Interim Financial Report
First quarter ended
September 30, 2022

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is designed to provide the reader with a greater understanding of the Corporation's business and financial performance, as well as how it manages risks and resources. In accordance with National Instrument 51-102 Continuous Disclosure Obligations, the following comments are intended to provide a review and an analysis of H2O Innovation's operating results and financial position for the quarter ended September 30, 2022, in comparison with the corresponding period ended September 30, 2021. This MD&A should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the quarter ended September 30, 2022, as well as with the audited annual consolidated financial statements for the year ended June 30, 2022.

In this MD&A, "H2O Innovation", the "Corporation", or the words "we", "our" and "us" refer to either H2O Innovation Inc. as a group, or to each of the business pillar, depending on the context.

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

Additional information about H2O 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 27, 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, H2O Innovation assumes no obligation to update or revise forward looking statements contained in this MD&A or in other communications as a result of new information, future events, and other changes..

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NON-IFRS MEASURES AND ADDITIONAL IFRS MEASURES

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, these 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")
- Adjusted net earnings
- Adjusted net earnings per share ("Adjusted EPS")
- Organic revenue growth
- Reconciliation of net earnings to adjusted net earnings
- Net debt including and excluding contingent considerations
- Net debt-to-Adjusted EBITDA ratio
- Recurring revenues by nature
- Organic revenue
- Backlog

Definition of all non-IFRS measures and ratios and supplemental financial measures are provided in section "Non-IFRS financial measurements" on page 22 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 22 of this MD&A for detailed presentation and reconciliation of non-IFRS measures used.

H_2O INNOVATION AT A GLANCE

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

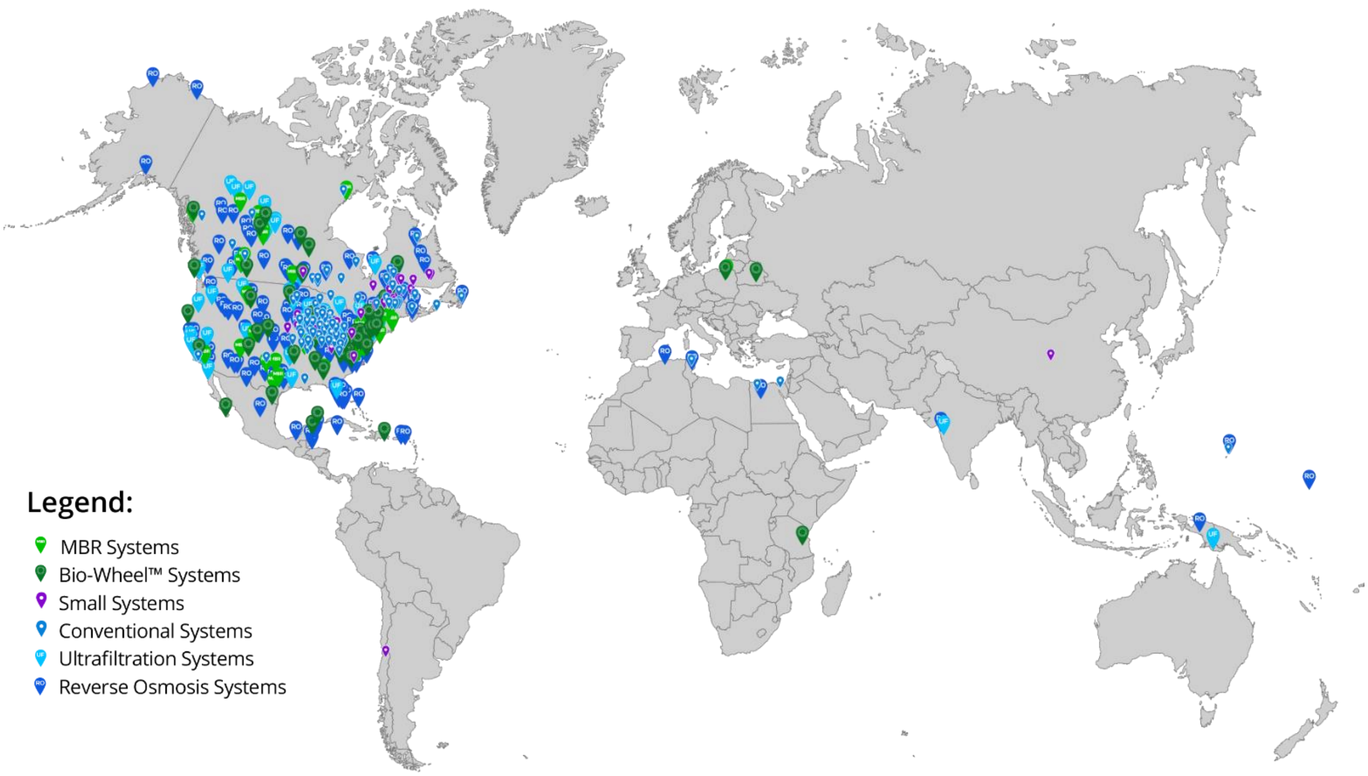
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+1,000	**+750**	**+75**	**+600**

WATER TECHNOLOGIES AND SERVICES (“WTS”)

H_2O Innovation designs and provides custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end users. The Corporation also provides aftersales services as well as digital solutions (Intelogx™) to monitor and optimize water treatment plants.

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

REFERENCE MAP



SPECIALTY PRODUCTS ("SP")

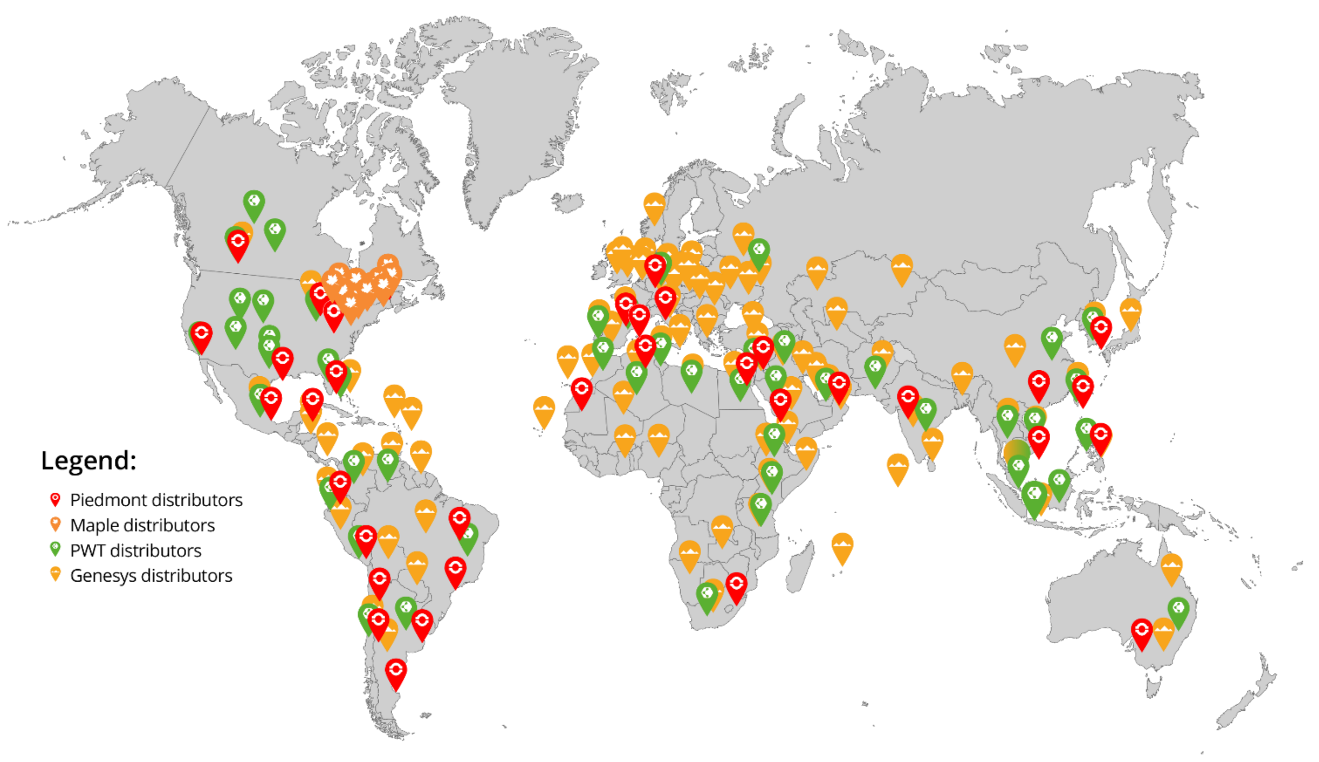
H_2O Innovation offers a complete line of specialty chemicals, consumables, specialized products for the water industry, and maple equipment and products through PWT, Genesys, Piedmont and H_2O Innovation Maple. The Corporation is now exporting its specialty products in over 75 countries.

