $15.6 M in 2011, while revenues from specialty chemicals and consumables reached $13.2 M in fiscal year 2012 compared with $12.0 M in 2011.

The following table summarizes the evolution of the Company's revenues and new orders, together with the variations in its backlog over the last eight quarters.

	2011 FY				2012 FY				2012 FY	2011 FY
	Q1	Q2[(a)]	Q3[(a)]	Q4[(a)]	Q1	Q2	Q3	Q4		
Order backlog	$14.3 M	$15.1 M	$21.6 M	$35.3 M	$31.6 M	$30.0 M	$28.1 M	$20.8 M	**N/A**	N/A
Bookings for water treatment systems	$3.7 M	$7.4 M	$6.1 M	$17.4 M	$0.9 M	$4.7 M	$6.0 M	$4.7 M	**$16.3 M**	$34.6 M
Revenues from water treatment systems	$3.5 M	$3.6 M	$3.8 M	$4.7 M	$4.3 M	$4.1 M	$6.7 M	$7.6 M	**$22.7 M**	$15.6 M
Bookings / Revenues Ratio	***1.1***	***2.1***	***1.6***	***3.9***	***0.2***	***1.1***	**0.9**	**0.6**	***0.72***	***2.35***
Revenues from specialty chemicals and consumables (usually recurrent in nature)	$2.8 M	$2.8 M	$3.3 M	$3.1 M	$2.8 M	$3.0 M	$3.5 M	$3.9 M	**$13.2 M**	$12.0 M

[(a)] The above table has been adjusted to reflect the fact that the Company's joint venture is now accounted for using the equity accounting method which means that backlog and bookings generated in India in fiscal 2011 will not affect the Company's revenue line but only the net results from this joint venture.

Revenues from water treatment systems and equipment increased by more than 45% in fiscal year 2012 compared with fiscal 2011. Our second business sector, specialty chemicals and consumables, also experienced growth during the year. Compared with fiscal 2011, sales of specialty chemicals and consumables increased by 10%, from $12.0 M to $13.2 M.

As we are moving in 2013 fiscal year, our strategy is to grow our revenues from specialty chemicals and consumables. First, we believe that by developing relationships with our systems' customers, thus providing preventive maintenance and performance analysis, we will increase the life-span of our systems and membranes, reduce the general operational expenditure (OPEX) of our clients and produce water of constant quality. Second, by ensuring to provide our proprietary specialty chemicals along with the delivery of custom-designed membrane systems, we are proposing a "single point of responsibility" for the reliability and performance of the systems. Finally, by providing such services and products, we anticipate that recurring revenues and gross profit contribution will increase.

The significant growth in our revenues for 2012 compared to previous fiscal year is not reflected in gross profit. The Company's operations in fiscal 2012 generated a deceiving 23.0% gross profit, compared with 29.5% in 2011. The main factors that affected our gross profit over the year are the following:

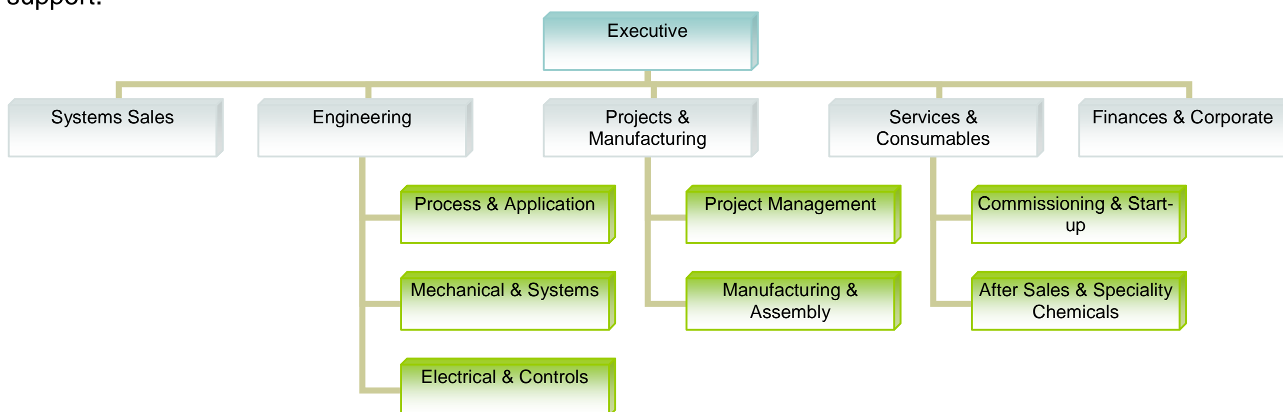
1) The 2012 revenue mix shows that revenues from specialty chemicals and consumables represent a lower proportion of total revenues compared to fiscal 2011 (37% in 2012 vs. 43% in 2011).

2) The reallocation of resources that we completed during the first quarter of fiscal 2012, together with its associated charges have had a permanent impact on our gross profit level throughout fiscal 2012, reducing gross profit by approximately 2.0% compared to the level recorded in fiscal 2011.

3) One large project that was realised in fiscal 2012 impacted negatively the gross profit by 2.0%.

This lower than expected performance brought the Company's management in the fourth quarter of fiscal year 2012 to work with a strategic management consulting firm to conduct a review of the Company's general performance and strategic orientation. The suggestions contained in the consulting firm's report aimed at realigning the Company's resources to gain efficiency, accountability and performance in project execution. New leadership towards the Company's operations was required in order to change fundamentally the culture of project execution and management. Therefore, the Company's management has implemented immediate changes in order to streamline the communication and decision process, adjust the overhead expenses and implement additional controls and procedures meant to enhance both project execution and manufacturing operations with the primary objective of increasing overall gross profit. Major changes have been implemented since June 30, 2012 to change the approach of the Company from a "product" culture to a "project" culture.

The most important change that has occurred since June 30, 2012 is that our engineering department is now structured according to each one's expertise. We can now rely on an expertise in electrical & controls, an expertise in mechanical engineering & systems, and an expertise in process & application. Also, an independent group of project managers has been created for an improved client interface, supported by a commissioning group dedicated to the start-up of systems. A service & after-sales group will continue to ensure long-term customer support.



All existing resources have been re-aligned along these key functions. The expected benefits are to maximize the use of our existing resources, to gain standardization and continuity in our design /material selection, to develop best practices around specialty functions, to uniform and improve our documentation work and finally to increase the level of budget and quality controls at each step of the project execution.

We will also work on a better integration of our client approach in a single point of responsibility for the design and operation of systems, based on our hybrid offering of systems and specialty chemicals and other consumables.

Through these changes we seek to attain "operational excellence" in the execution of our projects in order to better answer our clients' needs and thus position ourselves at the cutting edge of the water treatment industry as a first-class complete solution provider. We also expect to improve the gross profit on our system sales.

We anticipate that this important reorganization will allow us to reduce our selling, operating and administrative expenses ("SG&A") as well as to increase internal accountability in each step of project execution in order to achieve our targeted objectives. We are confident this new structure will lay solid and enduring foundations and will bring positive achievements.

The Company also brought in $16.3 M in new bookings for water treatment systems and equipment over fiscal 2012, which is below expectations. However, these new bookings maintained the order backlog above the $20.0 M mark as of June 30, 2012. The Company's bookings over revenue ratio for systems and equipment stood at 0.72 for fiscal 2012, well below the record high 2.35 for fiscal 2011. We remain confident to secure new systems sales in this coming fiscal year as our sales team is very active in bidding activities for municipal and industrial opportunities. Notably, the recent commissioning of a few municipal drinking water plants using ultrafiltration technologies for surface water treatment springboards our business towards visibility to secure additional similar projects in both Canada and the United States. Compared to last year, we are seeing a greater number of municipal opportunities requiring ultrafiltration. We believe that our "open source" design approach, being the interchangeability of the UF membrane modules, gives us an important advantage towards the competition as it provides greater operational flexibility and reduced OPEX for the end-users.

Moreover, based on the latest projects we just delivered to major oil & gas clients in Western Canada and on the feedback we received from them regarding the quality, the design and the systems integration of our drinking and wastewater plants, we feel confident to secure new bookings for similar high-end customers in the upcoming fiscal year.

Operating expenses

Operating expenses decreased from $1.2 M to $0.6 M for the year ended June 30, 2012 compared with fiscal year 2011.This decrease is due to the reallocation of resources during the first quarter of fiscal 2012. This reallocation will have a permanent impact through increased costs of goods sold and reduced operating expenses. The reallocation of resources is the result of sound management analysis in regards of project execution.

Selling expenses

Selling expenses show an increase of approximately $217,000 or 5.9% for the current fiscal year compared with the previous fiscal year, while revenues increased by 30%. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The increase is partly due to the costs incurred for the first annual international distributor conference held by Professional Water Technologies ("PWT"). This exclusive event allowed us to provide technical training on our specialty chemicals for membrane applications, increase awareness around our PWT brand and establish greater personal contacts with our distributors. As we are already exporting our speciality chemicals to 20 countries and planning to add a few more in the coming year, we anticipate that such event is likely to have a direct contribution on our sales of specialty chemicals in fiscal 2013.

Administrative expenses

Administrative expenses increased by approximately $738,000 or 21.3% in fiscal 2012 compared with fiscal 2011. The increase is explained by the following three significant items:

1) In June 2012, with the objective of enhancing its focus on reaching operational excellence, the Company eliminated the positions of Chief Operating Officer and of Vice President, Communications and Investor Relations. Termination costs amounting to $175,000 were accrued as of June 30, 2012 for the elimination of these positions.

2) The Company has taken an allowance for doubtful accounts of $254,000 within the consumables operations in regards to receivables from a distributor of maple syrup production products.

3) Lastly, the Company incurred higher professional fees amounting to approximately $175,000 related to audit-related services and impairment testing, to the successful defense of a patent litigation related to an exclusive maple syrup production product and to a lesser extent to the increase in compensation of administrative personnel and management.

On the other hand, the stock-based compensation costs decreased by approximately $202,000 in fiscal year 2012 compared with fiscal year 2011. This decrease is partly due to the elimination of top management positions for which the expense for stock options that did not vest was reversed.

With the year's higher revenues, operating, selling and administrative expenses as a whole represented 24.3% of revenues, compared with 30.3% in the previous fiscal year, a demonstration of the scalability of the Company's business model. Overall, the Company's SG&A expenses remained under its fiscal year 2012 budget.

Goodwill impairment charge and impairment of intangible assets

In the third quarter of fiscal 2012, we performed our annual impairment test for goodwill. Two factors have required that we re-evaluate the book value of our goodwill mainly related to the acquisition of Itasca Systems, Inc. in July 2008 and that of Wastewater Technology Inc. in April 2008. First, the prolonged decrease of our sales in the ethanol production sector, and second, the lower sales of our patented Bio-Wheel™ and Bio-Brane™ systems in the U.S. municipal sector through manufacturer's representatives.

During the fourth quarter of fiscal year 2012, we realigned our sales strategy for the Bio-Wheel™ and Bio-Brane™ systems. We are now mainly targeting sales of containerized systems for small to mid-size municipal and industrial applications (such as support to man camps and remote locations), two segments where our technology is highly differentiated and we believe can attain stature as the preferred solution. And although systems and equipment sales to ethanol producers are scarce, we remain engaged and quite active in the ethanol production sector serving an important customer base with specialty chemicals and consumables.

At the end of the third quarter of fiscal year 2012, we reviewed the carrying amounts of our intangible assets and determined that some intangible assets related to the cash-generating unit "United States" were no longer used and were not generating material cash flows. Therefore, the recoverable amount of the intangible assets was estimated to nil. The impairment loss of the intangible assets is due to the prolonged decrease of our operations in the industrial sector – mainly the ethanol production subsector.

The result of these re-evaluations was respectively an $8.2 M and $0.4 M decrease in the book value of our goodwill and intangible assets, which increased the net loss for the year.

Adjusted EBITDA

Adjusted EBITDA for fiscal year 2012 was ($4,538) compared to $325,292, for fiscal 2011. The adjusted EBITDA has been affected negatively in fiscal year 2012 by the increase of non-recurring SG&A expenses explained above as well as challenging issues in the project execution affecting negatively the gross profit derived from manufacturing contracts.

Other gains – net

Other gains – net amount to $368,279 for the year ended June 30, 2012 compared with $44,399 for the year ended June 30, 2011. The increase is mostly due to a foreign exchange gain, which is entirely due to exchange rate fluctuations related to working capital items and to other revenues derived from various sources such as rental space activities for equipment not yet delivered.

Finance costs – net

Finance costs – net totalled $908,172 for the year ended June 30, 2012 compared with $917,131 for the previous fiscal year. These expenses relate mostly to the long-term debt. Of this amount, $124,763 represent the theoretical and non-monetary part of interest on long-term debt and $81,591 represent the unwinding of the discount on contingent considerations.

Share of (earnings) loss in a joint venture

Share of (earnings) loss in a joint venture totalled $322,250 for the year ended June 30, 2012 compared with a share of earnings of ($5,306) for the year ended June 30, 2011. This loss was largely attributable to the completion in April 2012 of the Company's joint venture's first large-scale project, which was obtained at low margin. Management is taking actions to correct the situation and ensure that the impact will be minimized in the following fiscal years.

Net loss

The net loss was ($8,054,860) or ($0.134) for fiscal 2012 compared with ($1,359,380) or ($0.023 per share) for fiscal 2011. Excluding the non-monetary loss of ($8.2 M) related to the goodwill impairment charge, ($0.4 M) impairment of intangible assets, and the positive change in fair value of contingent considerations of $0.3 M, net loss for the year would have reverted to a net earnings of $0.2 M.

