Interim Financial Report
Third quarter ended
March 31, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's results of operations and financial position for the quarter ended March 31, 2015, in comparison with the corresponding period ended March 31, 2014. They should be read in conjunction with the annual consolidated financial statements and accompanying notes. Comparison of financial situation as at March 31, 2015 to those as at June 30, 2014 is also included. Certain statements set forth in this Management's Discussion and Analysis regarding the operations and the activities of H_2O Innovation as well as other communications by the Company to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Company to be materially different than those indicated. Information about the risk factors to which the Company is exposed is provided in the Annual Information Form dated September 22, 2014 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this Management's Discussion and Analysis or in other communications as a result of new information, future events and other changes.

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

VISION, MISSION & PROFILE

OUR VISION

To become the best in North America at providing membrane-related water treatment solutions and technologies.

OUR MISSION

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

OUR PROFILE

H_2O Innovation provides integrated technological water treatment solutions based on membrane filtration technology to municipal, energy & mining end-users. H_2O Innovation designs state-of-the-art custom-built water treatment projects for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater. Also, directly through its affiliates, H_2O Innovation provides services and products complementary to its membrane filtration and reverse osmosis systems. These products consist of a complete line of specialty chemicals and consumables and a complete line of couplings. H_2O Innovation employs approximately 160 resources and has six locations in North America.

IMPORTANT INFORMATION

All shares, options and share purchase warrants as well as per share, option and share purchase warrant information presented in this MD&A have been adjusted, including proportionate adjustments being made to each stock option and share purchase warrant exercise price, to reflect and give effect to a consolidation, on December 1, 2014, of our issued and outstanding common shares on a five-to-one basis (the "Share Consolidation"). The Share Consolidation affected all shareholders, option holders and warrant holders uniformly and thus did not materially affect any security holder's percentage of ownership interest.

We believe the share price post-consolidation will better reflect the actual maturity of the Company and combined with our recent listing on the American OTCQX marketplace, should give us access to a larger institutional shareholder basis by changing their perception of the Company from a “penny stock” to a growth company.

NON-IFRS FINANCIAL MEASUREMENT

In this MD&A, the Company’s management uses measures that are not in accordance with IFRS. The measurements “Adjusted earnings before interest, tax depreciation and amortization (adjusted EBITDA)” and “Net debt” are not defined by IFRS and cannot be formally presented in consolidated financial statements.

The definition of adjusted EBITDA does not take into account the Company’s gain on disposal of property, plant and equipment, finance costs – net and stock-based compensation costs. The reader can establish the link between adjusted EBITDA and net earnings (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 earnings (loss)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net earnings (loss) for the period	**150,490**	(216,314)	**550,601**	(1,186,889)
Finance costs – net	**159,577**	137,693	**454,382**	440,578
Income taxes	**57,686**	(28,553)	**206,135**	98,284
Depreciation of property, plant and equipment	**120,254**	77,342	**273,998**	217,088
Amortization of intangible assets	**224,645**	331,176	**639,965**	704,701
Gain on disposal of property, plant and equipment	**-**	(4 644)	**-**	(5 644)
Stock-based compensation costs	**-**	2,422	**2,422**	10,495
Adjusted EBITDA	**712,652**	299,122	**2,127,503**	278,613

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

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

	March 31, 2015	June 30, 2014
	$	$
Bank overdraft	**224,893**	113,383
Bank loans	**4,667,607**	3,555,774
Current portion of long-term debt	**436,294**	724,996
Long-term debt	**475,337**	331,212
Less: Cash and cash equivalents	**(1,685,146)**	(497,752)
Net debt	**4,118,985**	4,227,613

RESULTS OF OPERATIONS

After three quarters, we maintained revenues above $10 M per quarter and reached record-high revenues of $37 M, a $10 M increase compare to previous nine-month of the last fiscal year, representing a 37.5% growth. This sustained growth is fueled by the conversion into revenues of our project sales backlog but also the organic growth of our specialty products and services. The sound business mix between projects and specialty products and services is allowing us to gain predictability in our business model and to maintain a high gross margin. The investments done to expand our sales teams are paying-off as we are currently seeing growth in all our business units. We are renewing our order backlog and maintaining it above the $40 M mark.

Selected financial data
(Unaudited)

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2015	2014	**2015**	2014
	$	$	**$**	$
Revenues	**12,121,641**	9,826,466	**37,029,832**	26,935,113
Gross profit before depreciation and amortization	**3,887,460**	2,682,096	**10,091,943**	7,132,994
Gross profit before depreciation and amortization	**32.1%**	27.3%	**27.3%**	26.5%
Operating expenses	**281,771**	253,535	**715,074**	654,765
Selling expenses	**1,293,880**	1,053,254	**3,269,523**	2,971,165
Administrative expenses	**1,347,761**	972,410	**3,461,590**	2,999,523
Research and development expenses – net	**78,344**	51,197	**167,768**	198,648
Net earnings (loss)	**150,490**	(216,314)	**550,601**	(1,186,889)
Basic and diluted earnings (loss) per share	**0.007**	(0.010)[1]	**0.026**	(0.073)[1]
Adjusted EBITDA	**712,652**	299,122	**2,127,503**	278,613

[1] Adjusted to reflect the December 1st, 2014 five-to-one share consolidation.

Revenues and gross profit before depreciation and amortization

Revenues for the third quarter of fiscal year 2015 totaled $12.1 M, representing a $2.3 M or 23.4% increase, as compared with revenues of $9.8 M for the same quarter of fiscal year 2014. The substantial increase is largely attributable to revenues from projects which reached $5.6 M compared to $4.4 M in the corresponding period of the previous fiscal year, representing a 26.1% increase. During the third quarter of fiscal year 2015, the Company has completed the production phase of a large industrial project and new projects have reached the production phase, which have now triggered revenue recognition and invoicing related to delivery milestone. This high level of revenues was expected as the Company started the current fiscal year with a record-high order backlog of $38.3 M as of July 1, 2014.

