Interim Financial Report
First quarter ended
September 30, 2021

www.h2oinnovation.com
investor@h2oinnovation.com

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

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 quarter ended September 30, 2021, in comparison with the corresponding period ended September 30, 2020. This MD&A should be read in conjunction with the condensed interim consolidation financial statements and the accompanying notes for the quarter ended September 30, 2021, as well as with the audited annual consolidated financial statements 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.

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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

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 21 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used.

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.**

As part of our 3-year plan which defines key strategic objectives, we have set the Company to perform according to four (4) themes, as shown on the picture below, 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. We will retain our customers and gain new ones by pushing for **innovation**, challenging the status quo and delivering world-class technology solutions through our products and services. By reinventing ourselves continuously, and by pursuing improvements in our business process, we relentlessly strive for **operational excellence**, which will enable us to become leaner and better integrated. Operational improvements maximize synergies, better leveraging our cost structure and sales organization. To execute this plan and its ambitious objectives, **team engagement** is key; we must create an inspirational and meaningful work environment where people feel safe and have an opportunity to develop talents along their chosen career path.

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.

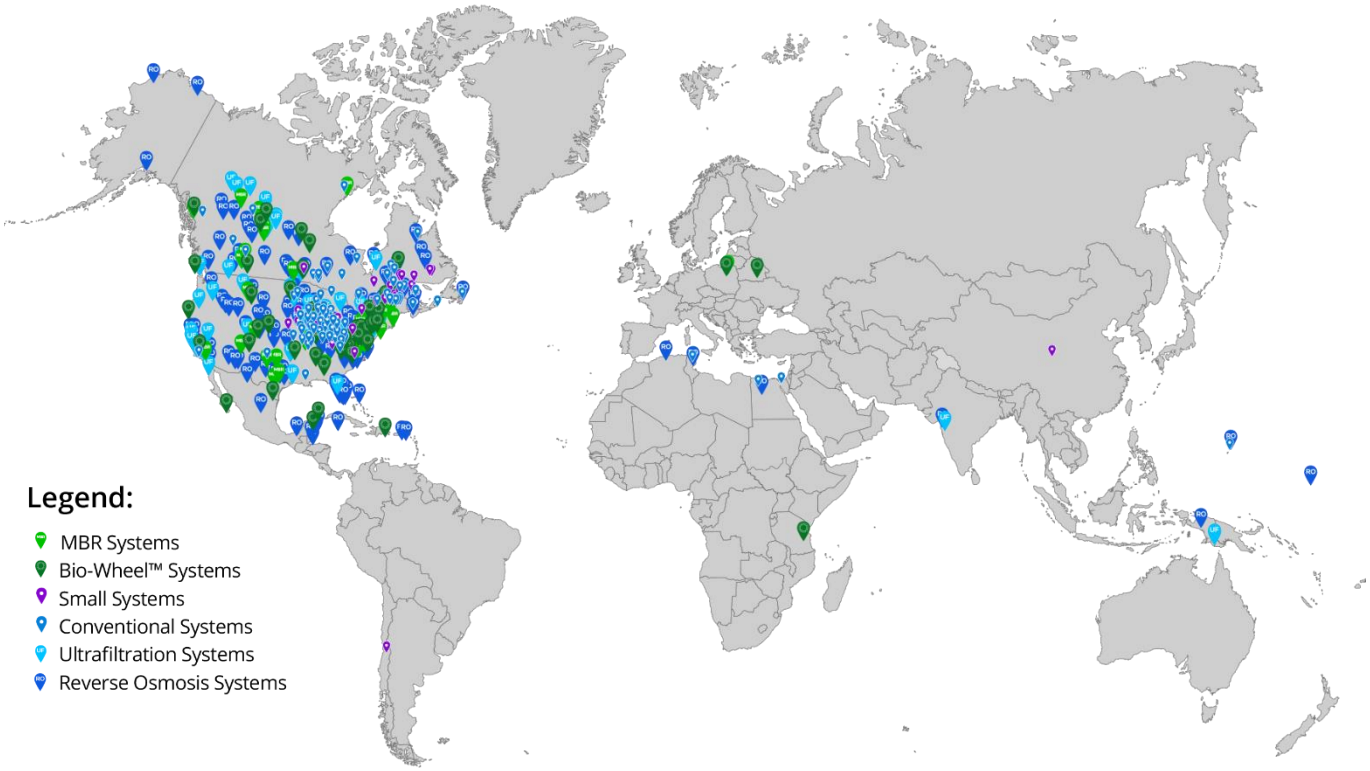
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+750	**+750**	**+75**	**+275**

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



SPECIALTY PRODUCTS ("SP")

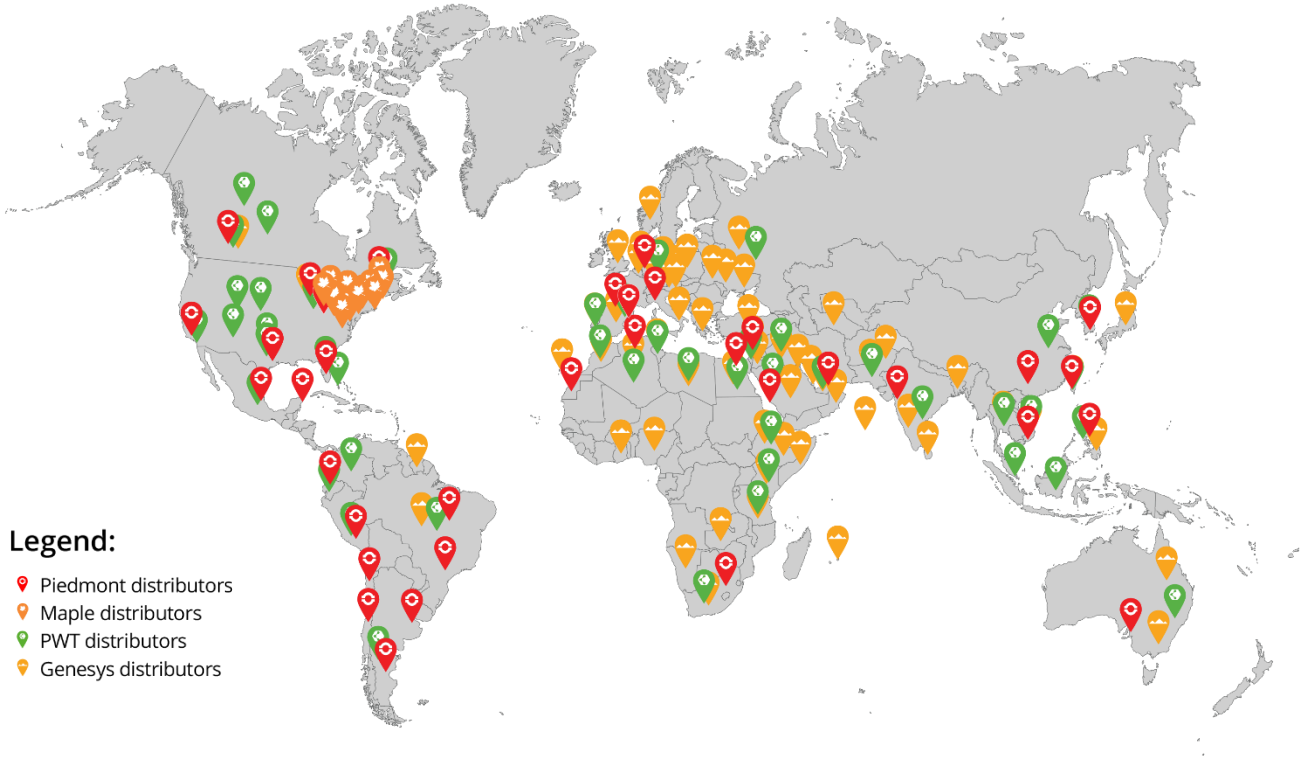
H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry and maple equipment and products through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 75 countries.