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

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

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

DISTRIBUTION NETWORK

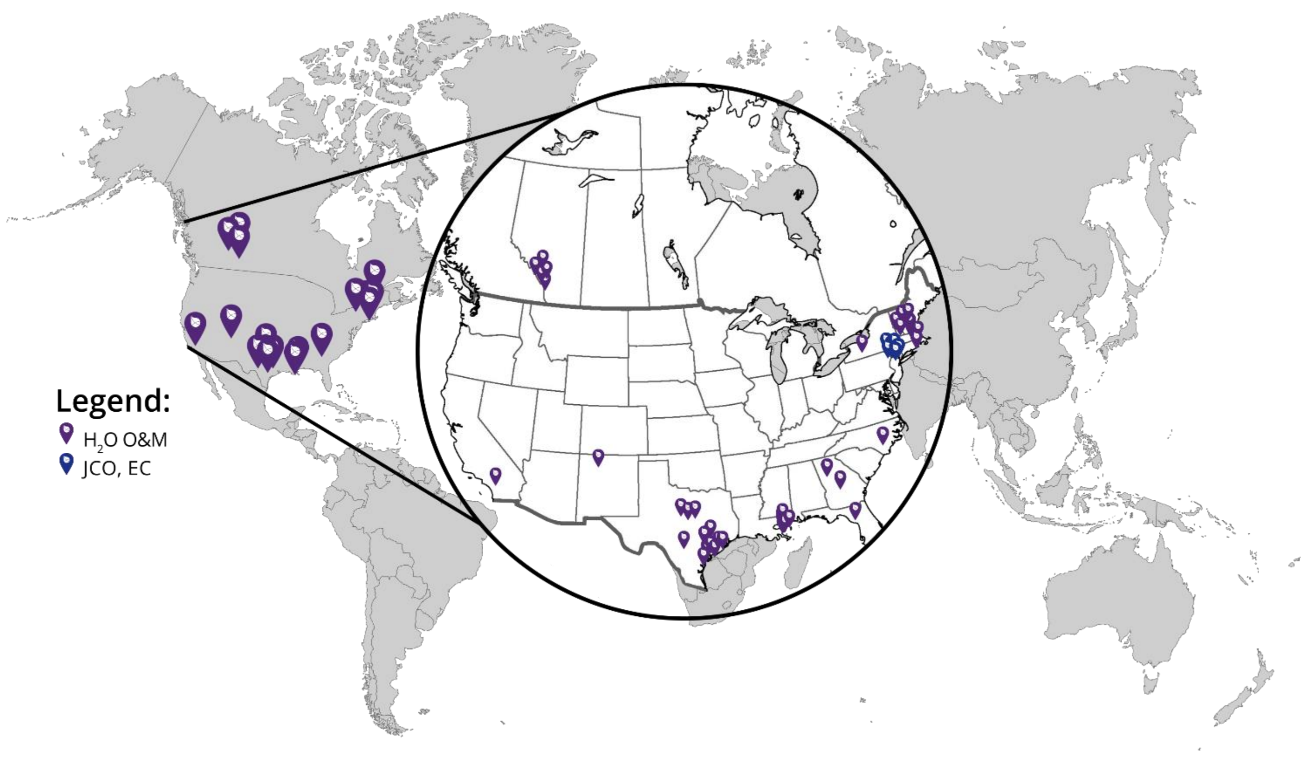


OPERATION AND MAINTENANCE ("O&M")

H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment, and associated assets for 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



KEY FINANCIAL HIGHLIGHTS

For the three-month period ended September 30, 2022
Compared with the three-month period ended September 30, 2021

Revenues	Recurring Revenues [3][4]	Organic Growth [3][4] (%)	Consolidated Backlog
$56.1 M	**89.4%**	**25.0%**	**$182.0 M**
↑ $17.7 M or 46.3%	↑ from 86.2%	↑ from 7.7%	↑ 48.2% from $122.8 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
24.1%	**16.1%**	**$5.0 M**	**8.8%**
↓ from 28.4%	↓ from 18.5 %	↑ 23.6% from $4.0 M	↓ from 10.5%

Net earnings	Adjusted net earnings [3]	Cash flow from (used in) operating activities	Net debt [3][6]
- **Or 0.000 per share [5]**	**$2.6 M** **Or 0.029 per share [3][5]**	**($2.5 M)**	**$48.3 M**
↓ from $0.6 M	↑ from $2.1 M	↓ from ($1.5 M)	↑ from $40.3 M

(1) Gross profit margin presented before depreciation and amortization expenses.
(2) Selling, general operating and administrative expenses (SG&A).
(3) These are non-IFRS financial measures defined below and accompanied by a reconciliation to the most directly comparable IFRS financial measure. Refer to the "Non-IFRS financial measurements" section on page 22.
(4) % of total revenues.
(5) Calculated using the basic weighted average number of shares outstanding.
(6) Compared with June 30, 2022.

FIRST QUARTER BUSINESS HIGHLIGHTS

- On July 20, 2022, the Piedmont business line joined PWT and Genesys to create a unique business line dedicated to specialty chemicals, consumables, and components. The consolidation of the supply of the brands under one commercial team allows H_2O Innovation to leverage the synergies between its sales team and distribution network while maintaining the product branding to better support its distributors and clients around the world.

- On August 2, 2022 H_2O Innovation announced that it has extended two Operation and Maintenance (O&M) contracts and has been awarded new projects in Texas. These renewals and contracts, with a total value of $18.3 M, bring the Corporation's O&M backlog to $137.4 M.

- On September 22, 2022, H_2O Innovation announced that its Water Technologies & Services (WTS) business line had been awarded 10 new water treatment projects. These new contracts, with a total value of $12.0 M, bring the WTS backlog to $46.0 M. The new projects came from four municipal clients and six industrial clients.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements and Cash flows	Three-month periods ended September 30,			
	2022		2021	
	$	**%** [(1)]	$	% [(1)]
Revenues per business pillar				
WTS	**10,025**	**17.8**	9,011	23.5
Specialty products	**18,392**	**32.8**	11,335	29.5
O&M	**27,732**	**49.4**	18,038	47.0
Total revenues	**56,149**	**100.0**	38,384	100.0
Revenues per geographic location				
Canada	**3,587**	**6.4**	4,021	10.5
United States	**41,378**	**73.7**	25,753	67.1
Others	**11,184**	**19.9**	8,610	22.4
Total revenues	**56,149**	**100.0**	38,384	100.0
Recurring revenues [(2)]	**50,206**	**89.4**	33,096	86.2
Gross profit margin [(3)]	**13,507**	**24.1**	10,920	28.4
Selling, general and administrative expenses (“SG&A”)	**9,064**	**16.1**	7,085	18.5
Other (gains) and losses – net	**(350)**	**(0.6)**	557	1.5
Finance costs – net	**1,158**	**2.1**	557	1.5
Net earnings for the period	**9**	**0.0**	618	1.6
Net earnings per share (’’EPS’’):				
Basic EPS	**0.000**	**-**	0.007	-
Diluted EPS	**0.000**	**-**	0.007	-
EBITDA [(2)]	**4,412**	**7.9**	3,276	8.5
Adjusted EBITDA [(2)]	**4,968**	**8.8**	4,018	10.5
Adjusted net earnings [(2)]	**2,590**	**4.6**	2,132	5.6
Adjusted EPS [(2)]:				
Adjusted basic EPS [(2)]	**0.029**	**-**	0.025	-
Adjusted diluted EPS [(2)]	**0.028**	**-**	0.023	-
Cash flows from (used in) operating activities	**(2,549)**	**(4.5)**	(1,493)	(3.9)

Financial position	**September 30, 2022**	June 30, 2022	Variation	
	$	$	$	%
Cash	**6,293**	7,382	(1,089)	(14.8)
Inventories	**24,804**	20,171	4,633	23.0
Contract assets	**9,239**	11,591	(2,352)	(20.3)
Net debt excluding contingent considerations [(2)]	**48,295**	40,253	8,042	20.0
Net debt-to-Adjusted EBITDA ratio [(2)]	**2.54**	2.23	-	-
Consolidated backlog	**182,000**	163,036	18,964	11.6

(1) % of total revenues.

