Interim Financial Report
Second quarter ended
December 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 December 31, 2016, in comparison with the corresponding period ended December 31, 2015. They should be read in conjunction with the consolidated financial statements and accompanying notes. Comparison of financial situation as at December 31, 2016 to those as at June 30, 2016 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 the 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 26, 2016 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

Be the best at providing safe and reliable 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, industrial, energy and natural resources end-users. The Corporation's activities rely on three pillars which are i) water and wastewater projects ("projects"); ii) specialty products and services ("SP&S"), including a complete line of specialty chemicals, consumables, specialized products for the water treatment industry as well as control & monitoring systems; and iii) operation and maintenance services ("O&M") for water and wastewater treatment systems, distribution equipment and associated assets for all of its customers. The Corporation also ensures that water quality meets regulatory requirements.

H_2O Innovation employs approximately 540 resources and has 7 locations in North America, one location in Spain and operates thirty-four utilities in six US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast (California and Nevada).

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, tax depreciation and amortization (adjusted EBITDA)" and "Net debt" are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.

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

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

Reconciliation of adjusted EBITDA to net (loss) earnings

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Net (loss) earnings for the period	**(1,093,270)**	174,221	**(2,175,356)**	226,550
Finance costs – net	**321,870**	216,217	**656,295**	364,254
Income taxes	**(88,127)**	8,000	**(391,593)**	212,853
Depreciation of property, plant and equipment	**181,436**	144,643	**356,464**	271,986
Amortization of intangible assets	**837,666**	236,426	**1,501,522**	468,105
Gain on purchase price adjustment	**-**	-	**-**	(375,977)
Unrealized exchange loss	**135,467**	203,681	**177,868**	257,087
Acquisition and integration costs	**347,124**	47,314	**1,020,829**	47,418
Stock-based compensation costs	**167,459**	-	**292,611**	-
Adjusted EBITDA	**809,625**	1,030,502	**1,438,640**	1,472,276

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

Even though net debt is a non-IFRS measure, it is used by management to assess the Corporation's capital management.

	December 31, 2016	June 30, 2016
	$	$
Bank overdraft	**363,623**	520,208
Bank loans	**4,824,496**	5,962,750
Current portion of long-term debt	**1,806,861**	721,973
Long-term debt	**10,318,495**	2,125,282
Less: Cash and cash equivalents	**(5,803,393)**	(3,051,870)
Net debt	**11,510,082**	6,278,343

ACQUISITION OF UTILITY PARTNERS, LLC

On July 26, 2016, the Corporation entered into a share purchase agreement providing for the acquisition of all of the memberships interests of Utility Partners, LLC ("Utility Partners"), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the "Acquisition"). The effective closing date of the acquisition is July 1, 2016.

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

H_2O Innovation acquired Utility Partners for an initial purchase price of $22,533,500 (US$17.0 M), on a cash-free, debt-free basis, representing a multiple of 7.6x Utility Partners' adjusted EBITDA[1] for the twelve-month period ended December 31, 2015. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment was established and agreed upon by both parties at $1,075,373 (US$0.8 M) on December 9, 2016 and was paid as at December 31, 2016. The total purchase price consideration amounted to $23,608,873 (US$17.8 M).

The Corporation financed the acquisition with an equity financing, of common shares of the Corporation for total gross proceeds of $23,061,196 and $10 M in credit facilities, which was used, in part, to fund ancillary costs, the balance of which is used for working capital post acquisition and to support research and innovation initiatives.

This acquisition complements the venture that was started during fiscal year 2015 in leasing and operating and maintenance of water treatment systems. Utility Partners had entered into long-term contracts, mainly with municipalities, that contain multi-year renewal options. It solidifies our business model by adding recurring sales coming from O&M activities, which are very predictable, and therefore counterbalance the lumpiness of revenues coming from sales of water treatment projects.

The purchase price allocation is preliminary and based on management best estimates as at December 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 such contractual agreements and client relationships, non-compete agreements and trademark.

[1] Utility Partner's adjusted EBITDA is defined as Utility Partners' earnings before interest, taxes, depreciation and amortization adjusted for certain expenses not anticipated to be incurred post-acquisition, non-recurring expenses or gains and gain on disposal of assets and equipment following the termination of a contract.

Selected financial data
(Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenues	**19,957,831**	13,165,590	**39,826,693**	25,424,918
Gross profit before depreciation and amortization	**4,834,439**	4,126,602	**9,297,976**	7,331,088
Gross profit before depreciation and amortization	**24.2%**	31.3%	**23.3%**	28.8%
Operating expenses	**486,003**	318,886	**924,407**	652,866
Selling expenses	**1,615,633**	1,611,384	**3,211,524**	2,969,117
Administrative expenses	**2,132,083**	1,188,169	**3,992,813**	2,231,720
Research and development expenses – net	**33,872**	35,610	**115,244**	120,174
Net (loss) earnings	**(1,093,270)**	174,221	**(2,175,356)**	226,550
Basic and diluted (loss) earnings per share	**(0.027)**	0.008	**(0.074)**	0.011
Adjusted EBITDA	**809,625**	1,030,502	**1,438,640**	1,472,276

Revenues and gross profit before depreciation and amortization

The revenues from the second quarter totaled $19.9 M, representing a $6.8 M or 51.6% increase, as compared with revenues of $13.2 M for the same quarter of fiscal year 2016. This increase is largely attributable to the acquisition of Utility Partners, effective July 1, 2016 which added significant revenues coming from O&M activities. For this second quarter, 44.0% of the revenues came from O&M, 38.7% of the revenues came from the SP&S and 17.3% came from water treatment projects. Our business model has fundamentally evolved where 82.7% of the revenues recorded on this second quarter are coming from the O&M and SP&S business pillars, considered recurring in nature. This revenue distribution between the pillars is allowing us to gain predictability in our business model and secure long-term relationship with customers.

Revenues from water treatment projects have declined momentarily to $3.4 M compared to $5.9 M in the corresponding period of the previous fiscal year, representing a 41.8% decrease. This is not unusual since revenues from projects vary from quarter to quarter and depends on the different milestones reached for revenue recognition. The decrease for the first part of the Corporation's fiscal year is explained by the fact that the nature of projects has changed. The actual water treatment projects backlog consists of projects that have a more extensive engineering phase. Engineering phase generates less revenue in the revenue recognition accounting method. During the second half of the current fiscal year, the projects will enter into the manufacturing phase which will allow the recognition of significantly more revenues as fabrication moves forward. Also, project execution can sometimes be postponed due to situations outside of the control of the Corporation, and therefore impacts revenue recognition. Even though revenues are slower and lumpy, the water treatment projects are still a growth vehicle of the Corporation. The water treatment projects order backlog stood at $54.3 M as at December 31, 2016, compared to $43.1 M a year ago, representing a 25.8% increase over the last 12 months.