The increase of revenues from projects has been accompanied by an increase of revenues from sales of specialty products and services which reached $6.5 M in this quarter compared with $5.4 M in the comparable quarter of the previous fiscal year. This 21.1% increase is in part the result of our integration of Piedmont activities acquired in December 2013. In addition, we have increased our market share in United States for maple syrup production equipment and products. Our efforts deployed throughout last fiscal year to enlarge our specialty chemicals distributors' network have also contributed to increase revenues from sales of specialty products and services. On a last twelve months basis, revenues from specialty products and services have increased by 27.6% and have reached $19.9 M, a result of the continuous focus to grow this business segment and maximise customer retention. As these revenues are recurring in nature and through multiple initiatives, we have solidified our business model.

In this third quarter of fiscal year 2015, the Company was able to generate a 32.1% gross profit before depreciation and amortization, a level higher than the 27.3% gross profit before depreciation and amortization generated in the third quarter of fiscal year 2014. During the third quarter of fiscal year 2015, the Company agreed to terminate a contract with a customer under certain terms agreed upon. This cancellation has impacted positively the Company's gross profit during the quarter. The revenue mix in this quarter shows that revenues from specialty products and services still represent a fair proportion of total revenues compared to the corresponding period of the previous fiscal year (53.6% in fiscal year 2015 versus 54.6% in fiscal year 2014), even though the volume of revenues has increased substantially. This sustained proportion of revenues derived from specialty products and services is partly explainable by the acquisition of Piedmont and also fueled by the organic growth of the other business lines, which helped stabilised our gross profit before depreciation and amortization.

The Company secured $16.4 M in new bookings for water treatment projects over the quarter. These new bookings, combined with the realized revenues from water treatment projects during the quarter, have brought up the backlog at $40.4 M as at March 31, 2015 compared to $23.5 M as at March 31, 2014. This level of order backlog gives the Company a fairly good perspective over the coming quarters in terms of volume of revenues. Over the last four quarters, the Company was able to maintain the pace and deliver its large backlog, showing that we can manage growth and higher volume in our water treatment projects activities. The Company's bookings over revenue ratio for projects have increased to 2.9 this quarter compared to 2.4 for the corresponding quarter of fiscal year 2014, even though the revenues from water treatment projects increased significantly.

The current pipeline of water treatment projects sales remains rich in opportunities which should allow the Company to renew its order backlog to support its revenue growth. With a dedicated sales team, we maintain strong bidding activities and business development mainly in Canada and in United States. In this regards, we have expanded our salesforce in the United States, internally and with our representatives' network, to better cover more opportunities in this expanding market. The nature of our opportunities is diversified in numerous markets and industries. The Company is capturing new bookings, notably due to the California and Texas' drought and the increasing infrastructure needs in the United States, which is exceeding the slowdown in the Canadian energy market.

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

	2014 FY				2015 FY			Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	(Q4 FY2014 & Q1 & Q2 & Q3 FY2015)	(Q4 FY2013 & Q1 & Q2 & Q3 FY2014)
Order backlog	$12.4 M	$17.3 M	$23.5 M	$38.3 M	**$36.1 M**	**$29.6 M**	**$40.4 M**	**N/A**	N/A
Bookings for water treatment projects (*)	$3.4 M	$9.6 M	$10.6 M	$18.2 M	**$5.1 M**	**$2.2 M**	**$16.4 M**	**$41.9 M**	$28 M
Revenues from water treatment projects	$5.1 M	$4.7 M	$4.4 M	$3.4 M	**$7.3 M**	**$8.7 M**	**$5.6 M**	**$25 M**	$18.1 M
Bookings / Revenues Ratio	0.7	2.0	*2.4*	5.4	**0.7**	**0.2**	**2.9**	**1.7**	1.5
Revenues from specialty chemicals and consumables (usually recurrent in nature)	$3.2 M**	$4.1 M**	$5.4 M	$4.5 M	**$3.9 M**	**$5.0 M**	**$6.5 M**	**$19.9 M**	$15.6 M
Total revenues	$8.3 M	$8.8 M	$9.8 M	$7.9 M	**$11.2 M**	**$13.7 M**	**$12.1 M**	**$44.9 M**	$33.7 M

(*) Bookings for water treatment projects include foreign exchange impact.
(**) Does not include Piedmont's revenues until its acquisition on December 5, 2013

Operating expenses

Operating expenses have increased by $28,000, totaling $0.3 M for this quarter and for the corresponding quarter of previous fiscal year. This increase is due to the integration of Piedmont, acquired in December 2013, which required the addition of new positions to solidify the supply chain and to ensure technical and engineering support of Piedmont products.

Selling expenses

Selling expenses have increased by $241,000 or 22.8% and reached $1.3 M for this quarter compared to $1.1 M for the corresponding quarter of the previous fiscal year. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The increase is mostly due to the addition of sales related personnel, to water treatment related tradeshows and to commissions recorded in regards to sales target reached for specialty products and services.

Administrative expenses

Administrative expenses increased by approximately $375,000 or 38.6% in this third quarter of fiscal year 2015, most of which is non-recurring, compared with the third quarter of fiscal year 2014. Professional fees and listing fees have increased following the Company's listing on OTCQX marketplace in the United States at the end of the quarter ended September 30, 2014 compared to the corresponding quarter of fiscal year 2014. In addition, the Company has completely written off $183,000 in regards to receivables from a distributor of maple syrup production products following various legal actions in the last three years which resulted in the distributor's bankruptcy.

The Company's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 24.1% for this quarter, up from 23.2% for the corresponding quarter of the previous fiscal year. This increase is attributable to the non-recurring administrative expenses mentioned above. Without those two non-recurring expenses, the ratio would be 22.2%, below the ratio from last year corresponding period. Management is still convinced that focused investments in SG&A expenses are a trigger to generate higher level of revenues. We aim to keep the SG&A ratio to a level of 20% through a tight monitoring of SG&A expenses and an increase in revenues, which was nearly achieved with 20.1% for the nine-month period ended March 31, 2015.

Research and development expenses – net

For the quarter ended March 31, 2015, gross research and development expenses totaled $78,344, or 0.6 % of revenues. For the three-month period ended March 31, 2015, the Company has not recorded tax credits from the Canadian and provincial governments for eligible research and development conducted in Canada.