(2) Refer to the “Non-IFRS financial measurements” section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

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

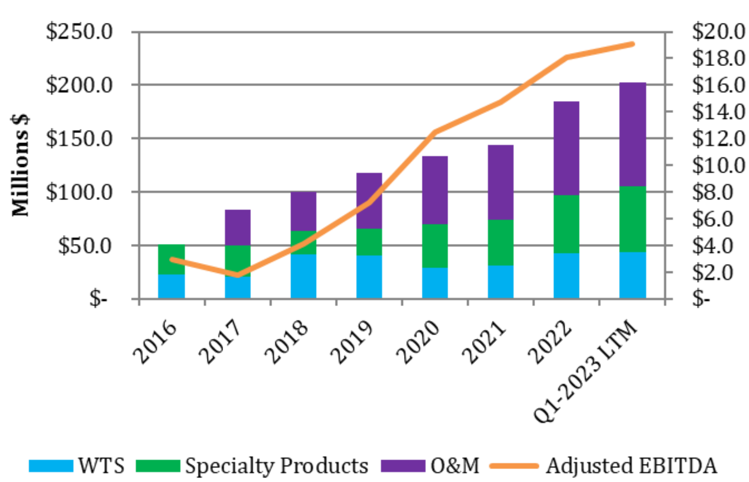
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except for per share values)	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	Last twelve months
	Three-month periods ended				
	$	$	$	$	**$**
Revenues	**56,149**	52,046	51,917	42,009	202,121
EBITDA (2)	**4,412**	1,999	4,382	3,423	14,216
Adjusted EBITDA (2)	**4,968**	4,754	5,530	3,799	19,051
Adjusted EBITDA over revenues (2)	**8.8%**	9.1%	10.7%	9.0%	9.4%
Net earnings (loss)	**9**	2,445	1,282	762	4,498
Basic EPS (1)	**0.000**	0.028	0.015	0.009	0.050
Diluted EPS (1)	**0.000**	0.027	0.014	0.008	0.049
Adjusted net earnings (2)	**2,590**	1,627	3,330	1,759	9,306
Adjusted basic EPS (1) (2)	**0.029**	0.018	0.038	0.020	0.104
Adjusted diluted EPS (1) (2)	**0.028**	0.018	0.037	0.019	0.101
Cash flows from (used in) operating activities	**(2,549)**	(6,390)	4,976	(3,343)	(7,306)

(In thousands of Canadian dollars, except for per share values)	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	Previous twelve months
	Three-month periods ended				
	$	$	$	$	**$**
Revenues	38,384	35,204	39,155	34,969	147,712
EBITDA (2)	3,275	3,206	5,347	2,827	14,655
Adjusted EBITDA (2)	4,018	3,089	4,513	3,562	15,182
Adjusted EBITDA over revenues (2)	10.5%	8.8%	11.5%	10.2%	10.3%
Net earnings (loss)	618	(195)	2,062	268	2,753
Basic EPS (1)	-	(0.002)	0.026	0.003	0.030
Diluted EPS (1)	-	(0.002)	0.026	0.003	0.030
Adjusted net earnings (2)	2,132	457	2,181	1,714	6,484
Adjusted basic EPS (1) (2)	0.025	0.005	0.027	0.022	0.081
Adjusted diluted EPS (1) (2)	0.023	0.005	0.024	0.019	0.071
Cash flows from (used in) operating activities	(1,493)	(2,916)	9,729	(666)	4,654

(1) Quarterly EPS are not additive and may not equal the annual EPS reported. This may be a result of the effect of shares issued on the weighted average number of shares, as well as the impact of dilutive options and warrants.

(2) Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.



LAST TWELVE MONTHS

(In thousands of Canadian dollars, except for per share values)	**Last twelve months September 30, 2022**	Previous twelve months September 30, 2021	Variation	
	$	$	$	%
Revenues	**202,121**	147,712	54,409	36.8
EBITDA [(1)]	**14,216**	14,655	(439)	(3.0)
Adjusted EBITDA [(1)]	**19,051**	15,182	3,869	25.5
Adjusted EBITDA over revenues [(1)]	**9.4%**	10.3%	-	-
Net earnings (loss)	**4,498**	2,753	1,744	63.3
Basic EPS	**0.050**	0.034	0.016	47.1
Diluted EPS	**0.049**	0.030	0.019	63.3
Adjusted net earnings [(1)]	**9,306**	6,484	2,822	43.5
Adjusted basic EPS [(1)]	**0.104**	0.080	0.024	30.0
Adjusted diluted EPS [(1)]	**0.101**	0.071	0.030	42.3
Cash flows from operating activities	**(7,306)**	4,654	(11,960)	(257.0)

[(1)] Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

The sustained growth of the Corporation over the past year is clearly shown in the comparison of the last twelve-month periods. Revenues for the last twelve months showed an increase of 36.8% compared to the previous twelve-month period, evidence of the Corporation's organic and acquisition growth, combined with foreign exchange rates variations, as shown in the table below.

Revenues Growth (In thousands of Canadian dollars)	**Last twelve months September 30, 2022**		Previous twelve months September 30, 2021	
	$	**%**	$	%
Organic growth	**32,945**	**22.3**	2,316	1.7
Acquisition growth	**21,574**	**14.6**	10,467	7.5
Impact of foreign exchange rates	**(110)**	**(0.1)**	(5,441)	(3.9)
Net variation	**54,409**	**36.8**	7,342	5.2

The efforts made over the last twelve months to focus on organic revenue growth led to an increase from 1.7% to 22.3% year over year. We believe that the increased demand for water treatment solutions, the continued adoption of our specialty products, together with 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 to stay aligned with the objectives of our Three-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 hired strategic sales resources and invested in SG&A to generate and support this growth.

The adjusted EBITDA increased to $19.1 M, or 9.4% of revenues from $15.2 M, or 10.3% in the last twelve months, representing an increase of $3.9 M which is 25.5% improvement over a twelve-month period. The adjusted EBITDA over revenues is lower at 9.4% compared to 10.3% last year, representing a 0.9 % reduction over a twelve-month period. The variation is explained by a decrease of the gross margin and by the business mix compared to last year. The residual effect of the pandemic and the global overheated economy have 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 the staff shortage and the inflation.

One of H_2O Innovation's strengths is its ability to rely on different sources of revenue coming from its three business pillars and on a high level of recurring revenues, which reduces the risk of volatility on the EBITDA. The growing demand for our proprietary specialty products, the construction of new water infrastructures to face water scarcity, industrial companies pushing ESG initiatives to reduce their water footprint, and ongoing challenges for municipalities to deal with growing populations and aging utilities, have allowed our business pillars to capture multiple sales synergies and experience significant revenue growth over the last-twelve-month period.

CONSOLIDATED REVENUES

(In thousands of Canadian dollars)	Three-month periods ended September 30,				Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	2022	2021	Variation							
	$	$	$	%	$	%	$	%	$	%
Revenues per business pillar										
WTS	**10,025**	9,011	1,014	11.3	318	0.8	-	-	696	1.8
Specialty products	**18,392**	11,335	7,057	62.3	(763)	(2.0)	2,599	6.8	5,221	13.6
O&M	**27,732**	18,038	9,694	53.7	771	2.0	5,236	13.6	3,687	9.6
Total revenues	**56,149**	38,384	17,765	46.3	326	0.8	7,835	20.4	9,604	25.0

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. Despite the challenging macroeconomics impacts, the Corporation was able to generate important revenue growth. Consolidated revenues from our three business pillars, for the three-month period ended September 30, 2022, increased by $17.7 M, or 46.3%, to reach $56.1 M compared to $38.4 M for the comparable quarter of the previous fiscal year. This increase mainly came from an organic revenue growth of $9.6 M, or 25.0%, and an acquisition growth of $7.8 M, or 20.4% following the acquisitions of JCO and EC in December 2021 and of Leader Evaporator on June 30, 2022, combined with a favorable exchange rate impact of $0.3 M, or 0.9%.

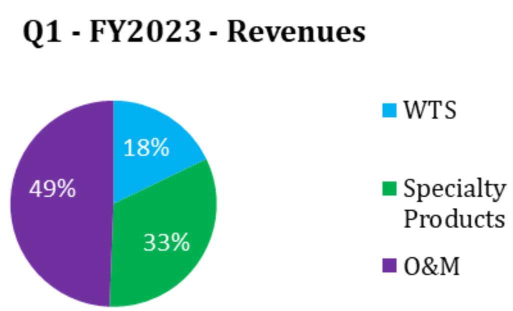
Revenues from the WTS business pillar increased by $1.0 M, or 11.3%compared to the same quarter of the previous fiscal year, coming from organic growth seen both in service activities and water treatment systems projects. This growth was driven by higher organic revenue in water treatment systems projects and an increase of our sales coming from the service group. The Corporation's Three-year Strategic Plan consists of prioritizing WTS projects with higher gross profit margins or projects that can fuel opportunities for the other business pillars, and to expand service activities which tends to be recurring by nature and at higher margins. Furthermore, our WTS team strives to develop relationships with industrial clients for whom water reuse solutions could alleviate operational concerns emerging from water scarcity and water tariff increases. This is becoming a growing trend as many industrial companies are now taking steps to become net water positive in their manufacturing processes as part of their ESG plans.

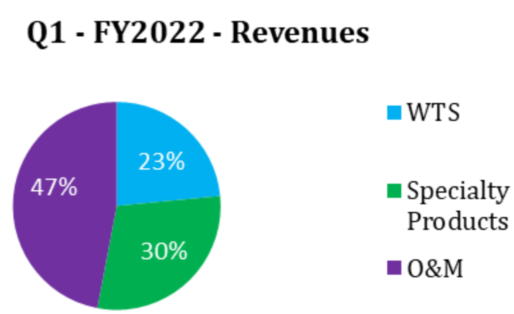
Revenues from the Specialty Products business pillar increased by $7.1 M, or 62.3%, compared to the same quarter of the previous fiscal year. These results were driven partially by the acquisition growth of Leader Evaporator which contributed to a growth of $2.6 M, or 6.8%, over total revenue. However, most of the increase came from the organic revenue growth of $5.2 M, or 13.6%, over total revenues. All specialty products business lines contributed to this strong performance. Moreover, investments in product innovation, manufacturing capabilities expansion and synergies captured from the integration of the acquisitions of Genesys and GMP contributed to this performance.

