ANNUAL REPORT

Fiscal year ended on June 30, 2018

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.

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June 30, 2018

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VALUE CREATION FOR CUSTOMERS

Our Three Business Pillars

Water & Wastewater Treatment Projects ("Projects")

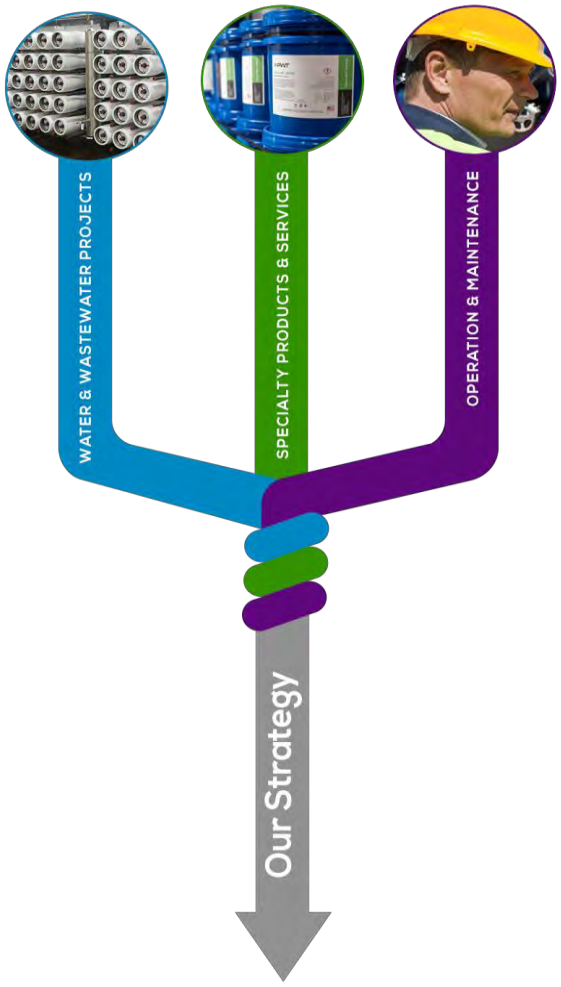
H_2O Innovation designs and provides custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users.

Specialty Products & Services ("SP&S")

H_2O Innovation offers a complete line of maple equipment and products, specialty chemicals, consumables, specialized products (couplings and cartridge filters) for the water treatment industry as well as digital solutions to monitor and optimize a water treatment plants and aftersales services.

Operation & Maintenance Services ("O&M")

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all of its clients and ensures that water quality meets regulatory requirements.



Our Synergies

Use our in depth expertise in designing and manufacturing water treatment plants to develop optimal specialty products and assist customers in the operation and maintenance of their water and/or wastewater assets as well as other public infrastructure.

HIGHLIGHTS – 1st PILLAR, PROJECTS

- Revenue increase of 49.5%, with major projects delivered
- **Montevina -30 MGD** : largest ultrafiltration project delivered by the Corporation to date
- **Shell Albian - 0.8 MGD** : major project for the Oil & Gas industry
- Diversification of awarded contracts : increase of **wastewater** and **industrial** projects
- **15 Intelogx** installed – Data monitoring, collection and automation system

HIGHLIGHTS – 2nd PILLAR, SP&S

PWT™

- Expansion of the distribution network with the addition of **7** distributors
- Increased of our ability to manufacture **cleaning** specialty products, which directly impacted positively the **gross profit margin before depreciation and amortization**

Piedmont®

- Expansion of the distribution network with the addition of **7** distributors
- Delivery of the **World's largest** FRP filter housings, in Saudi Arabia, of a capacity of **250 000 m³/day** and **70 feet** high

HIGHLIGHTS – 2nd PILLAR, SP&S

H_2O Innovation Maple

- **53** distributors in Canada and USA, and **3** Maple stores
- Our team has provided all the farming maple equipment to one of its distributors for his **200,000-tap** sugar bush

HIGHLIGHTS – 3rd PILLAR, O&M

- 7 new projects and 4 scope expansions, representing a revenue increase of **$2.7 M per year**
- Addition of **2** new territories in the United States and **1** in Canada (Alberta)
- Renewal of **100%** of expiring contracts

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

H_2O Innovation Inc.'s (the "Corporation" or "H_2O Innovation") President and Chief Executive Officer and Chief Financial Officer have signed a statement of management's responsibility regarding financial information included in this Annual Report. The statement also explains the roles of the Audit Committee and the Board of Directors in respect of financial information included in the Annual Report. This Management's Discussion and Analysis ("MD&A") reviews H_2O Innovation's operating results and financial condition for the years and the quarterly periods ended June 30, 2018 and 2017. The MD&A should be read in conjunction with the consolidated financial statements for the year ended June 30, 2018 and with the accompanying notes.

Certain statements set forth in this MD&A regarding the operations and the activities of H_2O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 25, 2018 available on SEDAR (www.sedar.com). Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events and other changes.

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

RESULTS OF OPERATIONS

for the years ended June 30, 2018 and 2017
(in Canadian dollars)

Years ended June 30	2018	2017
	$	$
Revenues	**99,668,125**	82,764,508
Gross profit margin before depreciation and amortization	**22,106,596**	19,157,380
Gross profit margin before depreciation and amortization (%)	**22.2%**	23.1%
Operating expenses	**4,003,624**	1,916,001
Selling expenses	**8,073,168**	7,165,499
Administrative expenses	**6,509,718**	9,167,360
Research and development expenses	**8,685**	152,949
Net loss	**(3,448,830)**	(5,130,986)
Basic and diluted net loss per share	**(0.086)**	(0.133)
EBITDA [(a)]	**2,911,212**	56,502
Adjusted EBITDA[(a)]	**4,124,094**	1,829,891
Adjusted EBITDA over revenues (%)	**4.1%**	2.2%

(a) See section on "Non-IFRS Financial Measurement".

FINANCIAL HIGHLIGHTS

for the year ended June 30, 2018

$99.7 M

↑ 20.4% from 2017

Revenues

- Sustained growth from all our business pillars:
  - ✓ 49.5% in Projects
  - ✓ 15.0% in SP&S
  - ✓ 8.1% in O&M

$69.8 M

from $62.7 M in 2017

Recurring revenue

- Coming from SP&S and O&M business pillars.

$121.7 M

from $109.0 M in FY2017

Consolidated backlog

- Coming from Projects and O&M business pillars, providing visibility on next fiscal year:
  - ✓ $53.6 M in Projects backlog;
  - ✓ $68.1 M in O&M backlog.

$22.1 M or 22.2%

from $19.2 M or 23.1% in FY2017

Gross profit margin before depreciation and amortization

- Growth in gross profit margin before depreciation and amortization is linked to volume expansion while the gross profit margin % was impacted by product mix.

$4.1 M

↑ 125.4 % from 2017

Adjusted EBITDA

- Higher volume of revenues, with comparable level of Selling, Operating and Administrative ("SG&A") expenses ratio over revenues.

($3.4 M)

from ($5.1 M) in FY2017

Net loss

- Sustained growth from all our business pillars;
- Tight management of expenses; and
- Impacted by a U.S. tax legislation reducing the federal tax rate and leading to additional deferred tax expenses of $1.0 M

NON-IFRS FINANCIAL MEASUREMENT

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

The definition of adjusted EBITDA does not take into account the Corporation's gain on settlement for fixed asset damaged, net loss on bank fraud, severances and the change in fair value of contingent consideration, net of related costs. These items are non-recurring in nature and management believes that it allows a better comparison of the Corporation's historical data as well as comparison with the information presented by competitors. The adjusted EBITDA also excludes other expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gain) loss and the stock-based compensation. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition costs, integration costs and other costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net loss based on the reconciliation presented on the next page. 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 NET LOSS TO AJDUSTED EBITDA

for the years ended June 30, 2018 and 2017

Adjusted EBITDA

Years ended June 30,	**2018**	2017
	$	$
Net loss for the year	**(3,448,830)**	(5,130,986)
Finance costs – net	**1,264,358**	1,296,511
Income taxes	**1,145,755**	(654,351)
Depreciation of property, plant and equipment	**1,138,636**	1,336,729
Amortization of intangible assets	**2,811,293**	3,208,599
EBITDA	**2,911,212**	56,502
Net loss on bank fraud	**443,364**	-
Unrealized exchange (gains) losses	**(35,535)**	14,183
Acquisition-related costs, integration costs and other costs	**478,658**	1,066,696
Stock-based compensation costs	**438,165**	627,526
Change in fair value of contingent consideration – net of related costs	**(111,770)**	-
Gain on settlement for fixed asset damaged	**-**	(265,000)
Severances	**-**	329,984
Adjusted EBITDA	**4,124,094**	1,829,891

FINANCIAL RESULTS

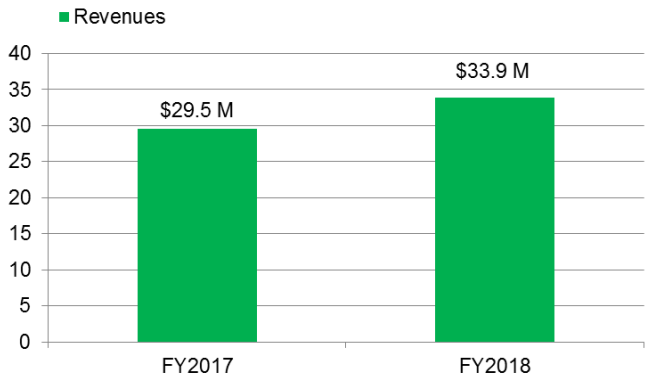
for the years ended June 30, 2018 and 2017

Revenues for fiscal year 2018 increased by $16.9 M or 20.4%, to reach $99.7 M compared to $82.8 M for the previous fiscal year. This increase is fueled by the organic growth of the three business pillars. The Projects business pillar is currently regaining speed after a slowdown resulting from delayed projects that are now resumed, which impacted negatively last fiscal year's financial results. More projects reached the revenue recognition phase for fiscal year 2018 compared to fiscal year 2017. SP&S results have been supported by the Maple business line, which is showing a fast growth with record results quarter after quarter. PWT, our specialty chemicals business line, also realized record revenues this year, as we increased our in-house manufacturing of liquid cleaners. This manufacturing improvement, along with the addition of new distributors in new strategic territories, enabled the increase of the Corporation's gross profit margin before depreciation and amortization. The O&M business pillar is showing a constant growth since the acquisition of Utility Partners. During fiscal year 2018, award of new projects and scope of work increases for existing projects supported this performance. The following tables are illustrating the revenues coming from each of the business pillars.

Projects Business Pillar

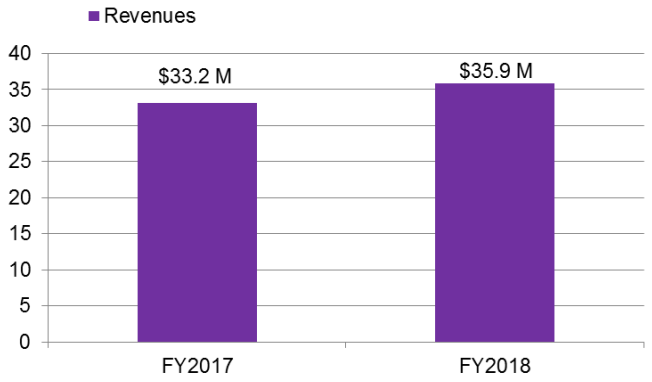
- Projects revenues stood at $29.9 M for fiscal year 2018, compared with $20.0 M for last fiscal year, representing a $9.9 M, or 49.5% increase;
- Delayed projects, which led to a slowdown of the Corporation's financial results in fiscal year 2017, have all resumed and are well into revenue recognition phase;
- One specific project impacted negatively the financial results, with a total loss of $0.9 M, due to unexpected delays and costs, for which all the actual and expected losses have been recorded. Notwithstanding this project, gross profit margin before depreciation and amortization would have been stable when compared to the previous fiscal year;
- Better portfolio diversification between water and wastewater projects: 25.0% of the projects being wastewater as of June 30, 2018, compared to 20.0% as of June 30, 2017. The wastewater projects are usually characterized by a better gross profit margin;
- Diversification is also seen between industrial and municipal projects, with 31.0% of the projects being industrial as of June 30, 2018, compared to 25.0% as of June 30, 2017, such projects being usually characterized by a better gross profit margin;
- Current pipeline of Projects remains very rich in opportunities and the backlog stands at $53.6 M, as of June 30, 2018, compared to $53.9 M for fiscal year 2017.

SP&S Business Pillar



- SP&S revenues, recurring by nature, stood at $33.9 M for the fiscal year ended June 30, 2018, from $29.5 M for the previous fiscal year, representing a $4.4 M, or 15.0% increase;
- Piedmont business line also expanded its products offering by adding new products and new distributors, broadening the existing offering and positioning the Corporation strategically in the market;
- The sales of specialty chemicals also impacted favorably revenues of this business line, with the addition of new distributors in new territories;
- We also enhanced our process to increase the volume of liquid cleaners manufactured in-house during the year, improving the gross profit margin and increasing the sales of our specialty chemicals.

O&M Business Pillar

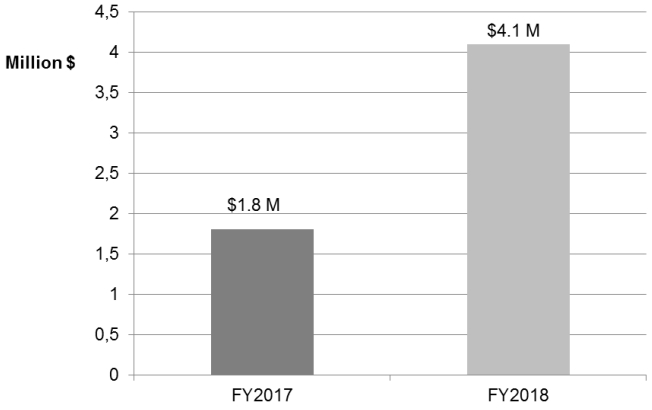


- Recurring revenues of $35.9 M for fiscal year 2018, compared with revenues of $33.2 M for fiscal year 2017, representing an 8.1% increase. A portion of this increase is related to the acquisition date of Utility Partner, since the company was acquired at the end of July 2016, representing 11 months of revenues during fiscal year 2017.
- Excluding the negative impact of $1.6 M due to the appreciation of the Canadian dollar over the US dollar, the growth would have been 12.9%. Compared in US dollars, the O&M business pillar is showing a steady growth since the acquisition of Utility Partners, with new contracts increasing our backlog;
- The continuous growth of the O&M business pillar is explained by two factors :
    - Addition of 7 new projects and 4 scope expansions, including 2 new States and 1 province;
    - Annual consumer price index ("CPI") adjustments; and
- Our backlog for the O&M business pillar stands at $68.1 M as at June 30, 2018, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. Backlog as at June 30, 2017 stood at $55.1 M, representing a 26.3% increase over a twelve-month period.