During the first quarter of fiscal year 2017 we launched the FlexMBR™. This new technological platform allows us to differentiate ourselves in the very competitive environment of wastewater. Since July 2016, we have secured six wastewater projects using this platform, compare to none last year. The FlexMBR™, together with the Fiberflex™ are both open-source membrane platforms which, combined to our expertise in membrane applications and selection, allow us to position H_2O Innovation as a market leader in North America.

The current pipeline of water treatment projects is very rich in opportunities which should allow the Corporation to continue to increase its project order backlog and 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 cover more opportunities in this expanding market. The nature of our opportunities is diversified in numerous markets and industries.

Revenues from SP&S reached $7.7 M compared to $7.2 M in the comparable quarter of the previous fiscal year, which represents an increase of 6.6%. Over the last twelve months revenues reached $28.9 M, which represents an increase of 21.9% compare to the previous twelve months where revenues were at $23.7 M. This strong increase in SP&S revenues is the direct result of investments made during the last few years in our operating and selling functions to support the growth of this business line. Just over the last six quarters we have developed, launched and acquired new proprietary technologies such as the High Brix™, Smartrek™, Clearlogx® and SPMC™, which boosted revenues up.

Revenues coming from O&M amounted to $8.8 M. These revenues are recurring sales and came mainly from Utility Partners. The backlog related to these O&M contracts stood at 54.9 M as at December 31, 2016 and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. Since the acquisition, the integration plan is moving very well as expected by management. The change of leadership is transitioning very smoothly. We have successfully renewed all the contracts that were in renewal phase, and have also secured some cross selling sales.

With three strong business pillars, the Corporation is very well balanced and not dependant on a single source of revenues. As revenues coming from the SP&S and O&M are recurring in nature, the strategy to first grow these two business pillars is proven to be efficient since it minimizes the impact of revenue volatility associated with water treatment projects and thus increase predictability in our business model. The SP&S and O&M activities also reinforce long-term relationships with the projects customers and maintain a higher gross profit. The Corporation has a platform to capture cross selling opportunities, where one pillar will feed the others. The focus for fiscal year 2017 is to scale up the business model by maximizing the use of all our resources and sales forces. All together, these three business pillars provide a unique and accountable business model to better serve the Design-Build-Operate opportunities, a fast growing segment in the water industry.

The following table summarizes the evolution of the Corporation's revenues, together with the variations in its consolidated backlog over the last quarters.

	2016 FY				2017 FY		Last twelve months	Previous twelve months
	Q1	Q2	Q3	Q4	Q1	Q2	(Q3, Q4 FY2016 & Q1, Q2 FY2017)	(Q3, Q4 FY2015 & Q1, Q2 FY2016)
Consolidated backlog	$38.3 M	$43.1 M	$42.1 M	$38.8 M	**$98.5 M**	**$109.2 M**	**N/A**	N/A
Foreign exchange impact	$1.8 M	$1.1 M	($1.7 M)	($0.2 M)	**$1.3 M**	**$2.5 M**	**N/A**	N/A
Revenues from water treatment projects	$7.2 M	$5.9 M	$4.8 M	$5.1 M	**$5.4 M**	**$3.4 M**	**$18.7 M**	$25.6 M
Revenues from SP&S (usually recurrent in nature)	$5.1 M	$7.3 M	$9.4 M	$5.9 M	**$5.9 M**	**$7.7 M**	**$28.9 M**	$23.7 M
Revenues from O&M (usually recurrent in nature)	-	-	-	-	**$8.5 M**	**$8.8 M**	**$17.3 M**	-
Total revenues	$12.3 M	$13.2 M	$14.2 M	$11 M	**$19.8 M**	**$19.9 M**	**$64.9 M**	$49.3 M

Gross profit margin

In this second quarter of fiscal year 2017, the Corporation generated a 24.2% gross profit before depreciation and amortization, a lower level than the 31.3% gross profit before depreciation and amortization generated in the second quarter of fiscal year 2016. The revenue mix has been modified with the acquisition of Utility Partners which operates in a different model than our previous core activities. Indeed, O&M activities generally generates lower gross margin. Therefore the integration of Utility Partners into H_2O Innovation, which in this quarter represents 44.0% of the total revenues, puts pressure on the overall gross margin of the Corporation, although increasing the predictability and stability of the financial results.

Operating expenses

Operating expenses have increased by $167,117 or 52.4%, totaling $0.5 M this quarter compared to $0.3 M for the corresponding quarter of previous fiscal year. This increase is due to hirings for the development of new products and to investment to improve our logistics and supply chain activities related to SP&S division.

Selling expenses

Selling expenses were stable at $1.6 M for this quarter and for the corresponding quarter of the previous fiscal year. Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The stability of the selling expenses is due to the investments in sales personnel that occurred in the comparable quarter of fiscal year 2016. The selling expenses have been stable since the second quarter of fiscal year 2016, and the sales resources have been able to support the growth of the Corporation while maintaining the projects order backlog and increasing the revenues in the SP&S business line.

Administrative expenses

Administrative expenses increased by $943,914 or 79.4%, totaling $2.1 M this quarter compared to $1.2 M for the corresponding quarter of the previous fiscal year. The significant increase in administrative expenses is due to the acquisition of Utility Partners and the integration of their corporate team, the increase in salaries and fringe benefits and to the addition of personnel to support our overall operations.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 21.2% for this quarter, down from 23.7% for the corresponding quarter of the previous fiscal year. This decrease is mostly attributable to the acquisition of Utility Partners in July 2016 which has lower selling and operating expenses.

Research and development expenses – net

For the quarter ended December 31, 2016, gross research and development expenses totaled $33,872, or 0.2% of revenues compared to $35,610 or 0.3% for the quarter ended December 31, 2015. For the three-month period ended December 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 2017.

Adjusted EBITDA

Adjusted EBITDA for the quarter was recorded at $809,625, compared with $1,030,502 for the same period ended December 31, 2015. The adjusted EBITDA over revenues represents 4.1%, compared to 7.8% for the same quarter in fiscal year 2016. The decrease in the adjusted EBITDA over revenues ratio is due, in part, to a lower volume coming from revenues of water treatment projects. Moreover, the shift in product mix and the addition of Utility Partners results impacted negatively the overall gross margin, decreasing the adjusted EBITDA. Once the volume of revenues will increase, the Corporation expects this percentage to increase accordingly since all the fixed charges are already covered.

Other losses / (gains) – net

Other losses / (gains) – net amounting to $60,149 for the three-month period ended December 31, 2016 compared with $193,046 for the quarter ended December 31, 2015 are mostly due to the unrealized exchange loss recorded in the quarter, subdued by the realized exchange gain.

Other losses / (gains) – net also include unrealized and realized exchange losses and (gains) of $135,467 and ($45,514) respectively, for the three-month period ended December 31, 2016.

Finance costs – net

Finance costs – net totalled $321,870 for the three-month period ended December 31, 2016 compared to $216,217 for the comparable period in the previous fiscal year. These expenses relate mostly to the long-term debt and they have increased following the acquisition of Utility Partners for which a long-term debt of $10 M has been obtained. Of this amount, $11,014 represents the theoretical and non-monetary part of interest on long-term debt.

