Interim Financial Report
Second quarter ended
December 31, 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 December 31, 2021, in comparison with the corresponding period ended December 31, 2020. This MD&A should be read in conjunction with the condensed interim consolidation financial statements and the accompanying notes for the quarter ended December 31, 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 is 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.

TABLE OF CONTENT

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 27 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.

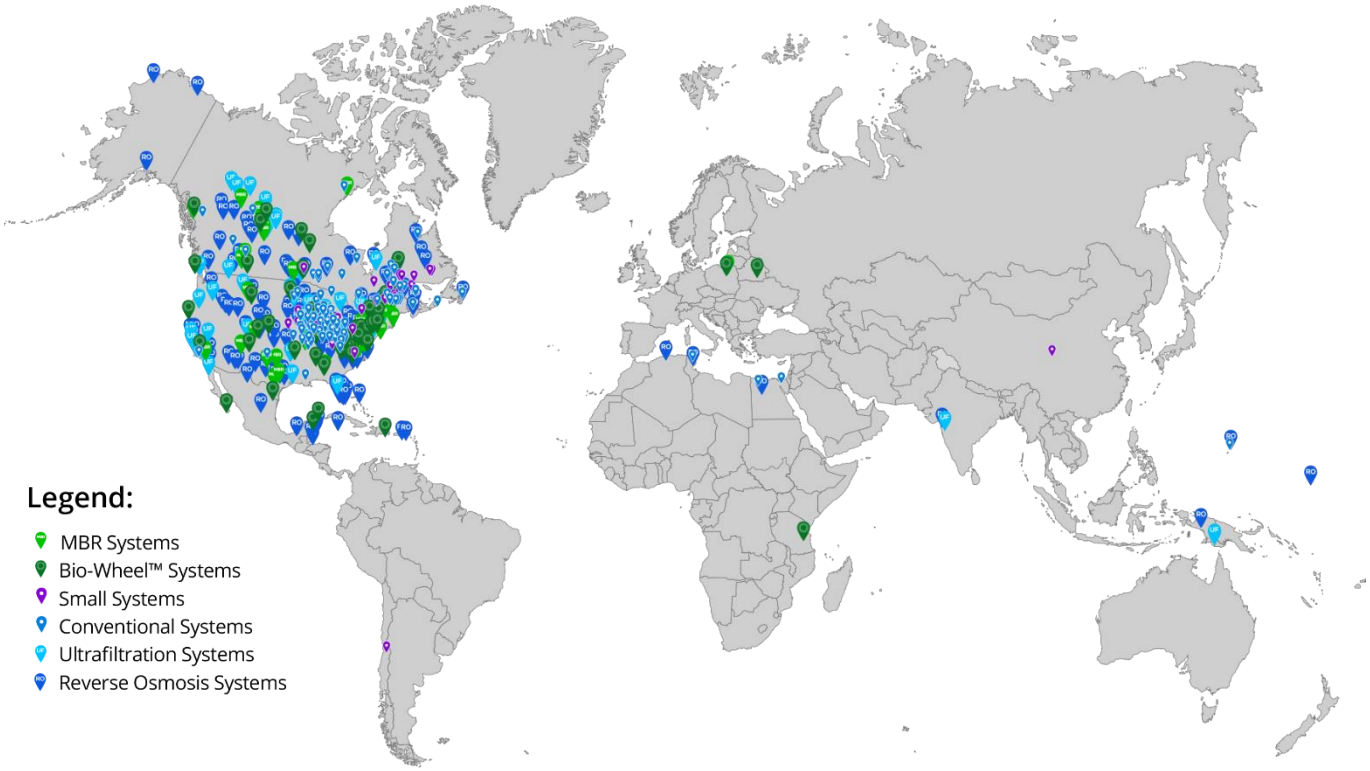
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+900	**+750**	**+75**	**+600**

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.

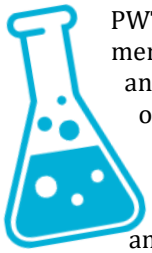
H_2O Innovation has now installed more than 750 systems in North America, including all range of applications (drinking water, wastewater, desalination, water reuse, etc.). The Corporation has also developed its own open-source technologies for water treatment systems, the FiberFlex™, and for wastewater treatment systems, the flexMBR™ and the SILO™ (Simple*Independent*Level-Based*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 PWT, Genesys, Piedmont and H_2O Innovation Maple. The Corporation is now exporting his specialty products in more than 75 countries.

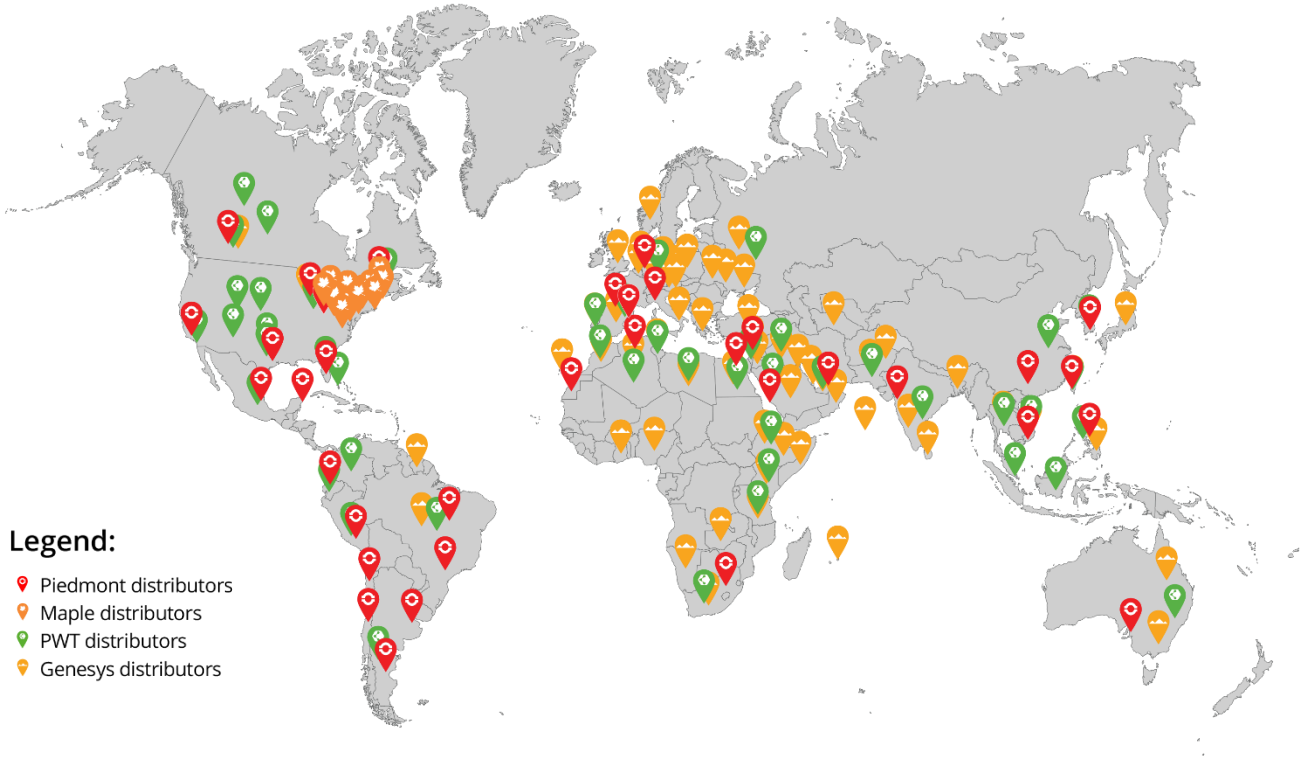


PWT and Genesys, our Specialty Chemicals Group, focus on chemical manufacturing and supply for the membrane industry, with a product line developed around its unique dendrimer-based phosphate-free, antiscalant chemistry for scale and fouling control as well as manufacturing its own range of specialty 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

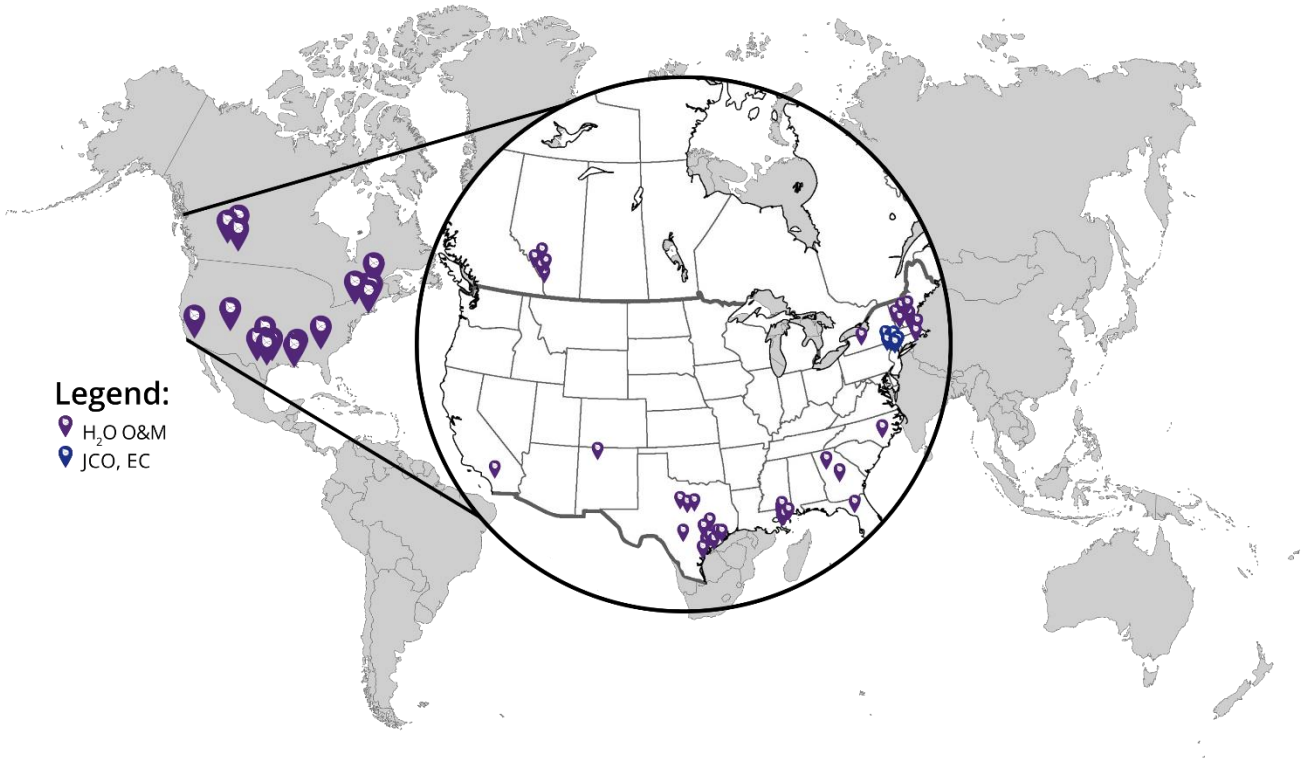


OPERATION AND MAINTENANCE ("O&M")

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 through H_2O Innovation and since December 15, 2021, JCO, Inc. ("JCO") and of Environmental Consultants, L.L.C. ("EC").

H_2O Innovation operates more than 600 utilities in two Canadian provinces and thirteen US states, mainly on the US Gulf Coast, Southeast, Northeast (New England) and the West Coast.

REFERENCE MAP



KEY FINANCIAL HIGHLIGHTS

For the three-month period ended December 31, 2021
Compared with the three-month period ended December 31, 2020

Revenues	Recurring Revenues [3]	Recurring Revenues [3][4] (%)	Consolidated Backlog
$42.0 M	**$36.6 M**	**87.0 %**	**$126.2 M**
↑ $7.0 M or 20.1 %	↑ $5.4 M from $31.2 M	↓ from 89.1 %	↑ 12.7 % from $112.0 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
26.4 %	**17.9 %**	**$3.8 M**	**9.0 %**
↓ from 26.8 %	↑ from 16.7 %	↑ 6.7 % from $3.6 M	↓ from 10.2 %

Net earnings	Adjusted net earnings [3]	Cash flows used in operating activities	Net debt [3][6]
$0.8 M **Or 0.009 per share [5]**	**$2.0 M** **Or 0.023 per share [3][5]**	**($3.3 M)**	**$26.0 M** **Ratio net debt/Adjusted EBITDA of 1.69**
↑ from $0.3 M	↑ 16.5 % from $1.7 M	↓ from ($0.7 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 27.
(4) % of total revenues.
(5) Calculated using the basic weighted average number of shares outstanding.
(6) Compared with June 30, 2021 and before the acquisition of JCO and EC, completed on December 15, 2021.

