Interim Financial Report
Second quarter ended
December 31, 2022

www.h2oinnovation.com
investor@h2oinnovation.com

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 December 31, 2022, in comparison with the corresponding period ended December 31, 2021. This MD&A should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes for the quarter ended December 31, 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..

TABLE OF CONTENT

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 23 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 23 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 our 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.

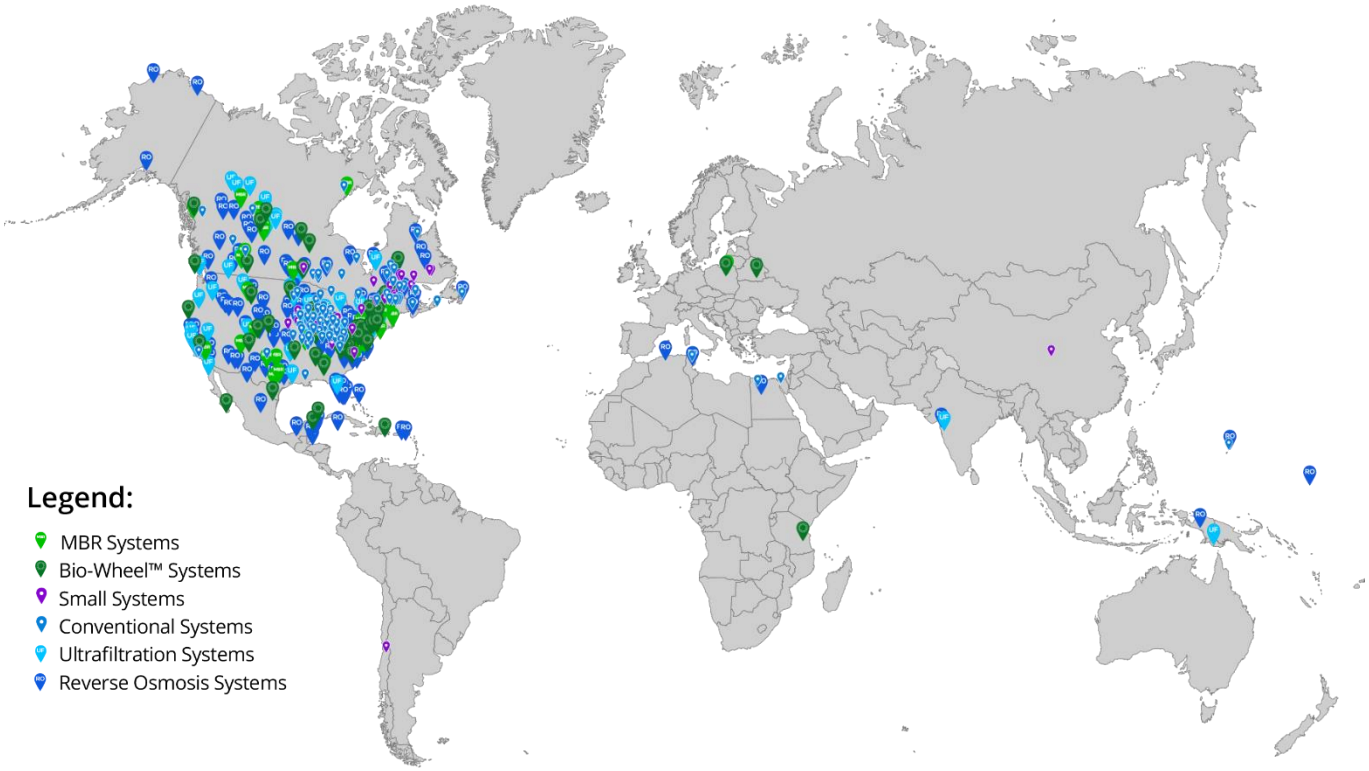
Number of Employees	Systems Installed in North America	Countries in Which We Export our Specialty Products	Utilities We Operate
+1,040	**+800**	**+75**	**+650**

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 more than 800 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")

