ANNUAL REPORT

Fiscal year ended on June 30, 2021

For additional information:
Investor Relations
investor@h2oinnovation.com

Trading symbols:
TSX Venture: HEO
Growth Paris: 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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A WORD FROM THE PRESIDENT

FY2021 was exceptional in many ways. Not only have we delivered our best financial performance with significant profitability improvement, but we achieved that while dealing with an unprecedented pandemic challenging all aspects of our lives. We have had to reinvent ourselves and develop new ways to interact and lead our business. Through this all, we realized that water is truly essential and that our business model is sound, robust, and resilient.

I'm particularly proud of our team and what we have achieved as a company during the last fiscal year. We kept the business going without interruption, and in the safest possible manner, and continued to grow organically while completing two acquisitions, one to consolidate our O&M service activity in Texas, and a second one to complement our specialty chemicals and laboratory services offering, expanding our reach in Spain and Latin America.

On the heels of a decisive reorganization and refocus, our WTS business pillar continues to strive for capital equipment project margin improvement and higher aftermarket service revenues. We have also efficiently realized the consolidation of three O&M brands and entities to capture operational synergies, business efficiency and global brand recognition.

Despite extraordinary COVID-19 restrictions, our specialty products business pillar continued to demonstrate strong performance on all fronts with increasing revenues in most business lines, product innovation, sales distribution network expansion and most impressively, high-quality products continuously manufactured and delivered without interruption in more than 75 countries.

At the Annual Meeting of Shareholders in December 2020, we revealed for the first time our 3-Year Strategic Plan to all our stakeholders. It was the occasion for us to present our ambitious plan to grow the business organically and through acquisitions between $175 M and $250 M. As part of that plan, we announced our intention to improve our adjusted EBITDA performance above 11% by the end of FY2023 and presented key strategic objectives.

At this occasion, we also revealed our Playbook, comprised of four themes on which we intend to compete enthusiastically for customers, talent, and shareholders.

First, we must delight our customers and continuously strive for higher customer satisfaction to build long-term relationships and increase recurring business. Our three distinct but complementary business pillars promote client retention and sales synergies, providing recurring business which accounted for 87% of our consolidated revenues in FY2021.

Second, we must retain our customers and capture new ones by pushing for innovation, challenging the status quo and delivering world-class technology solutions through our products and services. Our WTS and Specialty Products groups have been particularly opportunistic to develop new products and technologies to differentiate ourselves and strengthen our offering.

By continuously reinventing ourselves and pursuing improvements in our business processes, we relentlessly strive for operational excellence which will enable us to become leaner and better integrated. Properly integrating our acquired O&M companies has positioned our O&M business pillar to capture every day operational improvements and logistical efficiency, while standardizing best practices across the pillar. We seek to leverage synergies, optimizing our cost structure and sales channels.

To execute this plan and its ambitious objectives, team engagement is key. Coming out of the COVID-19 crisis, we realized how valuable relationships are despite limited physical interaction and how we can adapt to new business conditions. We also recognized that we need social interaction. We need to belong to a group, a family, a clan or an organization. H_2O Innovation's strong company values and culture are among our most important assets and have allowed us to navigate during this turbulent period with confidence and commitment. I want to thank our 700+ employees for their continuous resilience in adapting to an ever-changing environment, and their amazing courage to always face adversity. You stood tall and have enabled us to perform and ensure the continuity of services and supply of products to hundreds of customers and millions of citizens.

In one of the highlights from the past year, the Corporation announced in October 2020 that it won the Water Company of the Year award at the 2020 Global Water Awards. This is the highest honor in the international water treatment industry and the first time a Canadian company has received this award. This prize testifies to the success of our business within the global water industry and celebrates the hard work of our team through the years.

Considering these results and overall achievements in one of the most challenging times of our history, we have proven how strong our business model is, how meaningful our team is and how well aligned we are with our 3-Year Strategic Plan and financial objectives.

The future is looking bright and very promising for us. The stimulus money coming from Biden water infrastructure plan should allow us to bid on several new project opportunities in the United States. Furthermore, the desalination and the water reuse markets are high-growth potential sectors where we will focus our efforts. We also are well positioned to help the Canadian First nations with their potable water issues.

Thank you to our shareholders for your continuous trust and support.

Frédéric Dugré
President and CEO

H_2O INNOVATION AT A GLANCE

As a complete solution provider, H_2O Innovation designs, manufactures and commissions customized membrane water treatment systems and provides operation and maintenance services as well as a complete line of specialty products such as chemicals, consumables, couplings, fittings and cartridge filters for multiple markets. In addition, H_2O Innovation provides a full range of maple equipment and products to maple syrup producers.

Whether it's for the production of drinking water and industrial process water, the reclamation and reuse of water, the desalination of seawater and/or the treatment of wastewater, the solutions provided by H_2O Innovation intend to combine the best available expertise with the most advanced membrane technologies and products. The Corporation's reliable, state-of-the-art, eco-friendly solutions are customer-focused and intended to streamline end-user costs, optimize the water treatment process, and maximize the efficiency, performance and longevity of water and wastewater treatment utilities.

Through its integrated solutions combining membrane filtration expertise, specialty products and operation and maintenance, H_2O Innovation is well positioned to address the needs that a customer may have and to **maximize customer's retention.**

Water is vital and complex. We simplify water by integrating leading technologies and a trusted team of experts into intelligent solutions, solving water for good. Through innovation and operational excellence, we empower our team to delight our customers and transform our industry while protecting a vital resource: Water.

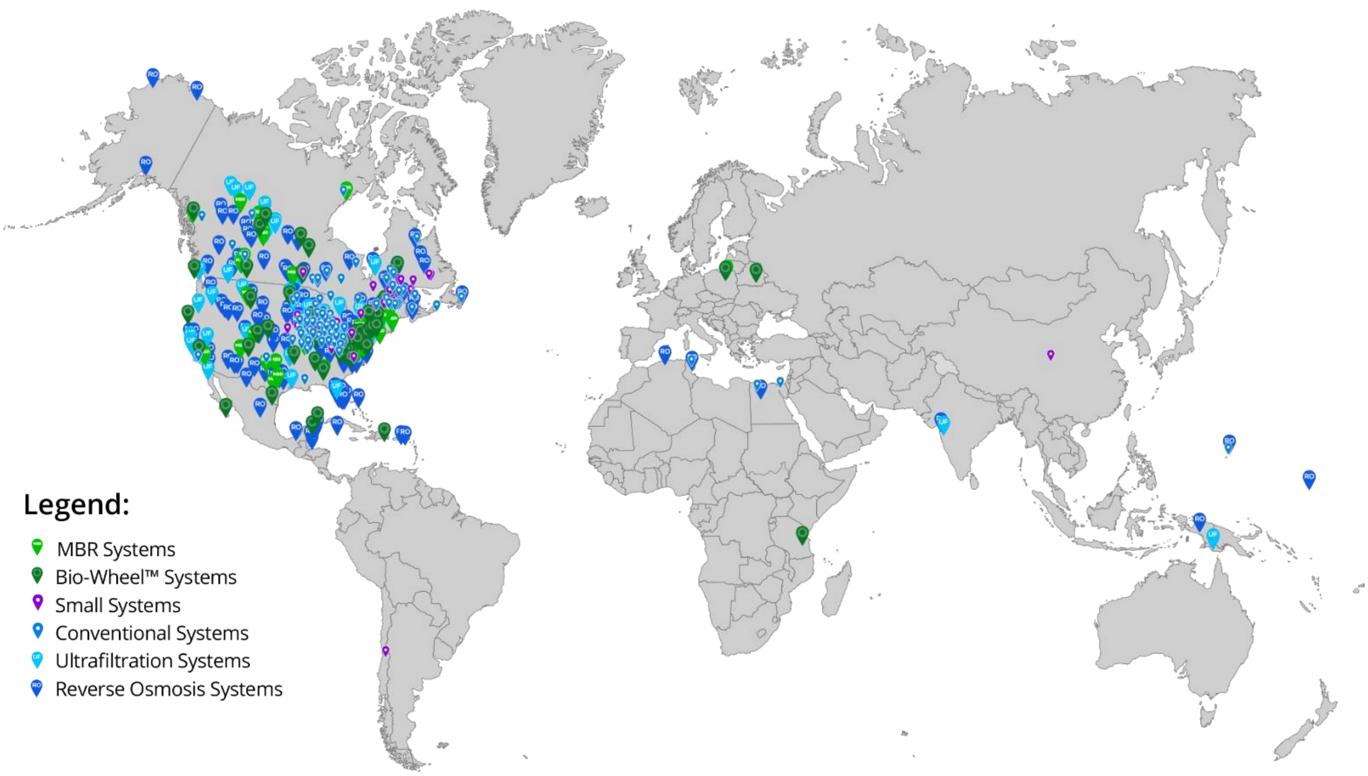
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+700	**+750**	**+75**	**+275**

WATER TECHNOLOGIES AND SERVICES ("WTS")

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, aftersales services as well as smart digital solution (Intelogx™) to monitor and optimize water treatment plants.

H_2O Innovation has now installed more than 750 systems in North America, including all range of applications (drinking water, wastewater, desalination, water reuse, etc.). The Corporation has also developed its own open-source technologies for water treatment systems, the FiberFlex™, and for wastewater treatment systems, the flexMBR™ and the SILO™ (Simple*Independent*Level-Base*Operation).

REFERENCE MAP

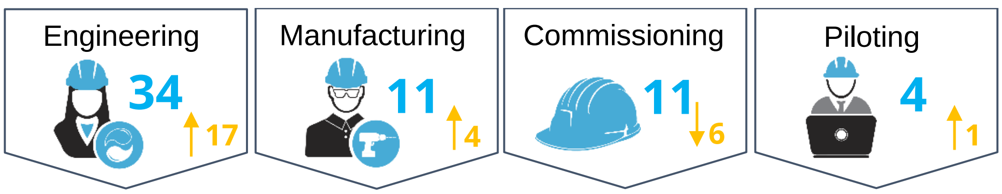


1st PILLAR HIGHLIGHTS

- Throughout the 2021 fiscal year, the WTS business pillar continued its industrial diversification with multiple industrial projects, notably for the largest electric vehicle manufacturing in the U.S., as well as a variety of municipal capital equipment projects for drinking water, wastewater and water reuse. On June 30, 2021, the capital equipment projects for industrial customers represented 26.3 % of the backlog, whereas 73.7 % were dedicated to municipal customers.

- In April, the WTS team manufactured their first **SILO packaged plant** at the Minnesota facility and shipped it for an industrial client in Iowa.

- As the world is slowly getting back to normal, the WTS team resumed attending **tradeshows** in person. It was great to be back and to meet new clients at Fuel Ethanol Workshop in Minnesota and Membrane Technology Conference in Florida.



SPECIALTY PRODUCTS ("SP")

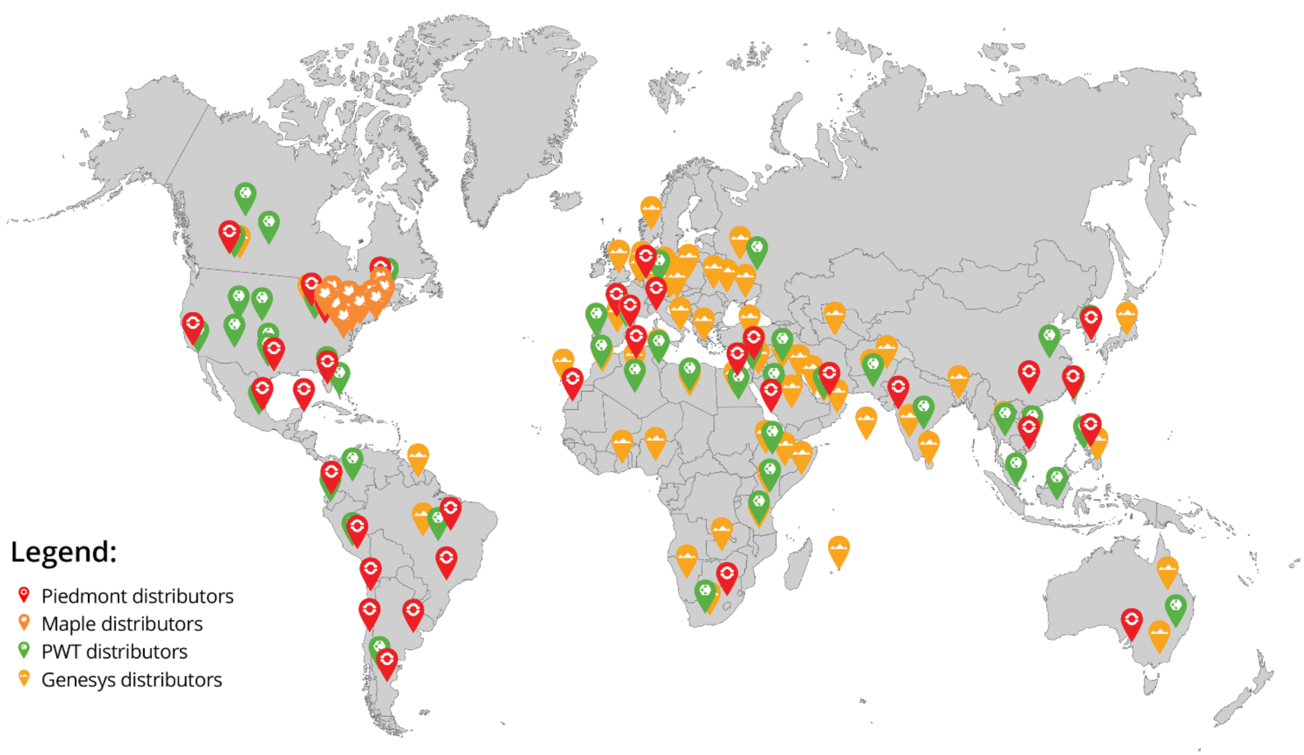
H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry and maple equipment and products through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 75 countries.

PWT and Genesys, our Specialty Chemicals Group, focus on chemical manufacturing and supply for the membrane industry, with a product line developed around its unique dendrimer-based phosphate-free, antiscalant chemistry for scale and fouling control as well as manufacturing its own range of specialty reverse osmosis (RO) membrane chemicals, including antiscalants, flocculants, biocides and cleaning chemicals.

Piedmont is a global leader in corrosion resistant equipment for desalination plants and offers flexible grooved-end couplings, fiberglass reinforced polyester (FRP) cartridge filter housings, self-cleaning disc and screen filters, bag filters, cartridges, and strainers.

H_2O Innovation Maple offers a complete line of equipment dedicated to maple syrup production to help the maple producers increasing their syrup production while reducing their energy consumption and improving efficiency.

DISTRIBUTION NETWORK



2nd PILLAR HIGHLIGHTS

- From October 20 to October 28, 2020, **Genesys** hosted a virtual conference with its key account managers from the **Middle East**. It was essential to find way to **virtually** come together in order to keep the troops motivated and engaged. It was also an opportunity for Piedmont and PWT to meet the distributors which led to cross-selling synergies.

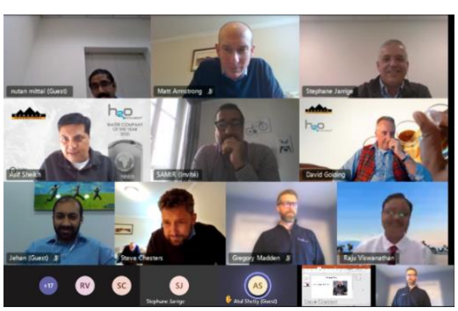
- On February 1, 2021, the Corporation announced the **acquisition** of the remaining 76% of the issued and outstanding shares of **Genesys Membrane Products, S.L.U.** ("GMP"), located in **Madrid, Spain**. The Corporation had taken a 24% ownership stake in GMP through the acquisition of Genesys in the UK on November 15, 2019. The goal of this acquisition is to build the world's largest membrane specialty chemicals and associated services supplier sold through a large distribution network.

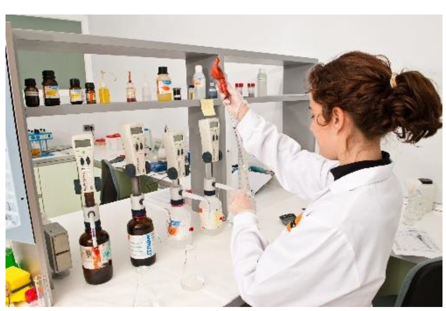
- On March 2, 2021, H_2O Innovation and its subsidiary Genesys **obtained two new ISO certifications**, demonstrating its continued commitment to respecting and promoting health and safety at work. The first, ISO 22301, ensures that the team can operate efficiently despite interruptions like COVID-19. This certification signals the focus on best practices with respect to business continuity. Because of procedures in place, Genesys continues to deliver its specialty chemicals from its facilities in Cheshire, UK, to more than 75 countries around the world. The second certification, ISO 45001, promotes physical and mental health with the goal of reducing injuries work absenteeism. As part of the Corporation's 3-Year Strategic Plan announced in November 2020, one of the main objectives is to create a safer working environment with top tier health, safety and environmental ("HSE") practices. The well-being of the Corporation's employees and the protection of the environment are priorities for H_2O Innovation and essential to its strong culture.

- On April 19, 2021, the Corporation announced the **expansion of its manufacturing plant** in **Ham-Nord** (Quebec) to respond to the **sustained growth** of its Maple business line and the anticipated increase in water treatment project sales. Following the conclusion of a lease agreement, the new 21,390 square-foot space, adjacent to the current plant, was ready on May 1, 2021.

- On May 3, 2021, H_2O Innovation announced the addition of a **new distributor in Brazil** to increase its presence in a key growing market along with the hiring of a Global Head of Water Reuse and Strategic Partnerships Manager with the focus of supporting, growing and strengthening our relationships with LATAM key accounts and distributors of specialty products made by PWT, Genesys and Piedmont.

- All year long, our business line Managing Directors are collaborating in many ways to develop comprehensive solutions for our customers around the world. Many examples of **real synergies** and **integration opportunities** – between Genesys and Piedmont, and between Genesys, PWT, and our WTS business line have been captured. These synergies resulted in creating **added value** for our customers and higher retention, thus recurring sales. These types of synergies are also a clear focus of our 3-Year Strategic Plan presented in December 2020.



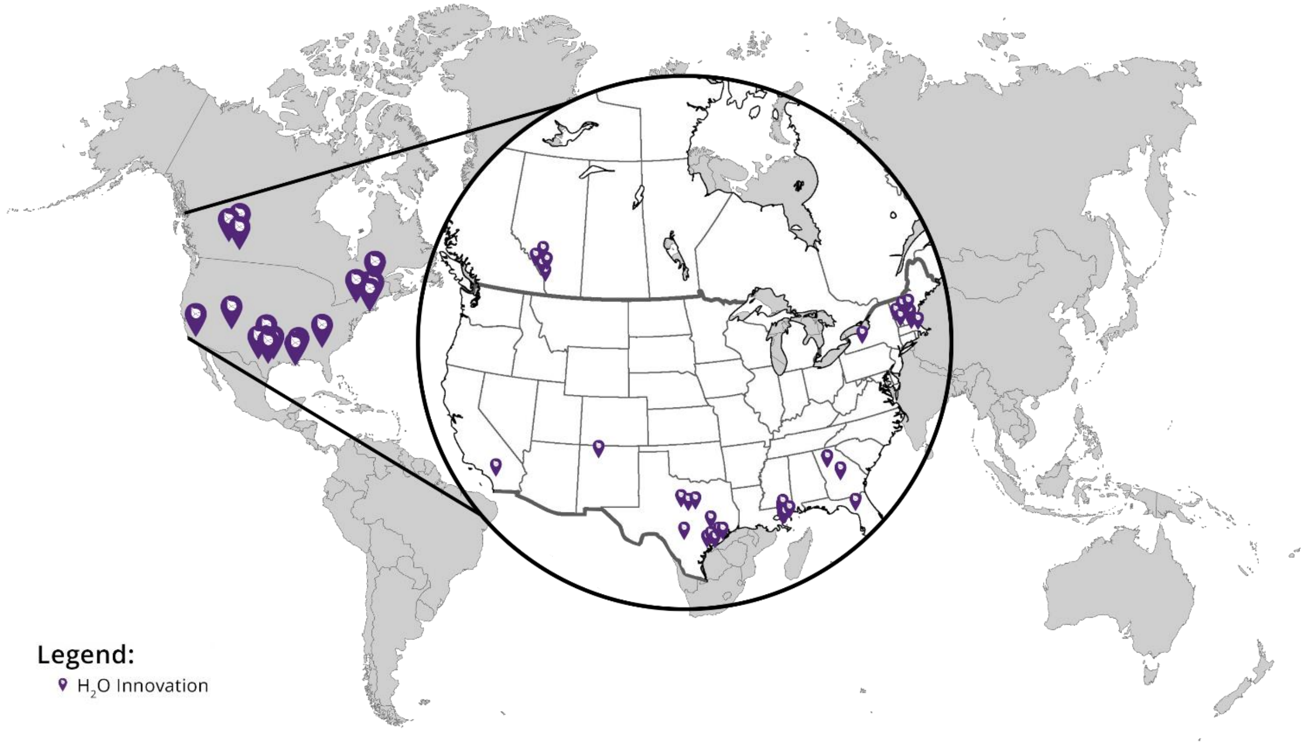


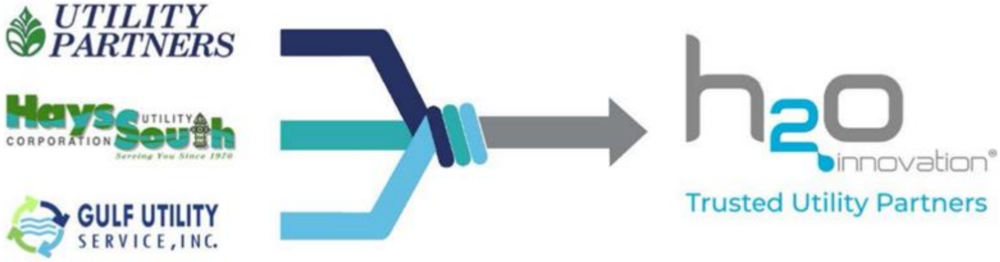
OPERATION AND MAINTENANCE (“O&M”)

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all its clients and ensures that water quality meets regulatory requirements. Its three business lines dedicated to operation and maintenance, Utility Partners, Hays Utility South Corporation, and Gulf Utility Services have merged during this fiscal year to become H_2O Innovation Operation & Maintenance, LLC.

H_2O Innovation operates more than 275 utilities in two Canadian provinces and twelve US states, mainly on the US Gulf Coast, Southeast, Northeast (New England) and the West Coast.

REFERENCE MAP





3rd PILLAR HIGHLIGHTS

- On July 2, 2020, the Corporation announced the **acquisition of Gulf Utility Service, Inc.** (“GUS”), a company offering complete operation, maintenance and management services to water and wastewater infrastructures for different types of clients such as municipalities, municipal utility districts (commonly known as MUD) and public water systems in the State of **Texas** (United States).

- On December 1, 2020, the Corporation announced that its three business lines dedicated to operation and maintenance services (“O&M”), **Utility Partners, LLC** (“UP”), **Hays Utility South Corporation** (“Hays”) and **Gulf Utility Service, inc.** (“GUS”) are merging to **become H_2O Innovation Operation & Maintenance, LLC**. To continue growing the O&M business pillar and keep acquiring similar companies, management determined it would be best to bring everything under one roof. The services offered by the three companies will not change and the teams will remain intact. It is about creating a united team with a **collective vision** and a **common goal** in mind. The merger will allow the Corporation to generate additional savings, to streamline the business processes and to solidify the O&M platform for future acquisitions and organic growth opportunities.

- In April 2021, the O&M business pillar located in Texas faced an important **freeze** creating multiple damage to our customers’ water and wastewater infrastructure. Through this terrible and unseen crisis, our team faced the adversity of mother nature and ensure the continuity of services to our customers despite a state of emergency. The **remarkable work** of our employees during this severe weather conditions showed the level of care, experience and commitment that we continuously provide to our clientele.

H_2O Innovation was **awarded 4** new O&M contracts and **renewed 7** existing ones during FY2021. The O&M business pillar was able to expand its business in the state of Florida with a first O&M long-term contract.

MANAGEMENT'S
DISCUSSION AND ANALYSIS

For the year ended
June 30, 2021

For additional information:
Investor Relations
investor@h2oinnovation.com

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the years and the quarterly period ended June 30, 2021, and 2020. This MD&A should be read in conjunction with the consolidated financial statements and the accompanying notes for the year ended June 30, 2021.

In this MD&A, "H_2O Innovation", the "Corporation", or the words "we", "our" and "us" refer to either H_2O Innovation Inc. as a group, or to each of the business pillar, depending on the context.

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

Additional information about H_2O Innovation, including our 2021 Annual Information Form, is available on our website at www.h2oinnovation.com and on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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 include the use of the words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terms as well as those usually used in the future and the conditional, notably regarding certain assumptions as to the success of a venture. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined and are based on the estimates and opinions of management on the date the statements are made.

In this MD&A, such forward-looking statements include, but are not limited to, statements regarding the Corporation's ability to grow its business and to reach specific financial objectives and targets and involve several risks and uncertainties. Those risks and uncertainties include, without limitations, the Corporation's ability to maintain its financial position and its business improvements and to complete, deliver and execute projects and deliveries, in due time and as expected by the customers, despite the challenges and impacts of the COVID-19 pandemic. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 27, 2021 available on SEDAR (www.sedar.com).

Should one or more of these risks or uncertainties materialize, or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. 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.

NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS, as listed below. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report. Even though these measures are non-IFRS measures, they are used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the Generally Accepted Accounting Principles ("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. The following non-IFRS indicators are used by management to measure the performance and liquidity of the Corporation:

- Earnings before interests, income taxes, depreciation and amortization ("EBITDA")
- Adjusted earnings before interests, income taxes, depreciation and amortization ("Adjusted EBITDA")
- Earnings before administrative costs ("EBAC")
- Adjusted net earnings
- Adjusted net earnings per share (''Adjusted EPS'')
- Net debt including and excluding contingent considerations
- Net debt-to-Adjusted EBITDA ratio
- Recurring revenues by nature
- O&M contracts renewal rate (%)

Definition of all non-IFRS measures and additional IFRS measures are provided in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management. In addition, when applicable, the Corporation presents a quantitative reconciliation of the non-IFRS measure to the most directly comparable measure calculated in accordance with IFRS. Refer to Section "Non-IFRS financial measurements" on page 34 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used.

KEY FINANCIAL HIGHLIGHTS

For the year ended June 30, 2021
Compared with the year ended June 30, 2020

Revenues	Recurring Revenues (3)	Recurring Revenues (3)(4) (%)	Consolidated Backlog
$144.3 M	**$126.1 M**	**87.3 %**	**$102.3 M**
↑ $10.7 M or 8.0 %	↑ $11.0 M from $115.1 M	↑ from 86.2 %	↓ 15.8 % from $121.5 M

Gross profit margin (1)	SG&A (2)	Adjusted EBITDA (3)	Adjusted EBITDA (3) (%)
27.7 %	**17.7 %**	**$14.6 M**	**10.1 %**
↑ from 26.9 %	↓ from 17.8 %	↑ 16.9 % from $12.5 M	↑ from 9.4 %

Net earnings (loss)	Adjusted net earnings (3)	Cash flows from operating activities	Net debt (3)
$3.1 M Or 0.039 per share (5)	**$6.5 M** Or 0.081 per share (3)(5)	**$7.3 M**	**$0.5 M** Ratio net debt/Adjusted EBITDA of 0.03
↑ from ($4.2 M)	↑ 20.6 % from $5.4 M	↓ 41.6 % from $12.5 M	↓ 95.2 % from $10.5 M

(1) Gross profit margin presented before depreciation and amortization expenses.
(2) Selling, general operating and administrative expenses (SG&A).
(3) These are non-IFRS financial measures defined below and accompanied by a reconciliation to the most directly comparable IFRS financial measure. Refer to the section “Non-IFRS financial measurements” at page 34.
(4) % of total revenues.
(5) Calculated using the basic weighted average number of shares outstanding.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements	Three-month periods ended June 30,				Years ended June 30,			
	2021		2020		**2021**		2020	
	$	**%** (1)	$	% (1)	**$**	**%** (1)	$	% (1)
Revenues per business pillar								
WTS	**7,074**	**20.1**	6,982	19.4	**30,355**	**21.0**	29,298	21.9
Specialty products	**10,334**	**29.4**	11,716	32.6	**43,920**	**30.4**	40,175	30.1
O&M	**17,796**	**50.5**	17,281	48.0	**70,049**	**48.6**	64,124	48.0
Total revenues	**35,204**	**100.0**	35,979	100.0	**144,324**	**100.0**	133,597	100.0
Revenues per geographic location								
Canada	**3,824**	**10.9**	3,564	9.9	**19,249**	**13.3**	16,327	12.2
United States	**23,414**	**66.5**	22,159	61.6	**96,634**	**67.0**	90,247	67.6
Others	**7,966**	**22.6**	10,256	28.5	**28,441**	**19.7**	27,023	20.2
Total revenues	**35,204**	**100.0**	35,979	100.0	**144,324**	**100.0**	133,597	100.0
Recurring revenues (2)	**30,980**	**88.0**	31,379	87.2	**126,050**	**87.3**	115,110	86.2
Gross profit margin (3)	**10,002**	**28.4**	10,598	29.5	**39,945**	**27.7**	35,908	26.9
Selling, general and administrative expenses ("SG&A")	**6,947**	**19.7**	6,016	16.7	**25,493**	**17.7**	23,748	17.8
Impairment of intangible assets and goodwill	**-**	**-**	-	-	**-**	**-**	5,308	4.0
Other losses (gains) – net	**(140)**	**(0.4)**	306	0.9	**2,012**	**1.4**	13	0.0
Acquisition and integration costs	**(7)**	**(0.0)**	85	0.2	**489**	**0.3**	1,912	1.4
Finance costs – net	**360**	**1.0**	529	1.5	**2,335**	**1.6**	2,037	1.5
Fair value gain on step acquisition	**4**	**0.0**	-	-	**2,351**	**1.6**	-	-
Net earnings (loss) for the period	**(195)**	**(0.6)**	813	2.3	**3,119**	**2.2**	(4,227)	(3.2)
Net earnings (loss) per share ("EPS"):								
Basic EPS	**(0.002)**	**-**	0.011	-	**0.039**	**-**	(0.061)	-
Diluted EPS	**(0.002)**	**-**	0.011	-	**0.034**	**-**	(0.061)	-
EBITDA (2)	**3,206**	**9.1**	3,954	11.0	**14,485**	**10.0**	4,690	3.5
Adjusted EBITDA (2)	**3,089**	**8.8**	4,832	13.4	**14,646**	**10.1**	12,524	9.4
Adjusted net earnings (2)	**457**	**1.3**	2,110	5.9	**6,471**	**4.5**	5,364	4.0
Adjusted EPS (2):								
Adjusted basic EPS (2)	**0.005**	**-**	0.027	-	**0.081**	**-**	0.078	-
Adjusted diluted EPS (2)	**0.005**	**-**	0.027	-	**0.071**	**-**	0.077	-

Financial position and Cash flows	**June 30, 2021**	June 30, 2020	Variation	
	$	$	$	%
Cash	**15,409**	9,439	5,970	63.2
Net debt excluding contingent considerations (2)	**507**	10,524	(10,017)	(95.2)
Net debt-to-Adjusted EBITDA ratio (2)	**0.03**	0.84	**-**	**-**
Consolidated backlog	**102,300**	121,500	(19,200)	(15.8)
Cash flows from operating activities	**7,284**	12,482	(5,198)	(41.6)

(1) % of total revenues.
(2) Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

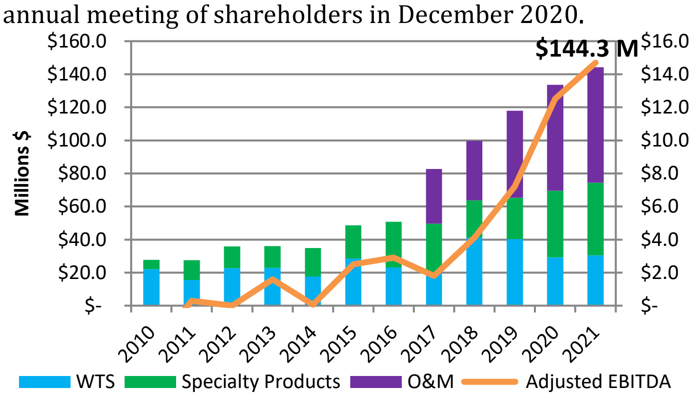
QUARTERLY FINANCIAL INFORMATION

(in thousands of Canadian dollars, except for per share values)	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	Year ended June 30, 2021
	Three-month periods ended				
	$	$	$	$	**$**
Revenues	**35,204**	39,155	34,969	34,996	144,324
EBITDA (2)	**3,206**	5,347	2,827	3,105	14,485
Adjusted EBITDA (2)	**3,089**	4,513	3,562	3,482	14,646
Adjusted EBITDA over revenues (2)	**8.8 %**	11.5 %	10.2 %	9.9 %	10.1 %
Net earnings (loss)	**(195)**	2,062	268	984	3,119
Basic EPS (1)	**(0.002)**	0.026	0.003	0.013	0.039
Diluted EPS (1)	**(0.002)**	0.023	0.003	0.013	0.034
Adjusted net earnings (2)	**457**	2,181	1,714	2,119	6,471
Adjusted basic EPS (1) (2)	**0.005**	0.027	0.022	0.029	0.081
Adjusted diluted EPS (1) (2)	**0.005**	0.024	0.019	0.028	0.071
Cash flows from (used in) operating activities	**(2,916)**	9,729	(666)	1,137	7,284

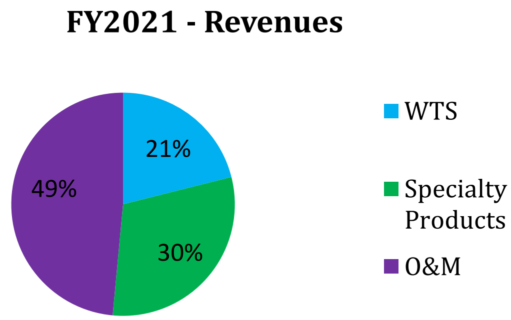
(in thousands of Canadian dollars, except for per share values)	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	Year ended June 30, 2020
	Three-month periods ended				
	$	$	$	$	**$**
Revenues	35,979	36,061	33,334	28,223	133,597
EBITDA (2)	3,954	(1,442)	1,113	1,065	4,690
Adjusted EBITDA (2)	4,832	3,754	2,313	1,625	12,524
Adjusted EBITDA over revenues (2)	13.4 %	10.4 %	6.9 %	5.8 %	9.4 %
Net earnings (loss)	813	(3,097)	(909)	(1,034)	(4,227)
Basic EPS (1)	0.011	(0.040)	(0.014)	(0.019)	(0.061)
Diluted EPS (1)	0.011	(0.040)	(0.014)	(0.019)	(0.061)
Adjusted net earnings (2)	2,110	2,310	875	69	5,364
Adjusted basic EPS (1) (2)	0.027	0.030	0.013	0.001	0.078
Adjusted diluted EPS (1) (2)	0.027	0.030	0.013	0.001	0.077
Cash flows from (used in) operating activities	9,781	883	(407)	2,225	12,482

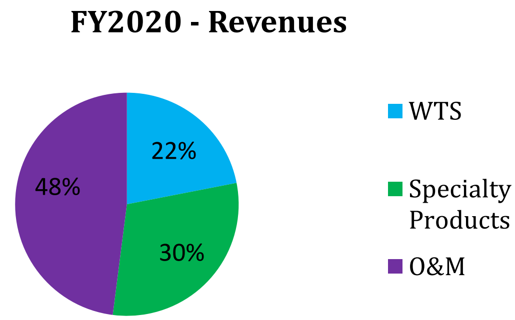
(1) Quarterly EPS are not additive and may not equal the annual EPS reported. This may be a result of the effect of shares issued on the weighted average number of shares, as well as the impact of dilutive options and warrants.
(2) Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

The significant growth of the Corporation and the scalability of the business model over the past year are clearly shown when comparing both twelve-month periods. Revenues for the last twelve months show an increase of 8.0 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Moreover, the adjusted EBITDA evolved from $12.5 M, or 9.4 % of revenues to $14.6 M, or 10.1 % in the last twelve months, representing a 16.9 % improvement over a twelve-month period. Such progression is aligned with our financial targets set in our 3-year strategic plan presented at the annual meeting of shareholders in December 2020.



CONSOLIDATED REVENUES





Despite the significant negative CAD-USD foreign exchange rate impact, consolidated revenues from our three business pillars, for the fiscal year ended on June 30, 2021, increased by $10.7 M, or 8.0 %, to reach $144.3 M compared to $133.6 M for the previous fiscal year. Assuming a constant USD exchange rate during this fiscal year, the consolidated revenues increase would have been 11.2 %, or $15.0 M. This overall increase was partially fuelled by the acquisition of GUS on July 1, 2020, which contributed $5.9 M in revenues, and the acquisition of GMP on February 1, 2021, which contributed $3.0 M in revenues for the year ended on June 30, 2021.

Revenues from the WTS business pillar increased by $1.1 M compared to the previous fiscal year. The increase was primarily due to the growth in service activities. The Corporation's willingness to grow first the service activities is in line with its 3-year strategic plan and aligned with its vision to maximize customers' retention, thus recurring revenues. With $4.5 M of new industrial and municipal projects secured at the end of the fourth quarter, revenues from the WTS business pillar are gaining positive momentum. It is in line with the Corporation's business plan to prioritize WTS' projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars.

The O&M business pillar was positively impacted by the acquisition of GUS and showed organic growth of $3.1 M, or 4.9 % this fiscal year, partly offset by an unfavourable USD exchange rate impact of $3.1 M. On July 2021, the Corporation announced it was awarded an O&M contract with a total value of $10.4 M over 4 years. This new contract should positively affect the coming quarters for the O&M business pillar.

Revenues from the Specialty Products business pillar increased by $3.7 M compared to last fiscal year, largely coming from acquisitions. Genesys, which was acquired on November 15, 2019, contributed $10.7 M to the revenues of fiscal year 2021, compared to $7.2 M for the previous fiscal year. During the third and fourth quarters of fiscal year 2020, Piedmont business line had exceptional deliveries which generated record revenues, while during the third and fourth quarters of this fiscal year, the number of deliveries for Piedmont business line was not at the same level, somehow impacted by a general slowdown in the construction of new desalination plants mainly due to the COVID-19 pandemic.

Our business model is allowing us to gain predictability and, through our integrated offering combining systems design and manufacturing to O&M and Specialty Products, we are maintaining long-term relationships with our customers. Hence, our recurring sales tend to increase continuously as we are commissioning new systems and adding new O&M contracts. Moreover, with the addition of Hays in FY2019 and more recently GUS, to the O&M business pillar, new opportunities are opening in a strategic geographical market such as the State of Texas. The GUS acquisition consolidates our position as operator of water and wastewater utilities in Texas and will allow us to capture synergies and more efficiency in our operations management, more specifically in the Greater Houston Area. The State of Texas is still rich in opportunities that we intend to capture with the help of our three business pillars: WTS, Specialty Products and O&M.

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. It demonstrates the robustness of our business model. Even though a business line may have volatility in its revenues caused by specific market conditions, the Corporation still manages to deliver growth and improve its profitability. As revenues coming from service activities, Specialty Products and O&M activities are more stable, the strategy to grow these revenues is proving to be efficient since it reduces volatility associated with the WTS business revenues and thus, increases predictability of the Corporation's business model. In order to strengthen our business model, the Corporation acquired Genesys, a leader in development and manufacturing of specialty chemicals for membrane filtration applications. This transaction, which was closed on November 15, 2019, strengthened H_2O Innovation's specialty chemicals business line in many ways. It enabled the Corporation to build a strong portfolio of products by combining the strengths of both the phosphonate and dendrimer chemistry. This extended and diversified product offering enables H_2O Innovation to cover a wider range of applications related to membrane filtration, and thus, improve its specialty chemicals' sales. Second, it allows us to build one of the largest distribution platforms made of almost 100 distributors reselling our specialty chemicals in more than 75 countries. Finally, the acquisition of Genesys enables us to expand our manufacturing capabilities in order to ensure continuous manufacturing and supply of specialty chemicals to our customers. It also allows us to avoid certain commercial tariffs in place and reduce some freight costs to clients at proximity of our manufacturing facilities (UK or California). Moreover, the acquisition of GMP should be seen as the next logical step in our goal of developing the world's largest membrane specialty chemicals and associated services supplier sold through a large distribution network. GMP's laboratory is globally recognized as the preeminent membrane autopsy facility in the industry and will support our Genesys and PWT teams in their sales efforts going forward. This laboratory has the experience and expertise of thousands of membrane autopsies performed over the years. The addition of GMP is expected to generate more cross-business synergies, a clear focus of H_2O Innovation's 3-Year Strategic Plan. Local support of PWT's distributors in Latin America and collaboration with Piedmont, the Corporation's business line, which is also located in Spain, are two areas where there are opportunities for their businesses to work efficiently together.

Our expertise in designing, engineering, and manufacturing membrane systems combined to our specialty products offering is allowing us to propose our customers a unique integrated added value proposition. As the value proposition is allowing our customers to reduce their operating expenses, it also provides a unique competitive advantage for the Corporation and an accountable approach for our industrial or municipal customers.

For the year ended June 30, 2021, recurring revenues represented 87.3 % of the Corporation's total revenues, compared to 86.2 % for the previous fiscal year. WTS business pillar builds long-term relationships with its customers through Specialty Products and O&M services offering, which support the decision to invest in business development and growth of these business pillars. The Corporation has a platform to capture cross-selling opportunities, where one pillar will feed the others. Altogether, our three business pillars provide a unique and accountable business model to better serve our existing and future customers. Thanks to the uniqueness of our business model relaying on high recurring revenues and the essential nature of the products and services we are providing, we have been able to navigate through this lasting pandemic in a positive way by preserving our customer relationships, recruit new distributors and customers while keeping our employees safe with strict sanitary measures implemented early on.

GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(In thousands of Canadian dollars)			Three-month periods ended June 30,				Years ended June 30,	
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins [(1)]	**10,002**	10,598	(596)	(5.6)	**39,945**	35,908	4,037	11.2
Gross profit margins (%) [(1)]	**28.4 %**	29.5 %	-	-	**27.7 %**	26.9 %	-	-

(1) Gross profit margins presented before depreciation and amortization.

The Corporation's gross profit margin before depreciation and amortization stood at $10.0 M, or 28.4 %, during the fourth quarter of fiscal year 2021, compared to $10.6 M, or 29.5 % for the previous fiscal year, representing a decrease of $0.6 M, or 5.6 %. The decrease of gross profit margin (%) before depreciation and amortization is explained by the business mix, with more sales coming from the WTS and O&M business pillars and fewer sales coming from the Specialty Products business pillar. The WTS business pillar showed an improvement of gross profit margin (%) before depreciation and amortization, in line with the Corporation's strategy to focus on projects with a higher margin profile. O&M business pillar's focus is to improve efficiency through the business combination of Utility Partners, Hays Utility South Corporation and Gulf Utility Services announced on December 1, 2020, and effective on January 1, 2021. The merger of these companies will enhance the vertical integration of our product and service offering to our customers. By operating under a single brand, the Corporation believes it should also facilitate the generation of cross-selling synergies between the Corporation's different business lines. Moreover, this single brand identity will contribute to elevating H_2O Innovation profile and awareness within the different geographies where H_2O Innovation is established in North America. From a financial and commercial perspectives, it will allow the Corporation to generate additional savings, to streamline the business processes and to solidify the O&M platform for future acquisitions and organic growth opportunities. This initiative shall continue to improve the gross profit margin.

The Corporation's gross profit margin before depreciation and amortization stood at $39.9 M, or 27.7 %, for the year ended June 30, 2021, compared to $35.9 M, or 26.9 % for the previous fiscal year, representing an increase of $4.0 M, or 11.2 %. The increase of gross profit margin (%) before depreciation and amortization is explained by the business mix, with more sales coming from the Specialty Products business pillar, which is characterized with higher gross profit margins' products, compared to last fiscal year. These higher-margin sales, positively affected by the acquisition of Genesys and GMP, contributed significantly to increase the gross profit margin before depreciation and amortization for year ended June 30, 2021, compared to last fiscal year. Assuming a constant USD exchange rate during this fiscal year, the Corporation's gross profit margin before depreciation and amortization would have been $1.1 M higher.

SELLING, GENERAL OPERATING AND ADMINISTRATIVE EXPENSES ("SG&A")

(In thousands of Canadian dollars)			Three-month periods ended June 30,				Years ended June 30,	
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
SG&A expenses	**6,947**	6,016	931	15.5	**25,493**	23,748	1,745	7.3
SG&A expenses of revenues	**19.7 %**	16.7 %	-	-	**17.7 %**	17.8 %	-	-

The Corporation's SG&A reached $6.9 M during the fourth quarter of fiscal year 2021, compared to $6.0 M for the same period of the previous fiscal year, representing an increase of $0.9 M, or 15.5 %. The increase is driven by the acquisition of GUS on July 1, 2020, and the acquisition of GMP on February 1, 2021, which contributed $0.1 M and $0.5 M respectively in SG&A expenses. Moreover, the increase is due to higher domestic travel within the U.S. and Canada for services and O&M activities as well as higher stock-based compensation costs compared to the previous quarter, partly offset by the decrease in the USD exchange rate compared to the same quarter of last fiscal year. On a sequential basis, when compared to the third quarter of fiscal year 2021, the Corporation's SG&A increased by $0.4 M to $6.9 M, from $6.5 M, partly due to the acquisition of GMP, acquired on February 1, 2021, and higher stock-based compensation costs compared to the previous quarter.

The Corporation's SG&A reached $25.5 M for the year ended June 30, 2021, compared to $23.7 M for the same period of the previous fiscal year, representing an increase of $1.8 M, or 7.3 %, while the revenues of the Corporation increased by 8.0 %. This increase was mainly due to the acquisitions of GUS and GMP completed during the fiscal year 2021 as well as the acquisition of Genesys on November 15, 2019, which did not fully impact the fiscal year 2020. Overall, the SG&A ratio was maintained below 18.0 % and was lined with management expectations and the Corporation's 3-year strategic plan.

ACQUISITIONS AND INTEGRATION COSTS

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition and integration costs	**(7)**	85	(92)	(108.2)	**489**	1,912	(1,423)	(74.4)

The acquisition and integration costs reached ($0.01 M) during the fourth quarter of fiscal year 2021, compared to $0.1 M for the same period of previous fiscal year, representing a decrease of $0.1 M, or 108.2 %. For fiscal year 2020, the acquisition and integration costs were related to the acquisition of Genesys, while they are related to the acquisition of GUS and GMP for fiscal year 2021.

The acquisition and integration costs reached $0.5 M for the year ended June 30, 2021, compared to $1.9 M for the previous fiscal year, representing a decrease of $1.4 M, or 74.4 %, mainly attributable to similar factors as those of the fourth quarter. The acquisition and integration costs included expenses related to the merger and corporate reorganization of the O&M business pillar, as announced on December 1, 2020.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(11)**	(4)	(7)	175.0	**(41)**	(47)	6	(12.8)
Finance costs	**371**	533	(162)	(30.4)	**2,376**	2,084	292	14.0
Finance costs - net	**360**	529	(169)	(31.9)	**2,335**	2,037	298	14.6

Finance costs – net stood at $0.4 M for the fourth quarter of fiscal year 2021, compared with $0.5 M for the same period of previous fiscal year, representing a decrease of $0.1 M, or 31.9 % compared to the same period of previous fiscal year, driven mainly by decreased interest on long-term debt and interest on lease liabilities.

Finance costs – net stood at $2.3 M for the year ended June 30, 2021, compared with $2.0 M for the previous fiscal year, representing an increase of $0.3 M, or 14.6 % compared to the previous fiscal year. On January 29, 2021, the Corporation entered into a Second Amended and Restated Credit Agreement amending its current credit agreement to add a term facility in an aggregate amount of up to $6.4 M to be used by the Corporation exclusively to refinance specific existing loans. Consequently, the remaining financing costs of $0.2 M have been written-off and the interest rate swaps designated as hedging instruments were terminated and the realized loss recorded in the other comprehensive income (loss) of $0.2 M was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings (loss) included in finance costs as a reclassification adjustment. Excluding the impact of the restructuration of the Corporation's long-term credit facility, the finance costs – net would have been $1.9 M.

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

OTHER LOSSES (GAINS) – NET

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Other losses (gains) - net	**(140)**	306	(446)	(145.8)	**2,012**	13	1,999	15376.9

Other losses (gains) – net stood at ($0.1 M) for the fourth quarter of fiscal year 2021, compared with $0.3 M for the same period of previous fiscal year, representing an improvement of $0.4 M, or 145.8 % compared to the previous fiscal year. The decrease is driven by the gain on changes in fair value of contingent considerations of $0.3 M and the gain on sale and leaseback transaction of $0.1 M, partly compensated by the realized exchange loss of $0.2 M.

Other losses (gains) – net stood at $2.0 M for the year ended June 30, 2021, compared with $0.01 M for the same period of previous fiscal year, representing an increase of $2.0 M compared to the previous fiscal year, mainly attributable to the unfavorable impact of foreign exchange of $1.0 M, the changes in fair value of contingent considerations of $0.5 M and the litigation settlement of $0.7 M, partly compensated by other gains of $0.1 M. A claim was settled during the fourth quarter of fiscal year 2021 for an amount of $0.7 M.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA[1]	**3,206**	3,954	(748)	(18.9)	**14,485**	4,690	9,795	208.8
Adjusted EBITDA[1]	**3,089**	4,832	(1,743)	(36.1)	**14,646**	12,524	2,122	16.9
Adjusted EBITDA (%)[1]	**8.8 %**	13.4 %	-	-	**10.1 %**	9.4 %	-	-

The Corporation's adjusted EBITDA decreased by $1.7 M, or 36.1 %, to reach $3.1 M during the fourth quarter of fiscal year 2021, compared to $4.8 M for the comparable period of fiscal year 2020. The adjusted EBITDA % decreased to 8.8 % for the fourth quarter of fiscal year 2021, compared to 13.4 % for the same quarter of last fiscal year. The reduction of the adjusted EBITDA is explained by the decrease in the Corporation's consolidated revenues and by the decrease in gross profit margins while the SG&A ratio increased.

The Corporation's adjusted EBITDA increased by $2.1 M, or 16.9 %, to reach $14.6 M for the fiscal year ended June 30, 2021, compared to $12.5 M for the previous fiscal year. The adjusted EBITDA % improved and reached 10.1 % for the fiscal year ended June 30, 2021, compared to 9.4 % for the previous fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins and SG&A ratio.

[1] Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

NET EARNINGS (LOSS)

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended June 30, 2021	2020	Variation		Years ended June 30, 2021	2020	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings (loss)	**(195)**	813	(1,008)	124.0	**3,119**	(4,227)	7,346	173.8
Basic net earnings (loss) per share	**(0.002)**	0.011	(0.013)	-	**0.039**	(0.061)	0.100	-
Diluted net earnings (loss) per share	**(0.002)**	0.011	(0.013)	-	**0.034**	(0.061)	0.095	-
Adjusted net earnings[1]	**457**	2,110	(1,653)	(78.3)	**6,471**	5,364	1,107	20.6
Basic adjusted net earnings per share[1]	**0.005**	0.027	(0.022)	-	**0.081**	0.078	0.003	-
Diluted adjusted net earnings per share[1]	**0.005**	0.027	(0.022)	-	**0.071**	0.077	(0.006)	-

The net loss amounted to ($0.2 M) or ($0.002) per share for the fourth quarter of fiscal year 2021 compared to net earnings of $0.8 M or $0.011 per share for the comparable quarter of fiscal year 2020. The variation was impacted by the decrease in the Corporation's consolidated revenues, the reduction in gross profit margins, the increase of the SG&A ratio and higher tax expenses that were partially compensated by lower acquisition and integration costs, lower restructuring costs, lower finance costs and lower other losses – net.