SECOND QUARTER BUSINESS HIGHLIGHTS

- On November 2, 2021, the Corporation announced that its Piedmont business line is launching a new product, the PiPerLink™ permeate connector, at the Aquatech Amsterdam International Tradeshow. The Piedmont Permeate Link, or PiPerLink™, is an integrated permeate connector that replaces complex multi-component assemblies and fits every reverse osmosis and ultrafiltration vessel brand, connection type, and connection size. The product delivers cost savings in design, manufacturing, and installation, and reduces the number of connections between the vessel and permeate or filtrate header, decreasing the risk of leakage.

- On November 18, 2021, the Corporation announced that its WTS business line has recently been awarded three new capital equipment projects, one each in water reuse, wastewater, and seawater desalination, with a total value of $4.1 M.

- On November 29, 2021, the Corporation announced that it has recently completed a plant retrofit for an ethanol client located in Iowa, United States. This project, one of the first of its kind in North America, demonstrates the Corporation's technical expertise and market access required to provide a direct replacement solution. Experience gained from this project should well-position H_2O Innovation to support future market demand.

- On December 6, 2021, the Corporation announced that it has entered into an agreement with National Bank of Canada to increase its revolving credit facility to $55 M. In addition, the term of this facility has been extended to December 3, 2024.

- On December 7, 2021, the Corporation announced that the water treatment project with the City of San Diego, California, which was temporarily suspended, is resuming its course. The contract value went from $8.8 M in 2017 to $11.2 M today due to change orders and price adjustments related to the inflation of raw material costs.

- On December 9, 2021, the Corporation held its Annual General Meeting of Shareholders and Mr. Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation, took the opportunity to update the shareholders on the Corporation's Vision 2023 3-Year Strategic Plan that was initially presented in December 2020. Mr. Dugré also presented to the shareholders, along with Mr. Gregory Madden, Chief Strategy Officer of H_2O Innovation, the Corporation's first Environmental, Social & Governance ("ESG") Plan, being the Corporation's pledge to address environmental problems related to water and to do so, in a workplace where people feel accomplished and supported by strong governance policies.

- On December 15, 2021, the Corporation announced that it executed agreements related to the acquisition of JCO, Inc. ("JCO") and of Environmental Consultants, L.L.C. ("EC") from arm's length third parties. JCO and EC offer complete operation, maintenance and management ("O&M") services to municipal and industrial water and wastewater clients from the same region, the Hudson Valley Region in the State of New York.

- On December 22, 2021, the Corporation announced that it has recently renewed the operation, management and maintenance contract with the City of Long Beach, Mississippi, for an additional period of four years, with a total value of $12.0 M. This renewal includes annual consumer price index increases, scope expansion and the addition of five new full-time resources.

SUBSEQUENT EVENT HIGHLIGHTS

- On January 31, 2022, the Corporation announced that it has received conditional approval to list its common shares (the "Common Shares") on the Toronto Stock Exchange (the "TSX"). In connection with the listing, the Corporation will apply to voluntarily delist the Common Shares from the TSX Venture Exchange Inc. to be effective as of the date the Common Shares commence trading on the TSX.

IMPACT OF THE COVID-19 PANDEMIC

The main impact of the COVID-19 pandemic is on the gross profit margin of the Corporation. Over the last few quarters, the Corporation faced five main issues coming from the COVID-19 pandemic: 1. The supply chain challenges and increased cost of materials; 2. Pressure on employee salaries due to staff shortage and inflation; 3. Illness related to COVID-19 within the staff; 4. Increase of insurance costs; and 5. Impact on working capital items.

1. The supply chain challenges and increased cost of materials are affecting our WTS and Specialty Products business pillars. We are facing delays in execution of projects due to delays in obtaining the equipment in a timely manner. Delays in project execution increase the cost of time spent on the execution of projects and affect the gross margin of the projects.

   Increased cost of materials affected the gross profit margins on projects in WTS because short-term increases in the cost of materials could not be transferred to customers in the course of the project. In Specialty Products, the delay between the time we receive notification of a cost increase on raw materials and can make adjustments to our price lists results in the Corporation having to absorb the cost increase without compensation.

2. Inflation and staff shortage is putting upward pressure on salaries resulting in an increase of expenses that cannot be addressed with our customers immediately.

   The WTS and the Specialty Products business pillars experience a delay between a salary increase and the price changes to customers during which time the Corporation absorbs the impact.

   In most of our O&M contracts, we can increase the annual fees to follow CPI (Consumer Price Index) adjustment. Therefore, the impact will be addressed with our customers in the upcoming months as each contract reaches its annual contractual adjustment date.

3. In the O&M business pillar, we had a significant level of illness related to COVID-19 within the staff. We had many employees on sick leave due to COVID-19 cases, which caused a significant increase of overtime for the remaining employees since the nature of the services we provide requires a consistent level of staffing. Overtime costs and increased sick leave affected our gross margin negatively.

4. Commercial insurance and U.S. health insurance premiums have increased significantly during the COVID-19 pandemic, resulting in a lower gross profit margin for the Corporation. O&M was impacted the greatest by this increase since over 90.0 % of the U.S. employees are working for this business pillar. In the U.S., most of the costs related to health insurance are paid by the employer.

5. The current context of the COVID-19 pandemic had a significant impact on the Corporation's inventory. As global shipments slowed, the Corporation had to increase the purchase of raw materials and keep a higher level of finished goods inventory, especially in the Specialty Products pillar, to respond to supply chain challenges and ensure the delivery of our customer orders in timely manner.

   In addition, to ensure on-time supplier deliveries and to counter inflationary pressure on raw materials, the Corporation had to pay certain suppliers in advance of or immediately upon delivery. This increased prepaid expenses and reduced accounts payable on the Corporation's balance sheet.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

Income Statements and Cash flows	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021		2020		**2021**		2020	
	$	**% (1)**	$	% (1)	**$**	**% (1)**	$	% (1)
Revenues per business pillar								
WTS	**8,539**	**20.4**	6,944	19.9	**17,550**	**21.8**	13,186	18.9
Specialty products	**13,794**	**32.8**	10,387	29.7	**25,129**	**31.3**	21,776	31.1
O&M	**19,676**	**46.8**	17,638	50.4	**37,714**	**46.9**	35,003	50.0
Total revenues	**42,009**	**100.0**	34,969	100.0	**80,393**	**100.0**	69,965	100.0
Revenues per geographic location								
Canada	**5,053**	**12.0**	5,182	14.8	**9,074**	**11.3**	9,193	13.1
United States	**28,930**	**68.9**	24,495	70.1	**54,683**	**68.0**	46,953	67.1
Others	**8,026**	**19.1**	5,292	15.1	**16,636**	**20.7**	13,819	19.8
Total revenues	**42,009**	**100.0**	34,969	100.0	**80,393**	**100.0**	69,965	100.0
Recurring revenues (2)	**36,562**	**87.0**	31,163	89.1	**69,658**	**86.6**	62,731	89.7
Gross profit margin (3)	**11,096**	**26.4**	9,385	26.8	**22,016**	**27.4**	18,862	27.0
Selling, general and administrative expenses ("SG&A")	**7,526**	**17.9**	5,840	16.7	**14,611**	**18.2**	12,049	17.2
Other (gains) and losses – net	**(73)**	**(0.2)**	566	1.6	**484**	**0.6**	759	1.1
Acquisition and integration costs	**219**	**0.5**	226	0.6	**221**	**0.3**	284	0.4
Finance costs – net	**493**	**1.2**	534	1.5	**1,050**	**1.3**	1,113	1.6
Net earnings for the period	**762**	**1.8**	268	0.8	**1,380**	**1.7**	1,252	1.8
Net earnings per share ("EPS"):								
Basic EPS	**0.009**	**-**	0.003	-	**0.016**	**-**	0.016	-
Diluted EPS	**0.008**	**-**	0.003	-	**0.015**	**-**	0.014	-
EBITDA (2)	**3,424**	**8.2**	2,827	8.1	**6,700**	**8.3**	5,932	8.5
Adjusted EBITDA (2)	**3,799**	**9.0**	3,562	10.2	**7,817**	**9.7**	7,044	10.1
Adjusted net earnings (2)	**1,996**	**4.8**	1,714	4.9	**4,128**	**5.1**	3,833	5.5
Adjusted EPS (2):								
Adjusted basic EPS (2)	**0.023**	**-**	0.022	-	**0.048**	**-**	0.050	-
Adjusted diluted EPS (2)	**0.022**	**-**	0.019	-	**0.045**	**-**	0.044	-
Cash flows from (used in) operating activities	**(3,343)**	**(8.0)**	(666)	(1.9)	**(4,836)**	**(6.0)**	471	0.7

Financial position	**December 31, 2021**	June 30, 2021	Variation	
	$	$	$	%
Cash	**4,918**	15,409	(10,491)	(68.1)
Inventories	**12,777**	8,486	4,291	50.6
Contract assets	**7,849**	7,574	275	3.6
Net debt excluding contingent considerations (2)	**26,024**	507	25,517	5,032.9
Net debt-to-Adjusted EBITDA ratio (2)	**1.69**	0.03	-	-
Consolidated backlog	**126,200**	102,300	23,900	23.4

(1) % of total revenues.
(2) Refer to the section "Non-IFRS financial measurements". Refer to page 27 for detailed information about non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

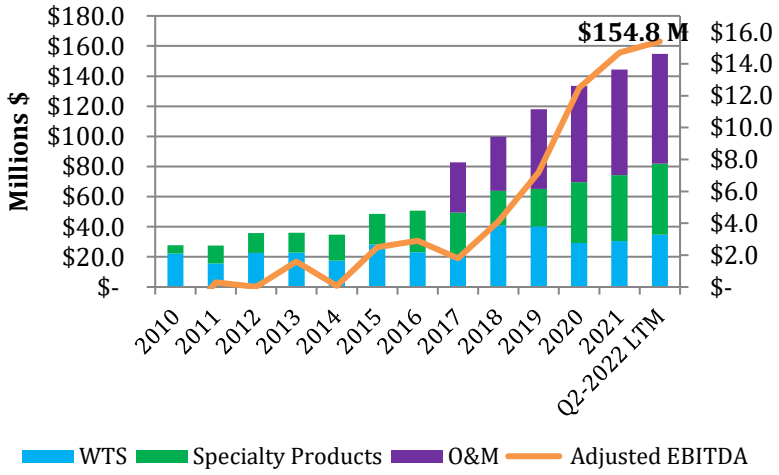
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except per share data)	Three-month periods ended December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	Last twelve months
	$	**$**	**$**	$	**$**
Revenues	**42,009**	38,384	35,204	39,155	154,752
EBITDA [2]	**3,424**	3,276	3,206	5,347	15,253
Adjusted EBITDA [2]	**3,799**	4,018	3,089	4,513	15,419
Adjusted EBITDA over revenues [2]	**9.0 %**	10.5 %	8.8 %	11.5 %	10.0 %
Net earnings (loss)	**762**	618	(195)	2,062	3,247
Basic EPS [1]	**0.009**	0.007	(0.002)	0.026	0.039
Diluted EPS [1]	**0.008**	0.007	(0.002)	0.023	0.036
Adjusted net earnings [2]	**1,996**	2,132	457	2,181	6,766
Adjusted basic EPS [1] [2]	**0.023**	0.025	0.005	0.027	0.081
Adjusted diluted EPS [1] [2]	**0.022**	0.023	0.005	0.024	0.074
Cash flows from (used in) operating activities	**(3,343)**	(1,493)	(2,916)	9,729	1,977

(In thousands of Canadian dollars, except per share data)	Three-month periods ended December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	Previous twelve months
	$	$	$	$	**$**
Revenues	34,969	34,996	35,979	36,061	142,005
EBITDA [2]	2,827	3,105	3,954	(1,442)	8,444
Adjusted EBITDA [2]	3,562	3,482	4,832	3,754	15,630
Adjusted EBITDA over revenues [2]	10.2 %	9.9 %	13.4 %	10.4 %	11.0 %
Net earnings (loss)	268	984	813	(3,097)	(1,032)
Basic EPS [1]	0.003	0.013	0.011	(0.040)	(0.015)
Diluted EPS [1]	0.003	0.013	0.011	(0.040)	(0.015)
Adjusted net earnings [2]	1,714	2,119	2,110	2,310	8,253
Adjusted basic EPS [1] [2]	0.022	0.029	0.027	0.030	0.123
Adjusted diluted EPS [1] [2]	0.019	0.028	0.027	0.030	0.121
Cash flows from (used in) operating activities	(666)	1,137	9,781	883	11,135

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



LAST TWELVE MONTHS

(In thousands of Canadian dollars, except per share data)	**Last twelve months December 31, 2021**	Previous twelve months December 31, 2020	Variation	
	$	$	$	%
Revenues	**154,752**	142,005	12,747	9.0
EBITDA [1]	**15,253**	8,444	6,809	80.6
Adjusted EBITDA [1]	**15,419**	15,630	(211)	(1.3)
Adjusted EBITDA over revenues [1]	**10.0 %**	11.0 %	-	-
Net earnings (loss)	**3,247**	(1,032)	4,279	(414.6)
Basic EPS	**0.039**	(0.015)	0.054	(360.0)
Diluted EPS	**0.036**	(0.015)	0.051	(340.0)
Adjusted net earnings [1]	**6,766**	8,253	(1,487)	(18.0)
Adjusted basic EPS [1]	**0.081**	0.123	(0.042)	(34.1)
Adjusted diluted EPS [1]	**0.074**	0.121	(0.047)	(38.8)
Cash flows from operating activities	**1,977**	11,135	(9,158)	(82.2)

[1] Refer to the section "Non-IFRS financial measurements" at page 27 for detailed information about non-IFRS measures used in this MD&A.

