Interim Financial Report
Third quarter ended
March 31, 2016

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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, 2016, in comparison with the corresponding period ended March 31, 2015. They should be read in conjunction with the consolidated financial statements and accompanying notes. Comparison of financial situation as at March 31, 2016 to those as at June 30, 2015 is also included. Certain statements set forth in this Management's Discussion and Analysis (MD&A) regarding the operations and the activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results, performance and achievements and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar expressions, as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Those forward-looking statements, based on the current expectations of management, involve a number of risks and uncertainties, known and unknown, which may result in actual and future results, performance and achievements of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 22, 2015 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 designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. Also, directly and 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, consumables and couplings. H_2O Innovation employs approximately 175 resources and has six locations in North America and one location in Spain, Europe.

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.

NON-IFRS FINANCIAL MEASUREMENTS

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, taxes, 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 Corporation's finance costs – net, stock-based compensation costs, gain on purchase price adjustment, unrealized exchange (gains) / losses and acquisition costs. The reader can establish the link between adjusted EBITDA and net earnings. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

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

Reconciliation of adjusted EBITDA to net earnings

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Net earnings for the period	**646,422**	150,490	**872,972**	550,601
Finance costs – net	**233,260**	159,577	**597,514**	454,382
Income taxes	**205,077**	57,686	**417,930**	206,135
Depreciation of property, plant and equipment	**175,192**	120,254	**447,178**	273,998
Amortization of intangible assets	**276,852**	224,645	**744,957**	639,965
Gain on purchase price adjustment	-	-	**(375,977)**	-
Unrealized exchange (gains)/losses	**(292,260)**	192,981	**(35,173)**	349,635
Acquisition costs	**781**	(7,787)	**48,199**	21,510
Stock-based compensation costs	**-**	-	**-**	2,422
Adjusted EBITDA	**1,245,324**	897,846	**2,717,600**	2,498,648

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

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

	March 31, 2016	June 30, 2015
	$	$
Bank overdraft	**488,742**	2,052
Bank loans	**6,232,085**	4,432,077
Current portion of long-term debt	**753,968**	543,807
Long-term debt	**2,264,624**	499,777
Less: Cash and cash equivalents	**(1,148,748)**	(1,335,887)
Net debt	**8,590,671**	4,141,826

RESULTS OF OPERATIONS

Selected financial data
(Unaudited)

	Three-month periods ended March 31, 2016	2015	Nine-month periods ended March 31, 2016	2015
	$	$	**$**	$
Revenues	**14,199,860**	12,121,641	**39,624,778**	37,029,832
Gross profit before depreciation and amortization	**4,522,640**	3,887,460	**11,853,728**	10,091,943
Gross profit margin	**31.8%**	32.1%	**29.9%**	27.3%
Operating expenses	**356,160**	281,771	**1,009,026**	715,074
Selling expenses	**1,679,681**	1,293,880	**4,648,798**	3,269,523
Administrative expenses	**1,289,659**	1,347,761	**3,521,379**	3,461,590
Research and development expenses – net	**24,126**	78,344	**144,300**	167,768
Net earnings	**646,422**	150,490	**872,972**	550,601
Basic and diluted earnings per share	**0.031**	0.007	**0.042**	0.026
Adjusted EBITDA	**1,245,324**	897,846	**2,717,600**	2,498,648
Adjusted EBITDA over Revenues (%)	**8.8%**	7.4%	**6.9%**	6.7%

Revenues for the third quarter of fiscal year 2016 totaled $14.2 M, representing a $2.1 M or 17.1% increase, as compared with revenues of $12.1 M for the same quarter of fiscal year 2015. Adjusted EBITDA increased significantly, reaching $1,245,324, compared with $897,846 for the same period ended March 31, 2015, representing a 38.7% increase. The ratio of adjusted EBITDA over revenues is still growing this quarter, with 8.8%, up from 7.4% for the comparable period of fiscal year 2015.

Revenues from water treatment projects decreased to $4.8 M compared to $5.6 M in the corresponding period of the previous fiscal year, representing a 15.0% decrease. The decrease in revenues from water treatment projects, despite the increasing backlog, is not unusual since revenues from projects varies from quarter to quarter and depends on the different milestones reached for revenues recognition. This decrease was compensated by the 44.6% increase of revenues from the specialty products and services ("SP&S") business line, which reached 66.3% of the revenues of the quarter, compare to 53.6% for the comparable quarter of the previous fiscal year. SP&S revenues reached the record high level of $9.4 M compared to $6.5 M in the comparable quarter of the previous fiscal year. This strong increase is the result of the investment made in the sales efforts and the investment made in the development of new proprietary technologies such as the Smartrek™, Clearlogx® or SPMC™, which boosted revenues up, along with the gross profit. The Company's proprietary technologies allowed to differentiate ourselves from our competitors and also allowed the recent winning of the Water Technology Company of the year awarded by Global Water Intelligence (GWI), a UK based international organism, announced on April 20, 2016.

The ratio of adjusted EBITDA over revenues also increased from 7.4% for the three-month period ended March 31, 2015 to 8.8% for the comparable period ended March 31, 2016. This notable improvement of our adjusted EBITDA over revenues is fueled by the impressive organic growth of our SP&S business line and the sound cost management in our water treatment projects business line. The business mix between projects and SP&S is allowing us to gain predictability in our business model, to secure long-term relationship with customers and to maintain high gross profit. The investments done in the past to support the growth of the Corporation are now paying off, as we are currently seeing an improvement of our gross profit generated by the operations.

In this third quarter of fiscal year 2016, the Corporation generated a 31.8% gross profit before depreciation and amortization, a level somewhat stable compared to the 32.1% gross profit before depreciation and amortization generated in the third quarter of fiscal year 2015. The revenue mix in this quarter shows that revenues from SP&S represent a significant proportion of total revenues compared to the corresponding period of the previous fiscal year (66.3% in fiscal year 2016 versus 53.6% in fiscal year 2015), affecting positively our gross profit margin. The constant efforts deployed on improving the execution and the procurement for our water treatment projects business line are also paying off, contributing positively to the gross profit margin.

QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)

	Three-month periods ended				Last twelve months
	March 31, 2016	**December 31, 2015**	**September 30, 2015**	**June 30, 2015**	
	$	$	$	$	$
Revenues	**14,199,860**	13,165,590	12,259,328	11,670,028	**51,294,806**
Gross profit margin	**31.8%**	31.3%	26.1%	29.7%	**29.7%**
Adjusted EBITDA	**1,245,324**	1,030,502	441,773	578,098	**3,295,697**
Adjusted EBITDA over revenues	**8.8%**	7.8%	3.6%	5.0%	**6.4%**
Net earnings (loss)	**646,422**	174,221	52,329	(284,063)	**588,909**
EPS basic and diluted	**0.031**	0.008	0.003	(0.014)	**0.028**
Cash flows from operating activities	**(318,078)**	128,382	(227,303)	867,972	**450,973**

	Three-month periods ended				Previous 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**
Gross profit margin	**32.1%**	23.2%	27.0%	26.8%	**27.3%**
Adjusted EBITDA	**897,846**	685,427	915,370	(237,299)	**2,261,344**
Adjusted EBITDA over revenues	**7.4%**	5.0%	8.2%	(3.0%)	**5.0%**
Net earnings (loss)	**150,490**	117,524	282,587	(269,242)	**281,359**
EPS basic and diluted	**0.007**	0.006	0.014	(0.013)	**0.014**
Cash flows from operating activities	**1,392,269**	(549,922)	411,225	330,455	**1,584,027**

The significant growth of the Corporation and the scalability of the operations achieved over the past years are represented on a last twelve months period basis. Revenues for the last twelve months show an increase of 14.2% compared to the previous twelve months period, evidence of our organic growth and constant efforts on improving our sales for all our business lines. A noticeable increase of 45.7% of the adjusted EBITDA for the last twelve months period, compared to the previous last twelve months period attests of our operational efficiency and the scalability of our business model. The results presented clearly show that quarter over quarter, we are improving profitability as revenues are growing. Indeed, adjusted EBITDA percentage over revenues went from 5.0% for the previous last twelve month to 6.4% this last twelve months. Such a growth implies that the Corporation reinvests in the development of new products and new sales team, which affects negatively the level of cash flows from operating activities.

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

	2015 FY				2016 FY			Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	(Q4 FY2015 & Q1 & Q2 & Q3 FY2016)	(Q4 FY2014 & Q1 & Q2 & Q3 FY2015)
Order backlog	$36.1 M	$29.6 M	$40.4 M	$36.5 M	$38.3 M	$43.1 M	**$42.1 M**	**N/A**	N/A
Foreign exchange Impact	$1.2 M	$0.8 M	$2.2 M	$0.1 M	$1.8 M	$1.1 M	**($1.7 M)**	**N/A**	N/A
Bookings for water treatment projects (*)	$3.9 M	$1.4 M	$14.2 M	$2.8 M	$7.2 M	$9.6 M	**$5.5 M**	**$25.1 M**	**$37.7 M**
Revenues from water treatment projects	$7.3 M	$8.7 M	$5.6 M	$6.9 M	$7.2 M	$5.9 M	**$4.8 M**	**$24.8 M**	**$25 M**
Bookings / Revenues Ratio								**1.0**	**1.5**
Revenues from SP&S (usually recurrent in nature)	$3.9 M	$5.0 M	$6.5 M	$4.8 M	$5.1 M	$7.3 M	**$9.4 M**	**$26.6 M**	**$19.9 M**
Total revenues	$11.2 M	$13.7 M	$12.1 M	$11.7 M	$12.3 M	$13.2 M	**$14.2 M**	**$51.4 M**	**$44.9 M**

(*) Foreign exchange impact has been excluded from the bookings and reclassified separately due to the significant weakening of the Canadian currency. Previous quarters' information has been restated to reflect this new presentation for comparative purposes.

The Corporation secured $5.5 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 and the significant weakening of the Canadian dollar compared to the US dollar, have brought up the backlog at $42.1 M as at March 31, 2016 compared to $40.4 M as at March 31, 2015. This level of order backlog gives the Corporation a fairly good perspective over the coming quarters in terms of volume of revenues. Our team has demonstrated that it can manage the execution challenge that comes with such large order backlog and we have structured the organization in order to achieve even more. The previous table also summarizes the increase of the SP&S revenues over the last 7 quarters. Comparable quarter to comparable quarter, we can see that revenues are constantly increasing.

Bidding activities of water treatment projects are still high, which requires investment in selling, operating and administrative expenses ("SG&A") to answer these bidding opportunities. Increase of the order backlog fuels the growth of revenues in the upcoming quarters. We maintain strong bidding activities and business development in Canada and in the United States to maintain and increase the bookings. We also maintain constant efforts to expand our distributors and representatives network to continue the expansion of the SP&S business line. The recent winning of the GWI award of Water Technology Company of the year reflects the Company's recognition in the water treatment industry.

Operating expenses

Operating expenses have increased by $74,389 or 26.4%, totaling $0.4 M this quarter compared to $0.3 M for the corresponding quarter of previous fiscal year. This variation is partly due to the significant weakening of the Canadian dollar against the US dollar and to the addition of product development personnel and other support functions to grow the SP&S business line.

Selling expenses

Selling expenses have increased by $385,801 or 29.8%, to reach $1.7 M for this quarter compared to $1.3 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 in selling expenses is due, notably, to the addition of sales related personnel to support the sales of SP&S products in Europe following the opening of our new location and the impact of the addition of Clearlogx's personnel for a complete quarter. The sales commissions recorded in regards to sales target reached in our SP&S business line also impacted the selling expenses over the quarter, as well as the impact of the significant weakening of the Canadian dollar against the US dollar for the expenses incurred in US dollars.

