ANNUAL REPORT

Fiscal year ended June 30, 2022

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.

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A WORD FROM THE PRESIDENT

ESG[1] for real...

Our fiscal year 2022 was marked by a remarkable growth of 27.7%. Such growth is the result not only of the three acquisitions completed in the year, but most importantly of a 18% organic growth that we generated during our last fiscal year. These results testify to all the investments we have done according to our three-year strategic plan, the growing needs for clean, safe and reused water and the increasing demand for ESG-related products and business solutions.

In the 22 years since its foundation, H_2O Innovation has never experienced such a positive momentum in all its business lines. Our vision to Simplify Water is well-aligned with the challenges that our customers are facing, such as more stringent regulations, the new emphasis on certain contaminants (PFAS, micro-plastics, etc.) and the water scarcity, which is accelerated by climate changes. The water-treatment-solution company we are currently building will not only have a financial impact on the following quarter of our next fiscal year, but it will also benefit millions of people today and the following generations. The way communities are sourcing water is shifting: wastewater stream is no longer considered waste, but rather as a feed stream that can be recycled for industrial applications, irrigation, water reservoir augmentation, and even drinking water production. Without water, countries and governments cannot ensure food security or energy autonomy. Even though we cannot put a global price on water, it is clearly becoming the most precious commodity of all. We cannot afford to waste any more of it: it must be treated and reused.

Despite the ongoing pandemic, and tariffs arising from geopolitical conflicts and the war in Ukraine, which have all impacted the global supply chain and logistics, our business was able to generate an impressive growth. Among the key business achievements in fiscal year 2022, we successfully renewed and expanded our largest operation, maintenance and management (O&M) contract, adding $56 M to our combined backlog, which stood at $163 M as of June 30, 2022. This combined backlog is composed of long-term O&M contracts and capital equipment projects. This backlog allows us to have good visibility on the upcoming quarters and puts the Corporation in a good position to continue to generate organic growth.

The derailment of the supply chain and logistics combined with the hard labor market caused higher inflation on materials, transport, gas, and wages. Recruiting and retaining employees and mobilizing the team while growing revenues and improving profitability became an amazing puzzle to resolve. Hence, to create a safe and attractive environment for our workforce, and to create value for our customers by offering them a talented team, we decided to establish a minimum wage of US $15/hour for all. We also added personal wellness days to our benefits package to show our commitment towards mental health and work-life balance. Along the same lines, we expanded our health and safety (HSE) team with trained professionals who will help us achieve our ambitious HSE goals. At H_2O Innovation, our ESG plan and objectives are for real. We walk the talk, and we do not think short-term. On the one hand, these investments and initiatives are certainly impacting our cost structure momentarily. On the other hand, by reducing the employee turnover and by improving our incident rates, we will become more efficient, and will better serve our customers, which in return will position H_2O Innovation as the partner of choice for operating their water utilities. Ultimately, this will impact positively our profitability and our ability to grow in the long run.

[1] Environmental, Social and Governance

We also did several investments that should pay off in the coming years. We expanded our specialty chemicals manufacturing plant in Cheshire, United Kingdom due to significant growth in demand for both Genesys and PWT powdered membrane cleaners. The compact volume of the powdered cleaners reduces freight costs and causes less CO_2 emissions compared to equivalent products in liquid form. We also remodeled the office in Vista, California, by expanding the warehouse and the specialty chemicals manufacturing plant and by modernizing the laboratory. Lastly, we added 7 people to support the growing sales coming from our international distribution network of Specialty Products and to increase the level of sales of our Water Technologies & Services (WTS) business pillar to industrial customers.

We completed three acquisitions throughout the last fiscal year. In December 2021, we acquired JCO Inc. and Environmental Consultants L.L.C., two companies offering operation and maintenance services in the State of New York, USA, which acquisitions brought significant sales synergies with our WTS business line. In June 2022, we announced the acquisition of substantially all of the assets of Leader Evaporator Co. Inc., a maple farming equipment company located in Vermont, USA, adding more products and distribution footprint in the Northeast United States as well as a large manufacturing facility. Globally, all these investments combined to the sustained demand for our products and solutions are expected to fuel organic growth in the coming quarters.

Finally, with respect to our three-year strategic plan, we are confident to achieve our targeted revenues and EBITDA figures for the fiscal year ending on June 30, 2023. We continue to strive towards our 10 key strategic objectives, which we announced in December 2021. Moreover, we remain focused on the proper integration of our acquired companies in order to gain operational efficiency and capture business synergies. Our mergers and acquisition agenda remains the same, framed by a disciplined approach, reasonable valuation multiples and high-potential business synergies.

H_2O Innovation is currently accelerating its transition among the dominant players of the global water industry while the world is looking for sustainable solutions to resolve water problems for good. Our journey through this growth phase has just started.

Thank you for your continuous trust.

Frédéric Dugré
President & CEO

H_2O INNOVATION AT A GLANCE

As a complete solution provider, H_2O Innovation designs, manufactures and commissions customized membrane water treatment systems and provides operation and maintenance services as well as a complete line of specialty products such as chemicals, consumables, couplings, fittings and cartridge filters for multiple markets. In addition, H_2O Innovation provides a full range of maple equipment and related-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 (O&M), H_2O Innovation is well positioned to address the needs that a customer may have and to **maximize customer retention.**

As part of our 3-year strategic plan which defines key strategic objectives, we have set the Corporation 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.

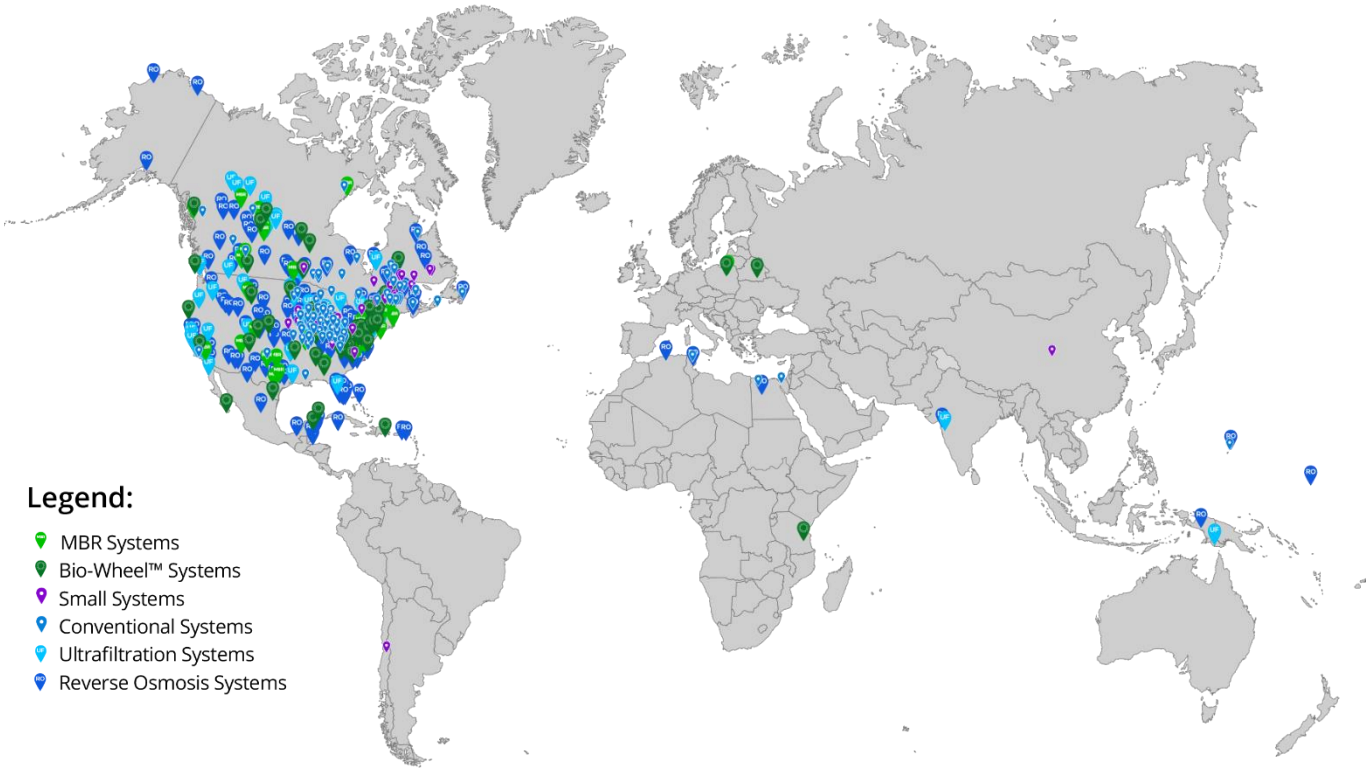
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
≈1,000 (compared to +700 as of June 30, 2021)	**+750**	**+75**	**+600** (compared to +275 as of June 30, 2021)

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 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



WTS BUSINESS PILLAR HIGHLIGHTS

- Throughout the 2022 fiscal year, the WTS business pillar continued its industrial diversification with multiple industrial projects, notably for the largest electric vehicle manufacturing in the U.S., as well as a variety of municipal capital equipment projects for drinking water, wastewater and water reuse. On June 30, 2022, the capital equipment projects for industrial customers represented 32% of the backlog, whereas 68% were dedicated to municipal customers.

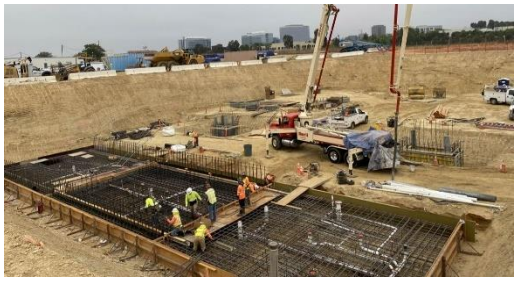
- Throughout the year, the WTS team was awarded more than **15** new water reuse, wastewater, desalination and water projects, totaling $26.7 M, pushing the project and equipment backlog to $36.6 M at the end of June 30, 2022.

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

- In December 2021, the San Diego's flagship **water reuse** project, which was temporarily suspended, resumes its course. The contract value went from $8.8 M in 2017 to $11.2 M due to change orders and price adjustments related to the inflation of raw material costs.

PROJECTS EXECUTION UPDATE

ENGINEERING	FABRICATION	COMMISSIONING	PILOTING
36 (+2)	**13** (+9)	**9** (-2)	**2** (-2)



SPECIALTY PRODUCTS ("SP")

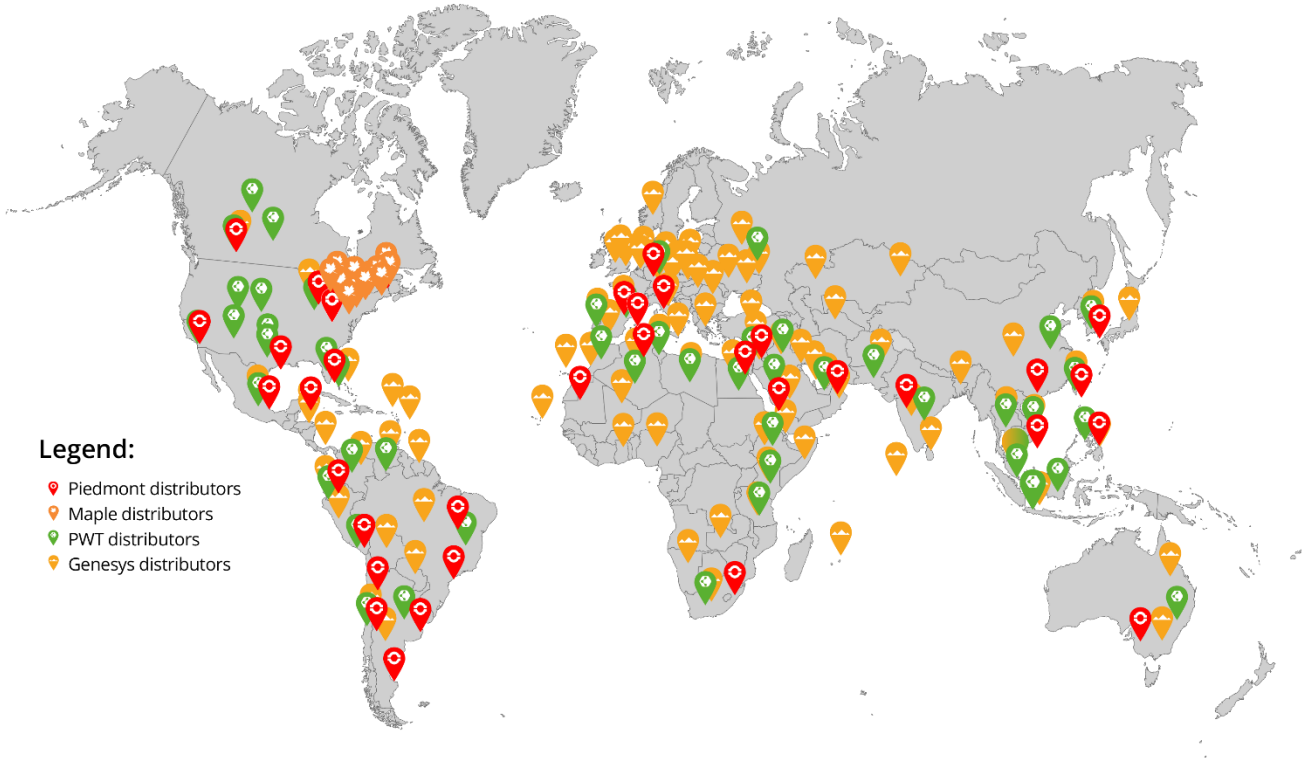
H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry, and maple equipment and products through PWT, Genesys, Piedmont and H_2O Innovation Maple. The Corporation is now exporting its specialty products in over 75 countries.

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 and Leader Evaporator 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



SPECIALTY PRODUCTS BUSINESS PILLAR HIGHLIGHTS

- The two specialty chemical business lines, PWT™ and Genesys®, came together on July 1, 2021, to form the H_2O Innovation Specialty Chemicals Group. While both brands continued to exist without any changes to the product portfolio, and the new combined management structure leveraged the strengths of the leadership of Genesys and PWT. As of July 1, 2022, the Piedmont business line joined PWT and Genesys to create a unique H_2O Innovation business line dedicated to specialty chemicals, consumables and components.

- In September 2021, PWT's and Genesys' antiscalant were selected for membrane cleaning at the world's largest seawater reverse osmosis desalination plant in the United Arab Emirates. Operated by ACWA Power, a leading developer, investor and operator of long-term contracted power generation and desalinated water projects worldwide, the Taweelah plant is designed to treat 240 MGD (909 000 m^3/day).

- In November 2021, Piedmont launched a new product, the PiPerLink™ permeate connector, at the Aquatech Amsterdam International Tradeshow. The Piedmont Permeate Link is an integrated permeate connector that replaces complex multi-component assemblies and fits every RO and ultrafiltration (UF) vessel brand, connection type, and connection size. The product is cost effective in terms of design, manufacturing, and installation, and reduces the number of connections between the vessel and permeate or filtrate header, thereby decreasing the risk of leakage.

- Piedmont experienced its busiest year, during which it delivered more large scale projects than ever. In total, more than 20 projects were executed for both fiber reinforced polyester (FRP) cartridge filter housings as well as duplex stainless couplings. Most of these projects were for customers located in the Middle East. Overall, during the year ended on June 30, 2022, Piedmont delivered 1,099 orders to 175 different customers in 45 different countries.

- Piedmont's team signed new distribution agreements in Latin America and Europe bringing its global network to more than 30 distributors and agents worldwide. The expansion of its distribution network led to an increase in sales coming from distributors by more than 125% in fiscal year ended on June 30, 2022.

- In March 2022, the Specialty Chemical Group doubled the footprint of their Cheshire, UK facility to answer the current demand from the market and to increase the production of Genesys and PWT powdered membrane cleaners. The grand opening ceremony for this new RO cleaner production plant took place on March 15, 2022.

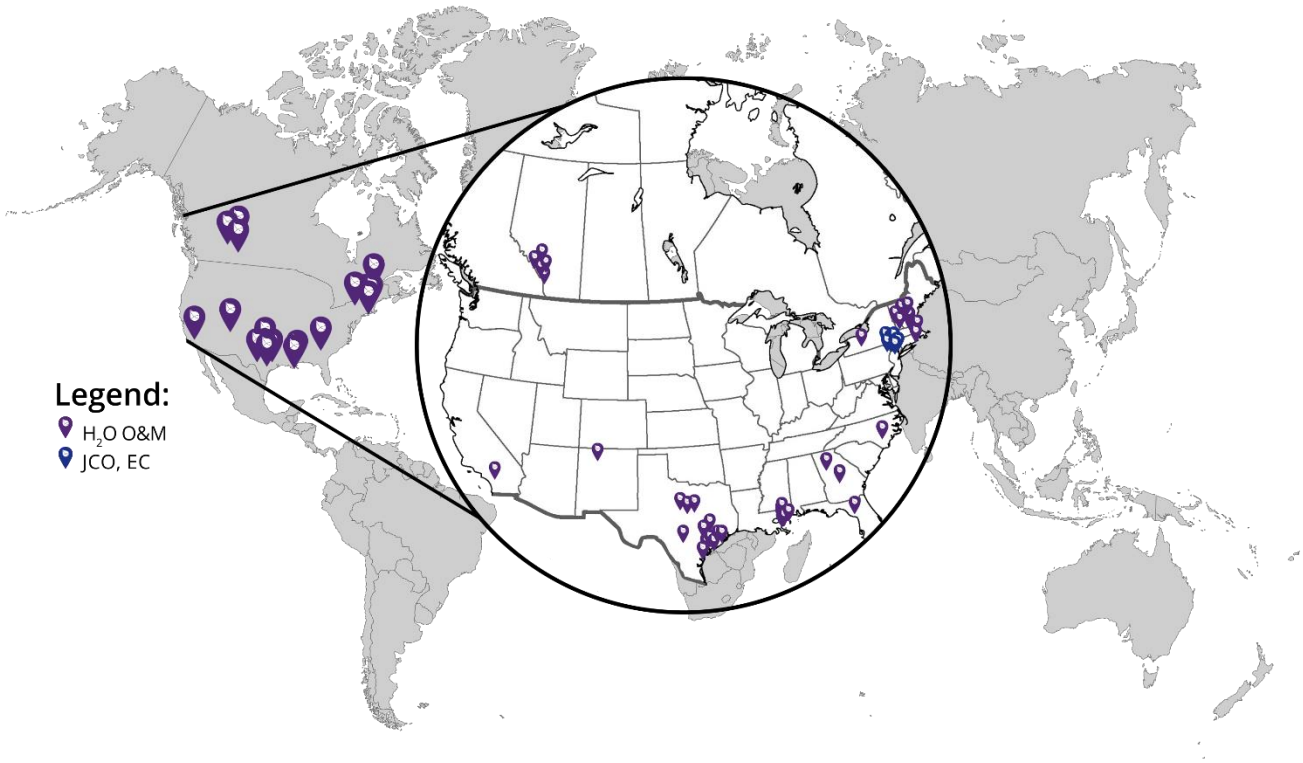
- On June 30, 2022, H_2O Innovation completed the acquisition of substantially all of the assets of Leader Evaporator Co. Inc. (Leader) to strengthen its position in the maple industry. Leader has been developing, manufacturing and selling maple farming equipment and products for more than 130 years to maple syrup producers located mainly in the United States. H_2O Innovation and Leader maple syrup products and equipment are now being offered through a larger distribution network in the United States, with nearly 80 distributors in 10 states.