The sustained growth of the Corporation over the past year is clearly shown when comparing both twelve-month periods. Revenues for the last twelve months showed an increase of 9.0 % compared to the previous twelve-month period, evidenced of the organic and acquisition growth, offset by USD exchange rate variation.

Our efforts made over the last twelve months to focus on increasing organic revenues allowed the corporation to increase the organic growth from 1.3% to 6.3%. The Corporation also plans to invest in growth initiatives in order to achieve the objective included in the 3-Year Strategic Plan, which is to generate 10.0 % of annual organic growth between 2023 and 2024. To achieve this objective, the Corporation hired sales resources and invest in SG&A to generate and support this growth. The table below compares the effect of organic, acquisition and USD exchange rate variation on the Corporation's revenue growth over the last twelve months.

Revenues Growth (In thousands of Canadian dollars)	**Last twelve months December 31, 2021**		Previous twelve months December 31, 2020	
	$	%	$	%
Organic growth	**8,976**	6.3	1,606	1.3
Acquisition growth	**9,063**	6.4	13,423	10.7
Impact of USD exchange rate	**(5,292)**	(3.7)	1,155	0.9
Variation	**12,747**	9.0	16,184	12.9

The adjusted EBITDA remained relatively stable at $15.4 M from $15.6 M in the last twelve months. The adjusted EBITDA over revenues is slightly lower at 10.0 % compared to 11.0 % last year, representing a 1.3 % reduction over a twelve-month period. The reduction is explained by a decrease of the gross margin in percentage, which was explained earlier in the section related to the COVID-19 pandemic and by investment in SG&A to generate growth. The COVID-19 pandemic affected the Corporation's gross profit margin due to five main issues which were explained earlier: 1. The supply chain challenges and increased cost of materials; 2. Pressure on employee salaries due to staff shortage and inflation; 3. Illness related to COVID-19 within the staff; 4. Increase of insurance costs; and 5. Impact on working capital items.

The most significant strength of H_2O Innovation is to be able to count on difference sources of revenues coming from three business pillars, reducing the risk of volatility on the EBITDA.

CONSOLIDATED REVENUES

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Revenues per business pillar								
WTS	**8,539**	6,944	1,595	23.0	**17,550**	13,186	4,364	33.1
Specialty products	**13,794**	10,387	3,407	32.8	**25,129**	21,776	3,353	15.4
O&M	**19,676**	17,638	2,038	11.6	**37,714**	35,003	2,711	7.7
Total revenues	**42,009**	34,969	7,040	20.1	**80,393**	69,965	10,428	14.9

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue.

Consolidated revenues from the Corporation's three business pillars, for the three-month period ended on December 31, 2021, increased by $7.0 M, or 20.1 %, to reach $42.0 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 $7.9 M, or 22.5 %. This overall increase was partially fueled by the acquisition of Genesys Membrane Products, S.L.U. ("GMP") on February 1, 2021, which contributed $2.5 M in revenues for the three-month period ended on December 31, 2021, and by the acquisition of JCO and EC on December 15, 2021, which contributed $0.7 M in revenues for the three-month period ended on December 31, 2021.

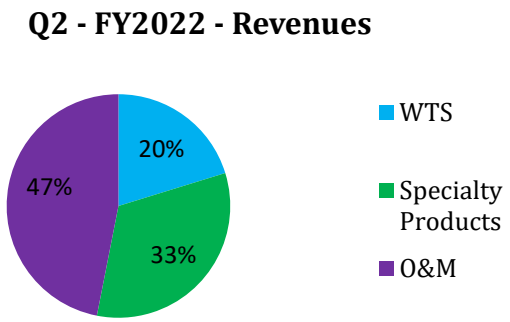
Revenues from the WTS business pillar increased by $1.6 M compared to the same quarter of the previous fiscal year, coming from organic growth in water treatment systems projects. The WTS business pillar secured $4.1 M of new capital equipment projects during the second quarter. The Corporation's 3-year 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.

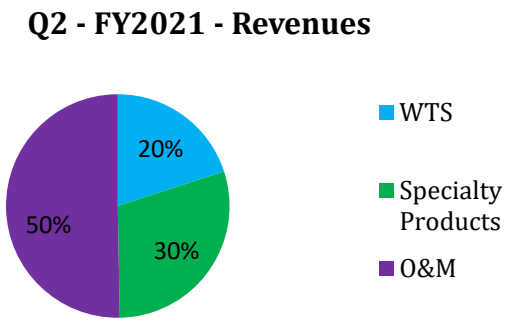
Revenues from the Specialty Products business pillar increased by $3.4 M compared to the same quarter of the previous fiscal year, driven by the acquisition of GMP on February 1, 2021 and by organic growth of $1.1 M, compensated by an unfavorable USD exchange rate impact of $0.2 M. On a sequential basis, revenues from Specialty Products business pillar increased by $2.5 M, from $11.3 M in the first quarter of this fiscal year.

Revenues from the O&M business pillar increased by $2.1 M compared to the same quarter of the previous fiscal year, driven by organic growth of $2.0 M, or 11.3 % this quarter and $0.7 M from the acquisition of JCO and EC effective on December 15, 2021, partly offset by an unfavorable USD exchange rate impact of $0.6 M. On December 22, 2021, the Corporation announced the renewal of the contract with the City of Long Beach for an additional period of four years, adding $12.0 M to the O&M backlog at the end of the quarter. In January 2022, a resolution was adopted at a city council meeting in Gulfport, Mississippi, to approve the extension of the city's contract with the Corporation by one month to February 28, 2022. The city extended the contract for one month to allow time to finalize discussions for a new service contract agreement.

During the six-month period ended December 31, 2021, revenues increased by $10.4 M, or 14.9 %, to reach $80.4 M compared to $70.0 M for the comparable period of the previous fiscal year, mainly coming from organic growth of $7.0 M, or 10.1 %, and acquisition growth of $5.6 M, or 8.0 %, offset by an unfavorable USD exchange rate impact of $2.1 M.

Our business model is allowing us to gain predictability and, through our integrated offering combining systems design and manufacturing with O&M and Specialty Products, we are maintaining long-term relationships with our customers. For the three-month period ended December 31, 2021, recurring revenues represented 87.0 % of the Corporation's total revenues, compared to 89.1 % for the comparable quarter of the previous fiscal year. The 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 feeds the others. Altogether, our three business pillars provide a unique 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 December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins [1]	**11,096**	9,385	1,711	18.2	**22,016**	18,862	3,154	16.7
Gross profit margins (%) [1]	**26.4 %**	26.8 %	-	-	**27.4 %**	27.0 %	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $11.1 M, or 26.4 %, during the second quarter of fiscal year 2022, compared to $9.4 M, or 26.8 % for the previous fiscal year, representing an increase of $1.7 M, or 18.2 %. The percentage decrease was explained by reduced gross profit margins in the WTS and O&M business pillars, partly compensated by the improved gross profit margins in Specialty Products. The strength of H_2O Innovation's business model allowed it to reduce the volatility on the profitability of the Corporation. In the second quarter of fiscal year 2022, the increased gross profit margin of Specialty Products business pillar partly offset the lower gross profit margins of WTS and O&M business pillars, which were the business pillars mostly affected by the COVID-19 pandemic, as explained earlier in the section related to the COVID-19 pandemic impact.

The Corporation's gross profit margin before depreciation and amortization stood at $22.0 M, or 27.4 %, for the six-month period ended December 31, 2021, compared to $18.9 M, or 27.0 % for the same period of last fiscal year, representing an increase of $3.1 M, or 16.7 %. 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 period of the previous fiscal year. This increase was partially offset by decreased gross profit margins in WTS and O&M business pillars.

The COVID-19 pandemic affected the Corporation's gross profit margin due to five main issues which were explained earlier: 1. The supply chain challenges and increased cost of materials; 2. Pressure on employee salaries due to staff shortage and inflation; 3. Illness related to COVID-19 within the staff; 4. Increase of insurance costs; and 5. Impact on working capital items.

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

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
SG&A expenses	**7,526**	5,840	1,686	28.9	**14,611**	12,049	2,562	21.3
SG&A expenses of revenues	**17.9 %**	16.7 %	-	-	**18.2 %**	17.2 %	-	-

The Corporation's SG&A totalled $7.5 M during the second quarter of fiscal year 2022, compared to $5.8 M for the same period of the previous fiscal year, representing an increase of $1.7 M, or 28.9 %, while the revenues of the Corporation increased by 20.1 %. The acquisition of GMP on February 1, 2021 and the acquisition of JCO and EC on December 15, 2021 contributed $0.4 M of this increase. The remainder of the increase is due to hiring of sales resources, resumption of travel activities, higher professional fees, as well as higher stock-based compensation costs and insurance costs, compared to the same quarter of last fiscal year. On a sequential basis, the Corporation's SG&A increased by $0.4 M, from $7.1 M in the first quarter of this fiscal year.

The Corporation's SG&A reached $14.6 M for the six-month period ended December 31, 2021, compared to $12.0 M for the same period of the previous fiscal year, representing an increase of $2.6 M, or 21.3 %, while the revenues of the Corporation increased by 14.9 %, mainly attributable to similar factors as those of the second quarter. The acquisition of GMP on February 1, 2021 and the acquisition of JCO and EC on December 15, 2021 contributed $0.7 M of this increase.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(7)**	(9)	2	(22.2)	**(18)**	(18)	-	-
Finance costs	**500**	543	(43)	(7.9)	**1,068**	1,131	(63)	(5.6)
Finance costs - net	**493**	534	(41)	(7.7)	**1,050**	1,113	(63)	(5.7)

Finance costs – net remained fairly stable at $0.5 M for the second quarter of fiscal year 2022, compared with $0.5 M for the same period of the previous fiscal year. Finance costs – net stood at $1.1 M for the six-month period ended December 31, 2021 compared with $1.1 M for the same period of previous fiscal year.

On December 3, 2021, the Corporation entered into the Third Amended and Restated Credit Agreement to increase its revolving facility to $55.0 M. Consequently, the remaining financing costs of $0.2 M have been written off and the interest rate swaps designated as hedging instruments were terminated and the realized gain recorded in the other comprehensive income (loss) of $0.2 M was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings (loss) included in finance costs as a reclassification adjustment. The net impact of the restructuration on the Corporation's finance costs – net was nil$.

In order to mitigate its credit risk, 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.

ACQUISITIONS AND INTEGRATION COSTS

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition and integration costs	**219**	226	(7)	(3.1)	**221**	284	(63)	(22.2)

The acquisition and integration costs reached $0.2 M during the second quarter of fiscal year 2022, compared to $0.2 M for the same period of previous fiscal year. For fiscal year 2022, the acquisition and integration costs were related to the acquisition of JCO and EC, while they were related to the acquisition of GUS and GMP for fiscal year 2021.

The acquisition and integration costs reached $0.2 M for the six-month period ended December 31, 2021, compared to $0.3 M for the same period of the previous fiscal year, representing a decrease of $0.1 M, or 22.2 %, mainly attributable to similar factors as those of the second quarter.