Administrative expenses

Administrative expenses were relatively stable, decreasing by $58,102 or 4.3%, totaling $1.3 M for this quarter and the corresponding quarter of the previous fiscal year. The decrease in administrative expenses is mainly attributable to a bad debt write-off during the third quarter of fiscal year 2015, which is subdued by the increase in salaries and fringe benefits following the addition of personnel to support our overall operations and our expected growth. Administrative expenses are also impacted by the significant weakening of the Canadian dollar against the US dollar for the expenses incurred in US dollars.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 23.4% for this quarter, down from 24.1% for the corresponding quarter of the previous fiscal year. This decrease is mostly attributable to the bad debt written-off in fiscal year 2015. Considering the improvement of the gross profit margin in the last quarters derived from the growth of the SP&S business line, management considers that the SG&A ratio is adequate. Over the last quarters, SG&A investment have paid off since we have been able to generate constant growth.

Research and development expenses – net

For the quarter ended March 31, 2016, gross research, development and innovation expenses totaled $24,126, or 0.2% of revenues compared to $78,344, or 0.6% for the quarter ended March 31, 2015. Investment in the development of new products allowed the Company to differentiate itself from competitors and also allowed the recent winning of the GWI award of Water Technology Company of the year. New proprietary products increase revenues and allow the improvement of the gross margin. For the three-month period ended March 31, 2016, the Corporation has not recorded tax credits from the Canadian and provincial governments for eligible research and development conducted in Canada, but intends to claim such tax credits during fiscal year 2016.

Adjusted EBITDA

Adjusted EBITDA for the quarter was recorded at $1,245,324, compared with $897,846 for the same period ended March 31, 2015, representing a ratio of 8.8% of adjusted EBITDA over revenues for this quarter compared to a ratio of 7.4% for the same quarter of the previous fiscal year. This 38.7% increase in adjusted EBITDA demonstrates our operational efficiency and the improvement and scalability of our business model over the last year. Indeed, once the Corporation's fixed costs are covered, the gross profit will directly impact the adjusted EBITDA. During the third quarter of fiscal year 2016, the adjusted EBITDA increased twice as fast as revenues: 38.7% increase of adjusted EBITDA compared to fiscal year 2015 third quarter, while revenues increased by 17.1%. On a last twelve months basis this increase is even more significant. Adjusted EBITDA increase is more than three times than revenues increase: 45.7% increase for adjusted EBITDA compared to 14.2% increase for revenues on a last twelve months basis. Therefore, volume of revenues matters, as well as a sound cost management.

Other (gains) / losses – net

Other (gains) / losses – net amounting to ($363,789) for the period ended March 31, 2016 compared with $173,052 for the quarter ended March 31, 2015 are mostly composed of unrealized and realized exchange gains of ($292,260) and ($56,095) respectively, as at March 31, 2016. The unrealized and realized exchange losses for the comparable period of fiscal year 2015 were, respectively $192,981 and $5,208.

Finance costs – net

Finance costs – net totalled $233,260 for the period ended March 31, 2016 compared to $159,577 for the comparable period in the previous fiscal year. The variation of the finance costs relates mostly to the increased use of the bank loans to support the continuing growth of our operations and to the new long-term debt contracted for the acquisition of Clearlogx' assets during the second quarter of fiscal year 2016. Of this amount, $11,038 represents the theoretical and non-monetary part of interest on long-term debt.

In order to mitigate its credit risk, the Corporation 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, 2016, the EDC insurance coverage represents approximately 61% of the receivables (63% as at June 30, 2015). The Corporation has given direction to pay all insurance proceeds to the bank since the insurance coverage allows the Corporation to increase its bank loans usage capacity.

Net earnings

The net earnings amounted to $646,422 or $0.031 per share for the third quarter of fiscal year 2016 compared with $150,490 or $0.007 per share for the third quarter of fiscal year 2015. The increase in net earnings is the result of a growth of revenues and an improved level of gross profit before depreciation and amortization.

Commitments

The Corporation has entered into long-term lease agreements expiring between 2017 and 2024, which call for lease payments of $5,358,561 for the rental of space. The minimum annual lease payments over the next five years are $875,678 in 2017, $734,044 in 2018, $692,870 in 2019, $680,441 in 2020 and $676,582 in 2021.

Information on share capital

As at March 31, 2016, the Corporation had 20,926,551 outstanding shares and 271,000 stock options.

FINANCIAL SITUATION

Working capital increased from $8.4 M as at June 30, 2015 (working capital ratio of 1.75) to $8.7 M as at March 31, 2016 (working capital ratio of 1.55). The increase of $0.3 M is attributable to the $1.9 M, $0.4 M and $2.9 M increase in accounts receivable, inventories and costs incurred in excess of billings respectively, but subdued by the increase of $2.2 M, $1.8 M and $0.2 M in accounts payable and accrued liabilities, bank loans as well as the current portion of long-term debt respectively.

The net debt which stood at $8.6 M as at March 31, 2016 increased by $4.4 M compared with $4.1 M as at June 30, 2015. This increase is attributable to the increase of the bank loans and to the new long-term debt of $2.7 M (US$2 M) contracted for the acquisition of Clearlogx' assets during the second quarter of fiscal year 2016.

Equity stood at $27.5 M as at March 31, 2016, compared with $26.0 M as at June 30, 2015. As at March 31, 2016, the net debt to equity ratio was 0.31, compared with 0.16 as at June 30, 2015, showing that the Corporation is not over leveraged.

(in Canadian dollars, except for ratios)	**Period ended March 31, 2016**	**Period ended June 30, 2015**
Working capital	**$8,703,432**	$8,423,583
Working capital ratio	**1.55**	1.75
Net debt[1]	**$8,590,671**	$4,141,826
Equity	**$27,469,666**	$26,007,486
Net debt to equity ratio	**0.31**	0.16

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

As at March 31, 2016 accounts receivable stood at $11.8 M compared with $9.9 M as at June 30, 2015. The rise of $1.9 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 2016 and to the significant sales in our SP&S business line near the end of the third quarter, especially due to sales record of maple equipment for this season. Accounts receivable are monitored tightly by management for recoverability and payment delays.