Net Loss

- The net loss decreased by $1.7 M, or 33.3%, to reach ($3.4 M) during fiscal year 2018, from a net loss of ($5.1 M) for the previous fiscal year;
- The net loss was significantly impacted by the *Tax Cuts and Jobs Act,* a tax legislation reducing the federal tax rate enacted by the U.S. government during the fiscal year 2018, leading to an additional deferred tax expense of $1.0 M. Without this $1.0 M impact from the new U.S. tax legislation, net loss would have been ($2.4 M);
- The reduction of the net loss is driven by a sustained revenue growth of 20.4%, combined with a tight management of expenses, as the selling, general and administrative expenses (SG&A) expenses remained stable, and the SG&A % decreased;
- The net loss improvement, before the tax adjustment explained above, is mostly due to sales volume increase and tight management of expenses.

Adjusted EBITDA



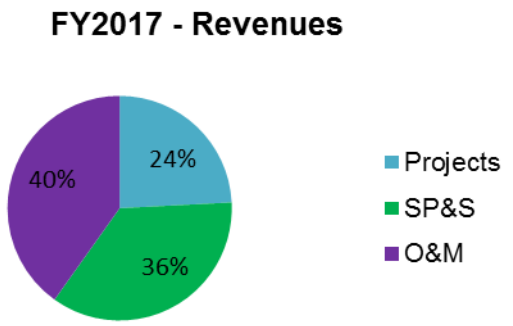
- Adjusted EBITDA increased by $2.3 M, or 125.4%, to reach $4.1 M during fiscal year 2018, from $1.8 M for fiscal year 2017;
- Improvement of the adjusted EBITDA was driven by the increase in revenues of all our business pillars, as well as a decrease of the SG&A as a percentage of revenues;
- This year's results were negatively impacted by one specific water treatment project, which reported a loss of $0.9 M;
- Acquisition costs excluded from the adjusted EBITDA as at June 30, 2018 are related to work on potential acquisitions;
- Our adjusted EBITDA % improved and reached 4.1% for the fiscal year ended June 30, 2018, compared to 2.2% for the previous fiscal year.

Revenues on a Quarterly Basis

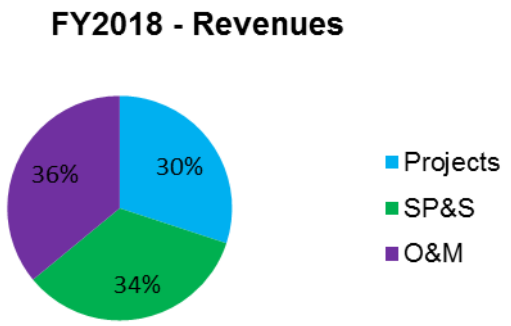
	FY2017					FY2018				
	Q1	Q2	Q3	Q4	Total	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Revenues from Projects business pillar[1]	$5.4 M	$3.4 M	$4.0 M	$7.2 M	$20.0 M	**$8.2 M**	**$6.6 M**	**$7.5 M**	**$7.6 M**	**$29.9 M**
Revenues from SP&S business pillar	$5.9 M	$7.7 M	$8.6 M	$7.3 M	$29.5 M	**$6.0 M**	**$10.6 M**	**$10.1 M**	**$7.2 M**	**$33.9 M**
Revenues from O&M business pillar	$6.2 M[2]	$8.8 M	$8.7 M	$9.6 M	$33.3 M	**$8.4 M**	**$8.6 M**	**$9.1 M**	**$9.8 M**	**$35.9 M**
Total revenues	$17.5 M	$19.9 M	$21.3 M	$24.1 M	$82.8 M	**$22.6 M**	**$25.8 M**	**$26.7 M**	**$24.6 M**	**$99.7 M**

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

Business Mix on Revenues and Growth Strategies



$82.8 M



$99.7 M

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

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

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

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

For the fiscal year ended June 30, 2018, recurring revenues represented 70.0% of the Corporation's total revenues. The SP&S and O&M activities also reinforce long-term relationships with Projects customers, which support the decision to invest in business development and growth of these pillars. The Corporation has a platform to capture cross-selling opportunities, where one pillar will feed the others. All together, these three business pillars provide a unique and accountable business model to better serve our existing and future customers.

At the end of the fiscal year 2018, the consolidated backlog stood at $121.7 M compared to $109.0 M in the previous fiscal year, delivering organic growth of 11.6%. The Corporation was able to secure new O&M and Projects contracts, reinforcing the design-build-operate ("DBO") model. The business model developed over the past years is also translating into a healthy backlog, well balanced between O&M contracts and Projects contracts.

EXPENSES

for fiscal years ended June 30, 2018 and 2017

	FY2018[2]	FY2017[2]	Variance	Significant contributions to variance
Gross profit margin before Depreciation and amortization[3]	**$22.1 M** 22.2%	**$19.2 M** 23.1%	**+ $2.9 M**	The increase in the gross profit margin before depreciation and amortization is explained by the increase in revenues of all the business pillars for the fiscal year ended June 30, 2018, compared to the previous fiscal year. However, the gross profit margin % before depreciation and amortization is showing a decrease, explained by the business mix, as more revenues are coming from Projects and O&M characterized by a lower gross margin % before depreciation and amortization. The gross profit margin before depreciation and amortization is also impacted by a $0.9 M loss on a specific water treatment project, for which all the actual and expected losses have been recorded.
SG&A[1] [3]	**$18.6 M** 18.6%	**$18.3 M** 22.0%	**+ $0.3 M**	The decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses. SG&A level in dollars was fairly stable compared to last year, while revenue level increased noticeably.
Operating Expenses[3]	**$4.0 M** 4.0%	**$1.9 M** 2.3%	**+ $2.1 M**	This increase of $2.1 M is partly due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating ($0.9 M). This classification was not performed during fiscal year 2017, following the acquisition. The remaining balance of the increase is due to hirings associated with development of new products, investments to improve logistic and supply chain activities and to support the increasing volume of operations.
Selling Expenses[3]	**$8.1 M** 8.1%	**$7.2 M** 8.4%	**+ $0.9 M**	Selling expenses are linked to bookings and revenues, but do not fluctuate proportionally. The $0.9 M or 12.7% increase of the selling expenses is mostly due to a reclass of Utility Partners' expenses, from the administrative expenses to the selling expenses ($1.1 M). This classification was not performed during fiscal year 2017, following the acquisition.
Administrative Expenses[3]	**$6.5 M** 6.5%	**$9.2 M** 11.1%	**- $2.7 M**	The decrease of $2.7 M or 29.3% is due to a reclass of Utility Partners' expenses, from the administrative expenses to the operating ($0.9 M) and selling expenses ($1.1 M). This classification was not performed during fiscal year 2017, following the acquisition.

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

Other (Gains) Losses – Net

Other (gains) losses – net amounted to $0.1 M for the year ended June 30, 2018 compared with ($0.4 M) for the year ended June 30, 2017. This is mostly due to a gain of ($265,000) during the year ended June 30, 2017, on an agreement reached with one of our client, following damages done to an asset used by that same client.

Other (gains) losses – net for fiscal year 2018 include the net impact of an external fraud perpetrated through its banking online platform, which led to a net loss of $443,364. This loss was subdued by a gain of $232,683 related to the change in fair value of a contingent consideration, related to the acquisition of Clearlogx during the fiscal year 2016. The contingent consideration recorded has not been paid by the Corporation.

Finance Costs – Net

Finance costs – net are stable, at $1.3 M for the year ended June 30, 2018 compared with $1.3 M for the previous fiscal year. During fiscal year 2018, the Corporation recorded a non-recurring reimbursement of $0.3 M of insurance premiums with Exportation and Development Canada ("EDC"), due to an adjustment of the agreement with the insurer, which lowered the level of finance costs. Without this $0.3 M adjustment, the finance costs – net would present an increase of $0.3 M, from $1.3 M for the year ended June 30, 2017 to reach $1.6 M during this fiscal year. This increase is explained by the increased use of the bank loans, to finance the operations of the Corporation.

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

Net Loss

The net loss amounted to ($3.4 M) or ($0.086) per share for fiscal year 2018 compared with a loss of ($5.1 M) or ($0.133) per share for fiscal year 2017. The net loss reduction is mostly due to sales volume increase and tight management of expenses.

In addition, the net loss is partly caused by a new tax legislation from the U.S. government. During the fiscal year 2018, the U.S. government enacted comprehensive tax legislation commonly referred to as the *Tax Cuts and Jobs Act* (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21%. Without the $1.0 M impact from the new U.S. tax legislation, the net loss would have been ($2.4 M).

The net loss can also be explained by the following non-recurring items:

Years ended June 30	**2018**	2017
	$	$
Net loss	**(3,448,830)**	(5,130,986)
Impact of U.S. tax reform	**1,061,444**	-
Acquisition-related costs, integration costs and other costs Canada (net of tax 0%)[1]	**80,875**	245,961
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**303,468**	626,139
Net loss on bank fraud Canada (net of tax 0%)	**443,364**	-
Amortization of intangible assets from acquisition Canada (net of tax 0%)	**157,757**	108,721
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**1,652,026**	1,861,348
Stock based compensation expenses Canada (net of tax 0%)	**438,165**	627,528
Adjusted net earnings (loss)	**688,269**	(1,661,289)

[1] For Canada the tax rate is 0% since the Corporation does not recognise the deferred tax asset.

Commitments

The Corporation has entered into long-term lease agreements expiring between 2018 and 2024 which call for lease payments of $5.7 M for the rental of space and supply agreements. The minimum annual payments over the next five years are $2.6 M in 2019, $2.4 M in 2020, $0.9 M in 2021, $0.9 M in 2022 and $0.4 M in 2023.

Information on Share Capital

As at September 25, 2018, the Corporation had 40,144,214 outstanding common shares and 2,554,334 stock options.

FINANCIAL SITUATION

for fiscal year ended June 30, 2018

Periods ended	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	$	$	$	$	$
Revenues (LTM[2] basis)	**99,668,125**	99,169,746	93,759,454	87,898,356	82,764,508
Accounts receivable	**17,832,119**	14,358,697	17,079,683	16,206,936	13,210,475
Accounts payable	**13,370,160**	12,964,366	11,596,013	14,203,226	12,683,815
Inventories	**7,000,004**	6,224,382	6,202,543	6,140,510	4,917,592

As at June 30, 2018 accounts receivable stood at $17.8 M compared with $13.2 M as at June 30, 2017. The increase of $4.6 M, or 35.0%, is partly attributable to invoicing milestone reached in Projects before the end of the period and the increase in revenue level during the year, and is expected based on the significant increase of revenue level. The increase in accounts receivable explains partially the increase in bank loans, as there is a delay between the cash receipts and the use for operations.

Inventories increased by $2.1 M, or 42.3%, to reach $7.0 M as at June 30, 2018, from $4.9 M as at June 30, 2017. This increase is due sales increase in order to support the growing demand for all the business lines, and notably the Maple, PWT and Piedmont sales, for which inventories often need to be on hand and available. Delays caused by unavailable inventories could lead to the loss of important and recurrent customers. For the Maple business line, there is a seasonal effect on the inventory, as the Corporation is building up an inventory for the Maple season. The increase of inventory level also has an impact on the use of the bank loans, as the Corporation need to build up the inventory.

Accounts payable and accrued liabilities increased by $0.7 M, or 5.5%, to $13.4 M as at June 30, 2018, from $12.7 M as at June 30, 2017. The increase is mainly due to the timing of the projects for the period ended June 30, 2018, compared with the period ended June 30, 2017, during which some projects have reached the manufacturing stage, as the equipment is being assembled and for which suppliers are involved.

Periods ended	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	$	$	$	$	$
Costs incurred in excess of billings	**6,573,665**	7,664,867	5,063,962	7,623,076	5,567,267
Billings in excess of costs incurred	**2,260,305**	1,963,137	2,608,393	2,601,593	1,190,909
Work in progress	**4,313,360**	5,701,730	2,455,569	5,021,483	4,376,358

Costs incurred in excess of billings increased by $1.0 M, or 18.0%, to $6.6 M as at June 30, 2018 from $5.6 M as at June 30, 2017, generated by differences between project advancement and project invoicing schedules from one project to the other. Billings in excess of costs incurred increased by $1.1 M, or 91.7% to $2.3 M as at June 30, 2018, from $1.2 M as at June 30, 2017. This increase is also attributable to differences between project advancement and project invoicing schedules.

The working capital decreased from $9.0 M as at June 30, 2017 (current ratio of 1.42) to $7.2 M as at June 30, 2018 (current ratio of 1.26).

Years ended June 30, (in Canadian dollars, except for ratio)	**2018**	**2017**
	$	$
Working capital	**7,192,448**	8,993,285
Working capital ratio	**1.26**	1.42
Net debt[(3)]	**17,543,927**	12,591,228
Equity	**40,963,305**	43,302,884
Net debt to equity ratio	**0.43**	0.29

(2) Revenues presented on a last twelve months basis.

(3) Net debt comprises bank overdraft, bank loans and long-term debt, net of cash and cash equivalents.

For the year ended June 30, 2018, shareholders' equity decreased by $2.3 M to $41.0 M ($43.3 M as at June 30, 2017). The elements impacting the shareholders' equity in fiscal year 2018 are: 1) the ($3.4 M) net loss; 2) the $0.4 M increase in stock option due to the stock-based compensation costs and; 3) the Canadian dollar's fluctuation generating an unrealized exchange gain of $0.7 M resulting from the currency translation of foreign operations, mainly those of the U.S. subsidiaries.

Net Debt

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

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

Years ended June 30,	**2018**	**2017**
	$	$
Bank overdraft	**259,951**	184,120
Bank loans	**9,204,804**	5,092,607
Current portion of long-term debt	**2,235,345**	2,036,151
Long-term debt	**7,841,723**	9,148,953
Less: Cash and cash equivalents	**(1,997,896)**	(3,870,603)
Net debt	**17,543,927**	12,591,228

The net debt increased to reach $17.5 M as at June 30, 2018, from $12.6 M as at June 30, 2017. This increase is mainly attributable to the increase of the bank loans of $4.1 M. The bank loans were used by the Corporation to support the Projects business pillar, with significant projects being in the manufacturing phases, the investment in inventories and capital expenditure for the period. While the bank loans increased due to the increased needs for operations, the Corporation reimbursed $3.1 M of its long-term debt, as per the repayment schedule.

During fiscal year 2018, the Corporation was in negotiation with its banking and financial partners to amend its credit facilities and to consider the growth of the Corporation in the assessment of such credit facilities. On July 9, 2018, the Corporation temporarily increased its first credit facility by $5,000,000, payable on demand, expiring on October 5, 2018. This temporary tranche of the credit facility bears interest at CDN prime rate plus 2.5% for advance drawn in CDN $ and at US prime rate plus 2.5% for advance drawn in US $.