OTHER (GAINS) AND LOSSES – NET

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Other (gains) and losses – net	**(73)**	566	(639)	(112.9)	**484**	759	(275)	(36.2)

Other (gains) and losses – net stood at ($0.1 M) for the second quarter of fiscal year 2022, compared with $0.6 M for the same period of the previous fiscal year, representing a decrease of $0.7 M compared to the same quarter of the previous fiscal year. The decrease was primarily driven by the unrealized exchange gain, partly compensated by higher revaluation of the fair value of contingent considerations.

Other (gains) and losses – net stood at $0.5 M for the six-month period ended December 31, 2021, compared with $0.8 M for the same period of the previous fiscal year, representing a decrease of $0.3 M compared to the same period of the previous fiscal year, mainly attributable to similar factors as those of the second quarter.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA[1]	**3,424**	2,827	597	21.1	**6,700**	5,932	768	12.9
Adjusted EBITDA[1]	**3,799**	3,562	237	6.7	**7,817**	7,044	773	11.0
Adjusted EBITDA (%)[1]	**9.0 %**	10.2 %	-	-	**9.7 %**	10.1 %	-	-

The Corporation's adjusted EBITDA increased by $0.2 M, or 6.7 %, to reach $3.8 M during the second quarter of fiscal year 2022, from $3.6 M for the comparable period of fiscal year 2021. The adjusted EBITDA % decreased to 9.0 % for the second quarter of fiscal year 2022, compared to 10.2 % for the same quarter of last fiscal year. The reduction of the adjusted EBITDA % results from the decrease in the Corporation's consolidated gross profit margin and the increase of the SG&A ratio. The Corporation's profitability has been impacted by the current global consequences of the COVID-19 pandemic, as previously discussed.

[1] Refer to the section "Non-IFRS financial measurements" at page 27 for detailed information about non-IFRS measures used in this MD&A.

The Corporation's adjusted EBITDA increased by $0.8 M, or 11.0 %, to reach $7.8 M for the six-month period ended December 31, 2021, from $7.0 M for the comparable period of fiscal year 2021. The adjusted EBITDA % decreased to 9.7 % for the six-month periods ended December 31, 2021, compared to 10.1 % for the same period of last fiscal year, mainly explained by the increase of SG&A ratio.

NET EARNINGS

(In thousands of Canadian dollars, except per share data)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings	**762**	268	494	184.3	**1,380**	1,252	128	10.2
Basic net earnings per share	**0.009**	0.003	0.006	-	**0.016**	0.016	-	-
Diluted net earnings per share	**0.008**	0.003	0.005	-	**0.015**	0.014	0.001	-
Adjusted net earnings[1]	**1,996**	1,714	282	16.5	**4,128**	3,833	295	7.7
Basic adjusted net earnings per share[1]	**0.023**	0.022	0.001	-	**0.048**	0.050	(0.002)	-
Diluted adjusted net earnings per share[1]	**0.022**	0.019	0.003	-	**0.045**	0.044	0.001	-

Net earnings amounted to $0.8 M and $0.009 per share for the second quarter of fiscal year 2022 compared to net earnings of $0.3 M and $0.003 per share for the comparable quarter of fiscal year 2021. The variation was impacted by the increase in the Corporation's consolidated revenues, lower other (gains) losses – net resulting from fluctuations in the foreign exchange rates, lower tax expenses that were compensated by the reduction in gross profit margins and higher depreciation and amortization. Moreover, the SG&A ratio increased from 16.7 % to 17.9 %.

Net earnings amounted to $1.4 M and $0.016 per share for the six-month period ended December 31, 2021 compared to net earnings of $1.3 M and $0.016 per share for the comparable period of fiscal year 2021. The variation was impacted by the increase in the Corporation's consolidated revenues, the improvement in gross profit margins, lower other (gains) losses – net that were compensated by higher taxes expenses and higher depreciation and amortization.

[1] Refer to the section "Non-IFRS financial measurements" at page 27 for detailed information about non-IFRS measures used in this MD&A.

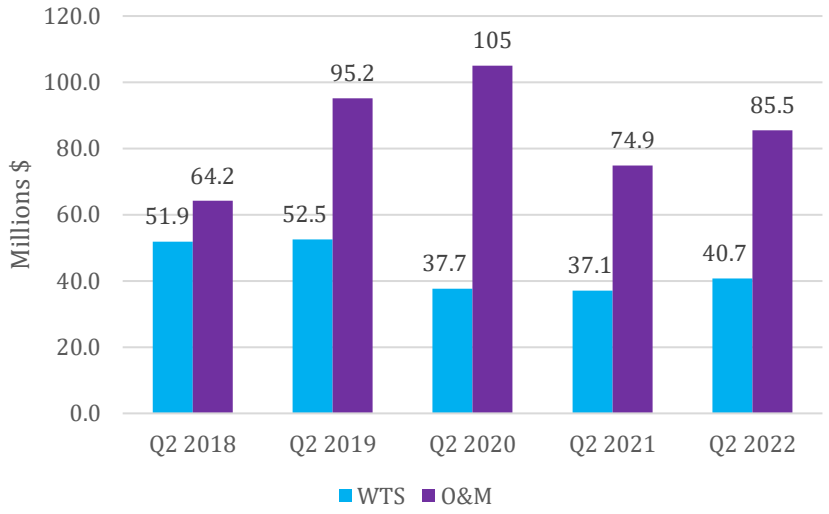
BACKLOG

Backlog is 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 December 31, 2021, the combined backlog of secured contracts between WTS and O&M reached $126.2 M compared to $112.0 M as at December 31, 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 December 31,			
	2021	2020	Variation	
	$	$	$	%
WTS	**40,700**	37,100	3,600	9.7
O&M [1]	**85,500**	74,900	10,600	14.2
Consolidated backlog	**126,200**	112,000	14,200	12.7

[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 as well as municipal and industrial facilities from the JCO and EC acquisitions, 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 9.7 %, while having a healthier backlog with better project diversification. The focus for this business pillar is to preserve a healthy gross profit margin prior to focusing on growing the volume of revenues. This business pillar is showing a well-balanced backlog, with diversification seen between industrial and municipal projects, with 34.3 % of the projects being industrial as of December 31, 2021, compared to 34.7 % as of December 31, 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 $85.5 M as at December 31, 2021, representing an increase of 14.2 % compared to the $74.9 M backlog as at December 31, 2020, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The O&M backlog would have been at $86.1 M, representing an increase of $11.2 M, or 15.0 %, compared to the same period of last fiscal year, 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 as well as municipal and industrial facilities from the JCO and EC acquisitions.

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 27 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the three-month and six-month periods ended December 31, 2021 and 2020.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**8,539**	6,944	1,595	23.0	**17,550**	13,186	4,364	33.1
Cost of goods sold	**6,934**	5,388	1,546	28.7	**13,876**	10,078	3,798	37.7
Gross profit margins[1]	**1,605**	1,556	49	3.1	**3,674**	3,108	566	18.2
Gross profit margins (%)[1]	**18.8 %**	22.4 %	-	-	**20.9 %**	23.6 %	-	-
Selling and general expenses	**1,108**	777	331	42.6	**2,174**	1,634	540	33.0
EBAC[2] from WTS	**497**	779	(282)	(36.2)	**1,500**	1,474	26	1.8
EBAC[2] over revenues from WTS	**5.8 %**	11.2 %	-	-	**8.5 %**	11.2 %	-	-

WTS' financial performance for the second quarter of fiscal year 2022 was characterized by a 23.0 % growth in revenues. Most of the increase came from water treatment system projects, which generally bring lower gross profit margins compared to service activities. Therefore, due to the business mix between service activities and projects, the gross profit margin in % has reduced from 22.4 % for the same quarter of last year to 18.8 % for the second quarter of fiscal year 2022. The profitability of the WTS business pillar was also affected by the consequences of the COVID-19 pandemic. As explained previously, delays in equipment deliveries, temporary suspension of construction sites following cases of COVID-19 and the increased cost of materials negatively affected the gross profit margin. Delays in project execution increased the cost of time spent on the execution of many projects and affected the gross profit margin of the projects. Increased cost of materials affected the gross profit margins on projects in WTS because short-term increases in the cost of materials could not be transferred to customers in the course of the project. Where possible, based on contract language and client relationship, the increased cost of materials will be passed through to the customer.

WTS revenues stood at $8.5 M during the second quarter of fiscal year 2022, compared to $6.9 M for the same quarter of last fiscal year, representing a $1.6 M, or 23.0 % increase. The increase was mainly coming from organic growth of water treatment systems projects. WTS revenues stood at $17.6 M for the six-month period ended December 31, 2021, compared with $13.2 M for the same period of fiscal year, representing an increase of $4.4 M, or 33.1 %, driven by organic growth of service activities and water treatment systems projects.

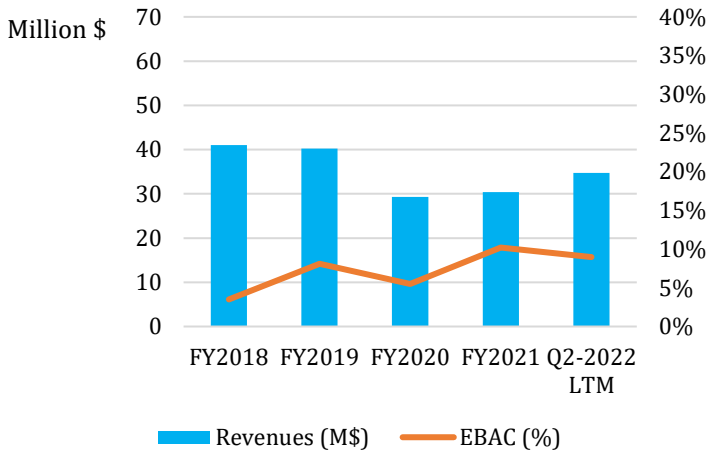
The gross profit margins before depreciation and amortization stood at $1.6 M, or 18.8 % for the second quarter of fiscal year 2022, compared with $1.6 M, or 22.4 % for the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $3.7 M, or 20.9 % for the six-month period ended December 31, 2021, compared with $3.1 M, or 23.6 % for the same period of last fiscal year, representing an increase of $0.6 M, or 18.2 %. The reduction in gross profit margins in % was mainly explained by the business mix, with more sales coming from the water treatment systems projects, which are characterized with lower gross profit margins, along with the negative impacts of the COVID-19 pandemic on projects margins, as discussed above.

WTS selling and general expenses stood at $1.1 M during the second quarter of fiscal year 2022, compared to $0.8 M, for the same quarter of last fiscal year, representing an increase of $0.3 M. WTS selling and general expenses stood at $2.2 M for the six-month period ended December 31, 2021, compared to $1.6 M, for the same period of last fiscal year,

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 27 for detailed information about non-IFRS measures used in this MD&A.

representing an increase of $0.6 M. The increase in selling and general expenses was driven primarily by higher employee compensation costs and commissions as well as a resumption of travelling. Despite being higher than last year, travel activities remained lower than pre-pandemic.

WTS' EBAC stood at $0.5 M during the second quarter of fiscal year 2022, compared to $0.8 M for the same quarter of last fiscal year, representing a decrease of $0.3 M, or 36.2 %. The decrease of WTS' EBAC in dollars and in percentage was explained by the reduction of the gross profit margin in % and by the increase in selling and general expenses. WTS' EBAC remained fairly stable at $1.5 M for the six-month period ended December 31, 2021, compared to $1.5 M for the same period of last fiscal year, mainly attributable to similar factors as those of the second quarter.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**13,794**	10,387	3,407	32.8	**25,129**	21,776	3,353	15.4
Cost of goods sold	**7,397**	6,052	1,345	22.2	**12,767**	12,649	118	0.9
Gross profit margins[1]	**6,397**	4,335	2,062	47.6	**12,362**	9,127	3,235	35.4
Gross profit margins (%)[1]	**46.4 %**	41.7 %	-	-	**49.2 %**	41.9 %	-	-
Selling and general expenses	**2,440**	2,266	174	7.7	**4,853**	4,334	519	12.0
EBAC[2] from Specialty Products	**3,957**	2,069	1,888	91.3	**7,509**	4,793	2,716	56.7
EBAC[2] over revenues from Specialty Products	**28.7 %**	19.9 %	-	-	**29.9 %**	22.0 %	-	-

Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry, are recurring by nature. Specialty Products' EBAC increased by 91.3 % for the second quarter of fiscal year 2022, driven by a higher proportion of sales coming from specialty chemicals products, which are characterized by higher gross profit margins. Notwithstanding the strong financial performance this quarter, Specialty Products also faced significant challenges caused by the COVID-19 pandemic. The Specialty Products pillar depends on the import and export of goods and had to deal with global supply chain delays and increased costs of materials, which negatively impacted the gross profit margin. In Specialty Products,

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 27 for detailed information about non-IFRS measures used in this MD&A.

