Interim Financial Report
Third quarter ended
March 31, 2022

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Trading symbols:
TSX: 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 March 31, 2022, in comparison with the corresponding period ended March 31, 2021. This MD&A should be read in conjunction with the condensed interim consolidation financial statements and the accompanying notes for the quarter ended March 31, 2022, 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, to reach specific financial objectives and targets, and to 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 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, which is available on SEDAR (www.sedar.com).

Should one or more of these risks or uncertainties materialize or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events, and other changes.

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NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

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

- Earnings before interests, income taxes, depreciation and amortization ("EBITDA")
- Adjusted earnings before interests, income taxes, depreciation and amortization ("Adjusted EBITDA")
- Adjusted EBITDA over revenues
- Earnings before administrative costs ("EBAC")
- EBAC over revenues
- 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
- Organic revenue
- Organic revenue growth

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 28 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 is 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, and eco-friendly solutions are customer-focused and intended to reduce 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 retention.**

As part of our three-year plan which defines key strategic objectives, we have set the Company to perform according to four (4) themes, as shown in the image 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.

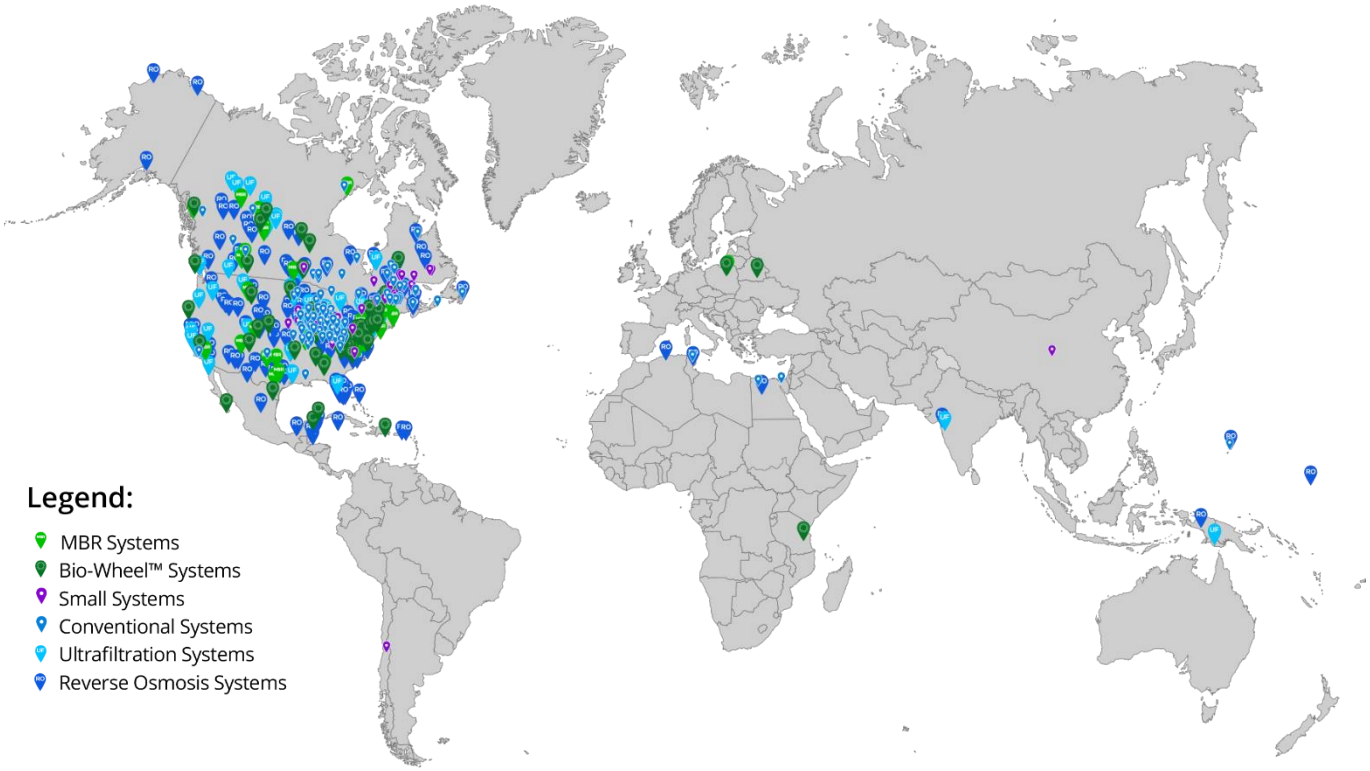
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+900	**+750**	**+75**	**+600**

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. The Corporation also provides aftersales services as well as smart digital solutions (Intelogx™) to monitor and optimize water treatment plants.

H_2O Innovation has now installed over 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")

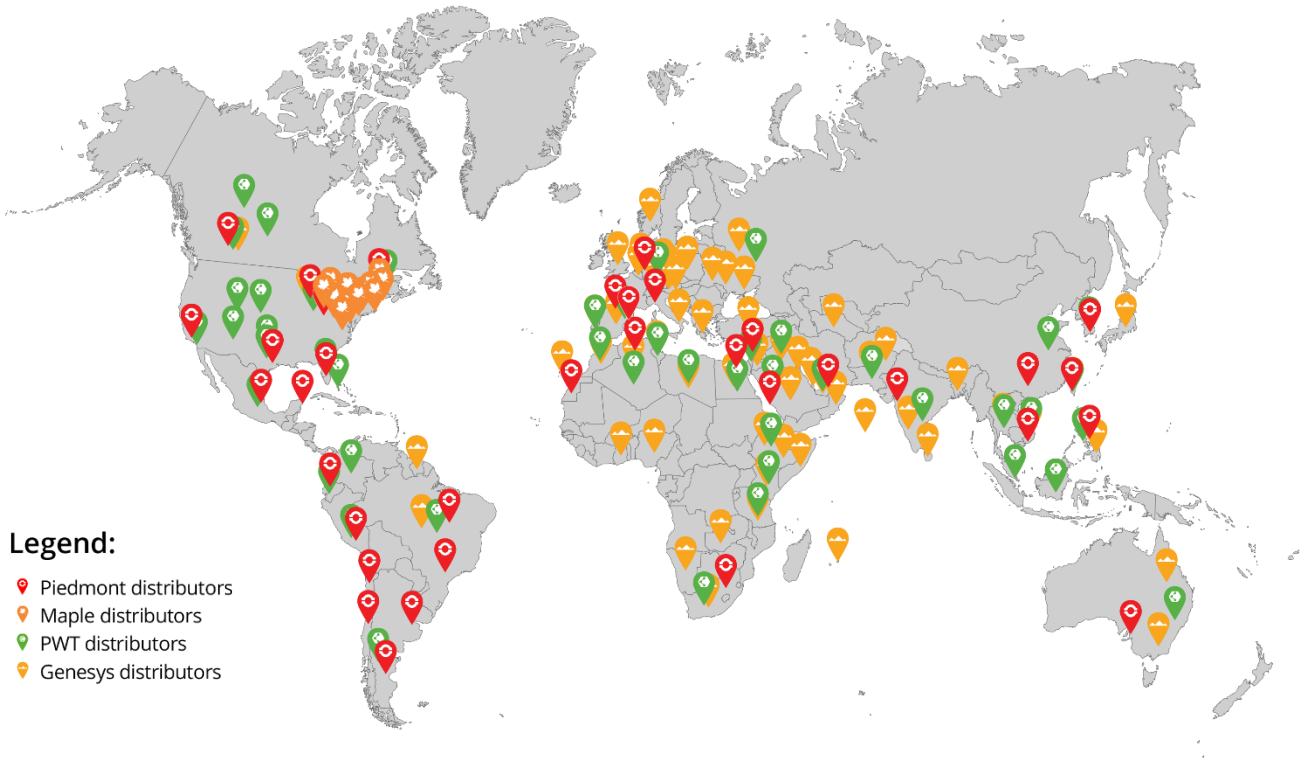
H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry, and maple equipment and products through PWT, Genesys, Piedmont and H_2O Innovation Maple. The Corporation is now exporting its specialty products in over 75 countries.

PWT and Genesys, which belong to 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. Our Specialty Chemicals Group also manufactures 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 increase their syrup production while reducing their energy consumption and improving efficiency.

DISTRIBUTION NETWORK

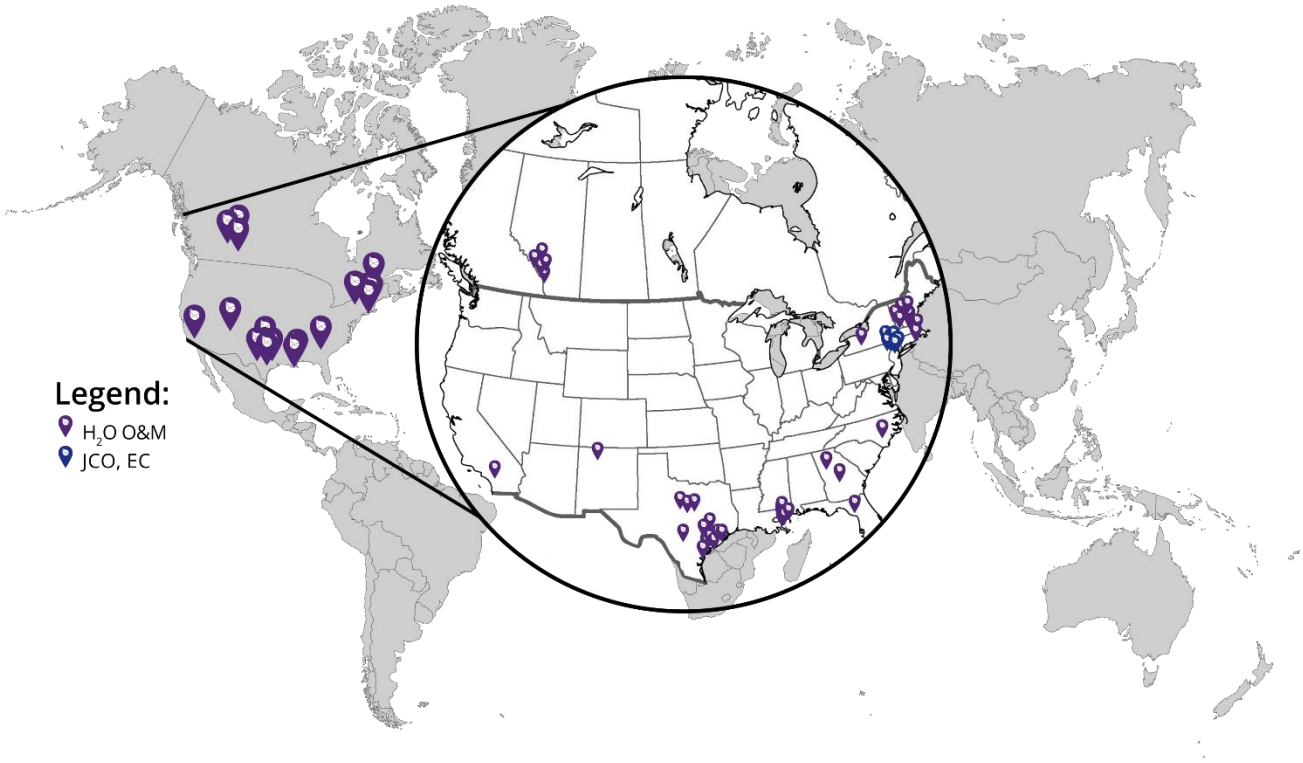


OPERATION AND MAINTENANCE ("O&M")

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment, and associated assets for all its clients. It also ensures that the water quality meets regulatory requirements through H_2O Innovation and, since December 15, 2021, through JCO, Inc. ("JCO") and Environmental Consultants, L.L.C. ("EC").