Net earnings amounted to $3.1 M or $0.039 per share for the fiscal year ended June 30, 2021, compared to a net loss of ($4.2 M) or ($0.061) per share for the previous fiscal year. The variation was impacted by the increase in the Corporation's consolidated revenues, the improvement in gross profit margins, lower impairment costs, lower acquisition and integration costs, lower restructuring costs and the fair value gain on step acquisition that were compensated by higher other losses - net, higher tax expenses and higher finance costs. Moreover, the SG&A ratio decreased from 17.8 % to 17.7 %. The Corporation recognized a gain of $2.4 M as a result of measuring at fair value its 24% equity interest in GMP held before the business combination.

[1] Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

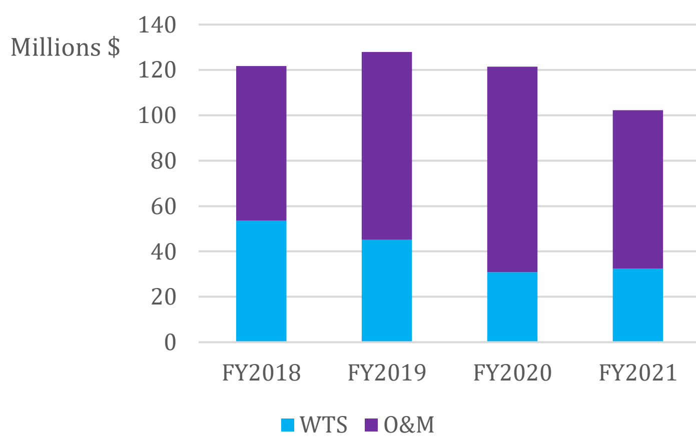
BACKLOG

The backlog is defined as a forward-looking indicator of anticipated revenues to be recognized by the Corporation, determined based on contract awards that are firm and amounting to the transaction price allocated to remaining performance obligations ("RPO"). Management could be required to make estimates regarding the revenue to be generated for certain contracts.

As at June 30, 2021, the combined backlog of secured contracts between WTS and O&M reached $102.3 M compared to $121.5 M as at June 30, 2020. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2022 and beyond. The business model developed over the past years is also translating into a healthy backlog, well balanced between O&M contracts and WTS contracts.

(In thousands of Canadian dollars)	As at June 30, 2021	2020	Variation	
	$	$	$	%
WTS	**32,500**	30,900	1,600	5.2
O&M [(1)]	**69,800**	90,600	(20,800)	(23.0)
Consolidated backlog	**102,300**	121,500	(19,200)	(15.8)

(1) The backlog coming from the O&M business pillar is derived exclusively from our Utility Partners business line. The acquisition of Hays Utility South Corporation in December 2018 and the acquisition of Gulf Utility Service, Inc. in July 2020 did not impact the backlog, as all our contracts are evergreen and would not qualify for the remaining performance obligation definition.



WTS backlog

The WTS business pillar is showing an increase of 5.2 %, while being a healthier backlog with better projects diversification. The focus for this business pillar is to improve the gross profit margin prior to focusing on growing the revenues. This business pillar is showing a well-balanced backlog, with diversification seen between industrial and municipal projects: 26.3 % of the projects being industrial as of June 30, 2021, compared to 27.3 % as of June 30, 2020. The industrial projects are usually characterized by better gross profit margins, while reducing the risk related to focusing on a single market.

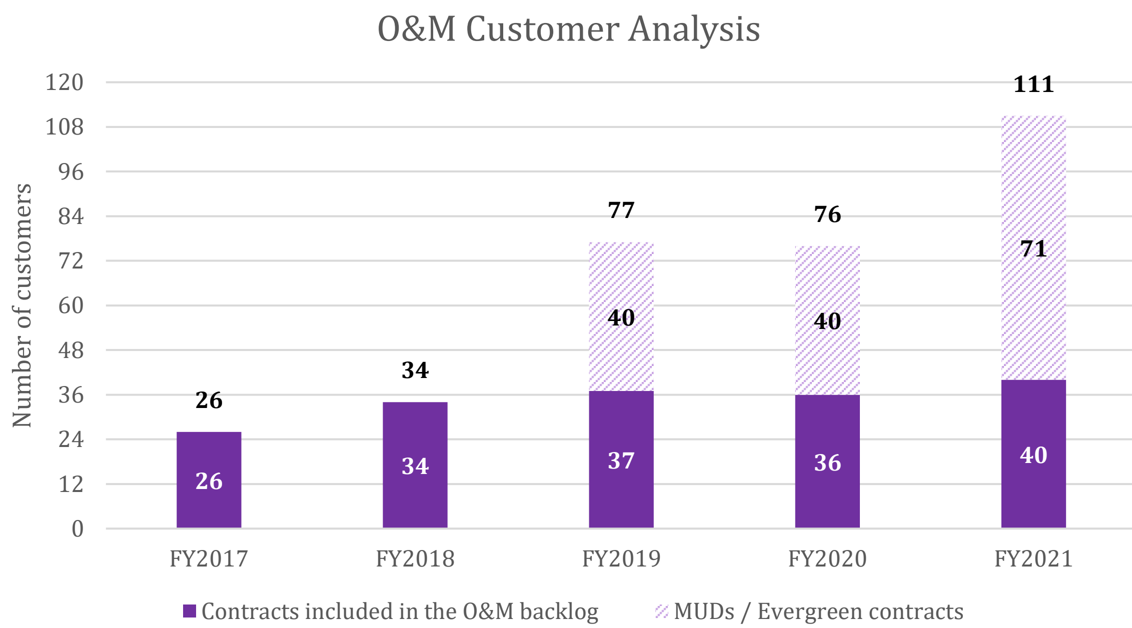
O&M backlog

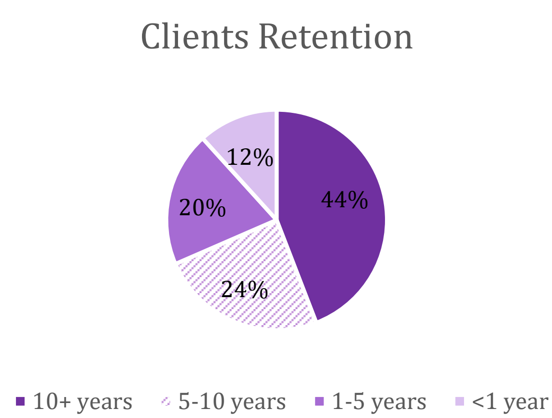
Our backlog for the O&M business pillar stood at $69.8 M as at June 30, 2021, representing a decrease of 23.0 % compared to the $90.6 M backlog as at June 30, 2020, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The decreased would have been $13.9 M, or 15.4 %, assuming a constant US$ exchange rate. The decrease is explained by some contracts approaching their renewal date, creating important fluctuations on the O&M backlog. O&M long-term contracts have a typical duration of 3 to 5 years and have different anniversary dates for renewal.

In the past, the Corporation has seen a high contract renewal rate. The historic O&M contracts renewal rate[1] is 93.0 %. Management believes that the Corporation is well positioned to renew these important O&M contracts and should therefore show an increased O&M backlog in the coming twelve months. The O&M backlog does not include ''ever-green'' O&M services provided to MUDs and other privately owned utilities located in Texas.

On July 20, 2021, the Corporation announced it was awarded an O&M contract for the City of Laurel, Mississippi with a total value of $10.4 M over 4 years, bringing the Corporation's O&M sales backlog to $83.2 M as of July 20, 2021.

The O&M business model should also be analyzed in number of customers retained. Both long term customers included in the O&M backlog and ''ever-green'' contracts demonstrate how the Corporation preserved customer relationships and can rely on recurring revenues. The two acquisitions in Texas, GUS and Hays, brought ''ever-green'' O&M services and since the acquisitions, the Corporation has been able to preserve these customers and add new ones. Since the acquisition of UP, the Corporation renewed 93.0 %[1] of the O&M contracts and gained new ones.





[1] Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

SEGMENT INFORMATION

As mentioned in Section "H2O Innovation at a glance", Management analyzes the Corporation's results by business pillar. The Corporation evaluates its business pillar performance using Earnings before administrative costs ("EBAC), which is a non-IFRS measure defined in the Section "Non-IFRS financial measurements" at page 34 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the three-month and years ended June 30, 2021 and 2020.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	2021	2020	Three-month periods ended June 30, Variation		2021	2020	Years ended June 30, Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**7,074**	6,982	92	1.3	**30,355**	29,298	1,057	3.6
Cost of goods sold	**5,429**	5,462	(33)	(0.6)	**23,663**	23,402	261	1.1
Gross profit margins[1]	**1,645**	1,520	125	8.2	**6,692**	5,896	796	13.5
Gross profit margins (%)[1]	**23.3 %**	21.8 %	-	-	**22.0 %**	20.1 %	-	-
Selling and general expenses	**1,048**	967	81	8.4	**3,608**	4,289	(681)	(15.9)
EBAC[2] from WTS	**597**	553	44	8.0	**3,084**	1,607	1,477	91.9
EBAC[2] in % of revenues from WTS	**8.4 %**	7.9 %	-	-	**10.2 %**	5.5 %	-	-

The WTS' financial performance for the year ended June 30, 2021 improved significantly compared with the previous fiscal year. The amelioration is coming from the reorganization completed at the end of the fourth quarter of the previous fiscal year and the improvement of gross profit margins before depreciation and amortization combined with the growth of service activities.

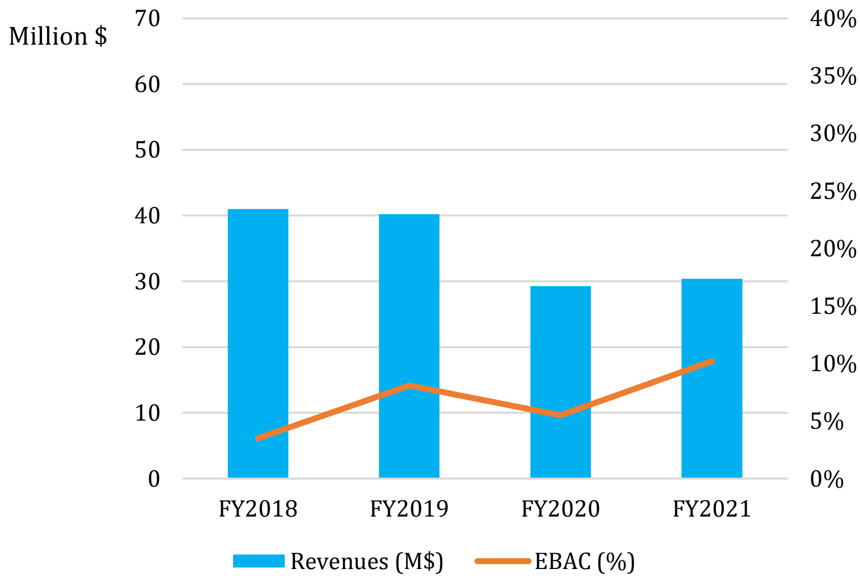
WTS revenues stood at $7.1 M during the fourth quarter of fiscal year 2021, compared to $7.0 M for the same quarter of last fiscal year, representing a $0.1 M, or 1.3 % increase. WTS revenues stood at $30.4 M for the year ended June 30, 2021, compared with $29.3 M for the previous fiscal year, representing an increase of $1.1 M, or 3.6 %. Revenues from WTS are in line with the expectations following the Corporation's strategic change announced on August 24, 2020.

The gross profit margins before depreciation and amortization stood at $1.6 M, or 23.3 % for the fourth quarter of fiscal year 2021, compared with $1.5 M, or 21.8 % for the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $6.7 M, or 22.0 % for the year ended June 30, 2021, compared with $5.9 M, or 20.1 % for the previous fiscal year, representing an improvement of the gross profit margin in % over revenues. The gross profit margin was helped by a higher proportion of service activities, characterized by higher gross profit margins, compared to the previous fiscal year. Our objective is to focus on the growth of service activities, which are recurring in nature and have better gross profit margins, which is in line with the strategy of reducing volatility associated with the WTS business pillar revenues.

The general operating expenses and selling expenses stood at $1.0 M during the fourth quarter of fiscal year 2021, compared to $1.0 M, for the same quarter of last fiscal year. The general operating expenses and selling expenses stood at $3.6 M for the year ended June 30, 2021, compared to $4.3 M, for the previous fiscal year, representing a decrease of $0.7 M. The worldwide restrictions on various forms of transportation and lockdown periods due to the coronavirus pandemic resulted in lower travel expenses and tradeshow expenses compared to the previous fiscal year. Also, the decrease in selling and general expenses is driven by the restructuring implemented by the Corporation in the fourth quarter of fiscal year 2020.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

WTS's EBAC stood at $0.6 M during the fourth quarter of fiscal year 2021, compared to $0.6 M for the same quarter of last fiscal year. WTS's EBAC stood at $3.1 M for the year ended June 30, 2021, compared to $1.6 M for the previous fiscal year, representing an increase of $1.5 M, or 91.9 %. The increase of WTS' EBAC in dollars and in % is driven by the increase in the revenues, the improvement of the gross profit margin before depreciation and amortization in % and the reduction of the cost structure.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2021	2020	Variation		Years ended June 30, 2021	2020	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**10,334**	11,716	(1,382)	(11.8)	**43,920**	40,175	3,745	9.3
Cost of goods sold	**5,445**	6,582	(1,137)	(17.3)	**24,494**	22,924	1,570	6.8
Gross profit margins[1]	**4,889**	5,134	(245)	(4.8)	**19,426**	17,251	2,175	12.6
Gross profit margins (%)[1]	**47.3 %**	43.8 %	-	-	**44.2 %**	42.9 %	-	-
Selling and general expenses	**2,312**	2,314	(2)	(0.1)	**8,809**	7,688	1,121	14.6
EBAC[2] from Specialty Products	**2,577**	2,820	(243)	(8.6)	**10,617**	9,563	1,054	11.0
EBAC[2] over revenues from Specialty Products	**24.9 %**	24.1 %	-	-	**24.2 %**	23.8 %	-	-

Specialty Products revenues include revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry. The acquisitions of GMP and Genesys have enabled the Corporation to increase its profitability for the Specialty Products business pillar, despite a decrease of Piedmont related products compared to last fiscal year. The strong sales performance of maple related products compensated for the decrease in Piedmont related products.

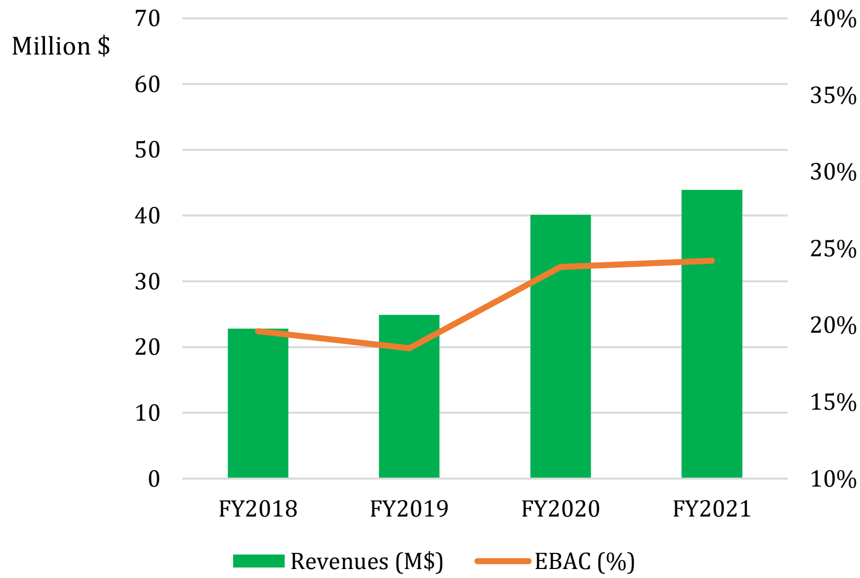
Specialty Products revenues stood at $10.3 M during the fourth quarter of fiscal year 2021, compared to $11.7 M for the same quarter of last fiscal year, representing a decrease of $1.4 M, or 11.8 %. The acquisition of GMP on February 1, 2021 contributed to increase Specialty Products revenues by $1.5 M this quarter. The decrease of Specialty Products revenues is explained by the unfavourable USD exchange rate impact of $0.8 M and the reduction in Piedmont business line this quarter compared to the same quarter of last fiscal year, partially compensated by the organic growth in maple related products for the same comparative period. In general, Piedmont business line was impacted by a general slowdown in the construction of new large international desalination plants compared to last year. Market intelligence indicates that the desalination market should resume its growth within the next 18 to 24 months. In the meantime, Piedmont continues to serve its existing clientele with consumables and focus to develop new products to expand its portfolio. Specialty Products revenues stood at $43.9 M for the year ended June 30, 2021, compared to $40.2 M for the previous fiscal year, representing an increase of $3.7 M, or 9.3 %. The increase is driven by the acquisition of Genesys, effective November 15, 2019 and the acquisition of GMP, which contributed $3.5 M and $3.0 M respectively, partially offset by the reduction in the Piedmont business line and an unfavorable USD exchange rate impact.

The gross profit margins before depreciation and amortization stood at $4.9 M, or 47.3 % for the fourth quarter of fiscal year 2021, compared with $5.1 M, or 43.8 % for the same quarter of last fiscal year, representing a decrease of $0.2 M in dollars, but an increase of the gross profit margin in %. The variation of the gross profit margins in dollars is due to the diminution of revenues this quarter compared to the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $19.4 M, or 44.2 % for the year ended June 30, 2021, compared with $17.3 M, or 42.9 % for the previous fiscal year, representing an increase of $2.1 M in dollars, as well as an increase of the gross profit margin in %. This variation is mainly due to the business mix within this business pillar, with a higher level of revenue coming from Genesys and the addition of GMP.

The general operating expenses and selling expenses stood at $2.3 M during the fourth quarter of fiscal year 2021, compared to $2.3 M, for the same quarter of last fiscal year. The general operating expenses and selling expenses stood at $8.8 M for the year ended June 30, 2021, compared to $7.7 M, for the previous fiscal year, representing an increase of $1.1 M. This increase is explained by the additional selling and general expenses from the Genesys and GMP acquisitions.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section “Non-IFRS financial measurements” at page 34 for detailed information about non-IFRS measures used in this MD&A.

Specialty Products EBAC stood at $2.6 M during the fourth quarter of fiscal year 2021, compared to $2.8 M for the same quarter of last fiscal year, representing a decrease of $0.2 M, or 8.6 %. Specialty Products EBAC stood at $10.6 M for the year ended June 30, 2021, compared to $9.6 M for the previous fiscal year, representing an increase of $1.0 M, or 11.0 %. Specialty Products' EBAC was positively affected by the acquisitions of Genesys and GMP for the year ended June 30, 2021, compared to the previous fiscal year.



O&M

(In thousands of Canadian dollars)	**2021**	2020	Three-month periods ended June 30, Variation		**2021**	2020	Years ended June 30, Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**17,796**	17,281	515	3.0	**70,049**	64,124	5,925	9.2
Cost of goods sold	**14,328**	13,337	991	7.4	**56,222**	51,363	4,859	9.5
Gross profit margins[1]	**3,468**	3,944	(476)	(12.1)	**13,827**	12,761	1,066	8.4
Gross profit margins (%)[1]	**19.5 %**	22.8 %	-	-	**19.7 %**	19.9 %	-	-
Selling and general expenses	**823**	697	126	18.1	**3,402**	3,701	(299)	(8.1)
EBAC[2] from O&M	**2,645**	3,247	(602)	(18.5)	**10,425**	9,060	1,365	15.1
EBAC[2] over revenues from O&M	**14.9 %**	18.8 %	-	-	**14.9 %**	14.1 %	-	-

During fiscal year 2021, O&M business pillar was positively impacted by the acquisition of GUS and by the merger of its three business lines to become H_2O Innovation, which contributed to generate cross-selling synergies between the different business lines, offset by an unfavorable US$ exchange rate impact.

O&M revenues stood at $17.8 M during the fourth quarter of fiscal year 2021, compared to $17.3 M for the same quarter of last fiscal year, representing an increase of $0.5 M, or 3.0 %. The increase was primarily due to the acquisition of GUS on July 1, 2020, which contributed $1.5 M to the revenues of this business pillar during the quarter. The O&M business pillar was positively impacted by the acquisition of GUS and showed organic growth of $1.1 M this quarter, offset by an unfavorable US$ exchange rate impact of $2.1 M. O&M revenues stood at $70.0 M for the year ended June 30, 2021,

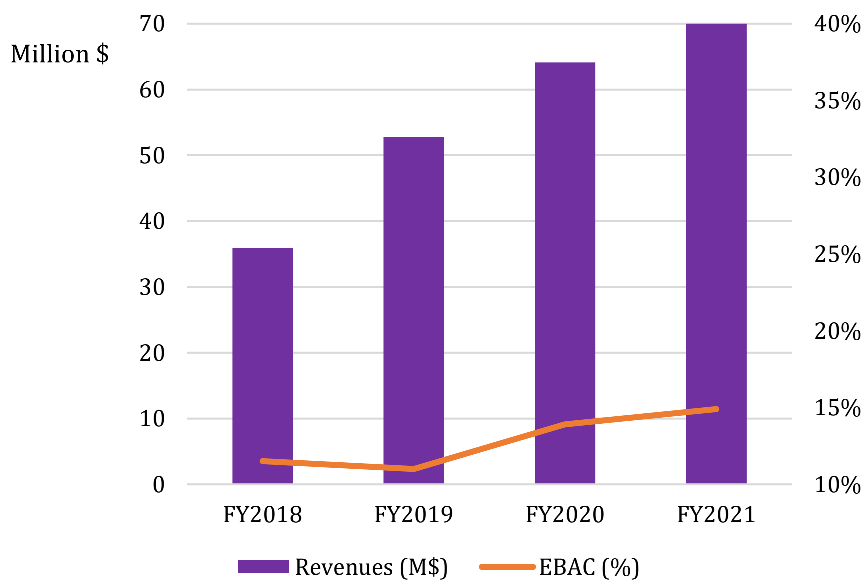
[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

compared to $64.1 M for the previous fiscal year, representing an increase of $5.9 M, or 9.2 %. This overall increase is fuelled by the acquisition of GUS on July 1, 2020, which contributed $5.9 M in revenues. The increase in revenues is also due to organic growth, mostly with the new 3-year contract for a municipality in Florida which started in the second quarter of this fiscal year, but was compensated by an unfavorable US$ exchange rate impact of $3.1 M.

The gross profit margins before depreciation and amortization stood at $3.5 M, or 19.5 % for the fourth quarter of fiscal year 2021, compared with $3.9 M, or 22.8 % for the same quarter of last fiscal year, representing a decrease of $0.4 M, or 12.1 %. During the fourth quarter of fiscal year 2020, the gross profit margin was exceptionally high as there was some efficiency gains in an O&M project that had less performed in previous quarters. The gross profit margins before depreciation and amortization stood at $13.8 M, or 19.7 % for the year ended June 30, 2021, compared with $12.8 M, or 19.9 % for the previous fiscal year, representing an increase of $1.0 M, or 8.4 % while the gross profit margin in % remained fairly the same.

The general operating expenses and selling expenses stood at $0.8 M during the fourth quarter of fiscal year 2021, compared to $0.7 M, for the same quarter of last fiscal year, representing an increase of $0.1 M, due primarily to employee compensation costs. The general operating expenses and selling expenses stood at $3.4 M for the year ended June 30, 2021, compared to $3.7 M, for the previous fiscal year, representing a decrease of $0.3 M. The variation is explained by the reduction in travel expenses as a result of COVID-19 and employee compensation costs.

O&M EBAC stood at $2.6 M during the fourth quarter of fiscal year 2021, compared to $3.2 M for the same quarter of last fiscal year, representing a decrease of $0.6 M, or 18.5 %. During the fourth quarter of fiscal year 2020, the EBAC was positively affected by efficiency gains in an O&M project and employee compensation costs as discussed above. O&M EBAC stood at $10.4 M for the year ended June 30, 2021, compared to $9.1 M for the previous fiscal year, representing an increase of $1.3 M, or 15.1 %. The acquisition of GUS contributed to the improved O&M's EBAC and some cost synergies have already been captured.



LIQUIDITY AND CAPITAL RESOURCES

This section is intended to provide the reader with a better understanding of the Corporation's liquidity and capital resources.