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

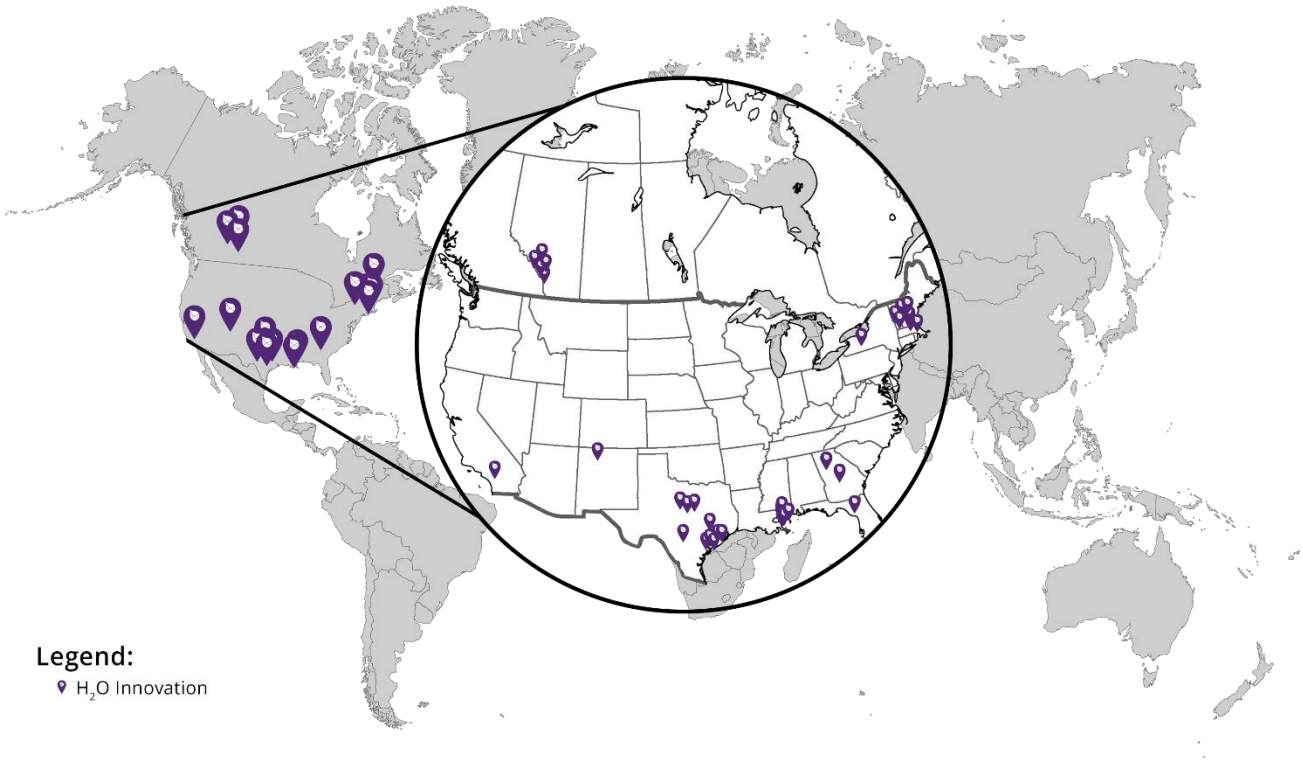


OPERATION AND MAINTENANCE ("O&M")

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.

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



Trusted Utility Partners

KEY FINANCIAL HIGHLIGHTS

For the three-month period ended September 30, 2021
Compared with the three-month period ended September 30, 2020

Revenues	Recurring Revenues [3]	Recurring Revenues [3][4] (%)	Consolidated Backlog
$38.4 M	**$33.1 M**	**86.2 %**	**$122.8 M**
↑ $3.4 M or 9.7 %	↑ $1.5 M from $31.6 M	↓ from 90.2 %	↑ 1.2 % from $121.4 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
28.4 %	**18.5 %**	**$4.0 M**	**10.5 %**
↑ from 27.1 %	↑ from 17.7 %	↑ 15.4 % from $3.5 M	↑ from 9.9 %

Net earnings	Adjusted net earnings [3]	Cash flow from (used in) operating activities	Net debt [3][6]
$0.6 M Or 0.007 per share [5]	**$2.1 M** Or 0.025 per share [3][5]	**($1.5 M)**	**$3.4 M** Ratio net debt/Adjusted EBITDA of 0.22
↓ from $1.0 M	from $2.1 M	↓ from $1.1 M	↑ from $0.5 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 21.
(4) % of total revenues.
(5) Calculated using the basic weighted average number of shares outstanding.
(6) Compared with June 30, 2021.

FIRST QUARTER BUSINESS HIGHLIGHTS

- On July 6, 2021, the Corporation announced that its two specialty chemical business lines, PWT™ and Genesys®, came together on July 1, 2021, to form the H_2O Innovation Specialty Chemicals Group. The Corporation will increase at the same time its sales force with the addition of new territory managers and its manufacturing capacity in its Cheshire (UK) facility.

- On July 20, 2021, the Corporation announced that it has recently been awarded an Operation and Maintenance ("O&M") contract for the City of Laurel, MS (the "City") with a total value of $10.4 M over 4 years. This contract was awarded as part of a call for tenders that the City launched with the aim of privatizing some of its public services. As part of the contract, the Corporation welcomed 33 new employees as of August 1, 2021, previously working for the City, to ensure seamless performance on the contract requirements.

- On July 26, 2021, the Corporation announced that it has recently been awarded six new capital equipment projects in its Water Technologies & Services ("WTS") business pillar, with a total value of $4.8 M, and reached substantial completion on six others.

- On August 3, 2021, the Corporation announced that its Piedmont business line, a global leader in corrosion resistant equipment for desalination plants in the industrial and municipal markets, secured new orders for fiber reinforced polyester ("FRP") cartridge filter housings and duplex stainless couplings, totalling $4.0 M. The team also signed five new distribution agreements in Latin America.

- On September 1, 2021, the Corporation announced that its specialty chemical business line has been selected to provide antiscalant to the world's largest seawater reverse osmosis desalination plant. Operated by ACWA Power, a leading developer, investor and operator of long-term contracted power generation and desalinated water projects worldwide, the Taweelah plant is designed to treat 240 MGD (909,000 m^3 /day). The plant is located in the United Arab Emirates.

- On October 5, 2021, the Corporation announced that it has won at the end of September, a water reuse project in California, two First Nations projects in Canada and another small-scale one. These 4 new contracts, with a total value of $9.9 M, pushed the WTS backlog to $41.2 M at the end of the first quarter ended on September 30, 2021.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements and Cash flows	Three-month periods ended September 30,			
		2021		2020
	$	**% (1)**	$	% (1)
Revenues per business pillar				
WTS	**9,011**	**23.5**	6,242	17.8
Specialty products	**11,335**	**29.5**	11,389	32.5
O&M	**18,038**	**47.0**	17,365	49.7
Total revenues	**38,384**	**100.0**	34,996	100.0
Revenues per geographic location				
Canada	**4,021**	**10.5**	4,011	11.5
United States	**25,753**	**67.1**	22,458	64.2
Others	**8,610**	**22.4**	8,527	24.3
Total revenues	**38,384**	**100.0**	34,996	100.0
Recurring revenues (2)	**33,096**	**86.2**	31,568	90.2
Gross profit margin (3)	**10,920**	**28.4**	9,477	27.1
Selling, general and administrative expenses ("SG&A")	**7,085**	**18.5**	6,209	17.7
Other (gains) and losses – net	**557**	**1.5**	193	0.6
Finance costs – net	**557**	**1.5**	579	1.7
Net earnings for the period	**618**	**1.6**	984	2.8
Net earnings per share (''EPS''):				
Basic EPS	**0.007**	**-**	0.013	-
Diluted EPS	**0.007**	**-**	0.013	-
EBITDA (2)	**3,276**	**8.5**	3,105	8.9
Adjusted EBITDA (2)	**4,018**	**10.5**	3,482	9.9
Adjusted net earnings (2)	**2,132**	**5.6**	2,119	6.1
Adjusted EPS (2):				
Adjusted basic EPS (2)	**0.025**	**-**	0.029	-
Adjusted diluted EPS (2)	**0.023**	**-**	0.028	-
Cash flows from (used in) operating activities	**(1,493)**	**(3.9)**	1,137	3.2

Financial position	**September 30, 2021**	June 30, 2021	Variation	
	$	$	$	%
Cash	**11,768**	15,409	(3,641)	(23.6)
Inventories	**11,633**	8,486	3,147	37.1
Contract assets	**9,976**	7,574	2,402	31.7
Net debt excluding contingent considerations (2)	**3,420**	507	2,913	574.6
Net debt-to-Adjusted EBITDA ratio (2)	**0.22**	0.03	-	-
Consolidated backlog	**122,800**	102,300	20,500	20.0

(1) % of total revenues.
(2) Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