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

REFERENCE MAP



Trusted Utility Partners

ENVIRONMENTAL SERVICES

Environmental Consultants LLC
WATER & WASTEWATER OPERATIONS SPECIALISTS

KEY FINANCIAL HIGHLIGHTS

For the three-month period ended March 31, 2022
Compared with the three-month period ended March 31, 2021

Revenues	Recurring revenues [3]	Recurring revenues [3][4] (%)	Consolidated backlog
$51.9 M	**$43.3 M**	**83.4%**	**$108.9 M**
↑ $12.8 M or 32.6%	↑ $11.0 M from $32.3 M	↑ from 82.6%	↑ 7.4% from $101.4 M

Gross profit margin [1]	SG&A [2][4] (%)	Adjusted EBITDA [3]	Adjusted EBITDA [3][4] (%)
27.2%	**17.5%**	**$5.3 M**	**10.3%**
↓ from 28.3%	↑ from 16.6%	↑ 18.1% from $4.5 M	↓ from 11.5%

Net earnings	Adjusted net earnings [3]	Cash flows from operating activities	Net debt [3][6]
$1.3 M	**$3.4 M**	**$5.0 M**	**$25.0 M**
Or 0.015 per share [5]	**Or 0.038 per share [3][5]**		**Ratio net debt/Adjusted EBITDA of 1.54**
↓ from $2.1 M	↑ 54.9% from $2.2 M	↓ from $9.7 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) Non-IFRS financial measure. Please refer to page 28 for further information on this measure and for the reference to the reconciliation from this measure to the most directly comparable measure specified under IFRS, when applicable.
(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.

THIRD QUARTER BUSINESS HIGHLIGHTS

- On February 16, 2022, the Corporation announced that its Piedmont business line, a global leader in corrosion-resistant equipment for desalination plants in the industrial and municipal markets, had secured 13 new orders for fiber glass reinforced ("FRP") cartridge filter housings, stainless steel duplex couplings, and PiPerLink™ permeate connectors, for a total of $9.3 M. The revenue from the new sales will be recognized partially in this fiscal year with the remainder coming in the Corporation's next fiscal year.

- On March 22, 2022, the Corporation announced that its common shares (the "Common Shares") had commenced trading on the Toronto Stock Exchange (the "TSX"), under symbol "HEO." Common Shares were delisted from the TSX Venture Exchange at the commencement of trading on the TSX.

- On March 23, 2022, the Corporation announced that its specialty chemicals business line is doubling the footprint at their Cheshire, UK facility to keep up with demand from the market. The whole project is a $1.7 M investment to extend the Corporation's specialty chemical production facilities, required in part due to significant growth in demand for Genesys-PWT powdered membrane cleaners. The UK facility doubled in size to 30,000 ft^2 and now has the capacity to produce 1,000 tons/year of powder cleaners. The expansion created two more local chemical operator jobs and a role for an additional research and quality control chemist.

SUBSEQUENT EVENT HIGHLIGHTS

- On April 4, 2022, the Corporation announced that it had recently renewed its contract with its largest operation and maintenance customer, the City of Gulfport, Mississippi. This renewal, valued at $13.9 M/year, includes a scope expansion for solid-waste collection and fleet management as well as annual consumer price index adjustments. The expanded four-year contract, valued at $55.5 M, brought the Corporation's O&M backlog to $131.0 M on April 4, 2022. The City also has the option to extend the contract up to four additional renewal periods of two years each, potentially lengthening the total contract term to 12 years.

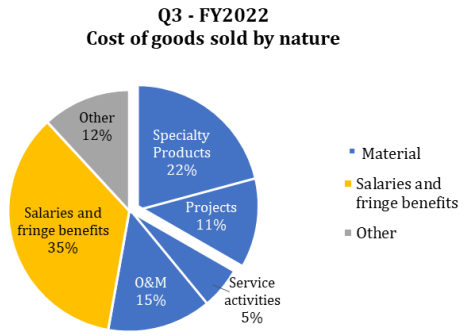
- On April 12, 2022, the Corporation announced that a letter of intent had been entered into with respect to the acquisition of the business carried on by Leader Evaporator Co., Inc. ("Leader"). Leader has been selling maple farming equipment and products over than 130 years to maple syrup producers located mainly in the United States. The brand is positioned as the market-leading combination of tradition and quality. This transaction should allow H_2O Innovation to increase its market share in the maple industry, primarily in the United States of America, to solidify its position as a manufacturer of maple equipment and products, and to expand its manufacturing capabilities with an additional facility of 103,780 ft^2, located in the Town of Swanton, VT. In addition, H_2O Innovation will add 53 distributors and dealers to its current distribution network of nearly 50 distributors. Through this transaction, H_2O Innovation will inherit the expertise, talent and manufacturing know-how of over 50 employees who work at the Swanton facility. The transaction is expected to close before July 1, 2022, and is subject to customary closing conditions for this kind of transaction. The transaction will be financed using the Corporation's available cash and/or existing credit facilities.

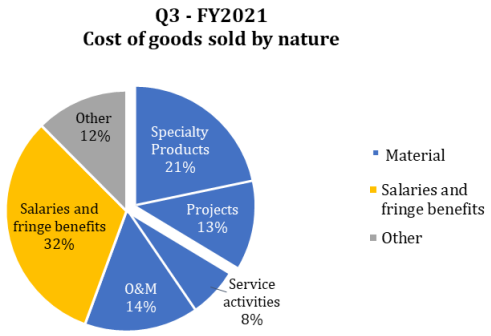
IMPACTS RESULTING FROM THE PANDEMIC

The issues resulting from the COVID-19 pandemic are on the gross profit margin of the Corporation. The table below summarizes the five main impacts that the pandemic has had on the three business pillars of the Corporation in the last few quarters.

	WTS	Specialty Products	O&M
1. Supply chain challenges and increased cost of materials	X	X	
2. Pressure on employee salaries due to staff shortage and inflation	X	X	X
3. Costs arising from sick leave due to COVID-19 within the staff			X
4. Increase of insurance costs			X
5. Impact on working capital items		X	

1. The supply chain challenges and increased cost of materials are affecting our business pillars in different ways. The following charts provide a breakdown of the cost of goods sold by nature for the third quarter of fiscal year 2022 in comparison with the same quarter of last fiscal year.





Among each category of costs included in the cost of goods sold, around 33.0% is impacted by the high inflation of material costs, either the material costs related to Specialty Products or water treatment system projects. The other costs can be passed on to customers or are related to labour. Various actions are taken to mitigate the impact of increased costs, such as including price adjustment clauses based on inflation indices, renegotiation of supplier contracts, and reassessment of certain supply chains to reduce manufacturing costs and freight costs.

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. In the majority of our O&M contracts, we can increase the annual fees to follow CPI (Consumer Price Index) adjustments. 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, at the beginning of the third quarter, 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 profit 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 work 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 has had a significant impact on the Corporation's inventory. As global shipments slowed, the Corporation decided 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 the growing demand, to adapt to supply chain challenges, and to ensure the delivery of our clients' orders in a timely manner. In addition, to ensure on-time supplier deliveries and to counter the inflationary pressure on raw materials, the Corporation had to pay certain suppliers in advance of or immediately upon delivery. The impact on the Corporation's balance sheet was an increase of prepaid expenses and inventories.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

Income Statements and Cash flows	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022		2021		**2022**		2021	
	$	**% (1)**	$	% (1)	**$**	**% (1)**	$	% (1)
Revenues per business pillar								
WTS	**11,892**	**22.9**	10,095	25.7	**29,442**	**22.3**	23,281	21.3
Specialty products	**15,909**	**30.6**	11,810	30.2	**41,038**	**31.0**	33,586	30.8
O&M	**24,116**	**46.5**	17,250	44.1	**61,830**	**46.7**	52,253	47.9
Total revenues	**51,917**	**100.0**	39,155	100.0	**132,310**	**100.0**	109,120	100.0
Revenues per geographic location								
Canada	**7,278**	**14.0**	6,232	15.9	**16,352**	**12.4**	15,425	14.1
United States	**36,124**	**69.6**	26,267	67.1	**90,807**	**68.6**	73,220	67.1
Others	**8,515**	**16.4**	6,656	17.0	**25,151**	**19.0**	20,475	18.8
Total revenues	**51,917**	**100.0**	39,155	100.0	**132,310**	**100.0**	109,120	100.0
Recurring revenues (2)	**43,311**	**83.4**	32,339	82.6	**112,969**	**85.4**	95,070	87.1
Gross profit margin (3)	**14,128**	**27.2**	11,081	28.3	**36,144**	**27.3**	29,943	27.4
Selling, general and administrative expenses ("SG&A")	**9,098**	**17.5**	6,497	16.6	**23,709**	**17.9**	18,546	17.0
Other (gains) and losses – net	**411**	**0.8**	1,393	3.6	**895**	**0.7**	2,152	2.0
Acquisition and integration costs	**237**	**0.5**	212	0.5	**458**	**0.3**	496	0.5
Finance costs – net	**556**	**1.1**	862	2.2	**1,606**	**1.2**	1,975	1.8
Net earnings for the period	**1,330**	**2.6**	2,062	5.3	**2,710**	**2.0**	3,314	3.0
Net earnings per share ("EPS"):								
Basic EPS	**0.015**	**-**	0.026	-	**0.031**	**-**	0.042	-
Diluted EPS	**0.014**	**-**	0.023	-	**0.030**	**-**	0.036	-
EBITDA (2)	**4,382**	**8.4**	5,347	13.7	**11,082**	**8.4**	11,279	10.3
Adjusted EBITDA (2)	**5,332**	**10.3**	4,513	11.5	**13,149**	**9.9**	11,557	10.6
Adjusted net earnings (2)	**3,378**	**6.5**	2,181	5.6	**7,269**	**5.5**	6,014	5.5
Adjusted EPS (2):								
Adjusted basic EPS (2)	**0.038**	**-**	0.027	-	**0.083**	**-**	0.077	-
Adjusted diluted EPS (2)	**0.037**	**-**	0.024	-	**0.079**	**-**	0.066	-
Cash flows from operating activities	**4,976**	**9.6**	9,729	24.8	**140**	**0.1**	10,200	9.3

Financial position	**March 31, 2022**	June 30, 2021	Variation	
	$	$	$	%
Cash	**6,499**	15,409	(8,910)	(57.8)
Inventories	**13,095**	8,486	4,609	54.3
Contract assets	**10,024**	7,574	2,450	32.3
Net debt excluding contingent considerations (2)	**25,008**	507	24,501	-
Net debt-to-Adjusted EBITDA ratio (2)	**1.54**	0.03	-	-
Consolidated backlog	**108,900**	102,300	6,600	6.5

(1) % of total revenues.
(2) Refer to section "Non-IFRS financial measurements." Refer to page 28 for detailed information about non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

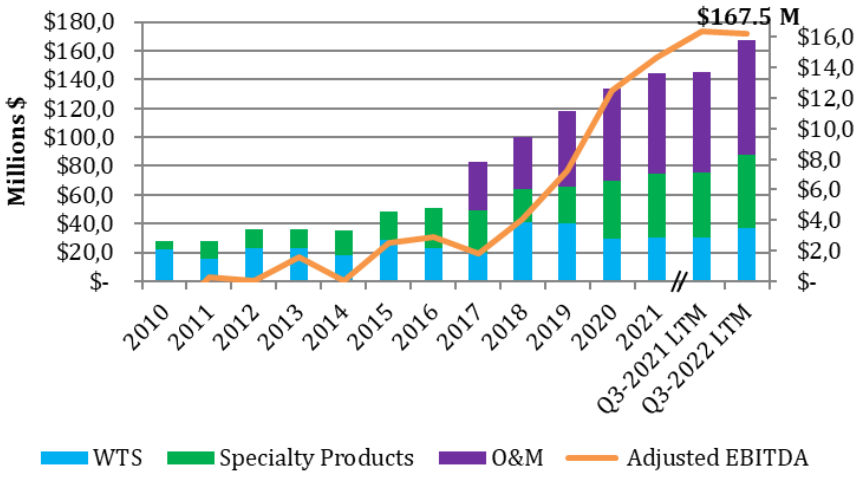
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except per share data)	Three-month periods ended March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	Last twelve months
	$	**$**	**$**	$	**$**
Revenues	**51,917**	42,009	38,384	35,204	167,514
EBITDA [2]	**4,382**	3,424	3,276	3,206	14,288
Adjusted EBITDA [2]	**5,332**	3,799	4,018	3,089	16,238
Adjusted EBITDA over revenues [2]	**10.3%**	9.0%	10.5%	8.8%	9.7%
Net earnings (loss)	**1,330**	762	618	(195)	2,515
Basic EPS [1]	**0.015**	0.009	0.007	(0.002)	0.029
Diluted EPS [1]	**0.014**	0.008	0.007	(0.002)	0.027
Adjusted net earnings [2]	**3,378**	1,759	2,132	457	7,726
Adjusted basic EPS [1] [2]	**0.038**	0.020	0.025	0.005	0.089
Adjusted diluted EPS [1] [2]	**0.037**	0.019	0.023	0.005	0.084
Cash flows from (used in) operating activities	**4,976**	(3,343)	(1,493)	(2,916)	(2,776)