Net (Loss) earnings

The net (loss) earnings amounted to ($1,093,270) or ($0.027) per share for the second quarter of fiscal year 2017 compared with $174,221 or $0.008 per share for the second quarter of fiscal year 2016. The increase in net loss is largely due to the acquisition of Utility Partners and the related acquisition and integration costs and to a higher level of SG&A expenses, aimed to support the constant growth of the Corporation.

Commitments

The Corporation has entered into long-term lease agreements expiring between 2017 and 2024, which call for lease payments of $5,316,272 for the rental of space. The minimum annual lease payments over the next five years are $1,007,657 in 2017, $880,190 in 2018, $879,730 in 2019, $871,153 in 2020 and $826,438 in 2021.

Information on share capital

As at December 31, 2016, the Corporation had 40,144,214 outstanding shares and 2,565,334 stock options.

FINANCIAL SITUATION

Working capital increased from $8.3 M as at June 30, 2016 (working capital ratio of 1.55) to $12.9 M as at December 31, 2016 (working capital ratio of 1.65). The increase of $4.6 M is attributable to the acquisition of Utility Partners and more specifically to the $2.75 M, $4.6 M, $1.0 M and $0.7 M increase in cash and cash equivalent, accounts receivables, inventories and prepaid expenses respectively, and to the increase of $3.1 M, $1.0 M, $0.7 M and $1.1 M in accounts payable and accrued liabilities, billings in excess of costs incurred, balance of purchase price from a business combination as well as current portion of long term debt respectively.

The net debt which stood at $11.5 M as at December 31, 2016 increased by $5.2 M compared with $6.3 M as at June 30, 2016. This increase is mainly attributable to the increase of the bank loans, following the acquisition of Utility Partners, but subdued by the reimbursement of a portion of the long-term debt and the cash left to support the Corporation's working capital activities.

Equity stood at $47.6 M as at December 31, 2016, compared with $26.6 M as at June 30, 2016. As at December 31, 2016 the net debt to equity ratio was 0.24 (0.24 as at June 30, 2016), showing that the Corporation is not over leveraged.

(in Canadian dollars, except for ratios)	**Six-month period ended December 31, 2016**	**Six-month period ended June 30, 2016**
Working capital	$12,916,930	$8,342,714
Working capital ratio	1.65	1.55
Net debt[1]	$11,510,082	$6,278,343
Equity	$47,589,735	$26,645,406
Net debt to equity ratio	0.24	0.24

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

As at December 31, 2016 accounts receivable stood at $14.8 M compared with $10.2 M as at June 30, 2016. The rise of $4.6 M is partly attributable to the acquisition of Utility Partners, as well as the increase of revenues from SP&S.

Inventories increased by $965,956 to $5.4 M as at December 31, 2016 compared with $4.4 M as at June 30, 2016. Inventories have increased due to finished goods manufactured during the summer in preparation for the start of the maple syrup production season, which started at the end of the second quarter and will continue into the third quarter of fiscal year 2017. In addition, finished goods have also increased due to the manufacturing of specialty chemicals to build a higher level of inventories to better respond to demand from customers and expedite deliveries.

Costs incurred in excess of billings increased by $80,966 to $3.6 M as at December 31, 2016, from $3.5 M as at June 30, 2016, 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 increased by $1.0 M to $1.9 M as at December 31, 2016, from $0.9 M as at June 30, 2016. This increase is also attributable to differences between project advancement and project invoicing schedules.

Accounts payable and accrued liabilities increased by $3.1 M to $10.1 M as at December 31, 2016, from $7.0 M as at June 30, 2016. This is partly due to the acquisition of Utility Partners, as well as major procurement items received at the end of the period for our major water treatment projects, which reached important construction milestone.

The increase of $1.1 M in the current portion of the long-term debt is explained by the bank loan and loan from other entities contracted for the acquisition of Utility Partners in July 2016 and it was reduced by repayment of $0.7 M during the quarter.

For the second quarter ended December 31, 2016, shareholders' equity increased by $20.9 M to $47.6 M ($26.6 M as at June 30, 2016). The following elements had an impact on shareholders' equity in the second quarter of fiscal year 2017: 1) issuance of shares for $23,061,196 and related share issue expenses of $1,441,856 for the acquisition of Utility Partners, 2) the ($2,175,356) net loss for the six-month period ended December 31, 2016, 3) the stock-based compensation costs of $292,611, and 4) the Canadian dollar's depreciation which generated an unrealized exchange gain of $1,207,734 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 December 31, 2016 and 2015 is presented below:

(in Canadian dollars) (unaudited)	**Three-month period ended December 31, 2016**	Three-month period ended December 31, 2015	**Six-month period ended December 31, 2016**	Six-month period ended December 31, 2015
	$	$	**$**	$
Cash flows from operating activities	**1,083,117**	128,382	**(578,681)**	(98,921)
Cash flows from investing activities	**(1,389,569)**	(2,811,721)	**(25,544,503)**	(2,703,267)
Cash flows from financing activities	**(1,168,577)**	2,711,028	**28,995,505**	2,948,362
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(135,406)**	47,639	**35,787**	133,267
Net change	**(1,610,435)**	75,328	**2,908,108**	279,441
Cash and cash equivalents – Beginning of period	**7,050,205**	1,537,948	**2,531,662**	1,333,835
Cash and cash equivalents – End of period	**5,439,770**	1,613,276	**5,439,770**	1,613,276

Operating activities generated $1,083,117 in cash for the three-month period ended December 31, 2016, compared with $128,382 of cash generated during the corresponding period ended December 31, 2015. The increase is due to the changes in working capital items, to the addition of Utility Partners, and the increase in non-cash items, subdued by the loss before income taxes in the second quarter of fiscal year 2017.

For the second quarter of fiscal year 2017, investing activities used net cash of ($1,389,569), compared with ($2,811,721) of cash used during the corresponding period ended December 31, 2015. The variation is mainly attributable to an amount in trust of $1,250,000 received during the quarter and to equivalent related party loans granted, subdued by an additional investment in business combination of $1,075,373. To a lesser extent, the investments in property, plant and equipment of $102,702 and intangible assets of $208,916, were at a lower level of investment than the comparable quarter.

Financing activities used net cash of ($1,168,577) in the second quarter of fiscal year 2017 compared with $2,711,028 of net cash generated during the corresponding period ended December 31, 2015. Long-term debts and bank loans were contracted in the second quarter of fiscal year 2016, amounting to $2,615,000 and $542,269 respectively, compared to reimbursements of ($385,059) and ($448,146) respectively for the current quarter. Interest paid during the second quarter of fiscal year 2017 amounted to $335,372.

QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)

(in dollars, except per share data)

	Three-month periods ended				**Last twelve months**
	December 31, 2016	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	
Revenues	19,957,831	19,868,862	11,042,913	14,199,860	65,069,466
Adjusted EBITDA	809,625	629,015	157,330	1,245,324	2,841,294
Adjusted EBITDA over revenues	4.1%	3.2%	1.4%	8.8%	4.4%
Net earnings (loss)	(1,093,270)	(1,090,273)	(662,775)	646,422	(2,199,896)
EPS basic and diluted	(0.027)	(0.027)	(0.032)	0.031	(0.055)
Cash flows from operating activities	1,083,117	(1,661,798)	3,043,359	(318,078)	2,146,600

	Three-month periods ended				**Last twelve months**
	December 31, 2015	**September 30, 2015**	**June 30, 2015**	**March 31, 2015**	
Revenues	13,165,590	12,259,328	11,670,028	12,121,641	49,216,587
Adjusted EBITDA	1,030,502	441,773	578,058	897,846	2,948,179
Adjusted EBITDA over revenues	7.8%	3.6%	5.0%	7.4%	6.0%
Net earnings (loss)	174,221	52,329	(284,063)	156,377	98,864
EPS basic and diluted	0.008	0.003	(0.014)	0.007	0.004
Cash flows from operating activities	128,382	(227,303)	867,972	1,392,269	2,161,320

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 and long-term debt less cash and cash equivalents. 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 December 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, 2016, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements, except for the fixed charge coverage for which it received a waiver from the lender.

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, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2016, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.2 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 ("DC&P")

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 ("ICFR")

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

Limitation on scope of design of disclosure controls and procedures and internal control over financial reporting

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at December 31, 2016, did not include the controls or procedures of the operations of Utility Partners, which were acquired on July 26, 2016. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of this acquisition in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

The following table summarizes the financial information, including fair market value of acquired intangible assets, for Utility Partners following its acquisition:

(in Canadian dollars) (unaudited)	**Three-month period ended December 31, 2016 $**	**Six-month period ended December 31, 2016 $**
Results		
Revenues	8,783,339	17,321,398
Net Earnings	136,416	534,988
Financial Position		
Current Assets		5,075,043
Non-Current Assets [(1)]		13,177,514
Current Liabilities		1,969,380

[(1)] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

December 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	December 31, 2016	June 30, 2016
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**5,803,393**	3,051,870
Guaranteed deposit certificates	**1,469,060**	1,461,462
Accounts receivable (note 4)	**14,830,738**	10,192,683
Inventories (note 5)	**5,410,766**	4,444,810
Costs incurred in excess of billings	**3,615,938**	3,534,972
Prepaid expenses	**1,617,036**	909,369
	32,746,931	23,595,166
Non-current assets		
Property, plant and equipment	**3,668,134**	3,512,648
Intangible assets	**22,769,483**	10,090,969
Other assets	**69,684**	70,366
Related party loans receivable (note 15 a))	**1,250,000**	-
Goodwill (note 3)	**14,813,070**	4,854,647
Deferred income tax assets	**2,764,742**	2,267,227
	78,082,044	44,391,023
LIABILITIES		
Current liabilities		
Bank overdraft	**363,623**	520,208
Bank loans (note 6)	**4,824,496**	5,962,750
Accounts payable and accrued liabilities (note 7)	**10,090,146**	6,999,829
Provisions (note 8)	**124,427**	114,224
Billings in excess of costs incurred	**1,952,562**	912,032
Income taxes payable	**10,252**	10,775
Deferred rent	**668**	10,661
Contingent consideration (note 3)	**656,966**	-
Current portion of long-term debt (note 9)	**1,806,861**	721,973
	19,830,001	15,252,452
Non-current liabilities		
Long-term debt (note 9)	**10,318,495**	2,125,282
Deferred rent	**106,497**	105,446
Contingent consideration (note 3)	**237,316**	262,437
	30,492,309	17,745,617
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**76,918,285**	55,298,945
Reserve - Stock options (note 10)	**2,168,990**	1,876,379
Deficit	**(35,292,571)**	(33,117,215)
Accumulated other comprehensive income	**3,795,031**	2,587,297
	47,589,735	26,645,406
	78,082,044	44,391,023

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 six-month periods ended December 31, 2016 and 2015
(Unaudited)

	ATTRIBUTABLE TO THE SHAREHOLDERS OF H_2O INNOVATION INC.						
				Reserves			
	Common shares Number (note 10)	**Share capital** (note 10)	**Share capital under escrow** (note 3)	**Stock option** (note 10)	**Deficit**	**Accumulated other comprehensive income – Translation adjustment**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
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	-	-	-	-	226,550	-	226,550
Other comprehensive income – Currency translation adjustments	-	-	-	-	-	2,171,625	2,171,625
Balance as at December 31, 2015	20,926,551	55,298,945	-	1,876,379	(33,100,862)	4,331,199	28,405,661
Balance as at July 1, 2016	**20,926,551**	**55,298,945**	**-**	**1,876,379**	**(33,117,215)**	**2,587,297**	**26,645,406**
Issuance of common shares under private placement (notes 3 and 10)	**19,217,663**	**21,811,196**	**1,250,000**	**-**	**-**	**-**	**23,061,196**
Common shares under private placement released (notes 3 and 10)	**-**	**1,250,000**	**(1,250,000)**	**-**	**-**	**-**	**-**
Share issue expenses (notes 3 and 10)	**-**	**(1,441,856)**	**-**	**-**	**-**	**-**	**(1,441,856)**
Stock-based compensation costs (note 10)	**-**	**-**	**-**	**292,611**	**-**	**-**	**292,611**
Net loss for the period	**-**	**-**	**-**	**-**	**(2,175,356)**	**-**	**(2,175,356)**
Other comprehensive income – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**1,207,734**	**1,207,734**
Balance as at December 31, 2016	**40,144,214**	**76,918,285**	**-**	**2,168,990**	**(35,292,571)**	**3,795,031**	**47,589,735**

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

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenues (note 14)	**19,957,831**	13,165,590	**39,826,693**	25,424,918
Cost of goods sold (note 11 a))	**15,123,392**	9,038,988	**30,528,717**	18,093,830
Gross profit before depreciation and amortization	**4,834,439**	4,126,602	**9,297,976**	7,331,088
Operating expenses (note 11 a))	**486,003**	318,886	**924,407**	652,866
Selling expenses (note 11 a))	**1,615,633**	1,611,384	**3,211,524**	2,969,117
Administrative expenses (note 11 a))	**2,132,083**	1,188,169	**3,992,813**	2,231,720
Research and development expenses – net (notes 11 a) and c))	**33,872**	35,610	**115,244**	120,174
Depreciation of property, plant and equipment (note 11 b))	**181,436**	144,643	**356,464**	271,986
Amortization of intangible assets (note 11 b))	**837,666**	236,426	**1,501,522**	468,105
Other losses (gains) – net (note 11 d))	**60,149**	193,046	**85,827**	(186,537)
Operating costs total	**5,346,842**	3,728,164	**10,187,801**	6,527,431
Operating (loss) earnings	**(512,403)**	398,438	**(889,825)**	803,657
Acquisition-related costs and integration costs (note 3)	**347,124**	-	**1,020,829**	-
Finance income (note 15 a))	**(19,468)**	(3,568)	**(21,927)**	(7,195)
Finance costs	**341,338**	219,785	**678,222**	371,449
Finance costs – net	**321,870**	216,217	**656,295**	364,254
	668,994	216,217	**1,677,124**	364,254
(Loss) Earnings before income taxes	**(1,181,397)**	182,221	**(2,566,949)**	439,403
Current income tax expense	**-**	26,749	**11,712**	249,979
Deferred tax benefit	**(88,127)**	(18,749)	**(403,305)**	(37,126)
	(88,127)	8,000	**(391,593)**	212,853
Net (loss) earnings for the period	**(1,093,270)**	174,221	**(2,175,356)**	226,550
(Loss) earnings per share attributable to the equity holders of the Corporation during the period				
Basic and diluted (loss) earnings per share	**(0.027)**	0.008	**(0.074)**	0.011
Weighted average number of basic and diluted shares outstanding (note 12)	**40,144,214**	20,926,551	**29,410,543**	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 six-month periods ended December 31, 2016 and 2015
(Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Net (loss) earnings for the period	**(1,093,270)**	174,221	**(2,175,356)**	226,550
Other comprehensive income – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**647,107**	854,658	**1,207,734**	2,171,625
Comprehensive (loss) income for the period	**(446,163)**	1,028,879	**(967,622)**	2,398,175