CASH FLOW ANALYSIS

A comparison of the Corporation's cash flows for the three-month and years ended June 30, 2021 and June 30, 2020 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Years ended June 30,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Cash flows from operating activities before change in working capital items	**3,167**	4,300	(1,133)	(26.3)	**11,802**	10,814	988	9.1
Change in working capital items	**(4,808)**	5,477	(10,285)	(187.8)	**(3,222)**	1,623	(4,845)	(298.5)
	(1,641)	9,777	(11,418)	(116.8)	**8,580**	12,437	(3,857)	(31.0)
Interests received / Income taxes received (paid)	**(1,275)**	4	(1,279)	(31975.0)	**(1,296)**	45	(1,341)	(2980.0)
Cash flows from (used in) operating activities	**(2,916)**	9,781	(12,697)	(129.8)	**7,284**	12,482	(5,198)	(41.6)
Cash flows from (used in) investing activities	**603**	4,278	(3,675)	(85.9)	**(4,768)**	(25,533)	20,765	(81.3)
Cash flows from (used in) financing activities	**4,446**	(10,678)	15,124	(141.6)	**2,930**	16,450	(13,520)	(82.2)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(54)**	(613)	559	(91.2)	**524**	(188)	712	(378.7)
Net change	**2,079**	2,768	(689)	(24.9)	**5,970**	3,211	2,759	85.9
Cash – Beginning of period	**13,330**	6,671	6,659	99.8	**9,439**	6,228	3,211	51.6
Cash – End of period	**15,409**	9,439	5,970	63.2	**15,409**	9,439	5,970	63.2

Cash increased by $2.1 M during the fourth quarter of fiscal year 2021, compared with an increase of $2.8 M for the comparable quarter of the previous fiscal year. Cash increased by $6.0 M for the year ended June 30, 2021, compared with an increase of $3.2 M for the previous fiscal year. The variations are explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities used ($2.9 M) for the quarter ended June 30, 2021, compared to $9.8 M of cash flows generated from operating activities during the same period of previous fiscal year. The cash flows for the three-month ended June 30, 2021 resulted primarily from the net loss of ($0.2 M), plus $2.1 M of non-cash adjustments to the net loss consisting primarily of depreciation and amortization, stock-based compensation costs, finance costs - net, income taxes, partially offset by the income taxes paid, net foreign exchange differences, the changes in fair value of contingent considerations, the fair value gain on step acquisition, the gain on sale and leaseback transaction, and $4.8 M in unfavorable changes in working capital items. In comparison, the cash flows for the three-month ended June 30, 2020 resulted primarily from the net earnings of $0.8 M, plus $3.5 M of non-cash adjustments to the net earnings consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs – net, income taxes, net foreign exchange differences, partially offset by the share of profit of an associate, and $5.5 M in favorable changes in working capital items.

Cash flows from operating activities generated $7.3 M for the year ended June 30, 2021, compared to $12.5 M of cash flows generated from operating activities during the previous fiscal year. The cash flows for the year ended June 30, 2021 resulted primarily from the net earnings of $3.1 M, plus $7.4 M of non-cash adjustments to the net earnings consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs - net, income taxes, partially offset by income taxes paid, net foreign exchange differences, the share of profit of an associate, the gain on sale and leaseback transaction and the fair value gain on step acquisition, and $3.2 M in unfavorable changes in working capital items. In comparison, the cash flows for the year ended June 30, 2020 resulted primarily from the net loss of $4.2 M, plus $15.1 M of non-cash adjustments to the net loss consisting primarily of depreciation and amortization, impairment of intangible assets and goodwill, stock-based compensation costs, changes in fair value of contingent considerations, finance costs – net, net foreign exchange differences, partially offset by deferred taxes and the share of profit of an associate, and $1.6 M in favorable changes in working capital items.

Cash Flows from Investing Activities

Investing activities generated $0.6 M of cash flows for the quarter ended June 30, 2021, compared to $4.3 M of cash flows generated in investing activities during the comparable quarter of the previous fiscal year. The cash generated for the quarter ended June 30, 2021 resulted primarily from the sale and leaseback transaction of $2.6 M and variation of other assets of $0.4 M, partly offset by the purchases of property, plant and equipment of $0.3 M, the purchases of intangible assets of $0.1 M, the acquisitions of GMP and GUS for $1.1 M and the payment of contingent consideration of $0.9 M. In comparison, the cash generated for the quarter ended June 30, 2020 resulted primarily from the final purchase price allocation of Genesys' acquisition during the fourth quarter of fiscal year 2020.

Investing activities used ($4.8 M) of cash flows for the year ended June 30, 2021, compared to ($25.5 M) of cash flows used in investing activities during the previous fiscal year. The cash used for the year ended June 30, 2021 resulted primarily from the purchases of property, plant and equipment of $1.2 M, the purchases of intangible assets of $0.4 M, the acquisitions of GMP and GUS for $4.3 M and the payment of contingent consideration of $2.9 M, partly offset by the dividends from an associate of $1.2 M, the proceeds from sale and leaseback transaction of $2.6 M and the variation of other assets of $0.2 M. In comparison, the cash used for the year ended June 30, 2020 resulted primarily from the purchases of property, plant and equipment of $0.9 M, the purchases of intangible assets of $0.3 M, the business combination of $22.7 M and the payment of contingent consideration of $1.5 M.

Cash Flows from Financing Activities

Financing activities generated $4.4 M for the quarter ended June 30, 2021, compared to ($10.7 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The cash flows for the quarter ended June 30, 2021 resulted primarily from $5.7 M in warrants exercised, partially offset by $0.8 M in long-term debt repayments and $0.5 M in repayments of lease liabilities. In comparison, the cash flows for the quarter ended June 30, 2020 resulted primarily from $0.7 M in long-term debt repayments, $0.1 M of interest paid, $0.8 M in repayments of lease liabilities, $3.8 M in repayment of bank loans and $5.3 M in the issuance of common shares and warrants under private placement and public offering.

Financing activities generated $2.9 M for the year ended June 30, 2021, compared to $16.5 M of cash flows generated in financing activities during the previous fiscal year. The cash flows for the year ended June 30, 2021 resulted primarily from $10.9 M in warrants exercised and $8.3 M in proceeds from long-term debt, net of related transaction costs, partially offset by $3.4 M in bank loans net decrease, $9.6 M in long-term debt repayments, $1.5 M of interest paid and $1.8 M in repayments of lease liabilities. In comparison, the cash flows for the year ended June 30, 2020 resulted primarily from $11.6 M in proceeds from long-term debt, net of related transaction costs and $15.1 M from the issuance of shares, net of shares issue expenses, partially offset by $2.9 M in long-term debt repayments, $4.1 M in bank loans net decrease, $1.5 M of interest paid and $1.7 M in repayments of lease liabilities.

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between June 30, 2021 and June 30, 2020 for selected information:

(In thousands of Canadian dollars)	**June 30, 2021**	June 30, 2020	Variation		Explanations
	$	$	$	%	
Accounts receivable	**22,148**	19,291	2,857	14.8	The increase is mostly attributable to the acquisitions of GMP and GUS which accounted for $2.6 M in accounts receivable and significant invoicing in WTS' business pillar, offset by an unfavorable exchange rate impact of $1.7 M.
Inventories	**8,486**	7,869	617	7.8	The increase is mainly due to the acquisitions of GMP and GUS, which contributed $0.8 M of the increase, compensated by an unfavorable exchange rate impact of $0.2 M.
Contract assets	**7,574**	8,629	(1,055)	(12.2)	The decrease is mostly attributable to significant deliveries or invoicing in Piedmont business line during the first quarter, partially offset by the acquisition of GUS, which added $0.3 M in contract assets.
Accounts payable and accrued liabilities	**15,466**	15,915	(449)	(2.8)	The decrease is mainly due to the unfavorable exchange rate impact of $1.2 M and the timing of the payments and purchases, compensated by the acquisitions of GMP and GUS which accounted for $1.0 M.
Contract liabilities	**3,283**	3,168	115	3.6	The increase is attributable to differences between project advancement and project invoicing schedules.
Contingent considerations, including current portion	**6,738**	1,413	5,325	376.9	The increase is due to the contingent consideration payable on the GMP acquisition completed on February 1, 2021 and on the GUS acquisition completed on July 1, 2020, partly offset by the final payment of the contingent consideration for the Hays acquisition.

NET DEBT

The definition of net debt consists of bank loans and long-term debt less cash, excluding and/or including contingent considerations. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**June 30, 2021**	June 30, 2020	Variation	
	$	$	$	%
Bank loans	**-**	3,415	(3,415)	(100.0)
Current portion of long-term debt	**2,975**	2,782	193	6.9
Long-term debt	**12,941**	13,766	(825)	(6.0)
Contingent considerations	**6,738**	1,413	5,325	376.9
Less: Cash	**(15,409)**	(9,439)	(5,970)	(63.2)
Net debt including contingent considerations	**7,245**	11,937	(4,692)	(39.3)
Contingent considerations	**6,738**	1,413	5,325	376.9
Net debt excluding contingent considerations (''Net debt'') (1)	**507**	10,524	(10,017)	(95.2)
Adjusted EBITDA (1)	**14,646**	12,524	2,122	16.9
Net debt-to-adjusted-EBITDA ratio (1)	**0.03**	0.84	-	-

(1) Non-IFRS measure. Refer to the section "Non-IFRS financial measurements" at page 34 for detailed information about non-IFRS measures used in this MD&A.

As at June 30, 2021, the net debt stood at $0.5 M, compared with $10.5 M as at June 30, 2020, representing a $10.0 M decrease, or 95.2 %. This decrease is mainly attributable to the cash flows from operating activities generated and the warrants exercised throughout the fiscal year 2021.

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 bank loans and long-term 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. The financial ratios are, as at June 30, 2021:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.00:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures:
    - of at least 1.10:1:00 at all times until the end of the quarter ending on June 30, 2021; and
    - of at least 1.20:1.00 at all times thereafter.

As at June 30, 2021, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2021, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $1.9 M which expire at various dates through fiscal year 2025. Of these letters of credit, $1.9 M is secured by EDC.

NON-IFRS FINANCIAL MEASUREMENTS

In this MD&A, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements presented below 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.

EBITDA AND ADJUSTED EBITDA

EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations, the stock-based compensation costs, the impairment of intangible assets and goodwill, the fair value gain on step acquisition, restructuring costs and litigation settlement. 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 and integration costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net earnings (loss) based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies. Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

RECONCILIATION OF NET EARNINGS (LOSS) TO EBITDA AND TO ADJUSTED EBITDA

	Three-month periods ended June 30,		**Years ended June 30,**	
(In thousands of Canadian dollars)	**2021**	2020	**2021**	2020
	$	$	**$**	$
Net earnings (loss) for the period	**(195)**	813	**3,119**	(4,227)
Finance costs – net	**360**	529	**2,335**	2,037
Income taxes (recovery)	**1,174**	618	**1,703**	(319)
Depreciation of property, plant and equipment and right-of-use assets	**820**	798	**3,187**	2,880
Amortization of intangible assets	**1,047**	1,196	**4,141**	4,319
EBITDA	**3,206**	3,954	**14,485**	4,690
Unrealized exchange (gain) loss	**15**	272	**654**	(344)
Stock-based compensation costs	**132**	54	**253**	223
Changes in fair value of the contingent considerations	**(257)**	61	**462**	329
Acquisition and integration costs	**(7)**	85	**489**	1,912
Impairment of intangible assets and goodwill	**-**	-	**-**	5,308
Restructuring costs	**-**	406	**-**	406
Fair value gain on step acquisition	**(4)**	-	**(2,351)**	-
Litigation settlement	**4**	-	**654**	-
Adjusted EBITDA	**3,089**	4,832	**14,646**	12,524

EARNINGS BEFORE ADMINISTRATIVE COSTS ("EBAC")

The definition of EBAC means the earnings before depreciation and amortization reduced by the selling and general expenses. EBAC is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision. The definition of EBAC used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2021	2020	Years ended June 30, 2021	2020
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized over time	**22,020**	21,881	**88,323**	82,611
Revenue recognized at a point in time	**13,184**	14,098	**56,001**	50,986
	35,204	35,979	**144,324**	133,597
Cost of goods sold	**25,202**	25,381	**104,379**	97,689
Gross profit before depreciation and amortization	**10,002**	10,598	**39,945**	35,908
Selling and general expenses	**4,183**	3,978	**15,819**	15,678
Earnings before administrative costs (EBAC)	**5,819**	6,620	**24,126**	20,230

ADJUSTED NET EARNINGS

The definition of adjusted net earnings excludes acquisition and integration costs, restructuring costs, amortization of intangible assets from acquisition, unrealized exchange (gain) loss, change in fair value of the contingent considerations, stock-based compensation costs, impairment of intangible assets and goodwill, fair value gain on step acquisition, litigation settlement and realized net loss on swap termination. The reader can establish the link between net earnings (loss) and adjusted net earnings with the reconciliation items presented in this report. The definition of adjusted net earnings used by the Corporation may differ from those used by other companies. Adjusted net earnings is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED NET EARNINGS

(In thousands of Canadian dollars)	Three-month periods ended June 30, 2021	2020	Years ended June 30, 2021	2020
	$	$	**$**	$
Net earnings (loss) for the period	**(195)**	813	**3,119**	(4,227)
Acquisition and integration costs	**(7)**	85	**489**	1,912
Restructuring costs	**-**	406	**-**	406
Amortization of intangible assets related to business combinations	**986**	960	**3,839**	3,504
Unrealized exchange (gain) loss	**15**	272	**654**	(344)
Changes in fair value of the contingent considerations	**(257)**	61	**462**	329
Stock-based compensation costs	**132**	54	**253**	223
Impairment of intangible assets and goodwill	**-**	-	**-**	5,308
Fair value gain on step acquisition	**(4)**	-	**(2,351)**	-
Litigation settlement	**4**	-	**654**	-
Realized net loss on swap termination	**-**	-	**237**	-
Income taxes related to above items	**(217)**	(541)	**(885)**	(1,747)
Adjusted net earnings	**457**	2,110	**6,471**	5,364

NET DEBT

The definition of net debt consists of bank loans and long-term debt less cash, excluding and/or including contingent considerations. The definition of net debt used by the Corporation may differ from those used by other companies. Refer to page 33 of this MD&A for reconciliation. Net-debt-to-Adjusted EBITDA ratio is a non-IFRS measure without a standardized definition within IFRS. Net-debt-to-Adjusted EBITDA consists of Net debt excluding contingent considerations divided by Adjusted EBITDA. The Corporation uses this ratio as a measure of financial leverage and it is calculated using our trailing twelve month adjusted EBITDA.

O&M CONTRACTS RENEWAL RATE

The O&M contracts retention rate is calculated with the number of O&M customers that either have long-term contracts or evergreen contracts at the end of the fiscal year 2021 over the total number of customers since the acquisition by the Corporation. The Corporation included in its retention rate 3 clients lost to in-sourcing. The definition of O&M contracts retention rate used by the Corporation may differ from those used by other companies.

RECURRING REVENUES BY NATURE

Recurring revenue by nature is a non-IFRS measure and is defined by the management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or coming from a business with a recurring customer sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. Corporation's recurring revenues are coming from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other. The definition of recurring revenues by nature used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**Three-month period ended June 30, 2021,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	7,074	10,334	17,796	35,204
Recurring revenues	**2,850**	**10,334**	**17,796**	**30,980**

(In thousands of Canadian dollars)	**Year ended June 30, 2021,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	30,355	43,920	70,049	144,324
Recurring revenues	**12,081**	**43,920**	**70,049**	**126,050**

(In thousands of Canadian dollars)	Three-month period ended June 30, 2020,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	6,982	11,716	17,281	35,979
Recurring revenues	**2,382**	**11,716**	**17,281**	**31,379**

(In thousands of Canadian dollars)	Year ended June 30, 2020,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	29,298	40,175	64,124	133,597
Recurring revenues	**10,811**	**40,175**	**64,124**	**115,110**

CLAIMS AND LITIGATION

Except for the specific litigation settlement discussed in section ''Other losses (gains) – net'', 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.

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.

Impact of COVID-19

The COVID-19 pandemic has significantly disrupted and, although vaccination campaigns are currently underway in certain countries/regions, it continues to significantly disrupt global health, economic and market conditions and has triggered and continues to induce an indeterminate period of volatility and slowdown in the global economy and recessions. The full impact of the COVID-19 pandemic, including the impact of the preventative and mitigation measures that the Corporation, other businesses and governments worldwide are taking to combat the spread of the disease and subsequent waves and variants thereof, continues to evolve and the pandemic continues to have material adverse repercussions in the jurisdictions where the Company has offices and delivers services, and it continues creating significant volatility and negative pressure on virtually all national economies as well as financial markets, in each case, notwithstanding the fact that vaccination campaigns are currently underway.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at June 30, 2021, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and intangible assets impairment. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, goodwill and provision for onerous contracts. The duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Estimates and assumptions

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 and through the date prior to the financial statements being available for release. In this process, management applies significant estimates about percentage-of-completion 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 or group of 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 assumptions 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.

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 CGUs 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 CGUs.

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

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 (loss) and consolidated statement of financial position.

Contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Assessment of the useful economic life of customer relationships

The amortization period for the customer relationships over the estimated useful economic life using the straight-line method is a significant estimate that is reviewed by Management on an annual basis.

FINANCIAL RISK FACTORS

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	X	X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X
Other non-current financial liabilities		X		X
Contingent considerations	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, EURO and Pound sterling 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, 2021, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, EURO or British pound currency, assuming that all other variables remained constant, net earnings (loss) for the year ended June 30, 2021 would have been greater or lesser by approximately $456 ($292 for the year ended June 30, 2020) and the comprehensive income (loss) would have been greater or lesser by approximately $769 ($557 for the year ended June 30, 2020).

The financial assets and liabilities denominated in a foreign currency (U.S. dollar and EURO) included in the Canadian entities are as follows:

As at June 30,			**2021**			2020
	U.S. dollar	**EURO**	**Total**	U.S. dollar	EURO	Total
	$	**$**	**$**	$	$	$
Financial assets						
Cash	**2,977**	**383**	**3,360**	1,270	202	1,472
Accounts receivable	**2,680**	**58**	**2,738**	4,171	98	4,269
Prepaid expenses and deposits	**528**	**1,224**	**1,752**	-	-	-
	6,815	**1,665**	**7,850**	5,441	300	5,741
Financial liabilities						
Bank loans	**-**	**-**	**-**	(815)	-	(815)
Accounts payable and accrued liabilities	**(529)**	**(223)**	**(752)**	(659)	-	(659)
	(529)	**(223)**	**(752)**	(1,474)	-	(1,474)

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, related party loans receivable, bank loans, contingent consideration and long-term debt. The Corporation does not use derivatives to cover this risk.

The related party loans receivable and the long-term debt 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 and the long-term debt bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. To manage this, the Corporation enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at June 30, 2021 and 2020, 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 earnings (loss) and comprehensive income (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 and contract assets. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and contract assets and establishes an allowance for expected credit losses based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables and contract assets 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 and contract assets. In order to mitigate its credit risk and increase its borrowing capacity, the Corporation insures a portion of its accounts receivable through EDC insurance coverage. As at June 30, 2021, the allowance for expected credit losses was $220 ($171 as at June 30, 2020) and nil$ for contract assets.

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,	**2021**	2020
	$	$
Cash	**15,409**	9,439
Accounts receivable	**22,148**	19,291
Contract assets	**7,574**	8,629
Other assets	**200**	301
Related party loans receivable	**1,250**	1,250

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,	**2021**	2020
	$	$
Current	**11,913**	7,700
Past due 1 to 30 days	**2,594**	2,620
Past due 31 to 90 days	**2,830**	4,377
Past due more than 90 days	**1,944**	1,887
	19,281	16,584
Less: Allowance for expected credit losses	**(220)**	(171)
Trade accounts receivable	**19,061**	16,413
Retentions from customers under project contracts	**2,818**	2,669
Other receivables	**269**	209
	22,148	19,291

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 and lease liability instalments payable when contractually due including accrued interest:

As at June 30, 2021	Contractual undiscounted payments	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	**$**	**$**	**$**	**$**
Bank loans	**-**	**-**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**15,466**	**15,466**	**-**	**-**	**-**
Long-term debt	**16,822**	**3,416**	**3,337**	**9,866**	**203**
Lease liabilities	**15,282**	**2,126**	**1,866**	**1,492**	**9,798**
Other non-current financial liabilities	**261**	**-**	**-**	**261**	**-**
Contingent considerations	**6,738**	**4,026**	**2,712**	**-**	**-**
Total	**54,569**	**25,034**	**7,915**	**11,619**	**10,001**

As at June 30, 2020	Contractual undiscounted payments	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank loans	3,415	3,415	-	-	-
Accounts payable and accrued liabilities	15,915	15,915	-	-	-
Long-term debt	17,686	3,287	3,513	9,748	1,138
Lease liabilities	10,814	1,721	1,622	1,375	6,096
Other non-current financial liabilities	371	-	-	371	-
Contingent considerations	1,413	1,413	-	-	-
Total	**49,614**	**25,751**	**5,135**	**11,494**	**7,234**

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, accounts receivable, related party loans receivable, other assets, 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 $15,916 ($16,548 as at June 30, 2020) and was determined to be a level 2 financial instrument.

Contingent considerations
The fair value of the contingent considerations has been established by discounting the future cash flows. The fair value of the contingent considerations is $6,738 ($1,413 as at June 30, 2020) and was determined using unobservable (level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present value the cash flows which is based on the risk associated with the revenue targets being met.

Contingent consideration – GMP acquisition
If projected cash flows were 10.0 % higher, the fair value would have increased by $0.6 M and if projected cash flows were 10.0 % lower, the fair value would have decreased by $0.6 M. Discount rates ranging from 15.0 % to 17.0 % have been applied and consider the time value of money. A change in the discount rate by 100 basis points would have increased / decreased the fair value by $0.1 M.

Contingent consideration - GUS acquisition
If projected cash flows were 10.0 % higher, the fair value would have increased by $0.1 M and if projected cash flows were 10.0 % lower, the fair value would have decreased by $0.1 M. Discount rate of 15.0 % has been applied and consider the time value of money. A change in the discount rate by 100 basis points would not have had a significant impact on the Corporation's net earnings (loss).

RISK FACTORS

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.

Supply chain

For the manufacturing of its products or the performance of technical services, the Corporation relies on different suppliers, vendors and subcontractors ("suppliers") worldwide. Globally, management believes that the Corporation has good relationships with its suppliers and that it is generally able to obtain competitive pricing and other terms and conditions favourable for the Corporation. Raw materials, parts, materials, equipment or services, including transportation (the "supplies") are bought on an order-by-order basis and the Corporation has very few master purchase agreements with its suppliers.

The Corporation is exposed to potential supply chain disruptions or errors, delays in delivery and cost increases that could result in faulty materials, shortage of supplies, penalties or impacts on contract profitability, especially with the ongoing COVID-19 pandemic.

If a supplier fails or is unable, for any reason, to provide supplies, or provides supplies that are not of an acceptable quality, the Corporation may be required to delay the delivery of those supplies or to source them from other suppliers, on an expedited basis and at a higher price than anticipated, impacting contract profitability. In addition, providing faulty supplies to a customer could result in claims against the Corporation for failure to meet project specifications. In instances where the Corporation relies on a single contracted supplier or a small number of suppliers, there can be no assurance that the marketplace can provide these products or services on a timely basis, or at the costs the Corporation had anticipated.

Failure to implement and maintain effective supplier selection and procurement practices could adversely affect H_2O Innovation's ability to meet project specification or to deliver products and services in due time, resulting in potential exposure to liquidated damages, inability to obtain attractive pricing and impacts on contract profitability.

Availability of supplies as well as variation in their prices or in the transportation costs of these supplies, as a result of foreign exchange rate fluctuations, economical changes or regulatory landscape of the country of origin or the global economic situation due to the COVID-19, can impact Corporation's manufacturing costs and contract profitability. The potential impacts of supplies' prices volatility or other pricing variations (including transportation costs) on H_2O Innovation's financial results depends on its ability to transfer those increases to its customers, including in the context of a competitive market and during a worldwide pandemic.

The global supply chain instability, resulting from the COVID-19 pandemic, is currently a challenge to the Corporation's ability to obtain and deliver goods. While the Corporation can adjust some of its products and services' prices to manage the overall raw material price and freight cost increase, some of its business lines, such as WTS, are facing margin erosion in some fixed price projects. In addition to the margin erosion, the unforeseeable delays and the port congestion affect the Company's ability to obtain supplies and deliver products according to initial schedules.

Fixed price contracts and renewal

The Corporation typically enters into fixed price contracts for the design, manufacture and commissioning of its Water Technologies and some Specialty Products, for which the price is based on technical risk estimates, production costs and potential contingencies. Such fixed price, if materially inaccurate or if impacted by significant increases of manufacturing, supplies and transportation costs, can result in potential losses related to the reported performance obligations of the Corporation.

In addition, the Corporation enters into O&M service agreements for terms ranging from 3 to 5 years, with multi-year renewal options, or on an evergreen basis. In the event an O&M service contract is not renewed at the end of its term or terminated at any time by a customer upon a relatively short notice, any such non-renewal or termination may adversely affect the Corporation's results and financial position as well as its reported performance obligations with a corresponding impact on expected future revenues and profitability.

Competitive environment

The Corporation competes with companies of various sizes offering substantially similar technologies, products and services dedicated to the water industry. Historically, the Corporation has developed its target markets by building on its innovative technologies and on the expertise and know-how of its employees to provide customers with customized and tailored solutions that provide economic and operational advantages. The Corporation considers that the global financial conditions, development of innovative technologies and specialty products as well as capital investments made by potential customers in their infrastructure contribute to increase the competition and the number of companies bidding on a same project. In the different segments in which the Corporation operates, competition is based on a number of factors, mainly pricing, performance obligations, internal resources, financial strength, technology, application and know-how, reputation for quality, timeliness and experience, distribution network and technical services. If the Corporation is unable to effectively respond to competitive factors, results of operations and financial condition may be adversely impacted.

Operating risks

Different types of events could induce an interruption and/or a loss of the Corporation's operation and production and cause significant delays in operation. To mitigate that risk, the Corporation has located its inventory in different warehouses strategically located and has implemented an emergency plan. In the event that one of the Corporation's locations is affected by an event that leads to a business interruption, a significant portion of the Corporation's operations can be moved to another location, or source from another warehouse or subcontractor with whom the Corporation has established good business relationship. The Corporation also maintains business interruption and contingent business interruption insurance coverage.

Design and manufacturing of water treatment systems and specialty products as well as the performance of O&M services involve a significant degree of operating risks. There are a few products that are designed and manufactured by the Corporation, and specialized technical services performed by Corporation's employees, for which a major failure or human error could cause material damages and personal injury, even death. The occurrence of any of these events could result in criminal prosecutions, financial loss, loss of market and customer confidence, loss of key customer and business interruption, all of which may have an adverse effect on the Corporation's business. The Corporation uses software that has improved the design, drafting, estimation and fabrication of its products to minimize human error and controls production quality in its plants. The Corporation maintains product liability, pollution liability and other insurance coverage that management of the Corporation believes is generally in accordance with the market practice in its industry, but there can be no assurance that the Corporation will always be adequately insured against all such potential liabilities.