As of September 24, 2018, the use by the Corporation of the credit facilities amounts to $ 9,000,000 which is below the authorized amount as of June 30, 2018 of $9,450,000.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2018, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $2.0 M which expire at various dates through fiscal year 2022. Of these letters of credit, $0.3 M is secured by deposit certificates and $1.8 M is secured by EDC.

CAPITAL MANAGEMENT

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

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

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

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios at fixed points in time. The financial ratios are, as at June 30, 2018:

- Working capital ratio, defined as current assets divided by current liabilities, greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity, less than or equal to 3.25:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at June 30, 2018 and June 30, 2017, 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 a waiver was received from the lender prior to the year-end.

Given the incremental growth in our Project activities, the credit facility needs to be increased to support the Corporation's growth. Management is currently actively in discussions with its current banking and financial partners to renegotiate its credit facility. While there can be no assurance of the success of these initiatives, the Corporation believes that it will be able to obtain new credit facility terms from its lenders. On July 9, 2018, the Corporation temporarily increased its first credit facility by $5,000,000, payable on demand, expiring on October 5, 2018.

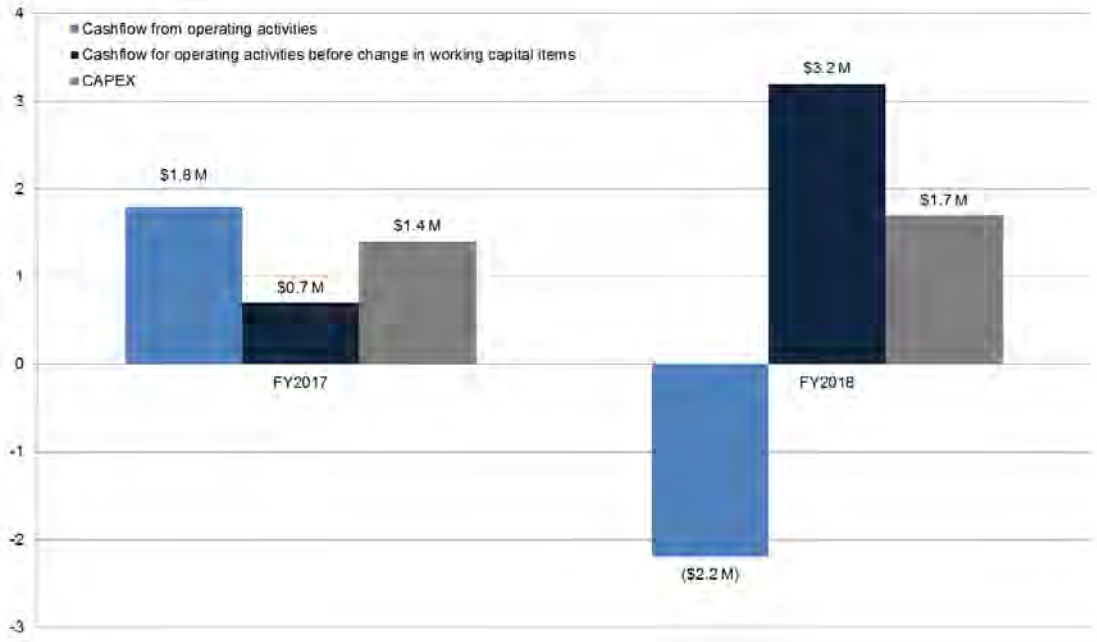
CASH FLOWS AND CAPITAL EXPENDITURE

A comparison of the Corporation's cash flows for the years ended June 30, 2018 and June 30, 2017 is presented below:

Years ended June 30,	2018	2017
	$	$
Cash flows from operating activities before change in working capital items	**3,178,949**	682,470
Change in working capital items	**(5,143,847)**	1,120,761
	(1,964,898)	1,803,231
Interests received / Income taxes paid	**(256,893)**	(4,047)
Cash flows from operating activities	**(2,221,791)**	1,807,278
Cash flows from investing activities	**(1,398,875)**	(28,096,853)
Cash flows from financing activities	**1,683,270**	27,725,343
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(11,142)**	(280,947)
Net change	**(1,948,538)**	1,154,821
Cash and cash equivalents – net of bank overdraft – Beginning of year	**3,686,483**	2,531,662
Cash and cash equivalents – net of bank overdraft – End of year	**1,737,945**	3,686,483

Cash Flows from Operating Activities

Operating activities used ($2.2 M) in cash for the fiscal year ended June 30, 2018, compared to $1.8 M of cash generated during the previous fiscal year. This increase of the cash flows used in operating activities is a reflection of the change in working capital items, with more cash spent to support the daily activities of the Corporation, including the significant increase of accounts receivable and inventories.



Cash Flows from Investing Activities

For the fiscal year 2018, investing activities used net cash of ($1.4 M) compared to ($28.1 M) used in investing activities for the previous fiscal year. This year investments are mainly attributable to the acquisition of property, plant and equipment of $1.7 M and to a lesser extent to investments in intangible assets of $1.0 M. The investment in property, plant and equipment and in intangible assets is subdued by $1.0 M of guaranteed deposit certificate, which was released during this fiscal year.

The significant level of cash used in investing activities for the comparable period is mainly attributable to the business combination of Utility Partners and the related cash in trust, for an aggregate amount of $24.1 M, and to a lesser extent to investments in property, plant and equipment of $1.4 M and intangible assets of $1.0 M.

Cash Flows from Financing Activities

Financing activities generated net cash of $1.7 M in fiscal year 2018 compared with $27.7 M of net cash generated during the previous fiscal year. During the 2018 fiscal year, the Corporation contracted $2.0 M of long-term debt, reimbursed $3.1 M of long-term debt and increased its bank loans by $4.1 M. The increase of bank loans during the fiscal year 2018 are mostly related to the support of operation for Projects business pillar, with a related significant increase of accounts receivable from Projects customers, as well as the investment in inventories and capital expenditure for the period, while supporting the increase of account receivable. Interest paid during the year amounted to $1.3 M.

The significant level of cash generated by financing activities for the comparable period is mainly attributable to the acquisition of Utility Partners on July 26, 2016 and to the related bought deal private placement, and non-brokered private placement for a net amount of $21.6 M. The Corporation's also contracted $10.0 M in long term debt to finance the acquisition.

QUARTERLY RESULTS (UNAUDITED)

Fourth quarters ended June 30,	**2018**	**2017**
	$	$
Revenues	**24,536,263**	24,037,884
Gross profit margin before depreciation and amortization	**5,645,489**	4,971,074
Gross profit margin before depreciation and amortization (%)	**23.0%**	20.7%
Net loss	**(1,006,916)**	(1,742,862)
Basic and diluted net loss per share	**(0.025)**	(0.045)
Adjusted EBITDA	**1,099,261**	(20,486)

Revenues for the fourth quarter were up by 2.1%, or $0.5 M, to $24.5 M from $24.0 M for the same quarter of the previous fiscal year.

For the quarter ended June 30, 2018, the gross profit margin before depreciation and amortization increased to 23.0%, from 20.7% for the same quarter of the previous fiscal year. This is mostly due to a shift in the business mix during fiscal year 2018, where SP&S and O&M revenues exceeded 70.0% of the total revenues.

Quarterly Summary Financial Information (unaudited)

	Three-month periods ended				Year ended
	June 30, 2018	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**	**June 30, 2018**
	$	$	$	$	**$**
Revenues	**24,536,263**	26,694,935	25,818,929	22,617,998	**99,668,125**
Adjusted EBITDA	**1,099,261**	1,078,489	1,358,281	588,063	**4,124,094**
Adjusted EBITDA over revenues	**4.5%**	4.0%	5.3%	2.6%	**4.1%**
Net loss	**(1,006,916)**	(11,599)	(1,340,441)	(1,089,875)	**(3,448,830)**
Basic and diluted net loss per share	**(0.025)**	(0.000)	(0.033)	(0.027)	**(0.086)**
Cash flows from operating activities	**(1,987,127)**	2,124,159	615,871	(2,974,694)	**(2,221,791)**

	Three-month periods ended				Year ended
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016** (adjusted)	**June 30, 2017**
	$	$	$	$	**$**
Revenues	24,037,884	21,284,643	19,957,831	17,484,150	**82,764,508**
Adjusted EBITDA	(20,486)	411,737	809,625	629,015	**1,829,891**
Adjusted EBITDA over revenues	(0.08%)	1.9%	4.1%	3.6%	**2.2%**
Net loss	(1,742,862)	(1,345,695)	(1,093,270)	(949,159)	**(5,130,986)**
Basic and diluted net loss per share	(0.045)	(0.034)	(0.027)	(0.024)	**(0,13)**
Cash flows from operating activities	3,521,086	(1,135,127)	1,083,117	(1,661,798)	**1,807,278**

The significant growth of the Corporation and the scalability of the business model over the past year are clearly shown when comparing both twelve months period. Revenues for the last twelve months show an increase of 20.4% compared to the previous twelve months period, evidenced of the organic and acquisition growth.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

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

Judgments

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

Determination of the reportable segment
Operating segments are determined according to the Corporation's management structure and internal information system. Operating results of each reportable segment are reviewed regularly by the Corporation's Chief Operating decision maker regarding the resources to be allocated to the segments and the assessment of their performance based on available financial information.

Management has identified one operating segment. The information structure indicates how management manages the Corporation and how it classifies its activities for planning and evaluating its performance. As a result, management manages its business line in one strategic business unit.

Estimates

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

Impairment of goodwill and other non-current assets
Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumption required for the value in use estimation is the discount rate and the growth rates for revenues. Cash flows for each CGU are derived from the budget for the upcoming year and a long-term forecast prepared by management, which covers an additional period of 4 years. The budget, which is approved on an annual basis by the members of the Board of Directors, and long-term forecast, are the primary sources for determining the value in use.

As of June 30, 2018 and 2017, goodwill was not considered impaired.

Other non-current depreciable assets are tested for impairment should events or circumstances indicate that their book value may not be recoverable, as measured by comparing their net book value to their recoverable amount, which correspond to the higher of fair value less costs to sell and its value in use. Should the carrying amount of other non-current assets exceed their recoverable amount, an impairment loss in the amount of the excess would be recognized.

For impairment purposes, determination of cash-generating units is based on management's best estimate of what constitutes the lowest level at which an asset or group of assets is able to generate cash inflows. The Corporation must also determine whether goodwill can be attributed to one or more cash-generating units.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 12.

Fair value of assets acquired in a business combination
Under the acquisition method, on the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired business are measured at their fair values. Depending on the complexity of determining the valuation for assets acquired, the Corporation uses appropriate valuation techniques in arriving at the estimated fair value at the acquisition date. These valuations are generally based on a forecast of the total expected future net discounted cash flows and relate closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant. Determination of the fair value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of earnings and consolidated statement of financial position.
The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events or other matters that affect the reported amounts of the Corporation's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Corporation's consolidated financial statements are prepared. Management reviews, on a regular basis, the Corporation's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

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

Judgments

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

Estimates

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

Impairment of goodwill and other non-current assets
Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumption required for the value in use estimation is the discount rate. Cash flows for each CGU are derived from the budget for the upcoming year and a long-term forecast prepared by management, which covers an additional period of 4 years. The budget, which is approved on an annual basis by the members of the Board of Directors, and long-term forecast, are the primary sources for determining the value in use.

As of June 30, 2018 and 2017, goodwill was not considered impaired.

Other non-current depreciable assets are tested for impairment should events or circumstances indicate that their book value may not be recoverable, as measured by comparing their net book value to their recoverable amount, which correspond to the higher of fair value less costs to sell and its value in use. Should the carrying amount of other non-current assets exceed their recoverable amount, an impairment loss in the amount of the excess would be recognized.

Fair value of assets acquired in a business combination
Under the acquisition method, on the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired business are measured at their fair values. Depending on the complexity of determining the valuation for assets acquired, the Corporation uses appropriate valuation techniques in arriving at the estimated fair value at the acquisition date. These valuations are generally based on a forecast of the total expected future net discounted cash flows and relate closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant. Determination of the fair value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of earnings and consolidated statement of financial position.

Changes in Accounting Policies

There were no changes in accounting policies during the year ended June 30, 2018.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been issued, but not yet effective as of June 30, 2018. The Corporation intends to adopt these standards, if applicable, when they become effective.

Classification and measurement of financial assets and financial liabilities
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 loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of 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 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.

Management is adopting the new standard on July 1, 2018. The assessment of the impact of IFRS 9 has been started during fiscal year 2018. Based on the assessment performed thus far, management does not believe that the adoption of IFRS 9 would have a material impact on the consolidated financial statements. We do not intend to restate prior year comparatives and any adjustment will be applied to opening retained earnings as of July 1, 2018.

Revenue from contracts with customers
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 can be applied using one of the following two methods : 1) retrospectively to each prior reporting period presented in accordance with IAS 8, *Accounting Policies, Changes in accounting estimates and errors,* or 2) retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the "modified retrospective method"). The Corporation has elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in retained earnings on the date of initial application, on July 1, 2018, without restatement of comparative figures.

IFRS 15 provides for certain practical expedients, including upon the initial adoption of the standard. The Corporation intends to apply the following practical expedients upon adoption of IFRS 15 on July 1, 2018:

- Completed contracts: The Corporation will apply IFRS 15 retrospectively only to contracts that are not completed contracts as at July 1, 2018.
- Contract modifications: The Corporation will not apply IFRS 15 retrospectively to contract modifications that occurred before July 1, 2018.

Although the Corporation has made progress in the implementation of IFRS 15 on its consolidated financial statements, the analysis is still in progress and actual results may differ from the estimates as of the date of issuance of the consolidated financial statements.

Share-based payment
In June 2016, the IASB issued an amendment to IFRS 2, "Share-based payment", clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of this amendment on its consolidated financial statements.

Leases
In January 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 for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenues from Contracts with Customers.* The Corporation has not yet determined the impact of this standard on its consolidated financial statements.

FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS

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

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

Overview

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

	Risks			
	Market risks			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	X	X	X	
Guaranteed deposit certificates		X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X

Currency risk

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

As at June 30, 2018, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar or EURO currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2018 would have been greater or lesser by approximately $269,595 ($365,802 for the year ended June 30, 2017).