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 six-month periods ended December 31, 2016 and 2015
(Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash flows from operating activities				
(Loss) Earnings before income taxes for the period	**(1,181,397)**	182,221	**(2,566,949)**	439,403
Non-cash items				
Finance costs – net	**321,870**	216,217	**656,295**	364,254
Depreciation of property, plant and equipment	**181,436**	144,643	**356,464**	271,986
Amortization of intangible assets	**837,666**	236,426	**1,501,522**	468,105
Gain on purchase price adjustment (note 11 d))	**-**	-	**-**	(375,977)
Unrealized exchange loss on long-term debt	**50,277**	148,869	**84,497**	148,869
Deferred rent	**(5,704)**	(2,490)	**(11,339)**	(4,969)
Stock-based compensation	**167,459**	-	**292,611**	-
	371,607	925,886	**313,101**	1,311,671
Change in working capital items (notes 13 a))	**692,053**	(782,259)	**(912,777)**	(1,398,974)
Cash generated by (used in) operations	**1,063,660**	143,627	**(599,676)**	(87,303)
Interests received	**19,468**	3,568	**21,927**	7,195
Income taxes paid	**(11)**	(18,813)	**(932)**	(18,813)
Net cash generated by (used in) operating activities	**1,083,117**	128,382	**(578,681)**	(98,921)
Cash flows from investing activities				
Variation of guaranteed deposits certificates	**(2,562)**	(2,426)	**(5,016)**	58,421
Variation of cash in trust	**1,250,000**	-	**-**	-
Variation of other assets	**(16)**	(10,291)	**2,525**	(10,291)
Business Combination (note 3)	**(1,075,373)**	-	**(23,577,626)**	-
Related party loans receivable (note 15 a))	**(1,250,000)**	-	**(1,250,000)**	-
Acquisition of property, plant and equipment	**(102,702)**	(547,991)	**(347,659)**	(718,747)
Assets acquired through business combination (note 3)	**-**	(1,976,250)	**-**	(1,976,250)
Payment received on purchase price adjustment (note 11 d))	**-**	-	**-**	375,977
Acquisition of intangible assets	**(208,916)**	(274,763)	**(366,727)**	(432,377)
Net cash used in investing activities	**(1,389,569)**	(2,811,721)	**(25,544,503)**	(2,703,267)
Cash flows from financing activities				
Variation of bank loans	**(448,146)**	542,269	**(1,138,254)**	1,061,828
Long-term debt reimbursement	**(385,059)**	(230,132)	**(695,472)**	(365,548)
Long-term debt contracted (note 9)	**-**	2,615,000	**10,041,720**	2,615,000
Interest paid	**(335,372)**	(216,109)	**(667,208)**	(362,918)
Financing costs (note 9)	**-**	-	**(164,621)**	-
Issuance of common shares under private placement (note 10)	**-**	-	**23,061,196**	-
Share issue expense (note 10)	**-**	-	**(1,441,856)**	-
Net cash generated by (used in) financing activities	**(1,168,577)**	2,711,028	**28,995,505**	2,948,362
Net change in cash and cash equivalents	**(1,475,029)**	27,689	**2,872,321**	146,174
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(135,406)**	47,639	**35,787**	133,267
Increase (decrease) in cash and cash equivalents	**(1,610,435)**	75,328	**2,908,108**	279,441
Cash and cash equivalents - Beginning of period (note 13 b))	**7,050,205**	1,537,948	**2,531,662**	1,333,835
Cash and cash equivalents - End of period (note 13 b))	**5,439,770**	1,613,276	**5,439,770**	1,613,276

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. The Corporation's activities rely on three pillars which are: i) water and wastewater projects; ii) specialty products and services, including a complete line of specialty chemicals, consumables, and specialized products for the water treatment industry as well as control and monitoring systems; and iii) operation and maintenance services for water and wastewater treatment systems. The head office of the Corporation is located at 330 Saint-Vallier Street East, suite 340, Quebec City (Quebec), Canada.

2. Basis of Preparation

Basis of preparation

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

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

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2016 were consistently applied to all periods presented. Please refer to note 2 in the Corporation's consolidated financial statements for the year ended June 30, 2016 for a complete description of the Corporation's significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2016 and remained unchanged for the six-month period ended December 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 2016 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 2016 annual audited consolidated financial statements.

On February 13, 2017 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 for IFRS 15, and January 1, 2019 for IFRS 16, with earlier application permitted. The Corporation 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* 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. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

On January 13, 2016, the IASB issued IFRS 16, *Leases*, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17, *Leases* and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 will be effective as of January 1st, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenues from Contracts with Customers.* The Corporation has not yet examined the impacts of this new standard.

3. Business Combinations

A. Acquisition of Utility Partners, LLC

Description of the business combination

On July 26, 2016, the Corporation entered into a share purchase agreement providing for the acquisition of all of the memberships interests of Utility Partners, LLC ("Utility Partners"), a US-based company specializing in the operation and maintenance of water and wastewater treatment plants (the "acquisition"). The effective date of the acquisition is July 1, 2016.

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

H_2O Innovation acquired Utility Partners for an initial purchase price of $22,533,500 (US$17.0 M), on a cash-free, debt-free basis, representing a multiple of 7.6x Utility Partners' adjusted EBITDA[1] for the twelve-month period ended December 31, 2015. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment was established and agreed upon by both parties at $1,075,373 (US$0.8 M) on December 9, 2016 and was paid as at December 31, 2016. The total purchase price consideration amounted to $23,608,873 (US$ 17.8 M).

[1] Utility Partner's adjusted EBITDA is defined as Utility Partners' earnings before interest, taxes, depreciation and amortization adjusted for certain expenses not anticipated to be incurred post-acquisition, non-recurring expenses or gains and gain on disposal of assets and equipment following the termination of a contract.