Commitments

The Company has entered into long-term lease agreements expiring in 2013, 2017 and 2022 which call for lease payments of $3,512,081 for the rental of space. The minimum annual lease payments over the next five years are $560,225 in 2013, $401,076 in 2014, $409,790 in 2015, $418,722 in 2016 and $427,882 in 2017.

Information on share capital

As at September 25, 2012, the Company had 60,145,832 outstanding common shares, 2,477,000 stock options and 2,250,000 common share purchase warrants.

STATEMENTS OF FINANCIAL POSITION

As working capital decreased from $6.2 M as at June 30, 2011 to $2.5 M as at June 30, 2012, the Company's working capital ratio significantly declined from 1.76 to 1.19 over the same period. This deterioration is caused partly by the reclassification of the long-term portion of a third-party loan amounting to $1,404,487 into the current liabilities because the Company did not respect its covenants. The other factors affecting negatively the working capital ratio are the important progress made in project execution, including procurement activities and the higher level of manufacturing activity, as well as a related increase in the usage of the Company's revolving credit facilities. Management believes that the Company has sufficient working capital in order to support its operations in its normal course of business and ensure proper project execution.

The net debt excluding contingent considerations, which stood at $6.1 M as at June 30, 2012, increased by nearly $1.4 M compared with $4.7 M as at June 30, 2011. This increase is mainly due to the general decline in working capital, itself caused by the higher level of manufacturing and procurement activities.

Equity stood at $13.7 M as at June 30, 2012, compared with $22.4 M as at June 30, 2011. As at June 30, 2012 the net debt equity ratio was 0.45 whereas it was 0.21 as at June 30, 2011, showing that the Company is not over leveraged.

Year ended June 30, (in Canadian dollars, except for ratio)	**2012**	**2011**
Working capital	$2,518,829	$6,171,375
Working capital ratio	1.19	1.75
Net debt[a]	$6,129,684	$4,749,073
Equity	$13,744,227	$22,473,493
Net debt to equity ratio	0.45	0.21

[a] Net debt comprises bank overdraft, bank loan and long-term debt, net of cash and cash equivalents, but excludes contingent considerations.

As at June 30, 2012 accounts receivable stood at $9.3 M compared with $7.8 M as at June 30, 2011. The increase of $1.5 M is attributable to higher invoicing completed during the year, as invoicing milestones were reached on a higher number of active projects.

Inventories remained stable at $2.2 M as at June 30, 2012 and 2011 while revenues have increased by $8.3 M or 30% over the same period. In other words, inventories represented 6.3% of the revenues as at June 30, 2012 compared to 8.1% for the previous fiscal year-end. This reflects an optimization of our inventories due to an improved control on the procurement process and a better use of our in-hand or slow moving items.

Costs incurred in excess of billings decreased by $0.1 M to $2.2 M as at June 30, 2012, from $2.3 M as at June 30, 2011, primarily due to differences between project advancement and project invoicing schedules. Billings in excess of costs incurred increased by $0.3 M to $1.6 M as at June 30, 2012, from $1.3 M as at June 30, 2011. This increase is also attributable to differences between project advancement and project invoicing schedules.

Accounts payable and accrued liabilities increased by $1.5 M to $5.7 M as at June 30, 2012, from $4.2 M as at June 30, 2011. This is mostly due to an increased number of active projects entering the production phase for which important components were purchased in the second half of fiscal year 2012.

Contingent considerations totalled $0.48 M as at June 30, 2012 compared with $1.4 M as at June 30, 2011. The decrease is due to the reduction of the fair value of contingent considerations based on actual and forecasted sales of certain wastewater equipment, to payments amounting to $0.8 M made during fiscal year 2012 and to the unwinding of the discount rate. Of the $0.48 M total contingent considerations, an amount of $0.02 M is expected to be paid over the next 12 months, the balance of $0.46 M over a period stretching up to 2018.

FINANCIAL SITUATION

Before the change in operating working capital, operating activities generated $83,285 in cash for the year ended June 30, 2012, compared with $196,993 of cash generated during the corresponding year ended June 30, 2011. Under IFRS, management elected to disclose interest paid under financing activities as opposed to operating activities under previous GAAP. Net cash generated by operating activities amounted to $815,699 in fiscal year 2012 compared to ($1,563,185) of net cash used by operating activities during the previous fiscal year. This significant improvement is mainly attributable to the following factors:

- Increased volume of activities reflected in higher revenues and a higher level of accounts receivable in fiscal year 2012 compared to fiscal year 2011;
- This higher volume of activities has also increased the level of accounts payable and accrued liabilities in fiscal year 2012 compared to fiscal year 2011;
- A tighter follow-up of accounts receivable balances to accelerate payments from customers;
- A timing difference within the projects production phases affecting the invoicing milestones reached and therefore affecting costs incurred in excess of billings and billings in excess of costs incurred; and
- Finally, even though the level of activities has increased, the Company has kept the inventory level at the same level in fiscal year 2012 as in fiscal year 2011.

For fiscal 2012, investing activities used net cash of $1,063,618, mainly attributable to the payment of contingent considerations related to past acquisitions and to a lesser extent to the acquisition of property, plant and equipment and to additional investment into our Indian joint venture.

Financing activities generated cash of $795,701 in fiscal 2012 compared with $774,381 of cash generated during the corresponding fiscal year. The increase in funds generated by financing activities is mainly caused by the use of bank loan, which resulted in a net increase amounting to $1,514,770. In addition, the use of a moratorium of six months over capital repayments of long-term debts had a positive impact on the financing activities. In December 2011, the Company used a second moratorium of six months over capital repayments of long-term debts to help execute its record-high order backlog. Under IFRS, management elected to disclose interest paid under financing activities as opposed to operating activities under previous GAAP.

Fourth quarter (unaudited)

	Fourth quarter ended June 30	
	2012	**2011**
	$	**$**
Revenues	**11,561,332**	**8,086,202**
Cost of goods sold	**9,324,038**	**6,056,569**
Gross profit	**2,237,294**	**2,029,633**
Gross profit	**19.4%**	**25.1%**
Net earnings (loss)	**880,620**	**(81,071)**
Basic and diluted earnings (loss) per share	**0.014**	**(0.002)**
Adjusted EBITDA	**(483,798)**	**(15,652)**

Despite a significant revenue increase of 43.0% in the 2012 fourth quarter compared to the same quarter of the previous fiscal year, the financial results have been impacted by a lower gross profit and non-recurring expenses.

For the quarter ended June 30, 2012 the gross profit was impacted negatively by two large projects and by the provision for slow moving and obsolete inventory amounting to $50,000.

The fourth quarter was thus impacted by termination costs incurred for the termination costs related to the elimination of top management positions along with the re-organisation, by an allowance for doubtful accounts for a distributor of maple syrup production products within the consumables operations and by additional professional fees related to the impairment tests.

The fourth quarter net earnings are caused by the tax effects of the expired warrants recorded in equity and for which the Company reversed a valuation allowance to use the tax losses carried forward and exploration expenses against these tax effects.

As we move forward in this new fiscal year, we are expecting the gross profit and SG&A to come back to a healthier level following our re-organisation.

Quarterly Summary Financial Information (unaudited)

	Three-month periods ended				Year ended
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2012
	$	$	$	$	$
Revenues	11,561,332	10,222,312	7,056,495	7,069,768	35,909,907
Adjusted EBITDA	(483,798)	563,603	(407,961)	323,618	(4,538)
Net earnings (loss)	880,620	(7,651,400)	(1,214,510)	(88,216)	(8,054,860)
EPS basic and diluted	0.014	(0.127)	(0.020)	(0.001)	(0.134)

	Three-month periods ended				Year ended
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2011
	$	$	$	$	$
Revenues	7,826,146	7,126,952	6,354,087	6,325,081	27,632,266
Adjusted EBITDA	(15,652)	281,125	89,368	29,549	325,292
Net loss	(81,071)	(125,006)	(523,693)	(629,610)	(1,359,380)
EPS basic and diluted	(0.002)	(0.002)	(0.009)	(0.010)	(0.023)

Over the last eight quarters revenues significantly increased by nearly 83% from first quarter 2011 compared to fourth quarter 2012. This increase was mainly due to the conversion into revenues of the order backlog secured over the past eight quarters. In the third and fourth quarters of fiscal 2012 our order backlog's largest projects moved from their initial design and engineering phases to the higher revenue-generating phase.

Over the course of the four quarters of fiscal 2011 adjusted EBITDA have improved, reflecting the positive impacts of the efforts made throughout the organization to increase sales in order to adequately manage project execution and control fixed costs. Adjusted EBITDA for the last four quarters reflect the numerous challenges that we faced in project execution. The second quarter of fiscal 2012 was affected by delays in delivery and commissioning of systems. All four quarters of fiscal 2012 suffered from projects obtained with unusually low margins that had to be executed. The fourth quarter of fiscal 2012 was affected by an allowance for doubtful accounts as well as termination costs incurred in light of the reorganization initiated at year-end.

Over the last eight quarters, net earnings (loss) have been impacted by the changes in fair value of contingent considerations and related unwinding of discount. Net earnings (loss) for the third quarter of fiscal 2012 were affected by the recognition of impairments for goodwill and intangible assets. Net earnings (loss) for the fourth quarter of fiscal 2012 were impacted by the tax effects of the expired warrants recorded in equity and for which the Company reversed a valuation allowance to use the tax losses carried forward and exploration expenses against these tax effects.

CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk level.

The Company's financial strategy is designed to meet the objectives stated above and to respond to changes in economic conditions and the risks characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue or repurchase shares, raise or repay debt or undertake any other activities it considers appropriate under the circumstances.

The Company monitors capital on the basis of its total debt-to-equity ratio. Total debt consists of all interest-bearing debt, and equity is defined as total equity.

The total debt-to equity ratio was as follows:

	June 30, 2012	June 30, 2011
	$	$
Bank overdraft	155,210	291,520
Bank loan	2,868,394	1,353,625
Current portion of long-term debt [(a)]	2,580,862	319,108
Long-term debt [(a)]	1,101,760	3,225,176
Total debt	6,706,226	5,189,429
Equity	13,744,227	22,473,493
Total debt-to-equity ratio	48.8%	23.1%

(a) The long-term portion of the loan from another entity has been classified as current portion of long-term debt because the Company did not respect its covenants.

The Company's financial objectives and strategy described above have remained unchanged since the last reporting period. These objectives and strategies are reviewed annually or more frequently if the need arises.

The Company is not subject to any externally imposed capital requirements other than covenants on its bank loans with its lender to maintain the following levels: 1) a debt ratio lesser than or equal to 2.50:1.00, 2) a working capital ratio greater than or equal to 1.50:1.00, and 3) a determined cumulative adjusted EBITDA and a covenant on the loan from other entity to maintain working capital ratio of 1.5:1. Business performance is closely monitored and the most cost-effective methods for raising capital are considered to evaluate compliance with covenants. As at June 30, 2012, the Company was in breach of the working capital and adjusted EBITDA covenants.

The Company's objective when managing capital is to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk level. For capital management purposes, the Company defines its capital as follows: shareholders' equity, long-term debt, bank loan (including bank overdraft) less cash and cash equivalents, and guaranteed deposit certificates. The Company monitors capital in light of its monthly needs and obligations linked to its financial liabilities.

The bank loan includes certain covenants regarding, among others, the working capital, the adjusted EBITDA, and the debt ratio. As of June 30, 2012 certain of these ratios were not respected but management is conducting a thorough follow-up of these ratios in order to fix the situation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Revenue recognition of manufacturing contracts

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

Impairment of goodwill and other non-current assets

At the end of each reporting period, the Company assesses whether there is any indication that the goodwill and non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted. The use of different assumptions could result in different fair values and therefore, in different carrying amounts for goodwill and other non-current assets. If the discount rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the impairment would have been greater or lesser by approximately $500,000. If the growth rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the impairment would have been greater or lesser by approximately $200,000.

Income taxes and valuation allowances

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

Slow moving and obsolete inventory

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

Contingent considerations

The fair value recognized for contingent considerations has been estimated by management based on the acquired entities results, budgets and forecasts. However, the actual contingent considerations may vary due to unexpected changes in the acquired entities activities.

Stock-based compensation and other stock-based payments

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

Warrants

The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model as described above.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

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

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

The above revisions are effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

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

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

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

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

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2012, the Company had off-balance sheet arrangements consisting of letters of credit amounting to $1.4 M; these letters of credit expire at various dates through fiscal 2013. In these letters of credit, $1.1 M is secured by deposit certificates. From the remaining balance, an amount of $0.3 M is guaranteed by *Export Development Canada*.

FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS

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

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

Overview

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

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

Currency risk

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

As at June 30, 2012, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, assuming that all other variables remained constant, net loss for the year ended June 30, 2012 would have been greater or lesser by approximately $91,393 ($40,348 as at June 30, 2011).

The financial assets and liabilities denominated in U.S. dollars are as follows:

	June 30, 2012	June 30, 2011	July 1, 2010
	US$	US$	US$
FINANCIAL ASSETS			
Cash	**700**	700	294,011
Guaranteed deposit certificates	**15,194**	15,453	15,436
Accounts receivable	**873,628**	779,848	94,427
	889,522	796,001	403,874
FINANCIAL LIABILITIES			
Bank overdraft	**(135,479)**	(117,727)	-
Bank loan	**(1,599,444)**	(283,754)	-
Accounts payable	**(633,296)**	(929,656)	(479,845)
Long-term debt	**(316,659)**	(301,701)	(397,422)
	(2,684,878)	(1,632,838)	(877,267)

Cash flow and fair value interest rate risk

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

The guaranteed deposit certificates, unsecured loans and the convertible debenture bear interest at fixed rates and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

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

As at June 30, 2012 and 2011, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Company's net loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Company to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Company records allowances, determined on a client-per-client basis, at the balance sheet date to account for potential losses.