OPERATION AND MAINTENANCE ("O&M")

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment, and associated assets for its O&M customers. It also ensures that the water quality meets regulatory requirements. These O&M services are provided through H_2O Innovation and H_2O Innovation Operation and Maintenance L.L.C 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

O&M BUSINESS PILLAR HIGHLIGHTS

- On April 4, 2022, the O&M team renewed the Corporation's largest O&M customer, the City of Gulfport, Mississippi. This renewal, valued at $13.9 M per 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, brings the Corporation's O&M backlog to $126.4 M. The City of Gulfport has the option to extend this contract up to 4 additional renewal periods of 2 years each, potentially lengthening the total contract term up to 12 years.

- Throughout the last fiscal year, 5 other contracts were renewed in the states of Mississippi, Georgia, New York and New Mexico and the province of Alberta, and 3 new ones were won in Mississippi, Vermont and Rhode Island totalling an amount of $25.7 M.

- In December 2021, H_2O Innovation completed the acquisition of JCO and of EC to solidify its position in the North American O&M market. Both companies offer complete operation, maintenance and management services to municipal and industrial water and wastewater customers from the same region, the Hudson Valley Region in the State of New York, USA. With more than 70 years of combined experience, H_2O Innovation, JCO and EC position themselves as significant players in the O&M sector in the State of New York with a total of nearly 200 customers.

CORPORATE HIGHLIGHTS

- Listing of H_2O Innovation's common shares on the Toronto Stock Exchange (TSX) under the symbol HEO, on March 22, 2022, being the World Water Day. The common shares of the Corporation were delisted from the TSX Venture Exchange (TSX-V) at the same time.

- Presentation, at the Annual General Meeting of the Shareholders held on December 9, 2021, of the Corporation's first Environmental, Social & Governance (ESG) Plan, which constitutes the Corporation's pledge to address environmental problems related to water, and to do so in a workplace where people feel accomplished and supported by strong governance and sensible policies in an ever-changing world. As part of the ESG Plan, the Corporation has identified several objectives intended to drive positive changes for the Corporation's stakeholders and to create value for shareholders, as further detailed in Section 5.6 of the Corporation's Annual Information Form dated September 27, 2022.

- Execution, on December 3, 2021, of a third amended and restated credit agreement with the Corporation's lender in order to increase the Corporation's revolving credit facility to $55.0 M.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended
June 30, 2022

For additional information:
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 *Continuous Disclosure Obligations*, the following comments are intended to provide a review and an analysis of H_2O Innovation's operating results and financial position for the years and the quarterly periods ended June 30, 2022 and 2021. This MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended June 30, 2022.

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 audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information about H_2O Innovation, including our 2022 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 in this MD&A may constitute "forward-looking" statements regarding the operations and activities of the Corporation, which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "should" or "will" and other similar terminology as well as those usually used in the future and the conditional are generally intended to identify forward-looking statements. These statements reflect current expectations of the Corporation regarding future events and operating performance and speak only as of the date of this MD&A.

Forward-looking statements involve significant risks and uncertainties; should not be received or construed as guarantees of future performance or results; and will not necessarily be accurate indications of whether or not such results will be achieved. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 28, 2022 which is available on SEDAR (www.sedar.com).

Several factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this MD&A, or any referenced document therein, are based upon what management of the Corporation believes are reasonable assumptions at the time these statements are made, actual results may not be consistent with these forward-looking statements. Accordingly, these statements should not be unduly relied upon by shareholders. Should one or more of these risks or uncertainties materialize or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. Unless required to do so pursuant to applicable securities legislation, H_2O Innovation assumes no obligation to update or revise forward-looking statements contained in this MD&A or in other communications as a result of new information, future events, and other changes.

NON-IFRS MEASURES AND RATIOS AND SUPPLEMENTAL FINANCIAL MEASURES

Certain indicators used by the Corporation to analyze and evaluate its results, which are listed below, are non-IFRS financial measures or ratios, supplementary financial measures or non-financial information. Consequently, they do not have a standardized meaning as prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. 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. However, theses measures should not be viewed as a substitute for related financial information prepared in accordance with IFRS. 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
- O&M contracts renewal rate
- Backlog

Definition of all non-IFRS measures and ratios and supplemental financial measures are provided in section "Non-IFRS financial measurements" on page 36 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 36 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used.

KEY FINANCIAL HIGHLIGHTS

For the year ended June 30, 2022
Compared with the year ended June 30, 2021

Revenues	Recurring revenues [3] [4] (%)	Organic Growth [3][4] (%)	Consolidated backlog
$184.4 M	**84.9%**	**17.7%**	**$163.0 M**
↑ $40.0 M or 27.7%	↓ from 87.3%	↑ from (0.1)%	↑ 59.4% from $102.3 M

Gross profit margin [1]	SG&A [2][4] (%)	Adjusted EBITDA [3]	Adjusted EBITDA [3][4] (%)
26.9%	**18.1%**	**$18.1 M**	**9.8%**
↓ from 27.7%	↑ from 17.7%	↑ 23.6% from $14.6 M	↓ from 10.1%

Net earnings	Adjusted net earnings [3]	Cash flows from operating activities	Net debt [3][6]
$5.1 M Or 0.058 per share [5]	**$8.8 M** Or 0.100 per share [3][5]	**($6.3 M)**	**$40.3 M** Ratio net debt/Adjusted EBITDA of 2.23
↑ from $3.1 M	↑ 36.7% from $6.5 M	↓ from $7.3 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 36 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.

COVID-19 PANDEMIC UPDATE AND OTHER MACROECONOMIC IMPACTS

Given the magnitude and duration of the COVID-19 pandemic and its economic consequences, it has become more difficult to distinguish specific aspects of our operational and financial performance that are directly related to the pandemic from those more broadly influenced by ongoing macroeconomic, market and industry dynamics that may be, to varying degrees, related to the pandemic and its consequences.

The macroeconomic backdrop has recently become more challenging, driven by a combination of high inflation, rising interest rates and geopolitical instability from Russia's invasion of Ukraine. To counteract the ongoing impacts on our supply chain, we are taking various actions, including building inventory to support backlog execution and qualifying alternative suppliers. The global inflation level could have a material effect on the Corporation's business, financial condition, or results of operations.

Among each category of costs included in the cost of goods sold, around 32.0% is impacted by the high inflation level of material costs, both for the Corporation's Specialty Products or WTS business lines. Some other costs can be passed on to customers or are related to labor. Various actions are taken to mitigate the impact of increased costs, such as including in our contracts price adjustment clauses based on inflation indices, renegotiation of supplier contracts, and reassessment of our supply chain to reduce manufacturing and freight costs.

Inflation and staff shortage is putting upward pressure on salaries, resulting in an increase of expenses that cannot be addressed with our customers immediately. For most of our O&M contracts, we are entitled to increase the annual fees based on the Consumer Price Index (CPI). Therefore, such annual fee increases will be addressed with our customers in the upcoming months as each contract reaches its annual contractual adjustment date.

If our costs ever to become subject to significant inflationary pressure, we may not be able to fully offset such higher costs through price increases. While we do not have any material exposure to Russia and Ukraine, there are other geopolitical and macroeconomic risks that are outside of our control that could impact our business, financial condition or results of operations. Please refer to the section "Risk Factors", for additional detail on how these events may impact our future results.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

Income Statements and Cash Flows	Three-month periods ended June 30				Years ended June 30			
	2022		2021		**2022**		2021	
	$	**% (1)**	$	% (1)	**$**	**% (1)**	$	% (1)
Revenues per business pillar								
WTS	**12,997**	**25.0**	7,074	20.1	**42,440**	**23.0**	30,355	21.0
Specialty products	**13,360**	**25.7**	10,334	29.4	**54,397**	**29.5**	43,920	30.4
O&M	**25,689**	**49.4**	17,796	50.5	**87,519**	**47.5**	70,049	48.6
Total revenues	**52,046**	**100.0**	35,204	100.0	**184,356**	**100.0**	144,324	100.0
Revenues per geographic location								
Canada	**5,181**	**10.0**	3,824	10.9	**21,533**	**11.7**	19,249	13.3
United States	**36,809**	**70.7**	23,414	66.5	**127,616**	**69.2**	96,634	67.0
Others	**10,056**	**19.3**	7,966	22.6	**35,207**	**19.1**	28,441	19.7
Total revenues	**52,046**	**100.0**	35,204	100.0	**184,356**	**100.0**	144,324	100.0
Recurring revenues (2)	**43,543**	**83.7**	30,980	88.0	**156,511**	**84.9**	126,050	87.3
Gross profit margin (3)	**13,464**	**25.9**	10,002	28.4	**49,607**	**26.9**	39,945	27.7
Net earnings (loss) for the period	**2,445**	**4.7**	(195)	(0.6)	**5,107**	**2.8**	3,119	2.2
Net earnings (loss) per share ("EPS"):								
Basic EPS	**0.028**	**-**	(0.002)	-	**0.058**	**-**	0.039	-
Diluted EPS	**0.027**	**-**	(0.002)	-	**0.054**	**-**	0.034	-
EBITDA (2)	**1,999**	**3.8**	3,206	9.1	**13,079**	**7.1**	14,485	10.0
Adjusted EBITDA (2)	**4,754**	**9.1**	3,089	8.8	**18,101**	**9.8**	14,646	10.1
Adjusted net earnings (2)	**1,627**	**3.1**	457	1.3	**8,848**	**4.8**	6,471	4.5
Adjusted EPS (2):								
Adjusted basic EPS (2)	**0.018**	**-**	0.005	-	**0.100**	**-**	0.081	-
Adjusted diluted EPS (2)	**0.018**	**-**	0.005	-	**0.094**	**-**	0.071	-
Cash flows from operating activities	**(6,390)**	**(12.3)**	(2,916)	(8.3)	**(6,250)**	**(3.4)**	7,284	5.0

Financial Position	**June 30, 2022**	June 30, 2021	Variation	
	$	$	$	%
Cash	**7,382**	15,409	(8,027)	(52.1)
Inventories	**20,171**	8,486	11,685	137.7
Contract assets	**11,591**	7,574	4,017	53.0
Net debt excluding contingent considerations (2)	**40,253**	507	39,746	-
Net debt-to-Adjusted EBITDA ratio (2)	**2.23**	0.03	-	-
Consolidated backlog	**163,036**	102,300	60,736	59.4

(1) % of total revenues.
(2) Refer to section "Non-IFRS financial measurements." Refer to page 36 for detailed information about non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

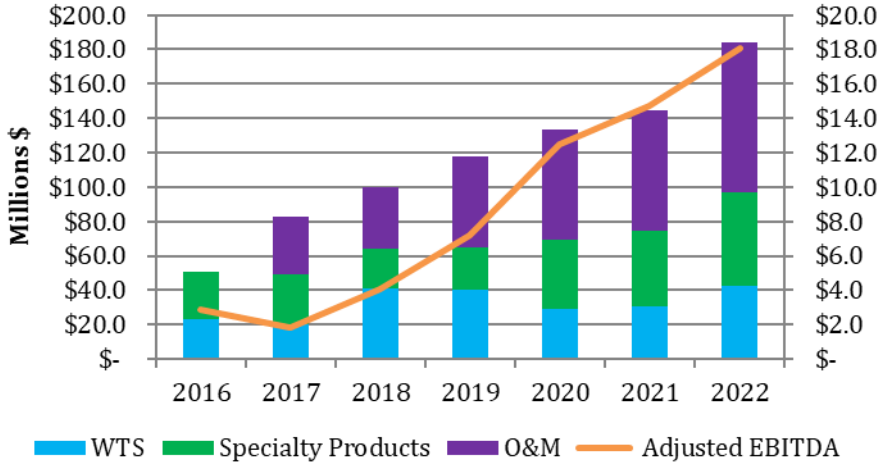
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except per share data)	Three-month periods ended June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	Year ended June 30, 2022
	$	**$**	**$**	$	**$**
Revenues	**52,046**	51,917	42,009	38,384	184,356
EBITDA [2]	**1,999**	4,382	3,423	3,275	13,079
Adjusted EBITDA [2]	**4,754**	5,530	3,799	4,018	18,101
Adjusted EBITDA over revenues [2]	**9.1%**	10.7%	9.0%	10.5%	9.8%
Net earnings (loss)	**2,445**	1,282	762	618	5,107
Basic EPS [1]	**0.028**	0.015	0.009	0.007	0.058
Diluted EPS [1]	**0.027**	0.014	0.008	0.007	0.054
Adjusted net earnings [2]	**1,627**	3,330	1,759	2,132	8,848
Adjusted basic EPS [1] [2]	**0.018**	0.038	0.020	0.025	0.100
Adjusted diluted EPS [1] [2]	**0.018**	0.037	0.019	0.023	0.094
Cash flows from (used in) operating activities	**(6,390)**	4,976	(3,343)	(1,493)	(6,250)

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

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



LAST TWELVE MONTHS

(In thousands of Canadian dollars, except per share data)	**Year ended June 30, 2022**	Year ended June 30, 2021	Variation	
	$	$	$	%
Revenues	**184,356**	144,324	40,032	27.7
EBITDA [1]	**13,079**	14,485	(1,406)	(9.7)
Adjusted EBITDA [1]	**18,101**	14,646	3,455	23.6
Adjusted EBITDA over revenues [1]	**9.8%**	10.1%	-	-
Net earnings	**5,107**	3,119	1,988	63.7
Basic EPS	**0.058**	0.034	0.024	69.7
Diluted EPS	**0.054**	0.034	0.020	58.0
Adjusted net earnings [1]	**8,848**	6,471	2,377	36.7
Adjusted basic EPS [1]	**0.100**	0.081	0.019	23.5
Adjusted diluted EPS [1]	**0.094**	0.071	0.023	32.4
Cash flows from (used in) operating activities	**(6,250)**	7,284	(13,534)	(185.8)

[1] Refer to section "Non-IFRS financial measurements" on page 36 for detailed information about non-IFRS measures used in this MD&A.

The Corporation delivered a sustained growth in all its business pillars over the last fiscal year. Revenues for the last twelve months showed an increase of 27.7% compared to last fiscal year, support by organic and acquisition growth.

The efforts made over the last twelve months to focus on increasing organic revenues led to an increase of the organic revenue growth from (0.1)% to 17.7%. We believe that the increased demand for water treatment solutions, in addition to the continued adoption of our specialty products and to strong level of sales and efficient marketing strategy execution, have led to higher revenue contribution from new customers and scope expansion with our existing customers. We also invested in various growth initiatives in order to stay aligned with the objectives of our 3-year strategic plan, one of which is to generate 10.0% of organic revenue growth between 2023 and 2024. To achieve this objective, the Corporation has hired strategic 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)	**Year ended June 30, 2022**		Year ended June 30, 2021	
	$	**%**	$	%
Organic growth	**25,595**	**17,7**	(178)	(0.1)
Acquisition growth	**15,762**	**10,9**	12,802	9.6
Impact of USD exchange rate	**(1,325)**	**(0,9)**	(1,974)	(1.5)
Net variation	**40,032**	**27.7**	10,650	8.0

The adjusted EBITDA increased to $18.1 M from $14.6 M in the last twelve months, representing an increase of $3.5 M which is 23.6% more than last year. The adjusted EBITDA over revenues is lower at 9.8% compared to 10.1% last year, which represents a 0.3% reduction over a twelve-month period. The variation is explained by a decrease of the gross margin and by the investments in SG&A to generate organic growth. The ongoing pandemic context has affected the Corporation's gross margin mainly due to the supply chain challenges, the increased costs of materials as well as the pressure on employee salaries due to staff shortage and the inflation.

H_2O Innovation's strengths are that it can rely on different sources of revenue coming from its three business pillars, and a high level of recurring revenues which reduce the risk of volatility on the EBITDA. The gradual recovery of economic activities despite the lasting pandemic combined with the continuous synergy between our business pillars, have allowed a high level of revenue growth for the year ended on June 30, 2022.

CONSOLIDATED REVENUES

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues per business pillar								
WTS	**12,997**	7,074	5,923	83.7	**42,440**	30,355	12,085	39.8
Specialty products	**13,360**	10,334	3,026	29.3	**54,397**	43,920	10,477	23.9
O&M	**25,689**	17,796	7,893	44.4	**87,519**	70,049	17,470	24.9
Total revenues	**52,046**	35,204	16,842	47.8	**184,356**	144,324	40,032	27.7

Despite the challenging environment created by the COVID 19 pandemic and other macroeconomics impacts, the Corporation was able to generate important revenue growth of 27.7% for the year ended June 30, 2022, of which 17.7% was exclusively organic revenue growth. This overall increase in organic revenue growth comes from the synergies generated by the integration of the acquisitions made over the last 4 years, the investment made with the addition of new sales resources and the sales of new products and innovations launched over the last few years. In fiscal year ended June 30, 2022, all of our business pillars generated significant organic revenue growth.