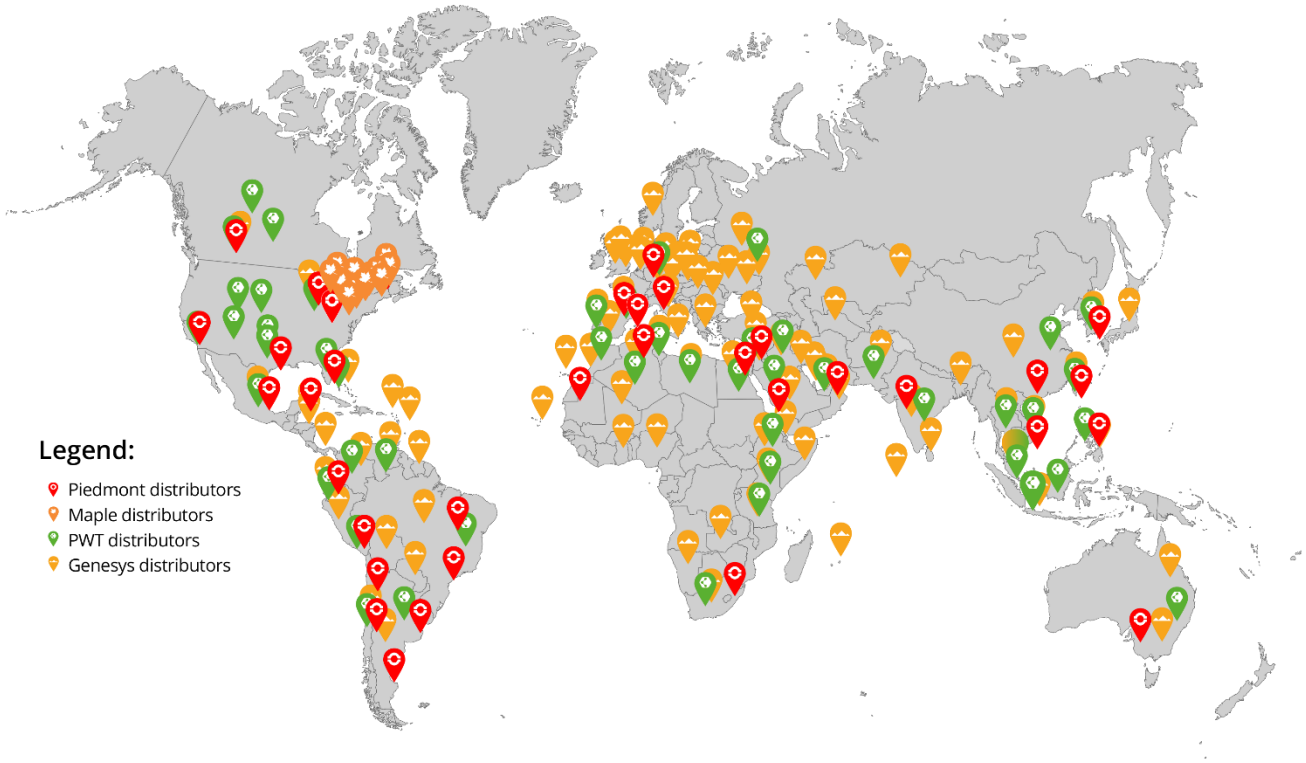
H_2O Innovation offers a complete line of specialty chemicals, consumables, components and specialized products for the water industry through PWT, Genesys, Piedmont, and for the maple industry through H_2O Innovation Maple. The Corporation is now exporting its specialty products in over 75 countries.

PWT and Genesys, which belong to our Specialty Chemicals, 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 components and consumables, 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 maple farming 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