Due to the nature of its operations, the Corporation may also be negatively impacted to varying degrees by climate change and natural disasters beyond its control, including hurricanes, floods, ice storms or other natural catastrophes. While the Corporation has in place an emergency plan, is prepared to face these types of events and to mitigate their risks on its operations, natural disasters can evolve quickly and have potential operational and financial impacts hard to predict. Consequently, there is no assurance that the Corporation's operations and ability to carry on its business will not be disrupted by natural disasters or climate change.

Recruitment, Retention and Management of Quality Employees and Key Personnel

The Corporation depends on the skills and experience of its executive officers, management team and other key employees having significant expertise and broad knowledge of the Corporation's business and activities. Thus, future growth and performance depend, among other things, on the Corporation's ability to attract, retain and motivate quality employees and key personnel, in all the fields of activities throughout the Corporation.

The Corporation's ability to meet its labour needs while controlling labour costs is subject to many external factors, including the competition for and availability of quality personnel in a given market, unemployment levels within those markets, minimum wage laws, health and other insurance costs and changes in employment and labour legislation. In the event of a labour shortage affecting the Corporation's staffing needs, the Corporation could experience difficulty in delivering its products and in performing technical services in a timely manner. Labour shortage could force H_2O Innovation to increase wages and benefits in order to attract and retain workers, which would result in higher operating costs and reduced profitability.

Therefore, the Corporation strives to offer competitive employment conditions, a wide variety of career opportunities and a stimulating working environment. However, other factors may come into play, and there can be no assurance that the employment conditions offered by the Corporation will be sufficient to retain qualified employees and key personnel.

Acquisition and expansion

The Corporation may expand its operations by acquiring additional businesses, products or technologies. While the Corporation's management has solid experience in integrating businesses, there can be no assurance that (i) the Corporation will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired business, products, or technologies into the business without substantial expenses, delays or other operational or financial difficulties, or (ii) acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Prior to completing a business acquisition, the Corporation performs exhaustive due diligence. Despite that, there are risks associated with the acquisition of a business where certain liabilities including, but not limited to, tax related claims, contingent liabilities, legal claims and environmental exposures, were not discovered during the due diligence and unknown at the time the acquisition was negotiated and concluded.

Health & Safety

Considering the type of industry in which the Corporation operates, the Corporation is facing situations that may result in accidents causing injuries to its employees, customers or subcontractors. In order to mitigate these risks, the Corporation has implemented a global health and safety program throughout its organization, which program includes proper training on how to face safety issues and awareness about potential hazardous work situations. In addition to the health and safety program, the Corporation has resources fully dedicated to the Corporation's health and safety, and also created an Health & Safety Committee with the objective of gathering all the health and safety practices already in place in the Corporation's business lines to create a uniform health and safety program throughout H_2O Innovation. Corporation's employees use a specialized software to report work-related incident. Additionally, the Corporation closely monitors its Total Recordable Incident Rate, often referred to as "TRIR" and its Days Away, Restricted or Transfers, often referred to as "DART", to measure the overall safety of the different workplaces.

In the midst of the COVID-19 pandemic, the health and safety of the Corporation's employees remains a priority, and even becomes a key challenge. Therefore, the Corporation implemented extensive health and safety measures across all its locations and operations in Canada, the USA, Spain and the UK, based on the guidance, recommendations and directions provided by the national and local public health authorities. Each location developed and updated, from time to time, protocols to protect the Corporation's employees, to meet the health and safety requirements and to promote good hygiene practices.

In the event the Corporation is unable to meet the health and safety measures related to COVID-19 or if, despite the Corporation's efforts and precautions, employees are exposed and infected by the COVID-19 virus, it could have an adverse effect on the Corporation's abilities to maintain its operations and activities and on its financial performance. Therefore, considering the availability of approved vaccines increasing protection against the COVID-19 and potential complications, the Corporation highly encourages that its employees get properly vaccinated in order to protect themselves, their family and their colleagues

Cybersecurity

The Corporation relies on the accuracy, reliability, and proper use of information processing systems and management information technology ("IT") and provides several services to its customers using these information processing systems. Any interruption in its IT systems and the resulting operational delays could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

The Corporation has developed and implemented a cybersecurity plan to mitigate the risks associated with cyber attacks or 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. All employees of the Corporation who work remotely, connect themselves to the Corporation's network through a virtual private network (VPN). The Corporation's network is also protected by firewalls controlling incoming and outgoing network traffic based on predetermined security rules. The Corporation maintains 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.

In addition, the Corporation hired an IT specialized external consultant to perform, at the Quebec City office, an external intrusion test, which is an analysis to identify and verify the presence of security weaknesses and vulnerabilities within the targeted systems and components. Following the external intrusion test, the recommendations of he IT consultant have been implemented to improve the Corporation's network security.

Public Health and ongoing COVID-19 pandemic

On March 11, 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. Therefore, over the past eighteen (18) months, the COVID-19 pandemic has impacted the world on many levels, and is still impacting to this date, the commercial activities globally. The different governmental emergency measures, the travel restrictions and the temporary business closures have led to global economic uncertainties, including a general reduction of consumer activities and delays in the operations and supply chain.

The Corporation has been actively monitoring the development of the COVID-19 pandemic and more particularly its effects on its business, supply chain and industry. In these unprecedented times, the degree to which the pandemic may affect the Corporation's activities in the future is difficult to predict. Being considered as an essential service and product provider, H_2O Innovation has been able to maintain its operation and activities since the beginning of the pandemic and the management expects that the situation will remain the same over the next years. To date, the impact of the COVID-19 pandemic on the Corporation has been, and is expected to remain, manageable. However, there are many factors that could affect the Corporation on different and hard to predict levels, such as the duration and magnitude of the pandemic as well as its effects on the global economy and the supply chain. The extent to which the COVID-19 pandemic may impact the Corporation's overall business, business opportunities, results of operations, financial condition and cash flows are outside of the Corporation's control and cannot be accurately predicted at this time.

International operations and global geopolitical climate

The Corporation's international sales operations expose it to risks inherent in operating in foreign jurisdictions, such as (i) imposition of or increase in import or export duties, surtaxes, tariffs or other customs duties, (ii) compliance with import and/or export laws, (iii) tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof, (iv) business practices favoring local companies, (v) longer accounts receivable cycles in certain foreign countries, whether due to cultural, economic or other factors, and (vi) changes or instability in foreign political or economic conditions. The Corporation cannot ensure that one or more of these factors will not harm the Corporation and the Corporation's inability to expand its international operations would adversely impact its revenues, results of operations and financial condition.

Foreign exchange

In addition, the Corporation's activities outside Canada expose the Corporation to foreign currency exchange risks, mainly as a result of its purchases and sales made in US dollar, Euro, or British Pound, which could adversely impact its operating results. To limit the impact of the fluctuations of the Canadian dollar over the US 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 uses derivative financial instruments such as forward currency contracts to cover the variability of cash flows in foreign currencies. Although the Corporation contracted such derivatives financial instruments, they do not use hedging under IFRS 9 – *Financial Instruments* and similar financial instruments.

Compliance with anti-corruption and anti-bribery laws

Due to its international operations and activities, H_2O Innovation is subject to various laws and regulations relating to bribery and corruption in the jurisdictions in which it sells its technologies, products and services. Although the Corporation has procedures in place, such as an Ethics and Business Conduct Policy, a Procurement Procedure and a Supplier Code of Business Conduct and Ethics, if the Corporation is found to be liable for anti-corruption or anti-bribery law violations (either due to its own acts or inadvertence, or due to the acts or inadvertence of others, including actions taken by H_2O Innovation's distributors or representatives), the Corporation could suffer from penalties or sanctions, which could adversely affect its business, financial condition and results of operations.

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, completion of an acquisition, technological innovations, new commercial products, 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. Broad market fluctuations, as well as economic conditions generally may adversely affect the market price of the Corporation's common shares.

Development of new products

The water industry is characterized by evolving technologies, competition-imposed standards and regulatory requirements which have an impact on the demand and force the Corporation to improve its technologies, products and services. The Corporation's inability to enhance existing technologies, products and solutions and develop and introduce new innovative water treatment solutions in a timely manner in response to changing market conditions and customer demands, could be materially and adversely affected.

In addition, development of new technologies and products of a specialized nature entails inherent risks, such as (i) the non-performance of such new technology or product, (ii) unacceptable reliability issues making such new technology or product unmerchantable, or (iii) poor performance of the components procured from third party suppliers. In such circumstances, development of new technologies and products may have an adverse impact on their marketability and on the Corporation's product liability, resulting in warranty claims against the Corporation.

Implementation and achievement of the Strategic Plan

The commercial strategy of the Corporation aims at leveraging its offering based on 3 pillars, namely WTS, Specialty Products and O&M. Focusing on customer satisfaction in order to build long-term relationships and increase recurring business, pushing for innovation, challenging the status-quo and delivering world-class technology solutions through its products and services and by striving for operational excellence, enable the Corporation to become leaner and better integrated. It also keeps the different Corporation's teams engaged and creates an inspirational and meaningful work environment for its employees. In addition, the Corporation's Strategic Plan focuses on cross-selling opportunities between its business lines and on new strategic acquisitions. The successful viability of the Corporation's growth strategy may require capital investments larger than those previously expected, along with employee and customer retention. Despite all the Corporation's efforts, nothing can guarantee that H_2O Innovation will achieve its desired growth level through its Strategic Plan.

Insurance coverage

The Corporation maintains a wide insurance portfolio relating to its operations, including, among other coverage, property, general and product liability, professional liability, pollution liability, cybersecurity liability, workers' compensation as well as directors' and officers' liability policies. There is a 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.

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 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. In the event that the Corporation does not have adequate or any insurance, claims, litigation or other losses could have a material adverse effect on results of operations and financial condition.

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.

Current global financial conditions

Volatile financial market conditions and adverse credit market conditions could adversely affect the borrowing capacity of the Corporation and of its customers, distributors and partners, which support the continuation and expansion of the Corporation's activities worldwide, and could result in contract cancellations or suspensions, project delays, payment delays or defaults by the Corporation's clients. Corporation's ability to operate or expand its business would be limited if, in the future, the Corporation is unable to access sufficient credit capacity, including capital market funding, bank credit, such as letters of credit, and surety bonding on favourable terms or at all. These disruptions could materially impact the Corporation's performance obligations, revenues, and net income.

Credit

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, obtains credit insurance when available and establishes an allowance for doubtful accounts based on forward-looking expected credit loss. Also, the Corporation insures a portion of its accounts receivable through Exportation and Development Canada ("EDC").

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 water treatment problem, 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.

Liquidity

The Corporation is subject to liquidity risks that are managed by establishing cash forecasts and operating and strategic plans. Constant monitoring of expected cash inflows and outflows is implemented and achieved through forecasts assessing the adequacy of cash resources to meet financial and contractual obligations as they become due, 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.

Indebtedness

The Corporation's credit agreements contain financial covenants requiring the Corporation, on a consolidated basis, to satisfy specific ratios. Such credit agreements also contain negative covenants restricting the Corporation's discretion and flexibility in the operation of its business. A breach of any of these credit agreements or the Corporation's inability to comply with these specific ratios could, if not cured or waived, result in an acceleration of the Corporation's financial debt or a cross-default under certain of its other credit agreements. If the Corporation's operating results or liquidity are not sufficient to service its current or future indebtedness, the Corporation may be required to implement measures such as reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital.In the normal course of business, the Corporation is exposed to interest rate fluctuation 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. 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.

Interest rate

In the normal course of business, the Corporation is exposed to interest rate fluctuation 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. 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. From time to time, the Corporation contracts interest rate swap to protect itself against interest rate fluctuations.

Capacity to secure performance guarantees

The Corporation is, in certain instances, required to obtain bonds or bank guarantees to secure its various contractual obligations. Significant instability or disruptions of the capital markets or a deterioration in or weakening of its financial position due to internal or external factors, could restrict or prohibit the Corporation to access to, or significantly increase the cost or the availability of, these bonds or bank guarantees, such as letters of credit. A deterioration in the Corporation's financial condition could limit the Corporation's ability to issue new bonds, letters of credit or other performance guarantees, which would have a material adverse effect on the Corporation's business, financial condition and results of operations. A draw on bonds, letters of credit or bank guarantees by one or more third parties could, among other things, significantly reduce the Corporation's cash position and have a material adverse effect on its business and results of 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. On November 14, 2019, the Corporation issued 20,982,619 new common shares and 10,491,310 Warrants exercisable at a price of $1.40 until November 15, 2021, under the 2019 Placement. In addition, as of June 30, 2021, there were 3,359,334 stock options issued and outstanding. As of June 30, 2021, 3,793,220 Warrants expiring on November 15, 2021 were issued and outstanding. The exercise of the Warrants and stock options, as well as any new equity financing, represent dilution factors for present and future shareholders.

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 the Corporation'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.

Transfer pricing

The Corporation conducts business operations in multiple jurisdictions and through various legal entities in Canada, the USA, Spain, Chile and UK. 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.

Reputation and regulatory risk

Given the nature of its international operations, the Corporation is required to comply with various local, national and international rules, laws, regulations and other legal requirements enforced by governments or other regulatory authorities. In addition, misconduct, fraud, non-compliance with such applicable rules, laws and regulations, or other improper activities by one of the Corporation's employees, agents or partners could have a significant negative impact on the Corporation's business 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 upon including the possibility of a default or a significant incident could adversely impact its reputation and influence its future capacity to win projects.

The consequence of reputational risk is a negative impact on the Corporation's public image, which may cause the cancellation of contracts and influence the Corporation's ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Corporation's contracts, alleged or proven non-compliance with laws or regulations by the Corporation's employees, agents, subcontractors, suppliers and/or partners.

Reported performance obligations

Corporation's reported performance obligations are derived from contracts that are considered firm or for which management estimates a certain amount of revenues to be generated from such contracts. Project delays, suspensions, terminations, cancellations or reductions in scope may occur from time to time in the Corporation's industry due to considerations beyond the Corporation's control and may have a material negative impact on the amount of reported performance obligations with a corresponding adverse impact on future revenues and profitability. Furthermore, the risk resulting from the loss of recurrent customers or distributors is considered and would have a noticeable impact on expected revenues and profitability. The likelihood of occurrence is possible, while low, considering the significant amount of competition within the different segments in which the Corporation operates. The Corporation developed broad distribution networks and continues to expand them worldwide by creating convergence and synergies.

Impairment

In accordance with IFRS, goodwill is assessed for impairment at least once a year by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate. The determination of these estimated cash flows requires the exercise of judgment, which might result in significant variances in the carrying amount of these assets. The Corporation cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Corporation's results of operations and financial position. Financial assets, other than those accounted for at fair value, are assessed for indicators of impairment at all time during a given fiscal year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Corporation may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Corporation's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Corporation's investments could also have a material adverse effect on its financial condition or results of operations.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in Note 2 of the Audited Consolidated Annual Financial Statements for the year ended June 30, 2021.

NEW ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2020, except for the adoption of new standards effective as of July 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. The Corporation applied these amendments to business combinations for which the acquisition date was on or after July 1, 2020. These amendments had no impact on the consolidated financial statements of the Corporation in the current year, but may impact future periods should the Corporation enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Corporation.

AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

The following amendments to standards have been issued and are applicable to the Corporation for its annual periods beginning on July 1, 2021 and thereafter, with an earlier application permitted:

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Corporation is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the

Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Corporation.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Corporation will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Corporation will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Corporation.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Corporation.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date

for these amendments is not necessary. The Corporation is currently assessing the impact of the amendments to determine the impact they will have on the Corporation's accounting policy disclosures.

The Corporation is currently evaluating the impact of adopting these amendments on its consolidated financial statements.

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, 2021.

Changes in Internal Controls over Financial Reporting

There have been no changes in Corporation's internal control over reporting that occurred during the most recent interim period and year ended June 30, 2021 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, other than changes resulting from the acquisitions of GUS and GMP described below.

Limitation on Scope of Design of Disclosure Controls and Procedures (DC&P) and Internal Control over Financial Reporting (ICFR)

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at June 30, 2021, did not include the controls or procedures of the operations of GUS, following its acquisition effective on July 1, 2020 and GMP, following its acquisition effective on February 1, 2021. The Corporation has accordingly availed itself of provision 3.3(1)(b) of Regulation 52-109 which permits exclusion of these acquisitions in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

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

(in thousands of Canadian dollars) (unaudited)	**Three-month period ended June 30, 2021**	**Twelve-month period ended June 30, 2021**
Results	**$**	**$**
Revenues	1,531	5,928
Net Earnings	234	716

	As at June 30, 2021
Financial Position	**$**
Current Assets	1,942
Non-Current Assets (1)	2,546
Current Liabilities	319
Non-Current Liabilities	52

(1) includes fair market value of acquired intangible assets

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

(in thousands of Canadian dollars) (unaudited)	**Three-month period ended June 30, 2021**	**Twelve-month period ended June 30, 2021**
Results	**$**	**$**
Revenues	1,493	3,016
Net Earnings (loss)	(430)	(89)

	As at June 30, 2021
Financial Position	**$**
Current Assets	4,996
Non-Current Assets (1)	1,395
Current Liabilities	1,980
Non-Current Liabilities	883

(1) includes fair market value of acquired intangible assets

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, 2021. 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

Frédéric Dugré

The Chief Financial Officer

Marc Blanchet

September 27, 2021

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

For additional information:
Investor Relations
investor@h2oinnovation.com

Trading symbols:
TSX Venture: HEO
Growth Paris: MNEMO: ALHEO
OTCQX: HEOFF

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

Independent auditor's report

To the shareholders of
H_2O Innovation Inc.

Opinion

We have audited the consolidated financial statements of **H_2O Innovation Inc.** and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of changes in shareholders' equity, consolidated statements of earnings (loss), consolidated statements of comprehensive earnings (loss), and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Guillaume Pinard-Beaudoin.

Ernst & Young LLP[1]

Quebec City, Canada
September 27, 2021

[1] CPA auditor, CA, public accountancy permit nº A133737

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

As at June 30,	2021	2020
	$	$
ASSETS (notes 13 and 15)		
Current assets		
Cash	**15,409**	9,439
Accounts receivable (notes 6 and 24)	**22,148**	19,291
Inventories (note 7)	**8,486**	7,869
Contract assets (note 20)	**7,574**	8,629
Prepaid expenses and deposits	**2,868**	926
	56,485	46,154
Non-current assets		
Property, plant and equipment (note 8)	**5,657**	6,923
Intangible assets (note 9)	**33,131**	29,079
Right-of-use assets (note 10)	**10,094**	8,918
Other assets	**200**	301
Related party loans receivable (note 28 a)	**1,250**	1,250
Goodwill (notes 5 and 11)	**30,209**	26,185
Investment in an associate (note 12)	**-**	1,592
Deferred income tax assets (note 17)	**76**	954
	137,102	121,356
LIABILITIES		
Current liabilities		
Bank loans (note 13)	**-**	3,415
Accounts payable and accrued liabilities (note 14)	**15,466**	15,915
Income taxes payable (note 17)	**508**	313
Provisions (note 22 c)	**644**	208
Contract liabilities (note 20)	**3,283**	3,168
Contingent considerations (notes 5 and 16)	**4,026**	1,413
Current portion of long-term debt (note 15)	**2,975**	2,782
Current portion of lease liabilities (note 18)	**1,636**	1,368
	28,538	28,582
Non-current liabilities		
Long-term debt (note 15)	**12,941**	13,766
Other non-current financial liabilities (notes 13 and 15)	**261**	371
Contingent consideration (notes 5 and 16)	**2,712**	-
Deferred income tax liabilities (note 17)	**3,937**	2,398
Lease liabilities (note 18)	**9,318**	7,626
	57,707	52,743
SHAREHOLDERS' EQUITY		
Share capital (note 19)	**119,780**	106,872
Reserve - Stock options (note 19)	**3,726**	3,473
Reserve – Warrants (notes 5 and 19)	**679**	2,706
Deficit	**(45,192)**	(48,311)
Accumulated other comprehensive income	**402**	3,873
	79,395	68,613
	137,102	121,356

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Frédéric Dugré
President and Chief Executive Officer

Lisa Henthorne
Chairwoman of the Board of Directors

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Canadian dollars, except share data)

	Common shares (number) (note 19)	Share capital (note 19)	Reserve – Stock option (note 19)	Reserve – Warrants (note 19)	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$	$
Balance as at July 1, 2019	55,889,989	89,057	3,250	167	(44,084)	2,469	50,859
Stock-based compensation costs (note 19)	-	-	223	-	-	-	223
Net loss	-	-	-	-	(4,227)	-	(4,227)
Issuance of common shares under private placement and public offering (notes 5 and 19)	20,982,619	19,545	-	-	-	-	19,545
Issuance of warrants under private placement and public offering (notes 5 and 19)	-	-	-	2,759	-	-	2,759
Share and warrants issue expenses (notes 5 and 19)	-	(1,730)	-	(220)	-	-	(1,950)
Other comprehensive loss – Currency translation adjustments	-	-	-	-	-	1,775	1,775
Other comprehensive income (loss) – Net loss on cash flow hedges	-	-	-	-	-	(371)	(371)
Balance as at June 30, 2020	76,872,608	106,872	3,473	2,706	(48,311)	3,873	68,613
Balance as at July 1, 2020	**76,872,608**	**106,872**	**3,473**	**2,706**	**(48,311)**	**3,873**	**68,613**
Stock-based compensation costs (note 19)	**-**	**-**	**253**	**-**	**-**	**-**	**253**
Net earnings	**-**	**-**	**-**	**-**	**3,119**	**-**	**3,119**
Shares issued on warrants exercised	**8,264,596**	**12,908**	**-**	**(2,027)**	**-**	**-**	**10,881**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**(3,878)**	**(3,878)**
Other comprehensive income (loss) – Cash flow hedges net gains/(losses) arising during the year (net of tax)	**-**	**-**	**-**	**-**	**-**	**168**	**168**
Other comprehensive income (loss) – Net gain on cash flow hedges reclassified to consolidated statement of earnings (loss) (note 15)	**-**	**-**	**-**	**-**	**-**	**237**	**237**
Balance as at June 30, 2021	**85,137,204**	**119,780**	**3,726**	**679**	**(45,192)**	**400**	**79,395**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(in thousands of Canadian dollars, except per share data)

Years ended June 30,	2021	2020
	$	$
Revenues (notes 20 and 27)	**144,324**	133,597
Cost of goods sold (note 22 a)	**104,379**	97,689
Gross profit before depreciation and amortization	**39,945**	35,908
Selling, general and administrative expenses (note 22 a)	**25,493**	23,748
Depreciation of property, plant and equipment and right-of-use assets (notes 8, 10 and 22 b)	**3,187**	2,880
Amortization of intangible assets (notes 9 and 22 b)	**4,141**	4,319
Other losses – net (note 22 c)	**2,012**	13
Restructuring costs (note 21)	**-**	406
Acquisition and integration costs (note 5)	**489**	1,912
Impairment of intangible assets and goodwill (notes 9 and 11)	**-**	5,308
Operating costs total	**35,322**	38,586
Operating (loss) profit	**4,623**	(2,678)
Finance income (note 28 a)	**(41)**	(47)
Finance costs	**2,376**	2,084
Finance costs – net	**2,335**	2,037
Share of profit of an associate (note 12)	**183**	169
Fair value gain on step acquisition (notes 5 and 12)	**2,351**	-
Earnings (loss) before income taxes	**4,822**	(4,546)
Current income tax expense (note 17)	**1,515**	562
Deferred tax expense (recovery) (note 17)	**188**	(881)
	1,703	(319)
Net earnings (loss) for the year	**3,119**	(4,227)
Basic net earnings (loss) per share (note 23)	**0.039**	(0.061)
Diluted net earnings (loss) per share (note 23)	**0.034**	(0.061)
Weighted average number of shares outstanding – Basic (note 23)	**79,469,345**	69,018,459
Weighted average number of shares outstanding – Diluted (note 23)	**91,233,758**	69,018,459

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
(in thousands of Canadian dollars)

Years ended June 30,	2021	2020
	$	$
Net earnings (loss) for the year	**3,119**	(4,227)
Other comprehensive income (loss) - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**(3,878)**	1,775
Cash flow hedges net gains/(losses) arising during the year (net of tax)	**168**	(371)
Net loss on cash flow hedges reclassified to consolidated statement of earnings (loss) (note 15)	**237**	-
Comprehensive loss for the year	**(354)**	(2,823)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

Years ended June 30,	**2021**	2020
	$	$
Operating activities		
Earnings (loss) before income taxes for the year	**4,822**	(4,546)
Non-cash items		
Finance costs – net	**2,335**	2,037
Depreciation of property, plant and equipment and right-of-use assets (notes 8, 10 and 22 b)	**3,187**	2,880
Amortization of intangible assets (notes 9 and 22 b)	**4,141**	4,319
Impairment of intangible assets and goodwill (notes 9 and 11)	**-**	5,308
Fair value gain on step acquisition (notes 5 and 12)	**(2,351)**	-
Gain on sale and leaseback transaction (note 10)	**(68)**	-
Changes in fair value of contingent considerations (note 16)	**462**	329
Others	**(4)**	219
Net foreign exchange differences	**(792)**	214
Stock-based compensation costs	**253**	223
Share of profit of an associate (note 12)	**(183)**	(169)
	11,802	10,814
Change in working capital items	**(3,222)**	1,623
Interests received	**41**	47
Income taxes paid	**(1,337)**	(2)
Net cash flows from (used in) operating activities	**7,284**	12,482
Investing activities		
Variation of other assets	**200**	(60)
Acquisition of property, plant and equipment	**(1,186)**	(906)
Proceeds from sale and leaseback transaction (note 10)	**2,572**	-
Acquisition of intangible assets	**(370)**	(342)
Business combination, net of cash acquired (note 5)	**(4,319)**	(22,738)
Payment of contingent consideration (note 16)	**(2,860)**	(1,487)
Dividends from associate (note 12)	**1,195**	-
Net cash flows from (used in) investing activities	**(4,768)**	(25,533)
Financing activities		
Proceeds from bank loans	**2,035**	1,150
Repayment of bank loans	**(5,450)**	(5,280)
Net proceeds from long-term debt contracted (note 15)	**8,510**	12,000
Long-term debt reimbursement (note 15)	**(9,637)**	(2,914)
Payment of lease liabilities (note 18)	**(1,838)**	(1,733)
Interest paid	**(1,445)**	(1,510)
Financing costs	**(126)**	(353)
Warrants exercised	**10,881**	-
Issuance of common shares and warrants under private placement and public offering (note 19)	**-**	16,768
Share and warrants issue expenses (note 19)	**-**	(1,678)
Net cash flows from financing activities	**2,930**	16,450
Net change in cash	**5,446**	3,399
Effect of exchange rate changes on the balance of cash held in foreign currencies	**524**	(188)
Increase in cash	**5,970**	3,211
Cash –Beginning of the year	**9,439**	6,228
Cash –End of the year	**15,409**	9,439

See accompanying notes to consolidated financial statements.