Inventories increased by $0.4 M to $4.3 M as at March 31, 2016 compared with $4.0 M as at June 30, 2015, to meet the increasing demand of Piedmont's couplings.

Costs incurred in excess of billings increased by $2.9 M to $4.9 M as at March 31, 2016, from $2.1 M as at June 30, 2015, primarily due to a greater number of active projects for which there are differences between project advancement and project invoicing schedules. Billings in excess of costs incurred were somewhat stable, decreasing to $1.2 M as at March 31, 2016, from $1.4 M as at June 30, 2015. This decrease is also attributable to differences between project advancement and project invoicing schedules.

Accounts payable and accrued liabilities increased by $2.2 M to $7.0 M as at March 31, 2016, from $4.7 M as at June 30, 2015. This is mostly due to the volume of activities for water treatment projects which have reached, for many of them, the manufacturing stage during which equipment are being assembled and for which suppliers are involved. In addition, the accounts payable and accrued liabilities are impacted by the significant weakening of the Canadian dollar against the US dollar for the expenses incurred in US dollars.

The increase in the current portion of the long-term debt is explained by the new debt contracted to complete the acquisition of Clearlogx, subdued by the repayment of $0.3 M during the quarter. For the third quarter ended March 31, 2016, shareholders' equity increased by $1.5 M to $27.5 M ($26.0 M as at June 30, 2015). The following elements had an impact on shareholders' equity in the third quarter of fiscal year 2016: 1) the $872,972 net earnings for the nine-month period ended March 31, 2016 and 2) the Canadian dollar's depreciation which generated an unrealized exchange gain of $0.6 M resulting from the translation of foreign operations, mainly those of the U.S. subsidiaries.

CASH FLOWS

A comparison of the Corporation's cash flows for the periods ended March 31, 2016 and 2015 is presented below:

(in Canadian dollars) (unaudited)	**Three-month period ended March 31, 2016**	Three-month period ended March 31, 2015	**Nine-month period ended March 31, 2016**	Nine-month period ended March 31, 2015
	$	$	**$**	$
Cash flows from operating activities	**(318,078)**	1,392,269	**(436,599)**	1,253,573
Cash flows from investing activities	**(776,638)**	(378,076)	**(3,479,655)**	(846,319)
Cash flows from financing activities	**222,800**	246,025	**3,190,762**	492,534
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(81,354)**	103,032	**51,663**	176,096
Net change	**(953,270)**	1,363,250	**(673,829)**	1,075,884
Cash and cash equivalents – Beginning of period	**1,613,276**	97,003	**1,333,835**	384,369
Cash and cash equivalents – End of period	**660,006**	1,460,253	**660,006**	1,460,253

Operating activities used $318,078 in cash for the three-month period ended March 31, 2016, compared with $1,392,269 of cash generated during the corresponding period ended March 31, 2015. The variation is mainly attributable to the change in working capital items and the unrealized exchange loss on the long-term debt contracted during the period, subdued by the increased of earnings before income taxes for the period.

For the third quarter of fiscal year 2016, investing activities used net cash of $776,638, compared with $378,076 of cash used during the corresponding period ended March 31, 2015. The variation is mainly attributable to the acquisition of intangible assets, namely a new enterprise resources planning (ERP) software and by the investment in new development projects.

Financing activities generated net cash of $222,800 in the third quarter of fiscal year 2016 compared with $246,025 of net cash generated during the corresponding period ended March 31, 2015. The slight variation is explained by an increase of the bank loans, used to support the activities of the Corporation, but subdued by the reimbursement of $277,351 of the Corporation's long-term debt. Interest paid during the third quarter of fiscal year 2016 amounted to $238,029.

CAPITAL MANAGEMENT

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

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of bank overdraft, bank loans, long-term debt less cash and cash equivalents, but excludes contingent considerations. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

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

Credit facility and long-term debt arrangements require that the Corporation meet certain annual financial ratios at fixed points in time. The financial ratios are, as at March 31, 2016:

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

As at June 30, 2015, the Corporation was in compliance with its annual 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 to the consolidated financial statements as at June 30, 2015.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2016, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.5 M; which expire at various dates through fiscal year 2017. In these letters of credit, $1.2 M is secured by deposit certificates.

CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

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

An evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective, using the criteria set forth in National Instrument 52-109.

Internal controls over financial reporting

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO). The work performed allows us to conclude that the internal controls over financial reporting are effective for the period ended March 31, 2016.

Changes in internal controls over financial reporting

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Third quarter ended
March 31, 2016

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

For additional information:
Investor Relations
investor@h2oinnovation.com

Trading symbols:

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

As at	**March 31, 2016**	June 30, 2015
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**1,148,748**	1,335,887
Guaranteed deposit certificates	**1,579,439**	1,629,803
Accounts receivable (note 4)	**11,824,583**	9,876,150
Inventories (note 5)	**4,307,493**	3,955,411
Costs incurred in excess of billings	**4,947,206**	2,096,403
Prepaid expenses	**647,329**	753,766
	24,454,798	19,647,420
Non-current assets		
Property, plant and equipment	**3,582,354**	3,020,789
Intangible assets (note 3)	**10,312,606**	7,592,573
Other assets	**73,766**	60,515
Goodwill (note 3)	**4,880,955**	4,694,166
Deferred income tax assets	**2,553,213**	2,832,159
	45,857,692	37,847,622
LIABILITIES		
Current liabilities		
Bank overdraft	**488,742**	2,052
Bank loans (note 6)	**6,232,085**	4,432,077
Accounts payable and accrued liabilities (note 7)	**6,958,951**	4,729,427
Provisions (note 8)	**111,802**	84,272
Billings in excess of costs incurred	**1,172,555**	1,409,396
Income taxes payable	**23,293**	14,908
Deferred rent	**9,970**	7,898
Current portion of long-term debt (notes 3 and 9)	**753,968**	543,807
	15,751,366	11,223,837
Non-current liabilities		
Long-term debt (notes 3 and 9)	**2,264,624**	499,777
Deferred rent	**109,599**	116,522
Contingent consideration (note 3)	**262,437**	-
	18,388,026	11,840,136
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**55,298,945**	55,298,945
Reserve - Stock options	**1,876,379**	1,876,379
Deficit	**(32,454,440)**	(33,327,412)
Accumulated other comprehensive income	**2,748,782**	2,159,574
	27,469,666	26,007,486
	45,857,692	37,847,622