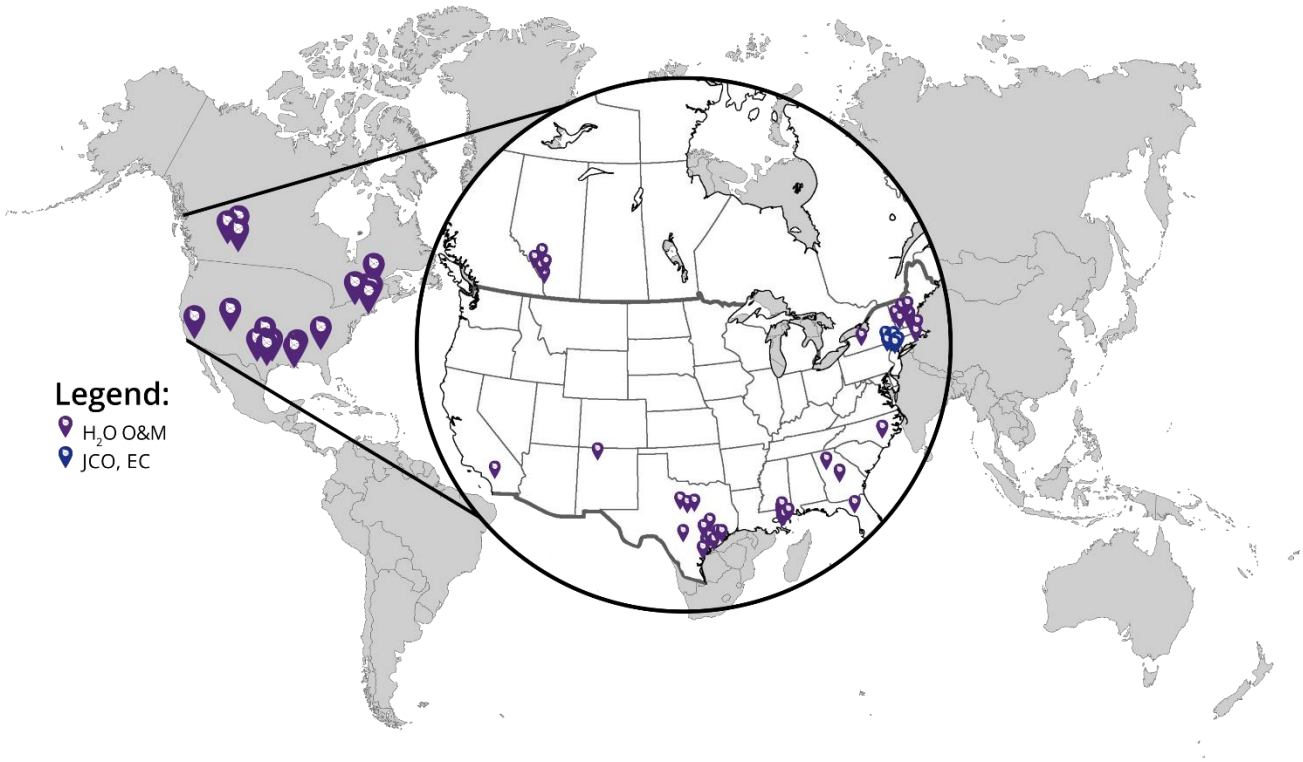


OPERATION AND MAINTENANCE ("O&M")

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



Trusted Utility Partners

ENVIRONMENTAL SERVICES

WATER & WASTEWATER OPERATIONS SPECIALISTS

KEY FINANCIAL HIGHLIGHTS

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

Revenues	Recurring Revenues [3][4]	Organic Growth [3][4] (%)	Consolidated Backlog
$63.9 M	**90.0%**	**26.8%**	**$206.2 M**
↑ $21.8 M or 52.0%	↑ from 87.0%	↑ from 7.7%	↑ 63.4% from $126.2 M

Gross profit margin [1]	SG&A [2]	Adjusted EBITDA [3]	Adjusted EBITDA [3] (%)
26.6%	**17.5%**	**$6.5 M**	**10.1%**
↑ from 26.4%	↓ from 17.9%	↑ 69.9% from $3.8 M	↑ from 9.0%

Net earnings	Adjusted net earnings [3]	Cash flow from (used in) operating activities	Net debt [3][6]
$0.6 M Or 0.007 per share [5]	**$2.7 M** Or 0.030 per share [3][5]	**$6.6 M**	**$53.5 M**
↓ from $0.8 M	↑ from $2.0 M	↑ from ($3.3 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 23.
(4) % of total revenues.
(5) Calculated using the basic weighted average number of shares outstanding.
(6) Compared with June 30, 2022.

SECOND QUARTER BUSINESS HIGHLIGHTS

- On November 7, 2022, the Maple business line announced the launch of the "H2GO", a unique 24/7 self-service containerized store. The H_2O Innovation team developed this containerized store to ensure that maple syrup producers always have access to all the products they need to carry out their daily operations without having to travel long distances. The labor shortage and the fact that opening hours are often incompatible with the forestry workers' schedules prompted H_2O Innovation to design this new and unique concept. This is the first innovation of its kind in the North American maple syrup industry.

- On December 5, 2022, H_2O Innovation announced that its Water Technologies & Services (WTS) business line had been awarded 2 new water treatment projects, using the ultrafiltration technology for a total value of $12.1 M.

- On December 6, 2022, H_2O Innovation collaborated with National Bank of Canada to develop a sustainable financing solution to fund the Corporation's continued growth in water technology manufacturing and services by structuring its first Blue Loan of $65 M.

- On December 6, 2022, H_2O Innovation held its Annual General Meeting of Shareholders and the upper management took the opportunity to provide shareholders with an update on the Three-Year Strategic Plan. The shareholders elected or re-elected the following directors to the Corporation's Board of Directors: Lisa Henthorne, Chairwoman of the Board of Directors, Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation, Pierre Côté, Stéphane Guérin, Richard Hoel, Bertrand Lauzon, Caroline Lemoine and Elisa M. Speranza.

- On December 15, 2022, H_2O Innovation announced that it has recently been awarded a new O&M service contract and has extended an existing contract. Both projects are in the State of Texas and have a total value of $29.9 M.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(In thousands of Canadian dollars except per share amounts)