(In thousands of Canadian dollars, except per share data)	Three-month periods ended March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	Previous twelve months
	$	$	$	$	**$**
Revenues	39,155	34,969	34,996	35,979	145,099
EBITDA [2]	5,347	2,827	3,105	3,954	15,233
Adjusted EBITDA [2]	4,513	3,562	3,482	4,832	16,389
Adjusted EBITDA over revenues [2]	11.5%	10.2%	9.9%	13.4%	11.3%
Net earnings	2,062	268	984	813	4,127
Basic EPS [1]	0.026	0.003	0.013	0.011	0.045
Diluted EPS [1]	0.023	0.003	0.013	0.011	0.045
Adjusted net earnings [2]	2,181	1,714	2,119	2,110	8,124
Adjusted basic EPS [1] [2]	0.027	0.022	0.029	0.027	0.104
Adjusted diluted EPS [1] [2]	0.024	0.019	0.028	0.027	0.089
Cash flows from (used in) operating activities	9,729	(666)	1,137	9,781	19,981

[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 section "Non-IFRS financial measurements" on page 28 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 March 31, 2022**	Previous twelve months March 31, 2021	Variation	
	$	$	$	%
Revenues	**167,514**	145,099	22,415	15.4
EBITDA [1]	**14,288**	15,233	(945)	(6.2)
Adjusted EBITDA [1]	**16,238**	16,389	(151)	(0.9)
Adjusted EBITDA over revenues [1]	**9.7%**	11.3%	-	-
Net earnings	**2,515**	4,127	(1,612)	(39.1)
Basic EPS	**0.029**	0.045	(0.016)	(35.6)
Diluted EPS	**0.027**	0.045	(0.018)	(40.0)
Adjusted net earnings [1]	**7,726**	8,124	(398)	(4.9)
Adjusted basic EPS [1]	**0.089**	0.104	(0.015)	(14.4)
Adjusted diluted EPS [1]	**0.084**	0.089	(0.005)	(5.6)
Cash flows from (used in) operating activities	**(2,776)**	19,981	(22,757)	(113.9)

[1] Refer to section "Non-IFRS financial measurements" on page 28 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 in the comparison of the two twelve-month periods. Revenues for the last twelve months showed an increase of 15.4% compared to the previous twelve-month period, evidence of the organic and acquisition growth, offset by USD exchange rate variations.

Our efforts made over the last twelve months to focus on increasing organic revenues allowed the corporation to increase the organic revenue growth from 2.1% to 10.1%. The Corporation invested in growth initiatives in order to achieve the objective included in the three-year strategic plan, which is to generate 10.0% of annual organic revenue growth between 2023 and 2024. To achieve this objective, the Corporation has hired sales resources and has invested in SG&A to generate and support this growth. The table below compares the effect of organic growth, acquisition growth and USD exchange rate variations on the Corporation's revenue growth over the last twelve months.

Revenues Growth (In thousands of Canadian dollars)	**Last twelve months March 31, 2022**		Previous twelve months March 31, 2021	
	$	**%**	$	%
Organic growth	**14,657**	**10.1**	2,726	2.1
Acquisition growth	**11,734**	**8.1**	12,998	10.0
Impact of USD exchange rate	**(3,977)**	**(2.8)**	(127)	(0.1)
Net variation	**22,415**	**15.4**	15,597	12.0

The adjusted EBITDA remained relatively stable at $16.2 M from $16.4 M in the last twelve months. The adjusted EBITDA over revenues is lower at 9.7% compared to 11.3% last year, representing a 1.6% 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 the 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 in a previous section: 1. Supply chain challenges and increased cost of materials; 2. Pressure on employee salaries due to staff shortage and inflation; 3. Costs arising from sick leave due to COVID-19 within the staff; 4. Increase of insurance costs; and 5. Impact on working capital items.

One of H_2O Innovation's strengths is that it can rely on different sources of revenue coming from its three business pillars, which reduces the risk of volatility on the EBITDA. The high level of recurring revenues contribute to reducing the risks of the business significantly.

CONSOLIDATED REVENUES

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues per business pillar								
WTS	**11,892**	10,095	1,797	17.8	**29,442**	23,281	6,161	26.5
Specialty products	**15,909**	11,810	4,099	34.7	**41,038**	33,586	7,452	22.2
O&M	**24,116**	17,250	6,866	39.8	**61,830**	52,253	9,577	18.3
Total revenues	**51,917**	39,155	12,762	32.6	**132,310**	109,120	23,190	21.3

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 March 31, 2022, increased by $12.7 M, or 32.6%, to reach $51.9 M, compared to $39.2 M for the comparable quarter of the previous fiscal year. These results were driven by organic revenue growth of $6.0 M, or 15.3%, and acquisition growth of $6.7 M, or 17.3%. This overall increase was partially fuelled by the acquisition of JCO and EC on December 15, 2021, which contributed $4.5 M in revenues for the three-month period ended on March 31, 2022. Genesys Membrane Products, S.L.U. ("GMP"), which was acquired on February 1, 2021, contributed $2.2 M in revenues for the three-month period ended on March 31, 2022, compared to $1.5 M for the same quarter of fiscal year 2021.

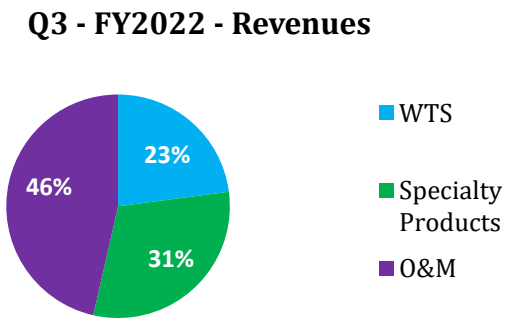
Revenues from the WTS business pillar increased by $1.8 M compared to the same quarter of the previous fiscal year, driven by organic revenue growth in water treatment systems projects. On a sequential basis, revenues from the WTS business pillar increased by $3.4 M, or 39.2%, from $8.5 M in the second quarter of this fiscal year. The Corporation's three-year strategic plan consists of prioritizing WTS's projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars, and to expand service activities.

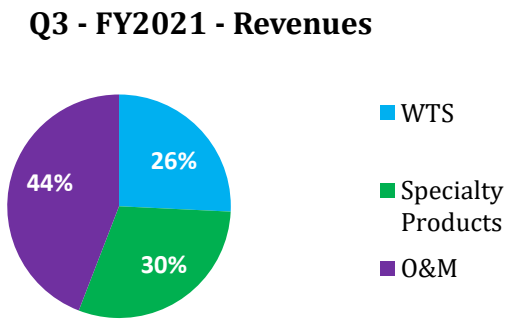
Revenues from the Specialty Products business pillar increased by $4.1 M compared to the same quarter of the previous fiscal year, driven by organic revenue growth of $1.9 M, or 15.7% this quarter and by the acquisition of GMP on February 1, 2021, which contributed $2.2 M to Specialty Products revenues this quarter. On a sequential basis, revenues from the Specialty Products business pillar increased by $2.1 M, or 15.3%, from $13.8 M in the second quarter of this fiscal year.

Revenues from the O&M business pillar increased by $6.8 M compared to the same quarter of the previous fiscal year, driven by organic revenue growth of $2.3 M, or 13.4% this quarter and $4.5 M from the acquisition of JCO and EC effective on December 15, 2021. On April 4, 2022, the Corporation announced that it had recently renewed its contract with its largest operation and maintenance customer, the City of Gulfport, Mississippi. The expanded four-year contract, valued at $55.5 M, brought the Corporation's O&M backlog to $131.0 M on April 4, 2022.

During the nine-month period ended March 31, 2022, revenues increased by $23.2 M, or 21.3%, to reach $132.3 M compared to $109.1 M for the comparable period of the previous fiscal year. This increase mainly came from organic revenue growth of $13.0 M, or 11.9%, and acquisition growth of $12.4 M, or 11.3%, offset by an unfavourable USD exchange rate impact of $2.2 M, or 1.9%.

Our business model allows us to improve 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 March 31, 2022, recurring revenues represented 83.4% of the Corporation's total revenues, compared to 82.6% 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 supports the decision to invest in business development and growth of these business pillars. The Corporation's three business pillars feed each other by allowing for cross-selling of products and services to better serve our customers.





GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins [1]	**14,128**	11,081	3,047	27.5	**36,144**	29,943	6,201	20.7
Gross profit margins (%) [1]	**27.2%**	28.3%	-	-	**27.3%**	27.4%	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $14.1 M, or 27.2%, during the third quarter of fiscal year 2022, compared to $11.1 M, or 28.3% for the previous fiscal year, representing an increase of $3.0 M, or 27.5%. The percentage decrease was explained by reduced gross profit margins in the Specialty Products and O&M business pillars, partly compensated by the improved gross profit margin in WTS. Specialty Products and O&M were the business pillars mostly affected by the COVID-19 pandemic, as explained in the section related to the COVID-19 pandemic impact. H_2O Innovation's business model relies on three different business pillars enabling it to reduce the volatility of the Corporation's profitability through diversification.

The Corporation's gross profit margin before depreciation and amortization stood at $36.1 M, or 27.3%, for the nine-month period ended March 31, 2022, compared to $29.9 M, or 27.4% for the same period of last fiscal year, representing an increase of $6.2 M, or 20.7%. The gross profit margin in % remained fairly stable and was driven by improved gross profit margins in Specialty Products, which are characterized by higher gross profit margins, partly compensated by the decreased gross profit margin in the O&M business pillar, compared to the same period of the previous fiscal year.

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

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
SG&A expenses	**9,098**	6,497	2,601	40.0	**23,709**	18,546	5,163	27.8
SG&A expenses of revenues	**17.5%**	16.6%	-	-	**17.9%**	17.0%	-	-

The Corporation's SG&A totalled $9.1 M during the third quarter of fiscal year 2022, compared to $6.5 M for the same period of the previous fiscal year, representing an increase of $2.6 M, or 40.0%, while the revenues of the Corporation increased by 32.6%. 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 additional 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. In addition, the Corporation added resources in the health & safety and human resources departments to better serve our employees. The Corporation also incurred uplisting fees of $0.2 M following the listing of its common shares on the TSX in March 2022. On a sequential basis, the Corporation's SG&A increased by $1.6 M, from $7.5 M in the second quarter of this fiscal year.

The Corporation's SG&A reached $23.7 M for the nine-month period ended March 31, 2022, compared to $18.5 M for the same period of the previous fiscal year, representing an increase of $5.2 M, or 27.8%, while the revenues of the Corporation increased by 21.3%. The increase in SG&A was mainly attributable to similar factors as those of the third quarter. The acquisition of GMP on February 1, 2021, and the acquisition of JCO and EC on December 15, 2021, contributed $1.1 M of this increase.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(8)**	(12)	4	(33.3)	**(26)**	(30)	4	(13.3)
Finance costs	**564**	874	(310)	(35.5)	**1,632**	2,005	(373)	(18.6)
Finance costs - net	**556**	862	(306)	(35.5)	**1,606**	1,975	(369)	(18.7)

Finance costs – net stood at $0.6 M for the third quarter of fiscal year 2022, compared with $0.9 M for the same period of the previous fiscal year. Finance costs – net stood at $1.6 M for the nine-month period ended March 31, 2022, compared with $2.0 M for the same period of the 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. Furthermore, the realized gain recorded in the other comprehensive income (loss) of $0.2 M was reclassified from the consolidated statements of comprehensive earnings to the consolidated statement of earnings included in finance costs as a reclassification adjustment. The net impact of the restructuration on the Corporation's finance costs – net was nil$.