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, 2016 and 2015
(Unaudited)

	ATTRIBUTABLE TO THE SHAREHOLDERS OF H_2O INNOVATION INC.					
			Reserves			
	Common shares Number (note 12)	**Share capital** (note 10)	**Stock options** (note 10)	**Deficit**	**Accumulated other comprehensive income – Translation adjustment**	**Total**
		$	$	$	$	$
Balance as at July 1, 2014	20,926,551	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 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	20,926,551	55,298,945	1,876,379	(33,049,236)	2,489,728	26,615,816
Balance as at July 1, 2015	20,926,551	55,298,945	1,876,379	(33,327,412)	2,159,574	**26,007,486**
Net earnings for the period	-	-	-	**872,972**	-	**872,972**
Other comprehensive income – Currency translation adjustments	-	-	-	-	**589,208**	**589,208**
Balance as at March 31, 2016	**20,926,551**	**55,298,945**	**1,876,379**	**(32,454,440)**	**2,748,782**	**27,469,666**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
For the three-month and nine-month periods ended March 31, 2016 and 2015
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenues (note 14)	**14,199,860**	12,121,641	**39,624,778**	37,029,832
Cost of goods sold (note 11 a))	**9,677,220**	8,234,181	**27,771,050**	26,937,889
Gross profit before depreciation and amortization	**4,522,640**	3,887,460	**11,853,728**	10,091,943
Operating expenses (note 11 a))	**356,160**	281,771	**1,009,026**	715,074
Selling expenses (note 11 a))	**1,679,681**	1,293,880	**4,648,798**	3,269,523
Administrative expenses (note 11 a))	**1,289,659**	1,347,761	**3,521,379**	3,461,590
Research and development expenses – net (notes 11 a) and c))	**24,126**	78,344	**144,300**	167,768
Depreciation of property, plant and equipment (note 11 b))	**175,192**	120,254	**447,178**	273,998
Amortization of intangible assets (note 11 b))	**276,852**	224,645	**744,957**	639,965
Other (gains) losses – net (note 11 d))	**(363,789)**	173,052	**(550,326)**	352,907
Operating costs total	**3,437,881**	3,519,707	**9,965,312**	8,880,825
Operating earnings	**1,084,759**	367,753	**1,888,416**	1,211,118
Finance income	**(3,841)**	(3,440)	**(11,036)**	(9,514)
Finance costs	**237,101**	163,017	**608,550**	463,896
Finance costs – net	**233,260**	159,577	**597,514**	454,382
Earnings before income taxes	**851,499**	208,176	**1,290,902**	756,736
Current income tax expense	**224,356**	65,154	**474,335**	241,648
Deferred tax benefit	**(19,279)**	(7,468)	**(56,405)**	(35,513)
	205,077	57,686	**417,930**	206,135
Net earnings for the period attributable to shareholders	**646,422**	150,490	**872,972**	550,601
Net earnings per share attributable to the equity holders of the company during the period				
Basic and diluted net earnings per share (note 12)	**0.031**	0.007	**0.042**	0.026
Weighted average number of shares outstanding (note 12)	**20,926,551**	20,926,551	**20,926,551**	20,926,551

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended March 31, 2016 and 2015
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Net earnings for the period	**646,422**	150,490	**872,972**	550,601
Other comprehensive (loss) income – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**(1,582,417)**	1,827,662	**589,208**	3,501,910
Comprehensive (loss) income for the period	**(935,995)**	1,978,152	**1,462,180**	4,052,511

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, 2016 and 2015
(Unaudited)

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash flows from operating activities				
Earnings before income taxes for the period	**851,499**	208,176	**1,290,902**	756,736
Non-cash items				
Finance costs – net	**233,260**	159,577	**597,514**	454,382
Depreciation of property, plant and equipment	**175,192**	120,254	**447,178**	273,998
Amortization of intangible assets	**276,852**	224,645	**744,957**	639,965
Gain on purchase price adjustment (note 11 d))	**-**	-	**(375,977)**	-
Unrealized exchange gain on long-term debt	**(159,758)**	-	**(30,489)**	-
Deferred rent	**(2,513)**	523	**(7,482)**	1,219
Stock-based compensation	**-**	-	**-**	2,422
	1,374,532	713,175	**2,666,603**	2,128,722
Change in working capital items (notes 13 a))	**(1,688,165)**	684,804	**(3,087,139)**	(857,876)
Cash generated by (used in) operations	**(313,633)**	1,397,979	**(420,536)**	1,270,846
Interests received	**3,841**	3,440	**11,036**	9,514
Income taxes paid	**(8,286)**	(9,150)	**(27,099)**	(26,787)
Net cash generated by (used in) operating activities	**(318,078)**	1,392,269	**(436,599)**	1,253,573
Cash flows from investing activities				
Variation of guaranteed deposits certificates	**(1,051)**	(1,789)	**57,370**	(2,951)
Payment received on purchase price adjustment (note 11 d))	**-**	-	**375,977**	-
Acquisition of property, plant and equipment	**(283,583)**	(135,668)	**(1,002,330)**	(519,277)
Acquisition of intangible assets	**(490,820)**	(232,058)	**(923,197)**	(315,530)
Variation of other assets	**(1,184)**	(8,561)	**(11,475)**	(8,561)
Assets acquired through business combination (note 3)	**-**	-	**(1,976,000)**	-
Net cash used in investing activities	**(776,638)**	(378,076)	**(3,479,655)**	(846,319)
Cash flows from financing activities				
Variation of bank loans	**738,180**	214,595	**1,800,008**	1,111,833
Long-term debt reimbursement	**(277,351)**	(5,710)	**(642,899)**	(473,977)
Long-term debt contracted	**-**	194,971	**2,634,600**	285,171
Interest paid	**(238,029)**	(157,831)	**(600,947)**	(430,493)
Net cash generated by financing activities	**222,800**	246,025	**3,190,762**	492,534
Net change in cash and cash equivalents	**(871,916)**	1,260,218	**(725,492)**	899,788
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(81,354)**	103,032	**51,663**	176,096
Increase (decrease) in cash and cash equivalents	**(953,270)**	1,363,250	**(673,829)**	1,075,884
Cash and cash equivalents - Beginning of period (note 12 b))	**1,613,276**	97,003	**1,333,835**	384,369
Cash and cash equivalents - End of period (note 12 b))	**660,006**	1,460,253	**660,006**	1,460,253