Income Statements and Cash flows	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022		2021		**2022**		2021	
	$	**% (1)**	$	% (1)	**$**	**% (1)**	$	% (1)
Revenues per business pillar								
WTS	**11,003**	**17.2**	8,539	20.4	**21,028**	**17.5**	17,550	21.8
Specialty products	**23,920**	**37.5**	13,794	32.8	**42,312**	**35.3**	25,129	31.3
O&M	**28,927**	**45.3**	19,676	46.8	**56,659**	**47.2**	37,714	46.9
Total revenues	**63,850**	**100.0**	42,009	100.0	**119,999**	**100.0**	80,393	100.0
Revenues per geographic location								
Canada	**5,396**	**8.5**	5,053	12.0	**8,983**	**7.5**	9,074	11.3
United States	**45,323**	**71.0**	28,930	68.9	**86,701**	**72.2**	54,683	68.0
Others	**13,131**	**20.5**	8,026	19.1	**24,315**	**20.3**	16,636	20.7
Total revenues	**63,850**	**100.0**	42,009	100.0	**119,999**	**100.0**	80,393	100.0
Recurring revenues (2)	**57,445**	**90.0**	36,562	87.0	**107,651**	**89.7**	69,658	86.6
Gross profit margin (3)	**17,013**	**26.6**	11,096	26.4	**30,520**	**25.4**	22,016	27.4
Selling, general and administrative expenses ("SG&A")	**11,158**	**17.5**	7,526	17.9	**20,222**	**16.9**	14,611	18.2
Other (gains) and losses – net	**188**	**0.3**	(73)	(0.2)	**(162)**	**(0.1)**	484	0.6
Finance costs – net	**1,373**	**2.2**	493	1.2	**2,531**	**2.1**	1,050	1.3
Net earnings for the period	**620**	**1.0**	762	1.8	**629**	**0.5**	1,380	1.7
Net earnings per share (''EPS''):								
Basic EPS	**0.007**	**-**	0.009	-	**0.007**	**-**	0.016	-
Diluted EPS	**0.007**	**-**	0.008	-	**0.007**	**-**	0.015	-
EBITDA (2)	**5,408**	**8.5**	3,424	8.2	**9,820**	**8.2**	6,700	8.3
Adjusted EBITDA (2)	**6,453**	**10.1**	3,799	9.0	**11,421**	**9.5**	7,817	9.7
Adjusted net earnings (2)	**2,712**	**4.2**	1,996	4.8	**5,302**	**4.4**	4,128	5.1
Adjusted EPS (2):								
Adjusted basic EPS (2)	**0.030**	**-**	0.023	-	**0.059**	**-**	0.048	-
Adjusted diluted EPS (2)	**0.029**	**-**	0.022	-	**0.057**	**-**	0.045	-
Cash flows from (used in) operating activities	**6,570**	**10.3**	(3,343)	(8.0)	**4,021**	**3.4**	(4,836)	(6.0)

Financial position	**December 31, 2022**	June 30, 2022	Variation	
	$	$	$	%
Cash	**9,459**	7,382	2,077	28.1
Inventories	**24,395**	20,171	4,224	20.9
Contract assets	**8,630**	11,591	(2,961)	(25.5)
Net debt excluding contingent considerations (2)	**46,971**	40,253	6,718	16.7
Net debt-to-Adjusted EBITDA ratio (2)	**2.16**	2.23	-	-
Consolidated backlog	**206,202**	163,036	43,166	26.5

(1) % of total revenues.
(2) Refer to the "Non-IFRS financial measurements" section on page 23 for detailed information about the non-IFRS measures used in this MD&A.
(3) Gross profit margin presented before depreciation and amortization.

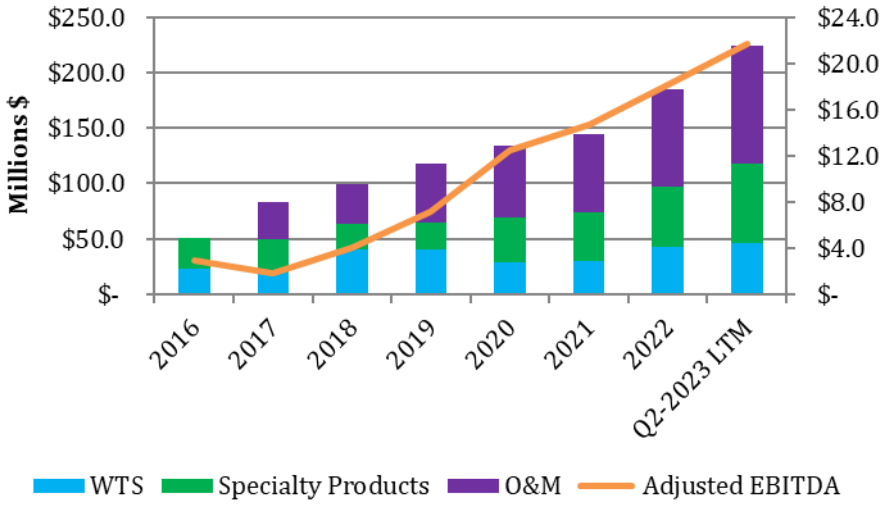
QUARTERLY FINANCIAL INFORMATION

(In thousands of Canadian dollars, except for per share values)	Three-month periods ended December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	Last twelve months
	$	**$**	**$**	$	**$**
Revenues	**63,850**	56,149	52,046	51,917	223,962
EBITDA [2]	**5,408**	4,412	1,999	4,382	16,201
Adjusted EBITDA [2]	**6,453**	4,968	4,754	5,530	21,705
Adjusted EBITDA over revenues [2]	**10.1%**	8.8%	9.1%	10.7%	9.7%
Net earnings (loss)	**620**	9	2,445	1,282	4,356
Basic EPS [1]	**0.007**	0.000	0.028	0.015	0.050
Diluted EPS [1]	**0.007**	0.000	0.027	0.014	0.048
Adjusted net earnings [2]	**2,712**	2,590	1,627	3,330	10,259
Adjusted basic EPS [1] [2]	**0.030**	0.029	0.018	0.038	0.115
Adjusted diluted EPS [1] [2]	**0.029**	0.028	0.018	0.037	0.111
Cash flows from (used in) operating activities	**6,570**	(2,549)	(6,390)	4,976	2,607