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

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

	June 30, 2012	June 30, 2011	July 1, 2010
	$		$
Cash and cash equivalents	**576,542**	440,356	2,586,047
Guaranteed deposits certificates	**1,147,703**	1,412,963	1,306,658
Accounts receivable	**9,142,341**	7,670,486	4,756,947

The Company is also exposed to credit risk due to its cash, its deposit certificates and its investment certificates. The Company has $1,724,245 ($1,853,319 in 2011) in cash and guaranteed deposits certificates with banking institutions that the Company considers at a low risk for loss.

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

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Current	**4,954,768**	2,706,949	1,224,170
Past due 1 to 30 days	**1,614,838**	1,588,576	986,206
Past due 31 to 90 days	**358,455**	1,132,893	681,394
Past due more than 90 days	**1,200,233**	1,363,207	807,304
	8,128,294	6,791,625	3,699,074
Less: Allowance for doubtful accounts	**(258,230)**	(3,720)	(25,724)
Trade accounts receivable	**7,870,064**	6,787,905	3,673,350
Retentions from customers under manufacturing contracts	**983,900**	566,938	742,620
Other receivables	**288,377**	315,643	340,977
	9,142,341	7,670,486	4,756,947

Liquidity risk

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

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

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

As at June 30, 2012	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	155,210	155,210	-	-	-
Bank loans	2,868,394	2,868,394	-	-	-
Accounts payable	5,742,007	5,742,007	-	-	-
Long-term debt	3,682,622	1,474,753	1,391,125	1,265,453	622,658
Total	12,448,233	10,240,364	1,391,125	1,265,453	622,658

As at June 30, 2011	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	291,520	291,520	-	-	-
Bank loans	1,353,624	1,353,624	-	-	-
Accounts payable	4,181,901	4,181,901	-	-	-
Long-term debt	3,544,284	728,191	1,455,072	1,341,617	1,496,749
Total	9,371,329	6,555,236	1,455,072	1,341,617	1,496,749

Fair value

The fair value hierarchy has the following levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Unobservable inputs such as inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

Financial instruments whose fair value approximates carrying value

Cash and cash equivalents, guaranteed deposit certificates, accounts receivable, bank loan and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The input level used by the Company to measure fair value of its cash and cash equivalents and guaranteed deposit certificates is a Level 1 because they are valued using quoted market prices.

Long-term debt and convertible debenture

The fair value of the long-term debt and the convertible debenture has been established by discounting the future cash flows at an interest rate to which the Company would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $3,682,622 ($3,544,284 as at June 30, 2011 and $2,188,969 as at July 1, 2010) and the fair value of the convertible debenture is $nil ($nil as at June 30, 2011 and $1,354,530 as at July 1, 2010).

RISK FACTORS AND UNCERTAINTIES

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

Competitive environment

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

Operating risks

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

Fixed Price Contracts

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

Capacity to secure performance guarantees

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

Management and employees

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

Capital investment

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

Current Global Financial Conditions

The Corporation offers products and services that are primarily designed for the non-residential construction market. Non-residential construction includes municipal, industrial, commercial and institutional sectors. Activity in the non-residential construction market is closely tied to overall changes in the economy. Economic growth and cycles have a direct impact on the level of construction that takes place on an annual basis. The economic recovery, which follows one of the worst economic and financial crises, still remains fragile. The Corporation believes that the water industry has a long-term sustained growth curve. During the financial year ended June 30, 2012, investments in water treatment systems have considerably increased; but on a short term basis such growth may be uneven due to the current instability of the global markets.

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

Implementation of a strategic plan

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

Product Liability and Other Lawsuits

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

Additional financing and dilution

The Corporation does not exclude raising additional funds by equity financing. In addition, 2,477,000 stock options and 2,250,000 common share purchase warrants are currently issued and outstanding.

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

Market Liquidity

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

Shortage of Raw Materials

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

Development of New Products

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

Acquisition and Expansion Risk

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

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

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

Technology and regulatory changes

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

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

CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

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

An evaluation was carried out, under the supervision of the CEO and the VP, Finance, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the VP, Finance concluded that the disclosure controls and procedures are effective.

Internal controls over financial reporting

The CEO and the VP, Finance have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out, under the supervision of the CEO and the VP, Finance, of the design and effectiveness of our internal controls over financial reporting. Based on this evaluation, the CEO and the VP, Finance concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

Changes in internal controls over financial reporting

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

H_2O Innovation's CEO and VP, Finance have also evaluated the effectiveness of H_2O Innovation's disclosure controls and procedures as of the end of fiscal year 2012. Based on this evaluation, the CEO and the VP, Finance concluded that the disclosure controls and procedures were effective as of that date, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework. In addition, based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting as of fiscal year 2012. In compliance with NI 52-109, H_2O Innovation's CEO and VP, Finance have provided a certification related to H_2O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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

The President and Chief Executive Officer

Frédéric Dugré

The Vice President, Finance

Josée Riverin, CPA, CA

September 26, 2012

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

September 25, 2012

Independent Auditor's Report

To the Shareholders of
H_2O Innovation Inc.

We have audited the accompanying consolidated financial statements of H_2O Innovation Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of changes in shareholders' equity, loss, comprehensive loss and cash flows for the years ended June 30, 2012 and June 30, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of H_2O Innovation Inc. and its subsidiaries as at June 30, 2012, June 30, 2011 and July 1, 2010 and their financial performance and their cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A106882

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
ASSETS			
Current assets			
Cash and cash equivalents	**576,542**	440,356	2,586,047
Guaranteed deposits certificates (note 5)	**1,147,703**	1,412,963	1,306,658
Accounts receivable (note 6)	**9,322,380**	7,828,476	4,854,584
Inventories (note 7)	**2,250,789**	2,230,656	1,913,306
Costs incurred in excess of billings (note 8)	**2,154,311**	2,264,941	2,148,946
Prepaid expenses	**132,480**	198,504	308,263
	15,584,205	14,375,896	13,117,804
Non-current assets			
Property, plant and equipment (note 9)	**2,026,695**	2,065,814	2,204,447
Intangible assets (note 10)	**5,459,185**	6,124,548	7,695,036
Investment in a joint venture (note 11)	**11,722**	88,041	85,455
Other assets	**43,122**	41,942	44,141
Goodwill (note 12)	**2,386,322**	10,179,427	11,254,505
Deferred income tax assets (note 19)	**2,958,149**	1,777,597	1,272,223
	28,469,400	34,653,265	35,673,611
LIABILITIES			
Current liabilities			
Bank overdraft	**155,210**	291,520	-
Bank loan (note 13)	**2,868,394**	1,353,625	-
Accounts payable and accrued liabilities (note 14)	**5,742,007**	4,181,901	3,407,858
Provisions (note 15)	**40,543**	32,300	30,425
Billings in excess of costs incurred (note 8)	**1,634,724**	1,310,866	233,537
Income taxes payable (note 19)	**4,378**	7,649	-
Deferred rent (note 26)	**18,188**	20,674	15,095
Current portion of long-term debt (note 17)	**2,580,862**	319,108	619,768
Contingent considerations (note 16)	**21,070**	686,878	1,419,902
	13,065,376	8,204,521	5,726,587
Non-current liabilities			
Long-term debt (note 17)	**1,101,760**	3,225,176	1,569,201
Contingent considerations (note 16)	**460,555**	732,848	1,561,675
Convertible debenture (note 18)	**-**	-	1,354,531
Deferred rent (note 26)	**97,482**	17,227	41,843
	14,725,173	12,179,772	10,253,835
SHAREHOLDERS' EQUITY			
Share Capital	**45,852,436**	45,852,436	45,844,856
Reserve – Option premium on convertible debenture (note 18)	**-**	-	301,023
Reserve - Stock options (note 20)	**1,821,421**	1,734,952	1,451,585
Reserve – Warrants (note 20)	**370,076**	10,143,677	10,001,890
Deficit	**(32,826,774)**	(33,221,162)	(32,179,578)
Accumulated other comprehensive loss	**(1,472,932)**	(2,036,410)	-
	13,744,227	22,473,493	25,419,776
	28,469,400	34,653,265	35,673,611

These accompanying notes are an integral part of the consolidated financial statements.
On behalf of the Board,

Frédéric Dugré

President and Chief Executive Officer

Philippe Gervais

Chairman of the Board of Directors

H_2O INNOVATION INC.

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

	Common shares Number	Share Capital (note 20)	Reserves			Deficit	Accumulated other comprehensive loss – Translation adjustment	Total
			Equity component of convertible debenture (note 18)	Stock options (note 20)	Warrants (note 20)			
		$	$	$	$	$	$	$
Balance as at July 1, 2010	60,120,832	45,844,856	301,023	1,451,585	10,001,890	(32,179,578)	-	25,419,776
Stock-based compensation costs	-	-	-	288,367	-	-	-	288,367
Fair value of stock options exercised	25,000	13,000	-	(5,000)	-	-	-	8,000
Share issue expenses related to private financing	-	(5,420)	-	-	-	-	-	(5,420)
Gain on early extinguishment of convertible debenture (note 18)	-	-	16,773	-	-	-	-	16,773
Reversal to deficit of equity component of convertible debenture (note 20)	-	-	(317,796)	-	-	317,796	-	-
Warrants issued in connection with long-term debt	-	-	-	-	141,787	-	-	141,787
Loss for the year	-	-	-	-	-	(1,359,380)	-	(1,359,380)
Other comprehensive loss	-	-	-	-	-	-	(2,036,410)	(2,036,410)
Balance as at June 30, 2011	60,145,832	45,852,436	-	1,734,952	10,143,677	(33,221,162)	(2,036,410)	22,473,493
Balance as at July 1, 2011	60,145,832	45,852,436	-	1,734,952	10,143,677	(33,221,162)	(2,036,410)	22,473,493
Stock-based compensation costs	-	-	-	86,469	-	-	-	86,469
Warrant issue expenses related to long-term debt	-	-	-	-	(1,165)	-	-	(1,165)
Reversal to deficit of expired warrants, net of deferred income taxes (note 20)	-	-	-	-	(9,772,436)	8,449,248	-	(1,323,188)
Net loss for the year	-	-	-	-	-	(8,054,860)	-	(8,054,860)
Other comprehensive loss	-	-	-	-	-	-	563,478	563,478
Balance as at June 30, 2012	**60,145,832**	**45,852,436**	**-**	**1,821,421**	**370,076**	**(32,826,774)**	**(1,472,932)**	**13,744,227**

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

CONSOLIDATED STATEMENTS OF LOSS
(in Canadian dollars)

Years ended June 30,	**2012**	2011
	$	$
Revenues (note 27)	**35,909,907**	27,632,266
Cost of goods sold (note 21a))	**27,634,549**	19,468,075
Gross profit	**8,275,358**	8,164,191
Operating expenses (note 21a))	**642,880**	1,225,331
Selling expenses (note 21a))	**3,906,263**	3,689,387
Administrative expenses (note 21a))	**4,206,086**	3,467,886
Depreciation of property, plant and equipment (note 21b))	**306,272**	300,002
Amortization of intangible assets (note 21b))	**614,308**	948,483
Changes in fair value of contingent considerations (note 16)	**(280,142)**	(273,317)
Impairment of intangible assets (note 10)	**378,728**	-
Impairment of goodwill (note 12)	**8,221,423**	-
Other gains – net (note 21c))	**(368,279)**	(44,399)
	17,627,539	9,313,373
Operating loss	**(9,352,181)**	(1,149,182)
Finance income	**(24,049)**	(29,958)
Finance costs	**932,221**	947,089
Finance costs – net	**908,172**	917,131
Gain on early extinguishment of convertible debenture (note 18)	**-**	(99,415)
Royalties income from a joint venture	**(20,585)**	(111,524)
Share of (earnings) loss in a joint venture (note 11)	**322,250**	(5,306)
	1,209,837	700,886
Loss before income taxes	**(10,562,018)**	(1,850,068)
Current income tax expense (note 19)	**4,374**	14,686
Deferred tax benefit (note 19)	**(2,511,532)**	(505,374)
	(2,507,158)	(490,688)
Net loss for the year	**(8,054,860)**	(1,359,380)
Net loss per share attributable to the equity holders of the company during the year		
Basic and diluted net loss per share	**(0.134)**	(0.023)
Weighted average number of shares outstanding (note 22)	**60,145,832**	60,136,106

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

H_2O INNOVATION INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in Canadian dollars)

Years ended June 30,	**2012**	2011
	$	$
Net loss for the year	**(8,054,860)**	(1,359,380)
Other comprehensive loss		
Currency translation adjustments	**563,478**	(2,036,410)
Comprehensive loss for the year	**(7,491,382)**	(3,395,790)