On January 29, 2021, the Corporation entered into a Second Amended and Restated Credit Agreement amending its current credit agreement to add a term facility in an aggregate amount of up to $6.4 M to be used by the Corporation exclusively to refinance specific existing loans. The net impact of the restructuration on the Corporation's finance costs - net was $0.4 M. Excluding the impact of the restructuration of the Corporation's long-term credit facility, the finance costs would have been $0.5 M for the third quarter of fiscal year 2021 and $1.6 M for the nine-month period ended March 31, 2021.

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 March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition and integration costs	**237**	212	25	11.8	**458**	496	(38)	(7.7)

The acquisition and integration costs reached $0.2 M during the third quarter of fiscal year 2022, compared to $0.2 M for the same period of the previous fiscal year. The acquisition and integration costs remained fairly stable at $0.5 M for the nine-month period ended March 31, 2022, compared to $0.5 M for the same period of the previous fiscal year. For fiscal year 2022, the acquisition and integration costs were mostly related to the acquisition of JCO and EC, while they were related to the acquisition of GUS and GMP for fiscal year 2021.

OTHER (GAINS) AND LOSSES – NET

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Other (gains) and losses – net	**411**	1,393	(982)	(70.5)	**895**	2,152	(1,257)	(58.4)

Other (gains) and losses – net stood at $0.4 M for the third quarter of fiscal year 2022, compared with $1.4 M for the same period of the previous fiscal year, representing a decrease of $1.0 M compared to the same quarter of the previous fiscal year. The decrease was primarily driven by the unrealized exchange gain, lower revaluation of the fair value of contingent considerations and no litigation provision for the third quarter of fiscal year 2022.

Other (gains) and losses – net stood at $0.9 M for the nine-month period ended March 31, 2022, compared with $2.2 M for the same period of the previous fiscal year, representing a decrease of $1.3 M compared to the same period of the previous fiscal year. The decrease was primarily driven by the unrealized exchange gain and no litigation provision for fiscal year 2022, partly compensated by higher revaluation of the fair value of contingent considerations.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA[1]	**4,382**	5,347	(965)	(18.0)	**11,082**	11,279	(197)	(1.7)
Adjusted EBITDA[1]	**5,332**	4,513	819	18.1	**13,149**	11,557	1,592	13.8
Adjusted EBITDA (%)[1]	**10.3%**	11.5%	-	-	**9.9%**	10.6%	-	-

The Corporation's adjusted EBITDA increased by $0.8 M, or 18.1%, to reach $5.3 M during the third quarter of fiscal year 2022, from $4.5 M for the comparable period of fiscal year 2021. The adjusted EBITDA % decreased to 10.3% for the

[1] Refer to section "Non-IFRS financial measurements" on page 28 for detailed information about non-IFRS measures used in this MD&A.

third quarter of fiscal year 2022, compared to 11.5% for the same quarter of last fiscal year. The reduction of the adjusted EBITDA % resulted from the decrease in the Corporation's consolidated gross profit margin and the increase of the SG&A ratio in order to grow revenues in the coming years to support the Corporation's three-year strategic plan. The Corporation's profitability has been impacted by the current global consequences of the COVID-19 pandemic, as previously discussed.

The Corporation's adjusted EBITDA increased by $1.5 M, or 13.8%, to reach $13.1 M for the nine-month period ended March 31, 2022, from $11.6 M for the comparable period of fiscal year 2021. The adjusted EBITDA % decreased to 9.9% for the nine-month periods ended March 31, 2022, compared to 10.6% for the same period of last fiscal year, which is mainly explained by the increase of the SG&A ratio.

NET EARNINGS AND ADJUSTED NET EARNINGS

(In thousands of Canadian dollars, except per share data)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings	**1,330**	2,062	(732)	(35.5)	**2,710**	3,314	(604)	(18.2)
Basic net earnings per share	**0.015**	0.026	(0.011)	-	**0.031**	0.042	(0.011)	-
Diluted net earnings per share	**0.014**	0.023	(0.009)	-	**0.030**	0.036	(0.006)	-
Adjusted net earnings[1]	**3,378**	2,181	1,197	54.9	**7,269**	6,014	1,255	20.9
Basic adjusted net earnings per share[1]	**0.038**	0.027	0.011	-	**0.083**	0.077	0.006	-
Diluted adjusted net earnings per share[1]	**0.037**	0.024	0.013	-	**0.079**	0.066	0.013	-

Net earnings amounted to $1.3 M and $0.015 per share for the third quarter of fiscal year 2022 compared to net earnings of $2.1 M and $0.026 per share for the comparable quarter of fiscal year 2021. The variation was impacted by the reduction in gross profit margins, higher depreciation and amortization, lower fair value gain on step acquisition that was compensated by the increase in the Corporation's consolidated revenues, lower other (gains) losses – net, lower tax expenses and lower finance costs – net. Moreover, the SG&A ratio increased from 16.6% to 17.5%.

Net earnings amounted to $2.7 M and $0.031 per share for the nine-month period ended March 31, 2022, compared to net earnings of $3.3 M and $0.042 per share for the comparable period of fiscal year 2021. The variation was impacted by higher depreciation and amortization and lower fair value gain on step acquisition that were compensated by the increase in the Corporation's consolidated revenues, lower other (gains) losses – net, lower tax expenses and lower finance costs – net. Moreover, the SG&A ratio increased from 17.0% to 17.9%.

[1] Refer to section "Non-IFRS financial measurements" on page 28 for detailed information about non-IFRS measures used in this MD&A.

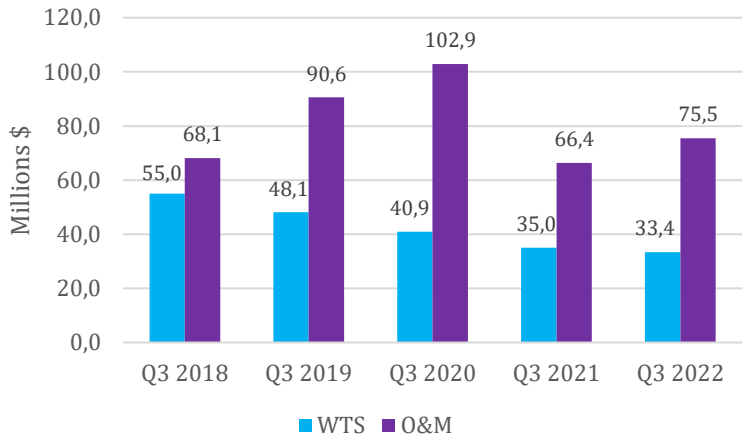
BACKLOG

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 March 31, 2022, the combined backlog of secured contracts between WTS and O&M reached $108.9 M compared to $101.4 M as at March 31, 2021. This combined backlog provides excellent visibility on revenues for the fourth quarter 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 March 31			
	2022	2021	Variation	
	$	$	$	%
WTS	**33,400**	35,000	(1,600)	(4.6)
O&M [1]	**75,500**	66,400	9,100	13.7
Consolidated backlog	**108,900**	101,400	7,500	7.4

[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 a decrease of 4.6%, while having a well-balanced 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 28.1% of the projects being industrial as of March 31, 2022, compared to 34.2% as of March 31, 2021. 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 $75.5 M as at March 31, 2022, representing an increase of 13.7% compared to the $66.4 M backlog as at March 31, 2021, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options. The O&M backlog would have been at $75.9 M, representing an increase of $9.4 M, or 14.2%, 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.

On April 4, 2022, the Corporation announced that it had recently renewed the contract with its largest operation and maintenance customer, the City of Gulfport, Mississippi. The expanded four-year contract, valued at $55.5 M, brought the Corporation's O&M backlog to $131.0 M on April 4, 2022.

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 Section "Non-IFRS financial measurements" on page 28 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the three-month and nine-month periods ended March 31, 2022 and 2021.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**11,892**	10,095	1,797	17.8	**29,442**	23,281	6,161	26.5
Cost of goods sold	**9,151**	8,156	995	12.2	**23,027**	18,234	4,793	26.3
Gross profit margins[1]	**2,741**	1,939	802	41.4	**6,415**	5,047	1,368	27.1
Gross profit margins (%)[1]	**23.0%**	19.2%	-	-	**21.8%**	21.7%	-	-
Selling and general expenses	**1,319**	926	393	42.4	**3,493**	2,560	933	36.4
EBAC[2] from WTS	**1,422**	1,013	409	40.4	**2,922**	2,487	435	17.5
EBAC[2] over revenues from WTS	**12.0%**	10.0%	-	-	**9.9%**	10.7%	-	-

WTS's financial performance for the third quarter of fiscal year 2022 was characterized by a 17.8% growth in revenues and an improvement of the gross profit margins. Most of the revenue growth came from water treatment system projects. Even though revenues from water treatment system projects generally bring lower gross profit margins compared to service activities, the gross profit margin in % has improved from 19.2% for the same quarter of last year to 23.0% for the third quarter of fiscal year 2022. Material costs related to water treatment system projects were impacted negatively by the increased cost of materials because the projects have generally been sold for several months or even years. To mitigate the impact, our sales teams included price adjustment clauses based on inflation indices and increased production costs.

WTS revenues stood at $11.9 M during the third quarter of fiscal year 2022, compared to $10.1 M for the same quarter of last fiscal year, representing a $1.8 M, or 17.8% increase. The increase mainly came from organic revenue growth of water treatment systems projects. WTS revenues stood at $29.4 M for the nine-month period ended March 31, 2022, compared with $23.3 M for the same period of fiscal year, representing an increase of $6.1 M, or 26.5%, driven by organic revenue growth of service activities and water treatment systems projects.

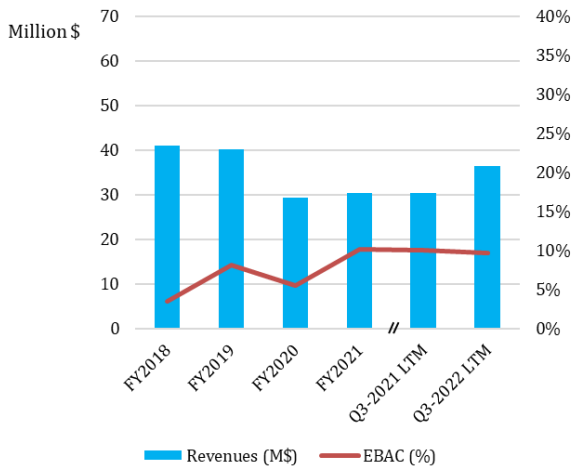
The gross profit margins before depreciation and amortization stood at $2.7 M, or 23.0% for the third quarter of fiscal year 2022, compared with $1.9 M, or 19.2% for the same quarter of last fiscal year. The increase of the gross profit margin in % was explained by improved gross profit margins from water treatment system projects and from service activities, compared to the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $6.4 M, or 21.8% for the nine-month period ended March 31, 2022, compared with $5.0 M, or 21.7% for the same period of last fiscal year, representing an increase of $1.4 M, or 27.1%. The gross profit margin in % remained fairly stable although we have a higher proportion of revenues coming from water treatment systems projects. The projects that progressed during the period were projects with higher gross profit margins. This is in line with the Corporation's three-year strategic plan to prioritize projects with higher gross profit margins along with the result of the efforts made by the execution team to negotiate price adjustment clauses to counter the increased cost of material.

WTS selling and general expenses stood at $1.3 M during the third quarter of fiscal year 2022, compared to $0.9 M, for the same quarter of last fiscal year, representing an increase of $0.4 M. WTS selling and general expenses stood at $3.5 M for the nine-month period ended March 31, 2022, compared to $2.6 M, for the same period of last fiscal year, representing

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to section "Non-IFRS financial measurements." Refer to page 28 for detailed information about non-IFRS measures used in this MD&A.

an increase of $0.9 M. The increase in selling and general expenses was driven primarily by higher labour costs and commissions as well as the resumption of travel. Despite being higher than last year, travel activities remained lower than pre-pandemic.