(In thousands of Canadian dollars, except for per share values)	Three-month periods ended December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	Previous twelve months
	$	$	$	$	**$**
Revenues	42,009	38,384	35,204	39,155	154,752
EBITDA [2]	3,424	3,276	3,206	5,347	15,253
Adjusted EBITDA [2]	3,799	4,018	3,089	4,513	15,419
Adjusted EBITDA over revenues [2]	9.0%	10.5%	8.8%	11.5%	10.0%
Net earnings (loss)	762	618	(195)	2,062	3,247
Basic EPS [1]	0.009	0.007	(0.002)	0.026	0.039
Diluted EPS [1]	0.008	0.007	(0.002)	0.023	0.036
Adjusted net earnings [2]	4,128	2,132	457	2,181	6,766
Adjusted basic EPS [1] [2]	0.048	0.025	0.005	0.027	0.081
Adjusted diluted EPS [1] [2]	0.045	0.023	0.005	0.024	0.074
Cash flows from (used in) operating activities	(3,343)	(1,493)	(2,916)	9,729	1,977

[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 23 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 December 31, 2022**	Previous twelve months December 31, 2021	Variation	
	$	$	$	%
Revenues	**223,962**	154,752	69,210	44.7
EBITDA [1]	**16,201**	15,253	948	6.2
Adjusted EBITDA [1]	**21,705**	15,419	6,286	40.8
Adjusted EBITDA over revenues [1]	**9.7%**	10.0%	-	-
Net earnings (loss)	**4,356**	3,247	1,109	34.2
Basic EPS	**0.050**	0.039	0.011	28.2
Diluted EPS	**0.048**	0.036	0.012	33.3
Adjusted net earnings [1]	**10,259**	6,766	3,493	51.6
Adjusted basic EPS [1]	**0.115**	0.081	0.034	42.0
Adjusted diluted EPS [1]	**0.111**	0.074	0.037	50.0
Cash flows from operating activities	**2,607**	1,977	630	31.9

[1] Refer to the "Non-IFRS financial measurements" section on page 23 for detailed information about the non-IFRS measures used in this MD&A.

Revenues for the last twelve months increased by 44.7% compared to the corresponding period, demonstrating a sustained growth of the Corporation from organic and acquisition growth, combined with foreign exchange rates variations.

Revenues Growth (In thousands of Canadian dollars)	**Last twelve months December 31, 2022**		Previous twelve months December 31, 2021	
	$	**%**	$	%
Organic growth	**40,679**	**26.3**	9,326	6.6
Acquisition growth	**25,266**	**16.3**	9,436	6.6
Impact of foreign exchange rates	**3,265**	**2,1**	(6,014)	(4.2)
Net variation	**69,210**	**44.7**	12,747	9.0

The efforts made over the last twelve months to focus on organic revenue growth led to an increase from 6.6% to 26.3% year over year. We believe that the increased demand for water treatment solutions, and he continued adoption of our specialty products has led to higher revenue contribution from new customers and scope expansion with our existing base of customers. We also invested in various growth initiatives, such as hiring strategic sales resources and investing in SG&A to stay aligned with the objectives of our Three-year Strategic Plan. Those investments have been successful since the objective of 10.0% organic revenue growth of our Three-year Strategic Plan has been largely exceeded.

The adjusted EBITDA increased to $21.7 M, from $15.4 M in the last twelve months period, representing an increase of $6.3 M which is an improvement of 40.8%. The adjusted EBITDA over revenues is lower at 9.7% compared to 10.0% last year, representing a reduction of the ratio by 0.3 %, explained by a decrease of the gross margin and by the business mix. The global overheated economy has affected the Corporation's gross margin mainly due to the supply chain challenges, the increased costs of materials as well as the pressure on employee salaries due to 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 December 31,				Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	2022	2021	Variation							
Revenues per business pillar	**$**	$	$	%	$	%	$	%	$	%
WTS	**11,003**	8,539	2,464	28.9	675	1.6	-	-	1,789	4.3
Specialty products	**23,920**	13,794	10,126	73.4	(91)	(0.2)	3,561	8.5	6,656	15.8
O&M	**28,927**	19,676	9,251	47.0	1,684	4.0	4,773	11.4	2,794	6.7
Total revenues	**63,850**	42,009	21,841	52.0	2,268	5.4	8,334	19.9	11,235	26.8

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. The Corporation was able to generate an important revenue growth for the three-month period ended December 31, 2022. Consolidated revenues from our three business pillars, for the second quarter ended December 31, 2022, increased by $21.8 M, or 52.0%, to reach $63.9 M compared to $42.0 M in the corresponding period of previous year. This increase mainly came from an organic revenue growth of $11.2 M, or 26.8%, and an acquisition growth of $8.3 M, or 19.9% 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 $2.3 M, or 5.4%.