Adjusted EBITDA

Adjusted EBITDA for the quarter was recorded at $712,652, compared with $299,122 for the same period ended March 31, 2014. The higher revenues recorded during the quarter compared with the corresponding quarter of the previous fiscal year despite higher SG&A expenses also contributed to generating higher adjusted EBITDA.

Other losses – net

Other losses – net amounting to $173,052 for the period ended March 31, 2015 compared with $50,356 for the quarter ended March 31, 2014 are mostly composed of a foreign exchange loss. The foreign exchange loss in the three months ended March 31, 2015 is mostly unrealized and was primarily a result of the impact of the weakening of Canadian dollar on the Company net US monetary assets and liabilities. The Company's main US denominated balances are comprised of cash, accounts receivable, accounts payable and a portion of the bank loan. The foreign exchange loss is amplified by the larger proportion of the US denominated bank loan used to support our activities during this quarter of fiscal year 2015 compare to the same quarter of previous year.

Finance costs – net

Finance costs – net totalled $159,577 for the period ended March 31, 2015 compared to $137,693 for the comparable period in the previous fiscal year. These expenses relate mostly to the long-term debt. Of this amount, $33,403 represents the theoretical and non-monetary part of interest on long-term debt. Also, in order to mitigate its credit risk and mainly increase its bank loans usage capacity, the Company started to insure a part of its accounts receivable through the insurance coverage of Exportation and Development Canada ("EDC"). The Company has given direction to pay all insurance proceeds to the bank. The insurance premiums are recorded in finance costs.

Net earnings (loss)

The net earnings (loss) was $150,490 or $0.007 per share for the third quarter of fiscal 2015 compared with ($216,314) or ($0.010) per share for the same quarter of fiscal 2014. This improvement is primarily due to higher revenues and an improved gross profit before depreciation and amortization of 32.1%.

Commitments

The Company has entered into long-term lease agreements expiring in 2015, 2017, 2020, 2023 and 2024, which call for lease payments of $4,850,205 for the rental of space. The minimum annual lease payments over the next five years are $679,511 in 2015, $705,139 in 2016, $741,499 in 2017, $554,387 in 2018 and $563,992 in 2019.

Information on share capital

As at March 31, 2015, the Company had 20,926,595 outstanding shares and 300,000 stock options.

FINANCIAL SITUATION

Working capital increased from $7.4 M as at June 30, 2014 (working capital ratio of 1.71) to $8.5 M as at March 31, 2015 (working capital ratio of 1.62). The increase of $1.1 M is mostly attributable to the $1.2 M, $2.5 M and $1.5 M increase in cash and cash equivalents, accounts receivables and costs incurred in excess of billings respectively and to the reimbursement of $0.5 M of the long-term debt. The working capital was negatively impacted by the decrease of $0.8 M of inventories and the increase of $2.3 M and $1.1 M in accounts payable and accrued liabilities and bank loans respectively.

The net debt which stood at $4.1 M as at March 31, 2015 decreased by $0.1 M compared with $4.2 M as at June 30, 2014. This decrease is mainly attributable to the reimbursement of a portion of the long-term debts, but subdued by a long-term debt contracted to support the remodeling of our Ham-Nord premises, especially our office, our maple store and showroom.

Equity stood at $26.6 M as at March 31, 2015, compared with $22.6 M as at June 30, 2014. As at March 31, 2015 the net debt equity ratio was 0.15 whereas it was 0.19 as at June 30, 2014, showing that the Company is not over leveraged.

(in Canadian dollars, except for ratio)	**Period ended March 31, 2015**	**Period ended June 30, 2014**
Working capital	$8,518,573	$7,427,618
Working capital ratio	1.62	1.71
Net debt[1]	$4,118,985	$4,227,613
Equity	$26,615,816	$22,560,883
Net debt to equity ratio	0.15	0.19

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

As at March 31, 2015 accounts receivable stood at $11.4 M compared with $8.9 M as at June 30, 2014. The rise of $2.5 M is mostly attributable to the increase of accounts receivable from customers under manufacturing contracts related to water treatment projects executed during the third quarter of fiscal year 2015.

In order to mitigate its credit risk, the Company started to insure a part of its accounts receivables through the insurance program of Exportation and Development Canada ("EDC") in August 2014. This insurance program allows, under certain conditions, an insurance coverage that can reach an amount equivalent to 90% of the receivables. As at March 31, 2015, the EDC insurance coverage represents approximately 50% of the receivables (nil as at June 30, 2014). The Company has given direction to pay all insurance proceeds to the bank since the insurance coverage allows the Company to increase its bank loans usage capacity.

Inventories decreased by $0.8 M to $3.9 M as at March 31, 2015 compared with $4.7 M as at June 30, 2014. This decrease is largely attributable to the utilisation, into a customer contract, of more than half of the value of a system that has been accounted for as finished goods following the cancellation of a project in June 2013. The remaining portion of that system has been transferred to Property, plant and equipment since the containers have been leased to a client during the previous quarter.

Costs incurred in excess of billings increased by $1.5 M to $3.6 M as at March 31, 2015, from $2.1 M as at June 30, 2014, primarily due to a different number of active projects for which there are differences between project advancement and project invoicing schedules. Billings in excess of costs incurred remained stable at $1.5 M as at March 31, 2015, and as at June 30, 2014.

Accounts payable and accrued liabilities increased by $2.4 M to $6.8 M as at March 31, 2015, from $4.4 M as at June 30, 2014. This is mostly due to increased volume of activities for water treatment projects which have reached, for many of them, the manufacturing stage during which equipment is being assembled and for which suppliers are involved.

The decrease in the current portion of the long-term debt is explained by the repayment of $0.5 M during the quarter. On October 20, 2014, the Company has exercised a six-month moratorium option on the repayment of principal of the loan from other entities, starting on November 1, 2014 totaling $634,757 as of September 30, 2014. This decision was taken to help support our working capital requirements related to our large backlog as of September 30, 2014. During the second quarter, the Company has contracted a bank loan through a mortgage secured by our plant in Ham-Nord to support the remodeling of the Ham-Nord premises.