WTS's EBAC stood at $1.4 M during the third quarter of fiscal year 2022, compared to $1.0 M for the same quarter of last fiscal year, representing an increase of $0.4 M, or 40.4%. The increase of WTS's EBAC in dollars and in percentage was driven by the increase of the gross profit margin in %, partly compensated by the increase in selling and general expenses. WTS's EBAC stood at $2.9 M for the nine-month period ended March 31, 2022, compared to $2.5 M for the same period of last fiscal year, mainly attributable to similar factors as those of the third quarter.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**15,909**	11,810	4,099	34.7	**41,038**	33,586	7,452	22.2
Cost of goods sold	**8,864**	6,400	2,464	38.5	**21,631**	19,049	2,582	13.6
Gross profit margins[1]	**7,045**	5,410	1,635	30.2	**19,407**	14,537	4,870	33.5
Gross profit margins (%)[1]	**44.3%**	45.8%	-	-	**47.3%**	43.3%	-	-
Selling and general expenses	**2,788**	2,163	625	28.9	**7,641**	6,497	1,144	17.6
EBAC[2] from Specialty Products	**4,257**	3,247	1,010	31.1	**11,766**	8,040	3,726	46.3
EBAC[2] over revenues from Specialty Products	**26.8%**	27.5%	-	-	**28.7%**	23.9%	-	-

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's EBAC increased by 31.1% for the third quarter of fiscal year 2022, driven by higher sales coming from specialty chemical products and the Piedmont business line. Specialty Products also faced challenges caused by supply chain issues and logistics. 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 section "Non-IFRS financial measurements." Refer to page 28 for detailed information about non-IFRS measures used in this MD&A.

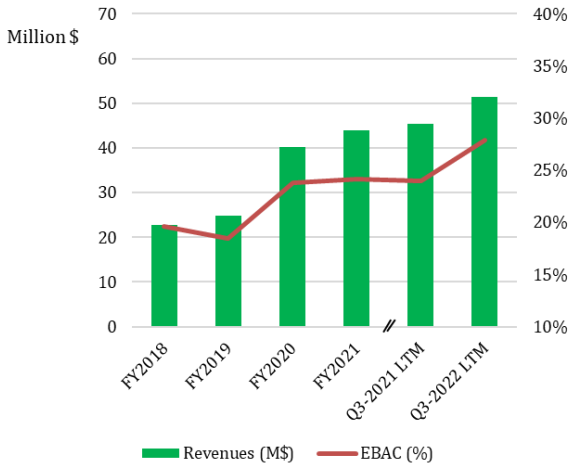
the delay between notification of a cost increase on raw materials and the adjustments to our price lists results in margin dilution.

Specialty Products revenues stood at $15.9 M during the third quarter of fiscal year 2022, compared to $11.8 M for the same quarter of last fiscal year, representing an increase of $4.1 M, or 34.7%, mainly driven by the increase in the Piedmont business line. The acquisition of GMP on February 1, 2021, contributed to the increase of Specialty Products revenues by $0.7 M this quarter. Specialty Products revenues stood at $41.0 M for the nine-month period ended March 31, 2022, compared to $33.6 M for the same period of last fiscal year, representing an increase of $7.4 M, or 22.2%. The increase was mainly driven by the acquisition of GMP, which contributed to the increase of Specialty Products revenues by $5.6 M for the nine-month period ended March 31, 2022, and organic revenue growth from all divisions, partly compensated by the unfavourable USD exchange rate impact of $0.5 M.

The gross profit margins before depreciation and amortization stood at $7.0 M, or 44.3% for the third quarter of fiscal year 2022, compared with $5.4 M, or 45.8% for the same quarter of last fiscal year, representing an increase of $1.6 M in dollars but a decrease of the gross profit margin in %. The decrease of the gross profit margin in % was explained by a higher level of revenue from Piedmont business line, which reduced the proportion of revenue coming from specialty chemical products, which are characterized by higher gross profit margins. Additionally, specialty chemical products' gross profit margins decreased compared to the same quarter of last fiscal year, largely due to global supply chain delays and increased costs of materials. The gross profit margins before depreciation and amortization stood at $19.4 M, or 47.3% for the nine-month period ended March 31, 2022, compared with $14.5 M, or 43.3% for the same period of last fiscal year, representing an increase of $4.9 M 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 chemical products and the addition of GMP.

Specialty Products's selling and general expenses stood at $2.8 M during the third quarter of fiscal year 2022, compared to $2.2 M, for the same quarter of last fiscal year, representing an increase of $0.6 M. The acquisition of GMP contributed $0.1 M of this increase, while the hiring of sales resources and the resumption of travel explained the remaining $0.5 M variation. Specialty Products's selling and general expenses stood at $7.6 M for the nine-month period ended March 31, 2022, compared to $6.5 M, for the same period of last fiscal year, representing an increase of $1.1 M, which is mainly attributable to similar factors as those of the third quarter.

Specialty Products's EBAC stood at $4.3 M during the third quarter of fiscal year 2022, compared to $3.2 M for the same quarter of last fiscal year, representing an increase of $1.1 M, or 31.1%. Specialty Products's EBAC stood at $11.8 M for the nine-month period ended March 31, 2022, compared to $8.0 M for the same period of last fiscal year, representing an increase of $3.8 M, or 46.3%. Specialty Products's 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 March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**24,116**	17,250	6,866	39.8	**61,830**	52,253	9,577	18.3
Cost of goods sold	**19,774**	13,518	6,256	46.3	**51,508**	41,894	9,614	22.9
Gross profit margins[1]	**4,342**	3,732	610	16.3	**10,322**	10,359	(37)	(0.4)
Gross profit margins (%)[1]	**18.0%**	21.6%	-	-	**16.7%**	19.8%	-	-
Selling and general expenses	**1,322**	883	439	49.7	**3,272**	2,579	693	26.9
EBAC[2] from O&M	**3,020**	2,849	171	6.0	**7,050**	7,780	(730)	(9.4)
EBAC[2] over revenues from O&M	**12.5%**	16.5%	-	-	**11.4%**	14.9%	-	-

During the third quarter of fiscal year 2022, the O&M business pillar showed organic revenue growth of 13.4% but was offset by the reduction of the gross profit margin in % partly due to the consequences of the COVID-19 pandemic. In the last twelve months, the O&M business pillar gained four new projects as well as scope expansions. Generally, the start-up of new projects begins at lower gross profit margins because of training and initial setup, and then margins grow progressively. The O&M business pillar was also affected by the pressure on employee salaries due to staff shortage and inflation, employee sick leave related to COVID-19 within the staff and the increases in insurance costs. Since over 70.0% of the Corporation's employees are working for this business pillar, the O&M gross profit margin was more impacted by the consequences of the COVID-19 pandemic on the workforce. 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.

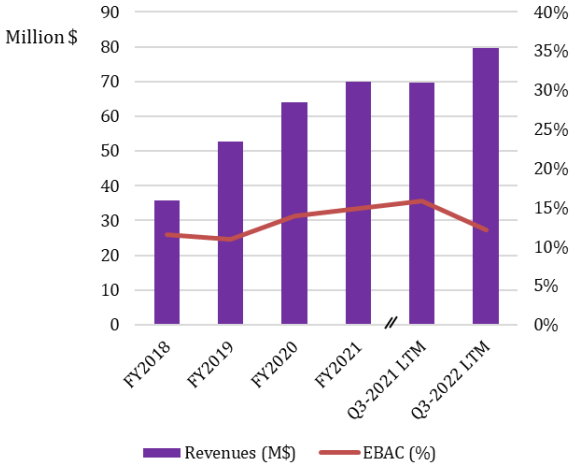
O&M revenues stood at $24.1 M during the third quarter of fiscal year 2022, compared to $17.3 M for the same quarter of last fiscal year, representing an increase of $6.8 M, or 39.8%. The O&M business pillar showed organic revenue growth of $2.3 M this quarter and the acquisition of JCO and EC contributed $4.5 M to O&M revenues. O&M revenues stood at $61.8 M for the nine-month period ended March 31, 2022, compared to $52.3 M for the same period of last fiscal year, representing an increase of $9.5 M, or 18.3%. The acquisition of JCO and EC contributed $5.2 M for the nine-month period ended March 31, 2022. The increase in revenues is also due to organic revenue growth of $6.0 M, or 11.6%, partly compensated by an unfavourable USD exchange rate impact of $1.7 M.

The gross profit margins before depreciation and amortization stood at $4.3 M, or 18.0% for the third quarter of fiscal year 2022, compared with $3.7 M, or 21.6% for the same quarter of last fiscal year, representing an increase of $0.6 M, or 16.3%. The gross profit margin before depreciation and amortization was affected by the increase in labour costs due to overtime hours done to offset the sick leave cases related to COVID-19 as well as increased insurance costs, as explained previously. Additionally, with rising gas prices, the O&M business pillar suffered an increase of $0.1 M compared to the same quarter of last fiscal year. The gross profit margins before depreciation and amortization stood at $10.3 M, or 16.7% for the nine-month period ended March 31, 2022, compared with $10.4 M, or 19.8% for the same period of last fiscal year, representing a decrease of $0.1 M, or 0.4%, driven mostly by the same factors as for the third quarter.

The selling and general expenses stood at $1.3 M during the third quarter of fiscal year 2022, compared to $0.9 M, for the same quarter of last fiscal year, representing an increase of $0.4 M. The increase in selling and general expenses was driven primarily by higher labour costs compared to the same quarter of last fiscal year. The selling and general expenses stood at $3.3 M for the nine-month period ended March 31, 2022, compared to $2.6 M, for the same period of last fiscal year, representing an increase of $0.7 M. This increase in the expenses is mainly attributable to similar factors as those of the third quarter.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to section "Non-IFRS financial measurements." Refer to page 28 for detailed information about non-IFRS measures used in this MD&A.

O&M's EBAC stood at $3.0 M during the third quarter of fiscal year 2022, compared to $2.8 M for the same quarter of last fiscal year, representing an increase of $0.2 M, or 6.0%. The O&M's EBAC for the third quarter of fiscal year 2022 was positively affected by the acquisition of JCO and EC. O&M's EBAC stood at $7.1 M for the nine-month period ended March 31, 2022, compared to $7.8 M for the same period of last fiscal year, representing a decrease of $0.7 M, or 9.4%. The reduction in O&M's EBAC was due primarily to the reduction in gross profit margins 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 nine-month periods ended March 31, 2022, and March 31, 2021, is presented below:

(In thousands of Canadian dollars)	Three-month periods ended March 31				Nine-month periods ended March 31			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Cash flows from operating activities before change in working capital items	**5,007**	3,191	1,816	56.9	**13,337**	8,635	4,702	54.5
Change in working capital items	**123**	6,526	(6,403)	(98.1)	**(11,589)**	1,586	(13,175)	(830.7)
	5,130	9,717	(4,587)	(47.2)	**1,748**	10,221	(8,473)	(82.9)
Interests received / Income taxes received (paid)	**(154)**	12	(166)	(1,383.3)	**(1,608)**	(21)	(1,587)	7,557.1
Cash flows from operating activities	**4,976**	9,729	(4,753)	(48.9)	**140**	10,200	(10,060)	(98.6)
Cash flows used in investing activities	**(3,084)**	(1,634)	(1,450)	88.7	**(26,372)**	(5,371)	(21,001)	391.0
Cash flows from (used in) financing activities	**(459)**	(2,237)	1,778	(79.5)	**17,214**	(1,516)	18,730	(1,235.5)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**148**	304	(156)	(51.3)	**108**	578	(470)	(81.3)
Net change	**1,581**	6,162	(4,581)	(74.3)	**(8,910)**	3,891	(12,801)	(329.0)
Cash – Beginning of period	**4,918**	7,146	(2,228)	(31.2)	**15,409**	9,417	5,992	63.6
Cash – End of period	**6,499**	13,308	(6,809)	(51.2)	**6,499**	13,308	(6,809)	(51.2)

Cash increased by $1.6 M during the third quarter of fiscal year 2022, compared with an increase of $6.2 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 generated $5.0 M for the quarter ended March 31, 2022, compared to $9.7 M of cash flows generated from operating activities during the same period of the previous fiscal year. The variation is mainly explained by the change in working capital items, with significant accounts receivable collected and higher accounts payable during the comparable quarter of the previous fiscal year.