The Corporation financed the acquisition with an equity financing, by way of a bought deal private placement and a concurrent additional non-brokered private placement of Corporation's Common shares at a price of $1.20 per common share for total gross proceeds of $23,061,196.

In addition, H_2O Innovation contracted $10 M in credit facilities, which was used, in part, to fund ancillary costs, working capital post acquisition purpose and to support research and innovation initiatives.

Estimated fair value recognized on acquisition date

	July 26, 2016
	$
Assets acquired	
Cash and cash equivalents	**31,247**
Accounts receivable	**3,048,674**
Prepaid expenses	**650,265**
Property, plant and equipment	
Machinery and equipment	**30,098**
Intangible assets	
Contractual agreements and client relationships	**9,106,185**
Non-compete agreements – renewal	**1,988,250**
Non-compete agreements – others	**1,961,740**
Trademark	**770,116**
Liabilities assumed	
Accounts payable and accrued expenses	**(2,559,160)**
Identifiable net assets acquired	**15,027,415**
Goodwill arising on acquisition	**8,581,458**
Purchase price consideration	**23,608,873**

The purchase price allocation shown above is preliminary and based on management best estimates as at December 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.

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Sources and uses of funds at the transaction closing date

	July 26, 2016 $
Sources	
Private placement (note 10)	**21,160,196**
Additional private placement (note 10)	**1,901,000**
Bank loan (note 9)	**10,000,000**
	33,061,196
Uses	
Initial cash consideration transferred	**(22,533,500)**
Cash transferred for working capital adjustment	**(1,075,373)**
Acquisition and integration costs	**(1,020,829)**
Share issuance costs (note 10)	**(1,441,856)**
Financing costs (note 9)	**(164,621)**
Related party loans receivable (note 15 a))	**(1,250,000)**
Working capital for the Corporation's current activities	**(5,575,017)**
	-

Costs related to the acquisition

The total acquisition-related and integration costs amounted to $2,627,306 and are included in the financial statements as follows: share issuance costs totalled $1,441,856 are included in the share capital caption in the Consolidated Statement of Changes in Shareholders' Equity, financing costs totalling $164,621 are included in the long-term debt and $1,020,829 of acquisition and integration costs are included in the Consolidated Statements of Earnings (Loss).

Determination of fair value

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

The Corporation's valuation of intangible assets has identified contractual agreements and client relationships, non-compete agreements and trademark. The assigned useful lives are 10 years for contractual agreements and client relationships, 5 years for non-compete agreements 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, an amount of $8,581,458 of goodwill has been attributed to the transaction and stems essentially from the synergies with other activities of the Corporation, the economic value of the workforce acquired as well as intangible assets that do not meet the criteria for separate recognition. These estimates are subject to change or revaluation by management.

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

The Corporation's loss for the three-month period ended December 31, 2016 includes $8,783,339 in revenues and a $136,416 profit and for the six-month period ended December 31, 2016 includes $17,321,398 in revenues and a $534,988 profit, generated from Utility Partners additional business and no pro forma figures have been used since the effective date of the acquisition is July 1, 2016.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

B. Acquisition of the assets of Clearlogx

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. 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 M (US$1.5 M), 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 M (US$2 M) borrowed from BMO Bank and secured at 75% by EDC, allowing the Corporation to reduce its interest rate and its working capital.

Assets acquired at the acquisition date

	October 21, 2015
Assets	**$**
Non-current assets	
Property, plant and equipment	
Machinery and equipment	**9,223**
Intangible assets	
Customer backlog	**33,847**
Client relationships	**194,649**
Intellectual property	**1,087,211**
Trademark	**490,362**
Identifiable net assets acquired	**1,815,292**
Goodwill arising on acquisition	**1,038,989**
Purchase price consideration	**2,854,281**

The purchase price allocation shown above is final and is a summary of the assets acquired and the consideration transferred at fair value as at the acquisition date. It was completed during the second quarter of fiscal year 2017. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

In the intangible assets' tax treatment, 75% of the intellectual property and the trademark acquired will be treated as eligible assets with related tax deductions and 25% as non-deductible. The goodwill, the customer backlog and the client relationship are expected to be deductible for tax purposes.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Sources and uses of funds at the transaction closing date

	October 21, 2015
Sources	**$**
Bank loan (note 6)	**2,634,600**
Working capital	**655,850**
	3,290,450
Uses	
Cash consideration transferred	**(1,976,250)**
Working capital for the Corporation's current activities	**(436,169)**
Contingent considerations (unpaid as of December 31, 2016)	**(878,031)**
	-

The contingent consideration was estimated based on certain forecasted revenues and determined earnings before income taxes, depreciation and amortization (EBITDA) over a three year period.

Costs related to the acquisition

The total acquisition-related costs amounted to $58,106 and have been included in administrative expenses in the Consolidated Statements of Earnings (Loss) from October 21, 2015 to June 30, 2016.

Determination of fair value

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

The Corporation's valuation of intangible assets has identified 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 calculations, goodwill amounting to $1,038,989 has been attributed to the transaction. In the goodwill' tax treatment, it is expected to be deductible for tax purposes.

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

The Corporation's loss for the three-month period ended December 31, 2016 includes $121,385 in revenues and a $38,096 earnings and for the six-month period ended December 31, 2016 includes $848,677 in revenues and a $30,862 earnings, generated from Clearlogx additional business.

If the business combination had been completed on July 1, 2015, the Corporation's consolidated revenues for the year ended June 30, 2016 would have totalled $50,758,311 and consolidated earnings for the year ended June 30, 2016 would have been $211,150.

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

- 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 Corporation's net indebtedness after the business combination; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

Goodwill following the business combinations related to Utility Partners and Clearlogx

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

	$
Balance as at June 30, 2015	4,694,166
Effect of foreign exchange differences	160,481
Balance as at June 30, 2016	4,854,647
Plus : Business combination – Utility Partners	**8,581,458**
Business combination - Clearlogx	**1,038,989**
Effect of foreign exchange differences	**337,976**
Balance as at December 31, 2016	**14,813,070**

4. Accounts Receivable

	As at December 31, 2016	As at June 30, 2016
	$	$
Trade accounts receivable	**11,608,110**	8,115,997
Retentions from customers under manufacturing contracts	**1,332,322**	1,012,846
	12,940,432	9,128,843
Tax credits receivable	**80,425**	83,395
Other receivables	**1,809,881**	980,445
	14,830,738	10,192,683

No allowance for doubtful accounts has been recorded as of December 31, 2016 ($nil as of June 30, 2016).

5. Inventories

	As at December 31, 2016	As at June 30, 2016
	$	$
Raw materials	**1,299,490**	1,201,951
Finished goods	**4,111,276**	3,242,859
	5,410,766	4,444,810

6. Bank loans

The bank loans for an authorized amount of $5,000,000 or US$5,000,000 ($6,713,500) bearing interest at CDN prime rate plus 1.00% (3.70% as at December 31, 2016 and June 30, 2016) and at US prime rate plus 1.00% (5.25% as at December 31, 2016 and 5.0% as at June 30, 2016) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at December 31, 2016, $2,598,879 was used on this line of credit ($3,832,858 as at June 30, 2016).