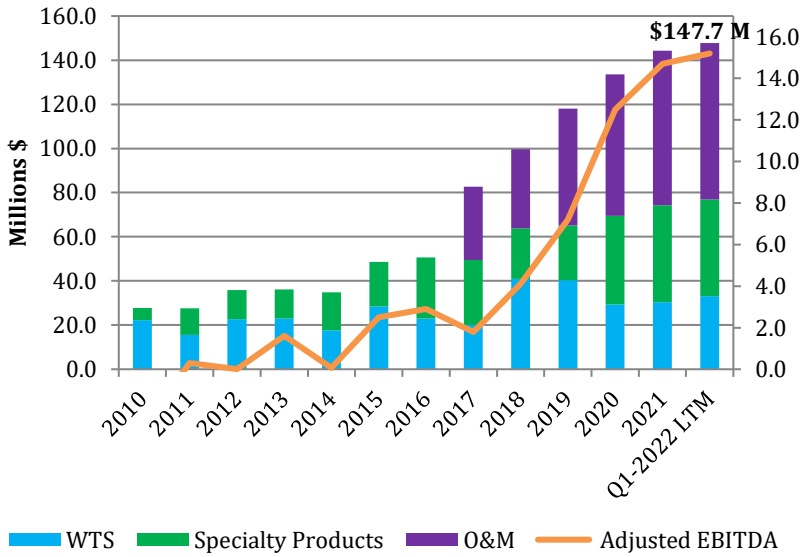
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except for per share values)	Three-month periods ended				Last twelve months
	September 30, 2021	**June 30, 2021**	**March 31, 2021**	**December 31, 2020**	
	$	**$**	**$**	$	**$**
Revenues	**38,384**	35,204	39,155	34,969	147,712
EBITDA [2]	**3,276**	3,206	5,347	2,827	14,656
Adjusted EBITDA [2]	**4,018**	3,089	4,513	3,562	15,182
Adjusted EBITDA over revenues [2]	**10.5 %**	8.8 %	11.5 %	10.2 %	10.3 %
Net earnings (loss)	**618**	(195)	2,062	268	2,753
Basic EPS [1]	**0.007**	(0.002)	0.026	0.003	0.034
Diluted EPS [1]	**0.007**	(0.002)	0.023	0.003	0.030
Adjusted net earnings [2]	**2,132**	457	2,181	1,714	6,484
Adjusted basic EPS [1] [2]	**0.025**	0.005	0.027	0.022	0.080
Adjusted diluted EPS [1] [2]	**0.023**	0.005	0.024	0.019	0.071
Cash flows from (used in) operating activities	**(1,493)**	(2,916)	9,729	(666)	4,654

(In thousands of Canadian dollars, except for per share values)	Three-month periods ended				Previous twelve months
	September 30, 2020	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	
	$	$	$	$	**$**
Revenues	34,996	35,979	36,061	33,334	140,370
EBITDA [2]	3,105	3,954	(1,442)	1,113	6,730
Adjusted EBITDA [2]	3,482	4,832	3,754	2,313	14,381
Adjusted EBITDA over revenues [2]	9.9 %	13.4 %	10.4 %	6.9 %	10.2 %
Net earnings (loss)	984	813	(3,097)	(909)	(2,209)
Basic EPS [1]	0.013	0.011	(0.040)	(0.014)	(0.030)
Diluted EPS [1]	0.013	0.011	(0.040)	(0.014)	(0.030)
Adjusted net earnings [2]	2,119	2,110	2,310	875	7,414
Adjusted basic EPS [1] [2]	0.029	0.027	0.030	0.013	0.100
Adjusted diluted EPS [1] [2]	0.028	0.027	0.030	0.013	0.096
Cash flows from (used in) operating activities	1,137	9,781	883	(407)	11,394

[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 21 for detailed information about non-IFRS measures used in this MD&A.



LAST TWELVE MONTHS

(In thousands of Canadian dollars, except for per share values)	**Last twelve months September 30, 2021**	Previous twelve months September 30, 2020	Variation	
	$	$	$	%
Revenues	**147,712**	140,370	7,342	5.2
EBITDA [1]	**14,656**	6,730	7,926	117.8
Adjusted EBITDA [1]	**15,182**	14,381	801	5.6
Adjusted EBITDA over revenues [1]	**10.3 %**	10.2 %	-	-
Net earnings (loss)	**2,753**	(2,209)	4,962	224.6
Basic EPS	**0.034**	(0.030)	0.064	213.3
Diluted EPS	**0.030**	(0.030)	0.060	200.0
Adjusted net earnings [1]	**6,484**	7,414	(930)	(12.5)
Adjusted basic EPS [1]	**0.080**	0.100	(0.020)	(20.0)
Adjusted diluted EPS [1]	**0.071**	0.096	(0.025)	(26.0)
Cash flows from operating activities	**4,654**	11,394	(6,740)	(59.2)

[1] Refer to the section "Non-IFRS financial measurements" at page 21 for detailed information about non-IFRS measures used in this MD&A.

The sustained 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 showed an increase of 5.2 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth. Organic growth of $2.3 M and additional revenues of $10.4 M from acquisitions, was partially offset by the negative impact of USD exchange rate variations between the periods of $5.4 M. Moreover, the adjusted EBITDA evolved from $14.4 M, or 10.2 % of revenues to $15.2 M, or 10.3 % in the last twelve months, representing a 5.6 % improvement over a twelve-month period and aligned with our financial targets set in our 3-year strategic plan.

CONSOLIDATED REVENUES

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Revenues per business pillar				
WTS	**9,011**	6,242	2,769	44.4
Specialty products	**11,335**	11,389	(54)	(0.5)
O&M	**18,038**	17,365	673	3.9
Total revenues	**38,384**	34,996	3,388	9.7

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2021, increased by $3.4 M, or 9.7 %, to reach $38.4 M compared to $35.0 M for the comparable quarter of the previous fiscal year. Assuming a constant USD exchange rate between the periods, the consolidated revenues increase would have been 13.4 %, or $4.7 M. This overall increase was partially fuelled by the acquisition of Genesys Membrane Products, S.L.U. ("GMP") on February 1, 2021, which contributed $2.4 M in revenues for the three-month period ended on September 30, 2021.

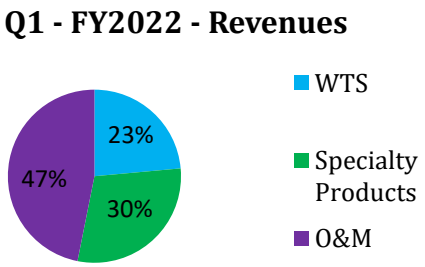
Revenues from the WTS business pillar increased by $2.8 M compared to the same quarter of the previous fiscal year, coming from organic growth seen both in service activities and water treatment systems projects. The WTS business pillar secured $9.9 M of new industrial and municipal projects at the end of the first quarter. The Corporation's 3-year strategic plan consists of prioritizing WTS' projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars, and to expand service activities. The addition of new resources to expand our service activities combined to our constant attention to maintain customer relationships once equipment is delivered

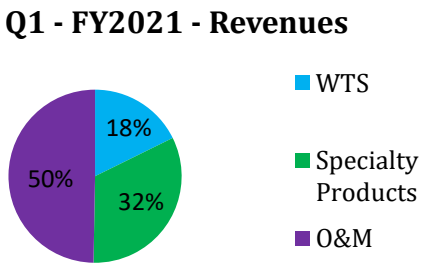
have allowed the Corporation to grow the revenues from the service activities by 32.3 % year over year. These revenues tend to be recurring by nature and at higher margins.

Revenues from the Specialty Products business pillar decreased by $0.1 M compared to the same quarter of the previous fiscal year. During the first quarter of fiscal year 2021, Piedmont business line had several deliveries which generated record revenues, while during the first quarter 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. On a sequential basis, revenues from Specialty Products business pillar increased by $1.0 M, from $10.3 M for the fourth quarter of last fiscal year.

Revenues from the O&M business pillar increased by $0.6 M compared to the same quarter of the previous fiscal year, driven by organic growth of $1.6 M, or 9.8 % this quarter, partly offset by an unfavourable USD exchange rate impact of $1.0 M. Two O&M contracts started on August 1, 2021 and should positively affect the coming quarters for the O&M business pillar.

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. For the three-month period ended September 30, 2021, recurring revenues represented 86.2 % of the Corporation's total revenues, compared to 90.2 % for the comparable quarter of 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. All together, our three business pillars provide a unique and accountable business model to better serve our existing and future customers.





GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Gross profit margins [1]	**10,920**	9,477	1,443	15.2
Gross profit margins (%) [1]	**28.4 %**	27.1 %	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $10.9 M, or 28.4 %, during the first quarter of fiscal year 2022, compared to $9.5 M, or 27.1 % for the same period of the previous fiscal year, representing an increase of $1.4 M, or 15.2 %, while the revenues of the Corporation increased by 9.7 %. The percentage increase was driven by improved gross profit margins in Specialty Products, which are characterized with higher gross profit margins' product, compared to the same quarter of the previous fiscal year. This increase was partially offset by decreased gross profit margins in WTS and O&M business pillars.