Cash flows from operating activities generated $0.1 M for the nine-month period ended March 31, 2022, compared to $10.2 M of cash flows generated from operating activities during the same period of the previous fiscal year. The variation is mainly explained by the unfavourable changes in working capital items, mostly coming from the increase in inventories and accounts receivable.

Cash Flows from Investing Activities

Investing activities used $3.1 M of cash flows for the quarter ended March 31, 2022, compared to $1.6 M of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation was primarily due to higher acquisition of property, plant and equipment.

Investing activities used $26.4 M of cash flows for the nine-month period ended March 31, 2022, compared to $5.4 M of cash flows used in investing activities during the same period of the previous fiscal year. The cash used in the nine-month period ended March 31, 2022, resulted primarily from the business combinations of JCO and EC amounting to $21.1 M, the purchases of property, plant and equipment, and intangible assets of $4.2 M, and payment of contingent consideration of $1.1 M. In comparison, the cash used in the nine-month period ended March 31, 2021, resulted primarily from the business combinations of GUS and GMP for $3.2 M, the purchases of property, plant and equipment, and intangible assets of $1.2 M, and payment of contingent consideration of $2.0 M, partly offset by dividends from associate of $1.2 M.

Cash Flows from Financing Activities

Financing activities used $0.5 M for the quarter ended March 31, 2022, compared to $2.2 M of cash flows used from financing activities during the comparable quarter of the previous fiscal year. The cash flows for the three-month period ended March 31, 2022, resulted primarily from $0.4 M in long-term debt repayments, $0.4 M of interest paid and $0.6 M in repayments of lease liabilities, partially offset by $0.9 M in proceeds from bank loans, net of related transaction costs. In comparison, the cash flows for the three-month period ended March 31, 2021, resulted primarily from $7.3 M in long-term debt repayments, $3.9 M in repayment of bank loans, $0.6 M of interest paid and $0.5 M in repayments of lease liabilities, partially offset by $6.4 M in proceeds from long-term debt, net of related transaction costs and $3.7 M from warrants exercised.

Financing activities generated $17.2 M for the nine-month period ended March 31, 2022, compared to $1.5 M of cash flows used in financing activities during the same period of the previous fiscal year. The cash flows for the nine-month period ended March 31, 2022, resulted primarily from $30.6 M in proceeds from bank loans, net of related transaction costs, and $5.3 M from warrants exercised, partially offset by $15.7 M in long-term debt repayments, $1.3 M of interest paid and $1.6 M in repayments of lease liabilities. In comparison, the cash flows for the nine-month period ended March 31, 2021, resulted primarily from $8.9 M in long-term debt repayments, $5.5 M in repayment of bank loans, $1.4 M of interest paid and $1.4 M in repayments of lease liabilities, partially offset by $8.4 M in proceeds from long-term debt, net of related transaction costs, $2.1 M in proceeds from bank loans and $5.2 M from warrants exercised.

FINANCIAL POSITION

The following is an analysis of the changes to the Corporation's financial position between March 31, 2022, and June 30, 2021, for selected information:

(In thousands of Canadian dollars)	**March 31, 2022**	June 30, 2021	Variation		Explanations
	$	$	$	%	
Accounts receivable	**30,145**	22,148	7,997	36.1	The increase is mostly attributable to higher revenues (51.9 M for Q3-2022 compared to 35.2 M for Q4-2021, representing an increase of 47.5%), the addition of JCO and EC (increase of 6.8%), and the timing of payments by clients.
Inventories	**13,095**	8,486	4,609	54.3	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 the Specialty Products business pillar along with the increased cost of materials.
Contract assets	**10,024**	7,574	2,450	32.3	The increase is mostly attributable to growth in the WTS business pillar's activities.
Prepaid expenses and deposits	**5,626**	2,868	2,758	96.2	The increase is mainly due to the need to respond to current supply chain matters and to ensure on-time supplier deliveries.
Accounts payable and accrued liabilities	**20,731**	15,466	5,265	34.0	The increase is mainly due to the timing of the payments and purchases compared to June 30, 2021, and to the acquisitions of JCO and EC, which accounted for $0.9 M as at March 31, 2022.
Contract liabilities	**3,870**	3,283	587	17.9	The increase is attributable to the difference between work in progress and project invoicing schedules.
Contingent considerations, including current portion	**8,794**	6,738	2,056	30.5	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, partly compensated by the payment of the contingent consideration related to the business combination of GUS.

The change to the Corporation's financial position between March 31, 2022, and March 31, 2021, for the selected information is summarized as follows:

(In thousands of Canadian dollars)	**March 31, 2022**	March 31, 2021	Variation	
	$	$	$	%
Accounts receivable	**30,145**	20,293	9,852	48.5
Inventories	**13,095**	8,423	4,672	55.5
Contract assets	**10,024**	7,034	2,990	42.5
Prepaids	**5,626**	2,140	3,486	162.9
Accounts payable and accrued liabilities	**20,731**	18,138	2,593	14.3
Contract liabilities	**3,870**	2,804	1,066	38.0

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 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)	**March 31, 2022**	June 30, 2021	Variation	
	$	$	$	%
Bank loans	**30,596**	-	30,596	100.0
Current portion of long-term debt	**367**	2,975	(2,608)	(87.7)
Long-term debt	**544**	12,941	(12,397)	(95.8)
Contingent considerations	**8,794**	6,738	2,056	30.5
Less: Cash	**(6,499)**	(15,409)	8,910	(57.8)
Net debt including contingent considerations [(1)]	**33,802**	7,245	26,557	366.6
Contingent considerations	**8,794**	6,738	2,056	30.5
Net debt excluding contingent considerations ("Net debt") [(1)]	**25,008**	507	24,501	-
Adjusted EBITDA [(1)(2)]	**16,238**	14,646	1,592	10.9
Net debt-to-adjusted-EBITDA ratio [(1)]	**1.54**	0.03	-	-

[(1)] Non-IFRS measure. Refer to section "Non-IFRS financial measurements" on page 28 for detailed information about non-IFRS measures used in this MD&A.
[(2)] Trailing twelve-month adjusted EBITDA.

As at March 31, 2022, the net debt stood at $25.0 M, compared with $0.5 M as at June 30, 2021, representing a $24.5 M increase. This increase was mainly attributable to the financing of the JCO and EC acquisitions on December 15, 2021, and to the unfavourable changes in working capital items.

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 March 31, 2022:

- 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 March 31, 2022, the Corporation was in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2022, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $2.2 M, which expire at various dates through fiscal year 2025. Of these letters of credit, $2.2 M is secured by EDC.

OUTSTANDING SHARES

As at March 31, 2022, 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, the stock-based compensation costs, the fair value gain on step acquisition and the litigation provision. 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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**1,330**	2,062	**2,710**	3,314
Finance costs – net	**556**	862	**1,606**	1,975
Income taxes	**39**	590	**262**	529
Depreciation of property, plant and equipment and right-of-use assets	**938**	789	**2,690**	2,367
Amortization of intangible assets	**1,519**	1,044	**3,814**	3,094
EBITDA	**4,382**	5,347	**11,082**	11,279
Unrealized exchange (gain) loss	**(113)**	(3)	**(665)**	639
Stock-based compensation costs	**330**	39	**823**	121
Changes in fair value of the contingent considerations	**496**	615	**1,451**	719
Acquisition and integration costs	**237**	212	**458**	496
Fair value gain on step acquisition	**-**	(2,347)	**-**	(2,347)
Litigation provision	**-**	650	**-**	650
Adjusted EBITDA	**5,332**	4,513	**13,149**	11,557

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 is used by management to monitor financial performance and to make strategic decisions. 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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized over time	**32,722**	24,066	**81,171**	66,303
Revenue recognized at a point in time	**19,195**	15,089	**51,139**	42,817
	51,917	39,155	**132,310**	109,120
Cost of goods sold	**37,789**	28,074	**96,166**	79,177
Gross profit before depreciation and amortization	**14,128**	11,081	**36,144**	29,943
Selling and general expenses	**5,429**	3,972	**14,406**	11,636
Earnings before administrative costs (EBAC)	**8,699**	7,109	**21,738**	18,307

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, stock-based compensation costs, fair value gain on step acquisition, litigation provision and realized net (gain) loss on swap termination. 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 measures and are used by management to monitor financial performance and to make strategic decisions.

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

(In thousands of Canadian dollars)	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**1,330**	2,062	**2,710**	3,314
Acquisition and integration costs	**237**	212	**458**	496
Amortization of intangible assets related to business combinations	**1,442**	931	**3,549**	2,853
Unrealized exchange (gain) loss	**(113)**	(3)	**(665)**	639
Changes in fair value of the contingent considerations	**496**	615	**1,451**	719
Stock-based compensation costs	**330**	39	**823**	121
Fair value gain on step acquisition	**-**	(2,347)	**-**	(2,347)
Litigation provision	**-**	650	**-**	650
Realized net (gain) loss on interest rate swap termination	**-**	237	**(237)**	237
Income taxes related to above items	**(344)**	(215)	**(820)**	(668)
Adjusted net earnings	**3,378**	2,181	**7,269**	6,014
Adjusted basic EPS	**0.038**	0.027	**0.083**	0.077
Adjusted diluted EPS	**0.037**	0.024	**0.079**	0.066

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" on 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 come from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. Revenues excluded from the definition of "recurring revenue by nature" are coming from water treatment system projects which are characterized by the lumpiness factor. 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 March 31, 2022**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	11,892	15,909	24,116	51,917
Recurring revenues	**3,286**	**15,909**	**24,116**	**43,311**

(In thousands of Canadian dollars)	**Nine-month period ended March 31, 2022**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	29,442	41,038	61,830	132,310
Recurring revenues	**10,101**	**41,038**	**61,830**	**112,969**

(In thousands of Canadian dollars)	Three-month period ended March 31, 2021			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	10,095	11,810	17,250	39,155
Recurring revenues	**3,279**	**11,810**	**17,250**	**32,339**

(In thousands of Canadian dollars)	Nine-month period ended March 31, 2021			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	23,281	33,586	52,253	109,120
Recurring revenues	**9,231**	**33,586**	**52,253**	**95,070**

ORGANIC REVENUE GROWTH

Organic revenue is a non-IFRS financial measure corresponding to the amount of revenue of a given period, excluding the effect of acquisitions and foreign currency changes of the same period. This non-IFRS measure is used to analyze the level of activity of the Corporation, excluding the effect of certain transactions and the impact of foreign exchange fluctuations in order to facilitate period-to-period comparisons, as well as comparison with peers. Organic revenue growth is a non-IFRS ratio calculated by comparing the amount of organic revenue of a given period with the amount of revenue of the comparative period. Neither organic revenue and organic revenue growth have a standardized definition within IFRS, and other issuers may define these measures differently. Accordingly, these measures may not be comparable to similar measures used by other issuers.

Three-month period ended March 31, 2022
(In thousands of Canadian dollars)

	2022 Revenues	2021 Revenues	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	$	$	$	%	$	%	$	%	$	%
WTS	**11,892**	10,095	1,797	17.8	-	-	-	-	1,797	17.8
Specialty Products	**15,909**	11,810	4,099	34.7	1	0.0	2,238	19.0	1,860	15.7
O&M	**24,116**	17,250	6,866	39.8	3	0.0	4,543	26.3	2,320	13.4
Total revenues	**51,917**	39,155	12,762	32.6	4	0.0	6,781	17.3	5,977	15.3

Nine-month period ended March 31, 2022
(In thousands of Canadian dollars)

	2022 Revenues	2021 Revenues	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	$	$	$	%	$	%	$	%	$	%
WTS	**29,442**	23,281	6,161	26.5	-	-	-	-	6,161	26.5
Specialty Products	**41,038**	33,586	7,452	22.2	(487)	(1.5)	7,132	21.2	807	2.4
O&M	**61,830**	52,253	9,577	18.3	(1,717)	(3.3)	5,230	10.0	6,064	11.6
Total Revenues	**132,310**	109,120	23,190	21.3	(2,204)	(1.9)	12,362	11.3	13,032	11.9

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. These documents 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 dated 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 March 31, 2022.