Consolidated revenues from the Corporation's three business pillars, for fiscal year ended on June 30, 2022, increased by $40.0 M, or 27.7%, to reach $184.4 M compared to $144.3 M for the comparable period of the previous fiscal year. This increase mainly came from organic revenue growth of $25.6 M, or 17.7%, and acquisition growth of $15.7 M, or 10.9% following the acquisitions of JCO and EC in December 2021 and Genesys Membrane Products, S.L.U. ("GMP"), acquired on February 1, 2021, offset by an unfavourable USD exchange rate impact of $1.3 M, or 0.9%.

Consolidated revenues from the Corporation's three business pillars, for the three-month period ended on June 30, 2022, increased by $16.8 M, or 47.8%, to reach $52.0 M, compared to $35.2 M for the comparable quarter of the previous fiscal year. These results were driven by organic revenue growth of $11.1 M, or 31.7%, and acquisition growth of $4.5 M, or 13.0%, coming from JCO and EC.

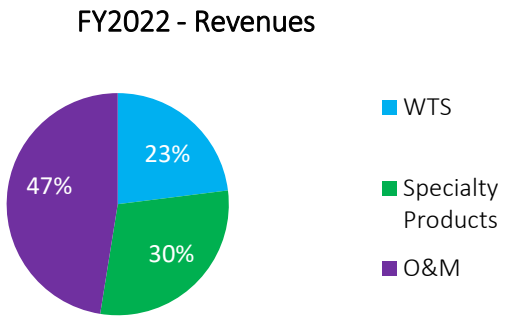
WTS revenues for the fiscal year ended on June 30, 2022 increased by $12.0 M or 39.8% compared to the previous fiscal year. For the fourth quarter of fiscal year 2022, its revenues increased by $5.9 M or 83.7% compared to the same quarter of the previous fiscal year. This growth was driven by higher organic revenue in water treatment systems projects and an increase of our sales coming from the service group. The Corporation's 3-year strategic plan consists of prioritizing WTS projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars, and to expand service activities.

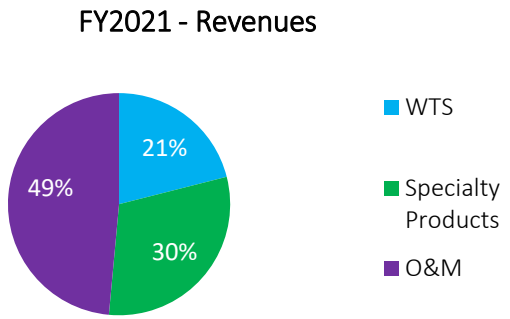
Revenues for years ended on June 30, 2022 coming from the Specialty Products business pillar increased by $10.5 M, or 23.9% compared to previous fiscal year, to reach $54.4 M compared to $43.9 M last year. These results were driven by the acquisition growth of $5.9 M, or 4.1% over total revenue, coming from GMP, and by the organic revenue growth of $4.8 M, or 3.3% over total revenue, coming from a strong performance of all our specialty products revenues lines, Specialty Chemicals Group, Piedmont and Maple and coming from the investments in sales resources, marketing, product innovation and the synergies coming from the integration of the acquisition of Genesys and GMP. For the fourth quarter of fiscal year 2022, the increase of revenue was $3.0 M, or 29.3%, compared to the same quarter of the previous fiscal year, which growth was exclusively organic.

Revenues of the O&M business pillar for the years ended on June 30, 2022 increased by $17.5 M, or 24.9%, compared to previous fiscal year, to reach $87.5 M compared to $70.0 M. Such increase was driven by organic revenue growth of $8.6 M, or 6.0%, and acquisition growth of $9.8 M resulting from the acquisition of JCO and EC. For the fourth quarter of fiscal year 2022, the increase was $7.9 M, or 44.4%, compared to the same quarter of the previous fiscal year, $ 2.5 M or 7.1% came from organic revenue growth, and $4.5 M from the acquisition of JCO and EC.

Our business model allows us to improve predictability and, through our integrated offering combining the design and manufacturing of water treatment systems and O&M and Specialty Products, we are maintaining long-term relationships with our customers. For the year ended June 30, 2022, recurring revenues represented 84.9% of the Corporation's total revenues, compared to 87.3% for the previous fiscal year. The decrease of the nonrecurring revenues in percentage is coming from an increase of WTS revenues. 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.

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





GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margin [1]	**13,464**	10,002	3,462	34.6	**49,607**	39,945	9,662	24.2
Gross profit margin (%) [1]	**25.9%**	28.4%	-	-	**26.9%**	27.7%	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $13.5 M, or 25.9%, for the fourth quarter of fiscal year 2022, compared to $10.0 M, or 28.4% for the same period of last fiscal year, representing an increase of $3.5 M, or 34.6%. The decrease in percentage was primarily due to high inflation of material costs, pressure on salaries and higher percentage of revenue coming from the WTS and O&M business pillars compared to previous fiscal year. 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 $49.6 M, or 26.9%, for the year ended June 30, 2022, compared to $39.9 M, or 27.7% for the same period of last fiscal year, which represents an increase of $9.7 M, or 24.2%. The overall gross profit margin slightly decreased in % for the same reasons than those explained above. Nevertheless, all business pillars contributed to an increase gross margin in dollars, 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 June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
SG&A expenses	**9,667**	6,947	2,720	39.2	**33,376**	25,493	7,883	30.9
SG&A expenses of revenues	**18.6%**	19.7%	-	-	**18.1%**	17.7%	-	-

The Corporation's SG&A totalled $9.7 M during the fourth quarter of fiscal year 2022, compared to $6.9 M for the same period of the previous fiscal year, which represents an increase of $2.7 M, or 39.2%, while the revenues of the Corporation increased by 47.8%. 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 the pressure on salaries, the hiring of additional resources, the resumption of travel activities, as well as higher stock-based compensation costs.

The Corporation's SG&A reached $33.4 M for the year ended June 30, 2022, compared to $25.5 M for the same period of the previous fiscal year, which represents an increase of $7.9 M, or 30.9%, while the revenues of the Corporation increased by 27.7%. The increase in SG&A was mainly attributable to similar factors as those described above. The Corporation also incurred uplisting fees of $0.2 M following the listing of its common shares on the TSX in March 2022.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(7)**	(11)	4	(36.4)	**(33)**	(41)	8	(19.5)
Finance costs	**760**	371	389	104.9	**2,392**	2,376	16	0.7
Finance costs - net	**753**	360	393	109.2	**2,359**	2,335	24	1.0

Finance costs – net stood at $0.8 M for the fourth quarter of fiscal year 2022, compared with $0.4 M for the same period of the previous fiscal year. Finance costs – net stood at $2.4 M for the year ended June 30, 2022, compared with $2.3 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.

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 June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Acquisition and integration costs	**677**	(7)	684	(9771.4)	**1,135**	489	646	132.1

The acquisition and integration costs reached $0.7 M during the fourth quarter of fiscal year 2022, compared to none for the same period of the previous fiscal year. The acquisition and integration costs increased at $1.1 M for the year ended June 30, 2022, compared to $0.5 M for the same period of the previous fiscal year. During the fiscal year 2022, the acquisition and integration costs were mostly related to the acquisition of JCO, EC and Leader, 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 June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Other (gains) and losses – net	**1,621**	(140)	1,761	(1257.9)	**2,517**	2,012	505	25.1

Other (gains) and losses – net stood at $1.6 M for the fourth quarter of fiscal year 2022, compared with ($0.1 M) for the same period of the previous fiscal year, which represents a decrease of $1.7 M compared to the same quarter of the previous fiscal year. The increase was primarily due to unrealized exchange loss, and higher revaluation of the fair value of contingent considerations.

Other (gains) and losses – net stood at $2.5 M for the year ended June 30, 2022, compared with $2.0 M for the same period of the previous fiscal year, which represents an increase of $0.5 M compared to the same period of the previous fiscal year. The increase was primarily driven by the higher revaluation of the fair value of contingent considerations.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA[1]	**1,999**	3,206	(1,207)	(37.6)	**13,079**	14,485	(1,406)	(9.7)
Adjusted EBITDA[1]	**4,754**	3,089	1,665	53.9	**18,101**	14,646	3,455	23.6
Adjusted EBITDA over revenues[1]	**9.1%**	8.8%	-	-	**9.8%**	10.1%	-	-

The Corporation's adjusted EBITDA increased by $1.7 M, or 53.9%, to reach $4.8 M during the fourth quarter of fiscal year 2022, from $3.1 M for the comparable period of fiscal year 2021. The adjusted EBITDA over revenues increased to 9.1% for the fourth quarter of fiscal year 2022, compared to 8.8% for the same quarter of last fiscal year. The improvement is explained by a $0.5 M government tax credit that can be applicable on our operation expenses. Without this credit, the adjusted EBITDA % would have been at 8.2%. This negative variation is explained by a decrease in the Corporation's consolidated gross profit margin and the increase of the SG&A ratio with a view to grow the Corporation's revenue in the coming years in line with its 3-year strategic plan. The Corporation's profitability has been impacted by the extended economic consequences of the COVID 19 pandemic, ongoing macroeconomic trends on supply chain, higher inflation, increased wages and freight and logistic costs.

The Corporation's adjusted EBITDA increased by $3.5 M, or 23.6%, to reach $18.1 M for the year ended June 30, 2022, from $14.6 M for the comparable period of fiscal year 2021. The adjusted EBITDA over revenues decreased to 9.8% for the years ended June 30, 2022, compared to 10.1% for the same period of last fiscal year, which is mainly explained by the decrease in the Corporation's consolidated gross profit margin and the increase of the SG&A ratio as described above.

[1] Refer to section "Non-IFRS financial measurements" on page 36 for detailed information about non-IFRS measures used in this MD&A.

NET EARNINGS (LOSS) AND ADJUSTED NET EARNINGS

(In thousands of Canadian dollars, except per share data)	Three-month periods ended June 30			Years ended June 30		
	2022	2021	Variation	**2022**	2021	Variation
	$	$	$	**$**	$	$
Net earnings (loss)	**2,445**	(195)	2,640	**5,107**	3,119	1,988
Basic net earnings (loss) per share	**0.028**	(0.002)	0.030	**0.058**	0.039	0.019
Diluted net earnings (loss) per share	**0.027**	(0.002)	0.029	**0.054**	0.034	0.020
Adjusted net earnings[1]	**1,627**	457	1,170	**8,848**	6,471	2,377
Basic adjusted net earnings per share[1]	**0.018**	0.005	0.013	**0.100**	0.081	0.019
Diluted adjusted net earnings per share[1]	**0.018**	0.005	0.013	**0.094**	0.071	0.023

Net earnings amounted to $2.4 M and $0.027 per share for the fourth quarter of fiscal year 2022 compared to a net loss of ($0.2 M) and ($0.002) per share for the comparable quarter of fiscal year 2021. The variation was impacted by the reduction in gross profit margin, higher depreciation and amortization, higher acquisition costs and the change in fair value of the contingent consideration– net, lower tax expenses. Moreover, the SG&A ratio decreased from 19.7% to 18.6%.

Net earnings amounted to $5.1 M and $0.058 per share for the year ended June 30, 2022, compared to net earnings of $3.1 M and $0.039 per share for the comparable period of fiscal year 2021. The variation was impacted as described above. Moreover, the SG&A ratio increased from 17.7% to 18.1%.

BACKLOG

The 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 from certain contracts.

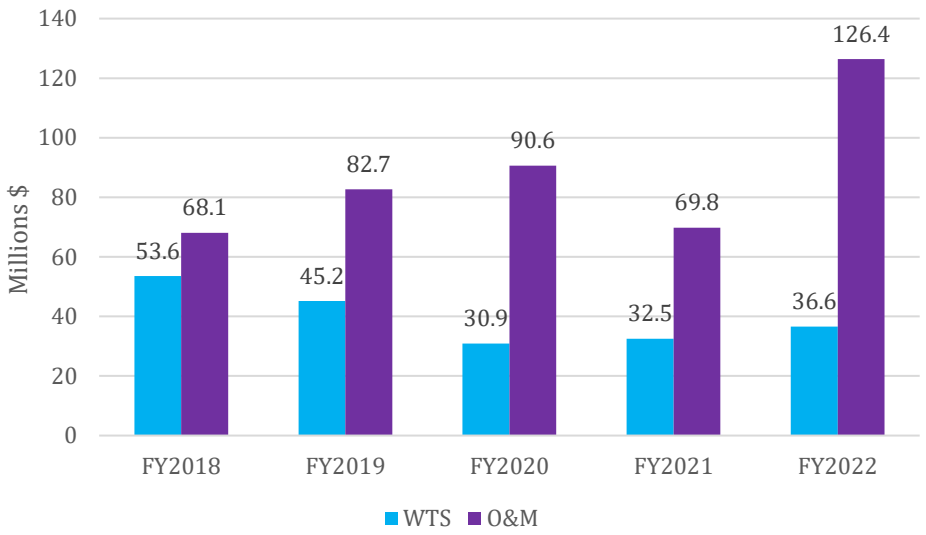
As at June 30, 2022, the combined backlog of secured contracts between WTS and O&M reached $163.0 M compared to $102.3 M as at June 30, 2021. This combined backlog provides excellent visibility on revenues for the first quarter of fiscal year 2023 and beyond.

(In thousands of Canadian dollars)	As at June 30,			
	2022	2021	Variation	
	$	$	$	%
WTS	**36,603**	32,500	4,103	12.6
O&M [(1)]	**126,433**	69,800	56,633	81.1
Consolidated backlog	**163,036**	102,300	60,736	59.4

[(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 the services provided by JCO and EC to municipal and industrial customers, since these contracts are "evergreen" and would not qualify for the remaining performance obligation definition.

[1] Refer to section "Non-IFRS financial measurements" on page 36 for detailed information about non-IFRS measures used in this MD&A.

(2)



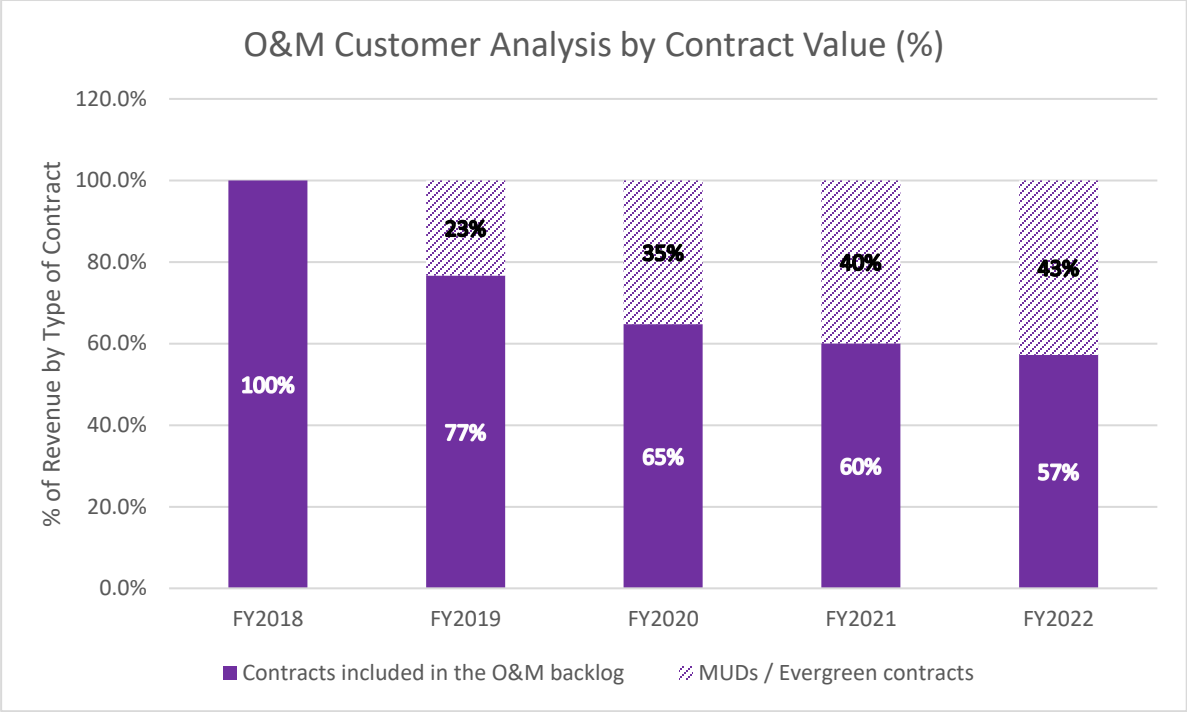
WTS Backlog

The WTS business pillar is showing an increase of 12.6% of its backlog for fiscal year ended June 30, 2022, which backlog is well-balanced 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, diversified between industrial and municipal projects, with 32.0% of the projects being industrial as of June 30, 2022, compared to 26.3% as of June 30, 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 $126.4 M as at June 30, 2022, representing an increase of 81.1% compared to the $69.8 M backlog as at June 30, 2021, and consists of long-term contracts, mainly with municipalities, containing multi-year renewal options. 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 the services provided by JCO and EC to municipal and industrial customers.

The O&M business model should also be analyzed in % of customers retained. Both long-term customers included in the O&M backlog and ''evergreen'' contracts demonstrate how the Corporation has preserved customer relationships and can rely on recurring revenues. Past acquisitions in Texas, combined with the two new acquisitions in the State of New York, JCO and EC, brought ''evergreen'' O&M contracts and the Corporation has been able to preserve these customers and, even add new ones. The table below demonstrate the split between long-term contract and ''ever green'' ones.



O&M long-term contracts have a typical duration of 3 to 5 years and have different anniversary dates for renewal. An "evergreen" contract is a contract that automatically and indefinitely renews until one party gives to the other a notice to terminate. In the past, the Corporation has seen a high contract renewal rate[1]. In fiscal year ended June 20, 2022, the Corporation renewed 95,6% (94,9%) of the O&M contracts and was awarded two new contracts.

[1] Refer to section "Non-IFRS" financial measurements" on page 36 for detailed information about non-IFRS measures used in this MD&A.

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 36 of this MD&A.