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

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
SG&A expenses	**7,085**	6,209	876	14.1
SG&A expenses of revenues	**18.5 %**	17.7 %	-	-

The Corporation's SG&A reached $7.1 M during the first quarter of fiscal year 2022, compared to $6.2 M for the same period of the previous fiscal year, representing an increase of $0.9 M, or 14.1 %, while the revenues of the Corporation increased by 9.7 %. The acquisition of GMP on February 1, 2021 contributed $0.4 M of this increase. Moreover, the increase is due to hiring of sales resources, higher domestic travel within the U.S. and Canada for services and O&M activities as well as higher stock-based compensation costs and insurance costs, partly offset by the decrease in the professional fees, compared to the same quarter of last fiscal year. On a sequential basis, when compared to the fourth quarter of last fiscal year, the Corporation's SG&A increased by $0.2 M to $7.1 M, from $6.9 M.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Finance income	**(11)**	(9)	(2)	22.2
Finance costs	**568**	588	(20)	(3.4)
Finance costs - net	**557**	579	(22)	(3.8)

Finance costs – net remained at $0.6 M for the first quarter of fiscal year 2022, compared with $0.6 M for the same period of the previous fiscal year. The slight reduction was driven by the decrease in interest on long-term debt and interest on lease liabilities.

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 (GAINS) AND LOSSES – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Other (gains) and losses - net	**557**	193	364	188.6

Other (gains) and losses – net stood at $0.6 M for the first quarter of fiscal year 2022, compared with $0.2 M for the same period of the previous fiscal year, representing an increase of $0.4 M compared to the same quarter of the previous fiscal year. The increase was primarily driven by higher changes in fair value of contingent considerations, due to first quarter performance beyond initial forecast, partly compensated by the unrealized exchange gain of $0.2 M.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
EBITDA[1]	**3,276**	3,105	171	5.5
Adjusted EBITDA[1]	**4,018**	3,482	536	15.4
Adjusted EBITDA (%)[1]	**10.5 %**	9.9 %	-	-

The Corporation's adjusted EBITDA increased by $0.5 M, or 15.4 %, to reach $4.0 M during the first quarter of fiscal year 2022, from $3.5 M for the comparable period of fiscal year 2021, while the revenues of the Corporation increased by 9.7 %. The adjusted EBITDA % improved and reached 10.5 % for the first quarter of fiscal year 2022, compared to 9.9 % for the same quarter of last 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, partly offset by the increase of the SG&A ratio.

NET EARNINGS

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Net earnings	**618**	984	(366)	37.2
Basic net earnings per share	**0.007**	0.013	(0.006)	-
Diluted net earnings per share	**0.007**	0.013	(0.006)	-
Adjusted net earnings[1]	**2,132**	2,119	13	0.6
Basic adjusted net earnings per share[1]	**0.025**	0.029	(0.004)	-
Diluted adjusted net earnings per share[1]	**0.023**	0.028	(0.005)	-

Net earnings amounted to $0.6 M or $0.007 per share for the first quarter of fiscal year 2022 compared to net earnings of $1.0 M or $0.013 per share for the comparable quarter of fiscal year 2021. The variation was impacted by the increase of the SG&A ratio, higher other gains and losses – net and higher tax expenses that were partially compensated by higher gross profit margins, lower acquisition and integration costs and lower finance costs.

[1] Refer to the section "Non-IFRS financial measurements" at page 21 for detailed information about non-IFRS measures used in this MD&A.

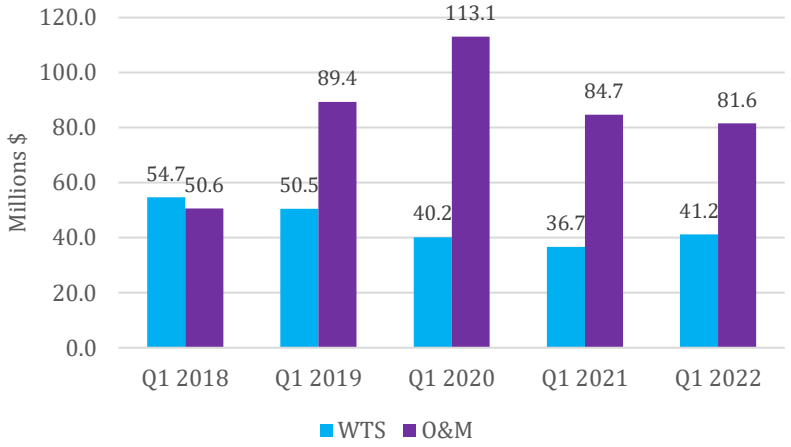
BACKLOG

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 September 30, 2021, the combined backlog of secured contracts between WTS and O&M reached $122.8 M compared to $121.4 M as at September 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 September 30,			
	2021	2020	Variation	
	$	$	$	%
WTS	**41,200**	36,700	4,500	12.3
O&M [1]	**81,600**	84,700	(3,100)	(3.7)
Consolidated backlog	**122,800**	121,400	1,400	1.2

[1] The backlog coming from the O&M business pillar does not include ''evergreen'' O&M services provided to MUDs and other privately owned utilities located in Texas, since 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 12.3 %, 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: 32.8 % of the projects being industrial as of September 30, 2021, compared to 31.3 % as of September 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 $81.6 M as at September 30, 2021, representing a decrease of 3.7 % compared to the $84.7 M backlog as at September 30, 2020, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The O&M backlog would have been at $85.7 M, representing an increase of $1.0 M, or 1.1 %, assuming a constant USD exchange rate between the periods. The O&M backlog does not include ''evergreen'' O&M services provided to MUDs and other privately owned utilities located in Texas.

SEGMENT INFORMATION

As mentioned in Section "H_2O 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 21 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the first quarters ended September 30, 2021 and 2020.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Revenues from WTS	**9,011**	6,242	2,769	44.4
Cost of goods sold	**6,942**	4,690	2,252	48.0
Gross profit margins[1]	**2,069**	1,552	517	33.3
Gross profit margins (%)[1]	**23.0 %**	24.9 %	-	-
Selling and general expenses	**1,066**	857	209	24.4
EBAC[2] from WTS	**1,003**	695	308	44.3
EBAC[2] over revenues from WTS	**11.1 %**	11.1 %	-	-

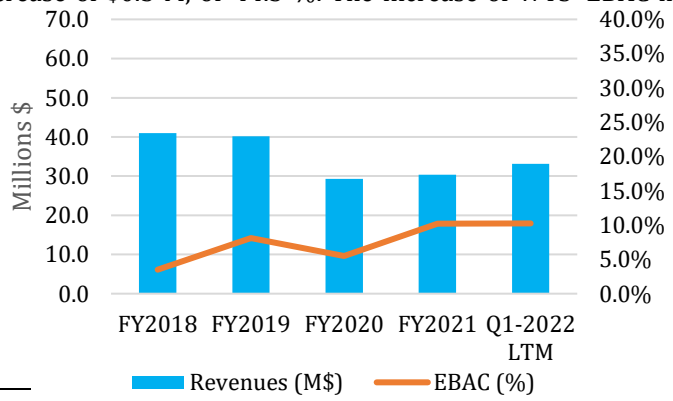
The WTS' financial performance for the first quarter of fiscal year 2022 was strong with 44.4 % growth in revenues. The WTS team has completed a busy period during which they reached substantial completion on several projects and the service activities grew by 32.3 % compared to the same quarter of last fiscal year.

WTS revenues stood at $9.0 M during the first quarter of fiscal year 2022, compared to $6.2 M for the same quarter of last fiscal year, representing an increase of $2.8 M, or 44.4 %. The increase is coming from organic growth of service activities and water treatment systems projects.

The gross profit margins before depreciation and amortization stood at $2.1 M, or 23.0 % for the first quarter of fiscal year 2022, compared with $1.6 M, or 24.9 % for the same quarter of last fiscal year, representing an increase of $0.5 M, or 33.3 %. The reduction in gross profit margin in % is explained by the business mix, with more sales coming from the water treatment systems projects compared to the same quarter of last fiscal year.

The selling and general expenses stood at $1.1 M during the first quarter of fiscal year 2022, compared to $0.9 M, for the same quarter of last fiscal year, representing an increase of $0.2 M. The increase in selling and general expenses was driven primarily by higher employee compensation costs and commissions.