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 March 31, 2022, did not include the controls or procedures of the operations of JCO and EC, following their 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 JCO following its acquisition:

(In thousands of Canadian dollars) (unaudited)	Three-month period ended March 31, 2022	Nine-month period ended March 31, 2022
Results	**$**	**$**
Revenues	2,598	2,962
Net loss	57	7

Financial Position	**As at March 31, 2022** **$**
Current Assets	1,075
Non-Current Assets [1]	16,502
Current Liabilities	551
Non-Current Liabilities	137

[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 March 31, 2022	Nine-month period ended March 31, 2022
Results	**$**	**$**
Revenues	1,945	2,268
Net Earnings	215	238

	As at March 31, 2022
Financial Position	**$**
Current Assets	1,821
Non-Current Assets [1]	7,511
Current Liabilities	483
Non-Current Liabilities	36

[1] includes fair market value of acquired intangible assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2022

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: 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	March 31, 2022	June 30, 2021
	$	$
ASSETS (notes 7 and 8)		
Current assets		
Cash	**6,499**	15,409
Accounts receivable (note 4)	**30,145**	22,148
Inventories (note 5)	**13,095**	8,486
Contract assets	**10,024**	7,574
Prepaid expenses and deposits	**5,626**	2,868
	65,389	56,485
Non-current assets		
Property, plant and equipment	**8,351**	5,657
Intangible assets	**46,774**	33,131
Right-of-use assets	**11,434**	10,094
Other assets	**164**	200
Related party loans receivable (note 14 a)	**1,250**	1,250
Goodwill (note 3)	**39,016**	30,209
Deferred income tax assets	**428**	76
	172,806	137,102
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	**20,731**	15,466
Income taxes payable	**40**	508
Provisions	**319**	644
Contract liabilities	**3,870**	3,283
Contingent considerations (note 9)	**8,794**	4,026
Current portion of long-term debt (note 8)	**367**	2,975
Current portion of lease liabilities	**1,747**	1,636
	35,868	28,538
Non-current liabilities		
Bank loans (note 7)	**30,596**	-
Long-term debt (note 8)	**544**	12,941
Other non-current financial liabilities (note 8)	**216**	261
Contingent consideration (note 9)	**-**	2,712
Deferred income tax liabilities	**4,924**	3,937
Lease liabilities	**10,622**	9,318
	82,770	57,707
SHAREHOLDERS' EQUITY		
Share capital	**128,335**	119,780
Reserve – Stock options	**4,549**	3,726
Reserve – Warrants	**7**	679
Deficit	**(42,482)**	(45,192)
Accumulated other comprehensive income (loss)	**(373)**	402
	90,036	79,395
	172,806	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 nine-month periods ended March 31, 2022 and 2021
(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	-	-	121	-	-	-	121
Net earnings for the period	-	-	-	-	3,314	-	3,314
Shares issued on warrants exercised	4,187,102	6,234	-	(1,060)	-	-	5,174
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	(3,306)	(3,306)
Other comprehensive income (loss) – Net gain on cash flow hedges reclassified to consolidated statement of earnings	-	-	-	-	-	237	237
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	-	-	-	-	-	130	130
Balance as at March 31, 2021	81,059,710	113,106	3,594	1,646	(44,997)	934	74,283
Balance as at July 1, 2021	**85,137,204**	**119,780**	**3,726**	**679**	**(45,192)**	**402**	**79,395**
Stock-based compensation costs	**-**	**-**	**823**	**-**	**-**	**-**	**823**
Net earnings for the period	**-**	**-**	**-**	**-**	**2,710**	**-**	**2,710**
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	**-**	**-**	**-**	**-**	**-**	**(741)**	**(741)**
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	**-**	**-**	**-**	**-**	**-**	**203**	**203**
Other comprehensive income (loss) – Net loss on cash flow hedges reclassified to consolidated statement of earnings (note 8)	**-**	**-**	**-**	**-**	**-**	**(237)**	**(237)**
Balance as at March 31, 2022	**90,007,408**	**128,335**	**4,549**	**7**	**(42,482)**	**(373)**	**90,036**

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
For the three-month and nine-month periods ended March 31, 2022 and 2021
(in thousands of Canadian dollars, except per share data) (Unaudited)

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenues (note 13)	**51,917**	39,155	**132,310**	109,120
Cost of goods sold (note 11 a)	**37,789**	28,074	**96,166**	79,177
Gross profit before depreciation and amortization	**14,128**	11,081	**36,144**	29,943
Selling, general and administrative expenses (note 11 a)	**9,098**	6,497	**23,709**	18,546
Depreciation of property, plant and equipment and right-of-use assets (note 11 b)	**938**	789	**2,690**	2,367
Amortization of intangible assets (note 11 b)	**1,519**	1,044	**3,814**	3,094
Other (gains) and losses – net (note 11 c)	**411**	1,393	**895**	2,152
Acquisition and integration costs (note 3)	**237**	212	**458**	496
Operating costs total	**12,203**	9,935	**31,566**	26,655
Operating profit	**1,925**	1,146	**4,578**	3,288
Finance income (note 14 a)	**(8)**	(12)	**(26)**	(30)
Finance costs	**564**	874	**1,632**	2,005
Finance costs – net	**556**	862	**1,606**	1,975
Share of profit of an associate	**-**	21	**-**	183
Fair value gain on step acquisition (note 3 b)	**-**	2,347	**-**	2,347
Earnings before income taxes	**1,369**	2,652	**2,972**	3,843
Current income tax expense	**373**	699	**1,196**	954
Deferred tax recovery	**(334)**	(109)	**(934)**	(425)
	39	590	**262**	529
Net earnings for the period	**1,330**	2,062	**2,710**	3,314
Basic net earnings per share (note 12)	**0.015**	0.026	**0.031**	0.042
Diluted net earnings per share (note 12)	**0.014**	0.023	**0.030**	0.036
Weighted average number of shares outstanding – Basic (note 12)	**90,007,408**	79,891,177	**87,585,152**	78,200,109
Weighted average number of shares outstanding – Diluted (note 12)	**92,310,742**	91,233,759	**91,631,548**	91,233,758

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
For the three-month and nine-month periods ended March 31, 2022 and 2021
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended March 31		**Nine-month periods ended March 31**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**1,330**	2,062	**2,710**	3,314
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**(1,093)**	(803)	**(741)**	(3,306)
Cash flow hedges net gains arising during the period (net of tax)	**-**	51	**203**	130
Net loss (gain) on cash flow hedges reclassified to consolidated statement of earnings (note 8)	**-**	237	**(237)**	237
Comprehensive earnings for the period	**237**	1,547	**1,935**	375

See accompanying notes to consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month and nine-month periods ended March 31, 2022 and 2021
(in thousands of Canadian dollars) (Unaudited)

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Operating activities				
Earnings before income taxes for the period	**1,369**	2,652	**2,972**	3,843
Non-cash items				
Finance costs – net	**556**	862	**1,606**	1,975
Depreciation of property, plant and equipment and right-of-use assets	**938**	789	**2,690**	2,367
Amortization of intangible assets	**1,519**	1,044	**3,814**	3,094
Fair value gain on step acquisition (note 3 b)	**-**	(2,347)	**-**	(2,347)
Changes in fair value of contingent considerations (note 9)	**496**	615	**1,451**	719
Others	**44**	-	**153**	-
Net unrealized foreign exchange differences	**(245)**	(442)	**(172)**	(954)
Stock-based compensation costs	**330**	39	**823**	121
Share of profit of an associate	**-**	(21)	**-**	(183)
	5,007	3,191	**13,337**	8,635
Change in working capital items	**123**	6,526	**(11,589)**	1,586
Interests received	**8**	12	**26**	30
Income taxes paid	**(162)**	-	**(1,634)**	(51)
Net cash flows from operating activities	**4,976**	9,729	**140**	10,200
Investing activities				
Variation of other assets	**-**	(21)	**36**	(231)
Acquisition of property, plant and equipment	**(2,076)**	(335)	**(3,517)**	(928)
Acquisition of intangible assets	**(254)**	(179)	**(671)**	(244)
Payment of contingent consideration (note 9)	**(1,093)**	(528)	**(1,093)**	(1,969)
Business combination, net of cash acquired (note 3)	**339**	(571)	**(21,127)**	(3,194)
Dividends from associate	**-**	-	**-**	1,195
Net cash flows used in investing activities	**(3,084)**	(1,634)	**(26,372)**	(5,371)
Financing activities				
Proceeds from bank loans (note 7)	**921**	-	**30,801**	2,060
Repayment of bank loans	**-**	(3,945)	**-**	(5,475)
Net proceeds from long-term debt contracted (note 8)	**-**	6,410	**-**	8,510
Long-term debt reimbursement (note 8)	**(384)**	(7,306)	**(15,722)**	(8,871)
Payment of lease liabilities	**(566)**	(461)	**(1,588)**	(1,358)
Interest paid	**(430)**	(597)	**(1,324)**	(1,430)
Financing costs	**-**	(52)	**(204)**	(126)
Warrants exercised	**-**	3,714	**5,267**	5,174
Share issue expenses	**-**	-	**(16)**	-
Net cash flows from (used in) financing activities	**(459)**	(2,237)	**17,214**	(1,516)
Net change in cash	**1,433**	5,858	**(9,018)**	3,313
Effect of exchange rate changes on the balance of cash held in foreign currencies	**148**	304	**108**	578
Increase (decrease) in cash	**1,581**	6,162	**(8,910)**	3,891
Cash – Beginning of period	**4,918**	7,146	**15,409**	9,417
Cash – End of period	**6,499**	13,308	**6,499**	13,308

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 nine-month period ended March 31, 2022. 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 May 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 March 31, 2022. 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$0.2 M) by management as at March 31, 2022.

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 Q2-2022	Adjustments Q3-2022	Preliminary Allocation – JCO	Preliminary Allocation – EC	Preliminary Allocation – Total
	$	$	$	$	$
Assets acquired					
Cash	729	-	**487**	**242**	**729**
Accounts receivable [1]	1,717	(7)	**787**	**923**	**1,710**
Contract assets	244	(5)	**62**	**177**	**239**
Prepaid expenses	137	-	**14**	**123**	**137**
Property, plant and equipment	726	(136)	**506**	**84**	**590**
Right-of-use assets [2]	166	-	**74**	**92**	**166**
Intangible assets	161	(20)	**141**	**-**	**141**
Other assets	3	-	**-**	**3**	**3**
Liabilities assumed					
Accounts payable and accrued liabilities	(597)	(86)	**(332)**	**(351)**	**(683)**
Lease liabilities [2]	(166)	-	**(74)**	**(92)**	**(166)**
Contract liabilities	(438)	(21)	**(399)**	**(60)**	**(459)**
Long-term debt	(480)	-	**(480)**	**-**	**(480)**
Deferred tax liabilities	(1,609)	(48)	**-**	**(1,657)**	**(1,657)**
Identifiable net tangible assets acquired	593	(323)	**786**	**(516)**	**270**
Intangible assets acquired [3]	16,722	309	**10,855**	**6,176**	**17,031**
Goodwill arising on acquisition [3]	8,923	43	**5,780**	**3,186**	**8,966**
Fair value of identifiable net assets acquired	26,238	29	**17,421**	**8,846**	**26,267**
Consideration					
Cash	22,195	-			**22,195**
Contingent considerations	1,745	-			**1,745**
Issuance of common shares	2,641	-			**2,641**
Working capital adjustment	(343)	29			**(314)**
Total consideration payable	26,238	29			**26,267**
Cash consideration paid					**22,195**
Working capital adjustment received					**(339)**
Less: Cash acquired					**(729)**
Net cash flow on acquisition					**21,127**

(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 $246 were expensed and are included in acquisition and integration costs in the condensed interim 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 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 $8,966 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 period ended March 31, 2022 include $4,543 in revenues and net earnings of $158 generated from JCO and EC additional business. For the nine-month period ended March 31, 2022, the Corporation's net earnings include $5,230 in revenues and net earnings of $231 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 nine-month period ended March 31, 2022 would have reached $140,529, while the consolidated net earnings for the same period would have been $2,973.