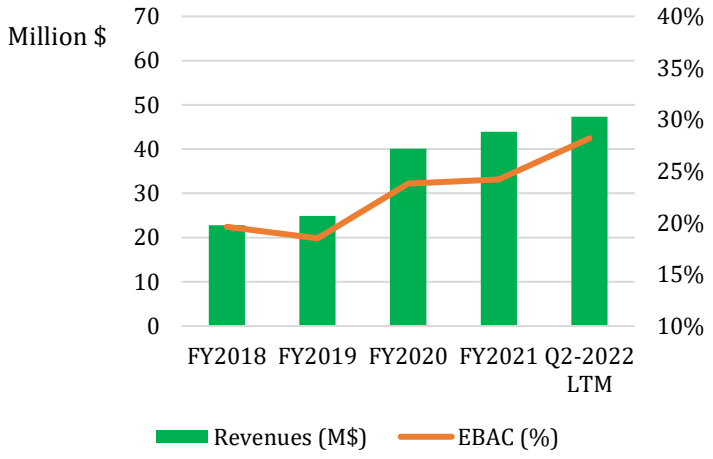
the delay between notification of a cost increase on raw materials and the adjustments to our price lists results in margin dilution.

Specialty Products revenues stood at $13.8 M during the second quarter of fiscal year 2022, compared to $10.4 M for the same quarter of last fiscal year, representing an increase of $3.4 M, or 32.8 %. The acquisition of GMP on February 1, 2021 contributed to increase Specialty Products revenues by $2.5 M this quarter. Specialty Products revenues stood at $25.1 M for the six-month period ended December 31, 2021, compared to $21.8 M for the same period of last fiscal year, representing an increase of $3.3 M, or 15.4 %. The increase was driven by the acquisition of GMP, which contributed $4.9 M in revenues for the six-month period ended December 31, 2021, partly compensated by the unfavorable USD exchange rate impact of $0.5 M and the reduction in Piedmont business line during the first quarter of fiscal year 2022 compared to the first quarter of last fiscal year.

The gross profit margins before depreciation and amortization stood at $6.4 M, or 46.4 % for the second quarter of fiscal year 2022, compared with $4.3 M, or 41.7 % for the same quarter of last fiscal year, representing an increase of $2.1 M in dollars and 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 products and the addition of GMP. The gross profit margins before depreciation and amortization stood at $12.4 M, or 49.2 % for the six-month period ended December 31, 2021, compared with $9.1 M, or 41.9 % for the same period of last fiscal year, representing an increase of $3.3 M and an increase of the gross profit margin in %, mainly attributable to similar factors as those of the second quarter.

Specialty Products' selling and general expenses stood at $2.4 M during the second quarter of fiscal year 2022, compared to $2.3 M, for the same quarter of last fiscal year, representing an increase of $0.1 M. The acquisition of GMP contributed to $0.1 M of this increase. Specialty Products' selling and general expenses stood at $4.9 M for the six-month period ended December 31, 2021, compared to $4.3 M, for the same period of last fiscal year, representing an increase of $0.6 M. The acquisition of GMP contributed to half of the increase, while the hiring of sales resources explained the remaining $0.3 M variation.

Specialty Products' EBAC stood at $4.0 M during the second quarter of fiscal year 2022, compared to $2.1 M for the same quarter of last fiscal year, representing an increase of $1.9 M, or 91.3 %. Specialty Products' EBAC stood at $7.5 M for the six-month period ended December 31, 2021, compared to $4.8 M for the same period of last fiscal year, representing an increase of $2.7 M, or 56.7 %. Specialty Products' EBAC was positively affected by the acquisition of GMP and higher revenues coming from specialty chemicals products.



O&M

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**19,676**	17,638	2,038	11.6	**37,714**	35,003	2,711	7.7
Cost of goods sold	**16,582**	14,144	2,438	17.2	**31,734**	28,376	3,358	11.8
Gross profit margins[1]	**3,094**	3,494	(400)	(11.4)	**5,980**	6,627	(647)	(9.8)
Gross profit margins (%)[1]	**15.7 %**	19.8 %	-	-	**15.9 %**	18.9 %	-	-
Selling and general expenses	**1,022**	850	172	20.2	**1,950**	1,696	254	15.0
EBAC[2] from O&M	**2,072**	2,644	(572)	(21.6)	**4,030**	4,931	(901)	(18.3)
EBAC[2] over revenues from O&M	**10.5 %**	15.0 %	-	-	**10.7 %**	14.1 %	-	-

During the second quarter of fiscal year 2022, the O&M business pillar showed organic growth of 11.3 % but was offset by the reduction of the gross profit margin in % due to the consequences of the COVID-19 pandemic. As discussed earlier, the O&M business pillar was affected by the pressure on employee salaries due to staff shortage and inflation, employee illness related to COVID-19 within the staff and the increases in insurance costs. The O&M business pillar had several staff members on sick leave due to COVID-19 cases, which caused a significant increase of overtime for the remaining employees since the nature of the services provided requires a consistent level of staffing. Overtime costs and increased sick leave affected the gross profit margin negatively. Additionally, commercial insurance and U.S. health insurance premiums have increased significantly during the COVID-19 pandemic, resulting in a lower gross profit margin for the Corporation. O&M was impacted the most out of the Corporation's three business pillars by this increase since over 90.0 % of the U.S. employees are working for this business pillar. In the U.S., most of the costs related to health insurance are paid by the employer. In most of the O&M contracts, the Corporation can increase the annual fees to follow CPI (Consumer Price Index) adjustment. Therefore, the impact will be addressed with our customers in the upcoming months as each contract reaches its annual contractual adjustment date.

O&M revenues stood at $19.7 M during the second quarter of fiscal year 2022, compared to $17.6 M for the same quarter of last fiscal year, representing an increase of $2.1 M, or 11.6 %. The O&M business pillar showed organic growth of $2.0 M this quarter and the acquisition of JCO and EC contributed $0.7 M, partially offset by an unfavorable USD exchange rate impact of $0.6 M. O&M revenues stood at $37.7 M for the six-month period ended December 31, 2021, compared to $35.0 M for the same period of last fiscal year, representing an increase of $2.7 M, or 7.7 %. The acquisition of JCO and EC contributed $0.7 M for the six-month period ended December 31, 2021. The increase in revenues is also due to organic growth of $3.7 M, or 10.5 %, partly compensated by an unfavorable USD exchange rate impact of $1.7 M.

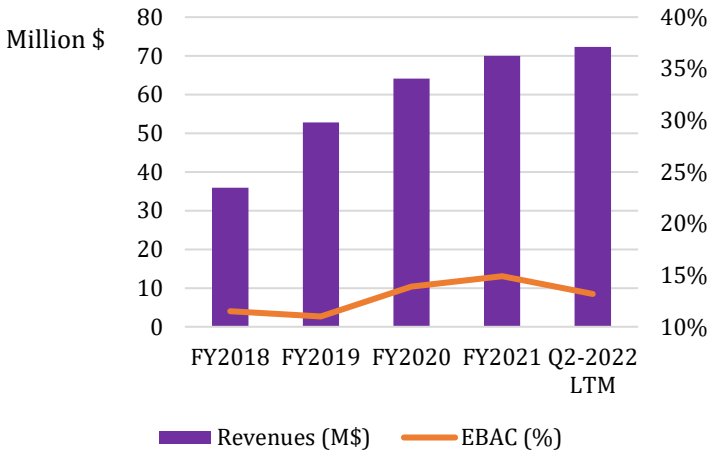
The gross profit margins before depreciation and amortization stood at $3.1 M, or 15.7 % for the second quarter of fiscal year 2022, compared with $3.5 M, or 19.8 % for the same quarter of last fiscal year, representing a decrease of $0.4 M, or 11.4 %. The gross profit margin before depreciation and amortization was affected by the increase in labor costs due to overtime hours done to offset the illness cases related to COVID-19 as well as increased insurance costs, as explained in more detail above. The gross profit margins before depreciation and amortization stood at $6.0 M, or 15.9 % for the six-month period ended December 31, 2021, compared with $6.6 M, or 18.9 % for the same period of last fiscal year, representing a decrease of $0.6 M, or 9.8 %, driven mostly by the same factors as for the second quarter.

The selling and general expenses stood at $1.0 M during the second quarter of fiscal year 2022, compared to $0.9 M, for the same quarter of last fiscal year, representing an increase of $0.1 M. The increase in selling and general expenses was driven primarily by higher employee compensation costs compared to the same quarter of last fiscal year. The selling and general expenses stood at $2.0 M for the six-month period ended December 31, 2021, compared to $1.7 M, for the

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 27 for detailed information about non-IFRS measures used in this MD&A.

same period of last fiscal year, representing an increase of $0.3 M. This increase in the expenses is mainly attributable to similar factors as those of the second quarter.

O&M's EBAC stood at $2.1 M during the second quarter of fiscal year 2022, compared to $2.6 M for the same quarter of last fiscal year, representing a decrease of $0.5 M, or 21.6 %. O&M's EBAC stood at $4.0 M for the six-month period ended December 31, 2021, compared to $4.9 M for the same period of last fiscal year, representing a decrease of $0.9 M, or 18.3 %. The reduction in O&M's EBAC was due primarily to the reduction in gross profit margin and higher selling and general expenses.



LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOW ANALYSIS

A comparison of the Corporation's cash flows for the three-month and six-month periods ended December 31, 2021 and 2020 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2021	2020	Variation		**2021**	2020	Variation	
	$	$	$	%	**$**	$	$	%
Cash flows from operating activities before change in working capital items	**3,908**	2,465	1,443	58.5	**8,330**	5,444	2,886	53.0
Change in working capital items	**(6,324)**	(3,089)	(3,235)	104.7	**(11,712)**	(4,940)	(6,772)	137.1
	(2,416)	(624)	(1,792)	287.2	**(3,382)**	504	(3,886)	(771.0)
Interests received / Income taxes paid	**(927)**	(42)	(885)	2,107.1	**(1,454)**	(33)	(1,421)	4,306.1
Cash flows from (used in) operating activities	**(3,343)**	(666)	(2,677)	402.0	**(4,836)**	471	(5,307)	(1,126.8)
Cash flows used in investing activities	**(22,755)**	(590)	(22,165)	3,756.8	**(23,288)**	(3,737)	(19,551)	523.2
Cash flows from financing activities	**19,184**	965	18,219	1,888.0	**17,673**	721	16,952	2,351.2
Effect of exchange rate changes on the balance of cash held in foreign currencies	**64**	166	(102)	(61.4)	**(40)**	274	(314)	(114.6)
Net change	**(6,850)**	(125)	(6,725)	5,380.0	**(10,491)**	(2,271)	(8,220)	362.0
Cash – Beginning of period	**11,768**	7,293	4,475	61.4	**15,409**	9,439	5,970	63.2
Cash – End of period	**4,918**	7,168	(2,250)	(31.4)	**4,918**	7,168	(2,250)	(31.4)

Cash decreased by $6.9 M during the second quarter of fiscal year 2022, compared with a decrease of $0.1 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 $3.3 M for the quarter ended December 31, 2021, compared to $0.7 M of cash flows used from operating activities during the same period of the previous fiscal year. The variation is mainly explained by higher income taxes paid and by the unfavorable changes in working capital items, mostly coming from the increase in inventories and accounts receivable.

Cash flows from operating activities used $4.8 M for the six-month period ended December 31, 2021, compared to $0.5 M of cash flows generated from operating activities during the same period of the previous fiscal year, mainly attributable to similar factors as those of the second quarter.

Cash Flows from Investing Activities

Investing activities used $22.8 M of cash flows for the quarter ended December 31, 2021, compared to $0.6 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 combinations of JCO and EC on December 15, 2021 amounting to $21.5 M.

Investing activities used $23.3 M of cash flows for the six-month period ended December 31, 2021, compared to $3.7 M of cash flows used in investing activities during the same period of the previous fiscal year. The cash used in the six-month

period ended December 31, 2021 resulted primarily from the business combinations of JCO and EC amounting to $21.5 M and purchases of property, plant and equipment and intangible assets of $1.8 M. In comparison, the cash used in the six-month period ended December 31, 2020 resulted primarily from the business combination of GUS for $2.6 M and payment of contingent consideration of $1.4 M, partly offset by dividends from associate of $1.2 M.