For the third quarter ended March 31, 2015, shareholders' equity increased by $4.0 M to $26.6 M ($22.6 M as at June 30, 2014). The elements impacting the shareholders' equity in the third quarter of fiscal year 2015 are the $550,601 net earnings for the nine-month period ended March 31, 2015 and the Canadian dollar's depreciation generating an unrealized exchange gain of $3.5 M resulting from the translation of foreign operations, mainly those of the U.S. subsidiaries.

CASH FLOWS

A comparison of the Company's cash flows for the periods ended March 31, 2015 and 2014 is presented below:

(in Canadian dollars) (unaudited)	**Three-month period ended March 31, 2015**	Three-month period ended March 31, 2014	**Nine-month period ended March 31, 2015**	Nine-month period ended March 31, 2014
	$	$	**$**	$
Cash flows from operating activities	**1,392,269**	(298,938)	**1,253,573**	(2,816,771)
Cash flows from investing activities	**(378,076)**	(25,297)	**(846,319)**	(4,053,667)
Cash flows from financing activities	**246,025**	796,786	**492,534**	7,548,928
Effect of exchange rate changes on the balance of cash held in foreign currencies	**103,032**	59,187	**176,096**	16,453
Net change	**1,363,250**	531,738	**1,075,884**	694,943
Cash and cash equivalents – Beginning of period	**97,003**	210,440	**384,369**	47,235
Cash and cash equivalents – End of period	**1,460,253**	742,178	**1,460,253**	742,178

Operating activities generated $1,392,269 in cash for the period ended March 31, 2015, compared with ($298,938) of cash used during the corresponding period ended March 31, 2014. The increase is mainly attributable to the change in working capital items and the improvement in net earnings in the third quarter of fiscal year 2015.

For the third quarter of fiscal 2015, investing activities used net cash of ($378,076), mainly attributable to the remodeling of the office and maple store at our Ham-Nord plant and to the acquisition of intangible assets, namely the development of dosage software for our specialty chemicals and investment in a new enterprise resources planning (ERP) software.

Financing activities generated net cash of $246,025 in the third quarter of fiscal 2015 compared with $796,786 of net cash generated during the corresponding period ended March 31, 2014. The Company reimbursed $5,710 and contracted $194,971 of long-term debt and increased the bank loans by $214,595. Interest paid during the third quarter of fiscal year 2015 amounted to $157,831.

QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)

(in dollars, except per share data)

	Three-month periods ended				**Last twelve months**
	March 31, 2015	**December 31, 2014**	**September 30, 2014**	**June 30, 2014**	
Revenues	12,121,641	13,689,060	11,219,131	7,896,401	44,926,233
Adjusted EBITDA	712,652	605,023	809,827	(201,458)	1,926,044
Net earnings (loss)	150,490	117,524	282,587	(269,242)	281,359
EPS basic and diluted	0.007	0.006	0.003	(0.013)	0.003
Cash flows from operating activities	1,392,269	(549,922)	411,225	330,455	1,584,027

	Three-month periods ended				**Previous twelve months**
	March 31, 2014	**December 31, 2013**	**September 30, 2013**	**June 30, 2013**	
Revenues	9,826,466	8,797,428	8,311,219	6,768,455	33,703,568
Adjusted EBITDA	299,122	(90,179)	69,670	(234,355)	44,258
Net loss	(216,314)	(500,581)	(469,994)	(532,392)	(1,719,281)
EPS basic and diluted	(0.010)	(0.031)	(0.039)	(0.044)	(0.124)
Cash flows from operating activities	(298,938)	(3,012,316)	494,483	(107,468)	(2,924,239)

CAPITAL MANAGEMENT

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

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

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

Credit facility and long-term debt arrangements require that the Company meet certain financial ratios at fixed points in time. The financial ratios are, as at March 31, 2015:

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.30:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 2.50:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at March 31, 2015, the Company was in compliance with its financial ratios required for its credit facility and long-term debt arrangements.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in note 3 in the consolidated financial statements as at June 30, 2014.

CHANGES IN ACCOUNTING POLICIES

The Company has adopted standards along with any consequential amendments, effective July 1, 2014.

a) Impairment of assets

In May 2013, IASB amended IAS 36, *Impairment of Assets*, which provides guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014.

The adoption of these IFRS amendments did not have a significant impact on the unaudited consolidated financial statements but they will require additional disclosures in the audited annual consolidated financial statements of the Company.

b) Levies

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

The adoption of these IFRS amendments did not have a significant impact on the unaudited consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2015, the Company had off-balance sheet arrangements consisting of letters of credit amounting to $1.2 M; these letters of credit expire at various dates through fiscal year 2015. In these letters of credit, $1.1 M is secured by guaranteed investment certificates.

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 ("Vice President, 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 Vice President, Finance have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

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

An evaluation was carried out, under the supervision of the CEO and the Vice President, Finance, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the Vice President, Finance concluded that the disclosure controls and procedures are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework and in compliance with guidance from the Canadian Securities Administrators set out in National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings.

Internal controls over financial reporting

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

Changes in internal controls over financial reporting

During the quarter, 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Third quarter ended
March 31, 2015

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

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.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