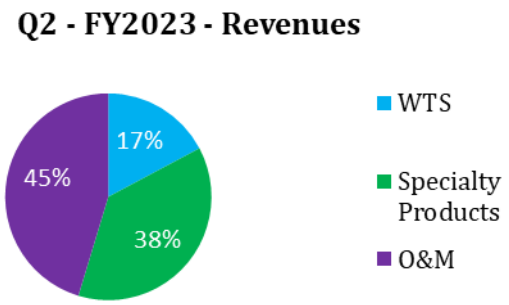
Revenues from the WTS business pillar increased by $2.5 M, or 28.9% compared to the same quarter of the previous year, coming from organic growth. This growth was driven by higher organic revenue in water treatment systems projects. The Corporation's Three-year Strategic Plan consists of prioritizing 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 respective ESG plans.

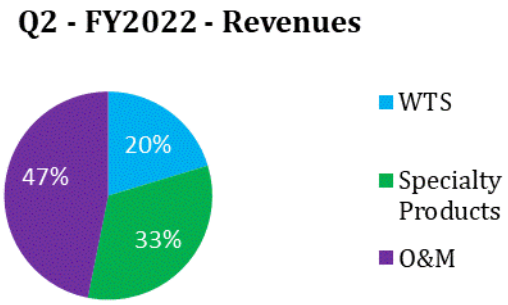
Revenues from the Specialty Products business pillar increased by $10.1 M, or 73.4%, compared to the same quarter of the previous year. These results were partially driven by the acquisition of Leader Evaporator which contributed to an acquisition growth of $3.6 M, or 8.5%, weighted average over total revenues. However, most of the increase came from the organic revenue growth of $6.6 M, or 15.8%, weighted average over total revenues. All business lines of the Specialty Products business pillar 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 $9.2 M, or 47.0%, compared to the same quarter of the previous year. Organic growth accounted for $2.8 M, or 6.7%, weighted average over total revenues this quarter, whereas the acquisition growth represented $4.7 M, or 11.4%, weighted average over total revenues, resulting from the acquisitions of JCO and EC combined with a favorable USD exchange rate impact of $1.7 M. All long-term contracts expiring during the period were successfully renewed which secures the upcoming recurring revenues.

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 December 31, 2022, recurring revenues represented 90.0% of the Corporation's total revenues, compared to 87.0% for the comparable quarter of the previous 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.

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 December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Gross profit margins [1]	**17,013**	11,096	5,917	53.3	**30,520**	22,016	8,504	38.6
Gross profit margins (%) [1]	**26.6%**	26.4%	-	-	**25.4%**	27.4%	-	-

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

The Corporation's gross profit margin before depreciation and amortization stood at $17.0 M, or 26.6%, during the second quarter of fiscal year 2023, compared to $11.1 M, or 26.4% for the same period of the previous fiscal year, representing an increase of $5.9 M, or 53.3%, while the revenues of the Corporation increased by 52.0%. The gross profit margin in % improved for the quarter despite high inflation of material costs and pressure on salaries due to gradual easing of the supply chain constraints, and progressive price realization. For the six-month period ended December 31, 2022, the gross profit margin before depreciation and amortization stood at $30.5 M, or 25.4% compared to $22.0 M, or 27.4% for the same period of last year, representing an increase of $8.5 M, while the revenues of the Corporation increased by 49.3%. The percentage decrease for the six-month period ended December 31, 2022 was driven by high inflation of material costs, pressure on salaries and business mix within the Specialty Products business pillar.

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

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
SG&A expenses	**11,158**	7,526	3,632	48.3	**20,222**	14,611	5,611	38.4
SG&A expenses of revenues	**17.5%**	17.9%	-	-	**16.9%**	18.2%	-	-

The Corporation's SG&A reached $11.2 M during the second quarter of fiscal year 2023, compared to $7.5 M for the same period of the previous fiscal year, representing an increase of $3.7 M, or 48.3%, while the revenues of the Corporation increased by 52.0%. For the six-month period ended December 31, 2022, SG&A reached $20.2 M, compared to $14.6 M for the same period of the previous fiscal year, representing an increase of $5.6 M, or 38.4%, while the revenues of the Corporation increased by 49.3%. Those increases are 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 for the three and six-month periods decreased respectively by 0.4% and 1,3%, 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 December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Finance income	**(9)**	(7)	(2)	28.6	**(18)**	(18)	-	-
Finance costs	**1,382**	500	882	176.4	**2,549**	1,068	1,481	138.7
Finance costs - net	**1,373**	493	880	178.5	**2,531**	1,050	1,481	141.0

Finance costs – net increased for the three and six-month period ended December 31, 2022 by $0.8 M and $1.5 M respectively, compared with the same period of the previous year. The variation was driven by the utilization of our credit facility for the integration of the acquisitions, 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 December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Other (gains) and losses - net	**188**	(73)	261	(357.5)	**(162)**	484	(646)	(133.5)

Other (gains) and losses – net stood at $0.2 M for the second quarter of fiscal year 2023, compared with ($0.1 M) for the same period of the previous fiscal year, representing a decrease of $0.3 M$ compared to the same quarter of the previous year. The decrease was primarily driven by higher revaluation of the fair value of contingent considerations, partly compensated by the unrealized exchange gain.