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

H_2O INNOVATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

Years ended June 30,	**2012**	2011
	$	$
Cash flows from operating activities		
Net loss for the year	**(8,054,860)**	(1,359,380)
Non-cash items		
Finance costs – net	**908,172**	917,131
Depreciation of property, plant and equipment	**306,272**	300,002
Amortization of intangible assets	**614,308**	948,483
Loss on disposal of property, plant and equipment	**16,710**	-
Changes in fair value of contingent considerations	**(280,142)**	(273,317)
Impairment of intangible assets	**378,728**	-
Deferred rent	**75,487**	(14,198)
Impairment of goodwill	**8,221,423**	-
Stock-based compensation	**86,469**	288,367
Gain on early extinguishment of convertible debenture	**-**	(99,415)
Share of (earnings) loss of joint venture	**322,250**	(5,306)
Deferred tax benefit	**(2,511,532)**	(505,374)
	83,285	196,993
Change in working capital items (note 23a))	**716,327**	(1,790,136)
Cash generated (used in) operations	**799,612**	(1,593,143)
Interests received	**24,049**	29,958
Income taxes paid	**(7,962)**	-
Net cash generated by (used in) operating activities	**815,699**	(1,563,185)
Cash flows from investing activities		
Disposal of guaranteed deposits certificates	**551,718**	119,591
Acquisition of guaranteed deposits certificates	**(286,458)**	(228,268)
Acquisition of property, plant and equipment	**(259,046)**	(206,189)
Investment in a joint venture	**(261,631)**	-
Acquisition of intangible assets	**(14,807)**	(41,064)
Contingent considerations paid	**(793,394)**	(1,157,423)
Net cash (used in) by investing activities	**(1,063,618)**	(1,513,353)
Cash flows from financing activities		
Variation of bank loan	**1,514,770**	1,353,624
Long-term debt reimbursement	**(14,086)**	(625,259)
Long-term debt contracted	**-**	2,124,692
Interest paid	**(703,818)**	(681,257)
Issuance of shares	**-**	8,000
Warrant issue expenses	**(1,165)**	-
Early extinguishment of convertible debenture	**-**	(1,400,000)
Share issue expenses	**-**	(5,419)
Net cash generated by financing activities	**795,701**	774,381
Net change in cash and cash equivalents	**547,782**	(2,302,157)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(275,285)**	(135,055)
Increase (Decrease) in cash and cash equivalents	**272,497**	(2,437,212)
Cash and cash equivalents - Beginning of year (note 23b))	**148,835**	2,586,047
Cash and cash equivalents - End of year (note 23b))	**421,332**	148,835

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in Canadian dollars)

1. Governing Statutes and Nature of Operations

H_2O Innovation Inc. (the "Company") is incorporated under the *Canada Business Corporations Act*. The Company's mission is to design, develop and market innovative environmentally-friendly water treatment technology and to produce high performance products in the field of membrane filtration and biological and physical water treatment solutions. At the same time and on a smaller scale, the Company continues its manufacturing and equipment distribution operations for the maple syrup industry. The head office of the Company was located at 420, Charest Boulevard East, suite 240, Quebec City (Quebec), Canada. On December 15, 2011, the Company's head office moved to 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

On September 25th, 2012, the Board reviewed the consolidated financial statements and authorized its publication.

2. Summary of Significant Accounting Policies

Basis of preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 29, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 29 discloses the impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended June 30, 2010 prepared under Canadian GAAP.

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

Principles of consolidation

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

Interest in a joint venture

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

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

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

Subsidiaries
Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the statement of income (loss) as incurred.

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

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

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

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

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

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

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

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

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

Presentation currency

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

Foreign currency translation

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

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

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

Financial assets and liabilities

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

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

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

Classification

Cash and cash equivalents	Loans and receivables
Guaranteed deposit certificates	Loans and receivables
Accounts receivable	Loans and receivables
Bank overdraft	Other financial liabilities
Bank loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Contingent considerations	Other financial liabilities
Long-term debt	Other financial liabilities
Convertible debenture	Other financial liabilities

Measurement

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

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

Cash and cash equivalents

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

Inventories

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

Property, plant and equipment

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

Buildings	25-40 years
Machinery and equipment	10 years
Computer equipment	5 years
Furniture, fixtures and office equipment	10 years
Automotive equipment	5 years
Leasehold improvements	Remaining term of the lease

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

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

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

Intangible assets

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

The Company is using the following amortization methods:

Intangible assets acquired separately

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

Intangible assets acquired in business combinations

- Rights on technologies and technologies are amortized using the straight-line method over periods of seven (7) and fifteen (15) years.
- Patents, trademarks and intellectual property are amortized using the straight-line method over periods of fifteen (15), eighteen (18) and twenty (20) years.
- Customer relations are amortized using the straight-line method over periods of five (5) and fifteen (15) years.
- Distribution network is amortized using the straight-line method over a period of five (5) years.

Goodwill

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

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

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

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

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

Other assets

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Revenue recognition

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

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

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

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

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

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

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

Share Capital

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

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

Share-Based Payment

The Company offers a stock option plan to directors, executive officers, key employees and consultants providing services to the Company and accounts for these awards in accordance with IFRS 2 – Share-based Payment. Stock options granted to directors, executive officers, key employees and consultants providing services are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding determination the fair value of equity-settled share-based transactions are set out in note 20.

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

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

Warrants

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

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

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

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

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

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

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

Taxation

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

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

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

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

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

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

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

Segment Reporting

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

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

Net loss per share

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

Provisions

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

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

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

Warranties

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

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

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

3. Critical accounting estimates, assumptions and judgements

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

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

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

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

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

Impairment of goodwill and other non-current assets
At the end of each reporting period, the Company assesses whether there is any indication that the goodwill and non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted. The use of different assumptions could result in different fair values and therefore, in different carrying amounts for goodwill and other non-current assets. If the discount rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the impairment would have been greater or lesser by approximately $500,000. If the growth rate had increased or decreased by 1% compared to the assumption taken by the Company, assuming other variables remain constant the impairment would have been greater or lesser by approximately $200,000.

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

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

Contingent considerations
The fair value recognized for contingent considerations has been estimated by management based on the acquired entities results, budgets and forecasts. However, the actual contingent considerations may vary due to unexpected changes in the acquired entities activities.

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

Warrants
The Company uses the fair value method to measure the value of warrants at the grant date. Fair value is determined using the Black-Scholes option pricing model as described above.

4. Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

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

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

The above revisions are effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

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

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

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

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

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

5. Guaranteed deposit certificates

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Guaranteed deposit certificates in escrow for sales contract execution and performance, bearing interest at 0.90% (at 0.40% as at June 30, 2011) and maturing in September 2012	**30,960**	147,037	-
Guaranteed deposit certificate , held as collateral for letters of credit bearing interest at 1.05% (from 0.75% to 1.05% as at June 30, 2011) and maturing in July 2012	**1,000,633**	1,251,025	1,250,318
Guaranteed deposit certificate held as collateral for a lease agreement, bearing interest at 0.90% and maturing in October 2012	**100,641**	-	-
Guaranteed deposit certificate denominated in US dollars held as collateral for a letter of credit, bearing interest at 0.10% (0.10% as at June 30, 2011) and maturing in September 2012	**15,469**	14,901	16,432
Guaranteed deposit certificate in escrow for sales tax, bearing interest at 0.25% as at July 1,2010 and matured in August 2010	**-**	-	39,908
	1,147,703	1,412,963	1,306,658

6. Accounts Receivable

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Trade accounts receivable	**8,128,294**	6,791,625	3,699,074
Retentions from customer under manufacturing contracts	**983,900**	566,938	742,620
Allowance for doubtful accounts (i)	**(258,230)**	(3,720)	(25,724)
	8,853,963	7,354,843	4,415,970
Tax credits receivable	**180,040**	157,990	97,637
Other receivables	**288,377**	315,643	340,977
	9,322,380	7,828,476	4,854,584

As at June 30, 2012, retentions held by customers for contract work amounted to $983,900 ($566,938 as at June 30, 2011).

(i) Movement in the allowance for doubtful accounts

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Balance at beginning of the year	**(3,720)**	(25,724)	(25,724)
Impairment losses recognised on receivables	**(254,510)**	(35,000)	-
Amounts written off during the year as uncollectible	**-**	10,180	-
Amounts recovered during the year	**-**	35,000	-
Impairment losses reversed	**-**	11,433	-
Foreign exchange translation gains and losses	**-**	391	-
Balance at end of the year	**(258,230)**	(3,720)	(25,724)

7. Inventories

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Raw materials	**1,112,301**	1,455,388	970,529
Finished goods	**1,138,488**	775,268	942,777
	2,250,789	2,230,656	1,913,306

As a result of variations in the ageing of its inventory of raw materials in Canada, the Company recognized an inventory provision for the year of $50,000 (nil in fiscal year 2011). The inventory of raw material recorded at net realizable value amounted to $606,085 as at June 30, 2012.

8. Work in progress

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Construction costs incurred plus recognised profits less recognised losses to date	**29,281,800**	15,018,490	13,533,641
Less: Progress billings	**(28,762,213)**	(14,064,415)	(11,618,232)
Net statement of financial position for ongoing contracts	**519,587**	954,075	1,915,409

Recognised and included in the financial statements as amounts due:			
Costs incurred in excess of billings	**2,154,311**	2,264,941	2,148,946
Billings in excess of costs incurred	**(1,634,724)**	(1,310,866)	(233,537)
	519,587	954,075	1,915,409

9. Property, plant and equipment

	June 30, 2012	**June 30, 2011**	**July 1, 2010**
	$	**$**	**$**
Cost	**4,400,475**	4,215,963	4,093,339
Accumulated depreciation and impairment	**(2,373,780)**	(2,150,149)	(1,888,892)
	2,026,695	2,065,814	2,204,447
Land	**25,000**	25,000	25,000
Buildings	**993,641**	1,032,396	1,075,000
Machinery and equipment	**423,137**	474,170	383,628
Computer equipment	**198,226**	196,484	271,104
Furniture, fixtures and office equipment	**113,657**	106,431	116,045
Automotive equipment	**93,430**	83,490	145,850
Leasehold improvements	**179,604**	147,843	187,820
	2,026,695	2,065,814	2,204,447

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

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
Balance as at July 1, 2010	25,000	1,075,000	1,517,924	642,502	291,420	331,215	210,278	**4,093,339**
Additions	-	-	153,264	16,113	8,816	12,651	11,726	**202,570**
Effect of foreign currency exchange differences	-	-	(29,345)	(4,696)	(7,535)	(21,239)	(17,131)	**(79,946)**
Balance as at June 30, 2011	25,000	1,075,000	1,641,843	653,919	292,701	322,627	204,873	**4,215,963**
Cumulated amortization								
Balance as at July 1, 2010	-	-	(1,134,296)	(371,399)	(175,374)	(185,365)	(22,458)	**(1,888,892)**
Amortization expense	-	(42,604)	(52,578)	(88,206)	(13,916)	(66,996)	(35,702)	**(300,002)**
Effect of foreign currency exchange differences	-	-	19,201	2,170	3,020	13,224	1,130	**38,745**
Balance as at June 30, 2011	-	(42,604)	(1,167,673)	(457,435)	(186,270)	(239,137)	(57,030)	**(2,150,149)**
Net amount as at June 30, 2011	25,000	1,032,396	474,170	196,484	106,431	83,490	147,843	**2,065,814**

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
Balance as at June 30, 2011	25,000	1,075,000	1,641,843	653,919	292,701	322,627	204,873	**4,215,963**
Additions	-	3,865	16,490	104,436	20,512	58,226	55,517	**259,046**
Disposals	-	-	-	-	-	(99,826)	-	**(99,826)**
Write-off of fully depreciated assets							(23,310)	**(23,310)**
Effect of foreign currency exchange differences	-	-	20,145	2,550	4,182	11,727	9,998	**48,602**
Balance as at June 30, 2012	25,000	1,078,865	1,678,478	760,905	317,395	292,754	247,078	**4,400,475**
Cumulated amortization								
Balance as at June 30, 2011	-	(42,604)	(1,167,673)	(457,435)	(186,270)	(239,137)	(57,030)	**(2,150,149)**
Amortization expense	-	(42,620)	(78,400)	(103,676)	(15,585)	(34,429)	(31,562)	**(306,272)**
Disposals	-	-	-	-	-	83,116	-	**83,116**
Write-off of fully depreciated assets							23,310	**23,310**
Effect of foreign currency exchange differences	-	-	(9,268)	(1,568)	(1,883)	(8,874)	(2,192)	**(23,785)**
Balance as at June 30, 2012	-	(85,224)	(1,255,341)	(562,679)	(203,738)	(199,324)	(67,474)	**(2,373,780)**
Net amount as at June 30, 2012	25,000	993,641	423,137	198,226	113,657	93,430	179,604	**2,026,695**

10. Intangible Assets

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Cost	**12,989,077**	12,332,392	13,489,915
Accumulated depreciation and impairment	**(7,529,892)**	(6,207,844)	(5,794,879)
	5,459,185	6,124,548	7,695,036

Software	**163,243**	194,120	204,657
Patents	**2,189,932**	2,230,610	2,708,894
Rights on technologies	**-**	38,766	92,708
Technologies	**-**	203,516	251,684
Trademarks	**234,481**	266,119	363,891
Customer relations	**632,435**	838,985	1,066,010
Distribution network	**395,361**	460,197	757,030
Intellectual property	**1,843,734**	1,892,235	2,250,162
	5,459,185	6,124,548	7,695,036

Cost	Software	Patents	Rights on technologies	Technologies	Trademarks	Customer relations	Distribution network	Intellectual property	Total
	$	$	$	$	$	$	$	$	$
Balance as at July 1, 2010	386,174	3,544,321	377,592	1,149,768	508,204	3,761,100	1,346,114	2,416,642	13,489,915
Additions	34,057	4,273	-	-	1,924	-	-	-	40,254
Effect of foreign currency exchange differences	(4,616)	(334,081)	-	(108,324)	(45,202)	(351,050)	(126,823)	(227,681)	(1,197,777)
Balance as at June 30, 2011	415,615	3,214,513	377,592	1,041,444	464,926	3,410,050	1,219,291	2,188,961	12,332,392
Accumulated amortization									
Balance as at July 1, 2010	(181,517)	(835,427)	(284,884)	(898,084)	(144,313)	(2,695,090)	(589,084)	(166,480)	(5,794,879)
Amortization expense	(42,480)	(237,591)	(53,942)	(25,395)	(69,742)	(133,385)	(234,414)	(151,534)	(948,483)
Effect of foreign currency exchange differences	2,502	89,115	-	85,551	15,248	257,410	64,404	21,288	535,518
Balance as at June 30, 2011	(221,495)	(983,903)	(338,826)	(837,928)	(198,807)	(2,571,065)	(759,094)	(296,726)	(6,207,844)
Net amount as at June 30, 2011	194,120	2,230,610	38,766	203,516	266,119	838,985	460,197	1,892,235	6,124,548