The following tables summarize the Corporation's revenues and EBAC per business pillar for the three-month periods and years ended June 30, 2022 and 2021.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**12,997**	7,074	5,923	83.7	**42,440**	30,355	12,085	39.8
Cost of goods sold	**10,440**	5,429	5,011	92.3	**33,468**	23,663	9,805	41.4
Gross profit margin[1]	**2,557**	1,645	912	55.4	**8,972**	6,692	2,280	34.1
Gross profit margin (%)[1]	**19.7%**	23.3%	-	-	**21.1%**	22.0%	-	-
Selling and general expenses	**1,579**	1,048	531	50.7	**5,072**	3,608	1,464	40.6
EBAC[2] from WTS	**978**	597	381	63.8	**3,900**	3,084	816	26.5
EBAC[2] over revenues from WTS	**7.5%**	8.4%	-	-	**9.2%**	10.2%	-	-

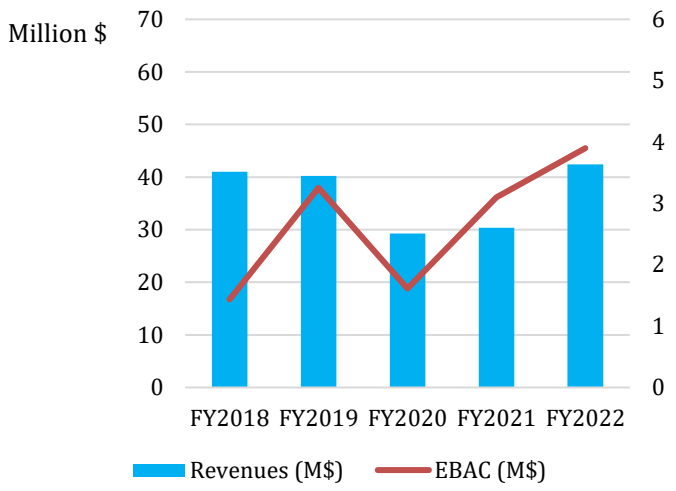
The WTS financial performance during fiscal year ended June 30, 2022 improved significantly compared with the previous fiscal year. WTS revenues stood at $13.0 M during the fourth quarter of fiscal year 2022, compared to $7.1 M for the same quarter of last fiscal year, representing an increase of $5.9 M, or 83.7%. WTS revenues stood at $42.4 M for the year ended June 30, 2022, compared with $30.4 M for the last fiscal year, representing an increase of $12.0 M, or 39.8%, driven by organic revenue growth of service activities and capital equipment projects.

The gross profit margin before depreciation and amortization stood at $2.6 M, or 19.7% for the fourth quarter of fiscal year 2022, compared with $1.6 M, or 23.3% for the same quarter of last fiscal year. The gross profit margin before depreciation and amortization stood at $9.0 M, or 21.1% for the year ended June 30, 2022, compared with $6.7 M, or 22.0% for the last fiscal year, representing an increase of $2.3 M, or 34.1%. For the fourth quarter and for the fiscal year, the gross profit margin in % remained fairly stable although we have a higher proportion of revenues coming from capital equipment projects. The gross profit margin was negatively affected by the increased material costs related to capital equipment projects as most of these the projects were sold to customers or awarded to the Corporation several months or years ago. To mitigate the impact, our sales teams included price adjustment clauses based on inflation indices in our customers' contracts and increased production costs.

WTS selling and general expenses stood at $1.6 M during the fourth quarter of fiscal year 2022, compared to $1.0 M, for the same quarter of last fiscal year, representing an increase of $0.6 M. WTS selling and general expenses stood at $5.1 M for the year ended June 30, 2022, compared to $3.6 M, for the last fiscal year, representing an increase of $1.5 M. The increase in selling and general expenses was driven primarily by new hirings of sales resources, higher labour costs and commissions as well as resumption of travel. Despite being higher than last year, travel activities remained lower than pre-pandemic.

WTS EBAC stood at $1.0 M during the fourth quarter of fiscal year 2022, compared to $0.6 M for the same quarter of last fiscal year, representing an increase of $0.4 M, or 63.8%. WTS's EBAC stood at $3.9 M for the year ended June 30, 2022, compared to $3.1 M for the last fiscal year representing an increase of 26.5%. The increase of WTS's EBAC in dollars was driven by the increase of the revenues.

[1] Gross profit margin presented before depreciation and amortization.
[2] Refer to section "Non-IFRS financial measurements." Refer to page 36 for detailed information about non-IFRS measures used in this MD&A.



SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**13,360**	10,334	3,026	29.3	**54,397**	43,920	10,477	23.9
Cost of goods sold	**7,148**	5,445	1,703	31.3	**28,779**	24,494	4,285	17.5
Gross profit margin[1]	**6,212**	4,889	1,323	27.1	**25,618**	19,426	6,192	31.9
Gross profit margin (%)[1]	**46.5%**	47.3%	-	-	**47.1%**	44.2%	-	-
Selling and general expenses	**2,784**	2,312	472	20.4	**10,425**	8,809	1,616	18.3
EBAC[2] from Specialty Products	**3,428**	2,577	851	33.0	**15,193**	10,617	4,576	43.1
EBAC[2] over revenues from Specialty Products	**25.7%**	24.9%	-	-	**27.9%**	24.2%	-	-

Specialty Products revenues includes revenues from the sale of maple equipment and related-products, specialty chemicals, consumables, and components for the water treatment industry.

Specialty Products revenues stood at $13.4 M during the fourth quarter of fiscal year 2022, compared to $10.3 M for the same quarter of last fiscal year, representing an increase of $3.1 M, or 29.3%, driven by all business lines such as Specialty Chemicals Group, Piedmont and Maple all had a stronger fourth quarter. Specialty Products revenues stood at $54.4 M for the year ended June 30, 2022, compared to $43.9 M for the last fiscal year, representing an increase of $10.5 M, or 23.9%. The increase was mainly driven by strong sales and efficient marketing strategy execution combined with additional strategic sales resources which led to organic revenue growth from all the business lines. GMP, which was acquired on February 1st ,2021, generated $6.0 M of acquisition growth during fiscal year ended June 30, 2022. No revenues coming from the Leader Acquisition are included in the figures mentioned above as this acquisition was effective as of June 30, 2022.

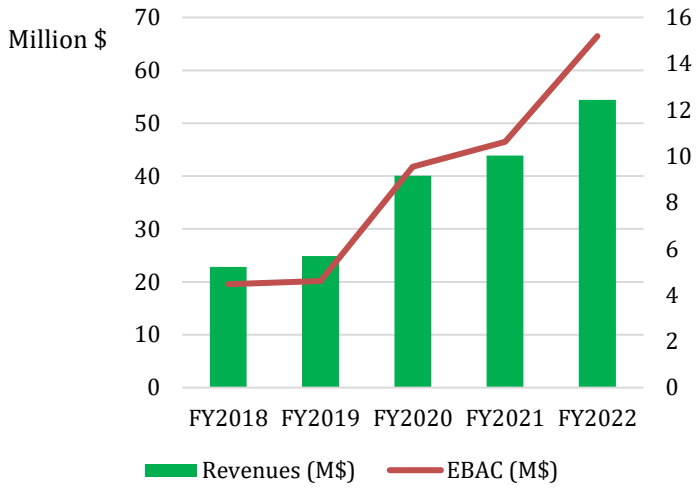
The gross profit margin before depreciation and amortization stood at $6.2 M, or 46.5% for the fourth quarter of fiscal year 2022, compared with $4.9 M, or 47.3%, for the same quarter of last fiscal year, representing an increase of $1.3 M in dollars. The gross profit margin before depreciation and amortization stood at $25.6 M, or 47.1%, for the year ended June 30, 2022, compared with $19.4 M, or 44.2%, for the last fiscal year, representing an increase of $6.2 M in dollars as well

[1] Gross profit margin presented before depreciation and amortization.
[2] Refer to section "Non-IFRS financial measurements." Refer to page 36 for detailed information about non-IFRS measures used in this MD&A.

as an increase of the gross profit margin in %. This variation is mainly due to the business mix within this business pillar, with a higher level of revenue coming from specialty chemicals.

Specialty Products selling and general expenses stood at $2.8 M during the fourth quarter of fiscal year 2022, compared to $2.3 M, for the same quarter of last fiscal year, representing an increase of $0.5 M. The hiring of sales resources, pressure on salaries due to the inflation level and the resumption of travel mainly explained the variation. Specialty Products selling and general expenses stood at $10.4 M for the year ended June 30, 2022, compared to $8.8 M, for the last fiscal year, representing an increase of $1.6 M, which is attributable to similar factors than those described for the quarter.

Specialty Products EBAC stood at $3.4 M during the fourth quarter of fiscal year 2022, compared to $2.6 M for the same quarter of last fiscal year, representing an increase of $0.8 M, or 33.0%. Specialty Products EBAC stood at $15.2 M for the year ended June 30, 2022, compared to $10.6 M for the last fiscal year, representing an increase of $4.6 M, or 43.1%. Specialty Products EBAC was positively affected by higher revenues coming from specialty chemicals.



O&M

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**25,689**	17,796	7,893	44.4	**87,519**	70,049	17,470	24.9
Cost of goods sold	**20,994**	14,328	6,666	46.5	**72,502**	56,222	16,280	29.0
Gross profit margin[1]	**4,695**	3,468	1,227	35.4	**15,017**	13,827	1,190	8.6
Gross profit margin (%)[1]	**18.3%**	19.5%	-	-	**17.2%**	19.7%	-	-
Selling and general expenses	**1,212**	823	389	47.3	**4,484**	3,402	1,082	31.8
EBAC[2] from O&M	**3,483**	2,645	838	31.7	**10,533**	10,425	108	1.0
EBAC[2] over revenues from O&M	**13.6%**	14.9%	-	-	**12.0%**	14.9%	-	-

During fiscal year ended June 30, 2022, the revenues of the O&M business pillar were positively impacted by the acquisition of EC and JCO, by the renewal and scope expansion of the Gulfport project, and the start-up of two additional O&M projects. The gross profit margin was impacted negatively by pressure on employee salaries and inflation, cost increase of gasoline, employee sick leave related to COVID- and the continuing increase of 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 factors related to the workforce. In most of the O&M contracts, the Corporation is entitled to increase

[1] Gross profit margin presented before depreciation and amortization.
[2] Refer to section "Non-IFRS financial measurements." Refer to page 36 for detailed information about non-IFRS measures used in this MD&A.

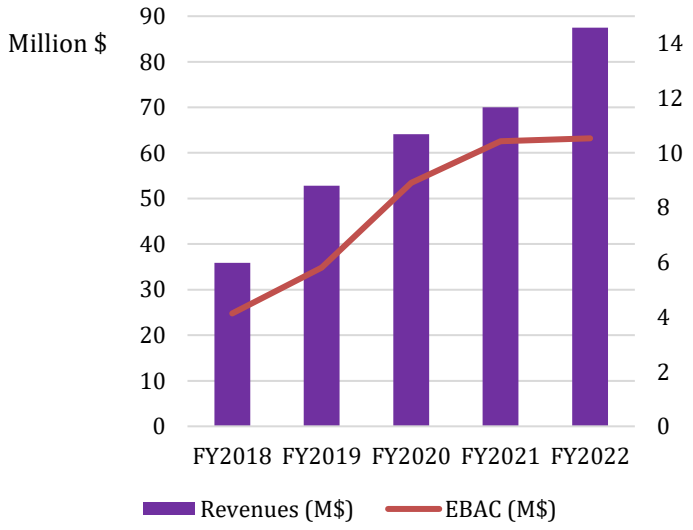
the annual fees based on the Consumer Price Index (CPI). Therefore, such annual fee increases will be addressed with our customers in the upcoming months as each contract reaches its annual contractual adjustment date.

O&M revenues stood at $25.7 M during the fourth quarter of fiscal year 2022, compared to $17.8 M for the same quarter of last fiscal year, representing an increase of $7.9 M, or 44.4%. The O&M business pillar showed organic revenue growth of $2.5 M this quarter, and the acquisition of JCO and EC contributed $4.6 M to O&M revenues. O&M revenues stood at $87.5 M for the year ended June 30, 2022, compared to $70.0 M for the same period of last fiscal year, representing an increase of $17.5 M, or 24.9%. The acquisition of JCO and EC contributed $9.8 M for the year ended June 30, 2022. The increase in revenues is also due to organic revenue growth of $8.6 M, or 6.0%, partly compensated by an unfavourable USD exchange rate impact of $1.0 M.

The gross profit margin before depreciation and amortization stood at $4.7 M, or 18.3% for the fourth quarter of fiscal year 2022, compared with $3.5 M, or 19.5% for the same quarter of last fiscal year, representing an increase of $1.2 M, or 35.4%. The gross profit margin before depreciation and amortization was affected by the same factors as explained previously. The gross profit margin before depreciation and amortization stood at $15.0 M, or 17.2% for the year ended June 30, 2022, compared with $13.8 M, or 19.7% for the same period of last fiscal year, representing an increase of $1.2 M, or 8.6%, driven mostly by the same factors as explained previously.

The selling and general expenses stood at $1.2 M during the fourth quarter of fiscal year 2022, compared to $0.8 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 $4.5 M for the year ended June 30, 2022, compared to $3.4 M, for the same period of last fiscal year, representing an increase of $1.1 M. This increase in the expenses is mainly attributable to similar factors as those of the quarter.

O&M EBAC stood at $3.5 M during the fourth quarter of fiscal year 2022, compared to $2.6 M for the same quarter of last fiscal year, representing an increase of $0.9 M, or 31.7%. The O&M EBAC for the fourth quarter of fiscal year 2022 was negatively affected by higher pressure on labour costs based on management's decision to increase salaries during the quarter combined with additional resources hired to maintain the growth of this business pillar. O&M EBAC stood at $10.5 M for the year ended June 30, 2022, compared to $10.4 M for the same period of last fiscal year, representing an increase of $0.1 M, or 1.0% which is comparable to the previous year.



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 periods and years ended June 30, 2022, and June 30, 2021, is presented below:

(In thousands of Canadian dollars)	Three-month periods ended June 30				Years ended June 30			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Cash flows from operating activities before change in working capital items	**3,157**	3,167	(10)	(0.3)	**16,494**	11,802	4,692	39.8
Change in working capital items	**(9,449)**	(4,808)	(4,641)	96.5	**(21,038)**	(3,222)	(17,816)	552.9
	(6,292)	(1,641)	(4,651)	283.4	**(4,544)**	8,580	(13,124)	(153.0)
Interests received / Income taxes paid	**(98)**	(1,275)	1,177	(92.3)	**(1,706)**	(1,296)	(410)	31.6
Cash flows from (used in) operating activities	**(6,390)**	(2,916)	(3,474)	119.1	**(6,250)**	7,284	(13,534)	(185.8)
Cash flows from (used in) investing activities	**(6,246)**	603	(6,849)	(1135.8)	**(32,647)**	(4,768)	(27,879)	584.7
Cash flows from financing activities	**13,504**	4,446	9,058	203.7	**30,769**	2,930	27,839	950.1
Effect of exchange rate changes on the balance of cash held in foreign currencies	**16**	(54)	70	(129.6)	**101**	524	(423)	(80.7)
Net change	**884**	2,079	(1,195)	(57.5)	**(8,027)**	5,970	(13,997)	(234.5)
Cash – Beginning of period	**6,498**	13,330	(6,832)	(51.3)	**15,409**	9,439	5,970	63.2
Cash – End of period	**7,382**	15,409	(8,027)	(52.1)	**7,382**	15,409	(8,027)	(52.1)

Cash increased by $0.9 M during the fourth quarter of fiscal year 2022, compared with an increase of $2.1 M for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Operating activities used $6.4 M of cash flows during the quarter ended June 30, 2022, compared to $2.9 M of cash flows used 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 a lower accounts receivable collection and higher inventories, higher prepaid expenses and accounts payable than during the comparable quarter of the previous fiscal year. Those variation occurred due to proactive measures to mitigate the current supply chain uncertainties.

Cash flows from operating activities used $6.3 M for the year ended June 30, 2022, compared to $7.3 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 $6.2 M of cash flows for the quarter ended June 30, 2022, compared to $0.6 M of cash flows generated in investing activities during the comparable quarter of the previous fiscal year. The variation was primarily due to more purchases of property, plant and equipment and to the purchase of substantially all of the assets of Leader.

Investing activities used $32.6 M of cash flows for the year ended June 30, 2022, compared to $4.8 M of cash flows used in investing activities during the same period of the previous fiscal year. The cash used in the year ended June 30, 2022, resulted primarily from the business combinations of JCO, EC and Leader Evaporator amounting to $21.2 M, from the purchases of property, plant and equipment, and intangible assets for $9.6 M, and from the payment of contingent consideration of $1.1 M. In comparison, the cash flows used in investing activities during the year ended June 30, 2021, resulted primarily from the business combinations of GUS and GMP for $3.2 M, from the purchases of property, plant and equipment, and intangible assets for $1.2 M, and from the 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 generated $13.5 M for the quarter ended June 30, 2022, compared to $4.4 M of cash flows generated from financing activities during the comparable quarter of the previous fiscal year. The cash flows for the three-month period ended June 30, 2022, resulted primarily from $0.2 M in long-term debt repayments, $0.6 M of interest paid and $0.6 M in repayments of lease liabilities, partially offset by $14.9 M in proceeds from bank loans, net of related transaction costs. In comparison, the cash flows for the three-month period ended June 30, 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 $30.8 M for the year ended June 30, 2022, compared to $2.9 M of cash flows generated in financing activities during the same period of the previous fiscal year. The cash flows for the year ended June 30, 2022, resulted primarily from $45.7 M in proceeds from bank loans, net of related transaction costs, and $5.3 M from warrants exercised, partially offset by $15.9 M in long-term debt repayments, $1.9 M of interest paid and $2.1 M in repayments of lease liabilities. In comparison, the cash flows coming from financing activities for the year ended June 30, 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 June 30, 2022, and June 30, 2021, for selected information:

(In thousands of Canadian dollars)	**June 30, 2022**	June 30, 2021	Variation		Explanations
	$	$	$	%	
Accounts receivable	**35,696**	22,148	13,548	61.2	The increase is mostly attributable to higher revenues ($52.0 M for Q4-2022 compared to $35.2 M for Q4-2021, representing an increase of 47.8%), the addition of JCO and EC (increase of 6.8%), and the timing of payments by customers.
Inventories	**20,171**	8,486	11,685	137.7	The significant increase in inventory is mainly due to proactive measures to maintain a level of inventory allowing the Corporation to respond to the higher customers' demand, more particularly in the Specialty Products business pillar, and to mitigate the current supply chain uncertainties. The increase is also explained by the acquisition of substantially all of the assets of Leader, including its inventory.
Contract assets	**11,591**	7,574	4,017	53.0	The increase is mostly attributable to the organic growth of the WTS business pillar.
Prepaid expenses and deposits	**4,236**	2,868	1,368	47.7	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	**23,600**	15,466	8,134	52.6	The increase is mainly due to the timing of the payments from customers and the Corporation's procurement material and equipment compared to June 30, 2021, in addition to the acquisitions of JCO, EC and Leader, which accounted for $4.5 M as at June 30, 2022.
Contract liabilities	**6,207**	3,283	2,924	89.1	The increase is attributable to the difference between work in progress and project invoicing schedules.
Contingent considerations, including current portion	**10,017**	6,738	3,279	48.7	The increase is due to the change in fair value of the contingent considerations resulting from the previous business combination of GMP and the new acquisition of JCO and EC during the year.