Revenues from the O&M business pillar increased by $9.7 M, or 53.7%, compared to the same quarter of the previous fiscal year. Organic growth accounted for $3.6 M, or 9.6% this quarter, whereas the acquisition growth represented $5.2 M, or 13.6%, resulting from the acquisitions of JCO and EC combined with a favorable USD exchange rate impact of $0.8 M.

Our business model allows us to gain predictability and, through our integrated offering, from systems design and manufacturing to O&M and Specialty Products, we maintain long-term relationships with our customers. For the three-month period ended September 30, 2022, recurring revenues represented 89.4% of the Corporation's total revenues, compared to 86.2% for the comparable quarter of the previous fiscal year. The WTS business pillar builds long-term relationships with its customers through aftersales services, Specialty Products and O&M services offering, which support the decision to invest in the 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. By promoting strong customer retention across all business pillars, our business model has demonstrated resiliency through the pandemic and even during high volatility economical periods.





GROSS PROFIT MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Gross profit margins (1)	**13,507**	10,920	2,587	23.7
Gross profit margins (%) (1)	**24.1%**	28.4%	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $13.5 M, or 24.1%, during the first quarter of fiscal year 2023, compared to $10.9 M, or 28.4% for the same period of the previous fiscal year, representing an increase of $2.6 M, or 23.7%, while the revenues of the Corporation increased by 46.3%. The decrease in percentage was primarily due to high inflation of material costs, pressure on salaries and higher percentage of revenue coming from the O&M business pillars compared to the same quarter of last fiscal year, combined with a business mix factor within the Specialty Product business. We are closely monitoring the evolution, and multiple mitigation measures are implemented to overcome this situation.

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

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
SG&A expenses	**9,064**	7,085	1,979	27.9
SG&A expenses of revenues	**16.1%**	18.5%	-	-

The Corporation's SG&A reached $9.1 M during the first quarter of fiscal year 2023, compared to $7.1 M for the same period of the previous fiscal year, representing an increase of $2.0 M, or 27.9%, while the revenues of the Corporation increased by 46.3%. The increase is due to the pressure on salaries, the hiring of additional resources as well as higher stock-based compensation costs. Despite the increase in SG&A expenses, the percentage of expenses over revenues has decreased from 18.5% to 16.1%, showing the scalability of our business model as revenues continue to grow. Investments made in sales and business development are paying off since revenues are growing faster than the SG&A ratio.

FINANCE COSTS – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Finance income	**(9)**	(11)	2	(18.2)
Finance costs	**1,167**	568	599	105.5
Finance costs - net	**1,158**	557	601	107.9

Finance costs – net increased at $1.2 M for the first quarter of fiscal year 2023, compared with $0.6 M for the same period of the previous fiscal year. The variation was driven by the utilization of our credit facility to acquire three companies, investments into growth and CAPEX maintenance and support operations with growing working capital demand. In addition, the increases in interest rates on long-term debt also contributed to increasing our finance costs.

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

OTHER (GAINS) AND LOSSES – NET

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Other (gains) and losses - net	**(350)**	557	(907)	(162.8)

Other (gains) and losses – net stood at ($0.4 M) for the first quarter of fiscal year 2023, compared with $0.6 M for the same period of the previous fiscal year, representing an increase of $1.0 M compared to the comparable quarter of the previous fiscal year. The increase was primarily driven by a gain on a debt extinguishment which was assumed as part of the acquisition of Leader Evaporator as at June 30, 2022, and negotiated downwards during the first quarter of fiscal year 2023, partly compensated by the unrealized exchange gain of $0.4 M.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
EBITDA[1]	**4,412**	3,276	1,136	34.7
Adjusted EBITDA[1]	**4,968**	4,018	950	23.6
Adjusted EBITDA (%)[1]	**8.8%**	10.5%	-	-

The Corporation's adjusted EBITDA increased by $1.0 M, or 23.6%, to reach $5.0 M during the first quarter of fiscal year 2023, from $4.0 M for the same period of the previous fiscal year, while the revenues of the Corporation increased by 46.3%. Consequently, the adjusted EBITDA % decreased and reached 8.8% for the first quarter of fiscal year 2023, compared to 10.5% for the same quarter of last fiscal year. This negative variation is mostly explained by a decrease in the Corporation's consolidated gross profit margin. The Corporation's profitability has been impacted by the extended economic consequences of the COVID-19 pandemic, ongoing macroeconomic trends on the supply chain, higher inflation, increased wages, and freight and logistic costs. We are closely monitoring the evolution, and multiple mitigation measures are implemented to overcome this situation.

NET EARNINGS

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Net earnings	**9**	618	(609)	(98.5)
Basic net earnings per share	**0.000**	0.007	(0.007)	-
Diluted net earnings per share	**0.000**	0.007	(0.007)	-
Adjusted net earnings[1]	**2,590**	2,132	458	21.5
Basic adjusted net earnings per share[1]	**0.029**	0.025	(0.004)	-
Diluted adjusted net earnings per share[1]	**0.028**	0.023	(0.005)	-

Net earnings amounted to $nil or $0.000 per share for the first quarter of fiscal year 2022 compared to net earnings of $0.6 M or $0.007 per share for the comparable quarter of last fiscal. The variation was impacted by the reduction in gross profit margin, higher depreciation and amortization, and higher finance costs, partially compensated by other gains related to the debt extinguishment.

[1] Refer to the"Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

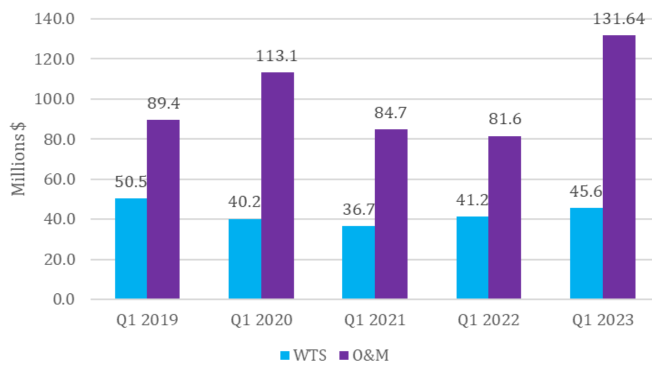
BACKLOG

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

As at September 30, 2022, the combined backlog of secured contracts between WTS and O&M reached $182.0 M compared to $122.8 M as at September 30, 2021. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2023 and beyond.

(In thousands of Canadian dollars)	As at September 30,			
	2022	2021	Variation	
	$	$	$	%
WTS	**46,585**	41,200	5,385	13.1
O&M [(1)]	**135,415**	81,600	53,815	65.9
Consolidated backlog	**182,000**	122,800	59,200	48.2

(1) The backlog coming from the O&M business pillar does not include ''evergreen'' O&M services provided to MUDs and other privately owned utilities located in Texas, 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.



WTS backlog

The WTS backlog stood at $46.6M, which is an increase of 13.1%. This business pillar is showing a well-balanced backlog, with diversification seen between industrial and municipal projects: 32.0% of the projects being industrial as of September 30, 2022, compared to 26.3% as of September 30, 2021. The industrial projects are usually characterized by better gross profit margins, shorter delivery cycle and revenue recognition, higher potential of aftersales services, selling of consumables and specialty products, while reducing the risks related to focusing on a single market.

O&M backlog

Our backlog for the O&M business pillar stood at $135.4 M as at September 30, 2022, representing an increase of 65.9% compared to the $81.6 M backlog as at September 30, 2021, and consists of long-term contracts, including multi-year renewal options, mainly with municipalities. 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, since these contracts are "evergreen" and would not qualify for the remaining performance obligation definition.

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 the State of Texas, combined with the two recent acquisitions in the State of New York, JCO and EC, brought several ''evergreen'' O&M contracts that the Corporation was able to preserve. Furthermore, the Corporation's O&M sales team was able to secure additional contracts with new customers.

SEGMENT INFORMATION

As mentioned in Section "H_2O Innovation at a glance", management analyzes the Corporation's results by business pillar. The Corporation evaluates its business pillar performance using Earnings before administrative costs ("EBAC), which is a non-IFRS measure defined in the Section "Non-IFRS financial measurements" at page 22 of this MD&A. The following tables summarize the Corporation's revenues and EBAC per business pillar for the first quarters ended September 30, 2022 and 2021.