WTS' EBAC stood at $1.0 M during the first quarter of fiscal year 2022, compared to $0.7 M for the same quarter of last fiscal year, representing an increase of $0.3 M, or 44.3 %. The increase of WTS' EBAC in dollar is attributable to the improvement of the revenues.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Revenues from Specialty Products	**11,335**	11,389	(54)	(0.5)
Cost of goods sold	**5,370**	6,597	(1,227)	(18.6)
Gross profit margins[1]	**5,965**	4,792	1,173	24.5
Gross profit margins (%)[1]	**52.6 %**	42.1 %	-	-
Selling and general expenses	**2,413**	2,068	345	16.7
EBAC[2] from Specialty Products	**3,552**	2,724	828	30.4
EBAC[2] over revenues from Specialty Products	**31.3 %**	23.9 %	-	-

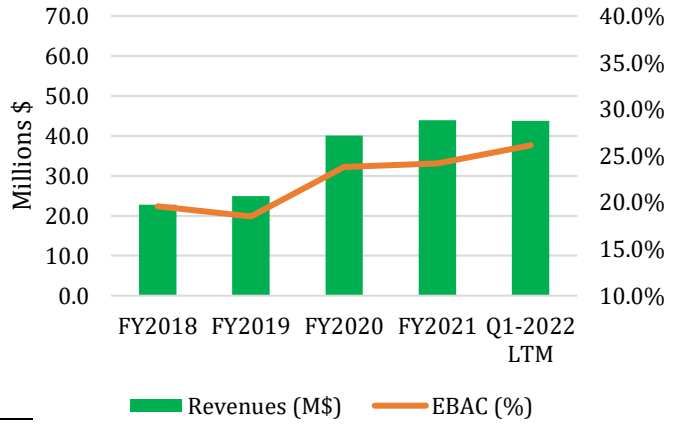
Specialty Products revenues include revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry. Even though revenues from Specialty Products remained fairly stable for the first quarter of fiscal year 2022, EBAC increased by 30.4 % compared to the same quarter of last fiscal year. The improvement of the profitability is due to a higher proportion of sales coming from specialty chemicals related products, which are characterized with higher gross profit margins' product.

Specialty Products revenues stood at $11.3 M during the first quarter of fiscal year 2022, compared to $11.4 M for the same quarter of last fiscal year, representing a decrease of $0.1 M, or 0.5 %. The acquisition of GMP on February 1, 2021 contributed to increase Specialty Products revenues by $2.4 M this quarter. The decrease of Specialty Products revenues is explained by the unfavourable USD exchange rate impact of $0.3 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 specialty chemicals related products for the same comparative period.

The gross profit margins before depreciation and amortization stood at $6.0 M, or 52.6 % for the first quarter of fiscal year 2022, compared with $4.8 M, or 42.1 % for the same quarter of last fiscal year, representing an increase of $1.2 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 specialty chemicals related products and the addition of GMP.

The selling and general expenses stood at $2.4 M during the first quarter of fiscal year 2022, compared to $2.1 M, for the same quarter of last fiscal year, representing an increase of $0.3 M, mostly explained by the acquisition of GMP on February 1, 2021.

Specialty Products' EBAC stood at $3.6 M during the first quarter of fiscal year 2022, compared to $2.7 M for the same quarter of last fiscal year, representing an increase of $0.9 M, or 30.4 %. Specialty Products' EBAC was positively affected by the acquisition of GMP and higher revenues coming from specialty chemicals related products.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

O&M

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Revenues from O&M	**18,038**	17,365	673	3.9
Cost of goods sold	**15,152**	14,232	920	6.5
Gross profit margins[1]	**2,886**	3,133	(247)	(7.9)
Gross profit margins (%)[1]	**16.0 %**	18.0 %	-	-
Selling and general expenses	**928**	846	82	9.7
EBAC[2] from O&M	**1,958**	2,287	(329)	(14.4)
EBAC[2] over revenues from O&M	**10.9 %**	13.2 %	-	-

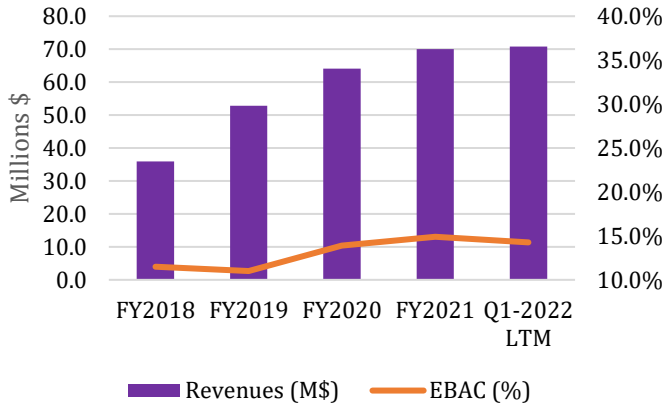
During the first quarter of fiscal year 2022, O&M business pillar showed organic growth of 9.8 %, offset by an unfavorable USD exchange rate impact and temporary reduction of the gross profit margin in % due to timing in some construction work on MUD contracts.

O&M revenues stood at $18.0 M during the first quarter of fiscal year 2022, compared to $17.4 M for the same quarter of last fiscal year, representing an increase of $0.6 M, or 3.9 %. The O&M business pillar showed organic growth of $1.6 M this quarter, partially offset by an unfavorable USD exchange rate impact of $1.0 M.

The gross profit margins before depreciation and amortization stood at $2.9 M, or 16.0 % for the first quarter of fiscal year 2022, compared with $3.1 M, or 18.0 % for the same quarter of last fiscal year, representing a decrease of $0.2 M, or 7.9 %. The gross profit margin before depreciation and amortization was affected by unfavorable USD exchange rate and by the timing in O&M services provided to MUDs and other privately owned utilities compared to the same quarter of last fiscal year.

The selling and general expenses stood at $0.9 M during the first quarter of fiscal year 2022, compared to $0.8 M, for the same quarter of last fiscal year. The increase in selling and general expenses was driven primarily by higher employee compensation costs compared to the same quarter of last fiscal year.

O&M's EBAC stood at $2.0 M during the first quarter of fiscal year 2022, compared to $2.3 M for the same quarter of last fiscal year, representing a decrease of $0.3 M, or 14.4 %, due primarily to the reduction in gross profit margin and higher selling and general expenses this quarter.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 21 for detailed information about non-IFRS measures used in this MD&A.

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 FLOWS ANALYSIS

A comparison of the Corporation's cash flows for the quarters ended September 30, 2021 and 2020 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021	2020	Variation	
	$	$	$	%
Cash flows from operating activities before change in working capital items	**4,422**	2,979	1,443	48.4
Change in working capital items	**(5,388)**	(1,851)	(3,537)	191.1
	(966)	1,128	(2,094)	(185.6)
Interests received (paid) / Income taxes received (paid)	**(527)**	9	(536)	(5955.6)
Cash flows from (used in) operating activities	**(1,493)**	1,137	(2,630)	(231.3)
Cash flows from (used in) investing activities	**(533)**	(3,147)	2,614	(83.1)
Cash flows from (used in) financing activities	**(1,511)**	(244)	(1,267)	519.3
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(104)**	108	(212)	(196.3)
Net change	**(3,641)**	(2,146)	(1,495)	69.7
Cash – Beginning of period	**15,409**	9,439	5,970	63.2
Cash – End of period	**11,768**	7,293	4,475	61.4

Cash decreased by ($3.6 M) during the first quarter of fiscal year 2022, compared with a decrease of ($2.1 M) for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities used ($1.5 M) for the quarter ended September 30, 2021, compared to $1.1 M of cash flows generated from operating activities during the comparable quarter of the previous fiscal year. The variation is mainly explained by income taxes paid and by the unfavorable changes in working capital items, mostly coming from the increase in inventories and contract assets.

Cash Flows from Investing Activities

Investing activities used ($0.5 M) of cash flows for the quarter ended September 30, 2021, compared to ($3.1 M) of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation was primarily due to the business combination of GUS on July 1, 2020 amounting to $2.6 M.

Cash Flows from Financing Activities

Financing activities used ($1.5 M) for the quarter ended September 30, 2021, compared to ($0.2 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation was primarily due to the long-term debt contracted of $2.1 M compensated by the repayment of bank loans of $0.8 M during the comparable quarter of the previous fiscal year.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)	**September 30, 2021**	June 30, 2021	Variation		Explanations
	$	$	$	%	
Accounts receivable	**22,786**	22,148	638	2.9	The increase is mostly attributable to higher revenues and foreign exchange rate impact.
Inventories	**11,633**	8,486	3,147	37.1	The increase in inventory is partly due to proactive measures to maintain a higher level of inventory and thus respond to current supply chain matters. The growth is also driven by the Maple business line which is currently building his inventory for the upcoming maple season.
Contract assets	**9,976**	7,574	2,402	31.7	The increase is mostly attributable to growth in WTS business pillar's activities.
Accounts payable and accrued liabilities	**16,256**	15,466	790	5.1	The increase is mostly attributable to growth of the Corporation's activities and foreign exchange rate impact.
Contract liabilities	**3,161**	3,283	(122)	(3.7)	The decrease is attributable to the difference between project advancement and project invoicing schedules.
Contingent considerations, including current portion	**7,527**	6,738	789	11.7	The increase is due to the changes in fair value of the contingent considerations and foreign exchange rate impact.