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)	**June 30, 2022**	June 30, 2021	Variation	
	$	$	$	%
Bank loans	**45,562**	-	45,562	100.0
Current portion of long-term debt	**1,563**	2,975	(1,412)	(47.5)
Long-term debt	**510**	12,941	(12,431)	(96.1)
Contingent considerations	**10,017**	6,738	3,279	48.7
Less: Cash	**(7,382)**	(15,409)	(8,027)	(52.1)
Net debt including contingent considerations [(1)]	**50,270**	7,245	43,025	593.9
Contingent considerations	**10,017**	6,738	3,279	48.7
Net debt excluding contingent considerations ("Net debt") [(1)]	**40,253**	507	39,746	-
Adjusted EBITDA [(1)(2)]	**18,101**	14,646	3,455	23.6
Net debt-to-adjusted-EBITDA ratio [(1)]	**2.23**	0.03	-	-

[(1)] Non-IFRS measure. Refer to section "Non-IFRS financial measurements" on page 36 for detailed information about non-IFRS measures used in this MD&A.
[(2)] Trailing twelve-month adjusted EBITDA.

As at June 30, 2022, the net debt stood at $40.3 M, compared with $0.5 M as at June 30, 2021, representing an increase of $39.8 M, mainly attributable to the financing of the JCO and EC acquisitions on December 15, 2021, the investment in our chemical manufacturing facilities in Vista, CA, USA and Cheshire, UK, the purchase of equipment required to execute some of the work related to the scope expansion for O&M contracts, and the investment in working capital items to support Corporation's organic growth.

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 June 30, 2022:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA not exceeding a certain limit at all time.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures not exceeding a certain limit at all time.

Management reviews compliance with these covenants on a quarterly basis in conjunction with filing requirements under its credit facilities. As at June 30, 2022, all covenants have been met.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2022, the Corporation had off-balance sheet arrangements consisting of letters of credit amounting to $3.1 M, which expire at various dates through fiscal year 2025. Of these letters of credit, $3.1 M is secured by EDC.

OUTSTANDING SHARES

As at June 30, 2022, the Corporation had 90,007,408 issued and outstanding common shares and 6,008,334 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 settlement. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition and integration costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net earnings (loss) based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies. Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation's results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

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

(In thousands of Canadian dollars)	Three-month periods ended June 30		Years ended June 30	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings (loss) for the period	**2,445**	(195)	**5,107**	3,119
Finance costs – net	**753**	360	**2,359**	2,335
Income taxes	**(3,927)**	1,174	**(3,618)**	1,703
Depreciation of property, plant and equipment and right-of-use assets	**1,122**	820	**3,812**	3,187
Amortization of intangible assets	**1,606**	1,047	**5,419**	4,141
EBITDA	**1,999**	3,206	**13,079**	14,485
Unrealized exchange (gain) loss	**484**	15	**(181)**	654
Stock-based compensation costs	**480**	132	**1,303**	253
Changes in fair value of the contingent considerations	**1,114**	(257)	**2,565**	462
Acquisition and integration costs	**677**	(7)	**1,135**	489
Uplisting fees	**-**	-	**200**	-
Fair value gain on step acquisition	**-**	(4)	**-**	(2,351)
Litigation settlement	**-**	4	**-**	654
Adjusted EBITDA	**4,754**	3,089	**18,101**	14,646
Revenues	**52,046**	35,204	**184,356**	144,324
Adjusted EBITDA over revenues	**9.1%**	8.8%	**9.8%**	10.1%

ADJUSTED EBITDA OVER REVENUES

Adjusted EBITDA over revenues is a non-IFRS ratio used to analyze the profitability of the Corporation and to facilitate period-to-period comparisons, as well as comparison with peers. This ratio is calculated by dividing the amount of Adjusted EBITDA for a given period by the amount of revenue for the same period. Refer to the table above for the calculation of this ratio.

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 June 30		Years ended June 30	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized over time	**34,192**	22,020	**115,364**	88,323
Revenue recognized at a point in time	**17,854**	13,184	**68,992**	56,001
	52,046	35,204	**184,356**	144,324
Cost of goods sold	**38,582**	25,202	**134,749**	104,379
Gross profit before depreciation and amortization	**13,464**	10,002	**49,607**	39,945
Selling and general expenses	**5,575**	4,183	**19,981**	15,819
Earnings before administrative costs (EBAC)	**7,889**	5,819	**29,626**	24,126

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 settlement and realized net (gain) loss on swap termination. The reader can establish the link between net earnings (loss) and adjusted net earnings with the reconciliation items presented in this report. The definition of adjusted net earnings used by the Corporation may differ from those used by other companies. Adjusted net earnings and adjusted net earnings per share are non-IFRS measures and are used by management to monitor financial performance and to make strategic decisions.

ADJUSTED NET EARNINGS PER SHARE ("ADJUSTED EPS")

Adjusted net earnings per share ("Adjusted EPS") is defined as adjusted net earnings, divided by the weighted average number of outstanding shares for the period. Adjusted EPS is a non-IFRS ratio that is an indicator of the financial performance of the Corporation's activities and allows the Corporation to present the adjusted net earnings on a basic and/or diluted share basis. Refer to the table below for a reconciliation of Adjusted basic and diluted EPS to diluted EPS (namely, net earnings per share) as determined under IFRS.

RECONCILIATION OF NET EARNINGS (LOSS) TO ADJUSTED NET EARNINGS

(In thousands of Canadian dollars)	Three-month periods ended June 30		Years ended June 30	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings (loss) for the period	**2,445**	(195)	**5,107**	3,119
Acquisition and integration costs	**677**	(7)	**1,135**	489
Amortization of intangible assets related to business combinations	**1,477**	986	**5,026**	3,839
Unrealized exchange (gain) loss	**484**	15	**(181)**	654
Changes in fair value of the contingent considerations	**1,114**	(257)	**2,565**	462
Stock-based compensation costs	**480**	132	**1,303**	253
Fair value gain on step acquisition	**-**	(4)	**-**	(2,351)
Litigation settlement	**-**	4	**-**	654
Realized net (gain) loss on interest rate swap termination	**-**	-	**(237)**	237
Deferred tax recovery	**(4,570)**	-	**(4,570)**	-
Income taxes related to above items	**(480)**	(217)	**(1,300)**	(885)
Adjusted net earnings	**1,627**	457	**8,848**	6,471
Adjusted basic EPS	**0.018**	0.005	**0.100**	0.081
Adjusted diluted EPS	**0.018**	0.005	**0.094**	0.071

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 34 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 18 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 June 30, 2022**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	12,997	13,360	25,689	52,046
Recurring revenues	**4,494**	**13,360**	**25,689**	**43,543**

(In thousands of Canadian dollars)	**Year ended June 30, 2022**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	42,440	54,397	87,519	184,356
Recurring revenues	**14,595**	**54,397**	**87,519**	**156,511**

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

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

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 June 30, 2022
(In thousands of Canadian dollars)

	2022 Revenues	2021 Revenues	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	$	$	$	%	$	%	$	%	$	%
WTS	**12,997**	7,074	5,923	83.7	-	-	-	-	5,923	16.8
Specialty Products	**13,360**	10,334	3,026	29.3	283	0.8	-	-	2,741	7.8
O&M	**25,689**	17,796	7,893	44.4	808	2.3	4,593	13.0	2,494	7.1
Total revenues	**52,046**	35,204	16,842	47.8	1,091	3.1	4,593	13.0	11,158	31.7

Year ended June 30, 2022
(In thousands of Canadian dollars)

	2022 Revenues	2021 Revenues	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	$	$	$	%	$	%	$	%	$	%
WTS	**42,440**	30,355	12,085	39.8	-	-	-	-	12,085	39.8
Specialty Products	**54,397**	43,920	10,477	23.9	(308)	(0.2)	5,966	4.1	4,820	3.3
O&M	**87,519**	70,049	17,470	24.9	(1,019)	(0.7)	9,796	6.8	8,692	6.0
Total Revenues	**184,356**	144,324	40,032	27.7	(1,327)	(0.9)	15,762	10.9	25,597	17.7

O&M CONTRACTS RENEWAL RATE

The O&M contracts retention rate is calculated with the number of O&M customers that either had long-term contracts or ''evergreen'' contracts at the end of fiscal year 2022 over the total number of customers. The definition of O&M contracts retention rate used by the Corporation may differ from those used by other companies.

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.

RISK FACTORS

The Corporation is subject to a number of risks, and uncertainties and is affected by a number of factors which could have a material adverse effect on the Corporation's business, financial condition, operating results or achievement the three-year strategic plan. The risks are discussed in the "Risk Factors" section of the Corporation's most recent Annual Information Form available under our profile on SEDAR at www.sedar.com.

FINANCIAL RISK FACTORS

Please refer to note 23 of the audited annual consolidated financial statements for the year ended June 30, 2022, for a summary of financial risk management.

ACCOUNTING POLICIES

The significant accounting policies are described in note 2 of the audited annual consolidated financial statements for the year ended June 30, 2022.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

The summary of critical accounting estimates, assumptions and judgements are described in note 3 of the audited annual consolidated financial statements for the year ended June 30, 2022.

NEW ACCOUNTING STANDARDS

The summary of accounting standards and amendments issued but not yet adopted are described in note 4 of the audited annual consolidated financial statements for the year ended June 30, 2022.

CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Corporation has filed certificates signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure Controls and Procedures

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

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

An evaluation was carried out, under the supervision of the CEO and the CFO of the effectiveness of the Corporation's disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective, using the criteria set forth by NI 52-109.

Internal Controls Over Financial Reporting

The CEO and the CFO have also designed internal controls over financial reporting or have caused them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The internal controls over financial reporting are designed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission 2013 (COSO 2013) on Internal Control – Integrated Framework. The work performed during the fiscal year allows them to conclude that the internal controls over financial reporting are effective for the year ended June 30, 2022.

Changes in Internal Controls over Financial Reporting

There have been no changes in Corporation's internal control over reporting that occurred during the most recent interim period and year ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, other than changes resulting from the acquisitions of JCO and EC described below.

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 June 30, 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. Note 5, Business combination, of the Corporation's annual audited consolidated financial statements for the year ended June 30, 2022, presents summary information with respect to JCO and EC.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

H_2O Innovation's CEO and CFO have also evaluated the effectiveness of H_2O Innovation's disclosure controls and procedures as of June 30, 2022. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures were effective as of that date. Based on this assessment, they determined that there were no material weaknesses in internal control over financial reporting, based on material weakness' definition set forth in NI 52-109. In compliance with NI 52-109, H_2O Innovation's CEO and CFO have provided a certification related to H_2O Innovation's annual disclosure to the Canadian Securities Administrators, including the Consolidated Financial Statements and MD&A.

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

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

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

The President and Chief Executive Officer	The Chief Financial Officer
Frédéric Dugré	Marc Blanchet
September 27, 2022	September 27, 2022

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

Independent auditor's report

To the shareholders of
H2O Innovation Inc.

Opinion

We have audited the consolidated financial statements of **H2O Innovation Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at June 30, 2022 and 2021, and the consolidated statements of changes in shareholders' equity, consolidated statements of earnings, consolidated statements of comprehensive earnings, and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Business combination - Valuation of customer relationships of JCO, Inc. ("JCO") and Environmental Consultants, L.L.C. ("EC")	
As at December 15, 2021, the Group acquired all outstanding shares of JCO and EC. These business acquisitions have been made for an aggregate consideration of $26.3 million. As part of these business acquisitions, the Group recognized customer relationships as intangible assets with a combined fair value of $17,4 million.	Our audit procedures included, among others: • Assessing the reasonableness of significant assumptions, including revenue growth rates and EBITDA margins, by comparing the assumptions used to the historical data of the acquired entities and to current industry and economic trends;

Key audit matters	How our audit addressed the key audit matters
Business combination - Valuation of customer relationships of JCO, Inc. ("JCO") and Environmental Consultants, L.L.C. ("EC") (continued)	
The purchase price allocation related to these business acquisitions is disclosed in note 3 to the consolidated financial statements. We identified the valuation of the acquisition-date fair value of the customer relationships acquired in those business acquisitions as a key audit matter. The fair value of customer relationships acquired is determined in reference to valuation inputs including estimates related to forecasted cash flows, such as revenue growth rates and earnings before interest, taxes, depreciation, and amortization ["EBITDA"] margins, as well as customer attrition and discount rates. These key assumptions utilized in establishing the fair value of customer relationships acquired require significant auditor judgement as well as the involvement of valuation specialists due to the sensitivity of the fair value conclusion to these significant assumptions.	• Evaluating management's ability to accurately forecast information by comparing historical forecasts of previously acquired entities to actual results; • Involving our valuation specialists to assist in testing the mathematical accuracy of the model, evaluating the reasonableness of customer attrition by reviewing the acquired entity's historical data trends and of the discount rates by comparing them to current market data available for comparable entities; • Performing sensitivity analyses on key assumptions to evaluate changes in the fair value of the customer relationships that would result from changes in the underlying inputs; and • Assessing the adequacy of the disclosures in the consolidated financial statements.
Impairment test - Valuation of recoverable amount of the operation and maintenance (O&M) segment	
As at June 30, 2022, goodwill attributed to the O&M segment amounted to $18.8 million. Management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of goodwill. When performing the impairment test, the recoverable amount was determined based on its value in use, which is calculated using a discounted pre-tax cash flow forecast. Significant judgments, estimates and assumptions in respect of impairment are disclosed in note 11 to the consolidated financial statements. Auditing management's annual goodwill impairment test for the O&M segment was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions for determining the recoverable amount of the O&M segment as at April 1, 2022.	Our audit procedures included, among others: • Involving our valuation specialists to assist in evaluating the Group's valuation methodology, the mathematical accuracy of the model and the discount rate used by comparing it to current market data available for comparable entities; • Comparing management's significant assumptions used in the calculation such as the revenue growth rates and EBITDA margins to the Group's business plan and to publicly available industry reports and current market data available for comparable entities; • Evaluating management's ability to accurately forecast information by comparing historical forecasts of the segment to actual results; • Performing sensitivity analysis on key assumptions to evaluate changes in the recoverable amount that would result from changes in the underlying input; and

Key audit matters	How our audit addressed the key audit matters
Impairment test - Valuation of recoverable amount of the operation and maintenance (O&M) segment (continued)	
Significant assumptions included revenue growth rates, EBITDA margins and discount rate, which are affected by expectations about future market and economic conditions.	• Assessing the adequacy of the disclosures in the consolidated financial statements.
Revenue recognition – Estimate of total expected costs to complete project contracts	
As described in note 2, the Group recognizes revenue for project contracts, which consists mainly of the design and custom-build of integrated water treatment systems, over time, using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. During the year ended June 30, 2022, the Group recognized $27.8 million of revenues from project contracts. We identified the evaluation of the estimated costs to complete for in-progress project contracts at year-end as a key audit matter because of the significant judgment made by management to estimate costs to complete that drives the timing of revenue. Changes to costs to complete estimates can have a material impact on the amount of revenue recognized. These significant judgments include those related to estimated future labour and materials costs. These estimates are subjective and complex due to the long term and unique nature of many of the projects and are dependent on the status of the individual projects at year end.	Our audit procedures included, among others: • Inspecting, on a sample basis, contracts, and, when applicable, change orders, to understand the contract scope and key terms and to assess the impact on estimated costs to complete; • Interviewing, on a sample basis, operational personnel of the Group to evaluate reasonability of progress to date, the estimate of costs to be incurred to complete the project, and understand factors impacting the amount of time and costs to complete the project; • Testing, on a sample basis, the estimated costs to be incurred by tracing underlying evidence such as vendor quotes, purchase orders, labour rates or historical costs appropriately adjusted for inflation for similar completed projects; • Comparing, on a sample basis, the costs incurred and the estimated costs to complete to the original total estimated costs; and • Assessing management's ability to forecast, by comparing the original total estimated costs to the total costs incurred for contracts completed during the year and by considering its consistency with recent results of operations.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP [1]

Quebec City, Canada
September 27, 2022

[1] CPA auditor, public accountancy permit n° A133737

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

As at June 30,	2022	2021
	$	$
ASSETS (note 14)		
Current assets		
Cash	**7,382**	15,409
Accounts receivable (notes 6 and 23)	**35,696**	22,148
Inventories (note 7)	**20,171**	8,486
Income taxes receivable (note 17)	**982**	-
Contract assets (note 20)	**11,591**	7,574
Prepaid expenses and deposits	**4,236**	2,868
	80,058	56,485
Non-current assets		
Property, plant and equipment (note 8)	**15,632**	5,657
Intangible assets (note 9)	**47,993**	33,131
Right-of-use assets (note 10)	**16,012**	10,094
Other assets	**157**	200
Related party loans receivable (note 27 a)	**1,250**	1,250
Goodwill (notes 5 and 11)	**37,672**	30,209
Deferred income tax assets (note 17)	**6,889**	76
	205,663	137,102
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	**23,600**	15,466
Income taxes payable (note 17)	**-**	508
Provisions (notes 13 and 21 c)	**159**	644
Contract liabilities (note 20)	**6,207**	3,283
Contingent considerations (notes 5 and 16)	**10,017**	4,026
Current portion of long-term debt (note 15)	**1,563**	2,975
Current portion of lease liabilities (note 18)	**1,898**	1,636
	43,444	28,538
Non-current liabilities		
Bank loans (note 14)	**45,562**	-
Long-term debt (note 15)	**510**	12,941
Other non-current financial liabilities	**173**	261
Contingent consideration (notes 5 and 16)	**-**	2,712
Deferred income tax liabilities (note 17)	**4,519**	3,937
Lease liabilities (note 18)	**15,027**	9,318
	109,235	57,707
SHAREHOLDERS' EQUITY		
Share capital (note 19)	**130,027**	119,780
Reserve – Stock options (note 19)	**5,029**	3,726
Reserve – Warrants (note 19)	**-**	679
Deficit	**(40,085)**	(45,192)
Accumulated other comprehensive income	**1,457**	402
	96,428	79,395
	205,663	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