WATER TECHNOLOGIES & SERVICES ("WTS")

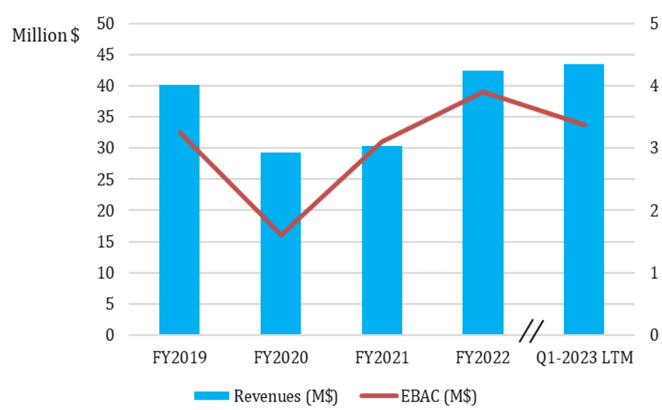
(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Revenues from WTS	**10,025**	9,011	1,014	11.3
Organic growth			*696*	*7.7*
Acquisition growth			-	-
FX impact			*318*	*3.6*
Cost of goods sold	**8,133**	6,942	1,191	17.2
Gross profit margins[1]	**1,892**	2,069	(177)	(8.6)
Gross profit margins (%)[1]	**18.9%**	23.0%	-	-
Selling and general expenses	**1,419**	1,066	353	33.1
EBAC[2] from WTS	**473**	1,003	(530)	(52.8)
EBAC[2] over revenues from WTS	**4.7%**	11.1%	-	-

WTS revenues stood at $10.0 M during the first quarter of fiscal year 2023, compared to $9.0 M for the same quarter of last fiscal year, representing an increase of $1.0 M, or 11.3%. The increase is coming from an organic growth of $0.6 M, or 7.7%, related to service activities and water treatment systems projects.

The gross profit margin before depreciation and amortization stood at $1.9 M, or 18.9% for the first quarter of fiscal year 2023, compared to $2.1 M, or 23.0%, for the same quarter of previous fiscal year, representing a decrease of $0.2 M, or 8.6%. The gross profit margin before depreciation and amortization was negatively affected by the increased material costs related to capital equipment projects as most of 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.

The selling and general expenses stood at $1.4 M during the first quarter of fiscal year 2023, compared to $1.1 M, for the same quarter of last fiscal year, representing an increase of $0.3 M. The increase in selling and general expenses was driven primarily by the hiring of new sales resources, higher labour costs and commissions as well as resumption of travel and our participation to tradeshows and conferences. Despite being higher than last year, travel activities remained lower than pre-pandemic.

WTS's EBAC stood at $0.5 M during the first quarter of fiscal year 2022, compared to $1.0 M for the same quarter of the previous fiscal year, representing a decrease of $0.5 M, or 52.8%. The decrease of WTS's EBAC in dollars is mainly attributable to the deterioration of the gross profit margin before depreciation and amortization.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Revenues from Specialty Products	**18,392**	11,335	7,057	62.3
Organic growth			*5,221*	*46.2*
Acquisition growth			*2,599*	*23.0*
Fx impact			*(763)*	*(6.8)*
Cost of goods sold	**10,716**	5,370	5,346	99.6
Gross profit margins[1]	**7,676**	5,965	1,711	28.7
Gross profit margins (%)[1]	**41.7%**	52.6%	-	-
Selling and general expenses	**3,041**	2,413	628	26.0
EBAC[2] from Specialty Products	**4,635**	3,552	1,083	30.5
EBAC[2] over revenues from Specialty Products	**25.2%**	31.3%	-	-

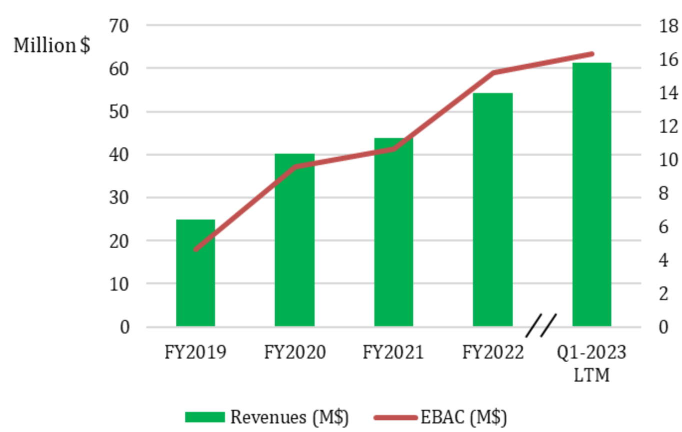
Specialty Products revenues include revenues coming from the sale of maple equipment and related products, specialty chemicals, consumables, and specialized components for the water treatment industry.

Specialty Products revenues stood at $18.4 M during the first quarter of fiscal year 2023, compared to $11.3 M for the same quarter of last fiscal year, representing an increase of $7.1 M, or 62.3%, driven by a strong quarter for all business lines. The increase was mainly driven by strong sales and an efficient marketing strategy execution combined with additional strategic sales resources which led to an organic revenue growth of $5.2 M, or 46.2%, from all the business lines. Leader Evaporator, which was acquired on June 30, 2022, generated $2.6 M, or 23.0%, of acquisition growth.

The gross profit margins before depreciation and amortization stood at $7.7 M, or 41.7%, for the first quarter of fiscal year 2023, compared with $6.0 M, or 52.6% for the same quarter of last fiscal year, representing an increase of $1.7 M but a decrease of the gross profit margin in percentage. This variation is mainly due to the business mix within this business pillar, with a higher level of revenue coming from both the Piedmont and the Maple business lines, which have lower average gross margins than the specialty chemicals. Additionally, specialty chemical products' gross profit margins decreased compared to the same quarter of last fiscal year, which is largely due to increased costs of materials.

The selling and general expenses stood at $3.0 M during the first quarter of fiscal year 2023, compared to $2.4 M, for the same quarter of the previous fiscal year, representing an increase of $0.6 M. The hiring of sales resources, pressure on salaries due to the inflation level, the resumption of travel combined with the acquisition of Leader Evaporator on June 30, 2022, are the main reasons behind the variation.

Specialty Products' EBAC stood at $4.6 M during the first quarter of fiscal year 2023, compared to $3.6 M for the same quarter of last fiscal year, representing an increase of $1.0 M, or 30.5%. Even if Specialty Products' EBAC was positively impacted by strong sales growth, pressure on gross margin and business mix between chemicals, Piedmont and Maple negatively affected the ratio for the first quarter.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

O&M

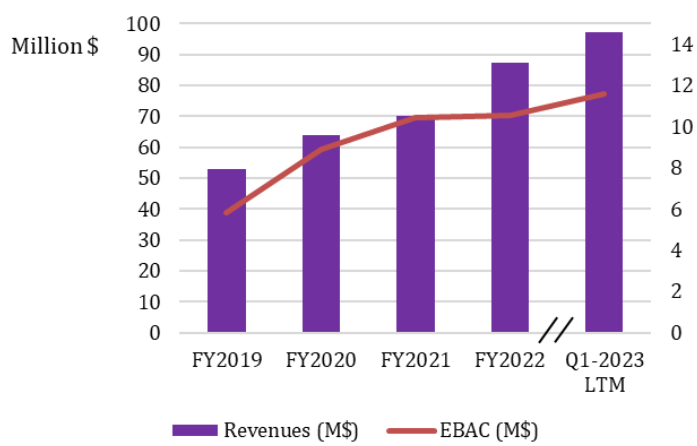
(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Revenues from O&M	**27,732**	18,038	9,694	53.7
Organic growth			*3,687*	*20.4*
Acquisition growth			*5,236*	*29.0*
Fx impact			*771*	*4.2*
Cost of goods sold	**23,793**	15,152	8,641	57.0
Gross profit margins[1]	**3,939**	2,886	1,053	36.5
Gross profit margins (%)[1]	**14.2%**	16.0%	-	-
Selling and general expenses	**931**	928	3	0.3
EBAC[2] from O&M	**3,008**	1,958	1,050	53.6
EBAC[2] over revenues from O&M	**10.8%**	10.9%	-	-

O&M revenues stood at $27.7 M during the first quarter of fiscal year 2023, compared to $18.0 M for the same quarter of the previous fiscal year, representing an increase of $9.7 M, or 53.7%. The O&M business pillar showed an organic growth of $3.7 M, or 20.4% coming from an important scope expansion and new projects secured in previous quarters, and an acquisition growth of $5.2 M, or 29.0%, this quarter, combined with a favorable foreign exchange rate impact of $0.8 M.

The gross profit margin before depreciation and amortization stood at $3.9 M, or 14.2% for the first quarter of fiscal year 2023, compared with $2.9 M, or 16.0%, for the same quarter of last fiscal year, representing an increase of $1.0 M, or 36.5%. The gross profit margin in % was impacted negatively by pressure on employee salaries, inflation, and cost increases on gasoline. 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 the annual fees based on the Consumer Price Index (CPI). Accordingly, annual fee increases will be addressed with our customers in the upcoming months as each contract reaches its annual contractual adjustment date.

The selling and general expenses stood at $0.9 M during the first quarter of fiscal year 2023, compared to $0.9 M for the same quarter of the previous fiscal year.