The financial assets and liabilities denominated in a foreign currency included in the Canadian entities are as follows:

As at June 30,	**2018**	2017
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	**132,963**	484,530
Accounts receivable	**1,160,955**	621,266
	1,293,918	1,105,796
FINANCIAL LIABILITIES		
Bank overdraft	**(158,926)**	(15,582)
Bank loans	**(4,021,081)**	(4,103,377)
Accounts payable and accrued liabilities	**(1,165,013)**	(2,572,604)
Long-term debt	**(1,272,907)**	(1,730,266)
	(6,617,927)	(8,421,829)

Cash flow and fair value interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the cash and cash equivalents, guaranteed deposit certifcates, related party loans receivable, bank overdraft, bank loans and long-term debt. The Corporation does not use derivatives to cover this risk.

The guaranteed deposit certificates, the related party loans receivable and the unsecured loans bear interest at fixed rates and are accounted for at amortized cost. The Corporation is, therefore, not exposed to the risk of cash flows, however is exposed to changes in fair value resulting from interest rate fluctuations.

The bank loans, the long-term debt and the bank overdraft bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2018 and 2017, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit Risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2018, the allowance for doubtful accounts was $92,636 (nil as at June 30, 2017).

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

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

As at June 30,	**2018**	2017
	$	$
Cash and cash equivalents	**1,997,896**	3,870,603
Guaranteed deposit certificates	**256,677**	1,371,591
Accounts receivable, net of tax credits receivable	**17,805,425**	13,164,948
Other Assets	**378,947**	563,564
Related party loans receivable	**1,250,000**	1,250,000

The Corporation holds cash and guaranteed deposits certificates with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares that the Corporation considers at a low risk for loss.

The table below summarizes the aging of trade accounts receivable:

As at June 30,	**2018**	2017
	$	$
Current	**6,525,164**	4,706,358
Past due 1 to 30 days	**4,045,204**	1,399,913
Past due 31 to 90 days	**2,279,029**	2,344,076
Past due more than 90 days	**1,639,410**	1,573,639
	14,488,807	10,023,986
Less: Allowance for doubtful accounts	**(92,636)**	-
Trade accounts receivable	**14,396,171**	10,023,986
Retentions from customers under project contracts	**2,627,875**	1,980,423
Tax credits receivable	**26,694**	45,527
Other receivables	**781,379**	1,160,539
	17,832,119	13,210,475

Liquidity Risk

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

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

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

As at June 30, 2018	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	259,951	259,951	-	-	-
Bank loans	9,204,804	9,204,804	-	-	-
Accounts payable and accrued liabilities	13,370,160	13,370,160	-	-	-
Long-term debt	11,119,546	2,683,137	2,476,431	2,108,904	3,851,074
Total	**33,954,461**	**25,518,052**	**2,476,431**	**2,108,904**	**3,851,074**

As at June 30, 2017	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	184,120	184,120	-	-	-
Bank loans	5,092,607	5,092,607	-	-	-
Accounts payable and accrued liabilities	12,683,815	12,683,815	-	-	-
Long-term debt	13,052,941	2,617,460	2,469,857	2,369,485	5,596,139
Contingent consideration	232,683	-	232,683	-	-
Total	**31,246,166**	**20,578,002**	**2,702,540**	**2,369,485**	**5,596,139**

Fair value

The fair value of financial instruments is based on quoted market prices when an active market exists. Otherwise, it is estimated using techniques and valuation models, such as analysis of discounted cash flows for the long-term debt, for which the significant unobservable inputs used are the discount rates which reflects the Corporation's credit risk.

There was no transfer between the levels of fair value hierarchy during the year.

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

Financial instruments whose fair value approximates carrying value
Cash and cash equivalents, guaranteed deposit certificates, accounts receivable, other assets, related party loans receivable, bank overdraft, bank loans, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $10,077,068 ($11,185,104 as at June 30, 2017) and was determined to be a level 2 financial instrument.

RISK FACTORS AND UNCERTAINTIES

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

Competitive environment

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

Operating risks

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

Different types of events could induce an interruption of operation and/or a loss of production, as loss of a key supplier, natural disaster or failure of a program that runs a production line. All those events could cause significant delays in operation. The Corporation has located a part of its inventory in nearby warehouses and has implemented an emergency plan that is regularly reviewed. The Corporation also maintains business interruption and contingent business interruption insurance coverages.

As part of operating risks, risk to lose customers or distributors is considered and would have a noticeable gap in sales. The likelihood of occurrence is possible, while low, considering the significant amount of competition in the markets targeted by the Corporation. The Corporation develops broad distribution network and regularly add more distributors in its distribution network to dilute customers' concentration of each distributor.

Management and employees

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

Considering the type of industry and the line of work of the Corporation, the Corporation is facing situations that may result in accidents causing injuries to its employees, customers or sub-contractors. The Corporation has implemented a health and safety program within its organization. Its employees are properly trained to face such kind of situations and are aware of potential hazardous work situations. Health and safety committees have been created throughout the Corporation and such committees meet on a regular basis to, among others, plan training sessions for the Corporation's employees.

Fixed price contracts and renewal

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

Through its subsidiaries Utility Partners and H_2O O&M, the Corporation enters into operation and maintenance contracts for terms of 3 to 5 years, with multi-year renewal options. In the event an operation and maintenance contract is not renewed at the end of its term, this may adversely affect the Corporation's results and financial position.

Intellectual property infringement

H_2O Innovation protects its intellectual property related to its investments in research and development by relying on trade secret laws and confidentiality agreements with third parties who have access to information about its research and development activities. The Corporation also relies on a combination of laws effective in Canada, the United States or foreign countries with respect to trademarks, patents, trade secrets and other intellectual properties.

Despite its efforts, the Corporation may not be able to determine the extent of unauthorized use and infringement of its intellectual property rights related to its trademarks, patents and other intellectual property. In any case, such efforts are difficult, expensive, and time-consuming. Failure to protect H_2O Innovation's existing and future intellectual property rights could seriously harm its business and may result in the loss of its ability to exclude others from using and profiting from the Corporation's technology.

The Corporation's patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. The question as to property ownership in the Corporation's industry is complicated and, in some cases, it is difficult to define with precision where one's property begins and another's ends. Therefore, there can be no assurance that that the Corporation's may not have infringed the intellectual property rights of third parties.

Product liability

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

Liquidity risk

Liquidity risk is defined as the potential to be unable to meet a demand for cash or meet financial obligations as they become due. This risk is managed by establishing cash forecasts, as well as operating and strategic plans. The Corporation's liquidity requires constant monitoring of expected cash inflows and outflows, which is achieved through forecasts which assess the adequacy of cash resources to meet financial and contractual obligations as they come due. Liquidity adequacy is assessed in view of ongoing operating and growth requirements as well as capital expenditures. Liquidity risk is managed to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations. There can be no assurance that the Corporation's forecasts will adequately predict its liquidity needs.

Capacity to secure performance guarantees

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

Cybersecurity and cyber threats

The Corporation relies on the accuracy, reliability, and proper use of information processing systems and management information technology and provides several services to its customers using these information processing systems. Any interruption in these systems or any interruption associated with the transition of these systems to a new information technology platform could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Network and information systems-related events, such as computer hackings, cyber-attacks, ransomware, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination of the foregoing, or other similar events, could result in significant expenditures to repair or replace information systems, reacquire access to networks and information systems, or to protect them from similar events in the future. Further, any security breaches, such as misappropriation, misuse, leakage, falsification or accidental release or loss of information maintained in the Corporation's information technology systems, could damage its reputation and require capital expenses to remedy any such security breach.

The Corporation has developed and implemented a cybersecurity plan to mitigate the risks associated with cyber threats, breach or loss of data and inadequate users' behaviors. Different controls are currently in place, such as network security, data security, training and awareness. The Corporation also maintain a cyber liability insurance coverage as well as a technology error and omission insurance coverage with respect to all services offered to its customers with respect to electronic or computer based system or network.

Litigation

In the course of its business, the Corporation may become involved in, named as a party to, or be the subject of various legal proceedings and other claims relating to the conduct of the business. These may include claims, suits, government investigations and other proceedings, the outcome of which cannot be predicted with certainty and may be determined adversely to the Corporation. As a result, such matters could have a material adverse effect on the reputation, results of operations, liquidity or financial position of the Corporation. Moreover, the cost of defending against lawsuits and diversion of management's attention could be significant.

Shortage of raw materials

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

Development of new products

Development of new products of a specialized nature by the Corporation entails inherent risks, namely that either the product does not perform as desired or unacceptable reliability issues making such new product unmerchantable; or the risk that required components procured from third party suppliers do not perform in an acceptable manner, thereby having an adverse impact on marketability of such new products and on the Corporation's product liability. The Corporation is also subject to risks associated with the introduction of new products and applications, especially the non-acceptance on the markets, a delay in the development or a malfunction of the products.

Implementation of a strategic plan

The commercial strategy of the Corporation aims at leveraging its offering based on three pillars, namely water treatment projects, specialty products and services and operation and maintenance services of water and wastewater treatment systems, by focusing on the development of niche sectors and by concluding acquisitions or alliances with players in strategic geographical regions, complimentary product lines or business models. The strategic plan of the Corporation should be addressed taking into consideration potential risks, expenses and difficulties frequently encountered by a growing company. The successful viability of the Corporation's growth strategy may require capital investments larger than those previously expected and nothing guarantees that the Corporation will achieve its desired growth level.

Market liquidity

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

the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally may adversely affect the market price of the Corporation's common shares.

Capital investment

The business of the Corporation depends in part upon capital investment of its customers. In many cases such capital expenditures are substantial compared to their operating budget. The technologies of the Corporation may be an alternative solution to more customary methods for a customer's water treatment problems, leading to a need to educate the customer about the solutions of the Corporation. As a result, a significant proportion of the Corporation's business is made up of large orders compared to its total revenues and subject to a sale cycle which may exceed one year as well as to postponement and cancellation of projects.

Current global financial conditions

The Corporation offers products and services that are primarily designed for the non-residential construction market. Non-residential construction includes municipal, industrial, commercial and institutional sectors. The non-residential construction market is closely tied to overall changes in the economy. Economic growth and cycles have a direct impact on the level of construction that takes place on an annual basis.

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

Additional financing and dilution

The Corporation does not exclude raising additional funds by equity financing to fund its activities or implement its strategic plan. In addition, as at September 25, 2018, 2,554,334 stock options are currently issued and outstanding. The exercise of stock options, as well as any new equity financings, represent dilution factors for present and future shareholders.

Interest rate risk

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

The guaranteed deposit certificates and unsecured loans bear interest at fixed rates and the Corporation is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The bank loans bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

Insurance coverage risk

The Corporation maintains a wide insurance portfolio relating to its operations, including, among other coverage, property, general and product liability, professional liability, workers' compensation as well as directors' and officers' liability policies. However, the Corporation's insurance coverage is subject to large individual claim deductibles for certain policies, individual claim limits, exclusions, and other terms and conditions. Certain damages in litigation, such as punitive damages, are generally not covered by insurance. There is a small risk that the Corporation's current insurance coverage will not be sufficient to cover all losses, that future insurance coverage will not contain additional exclusions or limitations, that the Corporation will not be able to continue to obtain insurance coverage, or that insurance coverage will not be available at an economically reasonable cost. In the event that the Corporation does not have adequate or any insurance, product liability claims, litigation or other losses could have a material adverse effect on results of operations and financial condition.

Technological changes

The water treatment industry is characterized by evolving technologies, competition imposed standards and regulatory requirements which have an impact on the demand and compel the Corporation to improve its products and services. The evolution of legal, regulatory or local requirements may render obsolete some products and

some water treatment processes offered by the Corporation. The acceptance of new products may also be negatively impacted by the enforcement of new governmental legislation imposing more stringent standards.

Reputation and regulatory risk

Given the nature of its international operations, the Corporation is required to comply with a large range of local, national and international laws enforced by governments or other regulatory authorities in all aspects of its operations. Non-compliance with these laws and regulations on the part of employees, agents, subcontractors, suppliers and partners could have an adverse impact on the Corporation's results and reputation. The Corporation develops and maintains client relationships in the normal course of business in accordance with high ethical standards as set out in its policies. The risk of non-performance of a contract under the terms agreed including the possibility of a default or a significant incident could adversely impact its reputation and influence its future capacity to win projects.

Credit risk

Credit risk relates to the risk that a party to a contract will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from account receivables, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on specific customer information and general historical trends. Also, the Corporation insures a portion of its accounts receivable through EDC.

Currency risk

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

Transfer pricing

The Corporation conducts business operations in multiple jurisdictions and through various legal entities in Canada, the United States and Spain. The tax laws of these jurisdictions have detailed transfer pricing regulations which require that all transactions with non-resident related parties be priced using arm's-length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where the Corporation carries on business could challenge the Corporation's arm's-length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Corporation's transfer pricing policies, its income tax expense could be adversely affected and it could also be subject to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on the Corporation's future earnings and future cash flows.

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, 2018.

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

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

An evaluation was carried out, under the supervision of the CEO and the CFO of the effectiveness of the Corporation's disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective, using the criteria set forth by NI 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 2013* (COSO 2013) on Internal Control – Integrated Framework. The work performed during the fiscal year allows them to conclude that the internal controls over financial reporting are effective for the year ended June 30, 2018.

Changes in internal controls over financial reporting

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

H_2O Innovation's CEO and CFO have also evaluated the effectiveness of H_2O Innovation's disclosure controls and procedures as of June 30, 2018. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date. Based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting, based on material weakness' definition set forth in NI 52-109. In compliance with NI 52-109, H_2O Innovation's CEO and CFO have provided a certification related to H_2O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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

The President and Chief Executive Officer	The Chief Financial Officer
Frédéric Dugré	Marc Blanchet

September 25, 2018

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

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.

Independent auditors' report

To the Shareholders of
H_2O Innovation Inc.

We have audited the accompanying consolidated financial statements of **H_2O Innovation Inc.**, which comprise the consolidated statement of financial position as at June 30, 2018, and the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **H_2O Innovation Inc.** as at June 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of H_2O Innovation Inc. for the year ended June 30, 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on September 28, 2017.