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

	Common shares (number) (note 19)	Share capital (note 19)	Reserve – Stock option (note 19)	Reserve – Warrants (note 19)	Deficit	Accumulated other comprehensive income	Total
		$	$	$	$	$	$
Balance as at July 1, 2020	76,872,608	106,872	3,473	2,706	(48,311)	3,873	68,613
Stock-based compensation costs (note 19)	-	-	253	-	-	-	253
Net earnings	-	-	-	-	3,119	-	3,119
Shares issued on warrants exercised	8,264,596	12,908	-	(2,027)	-	-	10,881
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	(3,876)	(3,876)
Other comprehensive income (loss) – Cash flow hedges net gains arising during the year (net of tax)	-	-	-	-	-	168	168
Other comprehensive income (loss) – Net gain on cash flow hedges reclassified to consolidated statement of earnings	-	-	-	-	-	237	237
Balance as at June 30, 2021	85,137,204	119,780	3,726	679	(45,192)	402	79,395
Balance as at July 1, 2021	**85,137,204**	**119,780**	**3,726**	**679**	**(45,192)**	**402**	**79,395**
Stock-based compensation costs (note 19)	**-**	**-**	**1,303**	**-**	**-**	**-**	**1,303**
Net earnings	**-**	**-**	**-**	**-**	**5,107**	**-**	**5,107**
Issuance of common shares (note 5)	**1,107,733**	**2,641**	**-**	**-**	**-**	**-**	**2,641**
Shares issued on warrants exercised	**3,762,471**	**5,939**	**-**	**(679)**	**-**	**-**	**5,260**
Share issue expenses	**-**	**(22)**	**-**	**-**	**-**	**-**	**(22)**
Deferred income tax recovery		**1,689**	**-**	**-**	**-**	**-**	**1,689**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**1,089**	**1,089**
Other comprehensive income (loss) – Cash flow hedges net gains arising during the year (net of tax)	**-**	**-**	**-**	**-**	**-**	**203**	**203**
Other comprehensive income (loss) – Net loss on cash flow hedges reclassified to consolidated statement of earnings (note 15)	**-**	**-**	**-**	**-**	**-**	**(237)**	**(237)**
Balance as at June 30, 2022	**90,007,408**	**130,027**	**5,029**	**-**	**(40,085)**	**1,457**	**96,428**

See accompanying notes to consolidated financial statements.

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

Years ended June 30,	2022	2021
	$	$
Revenues (notes 20 and 26)	**184,356**	144,324
Cost of goods sold (note 21 a)	**134,749**	104,379
Gross profit before depreciation and amortization	**49,607**	39,945
Selling, general and administrative expenses (note 21 a)	**33,376**	25,493
Depreciation of property, plant and equipment and right-of-use assets (notes 8, 10 and 21 b)	**3,812**	3,187
Amortization of intangible assets (notes 9 and 21 b)	**5,419**	4,141
Other (gains) and losses – net (note 21 c)	**2,517**	2,012
Government tax credit (note 17)	**(500)**	-
Acquisition and integration costs (note 5)	**1,135**	489
Operating costs total	**45,759**	35,322
Operating profit	**3,848**	4,623
Finance income (note 27 a)	**(33)**	(41)
Finance costs	**2,392**	2,376
Finance costs – net	**2,359**	2,335
Share of profit of an associate	**-**	183
Fair value gain on step acquisition (note 5)	**-**	2,351
Earnings before income taxes	**1,489**	4,822
Current income tax expense (note 17)	**952**	1,515
Deferred tax expense (recovery) (note 17)	**(4,570)**	188
	(3,618)	1,703
Net earnings for the year	**5,107**	3,119
Basic net earnings per share (note 22)	**0.058**	0.039
Diluted net earnings per share (note 22)	**0.054**	0.034
Weighted average number of shares outstanding – Basic (note 22)	**88,189,057**	79,469,345
Weighted average number of shares outstanding – Diluted (note 22)	**93,900,881**	91,233,758

See accompanying notes to consolidated financial statements.

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

Years ended June 30,	**2022**	2021
	$	$
Net earnings for the year	**5,107**	3,119
Other comprehensive income (loss) - Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**1,089**	(3,876)
Cash flow hedges net gains arising during the year (net of tax)	**203**	168
Net loss (gain) on cash flow hedges reclassified to consolidated statement of earnings (note 15)	**(237)**	237
Comprehensive earnings (loss) for the year	**6,162**	(352)

See accompanying notes to consolidated financial statements.

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

Years ended June 30,	2022	2021
	$	$
Operating activities		
Earnings before income taxes for the year	**1,489**	4,822
Non-cash items		
Finance costs – net	**2,359**	2,335
Depreciation of property, plant and equipment and right-of-use assets (notes 8, 10 and 21 b)	**3,812**	3,187
Amortization of intangible assets (notes 9 and 21 b)	**5,419**	4,141
Fair value gain on step acquisition (note 5)	**-**	(2,351)
Gain on sale and leaseback transaction (note 10)	**-**	(68)
Changes in fair value of contingent considerations (note 16)	**2,565**	462
Others	**186**	(4)
Net change in tax credit	**(500)**	-
Net unrealized foreign exchange differences	**(139)**	(792)
Stock-based compensation costs	**1,303**	253
Share of profit of an associate	**-**	(183)
	16,494	11,802
Change in working capital items	**(21,038)**	(3,222)
Interests received	**33**	41
Income taxes paid	**(1,739)**	(1,337)
Net cash flows from (used in) operating activities	**(6,250)**	7,284
Investing activities		
Variation of other assets	**43**	200
Acquisition of property, plant and equipment (note 8)	**(9,658)**	(1,186)
Proceeds from sale and leaseback transaction (note 10)	**-**	2,572
Acquisition of intangible assets (note 9)	**(806)**	(370)
Business combination, net of cash acquired (note 5)	**(21,133)**	(4,319)
Payment of contingent consideration (note 16)	**(1,093)**	(2,860)
Dividends from associate	**-**	1,195
Net cash flows used in investing activities	**(32,647)**	(4,768)
Financing activities		
Proceeds from bank loans	**45,767**	2,035
Repayment of bank loans	**-**	(5,450)
Net proceeds from long-term debt contracted (note 15)	**64**	8,510
Long-term debt reimbursement (note 15)	**(15,953)**	(9,637)
Payment of lease liabilities (note 18)	**(2,171)**	(1,838)
Interest paid	**(1,972)**	(1,445)
Financing costs	**(204)**	(126)
Warrants exercised	**5,260**	10,881
Share issue expenses (note 5)	**(22)**	-
Net cash flows from financing activities	**30,769**	2,930
Net change in cash	**(8,128)**	5,446
Effect of exchange rate changes on the balance of cash held in foreign currencies	**101**	524
Increase (decrease) in cash	**(8,027)**	5,970
Cash – Beginning of the year	**15,409**	9,439
Cash – End of the year	**7,382**	15,409

See accompanying notes to consolidated financial statements.

1. Description of business

H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") is incorporated under the *Canada Business Corporations Act*. The Corporation designs and provides state-of-the-art, custom-built, and integrated water treatment solutions based on membrane filtration technology for municipal, energy and natural resources end-users. The Corporation's activities rely on three pillars, which are: i) water technologies and services ("WTS"); ii) specialty products, including a complete line of maple equipment and products, specialty chemicals, consumables, and specialized products for the water treatment industry (couplings and cartridge filters) ("Specialty Products"); and iii) operation and maintenance services for water and wastewater treatment systems ("O&M"). The registered office of the Corporation is located at 330 Saint-Vallier Street East, Suite 340, Quebec City, Quebec, G1K 9C5, Canada.

On March 22, 2022, the Corporation's common shares were listed on the Toronto Stock Exchange ("TSX") under the symbol HEO. The common shares of the Corporation were delisted from the TSX Venture Exchange ("TSXV") at the same time.

2. Basis of preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for contingent consideration which is measured at fair value.

On September 27, 2022, the Board reviewed and approved these consolidated financial statements and authorized its publication.

Reporting and functional currency

The Corporation's reporting currency is the Canadian dollar. All values are rounded up to the nearest thousand dollars, except where otherwise indicated. Each foreign operation determines its own functional currency, and items included in the financial statements of each foreign operation are measured using that functional currency. The functional currency of each wholly owned entity of the group is the following:

H_2O Innovation Inc.	Canadian dollar
H_2O Innovation USA Inc.	US dollar
Professional Water Technologies, L.L.C	US dollar
Piedmont Pacific Corporation	US dollar
Piedmont Pacific Inc.	Canadian dollar
Piedmont Hong Kong Limited	US dollar
H_2O Innovation Operation & Maintenance, L.L.C	US dollar
JCO, Inc.	US dollar
Environmental Consultants, L.L.C	US dollar
Genesys International Limited	British pound
Genesys Membrane Products, S.L.U.	Euro
Genesys Membrane Products Latinoamericana Limitada	Chilean peso

Principles of consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

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

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

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

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

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

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IFRS 9, Financial Instruments*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of earnings.

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

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

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

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

Foreign currency translation

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

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

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

Fair value measurement

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

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

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

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

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

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

Cash

Cash includes cash and demand deposits.

Inventories

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

Leases

Right-of-Use Assets

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

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

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

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

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

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

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

Property, plant and equipment

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

Buildings	10-26 years
Machinery and equipment	2-15 years
Furniture, office and computer equipment	2-10 years
Automotive equipment	2-7 years
Containerized units	4-10 years
Leasehold improvements	remaining term of the lease between one and ten years

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

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

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

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

Intangible assets

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

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

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

The Corporation is using the following amortization methods:

Intangible assets acquired separately

- Software is amortized using the straight-line method over a period of five (5) or ten (10) years.

Intangible assets acquired in business combinations

- Intellectual property includes the patents, the rights on technologies, technologies and the technical drawings. Intellectual properties and patents are amortized using the straight-line method over a period of seven (7) to fifteen (15) years.
- Technical drawings are amortized using the straight-line method over a period of ten (10) years.
- Trademarks with a definite useful life are amortized using the straight-line method over a period of three (3) to seven (7) years.
- Customer relations are amortized using the straight-line method over periods of five (5) and fifteen (15) years.
- Non-compete agreements are amortized using the straight-line method over a period of six (6) months to ten (10) years.
- Contractual agreements are amortized over the related contract length.
- Distribution network is amortized using the straight-line method over a period of five (5) years.

Research and development costs

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

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

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

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

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

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

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

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

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

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

Impairment of goodwill

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

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

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

Financial instruments – initial recognition and subsequent measurement

Classification and measurement

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

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

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

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

The Corporation has made the following financial instrument classifications:

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

Impairment

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

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

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

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

Derecognition

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Cash flow hedges

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

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

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

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

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

Revenue recognition

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

Project contracts

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

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

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

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

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

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

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

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

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

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

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

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

Interest income

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

Share capital

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

Share-based payment

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

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

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

Warrants

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

Taxation

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

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

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

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

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

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

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

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

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

Segment reporting

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

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

Net earnings per share

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

Provisions

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

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

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

Warranties

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

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

New standards, interpretations and amendments adopted

The Corporation applied for the first-time certain standards and amendments, which are effective for annual period beginning on or after July 1, 2021. Theses adoptions had no impact on the consolidated financial statements. The Corporation has not early adopted any standard, interpretation or amendment.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Corporation.

3. Critical accounting estimates, assumptions and judgements

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

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

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

COVID-19 pandemic

For the year ended June 30, 2022, the Corporation assessed the impact of the uncertainties surrounding the COVID-19 pandemic on its balance sheet carrying amounts. This review required the use of judgements and estimates and resulted in no material impact.

The Corporation will continue to closely monitor the impact of the COVID-19 pandemic in future reporting periods.

Estimates and assumptions

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

Impairment of goodwill
Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which the goodwill has been allocated. The value in use calculation requires management to estimate future pre-tax discounted cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value. The key assumptions required for the value in use estimation are the revenue growth rates and the earnings before interest, taxes, depreciation, and amortization ("EBITDA") margin and the discount rate. Cash flows for each CGU are derived from the budget prepared by management and approved on an annual basis by the members of the Board of Directors, and are the primary sources for determining the value in use.

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

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 11. Those estimates, including the methodology used, the assessment of CGU's and how goodwill is allocated, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

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

Deferred tax assets
Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management exercises judgment in the assessment of the probability to estimate the extent to which deferred income tax assets can be realized. In making this judgment, management assess forecasts based on the most recent approved budget. Management uses judgement to assess specific facts and circumstances to evaluate legal, economic and other uncertainties.

4. Accounting standards and amendments issued but not yet adopted

The following amendments to standards have been issued and are applicable to the Corporation for its annual periods beginning on July 1, 2022 and thereafter, with an earlier application permitted:

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

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

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment will be effective on July 1, 2022. The Corporation will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Definition of Accounting Estimates – Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments will be effective on July 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments will be effective on July 1, 2023. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
On May 7, 2021, the IASB issued amendments to IAS 12 – Income Taxes to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will be required to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments will be effective on July 1, 2023. Earlier application is permitted.

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

5. Business combinations

A. Acquisition of Leader Evaporator Co., Inc.

On June 30, 2022, the Corporation entered into an asset purchase agreement with Leader Evaporator Co., Inc. ("Leader") to purchase substantially all of the assets of Leader. Leader has been selling maple farming equipment and products for more than 130 years to maple syrup producers located mainly in the United States. The brand is positioned as the perfect combination between 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 manufacturer of maple equipment and products and to expand its manufacturing capabilities with an additional facility of 103,780 sq. ft. located in the Town of Swanton, VT. The effective date of the acquisition is June 30, 2022.

The transaction was financed using the Corporation's available cash and existing credit facilities.

The Corporation has completed its fair value assessment of the assets acquired and of the liabilities assumed. All of the intangible assets acquired are not deductible for tax purposes.

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

Estimated fair value recognized on acquisition date (June 30, 2022)

(In thousands of Canadian dollars)	Final allocation
	$
Assets acquired	
Cash	**135**
Accounts receivable [1]	**237**
Inventory	**3,914**
Contract assets	**243**
Prepaid expenses	**21**
Property, plant and equipment	**1,664**
Right-of-use assets [2]	**2,855**
Liabilities assumed	
Long-term debt	**(1,346)**
Accounts payable and accrued liabilities	**(4,646)**
Contract liabilities	**(1,609)**
Lease liabilities [2]	**(2,855)**
Identifiable net tangible assets acquired	**(1,387)**
Intangible assets acquired	
Trademark	**759**
Customer relationships	**682**
Intellectual property	**103**
Fair value of identifiable net assets acquired	**157**
Consideration	
Cash	**116**
Total consideration payable	**116**
Bargain purchase gain on acquisition	**41**
Cash consideration paid	**116**
Less: Cash acquired	**(135)**
Net cash flow on acquisition	**(19)**

(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.

Costs related to the acquisition

Transaction costs of $192 were expensed and are included in Acquisition and integration costs in the consolidated financial statements in the Consolidated Statements of Earnings.

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 trademark, customer relationships and intellectual property. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year revenue growth, discount rate, attrition rate and operating income before depreciation and amortization margin.

Based on management's calculations, the fair value of assets acquired, and liabilities assumed exceeds the amount of consideration transferred resulting in a gain of $41 recognized in other gains and losses in the consolidated statements of earnings on the acquisition date.

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

Description of the business combination

The Corporation entered into two different share purchase agreements pertaining respectively to the acquisition of all the issued and outstanding shares of JCO, Inc. ("JCO") and of all the membership interest 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 deemed 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 remeasured as at each reporting date. The purchase price was subject to customary working capital adjustments as of the closing date. The working capital adjustments amounting to $0.3 M (US$0.2 M) was finalized and has been received by the Corporation as at June 30, 2022.

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

Purchase price allocation on acquisition date (December 15, 2021)

(In thousands of Canadian dollars)	Initial Allocation	Adjustments	Final Allocation – JCO	Final Allocation – EC	Final Allocation – Total
	$	$	$	$	$
Assets acquired					
Cash	729	-	**487**	**242**	**729**
Accounts receivable [1]	1,720	(7)	**787**	**926**	**1,713**
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**
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)	1,609	**-**	**-**	**-**
Identifiable net tangible assets acquired	432	1,354	**645**	**1,141**	**1,786**
Intangible assets acquired					
Customer relationships	16,722	645	**11,036**	**6,331**	**17,367**
Non-compete agreements	161	(20)	**141**	**-**	**141**
Goodwill arising on acquisition	8,923	(1,950)	**5,599**	**1,374**	**6,973**
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					**(314)**
Less: Cash acquired					**(729)**
Net cash flow on acquisition					**21,152**

(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.

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 2022. 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 December 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 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

Transaction costs of $252 were expensed and are included in Acquisition and integration costs in the consolidated financial statements in the Consolidated Statements of Earnings. The attributable costs of the issuance of shares of $17 have been charged directly to equity as a reduction in the share capital.

Determination of fair value

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

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

Goodwill arising from the business combination

Based on management's calculations, an amount of $6,972 of goodwill has been attributed to the transaction and stems essentially from (i) the synergies with the other Corporation's activities, (ii) the economic value of the workforce acquired, and (iii) intangible assets that do not meet the criteria for separate recognition.

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

The Corporation's net earnings for the year ended June 30, 2022 include $9,803 in revenues and net earnings of $395 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 year ended June 30, 2022 would have reached $192,063 and consolidated net earnings for the year ended June 30, 2022 would have been $4,780.

The Corporation considers the pro forma figures to be an approximate measurement of the financial performance of the combined business over a twelve-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of the Corporation if the acquisition would have occurred on July 1, 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 Corporation; and
- calculated an additional income tax expense to reflect the pro forma adjustments described above.

C. 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.

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.

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 customer relationships and non-compete agreements. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year revenue growth, discount rate, attrition 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.

D. 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.

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.

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.

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 customer relationships. Significant assumptions used in the determination of intangible assets, as defined by management, are year-over-year revenue growth, discount rate, attrition 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.