O&M's EBAC stood at $3.0 M during the first quarter of fiscal year 2023, compared to $2.0 M for the same quarter of last fiscal year, representing an increase of $1.0 M in dollars, or 53.6%. It remains stable in % due primarily to the reduction in gross profit margin affected by higher pressure on labour costs combined with additional resources hired to maintain the growth of this pillar.



[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOWS ANALYSIS

A comparison of the Corporation's cash flows for the quarters ended September 30, 2022 and 2021 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022	2021	Variation	
	$	$	$	%
Cash flows from operating activities before change in working capital items	**6,987**	4,422	2,565	58.0
Change in working capital items	**(9,112)**	(5,388)	(3,724)	69.1
	(2,125)	(966)	(1,159)	120.0
Interests received (paid) / Income taxes received (paid)	**(424)**	(527)	103	(19.5)
Cash flows from (used in) operating activities	**(2,549)**	(1,493)	(1,056)	70.7
Cash flows from (used in) investing activities	**(4,803)**	(533)	(4,270)	801.1
Cash flows from (used in) financing activities	**6,510**	(1,511)	8,021	(530.8)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(247)**	(104)	(143)	137.5
Net change	**(1,089)**	(3,641)	2,552	(70.1)
Cash – Beginning of period	**7,382**	15,409	(8,027)	(52.1)
Cash – End of period	**6,293**	11,768	(5,475)	(46.5)

Cash decreased by ($1.1 M) during the first quarter of fiscal year 2023, compared with a decrease of ($3.6 M) for the comparable quarter of the previous fiscal year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities used ($2.5 M) for the quarter ended September 30, 2022, compared to ($1.5 M) of cash flows generated from operating activities during the comparable quarter of the previous fiscal year. The variation is mainly explained by the change in working capital items.

Cash Flows from Investing Activities

Investing activities used ($4.8 M) of cash flows for the quarter ended September 30, 2022, compared to ($0.5 M) of cash flows used in investing activities during the comparable quarter of the previous fiscal year. The variation was primarily due to higher acquisition of property, plant and equipment and payment of contingent consideration of $4.0 M.

Cash Flows from Financing Activities

Financing activities used $6.5 M for the quarter ended September 30, 2022, compared to ($1.5 M) of cash flows used in financing activities during the comparable quarter of the previous fiscal year. The variation resulted primarily from an $8 M utilisation on the bank loan, $1.0 M of interest paid, and $0.7 M in repayments of lease liabilities.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)	**September 30, 2022**	June 30, 2022	Variation		Explanations
	$	$	$	%	
Accounts receivable	**39,851**	35,696	4,155	11.6	The increase is mostly attributable to higher revenues and a foreign exchange rate impact of $1.3M or 3.6%.
Inventories	**24,804**	20,171	4,633	23.0	The increase is due to proactive measures to maintain a higher level of inventory, to respond to the customers' demand, and to mitigate the current supply chain uncertainties. The increase is also attributable to the fact that the Maple business line is currently building its inventory for the upcoming maple season. Foreign exchange rate variations also contributed to $0.8 M or 4%.
Contract assets	**9,239**	11,591	(2,352)	(20.3)	The decrease is mostly attributable to deliveries or invoicing of projects in the WTS business pillar's activities.
Accounts payable and accrued liabilities	**23,987**	23,600	387	1.6	The balance remains stable, which is mostly attributable to the foreign exchange rate impact that has contributed to $0.9 M or 3.8%, and to the timing of payments to suppliers.
Contract liabilities	**5,701**	6,207	(506)	(8.2)	The decrease is attributable to the difference between project advancement and project invoicing schedules.
Contingent considerations, including current portion	**6,261**	10,017	(3,756)	(37.5)	The decrease is related to the partial payment of a contingent consideration.

NET DEBT

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

(In thousands of Canadian dollars)	**September 30, 2022**	June 30, 2022	Variation	
	$	$	$	%
Bank loans	**53,773**	45,562	8,211	18.0
Current portion of long-term debt	**342**	1,563	(1,221)	(78.1)
Long-term debt	**473**	510	(37)	(7.3)
Contingent considerations	**6,261**	10,017	(3,756)	(37.5)
Less: Cash	**(6,293)**	(7,382)	1,089	14.8
Net debt including contingent considerations [(1)]	**54,556**	50,270	4,286	8.5
Contingent considerations	**6,261**	10,017	(3,756)	(37.5)
Net debt excluding contingent considerations (''Net debt'') [(1)]	**48,295**	40,253	8,042	20.0
Adjusted EBITDA [(1)]	**19,051**	18,101	950	5.2

(1) Non-IFRS measure. Refer to the "Non-IFRS financial measurements" section on page 22 for detailed information about the non-IFRS measures used in this MD&A.

As at September 30, 2022, the net debt stood at $48.3 M, compared with $40.3 M as at June 30, 2022, representing a $8.0 M increase. This increase is mainly attributable to the cash flows used in operating activities and a payment related to the contingent consideration of $4.0 M.

CAPITAL MANAGEMENT

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

The Corporation's capital is composed of net debt and shareholders' equity. Net debt consists of long-term debt less cash. The Corporation's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion and integration. The Corporation monitors its performance through different ratios such as those required under its credit facility and long-term debt arrangements.

Credit facility and long-term debt arrangements require that the Corporation meet certain financial ratios. The financial ratios are, as at September 30, 2022:

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

As at September 30, 2022, the Corporation is in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

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

RECONCILIATION OF NET EARNINGS TO EBITDA AND TO AJDUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2022	2021
	$	$
Net earnings for the period	**9**	618
Finance costs – net	**1,158**	557
Income taxes (recovery)	**306**	140
Depreciation of property, plant and equipment and right-of-use assets	**1,343**	866
Amortization of intangible assets	**1,596**	1,095
EBITDA	**4,412**	3,276
(Gain) on debt extinguishment	**(1,029)**	-
Unrealized exchange (gain) loss	**407**	(246)
Stock-based compensation costs	**617**	219
Changes in fair value of the contingent considerations	**180**	767
Acquisition and integration costs	**381**	2
Adjusted EBITDA	**4,968**	4,018
Revenues	**56,149**	38,384
Adjusted EBITDA over revenues	**8.8%**	10.5%

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 Corporation's definition of EBAC refers to the earnings before depreciation and amortization reduced by the selling and general expenses. EBAC is a non-IFRS measure, and it is used by management to monitor financial performance and to make strategic 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 September 30,	
	2022	2021
	$	$
Revenue from external customers:		
Revenue recognized over time	**33,675**	23,326
Revenue recognized at a point in time	**22,474**	15,058
	56,149	38,384
Cost of goods sold	**42,642**	27,464
Gross profit before depreciation and amortization	**13,507**	10,920
Selling and general expenses	**5,391**	4,407
Earnings before administrative costs (EBAC)	**8,116**	6,513

ADJUSTED NET EARNINGS

The definition of adjusted net earnings excludes acquisition and integration costs, amortization of intangible assets from acquisition, unrealized exchange (gain) loss, change in fair value of the contingent considerations and stock-based compensation costs. The reader can establish the link between net earnings and adjusted net earnings with the reconciliation items presented in this report. The definition of adjusted net earnings used by the Corporation may differ from those used by other companies. Adjusted net earnings and adjusted net earnings per share are non-IFRS 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.

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 exchanges 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.

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2022	2021
	$	$
Net earnings for the period	**9**	618
Acquisition and integration costs	**381**	2
Amortization of intangible assets related to business combinations	**1,477**	992
Unrealized exchange (gain) loss	**407**	(246)
Changes in fair value of the contingent considerations	**180**	767
Stock-based compensation costs	**617**	219
Income taxes related to above items	**(481)**	(220)
Adjusted net earnings	**2,590**	2,132
Adjusted basic EPS	**0.029**	0.025
Adjusted diluted EPS	**0.028**	0.023

NET DEBT

The definition of net debt consists of long-term debt less cash, excluding and/or including contingent considerations. The definition of net debt used by the Corporation may differ from those used by other companies. Refer to page 21 of this MD&A for the reconciliation. Net-debt-to-Adjusted EBITDA ratio is a non-IFRS measure without a standardized definition within IFRS. Net-debt-to-Adjusted EBITDA consists of Net debt excluding contingent considerations divided by Adjusted EBITDA. The Corporation uses this ratio as a measure of financial leverage and it is calculated using our trailing twelve-month adjusted EBITDA.

RECURRING REVENUES BY NATURE

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

(In thousands of Canadian dollars)	**Three-month period ended September 30, 2022,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	10,025	18,392	27,732	56,149
Recurring revenues	**4,082**	**18,392**	**27,732**	**50,206**

(In thousands of Canadian dollars)	Three-month period ended September 30, 2021,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	9,011	11,335	18,038	38,384
Recurring revenues	**3,723**	**11,335**	**18,038**	**33,096**

CLAIMS AND LITIGATION

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

FINANCIAL RISK FACTORS

The Corporation is exposed to a variety of financial risks: credit risks, liquidity risks and market risks (including currency risk and interest risk). The interim consolidated financial statements and interim MD&A did not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the audited annual financial statements of the Corporation for the year ended June 30, 2022. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

RISK FACTORS

For a detailed description of risk factors associated with the Corporation, please refer to the "Risks factors" section of the Corporation's annual information form dated September 27, 2022. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

ACCOUNTING POLICIES

The reader is invited to refer to the summary of significant accounting policies presented in Note 2 to the Audited Consolidated Annual Financial Statements for the year ended June 30, 2022.