Ernst & Young LLP [1]

Québec City, Canada
September 25, 2018

[1] CPA auditor, CA, public accountancy permit nº A109180

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

As at June 30,	2018	2017
	$	$
ASSETS (notes 13 and 16)		
Current assets		
Cash and cash equivalents	**1,997,896**	3,870,603
Guaranteed deposit certificates (note 6)	**256,677**	1,371,591
Accounts receivable (note 7)	**17,832,119**	13,210,475
Inventories (note 8)	**7,000,004**	4,917,592
Costs incurred in excess of billings (note 9)	**6,573,665**	5,567,267
Income taxes receivable (note 18)	**115,904**	-
Prepaid expenses	**884,686**	1,449,007
	34,660,951	30,386,535
Non-current assets		
Property, plant and equipment (note 10)	**4,748,155**	4,167,162
Intangible assets (note 11)	**18,753,435**	20,419,906
Other assets	**378,947**	563,564
Related party loans receivable (note 27a)	**1,250,000**	1,250,000
Goodwill (notes 5 and 12)	**14,511,205**	14,300,722
Deferred income tax assets (note 18)	**2,115,430**	3,082,941
	76,418,123	74,170,830
LIABILITIES		
Current liabilities		
Bank overdraft	**259,951**	184,120
Bank loans (note 13)	**9,204,804**	5,092,607
Accounts payable and accrued liabilities (note 14)	**13,370,160**	12,683,815
Provisions (note 15)	**137,938**	151,718
Billings in excess of costs incurred (note 9)	**2,260,305**	1,190,909
Income taxes payable (note 18)	**-**	53,930
Current portion of long-term debt (note 16)	**2,235,345**	2,036,151
	27,468,503	21,393,250
Non-current liabilities		
Long-term debt (note 16)	**7,841,723**	9,148,953
Deferred rent (note 25)	**144,592**	93,060
Contingent consideration (notes 5 and 17)	**-**	232,683
	35,454,818	30,867,946
SHAREHOLDERS' EQUITY		
Share capital (note 19)	**76,918,285**	76,918,285
Reserve - Stock options (note 19)	**2,942,070**	2,503,905
Deficit	**(41,748,259)**	(38,299,429)
Accumulated other comprehensive income	**2,851,209**	2,180,123
	40,963,305	43,302,884
	76,418,123	74,170,830

Events after the reporting period (note 28)
See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Philippe Gervais
Chairman of the Board of Directors

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

	Common shares (Number) (note 19)	Share capital (note 19)	Reserves – Stock option (note 19)	Deficit	Accumulated other comprehensive income – Translation adjustment	Total
		$	$	$	$	$
Balance as at July 1, 2016	20,926,551	55,298,945	1,876,379	(33,168,443)	2,587,297	26,594,178
Issuance of common shares under private placement (notes 5 and 19)	19,217,663	23,061,196	-	-	-	23,061,196
Share issue expenses (notes 5 and 19)	-	(1,441,856)	-	-	-	(1,441,856)
Stock-based compensation costs (note 19)	-	-	627,526	-	-	627,526
Net loss for the year	-	-	-	(5,130,986)	-	(5,130,986)
Other comprehensive income – Currency translation adjustments	-	-	-	-	(407,174)	(407,174)
Balance as at June 30, 2017	40,144,214	76,918,285	2,503,905	(38,299,429)	2,180,123	43,302,884
Balance as at July 1, 2017	**40,144,214**	**76,918,285**	**2,503,905**	**(38,299,429)**	**2,180,123**	**43,302,884**
Stock-based compensation costs (note 19)	**-**	**-**	**438,165**	**-**	**-**	**438,165**
Net loss for the year	**-**	**-**	**-**	**(3,448,830)**	**-**	**(3,448,830)**
Other comprehensive income – Currency translation adjustments	**-**	**-**	**-**	**-**	**671,086**	**671,086**
Balance as at June 30, 2018	**40,144,214**	**76,918,285**	**2,942,070**	**(41,748,259)**	**2,851,209**	**40,963,305**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS
(in Canadian dollars)

Years ended June 30,	2018	2017
	$	$
Revenues (note 26)	**99,668,125**	82,764,508
Cost of goods sold (note 20a)	**77,561,529**	63,607,128
Gross profit before depreciation and amortization	**22,106,596**	19,157,380
Operating expenses (note 20a)	**4,003,624**	1,916,001
Selling expenses (note 20a)	**8,073,168**	7,165,499
Administrative expenses (note 20a)	**6,509,718**	9,167,360
Research and development expenses	**8,685**	152,949
Depreciation of property, plant and equipment (note 20b)	**1,138,636**	1,336,729
Amortization of intangible assets (note 20b)	**2,811,293**	3,208,599
Other losses (gains) – net (note 20c)	**121,531**	(367,627)
Acquisition-related costs, integration costs and other costs (note 5)	**478,658**	1,066,696
Operating costs total	**23,145,313**	23,646,206
Loss before finance costs and income taxes	**(1,038,717)**	(4,488,826)
Finance income	**(40,827)**	(42,337)
Finance costs	**1,305,185**	1,338,848
Finance costs – net	**1,264,358**	1,296,511
Loss before income taxes	**(2,303,075)**	(5,785,337)
Current income tax expense (note 18)	**158,001**	167,359
Deferred tax (recovery) charge (note 18)	**987,754**	(821,710)
	1,145,755	(654,351)
Net loss for the year	**(3,448,830)**	(5,130,986)
Basic and diluted net loss per share	**(0.086)**	(0.133)
Weighted average number of shares outstanding (note 21)	**40,144,214**	38,674,011

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in Canadian dollars)

Years ended June 30,	**2018**	2017
	$	$
Net loss for the year	**(3,448,830)**	(5,130,986)
Other comprehensive income – Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**671,086**	(407,174)
Comprehensive loss for the year	**(2,777,744)**	(5,538,160)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

Years ended June 30,	2018	2017
	$	$
Operating activities		
Loss before income taxes for the year	**(2,303,075)**	(5,785,337)
Non-cash items		
Finance costs – net	**1,264,358**	1,296,511
Depreciation of property, plant and equipment	**1,138,636**	1,336,729
Amortization of intangible assets	**2,811,293**	3,208,599
Effects of foreign exchange differences on long-term debt	**8,270**	22,080
Deferred rent	**49,000**	(23,638)
Changes in fair value of contingent consideration	**(227,698)**	-
Stock-based compensation	**438,165**	627,526
	3,178,949	682,470
Change in working capital items	**(5,143,847)**	1,120,761
Cash (used in) generated by operations	**(1,964,898)**	1,803,231
Interests received	**40,827**	42,337
Income taxes paid	**(297,720)**	(38,290)
Net cash flows (used in) from operating activities	**(2,221,791)**	1,807,278
Investing activities		
Variation of guaranteed deposits certificates	**1,113,504**	90,170
Variation of other assets	**187,594**	(502,240)
Acquisition of property, plant and equipment	**(1,718,657)**	(1,363,599)
Acquisition of intangible assets	**(988,558)**	(989,574)
Business combination, net of cash acquired (note 5)	**-**	(24,102,288)
Related party loans receivable (note 27a)	**-**	(1,250,000)
Proceeds from disposal of property, plant and equipment	**7,242**	20,678
Net cash flows used in investing activities	**(1,398,875)**	(28,096,853)
Financing activities		
Variation of bank loans	**4,112,197**	(870,143)
Long-term debt reimbursement	**(3,145,923)**	(1,763,066)
Long-term debt contracted (note 16)	**1,984,936**	10,200,060
Interest paid	**(1,267,940)**	(1,296,227)
Financing costs (note 5)	**-**	(164,621)
Issuance of common shares under private placement (note 19)	**-**	23,061,196
Share issue expense (note 19)	**-**	(1,441,856)
Net cash flows from financing activities	**1,683,270**	27,725,343
Net change in cash and cash equivalents	**(1,937,396)**	1,435,768
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(11,142)**	(280,947)
(Decrease) Increase in cash and cash equivalents	**(1,948,538)**	1,154,821
Cash and cash equivalents - Beginning of year (note 22)	**3,686,483**	2,531,662
Cash and cash equivalents - End of year (note 22)	**1,737,945**	3,686,483

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in Canadian dollars)

1. Governing statutes and nature of operations

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

2. Basis of preparation and summary of significant accounting policies

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention.

On September 25, 2018, the Board reviewed and approved the consolidated financial statements and authorized its publication.

Reporting and functional currency

The Corporation's reporting currency is the Canadian dollar. The functional currency of the Canadian corporations is the Canadian dollar. The functional currency of the foreign subsidiaries located in the United States of America and in Hong Kong is the US dollar.

Principles of consolidation

The consolidated financial statements comprise the accounts of the Corporation, its wholly-owned subsidiaries H_2O Innovation USA Inc., H_2O Innovation USA Holding Inc., Professional Water Technologies, LLC, Piedmont Pacific Corporation, Piedmont Pacific Inc., H_2O Operation & Maintenance Inc., Piedmont Hong Kong Limited and Utility Partners, LLC.

Subsidiaries
Subsidiaries are all entities over which the Corporation has control. Control is achieved when the Corporation has all three of the following elements: the power to direct the relevant activities of the subsidiary, exposure or rights to variable returns from its involvement with the subsidiary; and the ability to use its power over the subsidiary to affect the amount of the Corporation's returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases.

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

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred in the consolidated statement of loss.

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IAS 39 Financial Instruments: recognition and measurement*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of loss.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Foreign currency translation

Monetary assets and liabilities of the Canadian corporations denominated in foreign currencies are translated at the exchange rate in effect at the statement of financial position date, whereas other assets and liabilities are translated at the exchange rate, using the Bank of Canada published rates, in effect at the transaction date. Revenues and expenses are translated at the exchange rate at the date of the transaction, with the exception of revenues and expenses relating to non-monetary assets and liabilities, which are translated at historical rate. Exchange gains and losses are reflected in the consolidated statement of loss.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the rate prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive (loss) income.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management reviews significant unobservable inputs and valuation adjustment. If third party information is used to measure fair values, management assesses the evidences obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Corporation uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities that the Corporation can access at the measurement date.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which that change has occurred.

Further information about the assumptions made in measuring fair values is included in the notes to the consolidated financial statements.

Financial assets and liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Corporation's financial assets comprise mainly cash and cash equivalents, guaranteed deposit certificates, accounts receivable excluding tax credits receivable and related party loans receivable. The Corporation's financial liabilities comprise mainly bank overdraft, bank loans, accounts payable and accrued liabilities, long-term debt and contingent consideration.

Recognition
The Corporation recognizes a financial instrument on its consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument.
On initial recognition, all financial assets and liabilities are measured and recognized at their fair value and their subsequent measurement depends on their classification as described below:

Classification	
Cash and cash equivalents	Loans and receivables
Guaranteed deposit certificates	Loans and receivables
Accounts receivable	Loans and receivables
Other Assets	Loans and receivables
Related party loans receivable	Loans and receivables
Bank overdraft	Other financial liabilities
Bank loans	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Contingent consideration	Fair value through profit or loss

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

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

Derecognition
Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Cash and cash equivalents

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

Inventories

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

Property, plant and equipment

All property, plant and equipment are shown at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes expenditures that are attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful economic life. Leasehold improvements are amortized on the remaining term of the lease to which they relate. Land is not depreciated. For the buildings, component depreciation accounting is also used for components that have different useful economic life. Depreciation is calculated over the following periods:

Buildings	10-26 years
Machinery and equipment	5-10 years
Computer equipment	3-5 years
Furniture, fixtures and office equipment	5-10 years
Automotive equipment	5 years
Containerized units	4-10 years
Moulds	4-20 years
Leasehold improvements	remaining term of the lease between two and ten years

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

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over their estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortization expense is included in the consolidated statement of loss as “Amortization of intangible assets”.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit-level. The assessment of indefinite life is also reviewed on an annual basis to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Corporation is using the following amortization methods:

Intangible assets acquired separately

- Software is amortized using the straight-line method over a period of seven (7) years. Software in progress is not amortized until it is completed and ready to be used.

Intangible assets acquired in business combinations

- Intellectual property includes the patents, the rights on technologies, technologies and the technical drawings. Intellectual properties and patents are amortized using the straight-line method over a period of ten (10) to fifteen (15) years. Rights on technologies and technologies are amortized using the straight-line method over periods of seven (7) and fifteen (15) years, respectively. Technical drawings are amortized using the straight-line method over a period of ten (10) years.
- Trademarks with a definite useful life are amortized using the straight-line method over a period of seven (7) to ten (10) years.
- Customer relations are amortized using the straight-line method over periods of five (5), ten (10) and fifteen (15) years.
- Contractual agreements are amortized over the related contract length.
- Distribution network is amortized using the straight-line method over a period of five (5) years.
- Non-compete agreements are amortized using the straight-line method over a period of ten (10) years.
- Customer backlog is amortized over its related sales period.

Intangible assets also include development costs for new products which have proven technical feasibility and for which a clearly defined future market exists. Costs of developing the new products are reduced by the related investment tax credits and amortized over a maximum period of five years on a straight-line basis. Expenditures on research activities are expensed as incurred.

Other assets

Other assets are mainly composed of accounts receivable in more than 12 months and of security deposits. The security deposits are recorded at amortized cost.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Corporation is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Impairment of property, plant and equipment and intangible assets excluding goodwill

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

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

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

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

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

Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating unit (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount

of goodwill is included in the determination of the gain or loss on disposal. The Corporation has elected to perform its annual impairment test of goodwill during the third quarter of each year.

Revenue recognition

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

Sales of specialty products and services

Revenue from the sale of specialty products and consignment inventory is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue from aftersales services consist of the man hour required to repair water treatment system. Revenue is recognised when the service is rendered to the client, based on the labor hours incurred, when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably.

Project contracts

Project contracts are within the scope of *IAS 11 – Construction contracts*. Where the outcome of a project contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the percentage-of-completion of the contract, which represent proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work and claims are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately and the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Corporation recognises any impairment loss that has occurred on assets dedicated to that contract.

When the contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is included in the statement of financial position under “Costs incurred in excess of billings”. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is included in the consolidated statement of financial position under “Billings in excess of costs incurred”.

Operation and maintenance revenue

Revenues consist of operator contracts, which include utility management, maintenance services, management of employees, and other miscellaneous services specific to the contract. The contracts are long-term with municipalities with billings occurring monthly based on one-twelfth of the annual service fee as outlined in the contract, and revenue is recognised on a straight-line basis. Repairs, installation, and other services outside the scope of the services, as outlined in the contract, and amounts above the budgeted costs are billed at cost to the customer and recognised as they occur.

Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably using the effective interest rate applicable. Interest income is included in the finance income in the statement of loss.

Share capital

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

Share-based payment

The Corporation offers a stock option plan to directors, executive officers, key employees and consultants providing services to the Corporation and accounts for these awards in accordance with *IFRS 2 – Share-based Payment*. Stock options granted to directors, executive officers, key employees and consultants providing services are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. Details regarding determination of the fair value of equity-settled share-based transactions are set out in note 19 – *Capital Stock*.

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

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

Research and development expenses

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

The Corporation is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government ("Federal") and the government of the Province of Quebec ("Provincial"). Federal SR&ED tax credits are earned on qualified Canadian SR&ED expenditures at a rate of 15% and can only be used to offset Federal income taxes otherwise payable. Refundable Provincial SR&ED tax credits are generally earned on qualified salaries, subcontracting and university contract expenses incurred in the Province of Quebec, at a rate ranging from 14% to 30% of eligible base amounts.

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

Taxation

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

Segment reporting

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

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

Net loss per share

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

Provisions

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

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

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

Warranties

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

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

3. Critical accounting estimates, assumptions and judgements

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

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

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

Judgments

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

Determination of the reportable segment
Operating segments are determined according to the Corporation's management structure and internal information system. Operating results of each reportable segment are reviewed regularly by the Corporation's Chief Operating decision maker regarding the resources to be allocated to the segments and the assessment of their performance based on available financial information.