Cost	Software	Patents	Rights on technologies	Technologies	Trademarks	Customer relations	Distribution network	Intellectual property	Total
	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2011	415,615	3,214,513	377,592	1,041,444	464,926	3,410,050	1,219,291	2,188,961	12,332,392
Additions	14,706	-	-	-	-	-	-	-	14,706
Effect of foreign currency exchange differences	2,002	179,114	-	58,104	24,307	188,300	68,026	122,126	641,979
Balance as at June 30, 2012	**432,323**	**3,393,627**	**377,592**	**1,099,548**	**489,233**	**3,598,350**	**1,287,317**	**2,311,087**	**12,989,077**
Accumulated amortization									
Balance as at June 30, 2011	(221,495)	(983,903)	(338,826)	(837,928)	(198,807)	(2,571,065)	(759,094)	(296,726)	(6,207,844)
Amortization expense	(46,477)	(162,799)	(38,766)	(12,729)	(44,776)	(68,251)	(88,590)	(151,920)	(614,308)
Impairment of intangible assets	-	-	-	(198,589)	-	(180,139)	-	-	(378,728)
Effect of foreign currency exchange differences	(1,108)	(56,993)	-	(50,302)	(11,169)	(146,460)	(44,272)	(18,708)	(329,012)
Balance as at June 30, 2012	**(269,080)**	**(1,203,695)**	**(377,592)**	**(1,099,548)**	**(254,752)**	**(2,965,915)**	**(891,956)**	**(467,354)**	**(7,529,892)**
Net amount as at June 30, 2012	**163,243**	**2,189,932**	**-**	**-**	**234,481**	**632,435**	**395,361**	**1,843,733**	**5,459,185**

During the third quarter of fiscal year 2012, the Company reviewed the carrying amounts of its intangible assets and determined that some intangible assets related to the cash-generating unit “United States” were no longer used and were not generating material cash flows. Therefore, the recoverable amount of some of the intangible assets was estimated to nil. The impairment loss of the intangible assets is due to the prolonged decrease of the Company’s operations in the industrial sector – mainly the ethanol production subsector.

11. Investment in a joint venture

The Company has the following interest in a joint venture:

- A 49% equity shareholding with equivalent voting power in H_2O Innovation India Ltd, a joint venture established in Mumbai, India.

There has been no change in the Company’s voting interest in this joint venture since its creation in February 2010.

The reporting date of H_2O Innovation India Ltd. is March 31. This was the reporting date established when the joint-venture was incorporated because a uniform accounting year ending on March 31 is required for tax purposes. For the purpose of applying the equity method of accounting, H_2O Innovation India Ltd. has prepared additional financial statements for H_2O Innovation’s use that correspond to H_2O Innovation’s reporting period which is June 30. The Company has no share of any contingent liabilities or capital commitments as at June 30, 2012 or as at June 30, 2011.

Summary financial information not adjusted for the ownership held by the Company is as follows:

As at and for the year ended June 30,	2012	2011
	$	$
Current assets	**1,246,821**	1,484,037
Long-term assets	**432,821**	50,696
Current liabilities	**(1,596,873)**	(1,355,058)
Revenues	**1,239,149**	2,151,777
Net income (loss)	**(657,653)**	10,828

12. Goodwill

The change in carrying value is as follows:

	$
Balance as at July 1, 2010	11,254,505
Effect of foreign exchange differences	(1,075,078)
Balance as at June 30, 2011	10,179,427
Impairment of goodwill	**(8,221,423)**
Effect of foreign exchange differences	**428,318**
Balance as at June 30, 2012	**2,386,322**

In the third quarter of fiscal year 2012, the Company assessed the recoverable amount of the cash-generating unit "United States" and recognized a goodwill impairment loss of $8,221,423 ($US 8,212,389). The fair value less costs to sell was used to determine the recoverable amount of this cash-generating unit by applying new discounted projections of future cash flows based on a five-year financial forecast approved by management. The cash-generating unit impairment loss is due to market conditions resulting from the ongoing economic slowdown in the United States, the prolonged decrease of the Company's operations in the industrial sector – mainly the ethanol production subsector and the lower expected sales of the Company's patented Bio-Wheel™ and Bio-Brane™ systems in the United States.

	United States
Growth rate [(1)]	9.98%
Discount rate	14.80%

(1) Average growth rate used for extrapolating the budget estimates over the next five years. The terminal growth is 3.0%.

13. Bank loan

The bank loans for an authorized amount of $2,000,000 and US$2,000,000 bearing interest at CDN prime rate plus 1.00% (4.00% as at June 30, 2012) and at US prime rate plus 1.00% (4.25% as at June 30, 2012) are secured by an assignment of book debtors and inventories. These bank loans are renegotiable in November 2012 and are secured in part by Export Development Canada ("EDC").

The Company has a credit facility enabling it to issue letters of credit for a maximum amount of $2,000,000. This credit facility bears interest at prime rate plus 1.00% (4.00% as at June 30, 2012) and is renegotiable on November 30, 2012. The credit facility is secured by a guaranteed deposit certificate ($1,132,234 as at June 30, 2012). As at June 30, 2012, the Company issued $1,446,867 in letters of credit under this credit facility. From these issued letters of credit, an amount of $316,120 is secured by EDC.

Covenants

The Company has undertaken to maintain covenants on a quarterly basis in respect of the bank loans described above. The Company was in breach of these covenants as at June 30, 2012 (note 25).

14. Accounts Payable and Accrued Liabilities

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	
Trade accounts payable	**3,792,052**	2,010,603	2,044,820
Other accrued liabilities and accounts payable	**1,949,955**	2,171,298	1,363,038
	5,742,007	4,181,901	3,407,858

15. Provisions

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

	$
Balance as at July 1, 2010	30,425
Additional provisions recognised	4,243,
Effect of foreign exchange differences	(2,368)
Balance as at June 30, 2011	32,300
Additional provisions recognised	**40,116**
Less: Payments	**(32,760)**
Effect of foreign exchange differences	**887**
Balance as at June 30, 2012	**40,543**

16. Contingent considerations

The change in carrying value is as follows:

	$
Balance as at July 1, 2010	2,981,577
Plus: Unwinding of discount	102,507
Less: Payments	(1,157,423)
Less: Reduction of contingent consideration through the statement of income (loss)	(273,317)
Effect of foreign exchange differences	(233,617)
Balance as at June 30, 2011	1,419,727
Plus: Unwinding of discount	**81,591**
Less: Variation of contingent consideration through the statement of income (loss)	**(280,142)**
Less: Payments	**(793,393)**
Effect of foreign exchange differences	**53,842**
	481,625
Less: short-term contingent considerations	**21,070**
Balance as at June 30, 2012	**460,555**

Under the acquisition agreement of Wastewater Technology Inc., the Company has a contingent consideration of up to $2,129,200 ($US 2,000,000) based on sales volume of certain wastewater equipment over a ten-year period ending on April 6, 2018. The Company records the contingent consideration at fair value at each reporting period based on actual and forecasted sales over the period of the contingent consideration. Changes in the fair value of the contingent consideration are recorded in the consolidated statement of loss.

During fiscal year 2012, the fair value of the contingent consideration was reduced based on actual and forecasted sales of certain wastewater equipment over the period of the contingent consideration; the resulting change in the fair value, in the amount of $280,142 ($US 283,066), has been recorded in the consolidated statement of income (loss) for the year ended June 30, 2012 ($159,189 ($US 165,082) for the year ended June 30, 2011).

During the first quarter of fiscal year 2012, the fair value of the contingent consideration for the acquisition of Professional Water Technology, LLP was increased based on the actual sales of specialty chemicals over the period of the contingent consideration that was ending in June 2011; the resulting change in the fair value, in the amount of $29,964 ($US 29,284), has been recorded in the statement of income (loss) for the year ended June 30, 2012 ($114,129 ($US 118,354) for the year ended June 30, 2011).

17. Long-Term Debt

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Unsecured – at amortised cost			
Bank loan, denominated in Canadian dollars (a)	**1,401,737**	1,338,945	1,765,874
Loans from other entities, denominated in Canadian dollars (b) (e)	**1,862,820**	1,810,230	-
Loans from shareholders, denominated in US dollars (c)	**322,391**	290,930	423,095
Loans from other entities, denominated in US dollars (d)	**95,674**	104,179	-
	3,682,622	3,544,284	2,188,969
Less: Current portion	**(2,580,862)**	(319,108)	(619,768)
Long-term debt	**1,101,760**	3,225,176	1,569,201

(a) Bank Loan
The bank loan of $1,401,737 bearing interest at 11.5% (effective rate of 17.6%) since an agreement was concluded on June 30, 2011 giving a six-month moratorium on the repayment of principal which was extended on December 31, 2011 for an additional six-month. The bank loan is repayable in monthly instalments, maturing on June 1, 2015.

(b) Loans from other entities
A loan having a par value of $2,000,000 bearing interest at a rate of 11% (effective rate of 16.2%) payable in 48 equal monthly instalments, and maturing July 1, 2016. The Company had a capital leave in fiscal 2012. Upon the issue of this loan, the Company issued 1,000,000 warrants, each warrant entitling the holder to the purchase of one share at a price of $0.50 until December 30, 2013.

(c) Loans from shareholders
The loan from shareholders of $322,391 ($US 316,042) bearing interest at 11.5% (effective rate of 17.6%) since an agreement was concluded on June 30, 2011 giving a six-month moratorium on the repayment of principal which was extended on December 31, 2011 for an additional six-month. The loan to shareholders is repayable in monthly instalments, maturing on June 1, 2015. On July 19, 2012, the Company has agreed to early reimbursed three shareholders from August 1, 2012 to October 1, 2012 for a total amount of $US 132,242.

(d) Loans from other entities
A loan of $95,674 ($US 93,973), bearing interest at 8.5% payable in monthly instalments of $1,934 ($US 1,900) and maturing July 1, 2017.

(e) As at June 30, 2012, the Company is in breach of covenants on the loan from other entity to maintain working capital ratio of 1.5:1 and an equity debt ratio of 2.5:1.

(f) The annual principal instalments due on the long-term debt are $1,176,375 in 2013, $1,083,720 in 2014, $1,085,198 in 2015, $519,816 in 2016, $63,234 in 2017 and $2,051 in 2018.

18. Convertible Debenture

On June 30, 2011, the Company repaid the convertible debenture in totality for an amount of $1,400,000 plus the accrued interest. This transaction generated a gain of $116,188 that was allocated as follows: $99,415 was recorded in the statement of loss and $16,773 was recorded in equity under the caption “Gain on early extinguishment of convertible debenture”.

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

19. Income Taxes

Income tax recoveries are detailed as follows:

	June 30, 2012 $	June 30, 2011 $
Current tax expense:		
Current period	**4,374**	8,956
Adjustment for prior periods	**-**	5,730
	4,374	14,686
Deferred tax recovery:		
Origination and reversal of temporary differences	**(1,017,358)**	(357,355)
Utilization of tax benefits previously unrecognized	**(1,494,174)**	(148,019)
	(2,511,532)	(505,374)
Income taxes	**(2,507,158)**	(490,688)

Reconciliation of the Company's effective income tax recovery:

The standard rate of the Canadian corporate income tax is 27.08% (28.76% for 2011). The decrease is the result of a change in the federal tax rate. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the expense for 2012 and 2011.

	June 30, 2012 $	June 30, 2011 $
Loss before income taxes	**(10,562,018)**	**(1,850,068)**
Income taxes at the standard rate of Canadian corporate tax of 27.08% (28.76% in 2011)	**(2,860,194)**	**(531,998)**
Tax effect from:		
Difference between Canadian and foreign tax rate	**(472,916)**	**72,113**
Non-deductible goodwill impairment	**2,226,361**	**-**
Utilization of tax benefits previously unrecognized	**(1,494,174)**	**(148,319)**
Changes in fair value of contingent considerations and unwinding of interest	**(53,916)**	**-**
Non-deductible stock-based compensation	**23,416**	**82,922**
Non-deductible share of a joint venture result	**87,265**	**(1,165)**
Gain on debt settlement	**-**	**79,168**
Items not affecting earnings	**(315)**	**(15,355)**
Non-deductible items	**20,244**	**(12,906)**
Other	**(17,071)**	**(15,148)**
Total income tax recovery	**(2,507,158)**	**(490,688)**

Deferred tax assets and liabilities

	June 30, 2012 $	June 30, 2011 $
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	**3,992,149**	3,099,597
Deferred tax liabilities	**(1,034,000)**	(1,322,000)
Net deferred tax assets	**2,958,149**	1,777,597
Deferred tax assets:		
Deferred tax asset to be realized after more than 12 months	**3,992,149**	3,099,597
Deferred tax liability:		
Deferred tax liability to be realized after more than 12 months	**1,034,000**	1,322,000

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

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

	Balance as at July 1, 2011 $	(Charge) / Credit in earnings $	(Charge) / Credit in equity $	Balance as at June 30, 2012 $
Development and exploration expenses	-	695,000	(695,000)	-
Non-capital losses	1,076,303	431,327	(628,188)	879,442
Property, plant and equipment	(20,521)	14,521	-	(6,000)
Intangible assets	(412,185)	124,892	-	(287,293)
U.S. interests not deducted and deferred	994,000	1,314,000	-	2,308,000
Other assets	140,000	(76,000)	-	64,000
Foreign exchange difference recognized in equity	-	7,792	(7,792)	-
	1,777,597	2,511,532	(1,330,980)	2,958,149

	Balance as at July 1, 2010 $	(Charge) / Credit in earnings $	(Charge) / Credit in equity $	Balance as at June 30, 2011 $
Non-capital losses	927,579	148,724	-	1,076,303
Property, plant and equipment	(86,855)	66,334	-	(20,521)
Intangible assets	(400,501)	(11,684)	-	(412,185)
U.S. interests not deducted and deferred	748,000	246,000	-	994,000
Other assets	84,000	56,000	-	140,000
	1,272,223	505,374	-	1,777,597

At June 30, 2012, the Company had the following tax losses carried forward available to reduce taxable income in the future, and investment tax credits carryovers to reduce income tax payable, and in respect of which the Company has not recognized a deferred tax asset on those from Canada.