NET DEBT

The definition of net debt consists of long-term debt less cash, excluding and/or including contingent considerations. Net debt is a non-IFRS measure without a standardized definition within IFRS and is used by the management to measure the liquidity of the Corporation. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**September 30, 2021**	June 30, 2021	Variation	
	$	$	$	%
Current portion of long-term debt	**2,998**	2,975	23	0.8
Long-term debt	**12,190**	12,941	(751)	(5.8)
Contingent considerations	**7,527**	6,738	789	11.7
Less: Cash	**(11,768)**	(15,409)	(3,641)	(23.6)
Net debt including contingent considerations [(1)]	**10,947**	7,245	3,702	51.1
Contingent considerations	**7,527**	6,738	789	11.7
Net debt excluding contingent considerations ("Net debt") [(1)]	**3,420**	507	2,913	574.6
Adjusted EBITDA [(1)]	**15,182**	14,646	536	3.7
Net debt-to-adjusted-EBITDA ratio [(1)]	**0.22**	0.03	-	-

[(1)] Non-IFRS measure. Refer to the section "Non-IFRS financial measurements" at page 21 for detailed information about non-IFRS measures used in this MD&A.

As at September 30, 2021, the net debt stood at $3.4 M, compared with $0.5 M as at June 30, 2021, representing a $2.9 M increase. This increase is mainly attributable to the cash flows used in operating activities.

CAPITAL MANAGEMENT

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

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of 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 September 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 1.20:1.00 at all times.

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

OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2021, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $2.1 M which expire at various dates through fiscal year 2025. Of these letters of credit, $2.1 M is secured by EDC.

OUTSTANDING SHARES

As at September 30, 2021, the Corporation had 85,286,854 common shares issued and outstanding, 3,359,334 outstanding stock options and 3,643,570 outstanding warrants.

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 the 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 according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations and the stock-based compensation costs. 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 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 TO EBITDA AND TO AJDUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2021	2020
	$	$
Net earnings for the period	**618**	984
Finance costs – net	**557**	579
Income taxes (recovery)	**140**	(296)
Depreciation of property, plant and equipment and right-of-use assets	**866**	789
Amortization of intangible assets	**1,095**	1,049
EBITDA	**3,276**	3,105
Unrealized exchange (gain) loss	**(246)**	214
Stock-based compensation costs	**219**	43
Changes in fair value of the contingent considerations	**767**	62
Acquisition and integration costs	**2**	58
Adjusted EBITDA	**4,018**	3,482

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 September 30,	
	2021	2020
	$	$
Revenue from external customers:		
Revenue recognized over time	**23,326**	20,793
Revenue recognized at a point in time	**15,058**	14,203
	38,384	34,996
Cost of goods sold	**27,464**	25,519
Gross profit before depreciation and amortization	**10,920**	9,477
Selling and general expenses	**4,407**	3,771
Earnings before administrative costs (EBAC)	**6,513**	5,706

ADJUSTED NET EARNINGS

The definition of adjusted net earnings excludes acquisition and integration costs, amortization of intangible assets from acquisition, unrealized exchange (gain) loss, change in fair value of the contingent considerations and stock-based compensation costs. The reader can establish the link between net earnings 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 and adjusted net earnings per share are non-IFRS measure and they are used by management to monitor financial performance and to make strategic decision.

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2021	2020
	$	$
Net earnings for the period	**618**	984
Acquisition and integration costs	**2**	58
Amortization of intangible assets related to business combinations	**992**	986
Unrealized exchange (gain) loss	**(246)**	214
Changes in fair value of the contingent considerations	**767**	62
Stock-based compensation costs	**219**	43
Income taxes related to above items	**(220)**	(228)
Adjusted net earnings	**2,132**	2,119

NET DEBT

The definition of net debt consists of 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 20 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.

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. The 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 September 30, 2021,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	9,011	11,335	18,038	38,384
Recurring revenues	**3,723**	**11,335**	**18,038**	**33,096**

(In thousands of Canadian dollars)	Three-month period ended September 30, 2020,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	6,242	11,389	17,365	34,996
Recurring revenues	**2,814**	**11,389**	**17,365**	**31,568**

CLAIMS AND LITIGATION

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.

FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risks: credit risks, liquidity risks and market risks (including currency risk and interest risk). The interim consolidated financial statements and interim MD&A did not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the audited annual financial statements of the Corporation for the year ended June 30, 2021. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

RISK FACTORS

For a detailed description of risk factors associated with the Corporation, please refer to the "Risks factors" section of the Corporation's annual information form date September 27, 2021. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in Note 2 to 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 condensed interim 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, 2021. Since June 30, 2021, the Corporation has not early adopted any standard, interpretation or amendment.

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 quarter allows them to conclude that the internal controls over financial reporting are effective for the three-month period ended September 30, 2021.

Changes in Internal Controls over Financial Reporting

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

Limitation on Scope of Design of Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at September 30, 2021, did not include the controls or procedures of the operations of 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 the exclusion of this acquisition in the design and operating effectiveness assessment of its DC&P and ICFR for a maximum period of 365 days from the date of acquisition.

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

(In thousands of Canadian dollars) (unaudited)	**Three-month period ended September 30, 2021**
Results	**$**
Revenues	2,417
Net Earnings	753
	As at September 30, 2021
Financial Position	**$**
Current Assets	4,368
Non-Current Assets [1]	10,953
Current Liabilities	1,975
Non-Current Liabilities	846

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2021

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

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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

As at	September 30, 2021	June 30, 2021
	$	$
ASSETS (notes 6 and 8)		
Current assets		
Cash	**11,768**	15,409
Accounts receivable (note 4)	**22,786**	22,148
Inventories (note 5)	**11,633**	8,486
Contract assets	**9,976**	7,574
Prepaid expenses and deposits	**2,784**	2,868
	58,947	56,485
Non-current assets		
Property, plant and equipment	**5,728**	5,657
Intangible assets	**32,427**	33,131
Right-of-use assets	**9,865**	10,094
Other assets	**172**	200
Related party loans receivable (note 13 a)	**1,250**	1,250
Goodwill (note 3)	**30,491**	30,209
Deferred income tax assets	**144**	76
	139,024	137,102
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**16,256**	15,466
Income taxes payable	**349**	508
Provisions	**454**	644
Contract liabilities	**3,161**	3,283
Contingent considerations (note 9)	**4,760**	4,026
Current portion of long-term debt (note 8)	**2,998**	2,975
Current portion of lease liabilities	**1,644**	1,636
	29,622	28,538
Non-current liabilities		
Long-term debt (note 8)	**12,190**	12,941
Other non-current financial liabilities (note 8)	**263**	261
Contingent consideration (note 9)	**2,767**	2,712
Deferred income tax liabilities	**3,752**	3,937
Lease liabilities	**9,100**	9,318
	57,694	57,707
SHAREHOLDERS' EQUITY		
Share capital	**120,025**	119,780
Reserve – Stock options	**3,945**	3,726
Reserve – Warrants	**644**	679
Deficit	**(44,574)**	(45,192)
Accumulated other comprehensive income	**1,290**	402
	81,330	79,395
	139,024	137,102

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended September 30, 2021 and 2020
(in thousands of Canadian dollars, except share data) (Unaudited)

	Common shares (number)	Share capital	Reserve – Stock option	Reserve – Warrants	Deficit	Accumulated other comprehensive income	Total
		$	$		$	$	$
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	-	-	43	-	-	-	43
Net earnings for the period	-	-	-	-	984	-	984
Shares issued on warrants exercised	204,771	223	-	(53)	-	-	170
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	(715)	(715)
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	-	-	-	-	-	40	40
Balance as at September 30, 2020	77,077,379	107,095	3,516	2,653	(47,327)	3,198	69,135
Balance as at July 1, 2021	**85,137,204**	**119,780**	**3,726**	**679**	**(45,192)**	**402**	**79,395**
Stock-based compensation costs	**-**	**-**	**219**	**-**	**-**	**-**	**219**
Net earnings for the period	**-**	**-**	**-**	**-**	**618**	**-**	**618**
Shares issued on warrants exercised	**149,650**	**245**	**-**	**(35)**	**-**	**-**	**210**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**848**	**848**
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	**-**	**-**	**-**	**-**	**-**	**40**	**40**
Balance as at September 30, 2021	**85,286,854**	**120,025**	**3,945**	**644**	**(44,574)**	**1,290**	**81,330**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
For the three-month periods ended September 30, 2021 and 2020
(in thousands of Canadian dollars, except per share data) (Unaudited)