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 "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. Also, directly and 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, consumables and couplings. At the same time and on a smaller scale, the Corporation continues its manufacturing and equipment distribution operations for the maple industry. The head office of the Corporation is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

2. Basis of Preparation

Basis of preparation

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

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

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2015 were consistently applied to all periods presented. Please refer to note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2015 for a complete description of the Corporation's significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 4 in the Corporation's consolidated financial statements for the year ended June 30, 2015 and remained unchanged for the nine-month period ended March 31, 2016.

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 2015 annual statements. Accordingly they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's 2015 annual audited consolidated financial statements.

On May 6, 2016 the Board reviewed the accompanying condensed interim consolidated financial statements and authorized its publication.

Standards and interpretations issued to be adopted at a later date

The following revised standards are effective for annual periods beginning on or after January 1, 2018 for IFRS 9 and January 1, 2017 for IFRS 15, with earlier application permitted. On July 22, 2015, the IASB has confirmed a one-year deferral of the effective date of IFRS 15 to January 1, 2018. The Corporation has not yet assessed the impact of these standards and amendment on its unaudited consolidated financial statements or determined whether it will early adopt them.

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* with a single approach to determine whether a financial asset is measured at amortized cost, fair value through other comprehensive income or fair value through the statement of income (loss).

IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of income (loss) or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in the statement of income (loss) to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

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

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

IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue, Barter Transactions Involving Advertising Service*). IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

3. Business Combination

Description of the business combination

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

Assets acquired at the acquisition date

	October 21, 2015 $
Assets	
Non-current assets	
Property, plant and equipment	
Machinery and equipment	**9,221**
Intangible assets	
Customer backlog	**33,841**
Client relationships	**433,125**
Intellectual property	**1,650,935**
Trademark	**114,750**
Total	**2,241,872**
Identifiable net assets acquired	**2,241,872**

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The purchase price allocation shown above is preliminary and based on management best estimates as at March 31, 2016. The final purchase price allocation is expected to be completed as soon as management has gathered all of the significant information available and considered necessary in order to finalize this allocation especially in regards to intangible assets.

In the intangible assets' tax treatment, 75% of the intangible assets acquired will be treated as eligible assets with related tax deductions and 25% as non-deductible.

Sources and uses of funds at the transaction closing date

	October 21, 2015 $
Sources	
Bank loan (note 9)	**2,634,600**
	2,634,600
Uses	
Cash consideration transferred	**(1,976,000)**
Working capital for the Company's current activities	**(392,728)**
Contingent consideration	**(265,872)**
	-

The contingent consideration was estimated based on certain forecasted revenues and determined EBITDA over a three year period.

Costs related to the acquisition

The total acquisition-related costs amounted to $47,418 and are included in administrative expenses in the Condensed Interim Consolidated Statement of earnings.

Determination of fair value

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

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

Goodwill arising from the business combination

Based on management's preliminary calculations, no goodwill has been attributed to the transaction. These estimates are subject to change or revaluation by management.

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

The Company's earnings for the three months and nine months period ended March 31, 2016 includes $110,932 and $231,611 in revenues and a $28,693 and $34,763 profit respectively, generated from Clearlogx additional business.

If the business combination had been completed on July 1, 2015, the Company's consolidated revenues for the three months period ended March 31, 2016 would have totalled $14,199,860 and consolidated earnings for the three months period ended March 31, 2016 would have been $646,422. For the nine months period ended March 31, 2016, consolidated revenues would have reached $39,989,183, while the consolidated earnings for the same period would have been $896,603.

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

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

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

4. Accounts Receivable

	As at March 31, 2016	As at June 30, 2015
	$	$
Trade accounts receivable	**10,084,474**	8,348,130
Retentions from customers under manufacturing contracts	**921,749**	1,018,469
Allowance for doubtful accounts	**-**	(1,270)
	11,006,223	9,365,329
Tax credits receivable	**87,479**	99,885
Other receivables	**730,881**	410,936
	11,824,583	9,876,150

In order to mitigate its credit risk, the Corporation started to insure a part of its accounts receivable 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, 2016, the EDC insurance coverage represents approximately 61% of the receivables (63% as at June 30, 2015).
The Corporation has given direction to pay all insurance proceeds to the bank since the insurance coverage allows the Corporation to increase its bank loans usage capacity.

5. Inventories

	As at March 31, 2016	As at June 30, 2015
	$	$
Raw materials	**1,139,177**	1,040,487
Finished goods	**3,168,316**	2,914,924
	4,307,493	3,955,411

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

6. Bank loans

The bank loans for an authorized amount of $5,000,000 or US$5,000,000 ($6,493,500) bearing interest at CDN prime rate plus 1.00% (3.70% as at March 31, 2016 and June 30, 2015) and at US prime rate plus 1.00% (5.00% as at March 31, 2016 and 4.75% as at June 30, 2015) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at March 31, 2016, $4,223,249 was used on this line of credit ($4,432,077 as at June 30, 2015).