Tax losses carried forward expire as follows:	Date	Canada	USA
		$	US$
	2014	72,000	-
	2015	271,000	-
	2016	2,277,000	-
	2027	2,330,000	-
	2028	2,619,000	26,000
	2029	1,000	-
	2030	672,000	1,839,000
	2032	**-**	**361,000**
		8,242,000	**2,226,000**

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

The ability to realize the tax benefits from these losses and investment tax credits is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses and investment tax credits arose. Deferred tax assets are recognized in respect of tax losses and other temporary differences giving rise to deferred tax assets only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. The Company has forecasted the taxable income for the next five years. Based on those forecasts, the tax losses carried forward in the United States will be used before their expiring dates, ranging from 2028 to 2032. Therefore, deferred income tax assets have been recorded regarding those U.S. losses.

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

As at June 30, 2012	Canada
	$
Tax losses carried forward	2,188,110
Development and exploration expenses	643,000
Capital losses	63,000
Research and development expenses	563,000
Property, plant and equipment	1,064,000
Intangible assets	139,293
Financing expenses	16,000
	4,676,403

As at June 30, 2011	Canada
	$
Tax losses carried forward	3,118,697
Development and exploration expenses	1,338,000
Capital losses	79,000
Research and development expenses	567,000
Property, plant and equipment	1,012,521
Intangible assets	66,400
Financing expenses	16,000
	6,197,618

20. Capital Stock

Share Capital

The Company can issue an unlimited authorized number of common shares, without par value.

Stock options

The Company has established a stock option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Company. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The maximum number of shares that may be issued under the plan amounts to 5,500,000.

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

Years ended June 30,	**2012**	2011
Number of stock options	-	2,035,000
Expected dividend yield	-	0%
Expected volatility	-	70%
Risk-free interest rate	-	From 2.87% to 3.21%
Weighted average expected life (years)	-	10
Weighted average fair value at the grant date	-	$0.25

For the year ended June 30, 2012, the Company recorded $86,469 ($288,367 in 2011) as stock-based compensation for options granted to its directors, officers and key employees.

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

The following table summarizes the situation of the Company's stock-based compensation plan as at June 30, 2012 and June 30, 2011 and the changes during the years ended on these dates:

Years ended June 30		**2012**		2011
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**3,945,000**	**0.80**	1,950,000	1.11
Granted	**-**	**-**	2,035,000	0.50
Exercised	**-**	**-**	(25,000)	0.32
Expired	**(980,500)**	**1.22**	-	-
Forfeited	**(487,500)**	**0.50**	(15,000)	0.50
Outstanding - End of year	**2,477,000**	**0.70**	3,945,000	0.80

As at June 30, 2012, the following stock options were granted:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)	Weighted average exercise price
$				$
0.32	Directors	125,000	1.44	0.02
0.50	Directors	290,000	8.37	0.06
0.75	Directors	225,000	7.47	0.07
0.90	Directors	12,000	1.03	0.00
1.50	Directors	100,000	0.44	0.06
0.50	Employees	1,222,500	8.23	0.24
0.90	Employees	250,000	1.03	0.09
1.50	Employees	252,500	0.35	0.15
		2,477,000	5.95	0.70

As at June 30, 2012, the following stock options could be exercised:

Exercise price	Number of shares	Weighted average exercise price
$		$
0.32	125,000	0.02
0.50	782,500	0.22
0.75	220,000	0.09
0.90	262,000	0.14
1.50	352,500	0.31
	1,742,000	0.78

Warrants

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

The warrants outstanding as at June 30, 2012 and June 30, 2011 and the changes during the years ended on those dates are summarized in the following table:

Years ended June 30		**2012**		2011
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding, beginning of year	**10,179,877**	**0.84**	9,179,877	0.88
Issued	**-**	**-**	1,000,000	0.50
Expired	**(7,929,877)**	**0.85**	-	-
Outstanding, end of year	**2,250,000**	**0.78**	10,179,877	0.84

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

Year ended June 30,	**2012**	2011
Number of warrants	**-**	1,000,000
Expected dividend yield	**-**	0%
Expected volatility	**-**	50%
Risk-free interest rate	**-**	1.58%
Weighted average expected life (years)	**-**	2.5
Weighted average fair value at the grant date	**-**	$0.142

As at June 30, 2012, the following warrants were granted:

Maturity date	**Number of warrants**	**Exercise price**
June 2013	**1,250,000**	$1.00 on or before June 30, 2012 $1.10 on or before June 30, 2013
December 2013	**1,000,000**	$0.50
	2,250,000	

21. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	**2012**	2011
	$	$
Material	**16,887,584**	14,113,835
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**170,496**	(318,271)
Salaries and fringe benefits	**8,821,883**	7,908,547
Subcontractors and professional fees	**6,706,473**	2,537,285
Rent, electricity , insurance and office expenses	**1,114,643**	1,007,574
Telecommunications and travel expenses	**1,190,314**	1,200,385
Bad debt expenses	**254,510**	35,000
Other expenses	**1,243,874**	1,366,324
Total cost of goods sold, operating, selling and administrative expenses	**36,389,778**	27,850,679

b) Depreciation and amortization

The Company has elected to present depreciation and amortization as a separate line item in its consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the years ended June 30, 2012 and 2011 and ii) the amounts of cost of goods sold, operating expenses, selling expenses and administrative expenses, if depreciation and amortization were allocated within those cost categories for the years as noted above.

Depreciation by function	**2012**	2011
	$	$
Cost of goods sold	**170,183**	171,561
Operating expenses	**5,184**	4,035
Selling expenses	**51,687**	62,074
Administrative expenses	**79,218**	62,332
	306,272	300,002

Amortization by function	**2012**	2011
	$	$
Cost of goods sold	**366,118**	468,384
Selling expenses	**201,646**	437,899
Administrative expenses	**46,544**	42,200
	614,308	948,483

Impairment of intangible assets by function	**2012**	2011
	$	$
Cost of goods sold	**198,589**	-
Selling expenses	**180,139**	-
	378,728	-

Cost per function including depreciation, amortization and impairment of intangible assets	**2012**	2011
	$	$
Cost of goods sold	**28,369,439**	20,108,020
Operating expenses	**648,064**	1,229,366
Selling expenses	**4,339,558**	4,189,360
Administrative expenses	**4,331,848**	3,572,418
	37,688,909	29,099,164

c) Other gains – net

	2012	2011
	$	$
Exchange gain	**(254,614)**	(44,888)
Other revenues	**(130,375)**	(36,946)
Acquisition and integration	**-**	38,403
(Gain) Loss on disposal of assets	**16,710**	(968)
	(368,279)	(44,399)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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22. Net Loss Per Share

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

As at June 30	2012	2011
Net loss	**(8,054,860)**	(1,359,380)
Basic and diluted weighted average number of share outstanding	**60,145,832**	60,136,106
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		
Stock options	**2,477,000**	3,820,000
Warrants (number of equivalent shares)	**2,250,000**	10,179,877

For the years ended June 30, 2012 and 2011, there was no difference in the basic and diluted weighted average number of shares outstanding, since the effect of the stock options and warrants would have been anti-dilutive. Accordingly, the diluted loss per share for these years is calculated using the basic weighted average number of shares outstanding.

23. Cash Flows

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

Years ended June 30,	2012	2011
	$	$
Accounts receivable	**(1,290,126)**	(3,310,964)
Inventories	**14,481**	(388,420)
Costs incurred in excess of billings	**164,058**	(237,523)
Prepaid expenses	**68,143**	101,079
Accounts payable and accrued liabilities	**1,476,414**	930,302
Billings in excess of costs incurred	**283,357**	1,115,390
	716,327	(1,790,136)

b) Cash and cash equivalents consist of the following:

As at June 30	2012	2011
	$	$
Beginning of year		
Cash and cash equivalents	**440,355**	2,586,047
Bank overdraft	**(291,520)**	-
	148,835	2,586,047

	2012	2011
	$	$
End of year		
Cash and cash equivalents	**576,542**	440,355
Bank overdraft	**(155,210)**	(291,520)
	421,332	148,835

24. Financial Risk Management

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

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

Overview

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

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

Currency risk

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

As at June 30, 2012, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, assuming that all other variables remained constant, net loss for the year ended June 30, 2012 would have been greater or lesser by approximately $91,393 ($40,348 as at June 30, 2011).

The financial assets and liabilities denominated in U.S. dollars are as follows:

	June 30, 2012	June 30, 2011	July 1, 2010
	US$	US$	US$
FINANCIAL ASSETS			
Cash	**700**	700	294,011
Guaranteed deposits certificates	**15,194**	15,453	15,436
Accounts receivable	**873,628**	779,848	94,427
	889,522	796,001	403,874
FINANCIAL LIABILITIES			
Bank overdraft	**(135,479)**	(117,727)	-
Bank loan	**(1,599,444)**	(283,754)	-
Accounts payable	**(633,296)**	(929,656)	(479,845)
Long-term debt	**(316,659)**	(301,701)	(397,422)
	(2,684,878)	(1,632,838)	(877,267)

Cash flow and fair value interest rate risk

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

The guaranteed deposit certificates, unsecured loans and the convertible debenture bear interest at fixed rates and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations.

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

As at June 30, 2012 and 2011, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Company's net loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Company to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Company records allowances, determined on a client-per-client basis, at the statement of financial position date to account for potential losses.

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

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

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Cash and cash equivalents	**576,542**	440,356	2,586,047
Guaranteed deposits certificates	**1,147,703**	1,412,963	1,306,658
Accounts receivable	**9,142,341**	7,670,486	4,756,947

The Company is also exposed to credit risk due to its cash, its deposit certificates and its investment certificates. The Company has $1,724,245 ($1,853,319 in 2011) in cash and guaranteed deposits certificates with banking institutions that the Company considers at a low risk for loss.

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

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Current	**4,954,768**	2,706,949	1,224,170
Past due 1 to 30 days	**1,614,838**	1,588,576	986,206
Past due 31 to 90 days	**358,455**	1,132,893	681,394
Past due more than 90 days	**1,200,233**	1,363,207	807,304
	8,128,294	6,791,625	3,699,074
Less: Allowance for doubtful accounts	**(258,230)**	(3,720)	(25,724)
Trade accounts receivable	**7,870,064**	6,787,905	3,673,350
Retentions from customers under manufacturing contracts	**983,900**	566,938	742,620
Other receivables	**288,377**	315,643	340,977
	9,142,341	7,670,486	4,756,947

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

Liquidity risk

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

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

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

As at June 30, 2012	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	155,210	155,210	-	-	-
Bank loans	2,868,394	2,868,394	-	-	-
Accounts payable	5,742,007	5,742,007	-	-	-
Long-term debt	3,682,622	1,474,753	1,391,125	1,265,453	622,658
Total	12,448,233	10,240,364	1,391,125	1,265,453	622,658

As at June 30, 2011	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	291,520	291,520	-	-	-
Bank loans	1,353,624	1,353,624	-	-	-
Accounts payable	4,181,901	4,181,901	-	-	-
Long-term debt	3,544,284	728,191	1,455,072	1,341,617	1,496,749
Total	9,371,329	6,555,236	1,455,072	1,341,617	1,496,749

Fair value

The fair value hierarchy has the following levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Unobservable inputs such as inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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

Financial instruments whose fair value approximates carrying value
Cash and cash equivalents, guaranteed deposit certificates, accounts receivable, bank loan and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The input level used by the Company to measure fair value of its cash and cash equivalents and guaranteed deposit certificates is a Level 1 because they are valued using quoted market prices.

Long-term debt and convertible debenture
The fair value of the long-term debt and the convertible debenture has been established by discounting the future cash flows at an interest rate to which the Company would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $3,682,622 ($3,544,284 as at June 30, 2011 and $2,188,969 as at July 1, 2010) and the fair value of the convertible debenture is $nil ($nil as at June 30, 2011 and $1,354,530 as at July 1, 2010).

25. Capital Management

The Company's objective when managing capital is to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk level.

The Company's financial strategy is designed to meet the objectives stated above and to respond to changes in economic conditions and the risks characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue or repurchase shares, raise or repay debt or undertake any other activities it considers appropriate under the circumstances.

The Company monitors capital on the basis of its total debt-to-equity ratio. Total debt consists of all interest-bearing debt, and equity is defined as total equity.

The total debt-to equity ratio was as follows:

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	
Bank overdraft	155,210	291,520	-
Bank loan	2,868,394	1,353,625	-
Current portion of long-term debt	2,580,862	319,108	619,768
Long-term debt	1,101,760	3,225,176	1,569,201
Convertible debenture	-	-	1,354,531
Total debt	6,706,226	5,189,429	3,543,500
Equity	13,744,227	22,473,493	25,419,776
Total debt-to-equity ratio	48.8%	23.1%	13.9%

The Company's financial objectives and strategy described above have remained unchanged since the last reporting period. These objectives and strategies are reviewed annually or more frequently if the need arises.