Three-month periods ended September 30,	**2021**	2020
	$	$
Revenues (note 12)	**38,384**	34,996
Cost of goods sold (note 10 a)	**27,464**	25,519
Gross profit before depreciation and amortization	**10,920**	9,477
Selling, general and administrative expenses (note 10 a)	**7,085**	6,209
Depreciation of property, plant and equipment and right-of-use assets (note 10 b)	**866**	789
Amortization of intangible assets (note 10 b)	**1,095**	1,049
Other (gains) and losses – net (note 10 c)	**557**	193
Acquisition and integration costs (note 3)	**2**	58
Operating costs total	**9,605**	8,298
Operating profit	**1,315**	1,179
Finance income (note 13 a)	**(11)**	(9)
Finance costs	**568**	588
Finance costs – net	**557**	579
Share of profit of an associate	**-**	88
Earnings before income taxes	**758**	688
Current income tax expense	**381**	155
Deferred tax recovery	**(241)**	(451)
	140	(296)
Net earnings for the period	**618**	984
Basic net earnings per share (note 11)	**0.007**	0.013
Diluted net earnings per share (note 11)	**0.007**	0.013
Weighted average number of shares outstanding – Basic (note 11)	**85,203,131**	74,323,976
Weighted average number of shares outstanding – Diluted (note 11)	**91,233,758**	75,686,211

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
For the three-month periods ended September 30, 2021 and 2020
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2021**	2020
	$	$
Net earnings for the period	**618**	984
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**848**	(715)
Cash flow hedges net gains arising during the period (net of tax)	**40**	40
Comprehensive earnings for the period	**1,506**	309

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended September 30, 2021 and 2020
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2021**	2020
	$	$
Operating activities		
Earnings before income taxes for the period	**758**	688
Non-cash items		
Finance costs – net	**557**	579
Depreciation of property, plant and equipment and right-of-use assets	**866**	789
Amortization of intangible assets	**1,095**	1,049
Changes in fair value of contingent considerations (note 9)	**767**	62
Others	**33**	-
Net unrealized foreign exchange differences	**127**	(143)
Stock-based compensation costs	**219**	43
Share of profit of an associate	**-**	(88)
	4,422	2,979
Change in working capital items	**(5,388)**	(1,851)
Interests received	**11**	9
Income taxes paid	**(538)**	-
Net cash flows from (used in) operating activities	**(1,493)**	1,137
Investing activities		
Variation of other assets	**31**	(148)
Acquisition of property, plant and equipment	**(460)**	(325)
Acquisition of intangible assets	**(104)**	(51)
Business combination, net of cash acquired (note 3)	**-**	(2,623)
Net cash flows used in investing activities	**(533)**	(3,147)
Financing activities		
Repayment of bank loans	**-**	(777)
Net proceeds from long-term debt contracted (note 8)	**-**	2,100
Long-term debt reimbursement (note 8)	**(770)**	(778)
Payment of lease liabilities	**(515)**	(448)
Interest paid	**(436)**	(437)
Financing costs	**-**	(74)
Warrants exercised	**210**	170
Net cash flows used in financing activities	**(1,511)**	(244)
Net change in cash	**(3,537)**	(2,254)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(104)**	108
Decrease in cash	**(3,641)**	(2,146)
Cash – Beginning of period	**15,409**	9,439
Cash – End of period	**11,768**	7,293

See accompanying notes to consolidated financial statements.

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

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

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), except that they do not include all disclosure required under IFRS for annual consolidated financial statements, and accordingly they are condensed consolidated financial statements. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting.*

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2021 were consistently applied to the period presented in this document. Since June 30, 2021, the Corporation has not early adopted any standard, interpretation or amendment.

These condensed interim consolidated financial statements are intended to provide an update on the Corporation's audited consolidated annual financial statements for the year ended June 30, 2021. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's audited consolidated annual financial statements for the year ended June 30, 2021.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2021 and remained unchanged for the three-month period ended September 30, 2021.

The Corporation's financial statements are presented in thousands of Canadian dollars. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

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

On November 9, 2021, the Board reviewed and approved the accompanying unaudited condensed interim consolidated financial statements and authorized its publication.

Assessment of COVID-19 impact

In response to the effects of the COVID-19 pandemic, the Corporation continued to assess the uncertainties surrounding the crisis and its potential impact on the carrying amount of its assets and liabilities. This assessment, which required the used of significant judgments and estimates, had no impact on the Corporation's condensed interim consolidated financial statements for the three-month period ended September 30, 2021. The Corporation will continue to closely monitor the impact of COVID-19 as it continues to develop during its fiscal year ending June 30, 2022. Further information on significant accounting judgments and estimates is detailed in Note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2021.

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

3. Business combination

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.

The Corporation recognized a gain of $2.4 M, at the acquisition date, as a result of measuring at fair value its 24% equity interest in GMP held before the business combination.

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

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

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash	**2,775**
Accounts receivable [1]	**2,256**
Inventory	**878**
Property, plant and equipment	**369**
Right-of-use assets [2]	**1,142**
Liabilities assumed	
Bank loans	**(929)**
Accounts payable and accrued liabilities	**(1,765)**
Lease liabilities [2]	**(1,142)**
Deferred tax liabilities	**(1,719)**
Identifiable net tangible assets acquired	**1,865**
Intangible assets acquired	**-**
Customer relationships	**6,700**
Non-compete agreements	**176**
Goodwill arising on acquisition	**4,699**
Fair value of identifiable net assets acquired	**13,440**
Consideration	
Cash	**2,417**
Contingent consideration	**6,920**
Working capital adjustment	**1,125**
Total consideration transferred	**10,462**
Fair value of the Corporation's equity interest in GMP held before the business combination	**2,978**
	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.

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

The total acquisition and integration costs pertaining to the GMP acquisition amounted to $0.3 M and accounted in fiscal year 2021.

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.

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. 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data) (Unaudited)

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

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash	**121**
Accounts receivable [1]	**467**
Inventory	**146**
Contract assets	**253**
Prepaid expenses and deposits	**19**
Property, plant and equipment	**503**
Right-of-use assets [2]	**151**
Other assets	**119**
Liabilities assumed	
Accounts payable and accrued liabilities	**(329)**
Lease liabilities [2]	**(151)**
Deferred tax liabilities	**(524)**
Identifiable net tangible assets acquired	**775**
Intangible assets acquired	**-**
Customer relationships	**2,362**
Goodwill arising on acquisition	**571**
Fair value of identifiable net assets acquired	**3,708**
Consideration	
Cash	**2,546**
Contingent consideration	**964**
Working capital adjustment	**198**
Total consideration payable	**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 no amount 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share data) (Unaudited)

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

The total acquisition and integration costs pertaining to the GUS acquisition amounted to $0.1 M and accounted in fiscal year 2021.

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.

The change in carrying amount of goodwill is presented below:

	Total
	$
Balance as at June 30, 2020	26,185
Plus: Business combination – GUS (note 3 b)	571
Plus: Business combination – GMP (note 3 a)	4,699
Effect of foreign exchange differences	(1,246)
Balance as at June 30, 2021	30,209
Effect of foreign exchange differences	**282**
Balance as at September 30, 2021	**30,491**

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

4. Accounts receivable

As at	September 30, 2021	June 30, 2021
	$	$
Trade accounts receivable	**19,694**	19,281
Hold back from customers under manufacturing contracts	**2,534**	2,818
Allowance for expected credit losses	**(219)**	(220)
	22,009	21,879
Other receivables	**777**	269
	22,786	22,148

5. Inventories

As at	September 30, 2021	June 30, 2021
	$	$
Raw materials	**2,131**	1,297
Work in progress	**595**	412
Finished goods	**8,907**	6,777
	11,633	8,486

6. 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 8 – *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 $nil was used as at September 30, 2021 ($nil as at June 30, 2021); and
(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 $2.1 M ($1.9 M as at June 30, 2021) was used on this credit facility as at September 30, 2021.

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

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 $0.1 M was used as at September 30, 2021 ($0.3 M as at June 30, 2021); 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 September 30, 2021 ($0.1 M as at June 30, 2021).

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 September 30, 2021, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 8 – *Long-term debt*.

7. Accounts payable and accrued liabilities

As at	**September 30, 2021**	June 30, 2021
	$	$
Trade accounts payable	**6,845**	5,356
Other accrued liabilities	**9,411**	10,110
	16,256	15,466

8. Long-term debt

As at	**September 30, 2021**	June 30, 2021
	$	$
At amortised cost		
Loans denominated in Canadian dollars (a)(b)(e)(f)	**14,275**	14,944
Loans denominated in US dollars (c)	**726**	769
Loans denominated in Canadian dollars (d)	**187**	203
	15,188	15,916
Less: Current portion	**2,998**	2,975
Long-term debt	**12,190**	12,941

(a) Loans denominated in Canadian dollars
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 % (2.68 % as at September 30, 2021 and 2.66 % as at June 30, 2021) and an amount of $400 bearing interest at prime rate plus 1.00 % (3.45 % as at September 30, 2021 and 3.45 % as at June 30, 2021). 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 $138 ($158 as at June 30, 2021).