The Corporation has an authorized credit facility available of $2,000,000 or US$2,000,000 ($2,685,400) bearing interest at CDN prime rate plus 1.00% (3.70% as at December 31, 2016 and June 30, 2016) and at US prime rate plus 1.00% (5.25% as at December 31, 2016 and 5.0% as at June 30, 2016). This credit facility is secured by EDC. As at December 31, 2016, $2,225,617 was used on this credit facility ($2,129,892 as at June 30, 2016).

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 December 31, 2016, $506,839 was used on this credit facility ($487,550 as at June 30, 2016).

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 $1,013,789 in guaranteed deposit certificate ($1,010,057 as at June 30, 2016). As at December 31, 2016, the Corporation issued $1,000,000 in letters of credit under this credit facility ($1,000,000 as at June 30, 2016).

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

The Corporation has a credit facility enabling it to use a maximum amount of $400,000 on credit card for Corporation related expenses. This credit facility is secured by $253,557 in guaranteed deposit certificate ($252,623 as at June 30, 2016). As at December 31, 2016, $66,134 was used on this credit facility ($110,507 as at June 30, 2016).

The Corporation has a letter of credit amounting to $67,135 ($64,580 as at June 30, 2016) which is secured by a $68,044 guaranteed deposit certificate ($65,381 as at June 30, 2016).

The Corporation still has letters of credit amounting to $121,908 ($121,074 as at June 30, 2016) with its previous bank, which are secured by a $133,670 guaranteed deposit certificate ($133,401 as at June 30, 2016).

Covenants

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

7. Accounts Payable and Accrued Liabilities

	As at December 31, 2016	As at June 30, 2016
	$	$
Trade accounts payable	**4,762,800**	2,275,716
Other accrued liabilities and accounts payable	**5,327,346**	4,724,113
	10,090,146	6,999,829

8. Provisions

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

	$
Balance as at June 30, 2015	84,272
Additional provisions recognised	33,500
Less: Payments	(12,338)
Effect of foreign exchange differences	8,790
Balance as at June 30, 2016	114,224
Additional provisions recognised	**6,000**
Effect of foreign exchange differences	**4,203**
Balance as at December 31, 2016	**124,427**

9. Long-Term Debt

	As at December 31, 2016	As at June 30, 2016
	$	$
Unsecured – at amortised cost		
Bank loan, denominated in Canadian dollars (a)	**4,570,202**	-
Loan from other entities, denominated in Canadian dollars (b)	**4,928,827**	-
Bank loan, denominated in US dollars (c)	**2,103,563**	2,238,946
Bank loan, denominated in Canadian dollars (d)	**468,280**	536,200
Loan from other entities, denominated in Canadian dollars (e)	**-**	41,525
Loan from other entities, denominated in US dollars (f)	**17,584**	30,584
Loan from other entities, denominated in Canadian dollars (g)	**36,900**	-
	12,125,356	2,847,255
Less : Current portion	**1,806,861**	721,973
Long-term debt	**10,318,495**	2,125,282

(a) Bank loan
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 1.5% (4.2% as at December 31, 2016), payable in 72 monthly instalments of $69,444, principal only, maturing on July 18, 2022.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (5.2% as at December 31, 2016), payable in 96 monthly instalments of $52,083, principal only, reimbursement starting the 14th day of six-month following the disbursement, maturing on December 4, 2024.

(c) 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% (5.25% as at December 31, 2016), payable in 60 monthly instalments of $44,756 (US$33,333), principal only, maturing on October 20, 2020. Long-term debt arrangements require that the Corporation meet the following financial ratios at fixed points in time;

- 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.

(d) 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 December 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.

On April 13, 2016, an agreement was concluded for a loan amounting up to $565,000, bearing interest at floating prime rate plus 1.0% (5,70% as at December 31, 2016), payable in one instalment of $8,360 on June 23, 2016 and 71 monthly instalments of $7,840, principal only, maturing on May 23, 2022.

(e) Loan from other entities
The loan bearing interest at 12% (effective rate of 17.5%) was fully repaid on July 1, 2016.

(f) Loans from other entities
A loan of $17,584 ($US 13,096), bearing interest at 8.5% payable in monthly instalments of $2,551 ($US 1,900) and maturing July 1, 2017.

(g) Loans from other entities
On July 12, 2016, a loan of $36,900 bearing interest at 3.4% payable in monthly instalments of $801 and maturing July 12, 2021.

10. Capital Stock

Private placement

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

Stock options

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

On July 26, 2016, the Corporation granted a total of 2,303,334 stock options issued to members of top management with a vesting period of eight years as an incentive to participate in the long-term development of the Corporation and the growth of the shareholder's value. The stock options entitle their holders to acquire one common share of the Corporation at a price of $1.65 before July 24, 2026. The Black & Scholes value was established at $0.856 per option.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Six-month period ended December 31,	**2016**
Number of stock options	**2,303,334**
Expected dividend yield	**0%**
Expected volatility	**48%**
Risk-free interest rate	**0.81%**
Expected life (years)	**8**
Fair value at the grant date	**0.856$**

For the three-month period ended December 31, 2016, the Corporation recorded $167,459 (nil in 2015) as stock-based compensation for options granted to members of top management and $292,611 (nil in 2015) for the six-month period ended December 31, 2016.

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

	Six-month period ended December 31, 2016		Year ended June 30, 2016	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of period	**262,000**	**2.64**	331,500	2.64
Granted	**2,303,334**	**1.65**	-	-
Forfeited	**-**	**-**	(13,000)	2.50
Expired	**-**	**-**	(56,500)	2.68
Outstanding - End of period	**2,565,334**	**1.75**	262,000	2.64

11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Material	**8,265,136**	6,760,407	**15,048,847**	12,588,527
Changes in inventories of raw material, finished goods and costs incurred in excess of billings	**(2,261,411)**	(69,070)	**(3,074,305)**	952,190
Salaries and fringe benefits	**9,742,321**	3,774,782	**19,331,186**	7,016,193
Subcontractors and professional fees	**658,165**	500,357	**1,423,134**	930,818
Rent, electricity , insurance and office expenses	**522,066**	483,516	**1,031,164**	959,692
Telecommunications and travel expenses	**1,039,468**	496,602	**1,939,589**	953,706
Bad debt expenses	**-**	102,738	**-**	118,752
Share based compensation	**167,459**	-	**292,611**	-
Other expenses	**1,257,779**	143,705	**2,780,479**	547,829
Total cost of goods sold, operating, selling, administrative and research and development expenses	**19,390,983**	12,193,037	**38,772,705**	24,067,707