	March 31, 2015	June 30, 2014
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**1,685,146**	497,752
Guaranteed deposits certificates	**1,247,829**	1,224,846
Accounts receivable (note 3)	**11,431,998**	8,908,408
Inventories (notes 4 and 12 c))	**3,878,250**	4,705,869
Costs incurred in excess of billings	**3,591,298**	2,067,905
Prepaid expenses	**331,095**	452,415
	22,165,616	17,857,195
Non-current assets		
Property, plant and equipment (note 12 c))	**3,047,543**	1,874,083
Intangible assets	**7,709,702**	6,837,264
Other assets	**61,144**	44,826
Goodwill	**4,760,312**	4,010,148
Deferred income tax assets	**3,112,276**	2,801,051
	40,856,593	33,424,567
LIABILITIES		
Current liabilities		
Bank overdraft	**224,893**	113,383
Bank loans (note 5)	**4,667,607**	3,555,774
Accounts payable and accrued liabilities (note 6)	**6,761,846**	4,417,197
Provisions (note 7)	**82,350**	77,391
Billings in excess of costs incurred	**1,451,941**	1,491,883
Income taxes payable	**15,118**	37,475
Deferred rent	**6,994**	11,478
Current portion of long-term debt (note 8)	**436,294**	724,996
	13,647,043	10,429,577
Non-current liabilities		
Long-term debt (note 8)	**475,337**	331,212
Deferred rent	**118,397**	102,895
	14,240,777	10,863,684
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**55,298,945**	55,298,945
Reserve - Stock options (note 9)	**1,876,378**	1,873,957
Deficit	**(33,049,235)**	(33,599,837)
Accumulated other comprehensive income (loss)	**2,489,728**	(1,012,182)
	26,615,816	22,560,883
	40,856,593	33,424,567

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

On behalf of the Board,

Frédéric Dugré — President and Chief Executive Officer

Philippe Gervais — Chairman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine-month periods ended March 31, 2015 and 2014
(Unaudited)

ATTRIBUTABLE TO THE SHAREHOLDERS OF H_2O INNOVATION INC.

			Reserves				
	Common shares Number[1]	**Share capital** (note 9)	**Stock options** (note 9)	**Warrants**	**Deficit**	**Accumulated other comprehensive income (loss)**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
Balance as at July 1, 2013	12,029,166	45,852,436	1,861,040	141,787	(32,285,493)	(1,142,982)	14,426,788
Issuance of common shares under private placement (note 9)	8,897,429	10,136,805	-	-	-	-	10,136,805
Share issue expenses (note 9)	-	(690,296)	-	-	-	-	(690,296)
Stock-based compensation costs	-	-	10,495	-	-	-	10,495
Reversal to deficit of expired warrants, net of current income taxes	-	-	-	(141,787)	141,787	-	-
Net loss for the period	-	-	-	-	(1,186,889)	-	(1,186,889)
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	846,433	846,433
Balance as at March 31, 2014	**20,926,595**	**55,298,945**	**1,871,535**	**-**	**(33,330,595)**	**(296,549)**	**23,543,336**
Balance as at July 1, 2014	20,926,595	55,298,945	1,873,957	-	(33,599,837)	(1,012,182)	22,560,883
Stock-based compensation costs	-	-	2,422	-	-	-	2,422
Net earnings (loss) for the period	-	-	-	-	550,601	-	550,601
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	3,501,910	3,501,910
Balance as at March 31, 2015	**20,926,595**	**55,298,945**	**1,876,378**	**-**	**(33,049,235)**	**2,489,728**	**26,615,816**

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

[1] Adjusted to reflect the December 1st, 2014 five-to-one share consolidation (see note 2 – Basis of preparation and note 9 – Capital Stock).

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three-month and nine-month periods ended March 31, 2015 and 2014
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Revenues (note 13)	**12,121,641**	9,826,466	**37,029,832**	26,935,113
Cost of goods sold (note 10 a))	**8,234,181**	7,144,370	**26,937,889**	19,802,119
Gross profit before depreciation and amortization	**3,887,460**	2,682,096	**10,091,943**	7,132,994
Operating expenses (note 10 a))	**281,771**	253,535	**715,074**	654,765
Selling expenses (note 10 a))	**1,293,880**	1,053,254	**3,269,523**	2,971,165
Administrative expenses (note 10 a))	**1,347,761**	972,410	**3,461,590**	2,999,523
Research and development expenses – net (notes 10 a) and c))	**78,344**	51,197	**167,768**	198,648
Depreciation of property, plant and equipment (note 10 b))	**120,254**	77,342	**273,998**	217,088
Amortization of intangible assets (note 10 b))	**224,645**	331,176	**639,965**	704,701
Other losses – net (note 10 d))	**173,052**	50,356	**352,907**	35,131
Operating costs total	**3,519,707**	2,789,270	**8,880,825**	7,781,021
Operating earnings (loss)	**367,753**	(107,174)	**1,211,118**	(648,027)
Finance income	**(3,440)**	(5,024)	**(9,514)**	(11,865)
Finance costs	**163,017**	142,717	**463,896**	452,443
Finance costs – net	**159,577**	137,693	**454,382**	440,578
Earnings (loss) before income taxes	**208,176**	(244,867)	**756,736**	(1,088,605)
Current income tax expense	**65,154**	9,312	**241,648**	158,221
Deferred tax benefit	**(7,468)**	(37,865)	**(35,513)**	(59,937)
	57,686	(28,553)	**206,135**	98,284
Net earnings (loss) for the period	**150,490**	(216,314)	**550,601**	(1,186,889)
Net earnings (loss) per share attributable to the equity holders of the company during the period				
Basic and diluted net earnings (loss) per share (note 11)	**0.007**	(0.010)	**0.026**	(0.073)
Weighted average number of shares[2] outstanding (note 11)	**20,926,595**	20,926,595	**20,926,595**	16,270,564

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

[2] Adjusted to reflect the December 1st, 2014 five-to-one share consolidation (see note 2 – Basis of preparation and note 9 – Capital Stock).