Cash Flows from Financing Activities

Financing activities generated $19.2 M for the quarter ended December 31, 2021, compared to $1.0 M of cash flows generated from financing activities during the comparable quarter of the previous fiscal year. The cash flows for the three-month ended December 31, 2021 resulted primarily from $29.7 M in proceeds from bank loans, net of related transaction costs, and $5.1 M from warrants exercised, partially offset by $14.6 M in long-term debt repayments, $0.5 M of interest paid and $0.5 M in repayments of lease liabilities. In comparison, the cash flows for the three-month ended December 31, 2020 resulted primarily from $2.1 M in proceeds from bank loans and $1.3 M from warrants exercised, partially offset by $0.8 M in long-term debt repayments, $0.8 M in reimbursement of bank loans, $0.4 M of interest paid and $0.4 M in repayments of lease liabilities.

Financing activities generated $17.7 M for the six-month period ended December 31, 2021, compared to $0.7 M of cash flows generated in financing activities during the same period of previous fiscal year. The cash flows for six-month period ended December 31, 2021 resulted primarily from $29.7 M in proceeds from bank loans, net of related transaction costs, and $5.3 M from warrants exercised, partially offset by $15.3 M in long-term debt repayments, $0.9 M of interest paid and $1.0 M in repayments of lease liabilities. In comparison, the cash flows for the six-month period ended December 31, 2020 resulted primarily from $2.1 M in proceeds from long-term debt, net of related transaction costs, $2.0 M in bank loans and $1.5 M from warrants exercised, partially offset by $1.6 M in long-term debt repayments, $0.8 M of interest paid and $0.9 M in repayments of lease liabilities.

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between December 31, 2021 and June 30, 2021 for selected information:

(In thousands of Canadian dollars)	**December 31, 2021**	June 30, 2021	Variation		Explanations
	$	$	$	%	
Accounts receivable	**29,636**	22,148	7,488	33.8	The increase is mostly attributable to higher revenues (42.0 M for Q2-2022 compared to 35.2 M for Q4-2021, representing an increase of 19.3 %), the addition of JCO and EC (increase of 5.6 %) and foreign exchange rate impact (increase of 2.2 %).
Inventories	**12,777**	8,486	4,291	50.6	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, more particularly in Specialty Products business pillar. The growth is also driven by the Maple business line which is currently building his inventory for the upcoming maple season.
Contract assets	**7,849**	7,574	275	3.6	The increase is mostly attributable to growth in WTS business pillar's activities.
Accounts payable and accrued liabilities	**14,724**	15,466	(742)	(4.8)	The decrease is mainly due to the timing of the payments and purchases compared to June 30, 2021.
Contract liabilities	**4,184**	3,283	901	27.4	The increase is attributable to difference between project advancement and project invoicing schedules.
Contingent considerations, including current portion	**9,424**	6,738	2,686	39.9	The increase is due to the changes in fair value of the contingent considerations and the business combinations of JCO and EC on December 15, 2021.

NET DEBT

The definition of net debt consists of bank loans and 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)	**December 31, 2021**	June 30, 2021	Variation	
	$	$	$	%
Bank loans	**29,676**	-	29,676	100.0
Current portion of long-term debt	**472**	2,975	(2,503)	(84.1)
Long-term debt	**794**	12,941	(12,147)	(93.9)
Contingent considerations	**9,424**	6,738	2,686	39.9
Less: Cash	**(4,918)**	(15,409)	10,491	(68.1)
Net debt including contingent considerations [(1)]	**35,448**	7,245	28,203	389.3
Contingent considerations	**9,424**	6,738	2,686	39.9
Net debt excluding contingent considerations ("Net debt") [(1)]	**26,024**	507	25,517	5,032.9
Adjusted EBITDA [(1)(2)]	**15,419**	14,646	773	5.3
Net debt-to-adjusted-EBITDA ratio [(1)]	**1.69**	0.03	-	-

[(1)] Non-IFRS measure. Refer to the section "Non-IFRS financial measurements" at page 27 for detailed information about non-IFRS measures used in this MD&A.
[(2)] Trailing twelve-month adjusted EBITDA.

As at December 31, 2021, the net debt stood at $26.0 M, compared with $0.5 M as at June 30, 2021, representing a $25.5 M increase. This increase was mainly attributable to the financing of JCO and EC acquisitions on December 15, 2021 and 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 bank loans and long-term debt less cash. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration.

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

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios. The financial ratios are, as at December 31, 2021:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA of not more than 3.25:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures of at least 2.50:1.00 at all times.

As at December 31, 2021, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 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 December 31, 2021, the Corporation had 90,007,408 common shares issued and outstanding and 3,932,334 outstanding stock options.

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 ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Net earnings for the period	**762**	268	**1,380**	1,252
Finance costs – net	**493**	534	**1,050**	1,113
Income taxes (recovery)	**83**	235	**223**	(61)
Depreciation of property, plant and equipment and right-of-use assets	**886**	789	**1,752**	1,578
Amortization of intangible assets	**1,200**	1,001	**2,295**	2,050
EBITDA	**3,424**	2,827	**6,700**	5,932
Unrealized exchange (gain) loss	**(306)**	428	**(552)**	642
Stock-based compensation costs	**274**	39	**493**	82
Changes in fair value of the contingent considerations	**188**	42	**955**	104
Acquisition and integration costs	**219**	226	**221**	284
Adjusted EBITDA	**3,799**	3,562	**7,817**	7,044

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 December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized over time	**25,123**	21,444	**48,449**	42,237
Revenue recognized at a point in time	**16,886**	13,525	**31,944**	27,728
	42,009	34,969	**80,393**	69,965
Cost of goods sold	**30,913**	25,584	**58,377**	51,103
Gross profit before depreciation and amortization	**11,096**	9,385	**22,016**	18,862
Selling and general expenses	**4,570**	3,893	**8,977**	7,664
Earnings before administrative costs (EBAC)	**6,526**	5,492	**13,039**	11,198

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 December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Net earnings for the period	**762**	268	**1,380**	1,252
Acquisition and integration costs	**219**	226	**221**	284
Amortization of intangible assets related to business combinations	**1,115**	936	**2,107**	1,922
Unrealized exchange (gain) loss	**(306)**	428	**(552)**	642
Changes in fair value of the contingent considerations	**188**	42	**955**	104
Stock-based compensation costs	**274**	39	**493**	82
Income taxes related to above items	**(256)**	(225)	**(476)**	(453)
Adjusted net earnings	**1,996**	1,714	**4,128**	3,833
Adjusted basic EPS	**0.023**	0.022	**0.048**	0.050
Adjusted diluted EPS	**0.022**	0.019	**0.045**	0.044

NET DEBT

The definition of net debt consists of bank loans and long-term debt less cash, excluding and/or including contingent considerations. The definition of net debt used by the Corporation may differ from those used by other companies. Refer to page 26 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. Refer to section "Quarterly financial information" at page 10 for the 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 December 31, 2021,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	8,539	13,794	19,676	42,009
Recurring revenues	**3,092**	**13,794**	**19,676**	**36,562**

(In thousands of Canadian dollars)	**Six-month period ended December 31, 2021,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	17,550	25,129	37,714	80,393
Recurring revenues	**6,815**	**25,129**	**37,714**	**69,658**

(In thousands of Canadian dollars)	Three-month period ended December 31, 2020,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	6,944	10,387	17,638	34,969
Recurring revenues	**3,138**	**10,387**	**17,638**	**31,163**

(In thousands of Canadian dollars)	Six-month period ended December 31, 2020,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	13,186	21,776	35,003	69,965
Recurring revenues	**5,952**	**21,776**	**35,003**	**62,731**

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 December 31, 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 December 31, 2021, did not include the controls or procedures of the operations of GMP, following its acquisition effective on February 1, 2021 and JCO and EC, following the acquisitions effective on December 15, 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 December 31, 2021**	**Six-month period ended December 31, 2021**
Results	**$**	**$**
Revenues	2,479	4,896
Net Earnings	572	1,325

Financial Position	**As at December 31, 2021** **$**
Current Assets	5,436
Non-Current Assets [1]	10,753
Current Liabilities	2,381
Non-Current Liabilities	794

[1] includes fair market value of acquired intangible assets

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

(In thousands of Canadian dollars) (unaudited)	Three-month period ended December 31, 2021	Six-month period ended December 31, 2021
Results	**$**	**$**
Revenues	372	372
Net Earnings	50	50

	As at December 31, 2021
Financial Position	**$**
Current Assets	867
Non-Current Assets [1]	16,962
Current Liabilities	375
Non-Current Liabilities	321

[1] includes fair market value of acquired intangible assets

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

(In thousands of Canadian dollars) (unaudited)	Three-month period ended December 31, 2021	Six-month period ended December 31, 2021
Results	**$**	**$**
Revenues	329	329
Net Earnings	23	23

	As at December 31, 2021
Financial Position	**$**
Current Assets	1,425
Non-Current Assets [1]	7,576
Current Liabilities	291
Non-Current Liabilities	37

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

December 31, 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	December 31, 2021	June 30, 2021
	$	$
ASSETS (notes 7 and 8)		
Current assets		
Cash	**4,918**	15,409
Accounts receivable (note 4)	**29,636**	22,148
Inventories (note 5)	**12,777**	8,486
Income taxes receivable	**182**	-
Contract assets	**7,849**	7,574
Prepaid expenses and deposits	**3,947**	2,868
	59,309	56,485
Non-current assets		
Property, plant and equipment	**6,941**	5,657
Intangible assets	**48,075**	33,131
Right-of-use assets	**11,995**	10,094
Other assets	**168**	200
Related party loans receivable (note 14 a)	**1,250**	1,250
Goodwill (note 3)	**39,223**	30,209
Deferred income tax assets	**272**	76
	167,233	137,102
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	**14,724**	15,466
Income taxes payable	**-**	508
Provisions	**300**	644
Contract liabilities	**4,184**	3,283
Contingent considerations (note 9)	**6,702**	4,026
Current portion of long-term debt (note 8)	**472**	2,975
Current portion of lease liabilities	**1,738**	1,636
	28,120	28,538
Non-current liabilities		
Bank loans (note 7)	**29,676**	-
Long-term debt (note 8)	**794**	12,941
Other non-current financial liabilities (note 8)	**173**	261
Contingent consideration (note 9)	**2,722**	2,712
Deferred income tax liabilities	**5,097**	3,937
Lease liabilities	**11,182**	9,318
	77,764	57,707
SHAREHOLDERS' EQUITY		
Share capital	**128,335**	119,780
Reserve – Stock options	**4,219**	3,726
Reserve – Warrants	**7**	679
Deficit	**(43,812)**	(45,192)
Accumulated other comprehensive income	**720**	402
	89,469	79,395
	167,233	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 six-month periods ended December 31, 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	-	-	82	-	-	-	82
Net earnings for the period	-	-	-	-	1,252	-	1,252
Shares issued on warrants exercised	1,506,972	1,879	-	(419)	-	-	1,460
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	(2,503)	(2,503)
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	-	-	-	-	-	79	79
Balance as at December 31, 2020	78,379,580	108,751	3,555	2,287	(47,059)	1,449	68,983
Balance as at July 1, 2021	**85,137,204**	**119,780**	**3,726**	**679**	**(45,192)**	**402**	**79,395**
Stock-based compensation costs	**-**	**-**	**493**	**-**	**-**	**-**	**493**
Net earnings for the period	**-**	**-**	**-**	**-**	**1,380**	**-**	**1,380**
Issuance of common shares (note 3)	**1,107,733**	**2,632**	**-**	**-**	**-**	**-**	**2,632**
Shares issued on warrants exercised	**3,762,471**	**5,939**	**-**	**(672)**	**-**	**-**	**5,267**
Share issue expenses	**-**	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**352**	**352**
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	**-**	**-**	**-**	**-**	**-**	**203**	**203**
Other comprehensive income (loss) – Net gain on cash flow hedges reclassified to consolidated statement of earnings (loss) (note 8)	-	-	-	-	-	**(237)**	**(237)**
Balance as at December 31, 2021	**90,007,408**	**128,335**	**4,219**	**7**	**(43,812)**	**720**	**89,469**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
For the three-month and six-month periods ended December 31, 2021 and 2020
(in thousands of Canadian dollars, except per share data) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Revenues (note 13)	**42,009**	34,969	**80,393**	69,965
Cost of goods sold (note 11 a)	**30,913**	25,584	**58,377**	51,103
Gross profit before depreciation and amortization	**11,096**	9,385	**22,016**	18,862
Selling, general and administrative expenses (note 11 a)	**7,526**	5,840	**14,611**	12,049
Depreciation of property, plant and equipment and right-of-use assets (note 11 b)	**886**	789	**1,752**	1,578
Amortization of intangible assets (note 11 b)	**1,200**	1,001	**2,295**	2,050
Other (gains) and losses – net (note 11 c)	**(73)**	566	**484**	759
Acquisition and integration costs (note 3)	**219**	226	**221**	284
Operating costs total	**9,758**	8,422	**19,363**	16,720
Operating profit	**1,338**	963	**2,653**	2,142
Finance income (note 14 a)	**(7)**	(9)	**(18)**	(18)
Finance costs	**500**	543	**1,068**	1,131
Finance costs – net	**493**	534	**1,050**	1,113
Share of profit of an associate	**-**	74	**-**	162
Earnings before income taxes	**845**	503	**1,603**	1,191
Current income tax expense	**442**	100	**823**	255
Deferred tax expense (recovery)	**(359)**	135	**(600)**	(316)
	83	235	**223**	(61)
Net earnings for the period	**762**	268	**1,380**	1,252
Basic net earnings per share (note 12)	**0.009**	0.003	**0.016**	0.016
Diluted net earnings per share (note 12)	**0.008**	0.003	**0.015**	0.014
Weighted average number of shares outstanding – Basic (note 12)	**87,597,576**	77,749,193	**86,400,354**	77,123,590
Weighted average number of shares outstanding – Diluted (note 12)	**91,395,658**	90,603,371	**91,299,334**	87,674,434