The Corporation has an authorized credit facility available of $2,000,000 or US$2,000,000 ($2,597,400) bearing interest at CDN prime rate plus 1.00% (3.70% as at March 31, 2016 and June 30, 2015) and at US prime rate plus 1.00% (5.00% as at March 31, 2016 and 4.75% as at June 30, 2015). This credit facility is secured by EDC. As at March 31, 2016, $2,008,836 was used on this credit facility (unused as at June 30, 2015).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. This credit facility is secured either by EDC or guaranteed deposit certificate. As at March 31, 2016, $335,710 was used on this credit facility (unused as at June 30, 2015).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. The credit facility is secured by $1,007,841 in guaranteed deposit certificate ($1,001,036 as at June 30, 2015). As at March 31, 2016, the Corporation issued $1,000,000 in letters of credit under this credit facility ($1,000,000 as at June 30, 2015).

The Corporation has access to hedging facility of $500,000. This facility is secured by EDC and is unused as at March 31, 2016 (unused as at June 30, 2015).

The Corporation has a credit facility enabling it to use a maximum amount of $400,000 on credit cards for Corporation's related expenses. This credit facility is secured by $252,090 in guaranteed deposit certificate ($250,388 as at June 30, 2015).

The Corporation has a letter of credit amounting to $64,935 ($62,450 as at June 30, 2015) which is secured by a $65,682 guaranteed deposit certificate ($62,450 as at June 30, 2015).

The Corporation still has letters of credit amounting to $121,190 with its previous bank, which are secured by a $133,268 guaranteed deposit certificate ($132,727 as at June 30, 2015).

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

7. Accounts Payable and Accrued Liabilities

	As at March 31, 2016	As at June 30, 2015
	$	$
Trade accounts payable	**2,523,081**	3,039,313
Other accrued liabilities and accounts payable	**4,435,870**	1,690,114
	6,958,951	4,729,427

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

8. Provisions

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

	$
Balance as at June 30, 2014	77,391
Additional provisions recognised	12,000
Less: Payments	(16,273)
Effect of foreign exchange differences	11,154
Balance as at June 30, 2015	84,272
Additional provisions recognised	**30,500**
Less: Payments	**(12,338)**
Effect of foreign exchange differences	**9,368**
Balance as at March 31, 2016	**111,802**

9. Long-Term Debt

	As at March 31, 2016	As at June 30, 2015
	$	$
Unsecured – at amortised cost		
Bank loan, denominated in US dollars (a)	**2,380,950**	-
Bank loan, denominated in Canadian dollars (b)	**435,000**	460,000
Loan from other entities, denominated in Canadian dollars (c)	**165,236**	529,199
Loan from other entities, denominated in US dollars (d)	**37,406**	54,385
	3,018,592	1,043,584
Less : Current portion	**753,968**	543,807
Long-term debt	**2,264,624**	499,777

(a) Bank loan
On October 20, 2015, an agreement was concluded for a loan amounting to $2,634,600 (US$ 2,000,000), to finance the acquisition of all the assets of Clearlogx' control technology and its specialty coagulant. The loan bears interest at prime rate plus 1.0% (3.7% as at March 31, 2016), payable in 60 monthly instalments of $46,133 (US$33,333), principal only, maturing on October 20, 2020.

(b) Bank loan
On September 20, 2014, an agreement was concluded for a loan amounting up to $460,000, secured by a first rank hypothec on the Ham-Nord plant, representing a carrying value of $1,300,000, bearing interest at prime rate plus 1.05% (5.75% as at March 31, 2016), 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.

(c) Loan from other entities
The loan of $287,729 bearing interest at 12% (effective rate of 17.5%) is repayable in monthly instalments maturing July 1, 2016.

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 Corporation has exercised its six-month moratorium option on the repayment of principal starting November 1, 2014.

(d) Loans from other entities
A loan of $46,807 (US$ 33,821), bearing interest at 8.5% payable in monthly instalments of $2,630 (US$ 1,900) and maturing July 1, 2017.

10. Capital Stock

Share consolidation (reverse stock split)

On December 1st, 2014, the Corporation 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, optionholders and warrantholders uniformly and thus did not materially affect any securityholder'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.

The 104,632,977 common shares issued and outstanding immediately prior to the Share Consolidation were consolidated into 20,926,551 common shares. The Corporation's outstanding stock options and share purchase warrants were adjusted on the same basis with proportionate adjustments being made to each stock option and share purchase warrant 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.

Stock options

The Corporation has established a stock option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Corporation. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The maximum number of shares that may be issued under the plan amounts to 1,100,000.

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

	Nine-month period ended March 31, 2016		Year ended June 30, 2015	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of period	**331,500**	**2.64**	347,500	2.66
Forfeited	**(47,500)**	**2.71**	(16,000)	3.13
Expired	**(13,000)**	**2.50**	-	-
Outstanding - End of period	**271,000**	**2.63**	331,500	2.64

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Material	**6,887,910**	5,699,304	**19,476,437**	17,986,843
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**454,576**	(243,520)	**1,406,766**	(268,379)
Salaries and fringe benefits	**4,083,739**	3,429,554	**11,099,932**	9,273,409
Subcontractors and professional fees	**331,696**	570,693	**1,262,514**	3,243,364
Rent, electricity, insurance and office expenses	**476,612**	437,142	**1,436,304**	1,282,830
Telecommunications and travel expenses	**533,059**	487,767	**1,486,765**	1,299,562
Bad debt expenses	**13,864**	183,397	**132,616**	264,637
Other expenses	**245,390**	671,600	**793,219**	1,469,578
Total cost of goods sold, operating, selling, administrative and research and development expenses	**13,026,846**	11,235,937	**37,094,553**	34,551,844

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of earnings, 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, 2016 and 2015; and ii) the amounts of cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses – net, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**136,615**	92,722	**349,033**	189,757
Operating expenses	**717**	542	**1,907**	2,027
Selling expenses	**10,338**	7,903	**28,729**	24,330
Administrative expenses	**27,522**	19,087	**67,509**	57,884
	175,192	120,254	**447,178**	273,998