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three-month and nine-month periods ended March 31, 2015 and 2014
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net earnings (loss) for the period	**150,490**	(216,314)	**550,601**	(1,186,889)
Other comprehensive income – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**1,827,662**	724,671	**3,501,910**	846,433
Comprehensive income (loss) for the period	**1,978,152**	508,357	**4,052,511**	(340,456)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and nine-month periods ended March 31, 2015 and 2014
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Cash flows from operating activities				
Earnings (loss) before income taxes for the period	**208,176**	(244,867)	**756,736**	(1,088,605)
Non-cash items				
Finance costs – net	**159,577**	137,693	**454,382**	440,578
Depreciation of property, plant and equipment	**120,254**	77,342	**273,998**	217,088
Amortization of intangible assets	**224,645**	331,176	**639,965**	704,701
Gain on disposal of property, plant and equipment	**-**	(4,644)	**-**	(5,644)
Deferred rent	**523**	2,152	**1,219**	6,257
Stock-based compensation	**-**	2,422	**2,422**	10,495
	713,175	301,274	**2,128,722**	284,870
Change in working capital items (note 12 a))	**684,804**	(604,002)	**(857,876)**	(3,110,007)
Cash generated by (used in) operations	**1,397,979**	(302,728)	**1,270,846**	(2,825,137)
Interests received	**3,440**	5,024	**9,514**	11,865
Income taxes paid	**(9,150)**	(1,234)	**(26,787)**	(3,499)
Net cash generated by (used in) operating activities	**1,392,269**	(298,938)	**1,253,573**	(2,816,771)
Cash flows from investing activities				
Variation of guaranteed deposits certificates	**(1,789)**	(897)	**(2,951)**	30,149
Acquisition of property, plant and equipment (note 12 c))	**(135,668)**	(4,769)	**(519,277)**	(60,936)
Acquisition of intangible assets	**(232,058)**	(6,574)	**(315,530)**	(46,389)
Variation of other assets	**(8,561)**	730	**(8,561)**	730
Disposal of property, plant and equipment	**-**	-	**-**	6,798
Business combination, net of cash acquired	**-**	(13,787)	**-**	(3,984,019)
Net cash used in investing activities	**(378,076)**	(25,297)	**(846,319)**	(4,053,667)
Cash flows from financing activities				
Variation of bank loans	**214,595**	1,176,601	**1,111,833**	140,466
Long-term debt reimbursement	**(5,710)**	(254,669)	**(473,977)**	(1,513,237)
Long-term debt contracted	**194,971**	-	**285,171**	-
Interest paid	**(157,831)**	(124,828)	**(430,493)**	(367,656)
Issuance of common shares (note 9)	**-**	-	**-**	9,979,651
Payment for share issue expenses (note 9)	**-**	(318)	**-**	(690,296)
Net cash generated by financing activities	**246,025**	796,786	**492,534**	7,548,928
Net change in cash and cash equivalents	**1,260,218**	472,551	**899,788**	678,490
Effect of exchange rate changes on the balance of cash held in foreign currencies	**103,032**	59,187	**176,096**	16,453
Increase in cash and cash equivalents	**1,363,250**	531,738	**1,075,884**	694,943
Cash and cash equivalents - Beginning of period (note 12 b))	**97,003**	210,440	**384,369**	47,235
Cash and cash equivalents - End of period (note 12 b))	**1,460,253**	742,178	**1,460,253**	742,178

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Description of Business

H_2O Innovation Inc. (the “Company”) is incorporated under the *Canada Business Corporations Act*. The Company provides integrated technological water treatment solutions based on membrane filtration technology to municipal, energy & mining end-users. The Company designs state-of-the-art custom-built water treatment projects for the production of drinking water and industrial process water, the reclamation and reuse of water, and the treatment of wastewater. Also, directly and through its affiliates, the Company provides services and products complementary to its membrane filtration and reverse osmosis systems. These products consist of a complete line of specialty chemicals and consumables and a complete line of couplings. At the same time and on a smaller scale, the Company continues its manufacturing and equipment distribution operations for the maple industry. The head office of the Company is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

2. Basis of Preparation

Basis of preparation

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

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

The IFRS accounting policies that are set out in the Company’s consolidated financial statements for the year ended June 30, 2014 were consistently applied to all periods presented. Please refer to note 3 in the Company’s consolidated financial statements for the year ended June 30, 2014 for a complete description of the Company’s significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Company’s consolidated financial statements for the year ended June 30, 2014 and remained unchanged for the three-month and nine-month periods ended March 31, 2015.

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

These condensed interim consolidated financial statements are intended to provide an update on 2014 annual statements. Accordingly they do not include all the information required for annual financial statements and should be read in conjunction with the Company’s 2014 annual audited consolidated financial statements.

On May 13th, 2015 the Board reviewed the accompanying condensed interim consolidated financial statements and authorized its publication.

Share consolidation (reverse stock split)

On December 1st, 2014, the Company effected a consolidation of its issued and outstanding common shares on a five-to-one basis (the "Share Consolidation"). The Share Consolidation affected all shareholders, option holders and warrant holders uniformly and thus did not materially affect any security holder's percentage of ownership interest. All references in these consolidated financial statements to common shares, options and share purchase warrants have been retroactively adjusted to reflect the Share Consolidation.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Standards and interpretations adopted during the period

a) *Impairment of assets*
In May 2013, IASB amended IAS 36, *Impairment of Assets*, which provides guidance on recoverable amount disclosures for non-financial assets. The amendments to IAS 36 must be applied retrospectively for annual periods beginning on or after January 1, 2014.

The adoption of these IFRS amendments did not have a significant impact on the unaudited consolidated financial statements but they will require additional disclosures in the audited annual consolidated financial statements of the Company.

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

The adoption of these IFRS amendments did not have a significant impact on the unaudited consolidated financial statements.

Standards and interpretations issued to be adopted at a later date

Unless otherwise noted, the following revised standard and amendment are effective for annual periods beginning on or after January 1, 2017 (January 1, 2018 for IFRS 9), with earlier application permitted. The Company has not yet assessed the impact of these standard and amendment or determined whether it will early adopt them.

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

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

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

IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue, Barter Transactions Involving Advertising Service*). IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

3. Accounts Receivable

	As at March 31, 2015	As at June 30, 2014
	$	$
Accounts receivable	**9,643,793**	7,682,304
Retentions from customers under manufacturing contracts	**921,420**	1,198,327
Allowance for doubtful accounts	**(724,503)**	(547,764)
	9,840,710	8,332,867
Tax credits receivable	**99,885**	194,636
Other receivables	**1,491,403**	380,905
	11,431,998	8,908,408

In order to mitigate its credit risk, the Company started to insure a part of its accounts receivables through the insurance program of Exportation and Development Canada ("EDC") in August 2014. This insurance program allows under certain conditions, an insurance coverage that can reach an amount equivalent to 90% of the receivables. As at March 31, 2015, the EDC insurance coverage represents approximately 50% of the receivables (nil as at June 30, 2014).