1. Description of business

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 technologies and services ("WTS"); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) ("Specialty Products"); and iii) operation and maintenance services for water and wastewater treatment systems ("O&M"). The registered office of the Corporation is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Quebec, G1K 9C5, Canada.

2. Basis of preparation

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 27, 2021, 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. The functional currency of the foreign subsidiaries located in the United Kingdom is the British pound, except for H_2O Innovation UK Holding Limited for which the functional currency is the Canadian dollar. The functional currency of the foreign subsidiary located in Spain is the Euro and the functional currency of the foreign subsidiary located in Chile is the Chilean peso.

All values are rounded up to the nearest thousand dollars, except where otherwise indicated.

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., Piedmont Hong Kong Limited, H_2O Innovation Operation & Maintenance, LLC, and H_2O Innovation UK Holding Limited and its subsidiaries, Genesys International Limited, Genesys Membrane Products, S.L.U. and Genesys Membrane Products Latinoamericana Limitada.

<u>*Subsidiaries*</u>
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.

Investment in associates
An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Corporation's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Corporation's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of earnings (loss) reflects the Corporation's share of the results of operations of the associate. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the Corporation's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Corporation recognizes its share of any changes, when applicable, in the consolidated statement of changes in shareholder's equity. Unrealized gains and losses resulting from transactions between the Corporation and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Corporation's share of profit or loss of an associate is shown on the face of the consolidated statement of earnings (loss) outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate. When necessary, adjustments are made to bring the accounting policies in line with those of the Corporation.

After application of the equity method, the Corporation determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Corporation determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Corporation calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the consolidated statement of earnings (loss). Upon loss of significant influence over the associate, the Corporation measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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 costs are expensed as incurred in the consolidated statement of earnings (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 earnings (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

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 *IFRS 9 Financial Instruments*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of earnings (loss).

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.

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.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

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 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 earnings (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 income (loss) and accumulated in equity under the heading of currency translation adjustment.

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

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.

Cash

Cash includes cash and demand deposits.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average costs method for raw materials and finished goods, except for labour and overhead, which is determined using the absorption costing method. The absorption costing method used by the Corporation includes labour and a proportion of manufacturing overhead costs based on the normal operating capacity but excluding borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs necessary to make the sale.

Leases

Right-of-Use Assets
Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are amortized over the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes renewal options only if the Corporation is reasonably certain to exercise the options. Lease terms range from 2 to 15 years for buildings, 1 to 5 years for automotive equipment and 3 to 10 years for machinery and equipment.

Lease Liabilities
At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

Short-term leases and leases of low-value assets

The Corporation applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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. 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	2-10 years
Computer equipment	3-5 years
Furniture, fixtures and office equipment	2-10 years
Automotive equipment	2-5 years
Containerized units	4-10 years
Leasehold improvements	remaining term of the lease between three and ten years

The depreciation expense is included as “Depreciation of property, plant and equipment and right-of-use assets” in the consolidated statement of earnings (loss).

When significant parts of plant and equipment are required to be replaced at intervals, the Corporation depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of earnings (loss) as incurred.

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 earnings (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 amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of earnings (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 amortization period and the amortization 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 earnings (loss) as "Amortization of intangible assets".

Intangible assets with indefinite useful lives are not amortized, 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 five (5) or ten (10) years.

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 seven (7) to fifteen (15) years.
- 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 three (3) to seven (7) years.
- Customer relations are amortized using the straight-line method over periods of ten (10) and fifteen (15) years.
- Non-compete agreements are amortized using the straight-line method over a period of six (6) months to ten (10) 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.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Corporation can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over a maximum period of five years on a straight-line basis.

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 in determining fair value less cost to sell, recent market transactions are taken into account. 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 earnings (loss).

For assets excluding goodwill, a previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

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 earnings (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. CGUs 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 CGU 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.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

The Corporation has elected to perform its annual impairment test of goodwill as of April 1st of each year.

Financial instruments – initial recognition and subsequent measurement

Classification and measurement

All financial assets and liabilities are recognized initially at fair value, in the case of financial instruments not at fair value through profit and loss (''FVTPL''), plus transaction costs.

Debt financial instruments are subsequently measured at FVTPL, fair value through other comprehensive income ("FVOCI"), or amortized cost using the effective interest rate method. The Corporation determines the classification of its financial assets based on the Corporation's business model for managing the financial assets and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. The Corporation's derivatives not designated as a hedging instrument in a qualifying hedge relationship are subsequently measured at FVTPL. Equity instruments within the scope of IFRS 9, if any, are subsequently measured at FVTPL or elected irrevocably to be classified at FVOCI at initial recognition.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the Corporation's own credit risk of that liability is recognized in OCI unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in the consolidated statements of earnings (loss) and comprehensive income (loss). The remaining amount of change in the fair value of liability is recognized in the consolidated statements of earnings (loss). Changes in fair value of a financial liability attributable to the Corporation's own credit risk that are recognized in OCI are not subsequently reclassified to the consolidated statements of earnings (loss); instead, they are transferred to retained earnings (deficit), upon derecognition of the financial liability.

The Corporation has made the following financial instrument classifications:

Financial Instrument	IFRS 9 Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Other assets	Amortized cost
Related party loans receivable	Amortized cost
Bank loans	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Contingent considerations	FVTPL
Other non-current financial liabilities	Amortized cost, or FVOCI for cash flow hedges

Impairment

IFRS 9 requires a forward-looking Expected Credit Loss ("ECL") model. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive.

For accounts receivable and contract assets, the Corporation elected to use the simplified approach and assessed the impact of the standard based on lifetime expected credit losses. The Corporation has established a provision that is based on the Corporation's historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment.

For related party loans receivable, the allowance for credit loss ("ACL") is based on the 12-month ECL, referred to as the general approach under IFRS 9. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Corporation considers a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit risk mitigated by Export Development Canada's ("EDC") insurance for some of the accounts receivable.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Corporation has transferred its rights to receive cash flows from the asset and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive loss.

Derivative financial instruments and hedge accounting

The Corporation uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to consolidated statement of earnings (loss), except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to consolidated statement of earnings (loss) when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.
- Hedges of a net investment in a foreign location.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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The Corporation has only elected to designate hedging relationships with regards to interest rate swap contracts to mitigate the interest rate risk variation on long-term debt.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statement of earnings (loss). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Corporation uses interest rate swap contracts as hedges of its exposure to interest rate risk in forecast transactions and firm commitments. The ineffective portion relating to interest rate swap contracts is recognized in the consolidated statement of earnings (loss).

The Corporation designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to the consolidated statement of earnings (loss) as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statement of earnings (loss). If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the consolidated statement of earnings (loss) as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Revenue recognition

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a point in time, depending on which method reflects the transfer of control of the goods or services underlying the particular performance obligation to the customer.

Project contracts

In most cases, for performance obligations satisfied over time, the Corporation recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Corporation in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. In certain other situations, the Corporation might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

The Corporation accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Corporation's stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Corporation recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

As a significant portion of the Corporation's revenues are recognized over time, the contractual terms which determine when consideration becomes receivable from the customer, such as upon the achievement of certain milestones, the Corporation's reaching such milestones earlier or later than anticipated and the ability to obtain down payments on contracts will influence, among other factors, the balance of trade receivables, contract assets and contract liabilities on a given contract.

A contract asset is initially recognized for revenue earned from services performed under its design and manufacturing contracts because the receipt of consideration is conditional to certain terms of the contract. Upon completion of the services and acceptance by the customer, the amount recognized as contract assets is reclassified to trade accounts receivable.

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Corporation transfers the related goods or services. Contract liabilities are recognized as revenue when the Corporation performs under the contract (i.e., transfers control of the related goods or services to the customer).

If the Corporation has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Corporation recognizes any impairment loss that has occurred on assets dedicated to that contract.

Sales of specialty products and services activities
For Specialty Products and services activities, revenue is recognized at the point in time when control of the asset is transferred to the customer, either at FOB shipping or FOB destination. The Corporation generally has a right to payment at the time of delivery (which is the same time that the Corporation has satisfied its performance obligations under the arrangement), as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.

Revenues from services activities consist of the number of labour hours required to repair water treatment system to which a billing rate per hour is applied and is recognized at a point time.

The Corporation may provide discounts and sales promotional incentives to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. The Corporation applies the most likely estimated discount to be provided to customers using contracted rates and estimating volume rebates provided to customers based on historical spending patterns. Consequently, revenues are recognized net of these estimated promotional incentives.

In subsequent periods, the Corporation monitors the performance of customers against agreed-upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

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 billings occurring monthly based on one-twelfth of the annual service fee as outlined in the contract, and revenues are recognized over time. 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 recognized as they occur.

The amount of revenue recognized by the Corporation is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Corporation expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives and volume rebates.

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 earnings (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 earnings (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 earnings (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.

Warrants

Proceeds from the issue of warrants treated as equity are recorded as a separate component of equity. Costs incurred on the issue of warrants are netted against proceeds. Warrants issued with common shares are measured at fair value at the date of issue using the Black-Scholes pricing model, which incorporates certain input assumptions including the warrant price, risk-free interest rate, expected warrant life and expected share price volatility. The fair value is included as a component of equity and is transferred from warrants to common shares on exercise.

Taxation

Income tax expense represents the sum of the current and deferred tax. Tax is recognized in the consolidated statement of earnings (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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 recognized 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. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized 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.

As required by the chief operating decision maker, the Corporation operates under three financial reporting segments: i) water technologies and services (“WTS”); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) (“Specialty Products”); and iii) operation and maintenance services for water and wastewater treatment systems (“O&M”).

Net earnings (loss) per share

Basic net earnings (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 and warrants 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.

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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 as required by law. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, duration of warranties provided by suppliers, altered manufacturing processes or other events affecting product quality. The warranty provisions are accounted as liability under Provisions.

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

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2020, except for the adoption of new standards effective as of July 1, 2020. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. The Corporation applied these amendments to business combinations for which the acquisition date was on or after July 1, 2020. These amendments had no impact on the consolidated financial statements of the Corporation in the current year, but may impact future periods should the Corporation enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material
The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Corporation.

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.

Impact of COVID-19

The COVID-19 pandemic has significantly disrupted and, although vaccination campaigns are currently underway in certain countries/regions, it continues to significantly disrupt global health, economic and market conditions and has triggered and continues to induce an indeterminate period of volatility and slowdown in the global economy and recessions. The full impact of the COVID-19 pandemic, including the impact of the preventative and mitigation measures that the Corporation, other businesses and governments worldwide are taking to combat the spread of the disease and subsequent waves and variants thereof, continues to evolve and the pandemic continues to have material adverse repercussions in the jurisdictions where the Company has offices and delivers services, and it continues creating significant volatility and negative pressure on virtually all national economies as well as financial markets, in each case, notwithstanding the fact that vaccination campaigns are currently underway.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at June 30, 2021, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and intangible assets impairment. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, goodwill and provision for onerous contracts. The duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Estimates and assumptions

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 and through the date prior to the financial statements being available for release. In this process, management applies significant estimates about percentage-of-completion 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 or group of 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 assumptions 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.

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 CGUs 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 CGUs.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 11.

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 (loss) and consolidated statement of financial position.

Contingent consideration
Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Assessment of the useful economic life of customer relationships
The amortization period for the customer relationships over the estimated useful economic life using the straight-line method is a significant estimate that is reviewed by Management on an annual basis.

4. Accounting standards and amendments issued but not yet adopted

The following amendments to standards have been issued and are applicable to the Corporation for its annual periods beginning on July 1, 2021 and thereafter, with an earlier application permitted:

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Corporation is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Corporation.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Corporation will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Corporation will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Corporation.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Corporation.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by

replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Corporation is currently assessing the impact of the amendments to determine the impact they will have on the Corporation's accounting policy disclosures.

The Corporation is currently evaluating the impact of adopting these amendments on its consolidated financial statements.

5. Business combinations

A. Acquisition of Genesys Membrane Products, S.L.U.

Description of the business combination

On November 14, 2019, the Corporation acquired 24% of the issued and outstanding shares of Genesys Membrane Products, S.L.U. ("GMP"), located in Madrid, Spain. On February 1, 2021, the Corporation announced the acquisition of the remaining 76% of the issued and outstanding shares of GMP and obtained control of GMP. This investment was classified prior to this transaction as an investment in associate and accounted for using the equity method.

GMP began as the technical service partner of Genesys, and over the years it has developed specialized membrane autopsy capabilities in its Madrid, Spain, laboratory. Its business also grew through the sale of specialty chemicals, filters, and complementary products to serve the membrane industry. This unique expertise is expected to facilitate the technical sales and key account strategy of the Corporation's global chemicals business lines, Genesys® and PWT™. GMP's local presence in Santiago, Chile, through its wholly owned subsidiary Genesys Membrane Products Latinoamerica Limitada, also positions the Corporation to better access the Latin American membrane chemical market, in particular the mining industry which is a strategic target for the Corporation's Genmine™ product line.

The valuation of GMP is based on six times earnings before interest, taxes, depreciation, and amortization ("EBITDA"). The purchase price will be paid over 3 years based on two times the EBITDA after achieving a minimum threshold for each calendar year of 2020, 2021 and 2022, multiplied by 76 %. At closing, the Corporation paid out from its working capital an amount of $2.4 M (€1.5 M), which was subject to certain adjustments upon receipt of the 2020 audited financial statements. The first contingent consideration payable amounting to $0.9 M (€0.6 M) was finalized and has been paid by the Corporation as at June 30, 2021. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustments amounting to $1.1 M (€0.7 M) was finalized and has been paid by the Corporation as at June 30, 2021.

The contingent consideration due for 2021 and 2022 will be calculated and paid, using the same formula once the audited financial statements for each of those years will be completed. The fair value of contingent consideration was estimated at $6.9 M (€4.5 M) using the Corporation's best estimate as at the acquisition date and remeasured as at each subsequent reporting dates (note 16). The significant unobservable inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at June 30, 2021 are provided in note 24.

The Corporation recognized a gain of $2.4 M as a result of measuring at fair value its 24% equity interest in GMP held before the business combination (note 12). The fair value gain on step acquisition is included in the Corporation's consolidated financial statements in the Consolidated Statements of Earnings (Loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

Purchase price allocation on acquisition date (February 1, 2021)

(In thousands of Canadian dollars)	Initial allocation	Adjustments	Final allocation
	$	$	**$**
Assets acquired			
Cash	2,775	-	**2,775**
Accounts receivable (1)	2,243	13	**2,256**
Inventory	897	(19)	**878**
Property, plant and equipment	369	-	**369**
Right-of-use assets (2)	1,142	-	**1,142**
Liabilities assumed			
Bank loans	(929)	-	**(929)**
Accounts payable and accrued liabilities	(1,766)	1	**(1,765)**
Lease liabilities (2)	(1,142)	-	**(1,142)**
Deferred tax liabilities	(1,719)	-	**(1,719)**
Identifiable net tangible assets acquired	1,870	(5)	**1,865**
Intangible assets acquired	6,876	(6,876)	**-**
Customer relationships	-	6,700	**6,700**
Non-compete agreements	-	176	**176**
Goodwill arising on acquisition	4,771	(72)	**4,699**
Fair value of identifiable net assets acquired	13,517	(77)	**13,440**
Consideration			
Cash	2,417	-	**2,417**
Contingent consideration	6,915	5	**6,920**
Working capital adjustment	1,190	(65)	**1,125**
Total consideration transferred	10,522	(60)	**10,462**
Fair value of the Corporation's equity interest in GMP held before the business combination	2,995	(17)	**2,978**
	13,517	(77)	**13,440**
Cash consideration paid			**2,417**
Working capital adjustment paid			**1,125**
Less: Cash acquired			**(1,846)**
Net cash flow on acquisition			**1,696**

(1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with $0.1 M of estimated uncollectible amount.
(2) The Corporation measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

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 2021. The original transaction was made in Euro and converted into Canadian dollars as at the acquisition date.

Since the initial allocation, which occurred in the three months period ended March 31, 2021, the Corporation has determined the final working capital of the acquiree and has also obtained evidence to evaluate the fair value of the intangible assets acquired.

All of the intangible assets and the goodwill acquired are not deductible for tax purposes.

Costs related to the acquisition

Transactions costs of $0.3 M were expensed and are included in Acquisition and integration costs in the consolidated financial statements in the Consolidated Statements of Earnings (Loss).

Determination of fair value

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

The Corporation's valuation of intangible assets has identified client relationships and non-compete agreements. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's calculations, an amount of $4.7 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) 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 net earnings for the year ended June 30, 2021 include $3.0 M in revenues and a net loss of $0.1 M generated from GMP additional business (excluding the $2.4 M gain recognized from the step acquisition).

If the business combination had been completed on July 1, 2020, the Corporation's consolidated revenues for the year ended June 30, 2021 would have reached $148.5 M and consolidated net earnings for the year ended June 30, 2021 would have been $3.0 M.

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 would have occurred on July 1, 2020, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit should GMP had been acquired on July 1, 2020, the Corporation has:

- 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;
- adjusted the financial results from non-recurring expenses related to the previous owner of the Company; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

B. Acquisition of Gulf Utility Service, Inc.

Description of the business combination

On June 30, 2020, the Corporation entered into a share purchase agreement pertaining to the acquisition of all the issued and outstanding shares of Gulf Utility Service, Inc. (“GUS”), a privately-owned company offering complete operation, maintenance and management services to water and wastewater infrastructures for different type of clients such as municipalities, municipal utility districts (commonly known as MUD) and public water systems in the State of Texas (United States). The effective date of the acquisition is July 1, 2020.

H_2O Innovation acquired GUS for an initial cash consideration of \$2.5 M (US\$1.9 M), a working capital adjustment of \$0.2 M (US\$0.1 M) plus contingent consideration. The fair value of the contingent consideration, which is based on specific revenue level achieved over a period of 18 months, was estimated at \$1.0 M (US\$0.7 M) using the Corporation’s best estimate as at the acquisition date and remeasured as at each subsequent reporting dates (note 16). The significant unobservable inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at June 30, 2021 are provided in note 24. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustment amounting to \$0.2 M (US\$0.1 M) was finalized and has been paid by the Corporation as at June 30, 2021.

The Corporation secured an additional long-term debt of \$2.1 M in order to complete this acquisition. The remaining portion of the purchase price is financed from the working capital of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

Purchase price allocation on acquisition date (July 1, 2020)

(In thousands of Canadian dollars)	Initial allocation	Adjustments	Final allocation
	$	$	**$**
Assets acquired			
Cash	121	-	**121**
Accounts receivable (1)	467	-	**467**
Inventory	170	(24)	**146**
Contract assets	293	(40)	**253**
Prepaid expenses and deposits	106	(87)	**19**
Property, plant and equipment	368	135	**503**
Right-of-use assets (2)	151	-	**151**
Other assets	80	39	**119**
Liabilities assumed			
Accounts payable and accrued liabilities	(416)	87	**(329)**
Lease liabilities (2)	(151)	-	**(151)**
Deferred tax liabilities	(507)	(17)	**(524)**
Identifiable net tangible assets acquired	682	93	**775**
Intangible assets acquired	2,284	(2,284)	**-**
Customer relationships	-	2,362	**2,362**
Goodwill arising on acquisition	702	(131)	**571**
Fair value of identifiable net assets acquired	3,668	40	**3,708**
Consideration			
Cash	2,546	-	**2,546**
Contingent consideration	924	40	**964**
Working capital adjustment	198	-	**198**
Total consideration payable	3,668	40	**3,708**
Cash consideration paid			**2,546**
Working capital adjustment paid			**198**
Less: Cash acquired			**(121)**
Net cash flow on acquisition			**2,623**

(1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with nil of estimated uncollectible amount.
(2) The Corporation measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

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 2021. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

Since the initial allocation, which occurred in the three months period ended September 30, 2020, the Corporation has determined the final working capital of the acquiree and has also obtained evidence to evaluate the fair value of the tangible and intangible assets acquired.

All of the intangible assets and the goodwill acquired are not deductible for tax purposes.

Costs related to the acquisition

Transactions costs of $0.1 M were expensed and are included in Acquisition and integration costs in the consolidated financial statements in the Consolidated Statements of Earnings (Loss).

Determination of fair value

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

The Corporation's valuation of intangible assets has identified client relationships. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

Goodwill arising from the business combination

Based on management's calculations, an amount of $0.6 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) 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 earnings for the year ended June 30, 2021 include $5.9 M in revenues and $0.7 M net earnings, generated from GUS additional business, and no pro forma figures have been used since the effective date of the acquisition is July 1, 2020.

C. Acquisition of Genesys

Description of the business combination

Effective on November 15, 2019, H_2O Innovation, through its wholly owned subsidiary H_2O Innovation UK Holding Limited, acquired all the shares outstanding, from arm's-length third parties, of Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited and Genesys North America, LLC (collectively, "Genesys"), a group of privately-owned companies based in the United Kingdom that develop, manufacture and distribute specialty reverse osmosis (RO) membrane chemicals, antiscalants, cleaners, flocculants and biocides, as well as a 24% interest in Genesys Membrane Products S.L.U. held by Genesys International Limited. Genesys provides chemicals and services to the membrane industry in almost 70 countries around the world.

H_2O Innovation acquired Genesys for a purchase price of $28.8 M (£16.9 M), on a cash-free, debt-free basis, fully paid on closing date and a subsequent working capital adjustment of $0.9 M (£0.5 M). The purchase price has been partially financed by a public offering of 13,335,000 units, each of which entitle the holder thereof to receive one common share (a "Common Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles its holder to purchase one common share of the Corporation (a "Warrant Share"), at a price of $1.40 per Warrant Share. The units have been issued at a price of $1.05 for aggregate gross value of approximately $14.0 M, of which $5.3 M of units subscribed have been settled on a net cash basis against the total consideration paid.

The purchase price has also been partially financed by a concurrent private placement, under which the Corporation and the co-lead underwriters entered into subscription agreements with certain institutional shareholders to issue, on a private placement basis, 7,647,619 units, each of which entitle the holder thereof to receive one Common Share and one-half of one common share purchase Warrant, for aggregate gross proceeds of approximately $8.0 M. The private placement occurred concurrently with the public offering described above.

The purchase price has also been partially financed by a new term loan in an amount of $12.0 M, granted by National Bank of Canada as lender under the amended and restated credit agreement of the Corporation and its subsidiary H_2O Innovation UK Holding Limited entered into on October 28, 2019 (the "Amended Credit Agreement"). The Corporation has drawn on such term loan the amount needed to complete the financing of the final purchase price amounting to $29.7 M.

Purchase price allocation on acquisition date (November 15, 2019)

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash and cash equivalents	1,739
Accounts receivable (1)	2,440
Inventory	721
Prepaid expenses and deposits	26
Income taxes receivable	174
Property, plant and equipment	2,016
Right-of-use assets (2)	127
Investment in an associate	1,447
Liabilities assumed	
Accounts payable and accrued liabilities	(1,856)
Lease liabilities (2)	(127)
Deferred tax liabilities	(2,484)
Identifiable net tangible assets acquired	4,223
Intangible assets acquired	
Software	131
Customer relationships	12,080
Non-compete agreements	465
Trademark	401
Goodwill arising on acquisition	12,441
Fair value of identifiable net assets acquired	29,741
Consideration	
Cash	23,563
Issuance of units	5,264
Working capital adjustment	914
Total consideration payable	29,741
Cash consideration paid	23,563
Working capital adjustment paid	914
Less: Cash acquired	(1,739)
Net cash flow on acquisition	22,738

(1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with nil of estimated uncollectible amount.

(2) The Corporation measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

(in thousands of Canadian dollars, except per share data)

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 2020. The original transaction was made in British pounds and converted into Canadian dollars as at the acquisition date.

Since the initial allocation, which occurred in the three months period ended December 31, 2019, the Corporation has determined the final working capital of the acquiree and has also obtained evidence to evaluate the fair value of the tangible and intangible assets acquired.

All of the intangible assets and the goodwill acquired are not deductible for tax purposes.

Costs related to the acquisition

The total acquisition and integration costs pertaining to the Genesys acquisition amounted to $2.0 M. The attributable costs of the issuance of the shares and warrants of $2.0 M have been charged directly to equity as a reduction in the share capital and warrants respectively amounting to $1.8 M and $0.2 M during the previous fiscal year.

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 client relationships, software, non-compete agreements and trademark. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year sales growth, discount rate and operating income before depreciation and amortization.

Goodwill arising from the business combination

Based on management's calculations, an amount of $12.4 M of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition.