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 nine-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.

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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.

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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.

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

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash	**121**
Accounts receivable [1]	**467**
Inventory	**146**
Contract assets	**253**
Prepaid expenses and deposits	**19**
Property, plant and equipment	**503**
Right-of-use assets [2]	**151**
Other assets	**119**
Liabilities assumed	
Accounts payable and accrued liabilities	**(329)**
Lease liabilities [2]	**(151)**
Deferred tax liabilities	**(524)**
Identifiable net tangible assets acquired	**775**
Intangible assets acquired	
Customer relationships	**2,362**
Goodwill arising on acquisition	**571**
Fair value of identifiable net assets acquired	**3,708**
Consideration	
Cash	**2,546**
Contingent consideration	**964**
Working capital adjustment	**198**
Total consideration payable	**3,708**
Cash consideration paid	**2,546**
Working capital adjustment paid	**198**
Less: Cash acquired	**(121)**
Net cash flow on acquisition	**2,623**

(1) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable, with no amount of estimated uncollectible amount.
(2) The Corporation measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

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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)	**8,966**
Effect of foreign exchange differences	**(159)**
Balance as at March 31, 2022	**39,016**

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4. Accounts receivable

As at	March 31, 2022	June 30, 2021
	$	$
Trade accounts receivable	**27,065**	19,281
Hold back from customers under manufacturing contracts	**3,148**	2,818
Allowance for expected credit losses	**(177)**	(220)
	30,036	21,879
Other receivables	**109**	269
	30,145	22,148

5. Inventories

As at	March 31, 2022	June 30, 2021
	$	$
Raw materials	**2,681**	1,297
Work in progress	**558**	412
Finished goods	**9,856**	6,777
	13,095	8,486

6. Accounts payable and accrued liabilities

As at	March 31, 2022	June 30, 2021
	$	$
Trade accounts payable	**10,533**	5,356
Other accrued liabilities	**10,198**	10,110
	20,731	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
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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 $30.6 M was used as at March 31, 2022 ($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. $10.6 M bearing interest at Banker Acceptance plus 2.25% (3.06% as at March 31, 2022);
   b. $1.8 M bearing interest at CDN prime rate plus 1.00% (3.70% as at March 31, 2022);
   c. US$12.5 M ($15.6 M as at March 31, 2022) bearing interest at US$ Libor plus 2.25% (2.54% as at March 31, 2022); and
   d. US$2.2 M ($2.8 M as at March 31, 2022) bearing interest at US$ base rate plus 1.00% (5.00% as at March 31, 2022).

(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 $2.2 M ($1.9 M as at June 30, 2021) was used on this credit facility as at March 31, 2022.

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 March 31, 2022 ($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 March 31, 2022 ($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 March 31, 2022, 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	**March 31, 2022**	June 30, 2021
	$	$
At amortized cost		
Loans denominated in Canadian dollars (a)(b)(e)	**-**	14,944
Loans denominated in US dollars (c)	**788**	769
Loans denominated in Canadian dollars (d)	**123**	203
	911	15,916
Less: Current portion	**367**	2,975
Long-term debt	**544**	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 $1,240 (US$992) 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 $24 (US$19), principal and interest, and are maturing through January 2023 to April 2026.

As part of the acquisition of JCO, the Corporation 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. As at March 31, 2022, the Corporation had repaid some of these loans, totaling $296 (US$237).

(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 March 31, 2022, 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	**1,451**
Less: Payment of contingent considerations	**(1,093)**
Effect of foreign exchange differences	**(47)**
Balance as at March 31, 2022	**8,794**
Less: Current portion	**8,794**
Contingent consideration – non-current portion	**-**

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 $330 for the three-month period ended March 31, 2022 and $823 for the nine-month period ended March 31, 2022 ($39 for the three-month period ended March 31, 2021 and $121 for the nine-month period ended March 31, 2021).

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11. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Material	**19,927**	15,608	**48,886**	41,851
Salaries and fringe benefits	**19,717**	13,826	**51,453**	41,977
Subcontractors and professional fees	**2,970**	2,204	**8,357**	6,020
Rent, electricity, insurance and office expenses	**1,352**	948	**3,580**	2,901
Telecommunications and travel expenses	**1,016**	455	**2,418**	1,394
Expected credit loss expenses	**(14)**	3	**3**	17
Share based compensation	**330**	39	**823**	121
Other expenses	**1,589**	1,488	**4,355**	3,442
Total cost of goods sold, operating, selling and administrative expenses	**46,887**	34,571	**119,875**	97,723
Depreciation of property, plant and equipment and right-of-use assets	**938**	789	**2,690**	2,367
Amortization of intangible assets	**1,519**	1,044	**3,814**	3,094
Costs including depreciation and amortization	**49,344**	36,404	**126,379**	103,184

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 nine-month periods ended March 31, 2022 and 2021; 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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**673**	522	**1,897**	1,550
Selling, general and administrative expenses	**265**	267	**793**	817
	938	789	**2,690**	2,367

Amortization of intangible assets by function	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**55**	55	**166**	171
Selling, general and administrative expenses	**1,464**	989	**3,648**	2,923
	1,519	1,044	**3,814**	3,094

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Cost per function including depreciation and amortization	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**38,517**	28,651	**98,229**	80,898
Selling, general and administrative expenses	**10,827**	7,753	**28,150**	22,286
	49,344	36,404	**126,379**	103,184

c) Other (gains) and losses – net

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	**$**
Unrealized exchange (gain) loss	**(113)**	(3)	**(665)**	639
Realized exchange loss	**71**	153	**164**	186
Other (gains) and losses – net	**(43)**	(22)	**(55)**	(42)
Changes in fair value of contingent considerations	**496**	615	**1,451**	719
Litigation provision	**-**	650	**-**	650
	411	1,393	**895**	2,152

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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
Net earnings	**$1,330**	$2,062	**$2,710**	$3,314
Basic weighted average number of share outstanding	**90,007,408**	79,891,177	**87,585,152**	78,200,109
Effects of dilution from:				
Warrants if not anti-dilutive	**-**	9,039,248	**1,743,062**	10,730,315
Stock options if not anti-dilutive	**2,303,334**	2,303,334	**2,303,334**	2,303,334
Weighted average number of share outstanding adjusted for the effect of dilution	**92,310,742**	91,233,759	**91,631,548**	91,233,758
Basic net earnings per share	**$0.015**	$0.026	**$0.031**	$0.042
Diluted net earnings per share	**$0.014**	$0.023	**$0.030**	$0.036

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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
Stock options	**1,629,000**	-	**1,629,000**	-

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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 March 31, 2022			
	WTS $	Specialty Products $	O&M $	Total $
Revenue from external customers:				
Revenue recognized over time	8,606	-	24,116	32,722
Revenue recognized at a point in time	3,286	15,909	-	19,195
	11,892	15,909	24,116	51,917
Cost of goods sold	9,151	8,864	19,774	37,789
Gross profit before depreciation and amortization	2,741	7,045	4,342	14,128
Selling and general expenses	1,319	2,788	1,322	5,429
Earnings before administrative costs and other items listed below (EBAC)	1,422	4,257	3,020	8,699
Administrative costs				3,669
Depreciation of property, plant and equipment and right-of-use assets				938
Amortization of intangible assets				1,519
Other (gains) and losses – net				411
Acquisition and integration costs				237
Finance costs – net				556
Earnings before income taxes				1,369

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

	For the nine-month period ended March 31, 2022			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**19,341**	-	**61,830**	**81,171**
Revenue recognized at a point in time	**10,101**	**41,038**	-	**51,139**
	29,442	**41,038**	**61,830**	**132,310**
Cost of goods sold	**23,027**	**21,631**	**51,508**	**96,166**
Gross profit before depreciation and amortization	**6,415**	**19,407**	**10,322**	**36,144**
Selling and general expenses	**3,493**	**7,641**	**3,272**	**14,406**
Earnings before administrative costs and other items listed below (EBAC)	**2,922**	**11,766**	**7,050**	**21,738**
Administrative costs				**9,303**
Depreciation of property, plant and equipment and right-of-use assets				**2,690**
Amortization of intangible assets				**3,814**
Other (gains) and losses – net				**895**
Acquisition and integration costs				**458**
Finance costs – net				**1,606**
Earnings before income taxes				**2,972**

	For the three-month period ended March 31, 2021			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	6,816	-	17,250	24,066
Revenue recognized at a point in time	3,279	11,810	-	15,089
	10,095	11,810	17,250	39,155
Cost of goods sold	8,156	6,400	13,518	28,074
Gross profit before depreciation and amortization	1,939	5,410	3,732	11,081
Selling and general expenses	926	2,163	883	3,972
Earnings before administrative costs and other items listed below (EBAC)	1,013	3,247	2,849	7,109
Administrative costs				2,525
Depreciation of property, plant and equipment and right-of-use assets				789
Amortization of intangible assets				1,044
Other (gains) and losses – net				1,393
Acquisition and integration costs				212
Share of profit of an associate				(21)
Fair value gain on step acquisition				(2,347)
Finance costs – net				862
Earnings before income taxes				2,652

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	For the nine-month period ended March 31, 2021			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenue from external customers:				
Revenue recognized over time	14,050	-	52,253	66,303
Revenue recognized at a point in time	9,231	33,586	-	42,817
	23,281	33,586	52,253	109,120
Cost of goods sold	18,234	19,049	41,894	79,177
Gross profit before depreciation and amortization	5,047	14,537	10,359	29,943
Selling and general expenses	2,560	6,497	2,579	11,636
Earnings before administrative costs and other items listed below (EBAC)	2,487	8,040	7,780	18,307
Administrative costs				6,910
Depreciation of property, plant and equipment and right-of-use assets				2,367
Amortization of intangible assets				3,094
Other (gains) and losses – net				2,152
Acquisition and integration costs				496
Share of profit of an associate				(183)
Fair value gain on step acquisition				(2,347)
Finance costs – net				1,975
Earnings before income taxes				3,843

Geographical information

	Three-month periods ended March 31		**Nine-month periods ended March 31**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenues from external customers				
Revenue according to geographic area				
Americas:				
Canada	**7,278**	6,232	**16,352**	15,425
United States	**36,124**	26,267	**90,807**	73,220
Chile	**705**	487	**2,391**	1,529
Other Latin America countries	**825**	664	**2,786**	1,035
Europe:				
United Kingdom	**339**	465	**938**	1,053
Spain	**1,693**	426	**3,534**	900
Others	**989**	1,099	**2,297**	1,781
Middle East and Africa:				
Saudi Arabia	**318**	217	**2,073**	2,840
United Arab Emirates	**509**	349	**1,360**	2,957
Other Middle East countries	**545**	466	**1,638**	1,581
Africa	**854**	719	**2,507**	2,728
Asia Pacific:				
China	**696**	1,135	**2,232**	2,156
Others	**1,042**	629	**3,395**	1,915
	51,917	39,155	**132,310**	109,120

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

As at	March 31, 2022	June 30, 2021
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**7,098**	6,253
United States	**59,271**	34,749
United Kingdom	**27,052**	25,344
Spain	**11,963**	12,535
Chile	**191**	210
	105,575	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 $2,500 as at March 31, 2022 ($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 March 31, 2022 and $19 for the nine-month period ended March 31, 2022 ($6 for the three-month period ended March 31, 2021 and $19 for the nine-month period ended March 31, 2021).

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 March 31		Nine-month periods ended March 31	
	2022	2021	**2022**	2021
	$	$	**$**	$
Short-term benefits [1]	**436**	373	**1,738**	1,584
Post-employment benefits [2]	**55**	48	**171**	130
Share-based payments	**216**	39	**650**	121
Long-term incentive plan	**43**	-	**130**	-
	750	460	**2,689**	1,835

(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.

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

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

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