Management has identified one operating segment. The information structure indicates how management manages the Corporation and how it classifies its activities for planning and evaluating its performance. As a result, management manages its business line in one strategic business unit.

Estimates

Revenue recognition of Projects

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

Impairment of goodwill and other non-current assets

Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumption required for the value in use estimation is the discount rate and the growth rates for revenues. Cash flows for each CGU are derived from the budget for the upcoming year and a long-term forecast prepared by management, which covers an additional period of 4 years. The budget, which is approved on an annual basis by the members of the Board of Directors, and long-term forecast, are the primary sources for determining the value in use.

As of June 30, 2018 and 2017, goodwill was not considered impaired.

Other non-current depreciable assets are tested for impairment should events or circumstances indicate that their book value may not be recoverable, as measured by comparing their net book value to their recoverable amount, which correspond to the higher of fair value less costs to sell and its value in use. Should the carrying amount of other non-current assets exceed their recoverable amount, an impairment loss in the amount of the excess would be recognized.

For impairment purposes, determination of cash-generating units is based on management's best estimate of what constitutes the lowest level at which an asset or group of assets is able to generate cash inflows. The Corporation must also determine whether goodwill can be attributed to one or more cash-generating units.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 12.

Fair value of assets acquired in a business combination

Under the acquisition method, on the date that control is obtained, the identifiable assets, liabilities and contingent liabilities of the acquired business are measured at their fair values. Depending on the complexity of determining the valuation for assets acquired, the Corporation uses appropriate valuation techniques in arriving at the estimated fair value at the acquisition date. These valuations are generally based on a forecast of the total expected future net discounted cash flows and relate closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant. Determination of the fair value of the acquired assets and liabilities requires judgment and the use of assumptions that, if changed, may affect the consolidated statements of earnings and consolidated statement of financial position.

4. Accounting standards and amendments issued but not yet adopted

The following standards, amendments to standards and interpretations have been issued, but not yet effective as of June 30, 2018. The Corporation intends to adopt these standards, if applicable, when they become effective.

Classification and measurement of financial assets and financial liabilities
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 loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through the statement of 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 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.

Management is adopting the new standard on July 1, 2018. The assessment of the impact of IFRS 9 has been started during fiscal year 2018. Based on the assessment performed thus far, management does not believe that the adoption of IFRS 9 would have a material impact on the consolidated financial statements. We do not intend to restate prior year comparatives and any adjustment will be applied to opening retained earnings as of July 1, 2018.

Revenue from contracts with customers
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 can be applied using one of the following two methods : 1) retrospectively to each prior reporting period presented in accordance with IAS 8, *Accounting Policies, Changes in accounting estimates and errors,* or 2) retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the "modified retrospective method"). The Corporation has elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in retained earnings on the date of initial application, on July 1, 2018, without restatement of comparative figures.

IFRS 15 provides for certain practical expedients, including upon the initial adoption of the standard. The Corporation intends to apply the following practical expedients upon adoption of IFRS 15 on July 1, 2018:

- Completed contracts: The Corporation will apply IFRS 15 retrospectively only to contracts that are not completed contracts as at July 1, 2018.
- Contract modifications: The Corporation will not apply IFRS 15 retrospectively to contract modifications that occurred before July 1, 2018.

Although the Corporation has made progress in the implementation of IFRS 15 on its consolidated financial statements, the analysis is still in progress and actual results may differ from the estimates as of the date of issuance of the consolidated financial statements.

Share-based payment
In June 2016, the IASB issued an amendment to IFRS 2, "Share-based payment", clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of this amendment on its consolidated financial statements.

Leases
In January 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 for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenues from Contracts with Customers.* The Corporation has not yet determined the impact of this standard on its consolidated financial statements.

5. Business combination

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").

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

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

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

Fair value recognized on acquisition date

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

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

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

Costs related to the acquisition

The total acquisition-related and integration costs amounted to $2,754,148 and are included in the financial statements as follows: share issuance costs totalling $1,441,856 are included in the share capital caption in the consolidated statement of changes in shareholders' equity, financing costs totalling $164,621 are included in the long-term debt and $1,147,671 of acquisition and integration costs are included in the consolidated statements of loss.

Determination of fair value

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

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

Goodwill arising from the business combination

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

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

The Corporation's loss for the year ended June 30, 2017, includes $33,227,957 in revenues and a $1,236,174 profit, generated from Utility Partners additional business, before depreciation and amortization of $2,113,258.

If the business combination had been completed on July 1, 2016, the Corporation's consolidated revenues for the year ended June 30, 2017 would have totalled $85,149,220 and consolidated net loss for the year ended June 30, 2017, would have been ($5,272,100).

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, 2016, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit if Utility Partners had been acquired on July 1, 2016, the Corporation:

- Calculated the revenues based on contractual agreements with customers;
- 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.

6. Guaranteed deposit certificates

As at June 30,	**2018**	2017
	$	$
Guaranteed deposit certificates, held as collateral for credit cards, bearing interest at 0.85% (0.80% as at June 30, 2017) and maturing in April 2019	**256,677**	254,498
Guaranteed deposit certificates, held as collateral for letters of credit, bearing interest at 0.30% as at June 30, 2017, and renewed monthly	**-**	33,717
Guaranteed deposit certificates, held as collateral for letters of credit, bearing interest at 0.80% as at June 30, 2017 and maturing in May 2019 – redeemed in May 2018	**-**	1,017,526
Guaranteed deposit certificate held as collateral for letters of credit , bearing interest at 0.28% as at June 30, 2017 and maturing in July 2017	**-**	65,850
	256,677	1,371,591

7. Accounts receivable

As at June 30,	**2018**	2017
	$	$
Trade accounts receivable	**14,563,808**	10,023,986
Retentions from customers under project contracts	**2,627,875**	1,980,423
Allowance for doubtful accounts (a)	**(92,636)**	-
	17,099,047	12,004,409
Tax credits receivable	**26,694**	45,527
Other receivables	**706,378**	1,160,539
	17,832,119	13,210,475

Trade accounts receivable disclosed above include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable. In some cases, the Corporation holds the legal right to lien construction projects in the event that certain counterparties do not pay their balance within a specified period of time. The gross amount of accounts receivable for which an allowance for doubtful accounts is recorded is $92,636 (nil as at June 30, 2017).

(a) Movement in the allowance for doubtful accounts

As at June 30,	**2018**	2017
	$	$
Balance at beginning of the year	**-**	-
Impairment losses recognized on receivables	**(92,253)**	-
Foreign exchange translation	**(383)**	-
Balance at end of the year	**(92,636)**	-

There is no impairment or amount past due other than those related to trade accounts receivable.

8. Inventories

As at June 30,	**2018**	2017
	$	$
Raw materials	**1,481,463**	1,157,069
Finished goods	**5,518,541**	3,760,523
	7,000,004	4,917,592

As a result of variations in the aging of its inventory of raw materials held in Canada, the Corporation recognized an inventory provision for the year of $103,445 ($273,194 in fiscal year 2017).

9. Work in progress

As at June 30,	**2018**	2017
	$	$
Construction costs related to Projects incurred plus recognized profits less recognized losses to date	**66,591,729**	46,185,881
Less: progress billings	**(62,278,369)**	(41,809,523)
Net statement of financial position for ongoing projects contracts	**4,313,360**	4,376,358

Recognized and included in the consolidated statement of financial position as amounts due:

From customers under project contracts (costs incurred in excess of billings)	**6,573,665**	5,567,267
To customers under project contracts (billings in excess of costs incurred)	**(2,260,305)**	(1,190,909)
Net statement of financial position for ongoing projects contracts	**4,313,360**	4,376,358

10. Property, plant and equipment

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized units	Moulds	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2016	60,300	1,495,966	1,975,406	331,321	492,887	103,552	1,523,539	285,187	427,986	**6,696,144**
Additions	13,300	83,605	333,980	56,019	53,473	195,259	319,371	144,382	164,210	**1,363,599**
Business combination (note 5)	-	-	66,998	13,242	-	555,726	-	-	-	**635,966**
Disposals	-	-	-	-	-	(41,333)	-	-	-	**(41,333)**
Write-off of fully depreciated assets	-	-	(24,136)	(54,464)	-	(41,716)	-	-	-	**(120,316)**
Effect of foreign currency exchange differences	-	-	(4,972)	657	379	(9,672)	(2,998)	721	1,124	**(14,761)**
Balance as at June 30, 2017	73,600	1,579,571	2,347,276	346,775	546,739	761,816	1,839,912	430,290	593,320	**8,519,299**
Additions	-	18,743	447,652	106,173	27,868	650,777	210,295	159,262	97,887	**1,718,657**
Disposals	-	-	-	(802)	-	(27,857)	(24,416)	-	-	**(53,075)**
Write-off of fully depreciated assets	-	-	-	(101,600)	(144,947)	(89,273)	(47,830)	-	-	**(383,650)**
Effect of foreign currency exchange differences	-	-	18,873	452	1,775	15,823	15,184	6,265	4,071	**62,443**
Balance as at June 30, 2018	**73,600**	**1,598,314**	**2,813,801**	**350,998**	**431,435**	**1,311,286**	**1,993,145**	**595,817**	**695,278**	**9,863,674**
Cumulated depreciation										
Balance as at June 30, 2016	-	(298,809)	(1,634,922)	(204,944)	(291,898)	(87,379)	(379,541)	(66,183)	(219,820)	**(3,183,496)**
Depreciation expense	-	(73,684)	(140,409)	(62,612)	(37,079)	(272,302)	(651,464)	(24,086)	(75,093)	**(1,336,729)**
Disposals	-	-	-	-	-	41,333	-	-	-	**41,333**
Write-off of fully depreciated assets	-	-	24,136	54,464	-	41,716	-	-	-	**120,316**
Effect of foreign currency exchange differences	-	-	(323)	(822)	(121)	4,207	3,293	287	(82)	**6,439**
Balance as at June 30, 2017	-	(372,493)	(1,751,518)	(213,914)	(329,098)	(272,425)	(1,027,712)	(89,982)	(294,995)	**(4,352,137)**
Depreciation expense	-	(76,091)	(127,735)	(63,952)	(39,767)	(239,316)	(433,148)	(90,702)	(67,925)	**(1,138,636)**
Disposals	-	-	-	802	-	27,857	2,731	-	-	**31,390**
Write-off of fully depreciated assets	-	-	-	101,600	144,947	89,273	47,830	-	-	**383,650**
Effect of foreign currency exchange differences	-	-	(10,175)	(264)	(1,425)	(8,921)	(13,229)	(2,190)	(3,582)	**(39,786)**
Balance as at June 30, 2018	**-**	**(448,584)**	**(1,889,428)**	**(175,728)**	**(225,343)**	**(403,532)**	**(1,423,528)**	**(182,874)**	**(366,502)**	**(5,115,519)**
Net amount as at June 30, 2017	**73,600**	**1,207,078**	**595,758**	**132,861**	**217,641**	**489,391**	**812,200**	**340,308**	**298,325**	**4,167,162**
Net amount as at June 30, 2018	**73,600**	**1,149,730**	**924,373**	**175,270**	**206,092**	**907,754**	**569,617**	**412,943**	**328,776**	**4,748,155**

11. Intangible assets

Cost	Software	Intellectual property	Trademarks	Customer relations	Distribution network	Customer Backlog	Contractual agreements	Non-Compete agreements	Deferred development costs	Total
	$	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2016	1,657,680	10,264,324	1,674,376	7,264,249	1,633,267	33,847	-	-	287,403	**22,815,146**
Additions	681,764	11,733	766,281	6,208,892	-	-	2,246,647	3,930,322	294,687	**14,140,326**
Write-off of fully depreciated assets	(49,879)	-	-	-	-	-	-	-	-	**(49,879)**
Effect of foreign currency exchange differences	1,698	40,466	(6,966)	(71,417)	7,587	(509)	(36,112)	(63,176)	(517)	**(128,946)**
Balance as at June 30, 2017	**2,291,263**	**10,316,523**	**2,433,691**	**13,401,724**	**1,640,854**	**33,338**	**2,210,535**	**3,867,146**	**581,573**	**36,776,647**
Additions	655,977	10,484	-	-	-	-	-	-	322,097	**988,558**
Write-off of fully depreciated assets	(224,270)	-	(29,134)	-	-	(32,622)	-	-	(155,170)	**(441,196)**
Effect of foreign currency exchange differences	3,185	128,855	28,131	196,732	24,150	(716)	32,535	56,918	1,672	**471,462**
Balance as at June 30, 2018	**2,726,155**	**10,455,862**	**2,432,688**	**13,598,456**	**1,665,004**	**-**	**2,243,070**	**3,924,064**	**750,172**	**37,795,471**
Accumulated amortization										
Balance as at June 30, 2016	(388,036)	(5,770,580)	(639,063)	(4,737,442)	(1,633,267)	(33,847)	-	-	-	**(13,202,235)**
Amortization expense	(56,457)	(618,736)	(166,670)	(942,269)	-	-	(883,744)	(370,526)	(170,197)	**(3,208,599)**
Write-off of fully depreciated assets	49,879	-	-	-	-	-	-	-	-	**49,879**
Effect of foreign currency exchange differences	(572)	(14,484)	(117)	(986)	(7,587)	509	19,317	8,134	-	**4,214**
Balance as at June 30, 2017	(395,186)	(6,403,800)	(805,850)	(5,680,697)	(1,640,854)	(33,338)	(864,427)	(362,392)	(170,197)	**(16,356,741)**
Amortization expense	(125,354)	(564,574)	(154,982)	(939,766)	-	-	(617,436)	(378,409)	(30,772)	**(2,811,293)**
Write-off of fully depreciated assets	224,270	-	29,134	-	-	32,622	-	-	155,170	**441,196**
Effect of foreign currency exchange differences	(1,895)	(102,726)	(14,117)	(117,917)	(24,150)	716	(35,561)	(19,330)	(218)	**(315,198)**
Balance as at June 30, 2018	(298,165)	(7,071,100)	(945,815)	(6,738,380)	(1,665,004)	-	(1,517,424)	(760,131)	(46,017)	**(19,042,036)**
Net amount as at June 30, 2017 (a)	**1,896,077**	**3,912,723**	**1,627,841**	**7,721,027**	**-**	**-**	**1,346,108**	**3,504,754**	**411,376**	**20,419,906**
Net amount as at June 30, 2018 (a)	**2,427,990**	**3,384,762**	**1,486,873**	**6,860,076**	**-**	**-**	**725,646**	**3,163,933**	**704,155**	**18,753,435**

(a) The net book amount as at June 30, 2018 includes $1,603,782 related to software in progress ($959,420 as at June 30, 2017). The software will start to be amortized on July 1, 2018, following the launch.