Other (gains) and losses – net stood at ($0.2 M) for the six-month period ended December 31, 2022, compared with $0.5 M for the same period of the previous year, representing an increase of $0.7 M. 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 revaluation of the fair value of contingent considerations of $0.3 M and the unrealized exchange loss of $0.4 M.

ADJUSTED EBITDA

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
EBITDA[1]	**5,408**	3,424	1,984	57.9	**9,820**	6,700	3,120	46.6
Adjusted EBITDA[1]	**6,453**	3,799	2,654	69.9	**11,421**	7,817	3,604	46.1
Adjusted EBITDA (%)[1]	**10.1%**	9.0%	-	-	**9.5%**	9.7%	-	-

The Corporation's adjusted EBITDA increased by $2.7 M, or 69.9%, to reach $6.5 M during the second quarter of fiscal year 2023, from $3.8 M for the comparable period of previous year. The adjusted EBITDA % increased to 10.1% for the second quarter of fiscal year 2023, compared to 9.0% for the same quarter of last year partly explained by higher revenues coming from the Specialty Products business pillar characterized by higher gross profit margin and overall lower SG&A expenses over revenues.

The Corporation's adjusted EBITDA increased by $3.6 M, or 46.1%, to reach $11.4 M for the six-month period ended December 31, 2022, from $7.8 M for the same period of the previous year, while the revenues of the Corporation increased by 49.3%. Consequently, the adjusted EBITDA % decreased and reached 9.5% for the six-month period ended December 31, 2022, compared to 9.7% for the same period of last year. This negative variation is mostly explained by a decrease in the Corporation's consolidated gross profit margin, considering that the Corporation's profitability has been impacted by ongoing macroeconomic trends on the supply chain, higher inflation, increased wages, and freight and logistic costs.

NET EARNINGS

(In thousands of Canadian dollars except per share amounts)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Net earnings	**620**	762	(142)	(18.6)	**629**	1,380	(751)	(54.4)
Basic net earnings per share	**0.007**	0.009	(0.002)	-	**0.007**	0.016	(0.009)	-
Diluted net earnings per share	**0.007**	0.008	(0.002)	-	**0.007**	0.016	(0.008)	-
Adjusted net earnings[1]	**2,712**	1,996	716	35.9	**5,302**	4,128	1,174	28.4
Basic adjusted net earnings per share[1]	**0.030**	0.023	0.007	-	**0.059**	0.048	0.011	-
Diluted adjusted net earnings per share[1]	**0.029**	0.022	0.007	-	**0.057**	0.045	0.012	-

Net earnings amounted to $0.6 M or $0.007 per share for the second quarter of fiscal year 2023 compared to net earnings of $0.8 M or $0.009 per share for the comparable quarter of last fiscal year. The variation was impacted by a higher gross profit margin compensated by higher depreciation and amortization and higher finance costs.

For the six-month period ended December 31, 2022, net earnings amounted to $0.6 M and $0.007 per share compared to net earnings of $1.4 M and $0.016 per share for the same period last year. The variation is explained by the reduction in gross profit margins, higher depreciation and amortization and higher finance costs, partially offset by other gains related to the debt extinguishment.

[1] Refer to the"Non-IFRS financial measurements" section on page 23 for detailed information about the non-IFRS measures used in this MD&A.

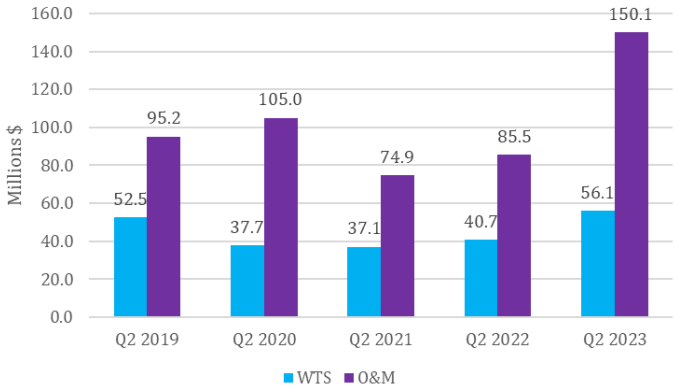
BACKLOG

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 December 31, 2022, the combined backlog of secured contracts between WTS and O&M reached $206.2 M compared to $126.2 M as at December 31, 2021. This combined backlog provides good visibility on revenues for the coming quarters of fiscal year 2023 and beyond.