The Company is not subject to any externally imposed capital requirements other than covenants on its bank loans with its lender to maintain the following ratios: 1) a debt-to-equity ratio lesser than or equal to 2.50:1.00, 2) a working capital ratio greater than or equal to 1.50:1.00, and 3) maintain a determined cumulative adjusted EBITDA and a covenant on the loan from other entity to maintain working capital ratio of 1.5:1. Business performance is closely monitored and the most cost-effective methods for raising capital are considered to evaluate compliance with covenants. As at June 30, 2012, the Company was in breach of the working capital and adjusted EBITDA covenants.

26. Leases

Leasing arrangements

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

Payments recognised as an expense

Years ended June 30,	**2012**	2011
	$	$
Minimum lease payments	422,847	484,307
	422,847	484,307

Non-cancellable operating lease commitments

	June 30, 2012	June 30, 2011
	$	$
Not later than 1 year	560,225	422,847
Later than 1 year and not later than 5 years	1,657,470	2,215,941
Later than 5 years	1,294,386	1,276,079
	3,512,081	3,914,867

Liabilities recognised in respect of non-cancellable operating leases

	June 30, 2012	June 30, 2011	July 1, 2010
	$	$	$
Deferred rent			
Current	18,188	20,674	15,095
Non-current	97,482	17,227	41,843
	115,670	37,901	56,938

27. Segment Information

Products from which reportable segments derive their revenues

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

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

Years ended June 30	2012	2011
	$	$
Revenues from sales of consumables	**13,167,932**	12,011,410
Manufacturing contracts revenues	**22,741,975**	15,620,856
	35,909,907	27,632,266

Geographical information

The Company is domiciled in Canada. The result of its revenue from external customers in Canada is $13,336,990 ($8,776,324 in 2011), and the total revenue from external customers from other countries is $22,572,917 ($18,855,942 in 2011). Detailed information for the Company's markets is as follows:

Years ended June 30	2012	2011
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**13,336,990**	8,776,324
United States	**17,333,794**	16,540,321
Tunisia	**3,267,369**	-
China	**844,192**	892,526
Egypt	**349,590**	451,726
Other	**777,972**	971,369
	35,909,907	27,632,266

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

Years ended June 30	2012	2011
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**1,732,291**	1,871,857
United States	**8,139,910**	16,497,932
	9,872,201	18,369,789

Information about major customers

The Company did not derived more than ten percent (10%) of its revenues from a single external customer in 2012 and in 2011.

28. Related parties disclosure

Compensation of key management personnel

The remuneration of members of key management personnel, which includes the members of the Board of Directors, during the year was as follows:

Years ended June 30,	2012	2011
	$	$
Short-term benefits	**1,001,569**	812,418
Termination benefits	**117,494**	-
Post-employment benefits	**13,420**	9,132
Share-based payments	**63,560**	183,645
	1,196,043	1,005,195

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

29. Transition to IFRS

The Company's consolidated financial statements as at and for the year ended June 30, 2012 are the first annual financial statements that comply with IFRS.

The accompanying consolidated financial statements were prepared as described in note 2 and reflect the relevant provisions of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement of compliance with IFRS.

IFRS 1 is based on the principle that the adoption of IFRS should be applied retrospectively. Retrospective application necessitates that comparative financial information be provided, and, as a result, the first date at which the Company has applied IFRS was July 1, 2010 (the "Transition Date"). However, IFRS 1 offers certain optional exemptions and mandatory exceptions to the retrospective application of IFRS to first-time preparers of IFRS financial statements. Those exemptions and exceptions, which are relevant to the Company, are discussed in turn below.

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

Optional IFRS exemptions

Business combinations

IFRS 1 allows first-time adopters to elect not to restate any business combinations that have occurred prior to the Transition Date in accordance with IFRS 3, *Business Combinations* (as revised in 2008) ("IFRS 3"). Retrospective application would require that all business combinations that occurred prior to an entity's date of transition to IFRS be restated, and any goodwill arising on such business combinations would be adjusted from its carrying value as determined under Canadian GAAP.

The Company has elected to apply this exemption and has not restated any prior business combinations. Consequently, IFRS 3 is applicable only to business combinations occurring after the Transition Date. There have been no business combinations since the Transition Date, and, as a result, the Company will apply the provisions of IFRS 3 to future transactions, if any.

Currency translation differences

Full retrospective application of IFRS would require an entity to determine the cumulative foreign currency translation differences, as per the provisions of IAS 21, *The Effects of Changes in Foreign Exchange Rates,* from the date that a subsidiary or an equity-method investee was acquired. IFRS 1 permits a first-time adopter to reset any cumulative translation differences that existed at the date of transition to IFRS to zero. The Company has elected to reset its cumulative translation adjustment balance to zero on July 1, 2010, with a corresponding adjustment to the Company's Transition Date deficit.

Fair value of property, plant and equipment and intangible assets as deemed cost

IFRS 1 allows first-time preparers to elect to use fair value at the Transition Date as deemed cost for any assets within the scope of this exemption. Subsequent depreciation is based on the deemed cost and starts from the date at which the fair value measurement was established. The Company has elected to use the cost model for each class of assets to the exception of the building and land for which the fair value at Transition Date has been chosen resulting in a decrease of the net book value to reflect fair value with a corresponding adjustment to the Company's Transition Date deficit.

Share-based payment transactions

IFRS 1 provides alternatives that permit first-time adopters to apply IFRS 2 – Share-based payments in a prospective manner. The Company has elected to use the exemption that allows first-time adopters not to apply IFRS 2 for equity-settled share-based payments granted on or before November 7, 2002 and the exemption that allows first-time adopters not to apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the Transition Date.

Mandatory IFRS exceptions

Accounting estimates

IFRS 1 requires that estimates under IFRS at the date of transition should be consistent with estimates made for the same date under previous GAAP, after applying any adjustments to reflect differences in accounting policies, unless there is objective evidence that those estimates were made in error. As such, a first-time adopter cannot use hindsight in order to create or revise any accounting estimates. Estimates previously made by the Company under Canadian GAAP have not been revised, except where necessary to reflect any differences in accounting policies.

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires a first-time adopter of IFRS to reconcile shareholders' equity, comprehensive loss and cash flows for prior periods beginning on the date of transition to IFRS. Reconciliations of shareholders' equity as at July 1, 2010 and June 30, 2011 and comprehensive loss for the year ended June 30, 2011 are provided below.

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

	As at June 30, 2011	As at July 1, 2010
Reconciliation of shareholders' equity	**$**	**$**
Shareholders' equity under Canadian GAAP	25,112,244	28,572,229
IFRS adjustments attributable to:		
Impairment of intangible assets	(1,412,746)	(1,559,691)
Land and building carried at fair value	(250,404)	(250,404)
Contingent considerations	(1,093,801)	(1,342,358)
Amortization of intangible assets	110,809	-
Depreciation of property, plant and equipment	7,391	-
Shareholders' equity under IFRS	22,473,493	25,419,776

	Year ended June 30, 2011
Reconciliation of comprehensive loss	**$**
Comprehensive loss under Canadian GAAP	(3,909,492)
IFRS adjustments attributable to:	
Contingent considerations	217,957
Interest on contingent considerations	(83,279)
Amortization of intangible assets	115,095
Depreciation of property, plant and equipment	7,664
Foreign currency translation adjustments to shareholders'deficiency	256,265
Comprehensive loss under IFRS	(3,395,790)

Explanatory notes

In addition to the IFRS 1 exemptions discussed above, the following section discusses the changes in accounting policies that resulted in the adjustments shown in the preceding reconciliations.

a) Investment in a joint venture

Canadian GAAP

Investments in joint ventures were accounted for using the proportionate consolidation method.

IFRS

Investments in joint ventures are accounted for using the equity accounting method. This change has only a classification impact on the statement of financial position and on the statement of income (loss) and it does not modify the net loss.

As at July 1, 2010 and since then, the Company held a 49% interest in the H_2O Innovation India Limited joint venture.

	As at June 30, 2011	As at July 1, 2010
	$	**$**
Cash and cash equivalent	25,071	86,328
Accounts receivable	584,039	2,701
Inventories	50,663	1,801
Work in process	67,404	-
Future income taxes	664	-
Property, plant and equipment	24,177	3,764
Bank loan	(225,861)	-
Accounts payable and accrued liabilities	(427,788)	(9,139)
Income taxes payable	(10,328)	-
Investment in a joint venture	88,041	85,455

b) Land and building carried at fair value

IFRS 1 – Fair value as deemed cost

IFRS 1 permits any asset in the designated categories to be measured at the Transition Date to IFRS at its fair value and that fair value to be used as the asset's deemed cost at that date.

An independent valuation of the Company's land and building was performed by a specialized firm to determine the fair value of the land and building in Ham-Nord, Canada. The valuation, which conforms to International Valuation Standards, was determined using the comparative method for recent transactions on the local market for similar assets. The report concludes that the fair value of the land and building is as follows:

	July 1, 2010
	$
Land	25,000
Building	1,075,000
	1,100,000

In consequence, the Company elected to use fair value as deemed cost for its land and building and adjustments in the amount of $250,404 have been recorded in reduction of cost of the land and building and the counterpart has been recorded in Deficit.

c) Impairment of assets

Canadian GAAP

Property, plant and equipment and intangible assets with finite lives were reviewed for impairment whenever events or circumstances indicated that the carrying values of those assets may not be recoverable. Impairments were deemed to exist when the carrying value of the asset or asset group was greater than the undiscounted future cash flows expected to be provided by the asset or asset group. The amount of impairment loss, if any, was equivalent to the excess of the asset's or asset group's carrying value over fair value, which in turn was determined based upon discounted cash flows or appraised values, depending on the nature of assets.

IFRS

Once an indication of impairment is identified, similar to Canadian GAAP, an entity is required to make a formal estimate of recoverable amount. However, unlike Canadian GAAP, the carrying amount of an asset that is subject to impairment testing under IFRS is compared to the higher of fair value less costs to sell or value in use. Where the recoverable amount of an asset subject to impairment testing is compared to the asset's value in use, any future cash flows expected to be provided by the asset are discounted, unlike Canadian GAAP.

An impairment loss is recorded when the recoverable amount is less than the carrying amount. The recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value in use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value.

As a result of the change in measurement methodology, the Company recognized impairments of $2,606,000 at the Transition Date. The deferred income tax asset related to this impairment amounted to $1,046,309. The Company has adjusted related amortization charges in the Company's comparative consolidated statements of comprehensive loss for the year ended June 30, 2011.

d) Contingent considerations – Initial recognition

Canadian GAAP

Contingent considerations are recognized as part of the cost of the purchase price when the amount of the consideration can be reasonably estimated at the date of the acquisition and the outcome of the contingency can be determined beyond reasonable doubt. Neither a liability nor outstanding equity instruments are recognized until the contingency is resolved and consideration is issued or become issuable.

As at June 30, 2011 the Company had recorded contingent consideration in the amount of $510,885 and the counterpart was captured in goodwill since the conditions were met.

IFRS

Any contingent consideration related to an acquisition need to be estimated and accounted for as a liability at fair value at the date of acquisition.

The Company had contingent considerations related to past business combinations which were not recognized under the Canadian GAAP. The Company has evaluated the liability in relation to those contingent considerations as at the Transition Date.

As at July 1, 2010, the Company recorded additional contingent considerations for conditions not yet met but estimated in the amount of $1,561,675 ($US1,466,913). These contingent considerations include the $510,885 recorded as goodwill under Canadian GAAP as at June 30, 2011 as shown in the Reconciliation of shareholder's equity. A deferred income tax asset amounting to $219,316 ($US206,008) has been recorded as at July 1, 2010 since a part of the additional contingent consideration is tax deductible.

In addition, subsequent adjustments related to these estimates will be recorded in the statement of income (loss).

Contingent considerations – Interest payment

Contingent considerations booked under IFRS as of the date of acquisition are usually payable more than one year after such date. Adjustments to their fair value related to the passage of time are considered as interest expense.

e) Foreign currency translation adjustment

Canadian GAAP

During the first quarter of fiscal 2011, the Company completed a detailed analysis which identified significant changes in the economic facts and circumstances. In consequence, this analysis requires that the translation method applied to the foreign subsidiaries be changed. These significant facts and circumstances include a cost reduction program, merger of offices and a reorganization of the legal and operational structure, which lead to a significant degree of autonomy of the Company's foreign subsidiaries. Therefore, the foreign subsidiaries have been reclassified from integrated to self-sustaining.

The financial statements of foreign subsidiaries and of the joint venture considered as self-sustaining entities are translated using the current rate method. Under this method, assets and liabilities are translated in Canadian dollars at the exchange rate prevailing at the statement of financial position date, and earnings items are translated in Canadian dollars at the average exchange rate for the period. Translation adjustments arising from exchange rate fluctuations are shown as "Accumulated other comprehensive loss" under "Shareholders' equity". This modification has been applied prospectively from July 1, 2010.

IFRS

Under IFRS, the framework used to determine the functional currency is similar to that used to determine the currency of measurement under Canadian GAAP; however, under *IAS 21, The Effects of Changes in Foreign Exchange Rates*, the indicators for determining the functional currency are broken down into primary and secondary indicators when determining the functional currency. Primary indicators are closely linked to the primary economic environment in which the entity operates and are given more weight. Secondary indicators provide supporting evidence to determine an entity's functional currency. Primary indicators receive more weight under IFRS than Canadian GAAP.

On transition, the Company performed an assessment of the historical functional currencies for all group companies based on the requirements of IFRS. Based on that assessment, the Company retained the same functional currency that was used under Canadian GAAP (namely the Canadian dollar) except for foreign operations in United States and India, where it was deemed that the local currency should be the functional currency. The change in historical function currency required retroactive restatement of these subsidiaries and joint venture into their local currencies using the methodology prescribed under IAS 21, with the cumulative impact of the historical translation of these entities from their local currency into the Canadian dollar presentation currency recorded in the cumulative translation adjustment account.