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 % (2.68 % as at September 30, 2021 and 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 September 30, 2021 and 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 $36 ($42 as at June 30, 2021).

(b) Interest rate swaps derivatives designated as hedging instruments
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 September 30, 2021 and 3.33 % as at June 30, 2021). As at September 30, 2021, the fair value of this swap was $15 and is included in Other non-current financial liabilities in the consolidated statements of financial position ($25 as at June 30, 2021). 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 September 30, 2021 and 3.93 % as at June 30, 2021). As at September 30, 2021, the fair value of this swap amounted to $119 and is included in Other non-current financial liabilities in the consolidated statements of financial position ($150 as at June 30, 2021). This interest rate swap has been designated as a hedging item.

(c) Loans denominated in US dollars
The Corporation acquired financing agreements totaling $1,224 (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 $23 (US$18), principal and interest, and are maturing through January 2023 to April 2026.

(d) Loans denominated in Canadian dollars
The Corporation acquired 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.

(e) 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 1.20:1.00 at all times.

(f) This long-term debt arrangement is 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 September 30, 2021, the Corporation was in compliance with the ratios required under its credit agreements.

9. Contingent considerations

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

	$
Balance as at June 30, 2020	1,413
Plus: Contingent consideration – GUS (note 3 b)	964
Plus: Contingent consideration – GMP (note 3 a)	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
Plus: Change in fair value of contingent considerations	**767**
Effect of foreign exchange differences	**22**
Balance as at September 30, 2021	**7,527**
Less: Current portion	**4,760**
Contingent consideration – non-current portion	**2,767**

10. Additional information about the nature of costs components

a) Expenses by nature

Three-month periods ended September 30,	**2021**	2020
	$	$
Material	**13,800**	13,083
Salaries and fringe benefits	**15,381**	14,119
Subcontractors and professional fees	**2,343**	2,047
Rent, electricity, insurance and office expenses	**1,058**	970
Telecommunications and travel expenses	**580**	450
Expected credit losses expenses	**-**	14
Share based compensation	**219**	43
Other expenses	**1,168**	1,002
Total cost of goods sold, operating, selling and administrative expenses	**34,549**	31,728
Depreciation of property, plant and equipment and right-of-use assets	**866**	789
Amortization of intangible assets	**1,095**	1,049
Costs including depreciation and amortization	**36,510**	33,566

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of earnings, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, 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 three-month periods ended September 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

Three-month periods ended September 30,	2021	2020
	$	$
Cost of goods sold	602	509
Selling, general and administrative expenses	264	280
	866	789

Amortization of intangible assets by function

Three-month periods ended September 30,	2021	2020
	$	$
Cost of goods sold	55	58
Selling, general and administrative expenses	1,040	991
	1,095	1,049

Cost per function including depreciation and amortization

Three-month periods ended September 30,	2021	2020
	$	$
Cost of goods sold	28,121	26,086
Selling, general and administrative expenses	8,389	7,480
	36,510	33,566

c) Other (gains) and losses – net

Three-month periods ended September 30,	2021	2020
	$	$
Unrealized exchange (gain) loss	(246)	214
Realized exchange (gain) loss	42	(62)
Other gains	(6)	(21)
Changes in fair value of contingent considerations	767	62
	557	193

11. Net earnings per share

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

Three-month periods ended September 30,	**2021**	2020
Net earnings	**$618**	$984
Basic weighted average number of share outstanding	**85,203,131**	74,323,976
Effects of dilution from:		
Warrants if not anti-dilutive	**3,727,293**	1,362,235
Stock options if not anti-dilutive	**2,303,334**	-
Weighted average number of share outstanding adjusted for the effect of dilution	**91,233,758**	75,686,211
Basic net earnings per share	**$0.007**	$0.013
Diluted net earnings per share	**$0.007**	$0.013

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

Three-month periods ended September 30,	**2021**	2020
Stock options	**1,056,000**	2,319,334
Warrants	**-**	10,490,810

12. 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 segments 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.

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

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

	For the three-month period ended September 30, 2021			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**5,288**	-	**18,038**	**23,326**
Revenue recognized at a point in time	**3,723**	**11,335**	-	**15,058**
	9,011	**11,335**	**18,038**	**38,384**
Cost of goods sold	**6,942**	**5,370**	**15,152**	**27,464**
Gross profit before depreciation and amortization	**2,069**	**5,965**	**2,886**	**10,920**
Selling and general expenses	**1,066**	**2,413**	**928**	**4,407**
Earnings before administrative costs and other items listed below (EBAC)	**1,003**	**3,552**	**1,958**	**6,513**
Administrative costs				**2,678**
Depreciation of property, plant and equipment and right-of-use assets				**866**
Amortization of intangible assets				**1,095**
Other (gains) and losses – net				**557**
Acquisition and integration costs				**2**
Finance costs – net				**557**
Earnings before income taxes				**758**

	For the three-month period ended September 30, 2020			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	3,428	-	17,365	20,793
Revenue recognized at a point in time	2,814	11,389	-	14,203
	6,242	11,389	17,365	34,996
Cost of goods sold	4,690	6,597	14,232	25,519
Gross profit before depreciation and amortization	1,552	4,792	3,133	9,477
Selling and general expenses	857	2,068	846	3,771
Earnings before administrative costs and other items listed below (EBAC)	695	2,724	2,287	5,706
Administrative costs				2,438
Depreciation of property, plant and equipment and right-of-use assets				789
Amortization of intangible assets				1,049
Other (gains) and losses – net				193
Acquisition and integration costs				58
Share of profit of an associate				(88)
Finance costs – net				579
Earnings before income taxes				688

Geographical information

Three-month periods ended September 30,	2021	2020
	$	$
Revenues from external customers		
Revenue according to geographic area		
Americas:		
Canada	**4,021**	4,011
United States	**25,753**	22,458
Chile	**1,022**	628
Other Latin America countries	**1,104**	112
Europe:		
United Kingdom	**290**	350
Spain	**724**	177
Others	**605**	196
Middle East and Africa:		
Saudi Arabia	**1,487**	2,367
United Arab Emirates	**514**	2,326
Other Middle East countries	**728**	707
Africa	**782**	630
Asia Pacific:		
China	**606**	394
Others	**748**	640
	38,384	34,996

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

As at	September 30, 2021	June 30, 2021
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**6,148**	6,253
United States	**34,703**	34,749
United Kingdom	**25,093**	25,344
Spain	**12,365**	12,535
Chile	**202**	210
	78,511	79,091

13. 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 $2,490 as at September 30, 2021 ($2,354 as at June 30, 2021).

An amount of $7 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of earnings for the three-month period ended September 30, 2021 ($6 for the three-month period ended September 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:

Three-month periods ended September 30,	**2021**	2020
	$	$
Short-term benefits [1]	**417**	368
Post-employment benefits [2]	**65**	41
Share-based payments	**219**	43
Long-term incentive plan	**43**	-
	744	452

[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 recognised 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.

14. 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]
Pierre Côté, Director [3]
Stéphane Guérin, Director [1]
Frédéric Dugré, President, Chief Executive Officer and Director [3]
Richard Hoel, Director and Vice Chairman of the Board of Directors [1]
René Vachon, Director [1][2]
Louis Véronneau, Director [3]
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 and 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]

Advisory Members

Leonard Graziano [3]

[1] Audit Committee
[2] Governance, Remuneration and ESG Committee
[3] Strategy, Innovation and Large Projects Committee
[4] Water Technologies and Services
[5] Operation and Maintenance

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

TSX Trust Company

OFFICES AND PLANTS

Head Office

330, rue St-Vallier Est, Suite 340
Quebec City, Quebec, G1K 9C5
Phone: 418.688.0170
Fax: 418.688.9259

investor@h2oinnovation.com
www.h2oinnovation.com

Manufacturing Plants

201 1st Avenue
Ham-Nord, Quebec, G0P 1A0

1048 La Mirada Court
Vista, California 92081

8900, 109th Ave N, Suite 1000
Champlin, Minnesota 553160

3a Aston Way
Middlewich, Cheshire, CW10 0HS UK

Offices

1046 18th Ave SE
Calgary, Alberta T2G 1L6

Uribitarte no 18, 6ª planta
Bilbao, Spain 48001

1710 23rd Avenue,
Gulfport, Mississippi 39501

7220 S. Cinnamon Road, Suite 110
Las Vegas, Nevada 89113

2200 Sciaaca Road
Spring, Texas 77373

12337 Jones Road, Suite 320
Houston, Texas 77070

C/ Londres, 38, Oficina 204 Edificio Bruselas
28232 - Las Rozas De Madrid (Madrid) Spain

Avda. Nueva Providencia 1363 Oficina 304
Providencia, Santiago De Chile, Chile