12. Goodwill

The change in carrying value is as follows:

	Total
	$
Balance as at June 30, 2016	5,893,636
Business combination – Utility Partners (note 5)	8,534,492
Effect of foreign exchange differences	(127,406)
Balance as at June 30, 2017	14,300,722
Effect of foreign exchange differences	210,483
Balance as at June 30, 2018	**14,511,205**

Goodwill has been allocated to the Corporation's cash-generating units ("CGU") United States for impairment testing purposes. The carrying amount of goodwill was allocated to cash-generating units as follows:

As at June 30,	**2018**	2017
	$	$
Canada	**-**	-
United States	**14,511,205**	14,300,722
Goodwill	**14,511,205**	14,300,722

The Corporation carries out its impairment test annually or more frequently if there is an indicator of impairment. The Corporation has aggregated its cash-generating units into countries for the purposes of the goodwill impairment test. The carrying values of the goodwill have been allocated for impairment testing purposes to these CGU groups.

The recoverable amount of the cash-generating unit was established by calculating its value in use which is perform using discounted cash flow projections that are based on a one-year financial budget approved by the Board of Directors. These cash flow projections consider the historical results of the cash-generating units, the market tendencies and the Corporation operational strategies. At the end of this one-year period, management estimates future cash flow projections for a period of four years. The Corporation measures the final value of the cash-generating units at the end of the five-year projections.

Cash flow projections during the five-year budget period are based on the same expected gross profit throughout the budget period. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of each of the cash-generating units.

The key assumptions to which the recoverable amount is most sensitive are the growth rates for revenue and the discount rates applied to cash flow projections. Other assumptions used include future gross profits on projects, products and services, and operation and maintenance. Cash flows and future gross profit were projected based on past experience and actual operating results using forecasts approved by management. The discount rates were based on the Corporation's weighted average cost of capital using a standard capital structure and reflect specific risks related to the CGU group under review. The calculation of the recoverable amount was based on the following key assumptions:

As at June 30,	**2018**	**2017**
Growth rate for the terminal period	3%	3%
Pre-tax discount rate	14.6%	14.5%

If the discount rate had increased by 1.0% compared to the assumption taken by the Corporation, assuming other variables remain constant, there would be no impairment. If the growth rate had decreased by 1.0% compared to the assumption taken by the Corporation, there would be no impairment.

13. Bank loans

The Corporation has a first authorized credit facility available of US$5,000,000 ($6,750,000) bearing interest at CDN prime rate plus 1.00% (4.45% as at June 30, 2018 and 3.70% as at June 30, 2017) and at US prime rate plus 1.00% (6.25% as at June 30, 2018 and 5.75% as at June 30, 2017) are secured by an assignment of accounts receivable and inventories and by Export Development Canada ("EDC"). As at June 30, 2018, $6,504,804 was used on this line of credit ($3,396,231 as at June 30, 2017).

The Corporation has a second authorized credit facility available of US$2,000,000 ($2,700,000) bearing interest at CDN prime rate plus 1.00% (4.45% as at June 30, 2018 and 3.70% as at June 30, 2017) and at US prime rate plus 1.00% (6.25% as at June 30, 2018 and 5.75% as at June 30, 2017). This credit facility is secured by EDC. As at June 30, 2018, $2,700,000 was used on this credit facility ($1,696,376 as at June 30, 2017).

The Corporation has a credit facility enabling it to issue letters of credit for a maximum amount of $1,000,000. This credit facility is secured by EDC. As at June 30, 2018, $826,276 was used on this credit facility ($292,585 as at June 30, 2017).

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

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

The Corporation has a credit facility enabling it to use a maximum amount of $250,000 on credit cards for Corporation's related expenses. This credit facility is secured by $256,677 in guaranteed deposit certificate ($254,498 as at June 30, 2017). As at June 30, 2018, $108,850 was used on this credit facility ($55,269 as at June 30, 2017).

The Corporation still has letters of credit amounting to $21,485 ($21,173 as at June 30, 2017) with its previous bank.

A $30 M movable hypothec on the universality of the Corporation's property have been pledged as security for these credit facilities.

Covenants
The Corporation has undertaken to maintain covenants on a yearly basis in respect of the bank loans, as described in note 24 - Capital Management.

14. Accounts payable and accrued liabilities

As at June 30,	2018	2017
	$	$
Trade accounts payable	**8,014,727**	8,056,117
Other accrued liabilities and accounts payable	**5,355,433**	4,627,698
	13,370,160	12,683,815

15. Provisions

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

	$
Balance as at June 30, 2016	114,224
Additional provisions recognized	37,000
Less: Payments	-
Effect of foreign exchange differences	494
Balance as at June 30, 2017	151,718
Additional provisions recognized	**13,544**
Less: Payments	**(27,389)**
Effect of foreign exchange differences	**65**
Balance as at June 30, 2018	**137,938**

16. Long-term debt

As at June 30,	2018	2017
	$	$
at amortised cost		
Loan, denominated in Canadian dollars (a)(j)	**3,431,655**	4,242,440
Loan from other entities, denominated in Canadian dollars (b)(j)	**4,018,170**	4,628,474
Loan, denominated in US dollars (c)(j)	**1,272,907**	1,730,266
Loan, denominated in Canadian dollars (d)	**709,520**	400,360
Loan from other entities, denominated in US dollars	**-**	2,668
Loan from other entities, denominated in Canadian dollars (e)	**24,511**	32,772
Loan from other entities, denominated in Canadian dollars (f)	**122,390**	148,124
Loan from other entities, denominated in Canadian dollars (g)	**120,830**	-
Loan from other entities, denominated in Canadian dollars (h)	**198,344**	-
Loan from other entities, denominated in US dollars (i)	**175,068**	-
Loan from other entities, denominated in Canadian dollars	**3,673**	-
	10,077,068	11,185,104
Less : Current portion	**2,235,345**	2,036,151
Long-term debt	**7,841,723**	9,148,953

(a) Loan

On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 1.5% (4.95% as at June 30, 2018), payable in 72 monthly instalments of $69,444, principal only, maturing on July 18, 2022. The loan is presented net of financing costs of $40,567.

(b) Loan from other entities
On July 18, 2016, an agreement was concluded for a loan amounting to $5,000,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (5.95% as at June 30, 2018), payable in 96 monthly instalments of $52,083, principal only, reimbursement starting the 14th day of six-month following the disbursement, maturing on December 4, 2024. The loan is presented net of financing costs of $44,330.

(c) Loan
On October 20, 2015, an agreement was concluded for a loan amounting to $2,633,600 (US$ 2,000,000), to finance the acquisition of all the assets of Clearlogx' control technology and its specialty coagulant business line. The loan bears interest at prime rate plus 1.0% (6.25% as at June 30, 2018), payable in 60 monthly instalments of $43,893 (US$33,333), principal only, maturing on October 20, 2020.

(d) 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 $1,150,000, bearing interest at floating prime rate plus 1.05% (6.60% as at June 30, 2018), payable in one instalment of $4,120 on September 23, 2015 and 131 monthly instalments of $3,480, principal only, maturing on August 23, 2026.

On April 13, 2016, an agreement was concluded for a loan amounting up to $565,000, bearing interest at floating prime rate plus 1.0% (6.55% as at June 30, 2018), payable in one instalment of $8,360 on June 23, 2016 and 71 monthly instalments of $7,840, principal only, maturing on May 23, 2022.

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

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

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

(h) The Corporation entered in financing agreements totaling $207,659 to finance the acquisition of automotive equipment. The loans bear interest at 4.49% and are payable in 60 monthly instalments totaling $3,870, principal and interest, and maturing in March 2023.

(i) The Corporation entered in financing agreements totaling $184,314 (US$139,971) to finance the acquisition of automotive equipment. The loans bear interest ranging between 5.99% to 7.59% and are payable in 60 monthly instalments totaling $3,640 (US$2,764), principal and interest, and maturing in March 2023.

(j) These 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 3.25:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at June 30, 2018 and June 30, 2017, 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 a waiver was received from the lender prior to the year-end.

The following table presents reconciliation between the opening and closing balances for the long-term debt.

As at June 30,	2018	2017
	$	$
Long-term debt, at beginning of the year	**11,185,104**	2,847,255
Increase in long-term debt	**1,984,936**	10,200,060
Repayment of long-term debt	**(3,145,923)**	(1,763,066)
Financing costs	**-**	(164,621)
Amortization of financing costs	**37,245**	42,621
Effect of foreign exchange differences	**15,706**	22,855
Long-term debt, at end of the year	**10,077,068**	11,185,104

The annual principal instalments due on the long-term debt are $2,235,345 in 2019, $2,250,358 in 2020, $1,956,498 in 2021, $1,702,448 in 2022 and $865,033 in 2023.

17. Contingent consideration

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

	$
Balance as at June 30, 2016	874,596
Less: Payments	(641,421)
Effect of foreign exchange differences	(492)
Balance as at June 30, 2017	232,683
Less: Change in fair value of contingent consideration (note 20c)	**(227,698)**
Effect of foreign exchange differences	**(4,985)**
Balance as at June 30, 2018	**-**

18. Income taxes

Income tax expenses (recovery) are detailed as follows:

As at June 30,	2018	2017
	$	$
Current tax expense:		
Current period	**78,933**	88,830
Adjustment for prior periods	**79,068**	78,529
	158,001	167,359
Deferred tax expense:		
Origination and reversal of temporary differences	**(250,490)**	(1,071,337)
Reduction in tax rate	**1,045,729**	-
Adjustment for prior periods	**192,515**	249,627
	987,754	(821,710)
Income taxes	**1,145,755**	(654,351)

Reconciliation of the Corporation's effective income tax expense

The Canadian statutory tax rate is 26.75 % (26.83 % for 2017). The following is a reconciliation of income taxes calculated at the Canadian statutory tax rate to the expense for 2018 and 2017.

As at June 30,	2018	2017
	$	$
Loss before income taxes	**(2,303,075)**	(5,785,337)
Income taxes at the Canadian statutory tax rate of 26.75% (26.87% in 2016)	**(616,072)**	(1,552,206)
Tax effect from:		
Effect of differences in tax rates in other jurisdictions	**(45,991)**	(260,110)
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**309,683**	616,854
Changes in statutory rates [(a)]	**1,049,350**	22,469
Non-deductible stock-based payments	**117,199**	167,866
Adjustments in respect of prior years	**319,649**	328,156
Non-deductible items	**30,789**	62,660
Other	**(18,852)**	(40,040)
Total income tax charge (recovery)	**1,145,755**	(654,351)

(a) On December 22, 2017, the President of the United States signed into law the *Tax Cuts and Jobs Act* ("U.S. Tax Reform"). The U.S. Tax Reform reduced the U.S. federal corporate income tax rate from 34% to 21%, effective January 1, 2018. As a result of the U.S. Tax Reform, the Corporation's net deferred tax asset at June 30, 2018 decreased by $1.0 M.

The U.S. Tax Reform introduces other important changes in the U.S. corporate income tax laws that may significantly affect the Corporation in future years including, a 100% first year deduction for qualified property, and limitations to the deduction for net interest expense incurred by U.S. corporations. Future regulations and interpretations to be issued by U.S. authorities may also impact the Corporation's estimates and assumptions used in calculating its income tax provisions.

Deferred tax assets and liabilities

As at June 30,	2018	2017
	$	$
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	**3,003,173**	4,179,078
Deferred tax liabilities	**(887,743)**	(1,096,137)
Net deferred tax assets	**2,115,430**	3,082,941

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

	Balance as at July 1, 2017	Recognized in earnings	Recognized in equity	Balance as at June 30, 2018
	$	$	$	$
Non-capital losses	275,857	326,979	12,778	**615,614**
Property, plant and equipment	(287,046)	26,581	(3,516)	**(263,981)**
Intangible assets	(809,093)	244,683	(5,385)	**(569,795)**
U.S. interests not deducted and deferred	3,007,643	(1,737,423)	(2,057)	**1,268,163**
Other assets	895,580	151,428	18,421	**1,065,429**
	3,082,941	**(987,752)**	**20,241**	**2,115,430**

	Balance as at July 1, 2016	Recognized in earnings	Recognized in equity	Balance as at June 30, 2017
	$	$	$	$
Non-capital losses	1,081,705	(826,914)	21,066	275,857
Property, plant and equipment	(170,703)	(117,836)	1,493	(287,046)
Intangible assets	(1,262,473)	468,330	(14,950)	(809,093)
U.S. interests not deducted and deferred	2,413,884	594,071	(312)	3,007,643
Other assets	204,814	704,059	(13,293)	895,580
	2,267,227	**821,710**	**(5,996)**	**3,082,941**

At June 30, 2018, the Corporation had the following tax losses carried forward available to reduce taxable income in the future, and investment tax credits carryovers to reduce income tax payable, and in respect of which the Corporation has not recognized a deferred tax on those from Canada.

Tax losses carried forward expire as follows:	Date	Canada	USA
		$	$
	2026	69,000	
	2027	1,924,000	-
	2028	2,619,000	-
	2029	1,000	-
	2030	672,000	804,000
	2032	-	796,000
	2033	-	631,000
	2034	2,612,000	-
	2035	205,000	-
	2036	305,000	295,000
	2037	2,567,000	241,000
	2038	1,279,000	-
		12,253,000	**2,767,000**

Investment tax credits expire as follows	Date	Canada
	2021	9,000
	2022	76,000
	2023	141,000
	2024	51,000
	2026	36,000
	2027	22,000
	2028	38,000
	2029	6,000
	2030	21,000
	2031	21,000
	2033	29,000
		450,000

The ability to realize the tax benefits from these losses and investment tax credits is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses and investment tax credits arose. Deferred tax assets are recognized in respect of tax losses and other temporary differences giving rise to deferred tax assets only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered.

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

As at June 30, 2018	Canada	United States
	$	$
Tax losses carried forward	**12,253,000**	**-**
Capital losses	**254,381**	**-**
Research and development expenses	**2,325,951**	**-**
Property, plant and equipment	**7,345,783**	**-**
Financing and share issue expenses	**898,415**	**-**
Others	**94,807**	
	23,172,337	**-**

As at June 30, 2017	Canada	United States
	$	$
Tax losses carried forward	10,955,607	-
Capital losses	249,649	-
Research and development expenses	2,374,112	-
Property, plant and equipment	7,439,069	-
Financing and share issue expenses	1,327,129	-
	22,345,566	-

19. 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 5) and to support its working capital.

Share capital

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

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

Stock options

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

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

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

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

For the year ended June 30, 2018, the amount recorded as stock-based compensation for options granted to its directors, officers and key employees is $438,165 ($627,526 in fiscal year 2017).