6. Accounts receivable

As at June 30,	2022	2021
	$	$
Trade accounts receivable	31,902	19,281
Hold back from customers under manufacturing contracts	3,806	2,818
Allowance for expected credit losses	(196)	(220)
	35,512	21,879
Other receivables	184	269
	35,696	22,148

Trade accounts receivable disclosed above include amounts that are past due at the end of the reporting period for which the Corporation has not recognized an allowance for expected credit losses because there has not been a significant change in credit quality and the amounts are still considered recoverable. In some cases, the Corporation holds the legal right to lien construction projects in the event that certain counterparties do not pay their balance within a specified period of time. The gross amount of accounts receivable for which an allowance for expected credit losses is recorded is $196 ($220 as at June 30, 2021).

(a) Movement in the allowance for expected credit losses

As at June 30,	2022	2021
	$	$
Balance at beginning of the year	(220)	(171)
Impairment losses recognized on receivables	(27)	(177)
Amounts written off during the year as uncollectible	38	124
Foreign exchange translation	13	4
Balance at end of the year	(196)	(220)

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

7. Inventories

As at June 30,	2022	2021
	$	$
Raw materials	5,362	1,297
Work in progress	525	412
Finished goods	14,284	6,777
	20,171	8,486

As a result of variations in the aging of its inventory of raw materials, the Corporation recognized a provision for obsolete inventory of $176 ($225 in 2021).

8. Property, plant and equipment

Cost	Land and buildings	Machinery and equipment	Furniture, office and computer equipment	Automotive equipment	Containerized units	Leasehold improvements	Total
	$	$	$	$	$	$	$
Balance as at June 30, 2020	3,539	2,494	854	2,429	1,640	775	**11,731**
Additions [(a)]	17	363	154	550	371	81	**1,536**
Business combinations (note 5)	93	50	31	698	-	-	**872**
Disposals and write-offs	(1,899)	-	(7)	(115)	-	-	**(2,021)**
Effect of foreign currency exchange differences	43	(166)	(12)	(243)	(115)	(28)	**(521)**
Balance as at June 30, 2021	1,793	2,741	1,020	3,319	1,896	828	**11,597**
Additions [(a)]	-	5,655	353	2,721	83	846	**9,658**
Business combination (note 5)	-	1,177	330	747	-	-	**2,254**
Disposals and write-offs	-	-	(2)	(111)	-	-	**(113)**
Effect of foreign currency exchange differences	(11)	28	14	148	54	23	**256**
Balance as at June 30, 2022	1,782	9,601	1,715	6,824	2,033	1,697	**23,652**
Accumulated depreciation							
Balance as at June 30, 2020	(642)	(1,130)	(422)	(1,143)	(971)	(500)	**(4,808)**
Depreciation expense	(145)	(360)	(191)	(682)	(185)	(56)	**(1,619)**
Disposals and write-offs	107	-	7	87	-	-	**201**
Effect of foreign currency exchange differences	(1)	82	5	94	82	24	**286**
Balance as at June 30, 2021	(681)	(1,408)	(601)	(1,644)	(1,074)	(532)	**(5,940)**
Depreciation expense	(81)	(469)	(236)	(885)	(232)	(75)	**(1,978)**
Disposals and write-offs	-	-	-	78	-	-	**78**
Effect of foreign currency exchange differences	(1)	(42)	(16)	(74)	(38)	(9)	**(180)**
Balance as at June 30, 2022	(763)	(1,919)	(853)	(2,525)	(1,344)	(616)	**(8,020)**
Net amount as at June 30, 2021	**1,112**	**1,333**	**419**	**1,675**	**822**	**296**	**5,657**
Net amount as at June 30, 2022	**1,019**	**7,682**	**862**	**4,299**	**689**	**1,081**	**15,632**

(a) The non-cash additions of property and equipment amounted to $0.2 M in the year ended June 30, 2022 ($ 0.4 M as at June 30, 2021).

9. Intangible assets

Cost	Software	Intellectual property	Trademarks	Customer and distributor relations	Contract based agreements	Deferred development costs	Total
	$	$	$	$	$	$	$
Balance as at June 30, 2020	3,143	10,905	2,891	34,532	7,488	1,048	**60,007**
Additions	123	-	-	-	-	247	**370**
Business combination (note 5)	-	-	-	9,062	176	-	**9,238**
Effect of foreign currency exchange differences	(14)	(401)	(174)	(1,706)	(610)	(15)	**(2,920)**
Balance as at June 30, 2021	3,252	10,504	2,717	41,888	7,054	1,280	**66,695**
Additions	234	16	-	-	-	556	**806**
Business combination (note 5)	-	103	759	18,049	141	-	**19,052**
Effect of foreign currency exchange differences	-	113	70	660	246	7	**1,096**
Balance as at June 30, 2022	3,486	10,736	3,546	60,597	7,441	1,843	**87,649**
Accumulated amortization							
Balance as at June 30, 2020	(1,680)	(10,021)	(1,633)	(12,626)	(4,394)	(574)	(30,928)
Amortization expense	(234)	(205)	(214)	(2,662)	(703)	(123)	(4,141)
Effect of foreign currency exchange differences	10	336	96	669	390	4	1,505
Balance as at June 30, 2021	(1,904)	(9,890)	(1,751)	(14,619)	(4,707)	(693)	(33,564)
Amortization expense	(262)	(202)	(265)	(3,890)	(645)	(155)	(5,419)
Effect of foreign currency exchange differences	(5)	(93)	(43)	(352)	(177)	(3)	(673)
Balance as at June 30, 2022	(2,171)	(10,185)	(2,059)	(18,861)	(5,529)	(851)	(39,656)
Net amount as at June 30, 2021	**1,348**	**614**	**966**	**27,269**	**2,347**	**587**	33,131
Net amount as at June 30, 2022	**1,315**	**551**	**1,487**	**41,736**	**1,912**	**992**	**47,993**

10. Right-of-use assets

The following tables reconciles the right-of-use assets for the Corporation as of June 30, 2022:

	Buildings	Automotive equipment	Machinery and equipment	Total
	$	$	$	$
Cost				
Balance as at June 30, 2020	8,818	715	806	10,339
Additions	2,083	34	-	2,117
Business combination (note 5)	1,293	-	-	1,293
Disposals and write-off	(11)	-	-	(11)
Effect of changes in exchange rates	(725)	(41)	(5)	(771)
Balance as at June 30, 2021	11,458	708	801	12,967
Additions	**4,523**	**250**	**32**	**4,805**
Business combination (note 5)	**3,021**	**-**	**-**	**3,021**
Disposals and write-off	**-**	**(46)**	**-**	**(46)**
Effect of changes in exchange rates	**(29)**	**2**	**3**	**(24)**
Balance as at June 30, 2022	**18,973**	**914**	**836**	**20,723**
Accumulated depreciation				
Balance as at June 30, 2020	(1,120)	(201)	(100)	(1,421)
Depreciation expense	(1,280)	(188)	(100)	(1,568)
Disposals and write-off	-	-	-	-
Effect of changes in exchange rates	102	12	2	116
Balance as at June 30, 2021	(2,298)	(377)	(198)	(2,873)
Depreciation expense	**(1,571)**	**(165)**	**(98)**	**(1,834)**
Disposals and write-off	**-**	**46**	**-**	**46**
Effect of changes in exchange rates	**(52)**	**4**	**(2)**	**(50)**
Balance as at June 30, 2022	**(3,921)**	**(492)**	**(298)**	**(4,711)**
Net amount – as at June 30, 2021	9,160	331	603	10,094
Net amount – as at June 30, 2022	**15,052**	**422**	**538**	**16,012**

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

11. Goodwill

The change in carrying value is as follows:

	Total
	$
Balance as at June 30, 2020	26,185
Plus: Business combination – GUS (note 5 d)	571
Plus: Business combination – GMP (note 5 c)	4,699
Effect of foreign exchange differences	(1,246)
Balance as at June 30, 2021	30,209
Plus: Business combination – JCO and EC (note 5 b)	**6,972**
Effect of foreign exchange differences	**491**
Balance as at June 30, 2022	**37,672**

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

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

	WTS		Specialty Products		O&M	
As at June 30,	**2022**	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$
Goodwill	**-**	-	**20,823**	20,690	**16,849**	9,519
Intangible assets with indefinite useful lives	**-**	-	**440**	440	**-**	-

The Corporation performed its annual impairment test on April 1, 2022 and April 1, 2021. The Corporation considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

Specialty Products group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The pre-tax discount rate applied to the cash flow projections was 16.6% (16.7% as at June 30, 2021). Cash flows beyond the five-year period have been extrapolated using a 3.0% growth rate (3.0% as at June 30, 2021). As a result of the updated analysis management did not identify an impairment for this CGU.

O&M group of CGUs
The Corporation used the cash-generating unit's value-in-use to determine the recoverable amount, which exceeded the carrying amount. The pre-tax discount rate applied to the cash flow projections was 15.3% (15.0% as at June 30, 2021). Cash flows beyond the five-year period have been extrapolated using a 3.0% growth rate (3.0% as at June 30, 2021). As a result of the updated analysis, there is headroom of $9.3 M and management did not identify an impairment for this CGU.

The recoverable amount of each identifiable CGU or group of CGU was established by calculating its value in use which is perform using discounted cash flow projections that are based on a one-year financial budget approved by the Board of Directors and a long-term forecast prepared by management, which covers an additional period of 4 years. The key assumptions required for the value in use estimation are the pre-tax discount rate, the revenue growth rate and the gross profit before depreciation and amortization. Other assumptions used include future gross profits on projects and services, products and operation and maintenance. Cash flows and future gross profit were projected based on past experience and actual operating results using forecasts approved by management. The pre-tax discount rates were based on the Corporation's weighted average cost of capital using a standard capital structure and reflect specific risks related to the CGU under review.

Sensitivity to changes in assumptions

For the O&M group of CGUs, if the pre-tax discount rate had increased by 1.6% compared to the assumption taken by the Corporation, assuming other variable remain constant, the CGU'S recoverable amount to be equal to its carrying amount. A reduction by 3.5% of the EBITDA compared to the assumption taken by the Corporation, assuming other variables remain constant, would result in the CGU's recoverable amount to be equal to its carrying amount.

12. Accounts payable and accrued liabilities

As at June 30,	**2022**	2021
	$	$
Trade accounts payable	**13,058**	5,356
Other accrued liabilities	**10,542**	10,110
	23,600	15,466

13. Provisions

	Warranties	**Litigation [a]**	**Total**
	$	$	$
Balance as at June 30, 2021	154	490	644
Arising during the year	5	-	5
Utilised	-	(490)	(490)
Unused amounts reversed	-	-	-
Balance as at June 30, 2022	**159**	**-**	**159**

(a) The claim was settled during the fourth quarter of fiscal year 2021 for an amount of $654 which was recorded as Other (gains) and losses – net in the statements of earnings and an amount of $nil is payable as at June 30, 2022 ($490 as at June 30, 2021) and included as Provisions in the consolidated statements of financial position.

14. 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.

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 $45.6 M was used as at June 30, 2022 ($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.* $16.3 M ($nil as at June 30, 2021) bearing interest at Banker Acceptance plus 2.50% (4.34% as at June 30, 2022);
   - *b.* $2.3 M ($nil as at June 30, 2021) bearing interest at CDN prime rate plus 1.25% (4.95% as at June 30,2022);
   - *c.* US$18.2 M ($23.4 M as at June 30, 2022 and $nil as at June 30, 2021) bearing interest at US$ Libor plus 2.50% (3.62% as at June 30, 2022); and
   - *d.* US$2.9 M ($3.7 M as at June 30, 2022 and $nil as at June 30, 2021) bearing interest at US$ base rate plus 1.25% (6.50% as at June 30, 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 EDC, from which an amount of $3.1 M ($1.9 M as at June 30, 2021) was used on this credit facility as at June 30, 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 no amount was used as at June 30, 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 June 30, 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

This current credit agreement require that the Corporation meet the following financial ratios:

- Total Debt-to-EBITDA ratio, defined as total debt divided by EBITDA not exceeding a certain limit at all time.
- Fixed charge coverage ratio, including all capital and interest payments on borrowings due and capital expenditures not exceeding a certain limit at all time.

Management reviews compliance with these covenants on a quarterly basis in conjunction with filing requirements under its credit facilities. As at June 30, 2022, all covenants have been met.

15. Long-term debt

As at June 30,	2022	2021
	$	$
At amortized cost		
Loans denominated in Canadian dollars (a)(b)(e)(f)	-	14,944
Loans denominated in US dollars (c)	**1,960**	769
Loans denominated in Canadian dollars (d)	**113**	203
	2,073	15,916
Less: Current portion	**1,563**	2,975
Long-term debt	**510**	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 contracted financing agreements totaling $1,309 (US$1,017) 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 $25 (US$20), principal and interest, and are maturing through January 2023 to April 2026.

As part of the acquisition of JCO, the Corporation has assumed loans totaling $480 (US$372) related to financing agreement for automotive equipment. The loans bear interest ranging between 0.90% and 6.59% and are payable between 36 and 72 monthly instalments totaling $16 (US$13), principal and interest, and are maturing through June 2022 to August 2026. As at June 30, 2022, the Corporation had repaid all of these loans.

As part of the acquisition of Leader Evaporator, the Corporation has assumed a loan totaling $1,159 (US$900) from the Town of Swanton. The loan bear no interest and is maturing through December 31, 2022. On July 1, 2022, after repayment of $129 (US$100) the Corporation was released from its outstanding loan of the remaining amount of $1,030 (US$800).

(d) Loans denominated in Canadian dollars

The Corporation contracted 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.

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

As at June 30,	**2022**	2021
	$	$
Long-term debt, at beginning of the year	**15,916**	16,548
Increase in long-term debt	**64**	8,860
Debt acquired through business acquisition	**1,826**	-
Repayment of long-term debt	**(15,953)**	(9,637)
Financing costs	**-**	(126)
Amortization of financing costs and write-offs	**200**	337
Effect of foreign exchange differences	**20**	(66)
Long-term debt, at end of the year	**2,073**	15,916

The annual principal instalments due on the long-term debt are $1,563 in 2023, $235 in 2024, $178 in 2025, $80 in 2026 and $17 thereafter. The Corporation has no non-cash increase in long-term debt ($0.4 M as at June 30, 2021).

16. 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 5 d)	964
Plus: Contingent consideration – GMP (note 5 c)	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 5 b)	**1,745**
Plus: Change in fair value of contingent considerations	**2,565**
Less: Payment of contingent considerations	**(1,093)**
Effect of foreign exchange differences	**62**
Balance as at June 30, 2022	**10,017**
Less: Current portion	**10,017**
Contingent consideration – non-current portion	**-**

The significant unobservable inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at June 30, 2022 are provided in note 23.

17. Income taxes

Income taxes expense (recovery) is detailed as follows:

As at June 30,	**2022**	2021
	$	$
Current tax expense:		
Current period	**1,156**	1,412
Adjustment for prior periods	**(204)**	103
	952	1,515
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	**707**	100
Recognition of tax benefits previously unrecorded	**(5,170)**	
Utilization of tax benefits previously unrecorded	**(591)**	
Changes in tax rate	**840**	(21)
Adjustment for prior periods	**(356)**	109
	(4,570)	188
Income taxes	**(3,618)**	1,703

Income tax expense (recovery) recognized in equity:

As at June 30,	2022	2021
	$	$
Deferred tax related to items recognized in other comprehensive income during the year		
Origination and reversal of temporary differences	**28**	(28)
Deferred tax charged to OCI	**28**	(28)

As at June 30,	2022	2021
Deferred tax related to items recognized in share capital and retained earnings:		
Recognition of tax benefits previously unrecorded	**(1,689)**	-
Deferred tax charge to share capital	**(1,689)**	-

Reconciliation of the Corporation's effective income tax expense

The Canadian statutory tax rate is 26.05% (26.3% for 2021). The following is a reconciliation of income taxes calculated at the Canadian statutory tax rate to the expense for 2022 and 2021.

As at June 30,	2022	2021
	$	$
Net earnings before income taxes	**1,489**	4,822
Income taxes at the Canadian statutory tax rate of 26.05% (26.3% in 2021)	**388**	1,268
Tax effect from:		
Effect of differences in tax rates in other jurisdictions	**163**	(265)
Tax losses and deductible temporary differences for which no deferred income tax assets is recognized	**-**	173
Changes in statutory rates	**840**	(21)
Non-deductible stock-based payments	**340**	67
Recognition of tax benefits previously unrecorded	**(5,170)**	-
Utilization of tax benefits previously unrecorded	**(591)**	(3)
Adjustments in respect of prior years	**(560)**	212
Non-deductible items	**512**	120
Other	**460**	152
Total income tax expense	**(3,618)**	1,703

Deferred tax (liabilities) assets

As at June 30,	2022	2021
	$	$
Reconciliation to the consolidated statements of financial position:		
Deferred tax assets	6,889	76
Deferred tax liabilities	(4,519)	(3,937)
Net deferred tax (liabilities) assets	**2,370**	(3,861)

Deferred tax assets of $6,859 were recognized as at June 30, 2022 (net deferred tax assets of $76 as at June 30, 2021) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Those deferred tax assets were recognized in the consolidated statements of earnings ($5,170) and in the consolidated statements in changes of shareholders' equity ($1,689). Based upon the level of historical taxable income, and projections for future taxable income, management believes it is probable the Corporation will realize the benefits of these deductible differences and operating losses carried forward. Deferred tax assets of $30 were recognized as at June 30, 2022 (nil as at June 30, 2021) in other jurisdictions.