The Company has given direction to pay all insurance proceeds to the bank since the insurance coverage allows the Company to increase its bank loans usage capacity. As of March 31, 2015, there is no claim under this insurance coverage.

4. Inventories

	As at March 31, 2015	As at June 30, 2014
	$	$
Raw materials	**1,085,167**	971,227
Finished goods	**2,793,083**	3,734,642
	3,878,250	4,705,869

5. Bank loans

During the second quarter, the Company renegotiated its bank loans for an authorized amount of $2,250,000 and US$2,750,000 bearing interest at CDN prime rate plus 1.00% (3.85% as at March 31, 2015) and at US prime rate plus 1.00% (4.75% as at March 31, 2015). The bank loans are secured by an assignment of book debtors and inventories. These were renegotiable in November 2014 and are secured in part by Export Development Canada ("EDC").

Covenants
The Company have undertaken to maintain covenants on a monthly basis in respect of the bank loans described above. The Company's bank facilities were to be renegotiated on November 30, 2014 and discussions are ongoing.
As at March 31, 2015, the Company was in compliance with its financial ratios required for its credit facility and long-term debt arrangements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

6. Accounts Payable and Accrued Liabilities

	As at March 31, 2015	As at June 30, 2014
	$	$
Trade accounts payable	**3,802,077**	2,868,518
Other accrued liabilities and accounts payable	**2,959,769**	1,548,679
	6,761,846	4,417,197

7. Provisions

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

	$
Balance as at June 30, 2013	41,637
Additional provisions recognised	123,608
Plus: Allocation received	62,964
Less: Payments	(154,261)
Effect of foreign exchange differences	3,443
Balance as at June 30, 2014	77,391
Additional provisions recognised	**9,000**
Less: Payments	**(16,273)**
Effect of foreign exchange differences	**12,232**
Balance as at March 31, 2015	**82,350**

8. Long-Term Debt

	As at March 31, 2015	As at June 30, 2014
	$	$
Unsecured – at amortised cost		
Bank loan, denominated in Canadian dollars	**-**	242,625
Bank loan, denominated in Canadian dollars (a)	**285,171**	-
Loan from other entities, denominated in Canadian dollars (b)(c)	**565,344**	747,648
Loan from other entities, denominated in US dollars	**61,116**	65,935
	911,631	1,056,208
Less: Current portion	**436,294**	724,996
Long-term debt	**475,337**	331,212

a) On September 20, 2014, an agreement was concluded for a loan amounting up to $460,000, secured by a first rank hypothec on the Ham-Nord plant, bearing interest at prime rate plus 1.05% (5.90% as at March 31, 2015), payable in one instalment of $4,120 on September 23, 2015 and 131 monthly instalments of $3,480, principal only, maturing on August 23, 2026.

b) On September 30, 2013, the Company used the proceeds from an equity private placement (note 9) to reimbursed $500,000 of its bank loan and $500,000 of its loan from other entities. The Company also issued 142,862 common shares to reimburse the loans from shareholders amounting to $157,154.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

c) Loan from other entities
On August 28, 2014, an agreement was concluded giving a six-month moratorium option the repayment of principal with an increase of 0.25% of the interest rate applicable. On October 20, 2014, the Company has exercised its six-month moratorium option on the repayment of principal starting November 1, 2014.

9. Capital Stock

Share consolidation

The 104,632,977 common shares issued and outstanding immediately prior to the Share Consolidation were consolidated into 20,926,595 common shares. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to each stock option exercise price.

All share, option and share purchase warrant and per share, option and share purchase warrant data have been retroactively adjusted to reflect and give effect to the Share Consolidation as if it occurred at the beginning of the earliest period presented.

Share capital

On September 30, 2013, the Company issued, by way of an equity private placement, 1,940,909 common shares with gross proceeds of $2,135,005, expenses of $54,200 for a net proceeds of $2,080,805. The Company used the proceeds to reimburse partially its long-term debt and to support its working capital. Among the common shares issued in connection with this offering, 142,862 common shares were issued to reimburse the loans from shareholders amounting to $157,154.

On December 5, 2013, the Company issued, by way of a bought deal private placement and concurrent additional non-brokered private placement, 6,956,520 common shares with gross proceeds of $8,001,800, expenses of $636,096 for net proceeds of $7,365,704. The Company used the proceeds to complete the acquisition of Piedmont and to support its working capital.

Stock options

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

	Nine-month period ended March 31, 2015		Year ended June 30, 2014	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of period	**347,500**	**2.66**	424,900	2.83
Expired	**(47,500)**	**2.71**	(77,400)	3.56
Outstanding - End of period	**300,000**	**2.65**	347,500	2.66

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

10. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Material	**5,699,304**	4,683,440	**17,986,843**	14,286,632
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**(243,520)**	360,120	**(268,379)**	(240,170)
Salaries and fringe benefits	**3,429,554**	2,710,379	**9,273,409**	7,695,118
Subcontractors and professional fees	**570,693**	762,762	**3,243,364**	1,868,465
Rent, electricity, insurance and office expenses	**437,142**	401,120	**1,282,830**	1,138,680
Telecommunications and travel expenses	**487,767**	279,807	**1,299,562**	850,206
Bad debt expenses	**183,397**	30,000	**264,637**	79,695
Other expenses	**671,600**	247,138	**1,469,578**	947,594
Total cost of goods sold, operating, selling, administrative and research and development expenses	**11,235,937**	9,474,766	**34,551,844**	26,626,220

b) Depreciation and amortization

The Company has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of earnings (loss), as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses – net, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month and nine-month periods ended March 31, 2015 and 2014; 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 periods as noted above.