The following table summarizes the situation of the Corporation's stock-based compensation plan as at June 30, 2018 and June 30, 2017 and the change during the years ended on these dates:

Years ended June 30,		**2018**		2017
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**2,565,334**	**1.75**	262,000	2.64
Granted	**-**	**-**	2,303,334	1.65
Forfeited	**(11,000)**	**2.50**	-	-
Outstanding - End of year	**2,554,334**	**1.75**	2,565,334	1.75
Exercisable – End of year	**538,917**	**2.11**	262,000	2.22

The range of exercise prices for options outstanding at the end of the year was $1.65 to $3.75 ($1.65 to $3.75 in fiscal year 2017).

As at June 30, 2018, the following stock options were granted:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)
$			
3.75	Directors	25,000	1.41
3.75	Directors	4,000	2.04
2.50	Employees	188,000	2.37
2.50	Directors	34,000	2.23
1.65	Employees	2,303,334	6.08
		2,554,334	5.69

20. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	2018	2017
	$	$
Material	**35,742,142**	27,805,133
Salaries and fringe benefits	**42,894,346**	41,096,787
Subcontractors and professional fees	**8,132,443**	3,662,930
Rent, electricity, insurance and office expenses	**2,150,832**	2,256,559
Telecommunications and travel expenses	**4,375,534**	3,615,283
Bad debt expenses	**108,748**	-
Stock-based compensation	**438,165**	627,526
Other expenses	**2,314,514**	2,944,719
Total cost of goods sold, operating, selling and administrative expenses and research and development expenses	**96,156,724**	82,008,937
Depreciation	**1,138,636**	1,336,729
Amortization	**2,811,293**	3,208,599
Costs including depreciation and amortization	**100,106,653**	86,554,265

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its consolidated statement of loss, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, operating expenses, selling expenses, 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 years ended June 30, 2018 and 2017 and ii) the amounts of cost of goods sold, operating expenses, selling expenses, administrative expenses and research and development expenses, if depreciation and amortization were allocated within those cost categories.

Depreciation of property, plant and equipment by function

Years ended June 30,	2018	2017
	$	$
Cost of goods sold	**972,773**	1,167,411
Operating expenses	**2,989**	2,868
Selling expenses	**39,813**	39,553
Administrative expenses	**123,061**	126,897
	1,138,636	1,336,729

Amortization of intangible assets by function

Years ended June 30,	2018	2017
	$	$
Cost of goods sold	**450,949**	584,983
Selling expenses	**2,234,981**	2,529,944
Administrative expenses	**125,363**	93,672
	2,811,293	3,208,599

Cost per function including depreciation and amortization

Years ended June 30,	**2018**	2017
	$	$
Cost of goods sold	**78,985,251**	65,359,522
Operating expenses	**4,006,615**	1,918,869
Selling expenses	**10,347,962**	9,734,996
Administrative expenses	**6,758,140**	9,387,929
Research and development expenses	**8,685**	152,949
	100,106,653	86,554,265

c) Other losses (gains) – net

Years ended June 30,	**2018**	2017
	$	$
Unrealized exchange (gain) loss	**(35,535)**	14,182
Realized exchange loss (gain)	**73,385**	(57,809)
Other losses (gains) (a)	**107,473**	(38,322)
(Gain) on settlement for containerized unit	**-**	(265,000)
(Gain) on disposal of property, plant and equipment	**(23,792)**	(20,678)
	121,531	(367,627)

(a) During the first quarter of fiscal year 2018, the Corporation was victim of an external fraud perpetrated through its banking online platform, which led to a net loss of $443,364.

During fiscal year 2018, the Corporation recognised a gain of $232,683 on the change in fair value of a contingent consideration, related to the acquisition of Clearlogx during the fiscal year 2016. The contingent consideration recorded at June 30, 2017 has not been paid by the Corporation.

21. Net loss per share

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

Years ended June 30,	**2018**	2017
Net loss	**($3,448,830)**	($5,130,986)
Basic and diluted weighted average number of share outstanding	**40,144,214**	38,674,011
Items excluded from the calculation of diluted net loss per share because the exercise price was greater than the average market price of the common shares		
Stock options	**2,554,334**	2,565,334

For the years ended June 30, 2018 and 2017, there was no difference in the basic and diluted weighted average number of shares outstanding, since the effect of the stock options would have been anti-dilutive. Accordingly, the diluted loss per share for these years is calculated using the basic weighted average number of shares outstanding.

22. Cash flows

Cash and cash equivalents consist of the following:

As at June 30,	2018	2017
	$	$
Beginning of year		
Cash and cash equivalents	**3,870,603**	3,051,870
Bank overdraft	**(184,120)**	(520,208)
	3,686,483	2,531,662
End of year		
Cash and cash equivalents	**1,997,896**	3,870,603
Bank overdraft	**(259,951)**	(184,120)
	1,737,945	3,686,483

23. Financial risk management

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

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

Overview

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

	Risks			
	Market risks			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	X	X	X	
Guaranteed deposit certificates		X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank overdraft	X	X		X
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X

Currency risk

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

As at June 30, 2018, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar or EURO currency, assuming that all other variables remained constant, net loss for the year ended June 30, 2018 would have been greater or lesser by approximately $269,595 ($365,802 for the year ended June 30, 2017).

The financial assets and liabilities denominated in a foreign currency included in the Canadian entities are as follows:

As at June 30,	**2018**	2017
	$	$
FINANCIAL ASSETS		
Cash and cash equivalents	**132,963**	484,530
Accounts receivable	**1,160,955**	621,266
	1,293,918	1,105,796
FINANCIAL LIABILITIES		
Bank overdraft	**(158,926)**	(15,582)
Bank loans	**(4,021,081)**	(4,103,377)
Accounts payable and accrued liabilities	**(1,165,013)**	(2,572,604)
Long-term debt	**(1,272,907)**	(1,730,266)
	(6,617,927)	(8,421,829)

Cash flow and fair value interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the cash and cash equivalents, guaranteed deposit certificates, related party loans receivable, bank overdraft, bank loans and long-term debt. The Corporation does not use derivatives to cover this risk.

The guaranteed deposit certificates, the related party loans receivable and the unsecured loans bear interest at fixed rates and are accounted for at amortized cost. The Corporation is, therefore, not exposed to the risk of cash flows, however is exposed to changes in fair value resulting from interest rate fluctuations.

The bank loans, the long-term debt and the bank overdraft bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations.

As at June 30, 2018 and 2017, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net loss and comprehensive loss. These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and establishes an allowance for doubtful accounts based on specific customer information and general historical trends. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. As at June 30, 2018, the allowance for doubtful accounts was $92,636 (nil as at June 30, 2017).

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

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

As at June 30,	2018	2017
	$	$
Cash and cash equivalents	**1,997,896**	3,870,603
Guaranteed deposit certificates	**256,677**	1,371,591
Accounts receivable, net of tax credits receivable	**17,805,425**	13,164,948
Other assets	**378,947**	563,564
Related party loans receivable	**1,250,000**	1,250,000

The Corporation holds cash and guaranteed deposits certificates with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares (see note 27a) that the Corporation considers at a low risk for loss.

The table below summarizes the aging of trade accounts receivable:

As at June 30,	2018	2017
	$	$
Current	**6,600,165**	4,706,358
Past due 1 to 30 days	**4,045,204**	1,399,913
Past due 31 to 90 days	**2,279,029**	2,344,076
Past due more than 90 days	**1,639,410**	1,573,639
	14,563,808	10,023,986
Less: Allowance for doubtful accounts	**(92,636)**	-
Trade accounts receivable	**14,471,172**	10,023,986
Retentions from customers under project contracts	**2,627,875**	1,980,423
Tax credits receivable	**26,694**	45,527
Other receivables	**706,378**	1,160,539
	17,832,119	13,210,475

Liquidity risk

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

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

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

As at June 30, 2018	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	259,951	259,951	-	-	-
Bank loans	9,204,804	9,204,804	-	-	-
Accounts payable and accrued liabilities	13,370,160	13,370,160	-	-	-
Long-term debt	11,119,546	2,683,137	2,476,431	2,108,904	3,851,074
Total	**33,954,461**	**25,518,052**	**2,476,431**	**2,108,904**	**3,851,074**

As at June 30, 2017	Carrying amount	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank overdraft	184,120	184,120	-	-	-
Bank loans	5,092,607	5,092,607	-	-	-
Accounts payable and accrued liabilities	12,683,815	12,683,815	-	-	-
Long-term debt	13,052,941	2,617,460	2,469,857	2,369,485	5,596,139
Contingent consideration	232,683	-	232,683	-	-
Total	**31,246,166**	**20,578,002**	**2,702,540**	**2,369,485**	**5,596,139**

Fair value

The fair value of financial instruments is based on quoted market prices when an active market exists. Otherwise, it is estimated using techniques and valuation models, such as analysis of discounted cash flows for the long-term debt, for which the significant unobservable inputs used are the discount rates which reflects the Corporation's credit risk.

There was no transfer between the levels of fair value hierarchy during the year.

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

Financial instruments whose fair value approximates carrying value
Cash and cash equivalents, guaranteed deposit certificates, accounts receivable, other assets, related party loans receivable, bank overdraft, bank loans, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $10,077,068 ($11,185,104 as at June 30, 2017) and was determined to be a level 2 financial instrument.

24. 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 interest-bearing debt less cash. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

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

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios at fixed points in time. The financial ratios are, as at June 30, 2018:

- Working capital ratio, defined as current assets divided by current liabilities greater than or equal to 1.25:1.00;
- Debt-to-equity ratio, defined as total debt excluding deferred taxes divided by equity of less than or equal to 3.25:1.00; and
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures, as defined, greater than or equal to 1.00:1.00.

As at June 30, 2018 and June 30, 2017, 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 a waiver was received from the lender.

25. Commitments and contingencies

Leasing arrangements

Operating leases relate to leases of premises with lease terms of between 1 and 10 years. The Corporation has options to renew the leases for its premises for additional terms varying between 3 to 5 years. The Corporation does not have an option to purchase the leased premises at the expiry of the lease periods.

Future minimum rentals payable under non-cancellable operating leases as at June 30 are as follow:

Payments recognized as an expense

Years ended June 30,	**2018**	2017
	$	$
Minimum lease payments	**976,817**	819,791
	976,817	819,791

Non-cancellable operating lease commitments

As at June 30,	**2018**	2017
	$	$
Not later than 1 year	**976,817**	819,791
Later than 1 year and not later than 5 years	**3,049,659**	3,650,540
Later than 5 years	**76,528**	75,418
	4,103,004	4,545,749

Liabilities recognized in respect of non-cancellable operating leases

As at June 30,	**2018**	2017
	$	$
Deferred rent		
Non-current	**144,592**	93,060
	144,592	93,060

Commitments

As at June 30, 2018, the Corporation had commitments of $2,000,960 relating to purchase agreements with specific suppliers, distributed among the following years: $1,100,480 in 2019 and $900,480 in 2020.

Legal claim contingency

Various claims and legal proceedings have been initiated against the Corporation in the normal course of its operating activities. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any payments resulting from their outcome are not likely to have a substantial negative impact on the Corporation's consolidated financial statements. The Corporation limits its exposure to some risks of claims related to its activities by subscribing to insurance policies.

26. Segment information

Products from which reportable segments derive their revenues

For management purposes, the Corporation is organised into business units based on its products and services. 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 year for the continuing operations.

Years ended June 30,	**2018**	2017
	$	$
Revenues from specialty products and services	**33,932,458**	29,487,693
Project contracts revenues	**29,828,139**	20,048,858
Operation and maintenance revenues	**35,907,528**	33,227,957
	99,668,125	82,764,508

Geographical information

The Corporation is domiciled in Canada. The result of its revenue from external customers in Canada is $20,710,390 ($20,156,723 in 2017), and the total revenue from external customers from other countries is $78,957,735 ($62,607,785 in 2017). Detailed information for the Corporation's markets is as follows:

Years ended June 30,	**2018**	2017
	$	$
Revenues from external customers		
Revenue according to geographic location		
Canada	**20,710,390**	20,156,723
United States	**70,267,525**	55,431,884
China	**2,444,234**	2,385,707
Spain	**1,742,216**	344,119
Korea	**1,576,569**	304,006
United Arab Emirates	**281,196**	503,299
Mexico	**234,824**	756,526
France	**-**	424,045
Other	**2,411,171**	2,458,199
	99,668,125	82,764,508

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

As at June 30,	**2018**	2017
	$	$
Non-current assets other than financial instruments and deferred tax assets according to geographic location		
Canada	**6,882,661**	6,090,837
United States	**31,130,134**	32,796,953
	38,012,795	38,887,790

Information about major customers

For the fiscal years ended June 30, 2018 and June 30, 2017, no customer accounted for more than ten percent (10%) of its revenues.

27. Related parties disclosure and remuneration

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 non-brokered private placement (notes 5 and 19). 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 $1,354,167 as at June 30, 2018 ($1,375,000 as at June 30, 2017).

An amount of $31,165 was paid to the Corporation in regards of these loans and recorded as finance income in the consolidated statements of loss for the year ended June 30, 2018 ($29,110 for the year ended June 30, 2017).

b) Compensation of executive officers and Board of Directors

The remuneration of executive officers and members of the Board of Directors during the years was as follows:

Years ended June 30,	**2018**	2017
	$	$
Short-term benefits [1]	**1,389,013**	1,536,312
Post-employment benefits [2]	**123,050**	112,384
Share-based payments	**438,165**	627,526
	1,950,228	2,276,222

[1] Short-term benefits include mainly wages, salaries, bonuses and other non-monetary benefits.
[2] Post-employment benefits include the Corporation's share purchase plan contribution and the deferred profit sharing plan.

The amounts disclosed in the table are the amount recognised as an expense during the reporting period related to the executive officers and members of the Board of Directors.

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

28. Events after the reporting period

During fiscal year 2018, the Corporation was in negotiation with its banking and financial partners to amend its credit facilities and to consider the growth of the Corporation in the assessment of such credit facilities. On July 9, 2018, the Corporation temporarily increased its first credit facility by $5,000,000, payable on demand, expiring on October 5, 2018. This temporary tranche of the credit facility bears interest at CDN prime rate plus 2.5% for advance drawn in CDN $ and at US prime rate plus 2.5% for advance drawn in US $. As of September 24, 2018, the use by the Corporation of the credit facilities described in note 13 amounts to $9,000,000, which is below the authorized amount as of June 30, 2018 of $9,450,000.

As of the date of issuance of the financial statements, the Corporation pursues its negotiations with its banking and financial partners to amend and potentially renew its credit facilities.

GENERAL INFORMATION

Board of Directors

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

Management

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

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

Advisory Members
Operation and Maintenance Committee

Elisa Speranza
Leonard Graziano

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

Independent Auditors
Ernst & Young LLP

Transfer Agent
AST Trust Company (Canada)

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