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 (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 six-month periods ended December 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 December 31,**		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**141,952**	114,076	**277,092**	212,418
Operating expenses	**738**	618	**1,512**	1,190
Selling expenses	**9,982**	9,471	**20,357**	18,391
Administrative expenses	**28,764**	20,478	**57,503**	39,987
	181,436	144,643	**356,464**	271,986

Amortization by function	**Three-month periods ended December 31,**		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**127,456**	119,683	**244,555**	236,982
Selling expenses	**692,202**	102,815	**1,190,692**	203,712
Administrative expenses	**18,008**	13,928	**66,275**	27,411
	837,666	236,426	**1,501,522**	468,105

Cost per function including depreciation and amortization of intangible assets	**Three-month periods ended December 31,**		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cost of goods sold	**15,392,800**	9,272,747	**31,050,364**	18,543,230
Operating expenses	**486,741**	319,504	**925,919**	654,056
Selling expenses	**2,317,817**	1,723,670	**4,422,573**	3,191,220
Administrative expenses	**2,178,855**	1,222,575	**4,116,591**	2,299,118
Research and development expenses – net	**33,872**	35,610	**115,244**	120,174
	20,410,085	12,574,106	**40,630,691**	24,807,798

c) Research and development expenses – net

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$		**$**
Gross research and development expenses	**33,872**	35,610	**115,244**	120,174
Research and development tax credits and grants	**-**	-	**-**	-
	33,872	35,610	**115,244**	120,174

d) Other (gains) losses – net

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Realized exchange (gain) loss	**(45,514)**	(6,479)	**(53,612)**	(61,789)
Unrealized exchange loss	**135,467**	203,682	**177,868**	257,087
Other revenues (a)	**(29,804)**	(4,157)	**(38,429)**	(381,835)
	60,149	193,046	**85,827**	(186,537)

(a) Other revenues
In July 2015, an amount of $375,977 has been recorded 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. (Loss) 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 (loss) earnings per share:

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
Net (loss) earnings	**($1,093,270)**	$174,221	**($2,175,356)**	$226,550
Basic and diluted weighted average number of shares outstanding	**40,144,214**	20,926,551	**29,410,543**	20,926,551
Basic and diluted net (loss) earnings per share	**($0.027)**	$0.008	**($0.074)**	$0.011
Items excluded from the calculation of diluted net (loss) 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			**2,565,334**	262,000

For the three-month period and the six-month periods ended December 31, 2016 and 2015, the diluted net (loss) earnings per share was the same as the basic net (loss) 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 (loss) earnings per share for these periods were calculated using the basic weighted average number of shares outstanding.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

13. Cash Flows

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Accounts receivable	**(873,901)**	(469,687)	**(1,272,127)**	(384,058)
Inventories	**(233,931)**	(851,471)	**(924,401)**	(1,431,603)
Costs incurred in excess of billings	**1,206,882**	(1,049,452)	**4,871**	(3,128,908)
Prepaid expenses	**(741,533)**	122,360	**(32,261)**	249,718
Accounts payable and accrued liabilities	**439,515**	1,710,193	**296,874**	3,418,523
Provisions	**3,000**	5,757	**6,000**	8,757
Billings in excess of costs incurred	**892,021**	(249,959)	**1,008,267**	(131,403)
	692,053	(782,259)	**(912,777)**	(1,398,974)

b) Cash and cash equivalents consist of the following:

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Beginning of period				
Cash and cash equivalents	**7,145,078**	1,964,605	**3,051,870**	1,335,887
Bank overdraft	**(94,873)**	(426,657)	**(520,208)**	(2,052)
	7,050,205	1,537,948	**2,531,662**	1,333,835

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
End of period				
Cash and cash equivalents	**5,803,393**	1,780,287	**5,803,393**	1,780,287
Bank overdraft	**(363,623)**	(167,011)	**(363,623)**	(167,011)
	5,439,770	1,613,276	**5,439,770**	1,613,276

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 December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenues from sales of consumables	**7,722,553**	7,247,557	**13,684,659**	12,325,794
Projects contracts revenues	**3,445,764**	5,918,033	**8,814,461**	13,099,124
Operation and maintenance revenues	**8,789,514**	-	**17,327,573**	-
	19,957,831	13,165,590	**39,826,693**	25,424,918

Geographical information

	Three-month periods ended December 31,		Six-month periods ended December 31,	
Revenue from external customers	**2016**	2015	**2016**	2015
	$	$	**$**	$
Revenue according to geographic location				
Canada	**4,612,479**	2,634,787	**9,683,582**	5,106,870
United States	**13,986,635**	8,221,172	**27,454,640**	16,468,664
China	**421,903**	282,158	**807,135**	670,589
Egypt	**64,441**	333,860	**102,865**	533,599
United Arab Emirates	**48,350**	719,277	**81,580**	746,204
Korea	**77,098**	260,274	**146,309**	291,108
Mexico	**50,509**	42,722	**101,851**	261,397
Saudi Arabia	**15,520**	-	**142,340**	137,272
Malaysia	**222,011**	18,068	**253,567**	103,613
France	**152,383**	-	**422,663**	2,687
Other	**306,502**	653,272	**630,161**	1,102,915
	19,957,831	13,165,590	**39,826,693**	25,424,918

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

	As at December 31, 2016	As at June 30, 2016
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**5,408,171**	6,331,073
United States	**35,842,516**	12,127,191
	41,250,687	18,458,264

15. Related parties disclosure

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250,000 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of the additional placement (notes 3 and 10). These loans are repayable in one single installment on the 8th anniversary of the effective date and they can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.5%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,822,915 as at December 31, 2016.

An amount of $13,527 was paid to the Corporation in regards of these loans and recorded as Finance income in the Consolidated Statements of Earnings (Loss) for the three-month and six-month period ended December 31, 2016.

b) Compensation of key management and Board of Directors

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

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Short-term benefits	**479,891**	413,493	**955,961**	710,650
Post-employment benefits	**31,708**	9,743	**50,224**	18,439
Share-based payments	**167,459**	-	**292,611**	-
	679,058	423,236	**1,298,796**	729,089

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

16. Comparative figures

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

GENERAL INFORMATION

Board of Directors

Philippe Gervais, Chairman of the Board[(1)(4)]
Frédéric Dugré, President, Chief Executive Officer and Director
Pierre Côté, Director[(3)]
Élaine C. Phénix, Director[(1)(2)]
Jean-Réal Poirier, Director[(2)(3)]
Richard Hoel, Director[(1)]
Lisa Henthorne, Director[(2)(3)(4)]
Laurence E. Gamst, Director[(1)]
Peter K. Dorrins, Director[(2)]

Management

Frédéric Dugré, President and Chief Executive Officer[(3)(4)]
Marc Blanchet, Chief Financial Officer and Secretary
Guillaume Clairet, Chief Operating Officer[(3)(4)]
Josée Riverin, Vice President, Finance
Denis Guibert, Vice President and General Manager, Engineering
Gregory Madden, Vice President, Specialty Products and Services
Rock Gaulin, Vice President, Manufacturing and Operations
William Douglass, Vice President, Operation and Maintenance

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

Legal Counsel
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