6. Accounts receivable

As at June 30,	**2021**	2020
	$	$
Trade accounts receivable	**19,281**	16,584
Hold back from customers under manufacturing contracts	**2,818**	2,669
Allowance for expected credit losses	**(220)**	(171)
	21,879	19,082
Other receivables	**269**	209
	22,148	19,291

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 expected credit losses 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 expected credit losses is recorded is $220 ($171 as at June 30, 2020).

(in thousands of Canadian dollars, except per share data)

(a) Movement in the allowance for expected credit losses

As at June 30,	2021	2020
	$	$
Balance at beginning of the year	(171)	(65)
Impairment losses recognized on receivables	(177)	(112)
Amounts written off during the year as uncollectible	124	18
Foreign exchange translation	4	(12)
Balance at end of the year	(220)	(171)

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

7. Inventories

As at June 30,	2021	2020
	$	$
Raw materials	1,297	597
Work in progress	412	130
Finished goods	6,777	7,142
	8,486	7,869

As a result of variations in the aging of its inventory of raw materials held in Canada, the Corporation recognized a provision for obsolete inventory of $225 ($194 in fiscal year 2020).

(in thousands of Canadian dollars, except per share data)

8. Property, plant and equipment

Cost	Land	Buildings	Machinery and equipment	Computer equipment	Furniture, fixtures and office equipment	Automotive equipment	Containerized units	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Balance as at July 1, 2019	74	1,614	3,747	536	483	2,491	2,157	724	**12,772**
Additions [(a)]	-	-	199	87	10	240	509	41	**1,086**
Business combinations (note 5)	213	1,665	105	33	-	-	-	-	**2,016**
Disposals and write-offs	-	-	(1,628)	(133)	(167)	(386)	(1,065)	(1)	**(3,380)**
Effect of foreign currency exchange differences	(3)	(24)	71	1	4	84	39	11	**183**
Balance as at June 30, 2020	284	3,255	2,494	524	330	2,429	1,640	775	**11,731**
Additions [(a)]	**-**	**17**	**363**	**149**	**5**	**550**	**371**	**81**	**1,536**
Business combination (note 5)	**-**	**93**	**50**	**21**	**10**	**698**	**-**	**-**	**872**
Disposals and write-offs (note 10)	**(215)**	**(1,684)**	**-**	**(7)**	**-**	**(115)**	**-**	**-**	**(2,021)**
Effect of foreign currency exchange differences	**5**	**38**	**(166)**	**(7)**	**(5)**	**(243)**	**(115)**	**(28)**	**(521)**
Balance as at June 30, 2021	**74**	**1,719**	**2,741**	**680**	**340**	**3,319**	**1,896**	**828**	**11,597**
Accumulated depreciation									
Balance as at July 1, 2019	-	(525)	(2,351)	(263)	(272)	(672)	(1,672)	(443)	**(6,220)**
Depreciation expense	-	(118)	(363)	(127)	(52)	(554)	(205)	(48)	**(1,467)**
Disposals and write-offs	-	-	1,616	131	165	107	935	-	**2,954**
Effect of foreign currency exchange differences	-	1	(32)	(1)	(3)	(24)	(29)	(9)	**(97)**
Balance as at June 30, 2020	-	(642)	(1,130)	(260)	(162)	(1,143)	(971)	(500)	**(4,808)**
Depreciation expense	**-**	**(145)**	**(360)**	**(134)**	**(57)**	**(682)**	**(185)**	**(56)**	**(1,619)**
Disposals and write-offs	**-**	**107**	**-**	**7**	**-**	**87**	**-**	**-**	**201**
Effect of foreign currency exchange differences	**-**	**(1)**	**82**	**2**	**3**	**94**	**82**	**24**	**286**
Balance as at June 30, 2021	**-**	**(681)**	**(1,408)**	**(385)**	**(216)**	**(1,644)**	**(1,074)**	**(532)**	**(5,940)**
Net amount as at June 30, 2020	284	2,613	1,364	264	168	1,286	669	275	6,923
Net amount as at June 30, 2021	**74**	**1,038**	**1,333**	**295**	**124**	**1,675**	**822**	**296**	**5,657**

(a) The non-cash additions of property and equipment amounted to $0.4 M in the year ended June 30, 2021 ($0.2 M as at June 30, 2020).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

9. Intangible assets

Cost	Software	Intellectual property	Trademarks	Customer relations	Distribution network	Contractual agreements	Non-Compete agreements	Deferred development costs	Total
	$	$	$	$	$	$	$	$	$
Balance as at June 30, 2019	2,886	10,391	2,421	19,800	1,655	2,236	4,540	864	**44,793**
Additions	133	17	-	-	-	-	-	192	**342**
Business combination (note 5)	131	-	401	12,080	-	-	465	-	**13,077**
Disposals and write-offs	(17)	-	(3)	-	-	(7)	-	(12)	**(39)**
Effect of foreign currency exchange differences	10	497	72	935	62	84	170	4	**1,834**
Balance as at June 30, 2020	3,143	10,905	2,891	32,815	1,717	2,313	5,175	1,048	**60,007**
Additions	**123**	**-**	**-**	**-**	**-**	**-**	**-**	**247**	**370**
Business combination (note 5)	**-**	**-**	**-**	**9,062**	**-**	**-**	**176**	**-**	**9,238**
Effect of foreign currency exchange differences	**(14)**	**(401)**	**(174)**	**(1,557)**	**(149)**	**(201)**	**(409)**	**(15)**	**(2,920)**
Balance as at June 30, 2021	**3,252**	**10,504**	**2,717**	**40,320**	**1,568**	**2,112**	**4,942**	**1,280**	**66,695**
Accumulated amortization									
Balance as at June 30, 2019	(592)	(7,699)	(1,110)	(8,000)	(1,655)	(1,882)	(1,553)	(335)	**(22,826)**
Amortization expense	(302)	(713)	(257)	(2,096)	-	(208)	(614)	(129)	**(4,319)**
Impairment	(772)	(1,201)	(232)	(323)	-	-	-	(112)	**(2,640)**
Disposals and write-offs	-	-	2	-	-	-	-	3	**5**
Effect of foreign currency exchange differences	(14)	(408)	(36)	(490)	(62)	(73)	(64)	(1)	**(1,148)**
Balance as at June 30, 2020	(1,680)	(10,021)	(1,633)	(10,909)	(1,717)	(2,163)	(2,231)	(574)	**(30,928)**
Amortization expense	**(234)**	**(205)**	**(214)**	**(2,662)**	**-**	**(65)**	**(638)**	**(123)**	**(4,141)**
Effect of foreign currency exchange differences	**10**	**336**	**96**	**520**	**149**	**190**	**200**	**4**	**1,505**
Balance as at June 30, 2021	**(1,904)**	**(9,890)**	**(1,751)**	**(13,051)**	**(1,568)**	**(2,038)**	**(2,669)**	**(693)**	**(33,564)**
Net amount as at June 30, 2020	**1,463**	**884**	**1,258**	**21,906**	**-**	**150**	**2,944**	**474**	**29,079**
Net amount as at June 30, 2021	**1,348**	**614**	**966**	**27,269**	**-**	**74**	**2,273**	**587**	**33,131**

(in thousands of Canadian dollars, except per share data)

10. Right-of-use assets

The following tables reconciles the right-of-use assets for the Corporation as of June 30, 2021:

	Buildings	Automotive equipment	Machinery and equipment	Total
	$	$	$	$
Cost				
Balance as at July 1, 2019	7,866	331	787	8,984
Additions	773	276	17	1,066
Business combination (note 5)	-	93	34	127
Disposals and write-off	-	-	(34)	(34)
Effect of changes in exchange rates	179	15	2	196
Balance as at June 30, 2020	8,818	715	806	10,339
Additions	**2,083**	**34**	**-**	**2,117**
Business combination (note 5)	**1,293**	**-**	**-**	**1,293**
Disposals and write-off	**(11)**	**-**	**-**	**(11)**
Effect of changes in exchange rates	**(725)**	**(41)**	**(5)**	**(771)**
Balance as at June 30, 2021	**11,458**	**708**	**801**	**12,967**
Accumulated depreciation				
Balance as at July 1, 2019	-	-	-	-
Depreciation expense	(1,111)	(200)	(102)	(1,413)
Disposals and write-off	-	-	3	3
Effect of changes in exchange rates	(9)	(1)	(1)	(11)
Balance as at June 30, 2020	(1,120)	(201)	(100)	(1,421)
Depreciation expense	**(1,280)**	**(188)**	**(100)**	**(1,568)**
Disposals and write-off	**-**	**-**	**-**	**-**
Effect of changes in exchange rates	**102**	**12**	**2**	**116**
Balance as at June 30, 2021	**(2,298)**	**(377)**	**(198)**	**(2,873)**
Net amount – as at June 30, 2020	7,698	514	706	8,918
Net amount – as at June 30, 2021	**9,160**	**331**	**603**	**10,094**

During the year ended June 30, 2021, the Corporation completed sale and leaseback transaction of Corporation's owned properties in United Kingdom, for net proceeds of $2.6 M. The carrying value of the properties was $1.8 M. The sale and leaseback transaction resulted in a non-cash right-of-use adjustment of $1.3 M and a non-cash increase of lease liabilities of $2.0 M. Consequently, the Corporation recorded a gain on sale and leaseback transaction of $0.1 M and is included in Other losses – net in the Consolidated statements of earnings (loss).

(in thousands of Canadian dollars, except per share data)

11. Goodwill

The change in carrying value is as follows:

	Total
	$
Balance as at June 30, 2019	15,727
Plus: Business combination – Genesys (note 5 c)	12,441
Less: Impairment of goodwill	(2,668)
Effect of foreign exchange differences	685
Balance as at June 30, 2020	26,185
Plus: Business combination – GUS (note 5 b)	**571**
Plus: Business combination – GMP (note 5 a)	**4,699**
Effect of foreign exchange differences	**(1,246)**
Balance as at June 30, 2021	**30,209**

For the purpose of annual impairment testing, goodwill is allocated to cash-generating units (''CGU'') or groups of CGUs, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises. The Corporation carries out its impairment tests on each CGU or groups of CGUs annually or more frequently if there is an indicator of impairment.

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to each CGU is as follows:

	WTS		Specialty Products		O&M	
As at June 30,	**2021**	2020	**2021**	2020	**2021**	2020
	$	$	**$**	$	**$**	$
Goodwill	**-**	-	**20,690**	16,330	**9,519**	9,855
Intangible assets with indefinite useful lives	**-**	-	**440**	440	**-**	-

The Corporation completed an annual impairment test as at April 1, 2021 and concluded no impairment occurred. The Corporation had performed its annual impairment test, on March 31, 2020, in the context of the COVID-19 pandemic and the significantly increased uncertainty surrounding global economic conditions in general, and the outlook of the Corporation's clients' different markets and industries in particular. In addition, the Corporation considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at March 31, 2020, the market capitalisation of the Corporation was below the book value of its equity, indicating a potential impairment of goodwill. As a result, management recognized an impairment charge of $2.7 M against goodwill and $2.6 M against intangible assets. The impairment charge was recorded as impairment of intangible assets and goodwill in the statement of earnings (loss). In 2021, Management assessed that there was no significant changes in the assumptions or observable indications for the indefinite life intangible assets for the WTS group of CGUs since the impairment loss recognized in 2020 that would trigger a reversal of the impairment loss recorded in 2020.

WTS group of CGUs
In 2020, the Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 19.8 % was applied as at June 30, 2020. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate as at June 30, 2020.

Specialty Products group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 16.7 % (15.9 % as at June 30, 2020) was applied. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate (3.0 % as at June 30, 2020). As a result of the updated analysis, there is headroom of $15.9 M and management did not identify an impairment for this CGU.

(in thousands of Canadian dollars, except per share data)

O&M group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The projected cash flows were updated to reflect the COVID-19's impact on the financial and operational performance and a pre-tax discount rate of 15.0 % (14.6 % as at June 30, 2020) was applied. Cash flows beyond the five-year period have been extrapolated using a 3.0 % growth rate (3.0 % as at June 30, 2020). As a result of the updated analysis, there is headroom of $2.1 M and management did not identify an impairment for this CGU.

The recoverable amount of each identifiable CGU or group of CGU 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 and a long-term forecast prepared by management, which covers an additional period of 4 years. The key assumptions required for the value in use estimation is the discount rate and the growth rates for revenues. Other assumptions used include future gross profits on projects and services, products 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 under review.

Sensitivity to changes in assumptions
For the Specialty Products group of CGUs, if the discount rate had increased by 2.3 % compared to the assumption taken by the Corporation, assuming other variable remain constant, there would be an impairment. A reduction by 5.2 % of the growth rate compared to the assumption taken by the Corporation, assuming other variables remain constant, would result in an impairment.

For the O&M group of CGUs, if the discount rate had increased by 0.7 % compared to the assumption taken by the Corporation, assuming other variable remain constant, there would be an impairment. A reduction by 1.3 % of the growth rate compared to the assumption taken by the Corporation, assuming other variables remain constant, would result in an impairment.

12. Investment in an associate

The Corporation accounted for Genesys Membrane Products S.L.U. as an investment in an associate, using the equity method in the consolidated financial statements until it acquired control on February 1, 2021 (note 5 a). The Corporation announced the acquisition of the remaining 76% of the issued and outstanding shares of Genesys Membrane Products S.L.U., which is described in note 5. Before the acquisition, the Corporation had a 24 % interest in Genesys Membrane Products S.L.U., which is held by Genesys International Limited ("GIL") which was valued at fair value at the date of the acquisition of GIL on November 15, 2019. Genesys Membrane Products S.L.U. is a private entity located in Spain that is not listed on any public exchange, with fiscal year ending December 31. The following table illustrates the summarized financial information of the Corporation's investment in Genesys Membrane Products S.L.U.:

	Total
	$
Opening balance as at November 15, 2019	1,447
The Corporation's share of profit	169
Effect of foreign exchange differences	(24)
Balance as at June 30, 2020	1,592
The Corporation's share of profit	**183**
Dividends received	**(1,195)**
Effect of foreign exchange differences	**47**
Carrying amount of investment in an associate as at February 1, 2021	**627**
Fair value of the Corporation's equity interest in GMP held before the business combination (note 5 a)	**2,978**
Fair value gain on step acquisition for the year ended June 30, 2021	**2,351**

13. Bank loans

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement with respect to its operating and long-term credit facilities aggregating, at that time, an amount of up to $34.0 M. On June 30, 2020, the Corporation entered into the First Amendment to Amended and Restated Credit Agreement amending its existing credit agreement by increasing its long-term credit facilities by an amount of $2.1 M, used to partially finance the GUS acquisition. On January 29, 2021, the Corporation entered into the Second Amended and Restated Credit Agreement amending certain provisions of the existing credit agreement and consolidating its long-term credit facilities. Therefore, following the execution of the Second Amended and Restated Credit Agreement, the Corporation's operating and long-term credit facilities are now aggregating an amount of up to $37.4 M, including two (2) term loans in a maximum amount of $18.4 M, which term loans are more fully-described in Note 15 – *Long-term debt*.

Under its current credit agreement, as amended from time to time, the Corporation has access to the following credit facilities:

(i) a revolving facility for a maximum amount of $12.0 M, from which an amount of $nil was used as at June 30, 2021 ($3.4 M as at June 30, 2020). The interest rates on these amounts are distributed as follow:
   - *a.* $nil ($2.1 M as at June 30, 2020) bearing interest at Banker Acceptance + 2.25 % (2.81 % as at June 30, 2020);
   - *b.* $nil ($0.5 M as at June 30, 2020) bearing interest at CDN prime rate plus 1.00 % (3.45 % as at June 30, 2020); and
   - *c.* US$nil ($0.8 M as at June 30, 2020) bearing interest at US$ Libor plus 2.25 % (2.43 % as at June 30, 2020).

(ii) a letter of credit facility for a maximum amount of $7.0 M for the issuance of letters of credit entirely secured by Exportation Development Canada (''EDC''), from which an amount of $1.9 M ($1.8 M as at June 30, 2020) was used on this credit facility as at June 30, 2021.

In addition to the above credit facilities, the Corporation has access to the following additional credit facilities:

(i) a hedging facility of $3.5 M, from which an amount of $0.3 M was used as at June 30, 2021 ($0.4 M as at June 30, 2020); and

(ii) a credit facility enabling the Corporation to use a maximum amount of $0.4 M on credit cards for Corporation's related expenses, from which an amount of $0.1 M was used as at June 30, 2021 ($0.04 M as at June 30, 2020).

In order to secure these credit facilities, the Corporation (and its affiliated entities) granted first ranking (i) movable hypothec on the universality of all its present and future assets in an amount of $75.0 M for each grantor, and (ii) immovable hypothec on all the real property owned by the Corporation.

Covenants

As at June 30, 2021, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 15 – *Long-term debt*.

(in thousands of Canadian dollars, except per share data)

14. Accounts payable and accrued liabilities

As at June 30,	**2021**	2020
	$	$
Trade accounts payable	**5,356**	5,094
Other accrued liabilities	**10,110**	10,821
	15,466	15,915

15. Long-term debt

As at June 30,	**2021**	2020
	$	$
At amortized cost		
Loans denominated in Canadian dollars (a)(b)(f)(g)	**14,944**	13,525
Loan denominated in Canadian dollars (c)(f)	**-**	2,043
Loans denominated in US dollars (d)	**769**	708
Loans denominated in Canadian dollars (e)	**203**	272
	15,916	16,548
Less: Current portion	**2,975**	2,782
Long-term debt	**12,941**	13,766

(a) Loans denominated in Canadian dollars

On November 28, 2018, a credit agreement was concluded for a term facility of a maximum amount of $5,000 to be used by the Corporation exclusively to refinance specific existing loans. On December 19, 2018, the Corporation requested a draw in the aggregate amount of $4,743 comprised of an amount of $4,400 bearing interest at Banker Acceptance rate plus 2.25 % (2.77 % as at June 30, 2020) and an amount of $343 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2020). The loan was fully repaid on February 2, 2021. The remaining financing costs of $85 have been written-off.

On October 28, 2019, the Corporation entered into an Amended and Restated Credit Agreement amending its current credit agreement to add a term loan in an aggregate amount of up to $12,000 to partially finance the acquisition of Genesys. On November 15, 2019, the Corporation requested a draw in the aggregate amount of $12,000 comprised of an amount of $11,600 bearing interest at Banker Acceptance rate plus 2.25 % (2.66 % as at June 30, 2021 and 2.77 % as at June 30, 2020) and an amount of $400 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2021 and 3.45 % as at June 30, 2020). This loan is payable in 32 quarterly instalments of $375, principal only, and is maturing on November 28, 2023. The loan is presented net of financing costs of $158 ($267 as at June 30, 2020).

On June 30, 2020, the Corporation entered into a First Amendment to Amended and Restated Credit Agreement amending its current credit agreement to add a term loan in an aggregate amount of up to $2,100 to partially finance the acquisition of GUS. On July 2, 2020, the Corporation request a draw in the aggregate amount of $2,100 bearing interest at prime rate plus 1.00 %. The loan was fully repaid on February 2, 2021. The remaining financing costs of $58 have been written-off.

On January 29, 2021, the Corporation entered into a Second Amended and Restated Credit Agreement amending its current credit agreement to add a term facility in an aggregate amount of up to $6,410 to be used by the Corporation exclusively to refinance specific existing loans. On February 2, 2021, the Corporation requested a draw in the aggregate amount of $6,410 comprised of an amount of $2,400 bearing interest at Banker Acceptance rate plus 2.25 % (2.66 % as at June 30, 2021) and an amount of $4,010 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2021). This loan is payable in 20 quarterly instalments of $320, principal only, and is maturing on November 28, 2023. The loan is presented net of financing costs of $42.

(b) Interest rate swaps derivatives designated as hedging instruments

On February 28, 2020, the Corporation contracted an interest rate swap with notional amount of $3,400, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.94 % plus a premium of 2.25 % based on a financial ratio. The negative value of this swap was $64 as at June 30, 2020. This swap was terminated on February 26, 2021 and the realized loss recorded in the other comprehensive income (loss) of $41 was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings as a reclassification adjustment included in finance costs.

On February 5, 2020, the Corporation contracted an interest rate swap with notional amount of $11,600, maturing on November 28, 2022, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.94 % plus a premium of 2.25 % based on a financial ratio. The negative value of this swap was $307 as at June 30, 2020. This swap was terminated on February 26, 2021 and the realized loss recorded in the other comprehensive income (loss) of $196 was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings as a reclassification adjustment included in finance costs.

On February 26, 2021, the Corporation contracted an interest rate swap with notional amount of $6,400, maturing on November 28, 2023, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.08 % plus a premium of 2.25 % based on a financial ratio (3.33 % as at June 30, 2021). As at June 30, 2021, the fair value of this swap was $25 and is included in Other non-current financial liabilities in the consolidated statements of financial position. This interest rate swap has been designated as a hedging item.

On February 26, 2021, the Corporation contracted an interest rate swap with notional amount of $10,100, maturing on November 28, 2023, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.68 % plus a premium of 2.25 % based on a financial ratio (3.93 % as at June 30, 2021). As at June 30, 2021, the fair value of this swap amounted to $150 and is included in Other non-current financial liabilities in the consolidated statements of financial position. This interest rate swap has been designated as a hedging item.

(c) Loan denominated in Canadian dollars

On July 18, 2016, an agreement was concluded for a loan amounting to $5,000, to finance the acquisition of Utility Partners. The loan bears interest at prime rate plus 2.5% (4.95 % as at June 30, 2020). The loan was fully repaid on February 2, 2021. The remaining financing costs of $15 have been written-off.

(d) Loans denominated in US dollars

The Corporation contracted financing agreements totaling $1,198 (US$967) to finance the acquisition of automotive equipment and machinery and equipment. The loans bear interest ranging between 0.99 % and 10.35 % and are payable between 48 and 72 monthly instalments totaling $22 (US$18), principal and interest, and are maturing through January 2023 to April 2026.

(e) Loans denominated in Canadian dollars

The Corporation contracted financing agreements totaling $468. The loans bear interest ranging between 4.49 % and 8.63 % and are payable between 60 and 99 monthly instalments totaling $6, principal and interest, and are maturing through March 2023 to June 2027.

(f) These long-term debt arrangements require that the Corporation meet the following financial ratios:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.00:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures:
    - of at least 1.10:1:00 at all times until the end of the quarter ending on June 30, 2021; and
    - of at least 1.20:1.00 at all times thereafter.

(in thousands of Canadian dollars, except per share data)

(g) These long-term debt arrangements are secured by a first ranking (i) movable hypothec on the universality of all the Corporation's present and future assets, and (ii) immovable hypothec on all the real property owned by the Corporation.

Covenants

As at June 30, 2021, the Corporation was in compliance with the ratios required under its credit agreements.

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

As at June 30,	2021	2020
	$	$
Long-term debt, at beginning of the year	**16,548**	7,686
Increase in long-term debt	**8,860**	12,180
Repayment of long-term debt	**(9,637)**	(3,178)
Financing costs	**(126)**	(353)
Amortization of financing costs and write-offs	**337**	182
Effect of foreign exchange differences	**(66)**	31
Long-term debt, at end of the year	**15,916**	16,548

The annual principal instalments due on the long-term debt are $3.0 M in 2022, $3.0 M in 2023, $9.7 M in 2024, $0.1 M in 2025 and $0.1 M thereafter. The Corporation had non-cash settlement of long-term debt of $nil ($0.3 M as at June 30, 2020) and non-cash increase in long-term debt of $0.4 M ($0.2 M as at June 30, 2020).

16. Contingent considerations

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

	$
Balance as at June 30, 2019	2,503
Plus: Change in fair value of contingent consideration	329
Less: Payment of contingent consideration	(1,487)
Effect of foreign exchange differences	68
Balance as at June 30, 2020	1,413
Plus: Contingent consideration – GUS (note 5)	**964**
Plus: Contingent consideration – GMP (note 5)	**6,920**
Plus: Change in fair value of contingent considerations	**462**
Less: Payment of contingent considerations	**(2,860)**
Effect of foreign exchange differences	**(161)**
Balance as at June 30, 2021	**6,738**
Less: Current portion	**4,026**
Contingent consideration – non-current portion	**2,712**

The significant unobservable inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at June 30, 2021 are provided in note 24.

(in thousands of Canadian dollars, except per share data)

17. Income taxes

Income tax expenses (recovery) are detailed as follows:

As at June 30,	**2021**	2020
	$	$
Current tax expense:		
Current period	**1,412**	629
Adjustment for prior periods	**103**	(67)
	1,515	562
Deferred tax expense:		
Origination and reversal of temporary differences	**100**	(873)
Reduction in tax rate	**(21)**	6
Adjustment for prior periods	**109**	(14)
	188	(881)
Income taxes	**1,703**	(319)

Income tax expense (recovery) recognized in equity:

As at June 30,	**2021**	2020
	$	$
Recognized in other comprehensive income		
Deferred income tax expense (recovery)	**(28)**	-
	(28)	-

Reconciliation of the Corporation's effective income tax expense

The Canadian statutory tax rate is 26.3 % (26.5 % for 2020). The following is a reconciliation of income taxes calculated at the Canadian statutory tax rate to the expense for 2021 and 2020.

As at June 30,	**2021**	2020
	$	$
Net earnings (loss) before income taxes	**4,822**	(4,546)
Income taxes at the Canadian statutory tax rate of 26.3 % (26.5 % in 2020)	**1,268**	(1,205)
Tax effect from:		
Effect of differences in tax rates in other jurisdictions	**(265)**	192
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**173**	318
Changes in statutory rates	**(21)**	(29)
Non-deductible stock-based payments	**67**	59
Utilization of tax benefits previously unrecorded	**(3)**	(68)
Adjustments in respect of prior years	**212**	(81)
Non-deductible items	**120**	466
Other	**152**	29
Total income tax expense	**1,703**	(319)

(in thousands of Canadian dollars, except per share data)

Deferred tax (liabilities) assets

As at June 30,	**2021**	2020
	$	$
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	**76**	954
Deferred tax liabilities	**(3,937)**	(2,398)
Net deferred tax (liabilities) assets	**(3,861)**	(1,444)

Deferred tax assets of $0.1 M were recognized as at June 30, 2021 (net deferred tax assets of $1.0 M as at June 30, 2020) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income, and projections for future taxable income, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating losses carried forward.