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
For the three-month and six-month periods ended December 31, 2021 and 2020
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Net earnings for the period	**762**	268	**1,380**	1,252
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**(496)**	(1,788)	**352**	(2,503)
Cash flow hedges net gains arising during the period (net of tax)	**163**	39	**203**	79
Net gain on cash flow hedges reclassified to consolidated statement of earnings (note 8)	**(237)**	-	**(237)**	-
Comprehensive earnings (loss) for the period	**192**	(1,481)	**1,698**	(1,172)

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and six-month periods ended December 31, 2021 and 2020
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Operating activities				
Earnings before income taxes for the period	**845**	503	**1,603**	1,191
Non-cash items				
Finance costs – net	**493**	534	**1,050**	1,113
Depreciation of property, plant and equipment and right-of-use assets	**886**	789	**1,752**	1,578
Amortization of intangible assets	**1,200**	1,001	**2,295**	2,050
Changes in fair value of contingent considerations (note 9)	**188**	42	**955**	104
Others	**76**	-	**109**	-
Net unrealized foreign exchange differences	**(54)**	(369)	**73**	(512)
Stock-based compensation costs	**274**	39	**493**	82
Share of profit of an associate	**-**	(74)	**-**	(162)
	3,908	2,465	**8,330**	5,444
Change in working capital items	**(6,324)**	(3,089)	**(11,712)**	(4,940)
Interests received	**7**	9	**18**	18
Income taxes paid	**(934)**	(51)	**(1,472)**	(51)
Net cash flows from (used in) operating activities	**(3,343)**	(666)	**(4,836)**	471
Investing activities				
Variation of other assets	**5**	(62)	**36**	(210)
Acquisition of property, plant and equipment	**(981)**	(268)	**(1,441)**	(593)
Acquisition of intangible assets	**(313)**	(14)	**(417)**	(65)
Payment of contingent consideration (note 9)	**-**	(1,441)	**-**	(1,441)
Business combination, net of cash acquired (note 3)	**(21,466)**	-	**(21,466)**	(2,623)
Dividends from associate	**-**	1,195	**-**	1,195
Net cash flows used in investing activities	**(22,755)**	(590)	**(23,288)**	(3,737)
Financing activities				
Proceeds from bank loans (note 7)	**29,880**	2,060	**29,880**	2,060
Repayment of bank loans	**-**	(753)	**-**	(1,530)
Net proceeds from long-term debt contracted (note 8)	**-**	-	**-**	2,100
Long-term debt reimbursement (note 8)	**(14,568)**	(787)	**(15,338)**	(1,565)
Payment of lease liabilities	**(507)**	(449)	**(1,022)**	(897)
Interest paid	**(458)**	(396)	**(894)**	(833)
Financing costs	**(204)**	-	**(204)**	(74)
Warrants exercised	**5,057**	1,290	**5,267**	1,460
Share issue expenses	**(16)**	-	**(16)**	-
Net cash flows from financing activities	**19,184**	965	**17,673**	721
Net change in cash	**(6,914)**	(291)	**(10,451)**	(2,545)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**64**	166	**(40)**	274
Decrease in cash	**(6,850)**	(125)	**(10,491)**	(2,271)
Cash – Beginning of period	**11,768**	7,293	**15,409**	9,439
Cash – End of period	**4,918**	7,168	**4,918**	7,168

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 periods 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 six-month period ended December 31, 2021. Management also incorporated the potential impact of the COVID-19 pandemic into its estimates and assumptions.

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 February 11, 2022, the Board reviewed and approved the accompanying unaudited condensed interim consolidated financial statements and authorized its publication.

3. Business combination

A. Acquisition of JCO, Inc. and Environmental Consultants, L.L.C.

Description of the business combination

The Corporation entered into a share purchase agreement pertaining to the acquisition of all the issued and outstanding shares of JCO, Inc. ("JCO") and of Environmental Consultants, L.L.C. ("EC"), which offer complete operation, maintenance and management ("O&M") services to municipal and industrial water and wastewater clients from the same region, the Hudson Valley Region in the State of New York. The acquisition of JCO and EC, which were owned and operated separately, complement H_2O Innovation's current business activities in the Northeast United States and solidify its position in the North American O&M market. The effective date of the acquisition is December 15, 2021.

The purchase price for these acquisitions was satisfied from cash on hand, the recently amended credit facility and by the issuance of an aggregate of 1,107,733 H_2O Innovation's common shares, at a price of $2.375 per share. The fair value of the contingent considerations, which are based on specific revenue level achieved over a period of 12 months, was estimated at $1.7 M (US$1.4 M) using the Corporation's best estimate as at the acquisition date and as at December 31, 2021. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustments were not final as of the date of the financial statements and have been estimated at $0.3 M (US$0.3 M) by management as at December 31, 2021.

The Corporation has not yet completed its fair value assessment of the assets acquired, the liabilities assumed, goodwill and contingent considerations. Consequently, part of the fair value adjustments, mainly for intangible assets, are preliminary fair value estimates. The preliminary estimates thereof are subject to material adjustments to the fair value of the assets, liabilities and goodwill until the process is completed. The final purchase price allocation is expected to be completed as soon as management has gathered the significant information available and considered necessary in order to finalize this allocation especially for the intangible assets.

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

The preliminary estimates of the fair value of assets acquired and liabilities assumed for the JCO and EC acquisitions based on the estimated fair value on the date of acquisition and available information as at the date of the publication of these interim consolidated financial statements are as follow:

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

Estimated fair value recognized on acquisition date (December 15, 2021)

(In thousands of Canadian dollars)	Preliminary Allocation - JCO	Preliminary Allocation - EC	Preliminary Allocation - Total
			$
Assets acquired			
Cash	487	242	729
Accounts receivable (1)	787	930	1,717
Contract assets	52	192	244
Prepaid expenses	14	123	137
Property, plant and equipment	707	19	726
Right-of-use assets (2)	74	92	166
Intangible assets	161	-	161
Other assets	-	3	3
Liabilities assumed			
Accounts payable and accrued liabilities	(332)	(265)	(597)
Lease liabilities (2)	(74)	(92)	(166)
Contract liabilities	(380)	(58)	(438)
Long-term debt	(480)	-	(480)
Deferred tax liabilities	-	(1,609)	(1,609)
Identifiable net tangible assets acquired	1,016	(423)	593
Intangible assets acquired (3)	10,727	5,995	16,722
Goodwill arising on acquisition (3)	5,676	3,247	8,923
Fair value of identifiable net assets acquired	17,419	8,819	26,238
Consideration			
Cash			22,195
Contingent considerations			1,745
Issuance of common shares			2,641
Working capital adjustment			(343)
Total consideration payable			26,238
Cash consideration paid			22,195
Less: Cash acquired			(729)
Net cash flow on acquisition			21,466

(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.
(3) The fair value of intangible assets and goodwill is based on preliminary estimates. These preliminary estimates are subject to material adjustments until the valuation is completed.

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

Costs related to the acquisition

Transaction costs of $221 were expensed and are included in Acquisition and integration costs in the condensed interim consolidated financial statements in the Consolidated Statements of Earnings. The attributable costs of the issuance of shares of $16 have been charged directly to equity as a reduction in the share capital.

Determination of fair value

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

The Corporation's preliminary 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. These estimates are subject to change or revaluation by management.

Goodwill arising from the business combination

Based on management's calculations, an amount of $8,923 of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition.

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

The Corporation's net earnings for the three-month and six-month periods ended December 31, 2021 include $701 in revenues and net earnings of $73 generated from JCO and EC additional business.

If the business combination had been completed on July 1 ,2021, the Corporation's consolidated revenues for the three-month period ended December 31, 2021 would have reached $45,512 and consolidated net earnings for the three-month period ended December 31, 2021 would have been $958. For the six-month period ended December 31, 2021, consolidated revenues would have reached $88,100, while the consolidated net earnings for the same period would have been $1,841.

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a three-month and a six-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition would have occurred on July 1, 2021, nor the profit that may be achieved in the future.

To determine the Corporation's pro forma consolidated revenues and profit should JCO and EC had been acquired on July 1, 2021, the Corporation has:

- calculated depreciation of property, plant and equipment and amortization of other acquired intangible assets based on the fair value arising from initial recognition of the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements;
- adjusted the financial results from non-recurring expenses related to the previous owner of the Company; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

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

B. 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 $279 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 $4,699 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.

C. 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**

(4) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with no amount of estimated uncollectible amount.
(5) 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 $105 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 $571 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 c)	571
Plus: Business combination – GMP (note 3 b)	4,699
Effect of foreign exchange differences	(1,246)
Balance as at June 30, 2021	30,209
Plus: Business combination – JCO and EC (note 3 a)	**8,923**
Effect of foreign exchange differences	**91**
Balance as at December 31, 2021	**39,223**

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

4. Accounts receivable

As at	December 31, 2021	June 30, 2021
	$	$
Trade accounts receivable	**26,044**	19,281
Hold back from customers under manufacturing contracts	**3,098**	2,818
Allowance for expected credit losses	**(204)**	(220)
	28,938	21,879
Other receivables	**698**	269
	29,636	22,148

5. Inventories

As at	December 31, 2021	June 30, 2021
	$	$
Raw materials	**3,007**	1,297
Work in progress	**569**	412
Finished goods	**9,201**	6,777
	12,777	8,486

6. Accounts payable and accrued liabilities

As at	December 31, 2021	June 30, 2021
	$	$
Trade accounts payable	**6,713**	5,356
Other accrued liabilities	**8,011**	10,110
	14,724	15,466

7. 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. On December 3, 2021, the Corporation entered into the Third Amended and Restated Credit Agreement to increase its revolving facility to $55.0 M. In addition, the term of this facility has been extended to December 3, 2024. Therefore, following the execution of the Third Amended and Restated Credit Agreement, the Corporation's operating and long-term credit facilities are now aggregating an amount of up to $62.0 M.

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

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 $55.0 M, from which an amount of $29.7 M was used as at December 31, 2021 ($nil as at June 30, 2021). Transaction costs in the amount of $0.2 M have been deferred and are being amortized. The interest rates on these amounts are distributed as follow:
   a. $8.0 M bearing interest at Banker Acceptance plus 2.25 % (2.74 % as at December 31, 2021);
   b. $0.9 M bearing interest at CDN prime rate plus 1.00 % (3.45 % as at December 31, 2021);
   c. US$14.0 M ($17.7 M as at December 31, 2021) bearing interest at US$ Libor plus 2.25 % (2.34 % as at December 31, 2021); and
   d. US$2.6 M ($3.3 M as at December 31, 2021) bearing interest at US$ base rate plus 1.00 % (4.75 % as at December 31, 2021).

(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 December 31, 2021.

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

(i) a hedging facility of $3.5 M, from which an amount of $nil was used as at December 31, 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 $0.2 M was used as at December 31, 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 December 31, 2021, the Corporation is in compliance with the ratios required under its credit agreement, as described in Note 8 – *Long-term debt*.