NEW ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended June 30, 2022. Since June 30, 2022, the Corporation has not early adopted any standard, interpretation, or amendment.

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

September 30, 2022

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

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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

As at	**September 30, 2022**	June 30, 2022
	$	$
ASSETS (note 6)		
Current assets		
Cash	**6,293**	7,382
Accounts receivable (note 4)	**39,851**	35,696
Inventories (note 5)	**24,804**	20,171
Income taxes receivable	**1,092**	982
Contract assets	**9,239**	11,591
Prepaid expenses and deposits	**4,978**	4,236
	86,257	80,058
Non-current assets		
Property, plant and equipment	**16,282**	15,632
Intangible assets	**48,511**	47,993
Right-of-use assets	**16,144**	16,012
Other assets	**168**	157
Related party loans receivable (note 13 a)	**1,250**	1,250
Goodwill (note 3)	**39,176**	37,672
Deferred income tax assets	**6,559**	6,889
	214,347	205,663
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**23,987**	23,600
Provisions	**164**	159
Contract liabilities	**5,701**	6,207
Contingent considerations (note 9)	**6,261**	10,017
Current portion of long-term debt (note 8)	**342**	1,563
Current portion of lease liabilities	**1,867**	1,898
	38,322	43,444
Non-current liabilities		
Bank loan (note 6)	**53,773**	45,562
Long-term debt (note 8)	**473**	510
Other non-current financial liabilities	**-**	173
Deferred income tax liabilities	**4,103**	4,519
Lease liabilities	**15,313**	15,027
	111,984	109,235
SHAREHOLDERS' EQUITY		
Share capital	**130,027**	130,027
Reserve – Stock options	**5,646**	5,029
Deficit	**(40,076)**	(40,085)
Accumulated other comprehensive income	**6,766**	1,457
	102,363	96,428
	214,347	205,663

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board,

Frédéric Dugré	Lisa Henthorne
President and Chief Executive Officer	Chairwoman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars, except share data) (Unaudited)

	Common shares (number)	Share capital	Reserve – Stock option	Reserve – Warrants	Deficit	Accumulated other comprehensive income	Total
		$	$		$	$	$
Balance as at June 30, 2020	85,137,204	119,780	3,726	679	(45,192)	402	79,395
Stock-based compensation costs	-	-	219	-	-	-	219
Net earnings for the period	-	-	-	-	618	-	618
Shares issued on warrants exercised	149,650	245	-	(35)	-	-	210
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	848	848
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	-	-	-	-	-	40	40
Balance as at September 30, 2021	85,286,854	120,025	3,945	644	(44,574)	1,290	81,330
Balance as at June 30, 2022	**90,007,408**	**130,027**	**5,029**	**-**	**(40,085)**	**1,457**	**96,428**
Stock-based compensation costs	**-**	**-**	**617**	**-**	**-**	**-**	**617**
Net earnings for the period	**-**	**-**	**-**	**-**	**9**	**-**	**9**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**5,309**	**5,309**
Balance as at September 30, 2022	**90,007,408**	**130,027**	**5,646**	**-**	**(40,076)**	**6,766**	**102,363**

See accompanying notes to condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
For the three-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars, except per share data) (Unaudited)

Three-month periods ended September 30,	**2022**	2021
	$	$
Revenues (note 12)	**56,149**	38,384
Cost of goods sold (note 10 a)	**42,642**	27,464
Gross profit before depreciation and amortization	**13,507**	10,920
Selling, general and administrative expenses (note 10 a)	**9,064**	7,085
Depreciation of property, plant and equipment and right-of-use assets (note 10 b)	**1,343**	866
Amortization of intangible assets (note 10 b)	**1,596**	1,095
Other (gains) and losses – net (note 10 c)	**(350)**	557
Acquisition and integration costs	**381**	2
Operating costs total	**12,034**	9,605
Operating profit	**1,473**	1,315
Finance income (note 13 a)	**(9)**	(11)
Finance costs	**1,167**	568
Finance costs – net	**1,158**	557
Earnings before income taxes	**315**	758
Current income tax expense	**356**	381
Deferred tax recovery	**(50)**	(241)
	306	140
Net earnings for the period	**9**	618
Basic net earnings per share (note 11)	**0.000**	0.007
Diluted net earnings per share (note 11)	**0.000**	0.007
Weighted average number of shares outstanding – Basic (note 11)	**90,007,408**	85,203,131
Weighted average number of shares outstanding – Diluted (note 11)	**92,310,742**	91,233,758

See accompanying notes to condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
For the three-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	**2022**	2021
	$	$
Net earnings for the period	**9**	618
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings		
Currency translation adjustments	**5,309**	848
Cash flow hedges net gains arising during the period (net of tax)	**-**	40
Comprehensive earnings for the period	**5,318**	1,506

See accompanying notes to condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three-month periods ended September 30, 2022 and 2021
(in thousands of Canadian dollars) (Unaudited)

Three-month periods ended September 30,	2022	2021
	$	$
Operating activities		
Earnings before income taxes for the period	**315**	758
Non-cash items		
Finance costs – net	**1,158**	557
Depreciation of property, plant and equipment and right-of-use assets	**1,343**	866
Amortization of intangible assets	**1,596**	1,095
Changes in fair value of contingent considerations (note 9)	**180**	767
Others	**5**	33
Net unrealized foreign exchange differences	**2,802**	127
Stock-based compensation costs	**617**	219
Gain on debt extinguishment (note 8)	**(1,029)**	-
	6,987	4,422
Change in working capital items	**(9,112)**	(5,388)
Interests received	**-**	11
Income taxes paid	**(424)**	(538)
Net cash flows used in operating activities	**(2,549)**	(1,493)
Investing activities		
Variation of other assets	**-**	31
Acquisition of property, plant and equipment	**(625)**	(460)
Acquisition of intangible assets	**(103)**	(104)
Payment of contingent consideration	**(4,075)**	-
Net cash flows used in investing activities	**(4,803)**	(533)
Financing activities		
Variation of bank loans	**8,228**	-
Long-term debt reimbursement (note 8)	**(68)**	(770)
Payment of lease liabilities	**(657)**	(515)
Interest paid	**(976)**	(436)
Financing costs	**(17)**	-
Warrants exercised	**-**	210
Net cash flows from (used in) financing activities	**6,510**	(1,511)
Net change in cash	**(842)**	(3,537)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(247)**	(104)
Decrease in cash	**(1,089)**	(3,641)
Cash – Beginning of period	**7,382**	15,409
Cash – End of period	**6,293**	11,768

See accompanying notes to condensed interim 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.

The Corporation's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol HEO.

2. Basis of preparation

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

The IFRS accounting policies that are set out in the Corporation's consolidated financial statements for the year ended June 30, 2022 were consistently applied to the period presented in this document. Since June 30, 2022, the Corporation has not early adopted any standard, interpretation or amendment.

These condensed interim consolidated financial statements are intended to provide an update on the Corporation's audited consolidated annual financial statements for the year ended June 30, 2022. Accordingly, they do not include all the information required for annual financial statements and should be read in conjunction with the Corporation's audited consolidated annual financial statements for the year ended June 30, 2022.

The preparation of condensed interim consolidated financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3 in the Corporation's consolidated financial statements for the year ended June 30, 2022 and remained unchanged for the three-month period ended September 30, 2022.

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

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

On November 9, 2022, the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

Assessment of COVID-19 impact

For the period ended September 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.

3. Business combination

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.

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 are as follow:

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

Purchase price allocation 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.

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

Costs related to the acquisition

Transaction costs of $192 were expensed and are included in Acquisition and integration costs in the consolidated financial statements in the Consolidated Statements of Earnings for the year ended June 30, 2022.

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

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.

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

The purchase price allocation shown above is final and is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. It was completed during the fourth quarter of fiscal year 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 for the year ended June 30, 2022. 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.