Amortization by function	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**123,102**	111,256	**360,084**	310,760
Selling expenses	**105,753**	100,655	**309,465**	290,057
Administrative expenses	**47,997**	12,734	**75,408**	39,148
	276,852	224,645	**744,957**	639,965

Cost per function including depreciation and amortization of intangible assets	**Three-month periods ended March 31,**		**Nine-month periods ended March 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**9,936,937**	8,438,159	**28,480,167**	27,438,406
Operating expenses	**356,876**	282,313	**1,010,932**	717,101
Selling expenses	**1,795,771**	1,402,438	**4,986,991**	3,583,910
Administrative expenses	**1,365,180**	1,379,582	**3,664,298**	3,558,622
Research and development expenses – net	**24,126**	78,344	**144,300**	167,768
	13,478,890	11,580,836	**38,286,688**	35,465,807

c) Research and development expenses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Gross research and development expenses	**24,126**	78,344	**144,300**	167,768
Research and development tax credits and grants	**-**	-	**-**	-
	24,126	78,344	**144,300**	167,768

d) Other (gains) losses – net

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Realized exchange (gain) loss	**(56,095)**	5,208	**(117,884)**	42,156
Unrealized exchange (gain) loss	**(292,260)**	192,981	**(35,173)**	349,634
Other revenues (a)	**(15,434)**	(25,137)	**(397,269)**	(38,883)
	(363,789)	173,052	**(550,326)**	352,907

(a) Other revenues
An amount of $375,977 has been recorded in the first quarter of fiscal year 2016 following the indemnification by Piedmont's sellers due to a breach of certain of their representations and warranties contained in the Share Purchase Agreement dated December 5, 2013.

12. Net earnings per share

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
Net earnings	**$646,422**	$150,490	**$872,972**	$550,601
Basic and diluted weighted average number of share outstanding	**20,926,551**	20,926,551	**20,926,551**	20,926,551
Basic and diluted net earnings per share	**$0.031**	$0.007	**$0.042**	$0.026
Items excluded from the calculation of diluted net earnings per share because the exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect				
Stock options			**271,000**	331,500

For the three-month and nine-month periods ended March 31, 2016 and 2015, the diluted net earnings per share was the same as the basic net earnings per share, since the effect of the assumed exercise of stock options and warrants to purchase common share is anti-dilutive. Accordingly, the diluted net earnings per share for these periods were calculated using the basic weighted average number of shares outstanding.

13. Cash Flows

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Accounts receivable	**(1,577,106)**	89,409	**(1,961,164)**	(1,889,846)
Inventories	**1,115,971**	162,436	**(315,632)**	287,866
Costs incurred in excess of billings	**229,188**	336,055	**(2,899,720)**	(1,217,898)
Prepaid expenses	**(138,758)**	123,667	**110,960**	132,827
Accounts payable and accrued liabilities	**(1,179,898)**	(684,069)	**2,238,625**	1,952,315
Provisions	**16,579**	3,000	**25,336**	(7,273)
Billings in excess of costs incurred	**(154,141)**	654,306	**(285,544)**	(115,867)
	(1,688,165)	684,804	**(3,087,139)**	(857,876)

b) Cash and cash equivalents consist of the following:

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Beginning of period				
Cash and cash equivalents	**1,780,287**	198,633	**1,335,887**	497,752
Bank overdraft	**(167,011)**	(101,630)	**(2,052)**	(113,383)
	1,613,276	97,003	**1,333,835**	384,369

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
End of period				
Cash and cash equivalents	**1,148,748**	1,685,146	**1,148,748**	1,685,146
Bank overdraft	**(488,742)**	(224,893)	**(488,742)**	(224,893)
	660,006	1,460,253	**660,006**	1,460,253

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

14. Segment Information

Products from which reportable segments derive their revenues

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

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

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenues from sales of consumables	**9,414,173**	6,493,697	**21,739,967**	15,403,607
Manufacturing contracts revenues	**4,785,687**	5,627,944	**17,884,811**	21,626,225
	14,199,860	12,121,641	**39,624,778**	37,029,832

Geographical information

	Three-month periods ended March 31,		Nine-month periods ended March 31,	
Revenue from external customers	**2016**	2015	**2016**	2015
	$	$	**$**	$
Revenue according to geographic location				
Canada	**4,273,932**	5,142,010	**9,380,802**	14,469,578
United States	**7,191,802**	5,043,338	**23,660,466**	17,689,401
Spain	**1,150,928**	68,435	**1,236,463**	100,661
China	**480,861**	727,005	**1,151,450**	1,876,637
Egypt	**176,680**	(2,746)	**710,279**	72,988
United Arab Emirates	**118,790**	72,334	**864,994**	98,635
Korea	**77,860**	479,052	**368,968**	597,031
Singapore	**123,317**	9,468	**458,851**	31,742
Mexico	**73,906**	55,457	**335,303**	159,676
Other	**531,784**	527,288	**1,457,202**	1,933,483
	14,199,860	12,121,641	**39,624,778**	37,029,832

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

Information about major customers

The Company did not derive more than ten percent (10%) of its revenues from a single external customer during the three-month period ended March 31, 2016 (none for the three-month period ended March 31, 2015).

	As at March 31, 2016	As at June 30, 2015
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**6,306,476**	3,097,671
United States	**12,469,441**	12,209,857
	18,775,917	15,307,528

15. 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,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Short-term benefits	**230,128**	252,710	**940,778**	832,566
Post-employment benefits	**10,744**	6,620	**29,183**	15,266
Share-based payments	**-**	-	**-**	2,422
	240,872	259,330	**969,961**	850,254

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[(2)]

Key Management

Frédéric Dugré, President and Chief Executive Officer
Marc Blanchet, Chief Financial Officer and Secretary
Guillaume Clairet, Chief Operating Officer[(3)]
Josée Riverin, Vice President, Finance

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

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

Independent Auditors
Deloitte LLP

Transfer Agent
CST Trust Company

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