8. Long-term debt

As at	**December 31, 2021**	June 30, 2021
	$	$
At amortized cost		
Loans denominated in Canadian dollars (a)(b)(e)	**-**	14,944
Loans denominated in US dollars (c)	**1,130**	769
Loans denominated in Canadian dollars (d)	**136**	203
	1,266	15,916
Less: Current portion	**472**	2,975
Long-term debt	**794**	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 % (2.66 % as at

June 30, 2021) and an amount of $400 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2021). The loan was fully repaid on December 3, 2021. The remaining financing costs of $125 have been written-off.

On January 29, 2021, the Corporation entered into a Second Amended and Restated Credit Agreement amending its current credit agreement to add a term facility in an aggregate amount of up to $6,410 to be used by the Corporation exclusively to refinance specific existing loans. On February 2, 2021, the Corporation requested a draw in the aggregate amount of $6,410 comprised of an amount of $2,400 bearing interest at Banker Acceptance rate plus 2.25 % (2.66 % as at June 30, 2021) and an amount of $4,010 bearing interest at prime rate plus 1.00 % (3.45 % as at June 30, 2021). The loan was fully repaid on December 3, 2021. The remaining financing costs of $32 have been written-off.

(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 June 30, 2021). The positive value of this swap was $25 as at June 30, 2021. This swap was terminated on December 3, 2021 and the realized gain recorded in the other comprehensive income (loss) of $41 was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings as a reclassification adjustment included in finance costs.

On February 26, 2021, the Corporation contracted an interest rate swap with notional amount of $10,100, maturing on November 28, 2023, to hedge against interest rate fluctuations of the variable-rate loan. Under a declining swap, the Corporation pays fixed interest rate of 1.68 % plus a premium of 2.25 % based on a financial ratio (3.93 % as at June 30, 2021). The positive value of this swap was $150 as at June 30, 2021. This swap was terminated on December 3, 2021 and the realized gain recorded in the other comprehensive income (loss) of $196 was reclassified from the consolidated statements of comprehensive earnings (loss) to the consolidated statement of earnings as a reclassification adjustment included in finance costs.

(c) Loans denominated in US dollars
The Corporation acquired financing agreements totaling $1,222 (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.

As part of the acquisition of JCO, the Corporation has assumed loans totaling $480 (US$372) related to financing agreement for automotive equipment. The loans bear interest ranging between 0.90 % and 6.59 % and are payable between 36 and 72 monthly instalments totaling $16 (US$13), principal and interest, and are maturing through June 2022 to August 2026.

(d) Loans denominated in Canadian dollars
The Corporation acquired financing agreements totaling $399. The loans bear interest ranging between 4.49 % and 8.63 % and are payable between 60 and 99 monthly instalments totaling $5, 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 3.25:1.00.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures of at least 2.50:1.00 at all times.

Covenants

As at December 31, 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 c)	964
Plus: Contingent consideration – GMP (note 3 b)	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: Contingent consideration – JCO and EC (note 3 a)	**1,745**
Plus: Change in fair value of contingent considerations	**955**
Effect of foreign exchange differences	**(14)**
Balance as at December 31, 2021	**9,424**
Less: Current portion	**6,702**
Contingent consideration – non-current portion	**2,722**

10. Share-based payments

On October 22, 2021, the Corporation has amended its stock option plan (the "Plan") to increase the number of common shares that may be issued thereunder. The Plan is a fixed stock option plan, and the number of common shares reserved for issuance under the Plan has been increased from 4,000,000 to 8,000,000, being 9.33 % of the Corporation's issued and outstanding common shares as of October 21, 2021, at market close. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted.

On November 15, 2021, the Corporation granted a total of 573,000 stock options issued to key employees with a vesting period of three years as an incentive to participate in the long-term development of the Corporation and the growth of the shareholder's value. Each stock option entitles its holders to acquire one common share of the Corporation at a price of $2.64 before November 15, 2031. The fair value was established at $1.308 per option.

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

	November 15, 2021
Number of stock options	**573,000**
Expected dividend yield	**0 %**
Expected volatility	**57.00 %**
Risk-free interest rate	**1.48 %**
Expected life (years)	**5.0**
Fair value at the grant date	**$1.308**

The amount recorded as stock-based compensation for options granted to its officers and key employees is $274 for the three-month period ended December 31, 2021 and $493 for the six-month period ended December 31, 2021 ($39 for the three-month period ended December 31, 2020 and $82 for the six-month period ended December 31, 2020).

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

11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Material	**15,159**	13,160	**28,959**	26,243
Salaries and fringe benefits	**16,355**	14,032	**31,736**	28,151
Subcontractors and professional fees	**3,044**	1,769	**5,387**	3,816
Rent, electricity, insurance and office expenses	**1,170**	983	**2,228**	1,953
Telecommunications and travel expenses	**822**	489	**1,402**	939
Expected credit loss expenses	**17**	-	**17**	14
Share based compensation	**274**	39	**493**	82
Other expenses	**1,598**	952	**2,766**	1,954
Total cost of goods sold, operating, selling and administrative expenses	**38,439**	31,424	**72,988**	63,152
Depreciation of property, plant and equipment and right-of-use assets	**886**	789	**1,752**	1,578
Amortization of intangible assets	**1,200**	1,001	**2,295**	2,050
Costs including depreciation and amortization	**40,525**	33,214	**77,035**	66,780

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 and six-month periods ended December 31, 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 December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Cost of goods sold	**622**	519	**1,224**	1,028
Selling, general and administrative expenses	**264**	270	**528**	550
	886	789	**1,752**	1,578

Amortization of intangible assets by function	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Cost of goods sold	**56**	58	**111**	116
Selling, general and administrative expenses	**1,144**	943	**2,184**	1,934
	1,200	1,001	**2,295**	2,050

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

Cost per function including depreciation and amortization	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	$
Cost of goods sold	**31,591**	26,161	**59,712**	52,247
Selling, general and administrative expenses	**8,934**	7,053	**17,323**	14,533
	40,525	33,214	**77,035**	66,780

c) Other (gains) and losses – net

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
	$	$	**$**	**$**
Unrealized exchange (gain) loss	**(306)**	428	**(552)**	642
Realized exchange loss	**51**	95	**93**	33
Other (gains) and losses – net	**(6)**	1	**(12)**	(20)
Changes in fair value of contingent considerations	**188**	42	**955**	104
	(73)	566	**484**	759

12. Net earnings per share

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
Net earnings	**$762**	$268	**$1,380**	$1,252
Basic weighted average number of share outstanding	**87,597,576**	77,749,193	**86,400,354**	77,123,590
Effects of dilution from:				
Warrants if not anti-dilutive	**1,494,748**	10,550,844	**2,595,646**	10,550,844
Stock options if not anti-dilutive	**2,303,334**	2,303,334	**2,303,334**	-
Weighted average number of share outstanding adjusted for the effect of dilution	**91,395,658**	90,603,371	**91,299,334**	87,674,434
Basic net earnings per share	**$0.009**	$0.003	**$0.016**	$0.016
Diluted net earnings per share	**$0.008**	$0.003	**$0.015**	$0.014

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 December 31,		Six-month periods ended December 31,	
	2021	2020	**2021**	2020
Stock options	**1,629,000**	-	**1,629,000**	2,303,334

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

13. 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.

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

	For the three-month period ended December 31, 2021			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	5,447	-	19,676	25,123
Revenue recognized at a point in time	3,092	13,794	-	16,886
	8,539	13,794	19,676	42,009
Cost of goods sold	6,934	7,397	16,582	30,913
Gross profit before depreciation and amortization	1,605	6,397	3,094	11,096
Selling and general expenses	1,108	2,440	1,022	4,570
Earnings before administrative costs and other items listed below (EBAC)	497	3,957	2,072	6,526
Administrative costs				2,956
Depreciation of property, plant and equipment and right-of-use assets				886
Amortization of intangible assets				1,200
Other (gains) and losses – net				(73)
Acquisition and integration costs				219
Finance costs – net				493
Earnings before income taxes				845

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

	For the six-month period ended December 31, 2021			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**10,735**	**-**	**37,714**	**48,449**
Revenue recognized at a point in time	**6,815**	**25,129**	**-**	**31,944**
	17,550	**25,129**	**37,714**	**80,393**
Cost of goods sold	**13,876**	**12,767**	**31,734**	**58,377**
Gross profit before depreciation and amortization	**3,674**	**12,362**	**5,980**	**22,016**
Selling and general expenses	**2,174**	**4,853**	**1,950**	**8,977**
Earnings before administrative costs and other items listed below (EBAC)	**1,500**	**7,509**	**4,030**	**13,039**
Administrative costs				**5,634**
Depreciation of property, plant and equipment and right-of-use assets				**1,752**
Amortization of intangible assets				**2,295**
Other (gains) and losses – net				**484**
Acquisition and integration costs				**221**
Finance costs – net				**1,050**
Earnings before income taxes				**1,603**

	For the three-month period ended December 31, 2020			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	3,806	-	17,638	21,444
Revenue recognized at a point in time	3,138	10,387	-	13,525
	6,944	10,387	17,638	34,969
Cost of goods sold	5,388	6,052	14,144	25,584
Gross profit before depreciation and amortization	1,556	4,335	3,494	9,385
Selling and general expenses	777	2,266	850	3,893
Earnings before administrative costs and other items listed below (EBAC)	779	2,069	2,644	5,492
Administrative costs				1,947
Depreciation of property, plant and equipment and right-of-use assets				789
Amortization of intangible assets				1,001
Other (gains) and losses – net				566
Acquisition and integration costs				226
Share of profit of an associate				(74)
Finance costs – net				534
Earnings before income taxes				503

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

	For the six-month period ended December 31, 2020			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	7,234	-	35,003	42,237
Revenue recognized at a point in time	5,952	21,776	-	27,728
	13,186	21,776	35,003	69,965
Cost of goods sold	10,078	12,649	28,376	51,103
Gross profit before depreciation and amortization	3,108	9,127	6,627	18,862
Selling and general expenses	1,634	4,334	1,696	7,664
Earnings before administrative costs and other items listed below (EBAC)	1,474	4,793	4,931	11,198
Administrative costs				4,385
Depreciation of property, plant and equipment and right-of-use assets				1,578
Amortization of intangible assets				2,050
Other (gains) and losses – net				759
Acquisition and integration costs				284
Share of profit of an associate				(162)
Finance costs – net				1,113
Earnings before income taxes				1,191

Geographical information

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2021	2020	**2021**	2020
	$	$	**$**	$
Revenues from external customers				
Revenue according to geographic area				
Americas:				
Canada	**5,053**	5,182	**9,074**	9,193
United States	**28,930**	24,495	**54,683**	46,953
Chile	**664**	414	**1,686**	1,042
Other Latin America countries	**857**	258	**1,961**	371
Europe:				
United Kingdom	**309**	239	**599**	588
Spain	**1,117**	297	**1,841**	474
Others	**703**	485	**1,308**	682
Middle East and Africa:				
Saudi Arabia	**268**	256	**1,755**	2,623
United Arab Emirates	**337**	282	**851**	2,608
Other Middle East countries	**365**	408	**1,093**	1,115
Africa	**871**	1,378	**1,653**	2,009
Asia Pacific:				
China	**930**	627	**1,536**	1,021
Others	**1,605**	648	**2,353**	1,286
	42,009	34,969	**80,393**	69,965

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

As at	December 31, 2021	June 30, 2021
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**7,082**	6,253
United States	**60,323**	34,749
United Kingdom	**26,466**	25,344
Spain	**12,175**	12,535
Chile	**188**	210
	106,234	79,091

14. 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 $2,719 as at December 31, 2021 ($2,354 as at June 30, 2021).

An amount of $6 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 December 31, 2021 and $13 for the six-month period ended December 31, 2021 ($7 for the three-month period ended December 31, 2020 and $13 for the six-month period ended December 31, 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 December 31,		Six-month periods ended December 31,	
	2021	2020	2021	2020
	$	$	$	$
Short-term benefits (1)	**885**	843	**1,302**	1,211
Post-employment benefits (2)	**51**	41	**116**	82
Share-based payments	**274**	39	**493**	82
Long-term incentive plan	**44**	-	**87**	-
	1,254	923	**1,998**	1,375

(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.

15. 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
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]

[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

Advisory Member
Leonard Graziano [3]

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, CA 92081

8900, 109th Ave N, Suite 1000. Champlin, MN 553160

3a and 5 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, MS 39501

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

2200 Sciaaca Road, Spring, TX 77373

12337 Jones Road, Suite 320, Houston, TX 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

160 Greenwich Avenue, Goshen, NY 10924

4, Commerce Street, Suite A-2, Poughkeepsie, NY 12603