4. Accounts receivable

As at	**September 30, 2022**	June 30, 2022
	$	$
Trade accounts receivable	**35,616**	31,902
Hold back from customers under manufacturing contracts	**4,181**	3,806
Allowance for expected credit losses	**(298)**	(196)
	39,499	35,512
Other receivables	**352**	184
	39,851	35,696

5. Inventories

As at	**September 30, 2022**	June 30, 2022
	$	$
Raw materials	**6,566**	5,362
Work in progress	**1,233**	525
Finished goods	**17,005**	14,284
	24,804	20,171

6. Bank loans

On January 29, 2021, the Corporation amended certain provisions of the existing credit agreement and consolidated its long-term credit facilities. On September 27, 2022, the Corporation amended the existing Credit Agreement to increase its revolving facility to $65.0 M with a maturity date as at December 3, 2024 ($55.0 M as at June 30, 2022). As part of the amendment, LIBOR references were replaced with the Adjusted Term Secured Overnight Financing Rate ("Term SOFR"). Revolving facility advances made prior to these amendments continue to apply LIBOR rates until the end of their term, Therefore, following the execution of the amendments, the Corporation's operating and long-term credit facilities are now aggregating an amount of up to $75.0 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 $65.0 M, from which an amount of $53.7 M was used as at September30, 2022 ($45.6 M as at June 30, 2022). 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.* $23.6 M ($16.3 M as at June 30, 2022) bearing interest at Banker Acceptance plus 2.50% (6.13% as at September 30, 2022);
   - *b.* $1.0 M ($2.3 M as at June 30, 2022) bearing interest at CDN prime rate plus 1.25% (6.70% as at September 30, 2022);
   - *c.* US$21.2 M ($29.3 M as at September 30, 2022 and $23.4 M as at June 30, 2022) bearing interest at US$ Libor plus 2.50% (5.13% as at September 30, 2022); and
   - *d.* $nil ($3.7 M as at September 30, 2022 and $3.7 M as at June 30, 2022) bearing interest at US$ base rate plus 1.25% (8.00% as at September 30, 2022).

(ii) a letter of credit facility for a maximum amount of $10.0 M ($7.0M as at June 30, 2022) for the issuance of letters of credit entirely secured by EDC, from which an amount of $3.1 M ($3.1 M as at June 30, 2022) was used on this credit facility as at September 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 September 30, 2022 (nil as at June 30, 2022); 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 $0.3 M was used as at September 30, 2022 ($0.2 M as at June 30, 2022).

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.

As at September 30, 2022, the Corporation is in compliance with the financial ratios required under its credit agreement.

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

7. Accounts payable and accrued liabilities

As at	**September 30, 2022**	June 30, 2022
	$	$
Trade accounts payable	**10,302**	13,058
Other accrued liabilities	**13,685**	10,542
	23,987	23,600

8. Long-term debt

As at	**September 30, 2022**	June 30, 2022
	$	$
At amortised cost		
Loans denominated in US dollars (a)	**719**	1,960
Loans denominated in Canadian dollars (b)	**96**	113
	815	2,073
Less: Current portion	**342**	1,563
Long-term debt	**473**	510

(a) Loans denominated in US dollars
The Corporation acquired 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 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 $130 (US$100) the Corporation was released from its outstanding loan of the remaining amount of $1,029 (US$800) which was recorded as a gain on debt extinguishment in other gains of the consolidated statements of earnings.

(b) Loans denominated in Canadian dollars
The Corporation acquired financing agreements totaling $399. The loans bear interest ranging between 4.49% and 8.63% and are payable between 60 and 99 monthly instalments totaling $5, principal and interest, and are maturing through March 2023 to June 2027.

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

9. Contingent considerations

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

	$
Balance as at June 30, 2021	6,738
Plus: Contingent consideration – JCO and EC (note 3)	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
Plus: Change in fair value of contingent considerations	**180**
Less: Payment of contingent considerations	**4,075**
Effect of foreign exchange differences	**139**
Balance as at September 30, 2022	**6,261**
Less: Current portion	**6,261**
Contingent consideration – non-current portion	**-**

10. Additional information about the nature of costs components

a) Expenses by nature

Three-month periods ended September 30,	**2022**	2021
	$	$
Material	**21,901**	13,800
Salaries and fringe benefits	**21,343**	15,381
Subcontractors and professional fees	**3,693**	2,343
Rent, electricity, insurance and office expenses	**1,407**	1,058
Telecommunications and travel expenses	**1,145**	580
Expected credit losses expenses	**73**	-
Share based compensation	**617**	219
Other expenses	**1,527**	1,168
Total cost of goods sold, operating, selling and administrative expenses	**51,706**	34,549
Depreciation of property, plant and equipment and right-of-use assets	**1,343**	866
Amortization of intangible assets	**1,596**	1,095
Costs including depreciation and amortization	**54,645**	36,510

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of earnings, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, selling, general and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month periods ended September 30, 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.

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

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

Three-month periods ended September 30,	**2022**	2021
	$	$
Cost of goods sold	**1,035**	602
Selling, general and administrative expenses	**308**	264
	1,343	866

Amortization of intangible assets by function

Three-month periods ended September 30,	**2022**	2021
	$	$
Cost of goods sold	**9**	55
Selling, general and administrative expenses	**1,587**	1,040
	1,596	1,095

Cost per function including depreciation and amortization

Three-month periods ended September 30,	**2022**	2021
	$	$
Cost of goods sold	**43,686**	28,121
Selling, general and administrative expenses	**10,959**	8,389
	54,645	36,510

c) Other (gains) and losses – net

Three-month periods ended September 30,	**2022**	2021
	$	**$**
Unrealized exchange (gain) loss	**407**	(246)
Realized exchange loss	**149**	42
Gain on debt extinguishment	**(1,029)**	-
Other gains	**(57)**	(6)
Changes in fair value of contingent considerations	**180**	767
	(350)	557

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

11. Net earnings per share

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

Three-month periods ended September 30,	**2022**	2021
Net earnings	**$9**	$618
Basic weighted average number of share outstanding	**90,007,408**	85,203,131
Effects of dilution from:		
Warrants if not anti-dilutive	**-**	3,727,293
Stock options if not anti-dilutive	**2,303,334**	2,303,334
Weighted average number of share outstanding adjusted for the effect of dilution	**92,310,742**	91,233,758
Basic net earnings per share	**$0.000**	$0.007
Diluted net earnings per share	**$0.000**	$0.007

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

Three-month periods ended September 30,	**2022**	2021
Stock options	**3,705,000**	1,056,000
Warrants	**-**	-

12. Segment information

Products from which reportable segments derive their revenues

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

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

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

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

	For the three-month period ended September 30, 2022			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenue from external customers:				
Revenue recognized over time	**5,943**	**-**	**27,732**	**33,675**
Revenue recognized at a point in time	**4,082**	**18,392**	**-**	**22,474**
	10,025	**18,392**	**27,732**	**56,149**
Cost of goods sold	**8,133**	**10,716**	**23,793**	**42,642**
Gross profit before depreciation and amortization	**1,892**	**7,676**	**3,939**	**13,507**
Selling and general expenses	**1,419**	**3,041**	**931**	**5,391**
Earnings before administrative costs and other items listed below (EBAC)	**473**	**4,635**	**3,008**	**8,116**
Administrative costs				**3,673**
Depreciation of property, plant and equipment and right-of-use assets				**1,343**
Amortization of intangible assets				**1,596**
Other (gains) and losses – net				**(350)**
Acquisition and integration costs				**381**
Finance costs – net				**1,158**
Earnings before income taxes				**315**

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

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

Geographical information

Three-month periods ended September 30,	**2022**	2021
	$	$
Revenues from external customers		
Revenue according to geographic area		
Americas:		
Canada	**3,587**	4,021
United States	**41,378**	25,753
Chile	**861**	1,022
Latin America	**638**	1,104
Europe:		
United Kingdom	**351**	290
Spain	**783**	724
Others	**754**	605
Middle East and Africa:		
Saudi Arabia	**1,019**	1,487
United Arab Emirates	**119**	514
Other Middle East countries	**1,085**	728
Africa	**2,044**	782
Asia Pacific:		
China	**1,396**	606
Republic of Korea	**1,565**	711
Others	**569**	37
	56,149	38,384

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

As at	**September 30, 2022**	June 30, 2022
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**8,983**	7,631
United States	**73,175**	71,191
United Kingdom	**26,159**	26,533
Spain	**11,698**	11,861
Chile	**98**	93
	120,113	117,309

13. Related party disclosure and remuneration

a) Related party loans receivable

Following the approval of the disinterested shareholders of the Corporation at the annual meeting of its shareholders held on November 15, 2016, the Corporation extended to executive officers, individual loans in an aggregate amount of $1,250 (the "Loans"), effective as of July 26, 2016, in order for them to acquire common shares as part of a non-brokered private placement. These loans are repayable in one single installment on the 8th anniversary of the effective date and can be reimbursed in full at any time before the end of the term, without penalty. These loans bear interest at a rate of 2.01%, payable monthly. They are secured by a pledge of the acquired common shares. The market value of the underlying common shares pledged to secure these loans was $1,250 as at September 30, 2022 ($1,250 as at June 30, 2022).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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An amount of $7 was paid to the Corporation in regards of these loans and recorded as finance income in the condensed interim consolidated statements of earnings for the three-month period ended September 30, 2022 ($7 for the three-month period ended September 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:

Three-month periods ended September 30,	**2022**	2021
	$	$
Short-term benefits [1]	**409**	417
Post-employment benefits [2]	**53**	65
Share-based payments	**617**	219
Long-term incentive plan	**-**	43
	1,079	744

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

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

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

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)

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

Advisory Members

Leonard Graziano (3)

Legal Counsel

McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors

Ernst & Young LLP

Transfer Agent

TSX Trust Company

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