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

	Balance as at July 1, 2021	Recognized in earnings	Recognized in equity	Business combination	Recognized in other comprehensive loss	Balance as at June 30, 2022
	$	$	$	$	$	$
Non-capital losses	68	3,527	1,374	-	-	4,969
Property, plant and equipment	(967)	(2,970)	(67)	-	-	(4,004)
Intangible assets	(4,781)	(194)	39	-	-	(4,936)
Goodwill	(395)	238	(92)	-	-	(249)
Lease obligations	480	2,844	35	-	-	3,359
U.S. interests not deducted and deferred	643	239	30	-	-	912
Financing and share issue expenses	-	115	335	-	-	450
Research and development expenses	-	604	-	-	-	604
Other assets	1,091	167	35	-	(28)	1,265
	(3,861)	4,570	1,689	-	(28)	2,370

	Balance as at July 1, 2020	Recognized in earnings	Recognized in equity	Business combination	Recognized in other comprehensive loss	Balance as at June 30, 2021
	$	$	$	$	$	$
Non-capital losses	81	(6)	(7)	-	-	68
Property, plant and equipment	(471)	(539)	43	-	-	(967)
Intangible assets	(3,248)	820	(110)	(2,243)	-	(4,781)
Goodwill	(107)	(516)	228	-	-	(395)
Lease obligations	59	427	(6)	-	-	480
U.S. interests not deducted and deferred	1,633	(878)	(112)	-	-	643
Other assets	609	504	(50)	-	28	1,091
	(1,444)	(188)	(14)	(2,243)	28	(3,861)

18. Lease liabilities

The following table presents the lease liabilities for the Corporation as of June 30, 2022:

	2022	2021
	$	$
Lease liabilities, beginning of year	**10,954**	8,994
Additions	**4,805**	2,819
Business combination	**3,021**	1,293
Payment of lease liabilities	**(2,171)**	(1,838)
Interest expense on lease liabilities	**457**	357
Effect of changes in exchange rates	**(141)**	(671)
Lease liabilities as at June 30, 2022	**16,925**	10,954
Current portion	**1,898**	1,636
Non-current portion	**15,027**	9,318

The Corporation has lease contracts for buildings, machinery and equipment, and automotive equipment used in its operations. The expense related to short-term leases and low-value assets leases during the year ended June 30, 2022 was $121 ($85 as at June 30, 2021). The expense related to variable lease payments not included in the measurement of lease liabilities during the year ended June 30, 2022 was $429 ($476 as at June 30, 2021). The Corporation also had non-cash additions to lease liabilities of $4.8 M in 2022 ($2.8 M in 2021).

The following table presents the maturity analysis of contractual undiscounted cashflows related to the lease liabilities of the Corporation as of June 30, 2022:

	$
Less than one year	2,651
One to five years	10,213
More than five years	9,864
Total undiscounted lease liabilities as at June 30, 2022	**22,728**

The Corporation had a lease contract that had not yet commenced as at June 30, 2022. The future lease payments for this non-cancellable lease contract are $8 within one year, $157 within five years and nil thereafter.

19. Capital stock

Warrants

The following table summarizes the situation of the warrants as at June 30, 2022 and June 30, 2021 and the change during the years ended on these dates:

Years ended June 30,	**2022**		2021	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding - Beginning of year	**3,793,220**	**1.40**	12,057,816	1.34
Issued	**-**	**-**	-	-
Exercised	**(3,762,471)**	**1.40**	(8,264,596)	1.32
Expired	**(30,749)**	**1.40**	-	-
Outstanding - End of year	**-**	**-**	3,793,220	1.40

All the warrants expired on November 15, 2022 and therefore no warrants were outstanding, as at June 30, 2022.

Share capital

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

As at June 30, 2022, the Corporation has a total of 90,007,408 shares issued and outstanding (85,137,204 as of June 30, 2021).

Stock options

The Corporation has established a stock option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Corporation. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The maximum number of shares that may be issued under the plan amounts to 8,000,000 (4,000,000 as at June 30, 2021). Stock options generally vest over three to eight years from the date of grant conditionally upon achievement of performance objectives and must be exercised within a ten-year period, except in the event of retirement, termination of employment or death.

The following table summarizes the situation of the Corporation's stock-based compensation plan as at June 30, 2022 and June 30, 2021 and the change during the years ended on these dates:

Years ended June 30,	**2022**		2021	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding – Beginning of year	**3,359,334**	**1.93**	2,511,334	1.72
Granted	**2,673,000**	**2.33**	1,056,000	2.55
Expired	**-**	**-**	(208,000)	2.52
Forfeited	**(24,000)**	**2.64**	-	-
Outstanding – End of year	**6,008,334**	**2.11**	3,359,334	1.93
Exercisable – End of year	**1,650,784**	**1.77**	1,151,667	1.65

As at June 30, 2022, the following stock options were outstanding:

		Options outstanding	Options exercisable
Exercise price	Number of shares	Weighted average remaining life (years)	Number of shares
$			
1.65	2,303,334	2.07	1,439,584
2.55	1,056,000	8.88	211,200
2.64	549,000	9.38	-
2.25	2,100,000	9.88	-
	6,008,334	6.67	1,650,784

The weighted average fair value of stock options granted in the year and the weighted average assumptions used in the calculation of their fair value on the date of grant using the Black-Scholes option pricing model were as follows:

Years ended June 30,	**2022**	2021
Expected dividend yield (%)	-	-
Expected volatility (%)	56.26	60.91
Risk-free interest rate (%)	2.45	1.23
Expected life (years)	5.79	7.50
Fair value at the grant date ($)	1.20	1.57
Exercise price ($)	2.33	2.55
Share price ($)	2.28	2.55

The expected volatility was determined using statistical formulas and based on the closing daily share prices over the period of the expected life of stock options.

For the year ended June 30, 2022, the amount recorded as stock-based compensation for options granted to its directors, officers and key employees is $1,303 ($253 in 2021).

20. Contract assets and contract liabilities

Contract assets and contract liabilities are as follow:

As at June 30,	**2022**	2021
	$	$
Construction costs related to projects incurred plus recognized profits less recognized losses to date	**78,370**	61,273
Less: progress billings	**(72,986)**	(56,982)
Consolidated statement of financial position for ongoing projects contracts	**5,384**	4,291

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

As at June 30,	**2022**	2021
	$	$
From customers under project contracts (contract assets)	**11,591**	7,574
To customers under project contracts (contract liabilities)	**(6,207)**	(3,283)
Consolidated statement of financial position for ongoing projects contracts	**5,384**	4,291

During the year, $3,219 of revenues were recorded for amounts included in contract liability at the beginning of the year ($3,013 in fiscal year 2021).

Remaining performance obligations

The amount of transaction price allocated to performance obligations that are unsatisfied (or partially satisfied) at June 30, 2022, on all contracts with customers, is expected to be recognized in revenues as follows:

	2023	**2024**	**2025**	**Thereafter**	**Total**
WTS	$29.7M	$5.6M	$1.3M	-	$36.6M
O&M	$41.3M	$34.1M	$29.4M	$21.6M	$126.4M

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

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

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

21. Additional information about the nature of costs components

a) Expenses by nature

Years ended June 30,	**2022**	2021
	$	$
Material	**68,364**	55,158
Salaries and fringe benefits	**71,586**	56,241
Subcontractors and professional fees	**11,746**	7,719
Rent, electricity, insurance and office expenses	**5,090**	3,886
Telecommunications and travel expenses	**3,723**	1,999
Bad debt expenses	**20**	22
Share based compensation	**1,303**	253
Other expenses	**6,293**	4,594
Total cost of goods sold, operating, selling and administrative expenses	**168,125**	129,872
Depreciation of property, plant and equipment and right-of-use assets (notes 8 and 10)	**3,812**	3,187
Amortization of intangible assets (note 9)	**5,419**	4,141
Costs including depreciation and amortization	**177,356**	137,200

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its 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 years ended June 30, 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

Years ended June 30,	2022	2021
	$	$
Cost of goods sold	2,752	2,112
Selling, general and administrative expenses	1,060	1,075
	3,812	3,187

Amortization of intangible assets by function

Years ended June 30,	2022	2021
	$	$
Cost of goods sold	221	225
Selling, general and administrative expenses	5,198	3,916
	5,419	4,141

Cost per function including depreciation and amortization

Years ended June 30,	2022	2021
	$	$
Cost of goods sold	137,722	106,716
Selling, general and administrative expenses	39,634	30,484
	177,356	137,200

c) Other (gains) and losses – net

Years ended June 30,	2022	2021
	$	$
Unrealized exchange (gain) loss	(181)	654
Realized exchange loss	257	359
Other gains	(124)	(117)
Changes in fair value of contingent consideration (note 16)	2,565	462
Litigation settlement (note 13 and 25)	-	654
	2,517	2,012

22. 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:

Years ended June 30,	**2022**	2021
Net earnings	**$5,107**	$3,119
Basic weighted average number of share outstanding	**88,189,057**	79,469,345
Effects of dilution from:		
Warrants if not anti-dilutive	**1,308,490**	9,461,079
Stock options if not anti-dilutive	**4,403,334**	2,303,334
Weighted average number of share outstanding adjusted for the effect of dilution	**93,900,881**	91,233,758
Basic net earnings per share	**$0.058**	$0.039
Diluted net earnings per share	**$0.054**	$0.034

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:

	2022	2021
Stock options	**1,605,000**	1,056,000
Warrants	**-**	-

23. Financial risk management

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

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

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

Overview

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

	Risks			
	Market risks			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash	X	X	X	
Accounts receivable	X		X	
Related party loans receivable		X	X	
Other assets			X	
Bank loans	X	X		X
Accounts payable and other accrued liabilities	X			X
Long-term debt	X	X		X
Other non-current financial liabilities		X		X
Contingent considerations	X	X		X

Currency risk

The Corporation is exposed to exchange risk as a result of its foreign exchange purchases and sales, denominated in U.S. dollar, EURO and Pound sterling and also as a result of its foreign subsidiary net assets. The Corporation's objective in managing the currency risk is to minimize the exposure to currencies other than the functional currency. The Corporation does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

As at June 30, 2022, if the Canadian dollar had increased or decreased by five percent (5%) compared to the U.S. dollar, EURO or British pound currency, assuming that all other variables remained constant, net earnings for the year ended June 30, 2022 would have been greater or lesser by approximately $1,535 ($456 for the year ended June 30, 2021) and the comprehensive earnings (loss) would have been greater or lesser by approximately $1,218 ($769 for the year ended June 30, 2021).

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

As at June 30,			**2022**			2021
	U.S. dollar	**EURO**	**Total**	U.S. dollar	EURO	Total
	$	**$**	**$**	$	$	$
Financial assets						
Cash	**128**	**358**	**486**	2,977	383	3,360
Accounts receivable	**2,314**	**999**	**3,313**	2,680	58	2,738
Prepaid expenses and deposits	**1,688**	**794**	**2,482**	528	1,224	1,752
	4,130	**2,151**	**6,281**	6,815	1,665	7,850
Financial liabilities						
Bank loans	**(27,108)**	**-**	**(27,108)**	-	-	-
Long-term debt	**(1,960)**	**-**	**(1,960)**	-	-	-
Accounts payable and accrued liabilities	**(984)**	**(176)**	**(1,160)**	(529)	(223)	(752)
	(30,052)	**(176)**	**(30,228)**	(529)	(223)	(752)

Cash flow and fair value interest rate risk

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

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

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

As at June 30, 2022 and 2021, a 25-basis-point increase or decrease in interest rates, assuming that all other variables remain constant, would not have had a significant impact on the Corporation's net earnings and comprehensive earnings (loss). These changes were retained because they are considered reasonably possible according to observations and the economic situation.

Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risk relates to accounts receivable and contract assets. To manage credit risk from accounts receivable, the Corporation reviews credit limits, monitors aging of accounts receivable and contract assets and establishes an allowance for expected credit losses based on historical credit loss experience, adjusted for forward-looking factors specific to the customer and the economic environment. Trade receivables and contract assets consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and contract assets. In order to mitigate its credit risk and increase its borrowing capacity, the Corporation insures a portion of its accounts receivable through EDC insurance coverage. As at June 30, 2022, the allowance for expected credit losses was $196 ($220 as at June 30, 2021) and nil$ for contract assets.

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

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

As at June 30,	**2022**	2021
	$	$
Cash	**7,382**	15,409
Accounts receivable	**35,696**	22,148
Contract assets	**11,591**	7,574
Other assets	**157**	200
Related party loans receivable	**1,250**	1,250

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

The table below summarizes the aging of trade accounts receivable:

As at June 30,	2022	2021
	$	$
Current	18,349	11,913
Past due 1 to 30 days	5,120	2,594
Past due 31 to 90 days	6,062	2,830
Past due more than 90 days	2,371	1,944
	31,902	19,281
Less: Allowance for expected credit losses	(196)	(220)
Trade accounts receivable	31,706	19,061
Hold back from customers under project contracts	3,806	2,818
Other receivables	184	269
	35,696	22,148

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfil its obligations on a timely basis or at reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budgets and cash forecasts to ensure that it has sufficient funds to fulfil its obligations. Refer to note 25 for detail of the commitments.

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

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

As at June 30, 2022	Contractual undiscounted payments	0 - 1 year	1 - 2 years	2 - 3 years	4 years and more
	$	$	$	$	$
Bank loans	45,562	-	-	45,562	-
Accounts payable and accrued liabilities	23,600	23,600	-	-	-
Long-term debt	2,159	1,609	260	190	100
Lease liabilities	22,728	2,651	2,257	2,168	15,652
Other non-current financial liabilities	173	-	-	173	-
Contingent considerations	10,017	10,017	-	-	-
Total	**104,239**	**37,877**	**2,517**	**48,093**	**15,752**

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

Fair value

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

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

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

Long-term debt
The fair value of the long-term debt has been established by discounting the future cash flows at an interest rate to which the Corporation would currently be able to obtain for loans with similar maturity dates and terms. The fair value of the long-term debt is $2,159 ($16,822 as at June 30, 2021) and was determined to be a level 2 financial instrument.

Contingent considerations
The fair value of the contingent considerations has been established by discounting the future cash flows. The fair value of the contingent considerations is $10,017 ($6,738 as at June 30, 2021) and was determined using unobservable (level 3) inputs. These inputs include (i) the estimated amount and timing of projected cash flows; and (ii) the risk-adjusted discount rate used to present value the cash flows which is based on the risk associated with the revenue targets being met.

Contingent consideration - GMP acquisition
If projected cash flows were 10.0% higher, the fair value would have increased by $0.4 M and if projected cash flows were 10.0% lower, the fair value would have decreased by $0.4 M. Discount rates ranging from 15.0% to 17.0% have been applied and consider the time value of money. A change in the discount rate by 100 basis points would not have had a significant impact on the Corporation's net earnings.

Contingent consideration – JCO and EC acquisitions
If projected cash flows were 10.0% lower, the fair value would have decreased by $0.1 M, based on contractual terms the total amount cannot be over US$1.6 M. Discount rate of 13.0% has been applied and consider the time value of money. A change in the discount rate by 100 basis points would not have had a significant impact on the Corporation's net earnings.

24. Capital management

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

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

As at June 30,	**2022**	2021
	$	$
Bank loans	**45,562**	-
Current portion of long-term debt	**1,563**	2,975
Long-term debt	**510**	12,941
Less: Cash	**(7,382)**	(15,409)
Net debt	**40,253**	507
Shareholders' equity	**96,428**	79,395
Shareholders' equity and net debt	**136,681**	79,902

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

As at June 30, 2022 and 2021, the Corporation was in compliance with the ratios required under its credit facility and long-term debt arrangements.

25. Commitments and contingencies

Commitments

As at June 30, 2022, the Corporation had commitments relating to purchase agreements with specific suppliers. The minimum payments over the next five years are as follows:

	2023	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Purchase agreements commitments	$2,016	$627	$440	$377	$94	$-	$3,554

Legal claim contingency

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

26. Segment information

Products from which reportable segments derive their revenues

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

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

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

	For the year ended June 30, 2022			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**27,845**	-	**87,519**	**115,364**
Revenue recognized at a point in time	**14,595**	**54,397**	-	**68,992**
	42,440	**54,397**	**87,519**	**184,356**
Cost of goods sold	**33,468**	**28,779**	**72,502**	**134,749**
Gross profit before depreciation and amortization	**8,972**	**25,618**	**15,017**	**49,607**
Selling and general expenses	**5,072**	**10,425**	**4,484**	**19,981**
Earnings before administrative costs and other items listed below (EBAC)	**3,900**	**15,193**	**10,533**	**29,626**
Administrative costs				**13,395**
Depreciation of property, plant and equipment and right-of-use assets				**3,812**
Amortization of intangible assets				**5,419**
Other (gains) and losses – net				**2,517**
Government investment tax credit				**(500)**
Acquisition and integration costs				**1,135**
Finance costs – net				**2,359**
Earnings before income taxes				**1,489**

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

Geographical information

Years ended June 30,	**2022**	2021
	$	$
Revenues from external customers		
Revenue according to geographic area		
Americas:		
Canada	**21,533**	19,249
United States	**127,616**	96,634
Chile	**3,087**	1,002
Latin America	**3,815**	2,529
Europe:		
United Kingdom	**1,288**	1,350
Spain	**6,525**	1,614
Others	**3,298**	1,911
Middle East and Africa:		
Saudi Arabia	**2,497**	4,466
United Arab Emirates	**1,810**	3,418
Other Middle East countries	**2,255**	1,919
Africa	**3,278**	3,654
Asia Pacific:		
China	**3,106**	4,151
Others	**4,248**	2,427
	184,356	144,324

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

As at June 30,	2022	2021
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**7,631**	6,253
United States	**71,191**	34,749
United Kingdom	**26,533**	25,344
Spain	**11,861**	12,535
Chile	**93**	210
	117,309	79,091

Information about major customers

For the fiscal years ended June 30, 2022 and June 30, 2021, no customer accounted for more than ten percent (10%) of its revenues.

27. 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 $1,250 as at June 30, 2022 ($2,354 as at June 30, 2021).

An amount of $25 was paid to the Corporation in regards of these loans and recorded as finance income in the consolidated statements of earnings for the year ended June 30, 2022 ($25 for the year ended June 30, 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:

Years ended June 30,	2022	2021
	$	$
Short-term benefits (1)	**2,124**	1,940
Post-employment benefits (2)	**225**	175
Share-based payments	**825**	253
Long-term incentive plan	**87**	86
	3,261	2,454

(1) Short-term benefits include mainly wages, salaries, bonuses and other non-monetary benefits.
(2) Post-employment benefits include the Corporation's share purchase plan contribution.

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

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

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]
Bertrand Lauzon, Director [1]
Louis Véronneau, Director [2][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
Jean-Philippe Pilote, Vice President, Finance
Jean-Paul Bêty, Vice President, IT and Business Software Solution
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]
Ties Venema, Vice President & Managing Director of S3C [6]

Advisory Member

Leonard Graziano [3]

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

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Transfer Agent

TSX Trust Company

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