However, in accordance with IFRS 1, the Company has elected to reset the cumulative translation adjustment account, which would otherwise include the historical gains and losses arising from the translation of these foreign operations. The cumulative translation adjustment balance as of July 1, 2010 of $295,703 was recognized as an adjustment to deficit. The application of the exemption had no impact on net equity.

f) Contributed surplus reclassification

Canadian GAAP

Contributed surplus comprise stock-based compensation costs, fair value of stock options and fair value of warrants.

IFRS
The concept of contributed surplus does not exist under IFRS. The Company shall reclassify items recognized in accordance with Canadian GAAP as asset, liability or component of equity of IFRS.

As a result, the Company reclassified amounts presented in the Canadian GAAP Contributed Surplus account to appropriate IFRS section of equity according to their nature.

g) Contingent considerations reclassification
Canadian GAAP
It is desirable to include a reference to provisions and contingencies on the balance sheet but it is not mandatory to include them as a line item in the balance sheet.

IFRS
As a minimum, the statement of financial position shall include a line item for the provisions.
As a result, the Company reclassified short-term contingent considerations included in the caption Accounts payable and accrued liabilities in a single item in the amount of $1,419,902 as at July 1, 2010.

h) Shares to be issued reclassification
Shares to be issued have been reclassified in Deficit.

i) Statement of income (loss) reclassification
Canadian GAAP
The statement of income (loss) should present fairly the results of operations for the period and should provide some specific information, however the concept of the classification either by nature or by function is not addressed.

IFRS
An entity shall present an analysis of expenses recognized in the statement of income (loss) using a classification based on either their nature or their function within the entity, which ever provides information that is reliable and more relevant. The Company believes that the classification of its expenses by function is more relevant.

As a result, for the year ended June 30, 2011, stock-based compensation, government assistance and acquisition and integration expenses have been classified within administrative expenses. Operating, selling, administrative and general expenses have been separated by function such as operating expenses, selling expenses and administrative expenses. Bank charges and other financial expenses have been classified with finance costs. Other income and exchange (loss) have been reclassified as other income and finance income.

j) Restatement of cash flow statements from Canadian GAAP to IFRS
The restatement from Canadian GAAP to IFRS had an impact caused by the new accounting method for the Company's joint venture as described in section a) above. Also, the Company decided to disclose the interest received and paid in the financing activities. As a result, for the year ended June 30, 2011 there is a reclassification of $681,257 between the operating activities and the financing activities.

Reconciliations of consolidated financial statements

Presented below are reconciliations of the Company's consolidated financial statements previously prepared under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of Consolidated Equity as at July 1, 2010

(in Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balances	Canadian GAAP reclassification (e)	Adjusted Canadian GAAP balances	IFRS adjustments	IFRS reclassifications	IFRS balances	IFRS accounts
ASSETS		$	$	$	$	$	$	**ASSETS**
Current assets								Current assets
Cash and cash equivalents	(a)	2,672,375		2,672,375	(86,328)	-	2,586,047	Cash and cash equivalents
Held-for-trading investments		1,306,659	(1)	1,306,658	-	-	1,306,658	Guaranteed deposits certificates
Accounts receivable	(a)	4,857,285		4,857,285	(2,701)	-	4,854,584	Accounts receivable
Inventories	(a)	1,915,107		1,915,107	(1,801)	-	1,913,306	Inventories
Work in process		2,148,946		2,148,946	-	-	2,148,946	Costs incurred in excess of billings
Prepaid expenses		308,263		308,263	-	-	308,263	Prepaid expenses
		13,208,634	(1)	13,208,634	(90,830)	-	13,117,804	
Fixed assets	(a) (b)	2,451,115	7,500	2,458,615	(254,168)	-	2,204,447	Property, plant and equipment
Intangible assets	(c)	10,313,821	(12,785)	10,301,036	(2,606,000)	-	7,695,036	Intangible assets
	(a)	-		-	85,455	-	85,455	Investment in a joint venture
Other assets		44,141		44,141	-	-	44,141	Other assets
Goodwill		10,901,443	353,062	11,254,505	-	-	11,254,505	Goodwill
Future income tax assets	(c)	6,597		6,597	1,265,626	-	1,272,223	Deferred income tax assets
		36,925,752	347,776	37,273,528	(1,599,917)	-	35,673,611	
LIABILITIES								**LIABILITIES**
Current liabilities								**Current liabilities**
Accounts payable and accrued liabilities	(a)(g)	4,815,253	52,073	4,867,326	(9,139)	(1,450,327)	3,407,860	Accounts payable and accrued liabilities
	(g)	-		-	-	30,425	30,425	Provisions
Billings in excess of work in process		233,537		233,537	-	-	233,537	Billings in excess of costs incurred
Current portion of long-term debt		619,768		619,768	-	-	619,768	Current portion of long-term debt
	(d)(g)	-		-	-	1,419,902	1,419,902	Contingent considerations
		5,668,558	52,073	5,720,631	(9,139)	-	5,711,492	
Long-term debt		1,569,200		1,569,200	-	-	1,569,200	Long-term debt
Convertible debenture		1,354,530		1,354,530	-	-	1,354,530	Convertible debenture
	(d)				1,561,675	-	1,561,675	Contingent considerations
Deferred rent		56,938		56,938	-	-	56,938	Deferred rent
		8,649,226	52,073	8,701,299	1,552,536	-	10,253,835	
SHAREHOLDERS' EQUITY								**SHAREHOLDERS' EQUITY**
Equity component of convertible debenture	(f)	301,023		301,023	-	(301,023)	-	
Capital stock	(h)	45,858,645		45,858,645	-	(13,789)	45,844,856	Share capital
Contributed surplus	(f)	11,453,475		11,453,475	-	(11,453,475)	-	
	(f)	-		-	-	301,023	301,023	Option premium on convertible debenture reserve
	(f)	-		-	-	1,451,585	1,451,585	Stock options reserve
	(f)	-		-	-	10,001,890	10,001,890	Warrants reserve
Deficit	(b) (c) (e) (f) (h)	(29,336,617)		(29,336,617)	(2,856,750)	13,789	(32,179,578)	Deficit
Accumulated other comprehensive gain (loss)	(e)	295,703	295,703	295,703	(295,703)	-	-	Accumulated other comprehensive gain (loss)
		28,276,526	295,703	28,572,229	(3,152,453)	-	25,419,776	
		36,925,752	347,776	37,273,528	(1,599,917)	-	35,673,611	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
Reconciliation of Consolidated Equity as at June 30, 2011
(in Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balances	IFRS adjustments	IFRS reclassifications	IFRS balances	IFRS accounts
		$	$	$	$	
ASSETS						**ASSETS**
Current assets						**Current assets**
Cash and cash equivalents	(a)	465,427	(25,071)	-	440,356	Cash and cash equivalents
Held-for-trading investments		1,412,963	-	-	1,412,963	Guaranteed deposits certificates
Accounts receivable	(a)	8,412,515	(584,039)	-	7,828,476	Accounts receivable
Inventories	(a)	2,281,319	(50,663)	-	2,230,656	Inventories
Work in process	(a)	2,332,345	(67,404)	-	2,264,941	Costs incurred in excess of billings
Prepaid expenses		198,504	-	-	198,504	Prepaid expenses
		15,103,073	(727,177)	-	14,375,896	
						Non-current assets
Fixed assets	(a)(b)	2,333,004	(267,190)	-	2,065,814	Property, plant and equipment
Intangible assets	(c)	8,374,218	(2,249,670)	-	6,124,548	Intangible assets
	(a)	-	88,041	-	88,041	Investment in a joint venture
Other assets		41,942	-	-	41,942	Other assets
Goodwill	(d)	10,690,312	(510,885)	-	10,179,427	Goodwill
Future income tax assets	(c)	680,597	1,097,000	-	1,777,597	Deferred income tax assets
		37,223,146	(2,569,881)	-	34,653,265	
LIABILITIES						**LIABILITIES**
Current liabilities						**Current liabilities**
Bank overdraft		291,520	-	-	291,520	Bank overdraft
Bank loan	(a)	1,579,486	(225,861)	-	1,353,625	Bank loan
Accounts payable and accrued liabilities	(a)(c)(d)(g)	5,328,868	(427,789)	(719,178)	4,181,901	Accounts payable and accrued liabilities
	(g)	-	-	32,300	32,300	Provisions
Billings in excess of work in process		1,310,866	-	-	1,310,866	Billings in excess of costs incurred
Income taxes payable	(a)	17,977	(10,328)	-	7,649	Income taxes payable
		-	-	20,674	20,674	Deferred rent
Current portion of long-term debt		319,108	-	-	319,108	Current portion of long-term debt
	(d)(g)	-	-	686,878	686,878	Contingent considerations
		8,847,825	(663,978)	20,674	8,204,521	
						Non-current liabilities
Long-term debt		3,225,176	-	-	3,225,176	Long-term debt
	(g)		732,848	-	732,848	Contingent considerations
Deferred rent		37,901	-	(20,674)	17,227	Deferred rent
		12,110,902	68,870	-	12,179,772	
SHAREHOLDERS' EQUITY						**SHAREHOLDERS' EQUITY**
Capital stock	(h)	45,866,225	-	(13,789)	45,852,436	Share capital
Contributed surplus	(f)	11,878,629	-	(11,878,629)	-	
	(f)	-	-	1,734,952	1,734,952	Reserve - Stock options
	(f)	-	-	10,143,677	10,143,677	Reserve - Warrants
Deficit	(b)(c)(d)(e)(g)(h)	(30,635,638)	(2,599,313)	13,789	(33,221,162)	Deficit
Accumulated other comprehensive loss	(a)(c)(d)	(1,996,972)	(39,438)	-	(2,036,410)	Accumulated other comprehensive loss
		25,112,244	(2,638,751)	-	22,473,493	
		37,223,146	(2,569,881)	-	34,653,265	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of Consolidated Statement of Comprehensive Loss for the year ended June 30, 2011

(in Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balances	IFRS adjustments	IFRS reclassifications	IFRS balances	IFRS accounts
		$	$	$	$	
						Continuing operations
Sales	(a)	28,798,161	(1,165,895)	-	27,632,266	Revenue
Cost of goods sold	(a)	20,231,921	(763,846)	-	19,468,075	Cost of goods sold
Gross margin		8,566,240	(402,049)	-	8,164,191	**Gross profit**
Expenses						
Operating, selling, administrative and general expenses	(a)(i)	8,421,342	(266,580)	(8,154,762)	-	
	(i)	-	-	1,225,331	1,225,331	Operating expenses
	(i)	-	-	3,689,387	3,689,387	Selling expenses
	(i)	-	-	3,467,886	3,467,886	Administrative expenses
Depreciation of fixed assets	(a)	307,297	(7,295)	-	300,002	Depreciation of property, plant and equipment
Amortization of intangible assets	(c)	1,065,826	(117,343)	-	948,483	Amortization of intangible assets
Bank charges and other financial expenses	(a)	170,277	(5,656)	(164,621)	-	
Government assistance	(i)	(60,524)	-	60,524	-	
Stock-based compensation	(i)	288,367	-	(288,367)	-	
	(i)	-	(273,317)	-	(273,317)	Changes in fair value of contingent considerations
	(i)	-	-	(44,399)	(44,399)	Other (gains) losses – net
		10,192,585	(670,191)	(209,021)	9,313,373	
Operating loss before the following items		(1,626,345)	268,142	209,021	(1,149,182)	**Operating loss**
Other income	(i)	(67,872)	-	67,872	-	
Exchange (gain) loss	(i)	(44,846)	(84)	44,930	-	
	(i)	-	-	(29,958)	(29,958)	Finance income
	(d)(i)	-	82,292	864,797	947,089	Finance costs
		-	82,292	834,839	917,131	Finance costs – net
Interest on long-term debt	(i)	700,217	-	(700,217)	-	
Gain on early extinguishment of convertible debenture		(99,415)	-	-	(99,415)	Gain on early extinguishment of convertible debenture
Acquisition and integration expenses	(i)	38,403	-	(38,403)	-	
		-	(111,524)	-	(111,524)	Royalties from a joint venture
	(a)		(5,306)	-	(5,306)	Share of profit in a joint venture
		526,487	(34,622)	209,021	700,886	
Loss before income taxes		(2,152,832)	302,764	-	(1,850,068)	**Loss before income taxes**
Income tax recovery						**Income tax recovery**
Current income taxes	(a)	25,096	(10,410)	-	14,686	Current income taxes
Future income taxes	(a)	(561,111)	55,737	-	(505,374)	Deferred income taxes
		(536,015)	45,327	-	(490,688)	
Net loss for the year		(1,616,817)	257,437	-	(1,359,380)	**Loss for the year**
Other comprehensive loss						Other comprehensive loss
Translation adjustment	(a)(c)(d)	(2,292,675)	256,265	-	(2,036,410)	Translation adjustment
Comprehensive loss for the year		(3,909,492)	513,702	-	(3,395,790)	Comprehensive loss for the year
						Loss per share attributable to the equity holders of the company during the year
Basic and diluted net loss per share		(0.027)	0.004		(0.023)	**Basic and diluted loss per share**
Weighted average number of shares outstanding		60,136,106	-	-	60,136,106	Weighted average number of shares outstanding

GENERAL INFORMATION

Board of Directors
Philippe Gervais, Chairman of the Board [1]
Frédéric Dugré, President, Chief Executive Officer and Director
John G. Booth, Director [2]
Élaine C. Phénix, Director [1] [2]
André Duquenne, Director
Richard Hoel, Director [1]
Lisa Henthorne, Director [2]
Laurence E. Gamst, Director [1]

[1] Audit Committee
[2] Governance and Compensation Committee

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

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

Auditors
PricewaterhouseCoopers LLP/S.R.L./S.E.N.C.R.L.

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