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

	Balance as at July 1, 2020	**Recognized in earnings**	**Recognized in equity**	**Business combination**	**Recognized in other comprehensive loss**	**Balance as at June 30, 2021**
	$	**$**	**$**	**$**	**$**	**$**
Non-capital losses	**81**	**(6)**	**(7)**	**-**	**-**	**68**
Property, plant and equipment	**(471)**	**(539)**	**43**	**-**	**-**	**(967)**
Intangible assets	**(772)**	**287**	**(110)**	**(2,243)**	**-**	**(2,838)**
Goodwill	**(2,583)**	**17**	**228**	**-**	**-**	**(2,338)**
Lease obligations	**59**	**427**	**(6)**	**-**	**-**	**480**
U.S. interests not deducted and deferred	**1,633**	**(878)**	**(112)**	**-**	**-**	**643**
Other assets	**609**	**504**	**(50)**	**-**	**28**	**1,091**
	(1,444)	**(188)**	**(14)**	**(2,243)**	**28**	**(3,861)**

	Balance as at July 1, 2019	**Recognized in earnings**	**Recognized in equity**	**Business combination**	**Recognized in other comprehensive loss**	**Balance as at June 30, 2020**
	$	$	$	$	$	$
Non-capital losses	135	(58)	4	-	-	81
Property, plant and equipment	(484)	30	(17)	-	-	(471)
Intangible assets	1,215	484	13	(2,484)	-	(772)
Goodwill	(3,045)	534	(72)	-	-	(2,583)
Lease obligations	-	58	1	-	-	59
U.S. interests not deducted and deferred	1,838	(271)	66	-	-	1,633
Other assets	485	104	20	-	-	609
	144	881	15	(2,484)	-	(1,444)

(in thousands of Canadian dollars, except per share data)

At June 30, 2021, the Corporation had the following tax losses carried forward available to reduce taxable income in the future, 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
		$
	2027	1,577
	2028	2,619
	2029	1
	2030	672
	2034	2,612
	2035	205
	2036	305
	2037	2,930
	2038	1,535
	2039	917
	2040	223
	2041	798
		14,394

At June 30, 2021, the Corporation had the following investment tax credits carryovers to reduce income tax payable in the future, and in respect of which the Corporation has not recognized an asset.

Investment tax credits expire as follows	Date	Canada
	2022	76
	2023	141
	2024	51
	2026	36
	2027	22
	2028	38
	2029	6
	2030	21
	2031	21
	2032	-
	2033	29
	2036	5
	2037	54
		500

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.

(in thousands of Canadian dollars, except per share data)

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

	Canada	Canada
As at June 30,	**2021**	2020
	$	$
Tax losses carried forward	**14,394**	13,675
Exploration expenses	**1,779**	1,779
Capital losses	**480**	504
Research and development expenses	**2,229**	2,229
Property, plant and equipment	**5,295**	5,542
Lease obligations (IFRS 16)	**1,864**	1,648
Financing and share issue expenses	**1,906**	2,733
Others	**291**	52
	28,238	28,162

18. Lease liabilities

The following table presents the lease liabilities for the Corporation as of June 30, 2021:

	2021	2020
	$	$
Lease liabilities, beginning of year	**8,994**	8,959
Additions	**2,819**	1,081
Business combination	**1,293**	127
Payment of lease liabilities	**(1,838)**	(1,733)
Interest expense on lease liabilities	**357**	391
Effect of changes in exchange rates	**(671)**	169
Lease liabilities as at June 30, 2021	**10,954**	8,994
Current portion	**1,636**	1,368
Non-current portion	**9,318**	7,626

The Corporation has lease contracts for buildings, machinery and equipment, and automotive equipment used in its operations. The expense related to short-term leases and low-value assets leases during the year ended June 30, 2021 was $85 ($74 as at June 30, 2020). The expense related to variable lease payments not included in the measurement of lease liabilities during the year ended June 30, 2021 was $476 ($493 as at June 30, 2020). The Corporation also had non-cash additions to lease liabilities of $2.8 M in 2021 ($1.1 M in 2020).

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of June 30, 2021:

	$
Less than one year	2,126
One to five years	7,560
More than five years	5,596
Total undiscounted lease liabilities as at June 30, 2021	**15,282**

The Corporation had a lease contract that had not yet commenced as at June 30, 2021. The future lease payments for this non-cancellable lease contract are $74 within one year, $737 within five years and $1,327 thereafter.

(in thousands of Canadian dollars, except per share data)

19. Capital stock

Private placement

On November 14, 2019, the Corporation issued, by way of a public offering, 13,335,000 units, each of which entitle the holder thereof to receive one common share and one-half of one warrant. The gross value was approximately $14,001 ($12,421 in aggregate for the shares and $1,581 for the warrants), less issuance cost of $1,192 for net value of $12,810.

On November 15, 2019, the Corporation issued, by way of a concurrent private placement, 7,647,619 units, each of which entitle the holder thereof to receive one common share and one-half of one warrant. The value of the private placement transaction was approximately $8,030, ($7,124 in aggregate for the shares and $906 for the warrants), less issuance cost of $758 for net value of $7,272. The private placement occurred concurrently with the public offering described above. The Corporation used the proceeds to complete the acquisition of Genesys (note 5) and to support its working capital.

Warrants

On November 15, 2019, the Corporation issued an aggregate of 10,491,310 non-transferable warrants to the shareholders of the public offering and of the concurrent private placement to purchase one common share per warrant at a price of $1.40, which warrants are effective until November 14, 2021. The fair value was established at $0.237 per warrant for a total value of $2,487 less issuance cost of $220.

On November 15, 2019, the Corporation also issued an aggregate of 923,796 non-transferable warrants to the underwriters of the offering to purchase one common share per warrant at a price of $1.05, which warrants were effective until May 14, 2021. These warrants were all exercised during the fiscal year 2021. The fair value was established at $0.295 per warrant for a total value of $272.

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

	Units holders November 15, 2019	**Underwriters November 15, 2019**
Number of warrants	**10,491,310**	**923,796**
Expected dividend yield	**0%**	**0%**
Expected volatility	**52.82%**	**51.50%**
Risk-free interest rate	**1.53%**	**1.53%**
Expected life (years)	**2**	**1.5**
Fair value at the grant date	**$0.237**	**$0.295**

The following table summarizes the situation of the warrants as at June 30, 2021 and June 30, 2020 and the change during the years ended on these dates:

Years ended June 30,		**2021**		2020
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**12,057,816**	**1.34**	642,710	0.83
Issued	**-**	**-**	11,415,106	1.37
Exercised	**(8,264,596)**	**1.32**	-	-
Outstanding - End of year	**3,793,220**	**1.40**	12,057,816	1.34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

As at June 30, 2021, the following warrants were outstanding:

Exercise price	Holders	Number of warrants	Weighted average remaining life (years)
$			
1.40	Shareholders	3,793,220	0.38

Share capital

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

As at June 30, 2021, the Corporation has a total of 85,137,204 shares issued (76,872,608 as of June 30, 2020).

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 May 17, 2021, the Corporation granted a total of 1,056,000 stock options issued to executive officers with a vesting period of five years as an incentive to participate in the long-term development of the Corporation and the growth of the shareholder's value. Each stock option entitles its holders to acquire one common share of the Corporation at a price of $2.55 before May 17, 2031. The fair value was established at $1.566 per option.

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

	May 17, 2021
Number of stock options	**1,056,000**
Expected dividend yield	**0 %**
Expected volatility	**60.91 %**
Risk-free interest rate	**1.23 %**
Expected life (years)	**7.5**
Fair value at the grant date	**$1.566**

For the year ended June 30, 2021, the amount recorded as stock-based compensation for options granted to its directors, officers and key employees is $253 ($223 in fiscal year 2020).

The following table summarizes the situation of the Corporation's stock-based compensation plan as at June 30, 2021 and June 30, 2020 and the change during the years ended on these dates:

Years ended June 30,		**2021**		2020
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**2,511,334**	**1.72**	2,554,334	1.75
Granted	**1,056,000**	**2.55**	-	-
Expired	**(208,000)**	**2.52**	(43,000)	3.23
Forfeited	**-**	**-**	-	-
Outstanding - End of year	**3,359,334**	**1.93**	2,511,334	1.72
Exercisable – End of year	**1,151,667**	**1.65**	1,071,750	1.82

(in thousands of Canadian dollars, except per share data)

The range of exercise prices for options outstanding at the end of the year was $1.65 to $2.55 ($1.65 to $3.75 in fiscal year 2020).

As at June 30, 2021, the following stock options were outstanding:

Exercise price	Holders	Number of shares	Weighted average remaining life (years)
$			
1.65	Executive officers	2,303,334	3.07
2.55	Executive officers	1,056,000	9.88
		3,359,334	5.21

20. Contract assets and contract liabilities

Contract assets and contract liabilities are as follow:

As at June 30,	**2021**	2020
	$	$
Construction costs related to projects incurred plus recognized profits less recognized losses to date	**61,273**	63,885
Less: progress billings	**(56,982)**	(58,424)
Consolidated statement of financial position for ongoing projects contracts	**4,291**	5,461

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

As at June 30,	**2021**	2020
	$	$
From customers under project contracts (contract assets)	**7,574**	8,629
To customers under project contracts (contract liabilities)	**(3,283)**	(3,168)
Consolidated statement of financial position for ongoing projects contracts	**4,291**	5,461

During the year, $3,013 of revenues were recorded for amounts included in contract liability at the beginning of the year ($2,750 in fiscal year 2020).

Remaining performance obligations

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at June 30, 2021, on all contracts with customers, is expected to be recognized in revenues as follows:

	2022	**2023**	**2024**	**Thereafter**	**Total**
WTS	$17.1 M	$6.3 M	$9.1 M	-	$32.5 M
O&M	$25.8 M	$18.0 M	$11.2 M	$14.8 M	$69.8 M

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at June 30, 2020, on all contracts with customers, was expected to be recognized in revenues as follows:

	2021	2022	2023	Thereafter	Total
WTS	$13.6 M	$7.3 M	$10.0 M	-	$30.9 M
O&M	$35.0 M	$22.4 M	$13.7 M	$19.5 M	$90.6 M

It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

(in thousands of Canadian dollars, except per share data)

21. Restructuring costs

During fiscal year 2020, the Corporation implemented a strategic change in its business alignment. The Water & Wastewater Treatment Projects and Aftermarket Services business lines are now combined into a single business called WTS. The Corporation's strategy is the change in focus of this business pillar towards customers which will value the long-term services and consumables and create financial sustainability from a more stable revenue stream. The restructuring of this business pillar combined with the notice of cancellation for a major project announced on May 5, 2020, led unfortunately to layoffs. The restructuring costs recognized for the year ended June 30, 2020 were mainly severances and termination costs amounting to $0.4 M.

22. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	**2021**	2020
	$	$
Material	**55,158**	51,820
Salaries and fringe benefits	**56,241**	51,084
Subcontractors and professional fees	**7,719**	8,026
Rent, electricity, insurance and office expenses	**3,886**	3,756
Telecommunications and travel expenses	**1,999**	2,869
Bad debt expenses	**22**	118
Share based compensation	**253**	223
Other expenses	**4,594**	3,541
Total cost of goods sold, operating, selling and administrative expenses	**129,872**	121,437
Depreciation of property, plant and equipment and right-of-use assets (notes 8 and 10)	**3,187**	2,880
Amortization of intangible assets (note 9)	**4,141**	4,319
Costs including depreciation and amortization	**137,200**	128,636

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its consolidated statement of earnings (loss), as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, selling, general and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the years ended June 30, 2021 and 2020; and ii) the amounts of cost of goods sold, selling, general and administrative expenses, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation of property, plant and equipment and right-of-use assets by function

Years ended June 30,	**2021**	2020
	$	$
Cost of goods sold	**2,112**	2,624
Selling, general and administrative expenses	**1,075**	256
	3,187	2,880

(in thousands of Canadian dollars, except per share data)

Amortization of intangible assets by function

Years ended June 30,	2021	2020
	$	$
Cost of goods sold	225	733
Selling, general and administrative expenses	3,916	3,586
	4,141	4,319

Cost per function including depreciation and amortization

Years ended June 30,	2021	2020
	$	$
Cost of goods sold	106,716	101,046
Selling, general and administrative expenses	30,484	27,590
	137,200	128,636

c) Other (gains) losses – net

Years ended June 30,	2021	2020
	$	$
Unrealized exchange (gain) loss	654	(344)
Realized exchange loss	359	74
Other gains	(117)	(46)
Changes in fair value of contingent consideration (note 16)	462	329
Litigation settlement (note (a) and 26)	654	-
	2,012	13

(a) The claim was settled during the fourth quarter of fiscal year 2021 for an amount of $654 which was recorded as Other losses – net in the statements of earnings (loss) (nil $ in 2020) and an amount of $490 is payable as at June 30, 2021 and included as Provisions in the consolidated statements of financial position.

(in thousands of Canadian dollars, except per share data)

23. Net earnings (loss) per share

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

Years ended June 30,	**2021**	2020
Net earnings (loss)	**$3,119**	($4,227)
Basic weighted average number of share outstanding	**79,469,345**	69,018,459
Effects of dilution from:		
Warrants if not anti-dilutive	**9,461,079**	-
Stock options if not anti-dilutive	**2,303,334**	-
Weighted average number of share outstanding adjusted for the effect of dilution	**91,233,758**	69,018,459
Basic net earnings (loss) per share	**$0.039**	($0.061)
Diluted net earnings (loss) per share	**$0.034**	($0.061)

The following items are excluded from the calculation of basic and diluted net earnings (loss) per share because their exercise price was greater than the average market price of the common shares or due to their anti-dilutive effect:

	2021	2020
Stock options	**1,056,000**	2,511,334
Warrants	**-**	12,057,816

(in thousands of Canadian dollars, except per share data)

24. 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	X	X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X
Other non-current financial liabilities		X		X
Contingent considerations	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, EURO and Pound sterling 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, 2021, if the Canadian dollar had increased or decreased by five percent (5 %) compared to the U.S. dollar, EURO or British pound currency, assuming that all other variables remained constant, net earnings (loss) for the year ended June 30, 2021 would have been greater or lesser by approximately $456 ($292 for the year ended June 30, 2020) and the comprehensive income (loss) would have been greater or lesser by approximately $769 ($557 for the year ended June 30, 2020).

(in thousands of Canadian dollars, except per share data)

The financial assets and liabilities denominated in a foreign currency (U.S. dollar and EURO) included in the Canadian entities are as follows:

As at June 30,			**2021**			2020
	U.S. dollar	**EURO**	**Total**	U.S. dollar	EURO	Total
	$	**$**	**$**	$	$	$
Financial assets						
Cash	**2,977**	**383**	**3,360**	1,270	202	1,472
Accounts receivable	**2,680**	**58**	**2,738**	4,171	98	4,269
Prepaid expenses and deposits	**528**	**1,224**	**1,752**	-	-	-
	6,815	**1,665**	**7,850**	5,441	300	5,741
Financial liabilities						
Bank loans	**-**	**-**	**-**	(815)	-	(815)
Accounts payable and accrued liabilities	**(529)**	**(223)**	**(752)**	(659)	-	(659)
	(529)	**(223)**	**(752)**	(1,474)	-	(1,474)

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, related party loans receivable, bank loans, contingent consideration and long-term debt. The Corporation does not use derivatives to cover this risk.

The related party loans receivable and the long-term debt 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 and the long-term debt bear interest at floating rates and the Corporation is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. To manage this, the Corporation enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at June 30, 2021 and 2020, 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 earnings (loss) and comprehensive income (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 and contract assets. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and contract assets and establishes an allowance for expected credit losses based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables and contract assets 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 and contract assets. In order to mitigate its credit risk and increase its borrowing capacity, the Corporation insures a portion of its accounts receivable through EDC insurance coverage. As at June 30, 2021, the allowance for expected credit losses was $220 ($171 as at June 30, 2020) and nil$ for contract assets.

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.

(in thousands of Canadian dollars, except per share data)

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

As at June 30,	**2021**	2020
	$	$
Cash	**15,409**	9,439
Accounts receivable	**22,148**	19,291
Contract assets	**7,574**	8,629
Other assets	**200**	301
Related party loans receivable	**1,250**	1,250

The Corporation holds cash with banking institutions and loans with related party, which are secured by a pledge of the acquired common shares (see note 28 a) that the Corporation considers at a low risk for loss.

The table below summarizes the aging of trade accounts receivable:

As at June 30,	**2021**	2020
	$	$
Current	**11,913**	7,700
Past due 1 to 30 days	**2,594**	2,620
Past due 31 to 90 days	**2,830**	4,377
Past due more than 90 days	**1,944**	1,887
	19,281	16,584
Less: Allowance for expected credit losses	**(220)**	(171)
Trade accounts receivable	**19,061**	16,413
Hold back from customers under project contracts	**2,818**	2,669
Other receivables	**269**	209
	22,148	19,291

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. Refer to note 26 for detail of the commitments.

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

(in thousands of Canadian dollars, except per share data)

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

As at June 30, 2021	Contractual undiscounted payments	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	**$**	**$**	**$**	**$**
Bank loans	**-**	**-**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**15,466**	**15,466**	**-**	**-**	**-**
Long-term debt	**16,822**	**3,416**	**3,337**	**9,866**	**203**
Lease liabilities	**15,282**	**2,126**	**1,866**	**1,492**	**9,798**
Other non-current financial liabilities	**261**	**-**	**-**	**261**	**-**
Contingent considerations	**6,738**	**4,026**	**2,712**	**-**	**-**
Total	**54,569**	**25,034**	**7,915**	**11,619**	**10,001**

As at June 30, 2020	Contractual undiscounted payments	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank loans	3,415	3,415	-	-	-
Accounts payable and accrued liabilities	15,915	15,915	-	-	-
Long-term debt	17,686	3,287	3,513	9,748	1,138
Lease liabilities	10,814	1,721	1,622	1,375	6,096
Other non-current financial liabilities	371	-	-	371	-
Contingent considerations	1,413	1,413	-	-	-
Total	**49,614**	**25,751**	**5,135**	**11,494**	**7,234**

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.

Financial instruments whose fair value approximates carrying value
Cash, accounts receivable, related party loans receivable, other assets, 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 $15,916 ($16,548 as at June 30, 2020) and was determined to be a level 2 financial instrument.

Contingent considerations
The fair value of the contingent considerations has been established by discounting the future cash flows. The fair value of the contingent considerations is $6,738 ($1,413 as at June 30, 2020) and was determined using unobservable (level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present value the cash flows which is based on the risk associated with the revenue targets being met.

(in thousands of Canadian dollars, except per share data)

Contingent consideration - GMP acquisition
If projected cash flows were 10.0 % higher, the fair value would have increased by $0.6 M and if projected cash flows were 10.0 % lower, the fair value would have decreased by $0.6 M. Discount rates ranging from 15.0 % to 17.0 % have been applied and consider the time value of money. A change in the discount rate by 100 basis points would have increased / decreased the fair value by $0.1 M.

Contingent consideration - GUS acquisition
If projected cash flows were 10.0 % higher, the fair value would have increased by $0.1 M and if projected cash flows were 10.0 % lower, the fair value would have decreased by $0.1 M. Discount rate of 15.0 % has been applied and consider the time value of money. A change in the discount rate by 100 basis points would not have had a significant impact on the Corporation's net earnings (loss).

25. Capital management

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

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of bank loans and long-term 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.

As at June 30,	**2021**	2020
	$	$
Bank loans	**-**	3,415
Current portion of long-term debt	**2,975**	2,782
Long-term debt	**12,941**	13,766
Less: Cash	**(15,409)**	(9,439)
Net debt	**507**	10,524
Shareholders' equity	**79,395**	68,613
Shareholders' equity and net debt	**79,902**	79,137

The Corporation monitors its performance through different ratios such as those required under its credit facility and long-term debt arrangements (note 15).

As at June 30, 2021 and 2020, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements.

26. Commitments and contingencies

Commitments

As at June 30, 2021, the Corporation had commitments relating to purchase agreements with specific suppliers. The minimum payments over the next five years are as follows:

	2022	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Purchase agreements commitments	$2,215	$447	$363	$363	$363	$91	$3,842

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.

(in thousands of Canadian dollars, except per share data)

27. Segment information

Products from which reportable segments derive their revenues

For management purposes, the Corporation is organized into business pillars based on its different products and services. The Corporation operates under three distinct reportable segment consisting of: i) water technologies and services ("WTS"); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) ("Specialty Products"); and iii) operation and maintenance services for water and wastewater treatment systems ("O&M").

The Corporation's chief operating decision maker evaluates segment performance on the basis of earnings before administrative expenses as reported to internal management, on a periodic basis.

The following is a measure of profit or loss for each reportable segment as used by the chief operating decision maker:

	For the year ended June 30, 2021			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**18,274**	**-**	**70,049**	**88,323**
Revenue recognized at a point in time	**12,081**	**43,920**	**-**	**56,001**
	30,355	**43,920**	**70,049**	**144,324**
Cost of goods sold	**23,663**	**24,494**	**56,222**	**104,379**
Gross profit before depreciation and amortization	**6,692**	**19,426**	**13,827**	**39,945**
Selling and general expenses	**3,608**	**8,809**	**3,402**	**15,819**
Earnings before administrative costs and other items listed below (EBAC)	**3,084**	**10,617**	**10,425**	**24,126**
Administrative costs				**9,674**
Depreciation of property, plant and equipment and right-of-use assets				**3,187**
Amortization of intangible assets				**4,141**
Other losses – net				**2,012**
Acquisition and integration costs				**489**
Share of profit of an associate				**(183)**
Fair value gain on step acquisition				**(2,351)**
Finance costs – net				**2,335**
Earnings before income taxes				**4,822**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data)

	For the year ended June 30, 2020			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	18,487	-	64,124	82,611
Revenue recognized at a point in time	10,811	40,175	-	50,986
	29,298	40,175	64,124	133,597
Cost of goods sold	23,402	22,924	51,363	97,689
Gross profit before depreciation and amortization	5,896	17,251	12,761	35,908
Selling and general expenses	4,289	7,688	3,701	15,678
Earnings before administrative costs and other items listed below (EBAC)	1,607	9,563	9,060	20,230
Administrative costs				8,070
Depreciation of property, plant and equipment and right-of-use assets				2,880
Amortization of intangible assets				4,319
Impairment of intangible assets and goodwill				5,308
Other losses – net				13
Restructuring costs				406
Acquisition and integration costs				1,912
Share of profit of an associate				(169)
Finance costs – net				2,037
Loss before income taxes				(4,546)

Geographical information

Years ended June 30,	**2021**	2020
	$	$
Revenues from external customers		
Revenue according to geographic area		
Americas:		
Canada	**19,249**	16,327
United States	**96,634**	90,247
Latin America	**3,531**	1,927
Europe:		
United Kingdom	**1,350**	864
Spain	**1,614**	8,131
Others	**1,911**	1,910
Middle East and Africa:		
Saudi Arabia	**4,466**	3,156
United Arab Emirates	**3,418**	1,720
Other Middle East countries	**1,919**	1,268
Africa	**3,654**	2,033
Asia Pacific:		
China	**4,151**	2,928
Others	**2,427**	3,086
	144,324	133,597

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

(in thousands of Canadian dollars, except per share data)

As at June 30,	2021	2020
	$	$
Non-current assets excluding other assets, related party loans receivable, investment in an associate and deferred income tax asset according to geographic location		
Canada	**6,253**	6,058
United States	**34,749**	38,225
United Kingdom	**25,344**	26,822
Spain	**12,535**	-
Chile	**210**	-
	79,091	71,105

Information about major customers

For the fiscal years ended June 30, 2021 and June 30, 2020, no customer accounted for more than ten percent (10 %) of its revenues.

28. Related party 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 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of a non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.01%, 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 $2,354 as at June 30, 2021 ($1,083 as at June 30, 2020).

An amount of $25 was paid to the Corporation in regards of these loans and recorded as finance income in the consolidated statements of earnings (loss) for the year ended June 30, 2021 ($23 for the year ended June 30, 2020).

b) Compensation of executive officers and board of directors

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

Years ended June 30,	2021	2020
	$	$
Short-term benefits (1)	**1,940**	1,477
Post-employment benefits (2)	**175**	139
Share-based payments	**253**	223
Long-term incentive plan	**86**	-
	2,454	1,839

(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.

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

The remuneration of executive officers and Board of Directors is determined by the Corporation's corporate governance, remuneration and ESG committee having regards to the performance of individuals and market trends and approved by the Board of Directors.

29. Comparative figures

Certain comparative figures have been reclassified to conform to this fiscal year's presentation.

GENERAL INFORMATION

Board of Directors

Lisa Henthorne, Chairwoman of the Board of Directors (2)
Robert Comeau, Director (1)
Pierre Côté, Director (3)
Stéphane Guérin, Director
Frédéric Dugré, President, Chief Executive Officer and Director
Richard Hoel, Director and Vice Chairman of the Board of Directors (1)
René Vachon, Director(1)(2)
Elisa Speranza, Director(2)(3)

Management

Frédéric Dugré, President and Chief Executive Officer (3)
Marc Blanchet, Chief Financial Officer
Guillaume Clairet, Chief Operating Officer (3)
Gregory Madden, Chief Strategy Officer
Edith Allain, Vice President Corporate & Legal Affairs, Secretary
Denis Guibert, Vice President & Managing Director of WTS (4)
Rock Gaulin, Vice President & Managing Director of Maple
William Douglass, Vice President & Managing Director of O&M (5)

(1) Audit Committee
(2) Governance, Remuneration and ESG Committee
(3) Projects, Operation and Innovation Committee
(4) Water Technologies and Services
(5) Operation and Maintenance

Advisory Members

Leonard Graziano (3)

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

TSX Trust Company

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