Depreciation by function	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Cost of goods sold	**92,722**	47,786	**189,757**	128,012
Operating expenses	**542**	863	**2,027**	2,648
Selling expenses	**7,903**	8,872	**24,330**	28,542
Administrative expenses	**19,087**	19,821	**57,884**	57,886
	120,254	77,342	**273,998**	217,088

Amortization by function	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Cost of goods sold	**111,256**	99,140	**310,760**	282,446
Selling expenses	**100,655**	217,753	**290,057**	380,046
Administrative expenses	**12,734**	14,283	**39,148**	42,209
	224,645	331,176	**639,965**	704,701

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

10. Additional information about the nature of costs components (continued)

Cost per function including depreciation and amortization	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Cost of goods sold	**8,438,159**	7,291,296	**27,438,406**	20,212,577
Operating expenses	**282,313**	254,398	**717,101**	657,413
Selling expenses	**1,402,438**	1,279,879	**3,583,910**	3,379,753
Administrative expenses	**1,379,582**	1,006,514	**3,558,622**	3,099,618
Research and development expenses – net	**78,344**	51,197	**167,768**	198,648

c) Research and development expenses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Gross research and development expenses	**78,344**	65,701	**167,768**	248,826
Research and development tax credits and grants	**-**	(14,504)	**-**	(50,178)
	78,344	51,197	**167,768**	198,648

d) Other (gains) losses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Exchange loss	**198,189**	59,819	**391,790**	62,998
Other revenues	**(25,137)**	(4,819)	**(38,883)**	(22,223)
Gain on disposal of property, plant and equipment	**-**	(4,644)	**-**	(5,644)
	173,052	50,356	**352,907**	35,131

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

11. Net Earnings (loss) Per Share

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
Net earnings (loss)	**$150,490**	($216,314)	**$550,601**	($1,186,889)
Basic and diluted weighted average number of share outstanding	**20,926,595**	20,926,595	**20,926,595**	16,270,564
Basic and diluted net earnings (loss) per share	**$0.007**	($0.010)	**$0.026**	($0.073)
Items excluded from the calculation of diluted net earnings (loss) per share because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect				
Stock options			**300,000**	341,500

For the three-month and nine-month periods ended March 31, 2015 and 2014, the diluted net earnings (loss) per share was the same as the basic net earnings (loss) per share, since the effect of the assumed exercise of stock options and warrants to purchase common share is anti-dilutive. Accordingly, the diluted net earnings (loss) per share for these periods was calculated using the basic weighted average number of shares outstanding.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

12. Cash Flows

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

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2015	2014	**2015**	2014
	$	$	**$**	$
Accounts receivable	**89,409**	1,480,334	**(1,889,846)**	(930,383)
Inventories	**162,436**	223,164	**287,866**	(497,735)
Costs incurred in excess of billings	**336,055**	(1,664,049)	**(1,217,898)**	(949,752)
Prepaid expenses	**123,667**	(45,286)	**132,827**	(11,215)
Accounts payable and accrued liabilities	**(684,069)**	(34,668)	**1,952,315**	455,099
Provisions	**3,000**	(53,269)	**(7,273)**	(7,005)
Billings in excess of costs incurred	**654,306**	(510,228)	**(115,867)**	(1,169,016)
	684,804	(604,002)	**(857,876)**	(3,110,007)

b) Cash and cash equivalents consist of the following:

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2015	2014	**2015**	2014
	$	$	**$**	$
Beginning of period				
Cash and cash equivalents	**198,633**	385,304	**497,752**	303,936
Bank overdraft	**(101,630)**	(174,864)	**(113,383)**	(256,701)
	97,003	210,440	**384,369**	47,235

	Three-month periods ended March 31,		**Nine-month periods ended March 31,**	
	2015	2014	**2015**	2014
	$	$	**$**	$
End of period				
Cash and cash equivalents	**1,685,146**	921,246	**1,685,146**	921,246
Bank overdraft	**(224,893)**	(179,068)	**(224,893)**	(179,068)
	1,460,253	742,178	**1,460,253**	742,178

c) Non-cash transaction

The principal non-cash transaction is the transfer of containerized units from Inventory – finished goods to Property, plant and equipment – Containerized units for lease for an amount of $846,513, since these containers have been leased to a client during the second quarter.

13. 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.

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Revenues from sales of consumables	**6,493,697**	5,364,129	**15,403,607**	12,693,257
Manufacturing contracts revenues	**5,627,944**	4,462,337	**21,626,225**	14,241,856
	12,121,641	9,826,466	**37,029,832**	26,935,113

Geographical information

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
Revenue from external customers	**2015**	2014	**2015**	2014
	$	$	**$**	$
Revenue according to geographic location				
Canada	**5,142,010**	3,555,412	**14,469,578**	10,181,583
United States	**5,043,338**	5,138,557	**17,689,401**	14,277,417
China	**727,005**	257,378	**1,876,637**	979,739
Switzerland	**64,686**	45,532	**82,800**	210,674
Arab Emirates	**72,334**	291,524	**98,635**	291,524
Australia	**16,158**	10,178	**27,453**	51,174
Israel	**21,740**	114,189	**80,874**	114,189
Indonesia	**123,581**	-	**208,085**	-
South Korea	**479,052**	71,115	**597,031**	68,128
Haiti	**151,605**	-	**151,605**	-
Tunisia	**135,803**	72,790	**335,510**	122,390
Other	**144,329**	269,791	**1,412,223**	638,295
	12,121,641	9,826,466	**37,029,832**	26,935,113

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

	As at March 31, 2015	As at June 30, 2014
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**2,943,841**	1,561,921
United States	**12,573,716**	11,159,574
	15,517,557	12,721,495

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

14. Related parties disclosure

Compensation of key management personnel

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2015	2014	**2015**	2014
	$	$	**$**	$
Short-term benefits	**252,710**	236,029	**832,566**	949,279
Post-employment benefits	**6,620**	3,168	**15,266**	8,666
Share-based payments	**-**	2,155	**2,155**	9,961
	259,330	241,352	**849,987**	967,906

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

GENERAL INFORMATION

Board of Directors

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

[1] Audit Committee
[2] Governance, Remuneration and Risks Committee
[3] Technology and Projects Committee

Key Management

Frédéric Dugré, President & CEO
Josée Riverin, VP Finance
Marc Blanchet, VP Corporate Affairs & Secretary
Guillaume Clairet, Executive VP[3]

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

Independent Auditors
Deloitte LLP

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CST Trust Company

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