(In thousands of Canadian dollars)	As at December 31,			
	2022	2021	Variation	
	$	$	$	%
WTS	**56,131**	40,700	15,431	37.9
O&M [1]	**150,071**	85,500	64,571	75.5
Consolidated backlog	**206,202**	126,200	80,002	63.4

[1] The backlog coming from the O&M business pillar does not include ''evergreen'' O&M services provided to MUDs and other privately owned utilities located in Texas, as well as the services provided by JCO and EC to municipal and industrial customers, since these contracts are "evergreen" and would not qualify for the remaining performance obligation definition.



WTS backlog

The WTS backlog stood at $56.1 M, which is an increase of 37.9%. This business pillar is showing a well-balanced backlog, with diversification seen between industrial and municipal projects: 35.0% of the projects being industrial as of December 31, 2022, compared to 34.3% as of December 31, 2021. Industrial projects are usually characterized by higher gross profit margins, shorter delivery cycle and revenue recognition, better 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 $150.1 M as at December 31, 2022, representing an increase of 75.5% compared to the $85.5 M backlog as at December 31, 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 having ''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 acquisitions of JCO and EC in the State of New York, 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

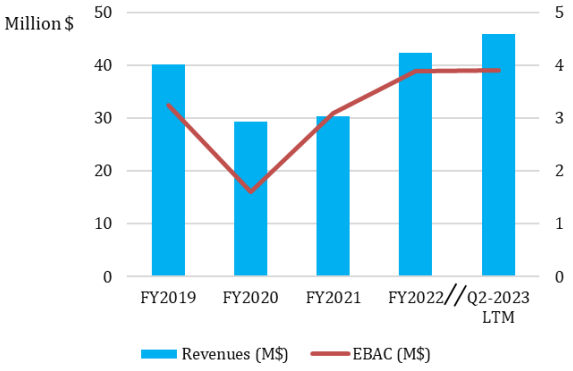
As mentioned in Section "H_2O Innovation at a glance", management analyzes the Corporation's results by business pillar. The Corporation evaluates its business pillar performance using Earnings before administrative costs ("EBAC), which is a non-IFRS measure defined in the Section "Non-IFRS financial measurements" at page 23 of this MD&A. The following tables summarize the Corporation's revenues and EBAC per business pillar for the three and six-month period ended December 31, 2022 and 2021.

WATER TECHNOLOGIES & SERVICES ("WTS")

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from WTS	**11,003**	8,539	2,464	28.9	**21,028**	17,550	3,478	19.8
Organic growth			*1,789*	*21.0*			*2,485*	*14.2*
Acquisition growth			-	-			-	-
FX impact			*675*	*7.9*			*993*	*5.6*
Cost of goods sold	**8,334**	6,934	1,400	20.2	**16,467**	13,876	2,591	18.7
Gross profit margins[1]	**2,669**	1,605	1,064	66.3	**4,561**	3,674	887	24.1
Gross profit margins (%)[1]	**24.3%**	18.8%	-	-	**21.7%**	20.9%	-	-
Selling and general expenses	**1,624**	1,108	516	46.6	**3,043**	2,174	869	40.0
EBAC[1] from WTS	**1,045**	497	548	110.3	**1,518**	1,500	18	1.2
EBAC[2] over revenues from WTS	**9.5%**	5.8%	-	-	**7.2%**	8.5%	-	-

WTS revenues stood at $11.0 M during the second quarter of fiscal year 2023, compared to $8.5 M for the same quarter of last year, representing an increase of $2.5 M, or 28.9%. For the six-month period ended December 31, 2022, revenues stood at $21.0 M compared to $17.6 M for the same period of last year, representing an increase of $3.4 M, or 19.8%. Those increases for the three and six-month periods are coming from an organic growth related to service activities and water treatment systems projects combined with a favorable foreign exchange impact.

The gross profit margin before depreciation and amortization stood at $2.7 M, or 24.3% for the second quarter of fiscal year 2023, compared to $1.6 M, or 18.8%, for the same quarter of previous year, representing an increase of $1.1 M, or 66.3%. For the six-month period ended December 31, 2022, the gross profit margin before depreciation and amortization stood at $4.6 M, or 21.7% compared to $3.7 M, or 20.9%, for the same period of previous year, representing an increase of $0.9 M, or 24.1%. The increase of gross profit margin in % was mainly due to higher percentage of revenue coming from service activities which generally bring higher gross profit margins combined with price adjustment clauses based on inflation indices in our customers' contracts.



The selling and general expenses stood at $1.6 M during the second quarter of fiscal year 2023, compared to $1.1 M, for the same quarter of last fiscal year, representing an increase of $0.5 M. For the six-month period ended December 31, 2022, selling and general expenses stood at $3.0 M compared to $2.2 M, for the same period of last year, representing an increase of $0.8 M. The increase in selling and general expenses was driven primarily by the hiring of

[1] Refer to the section "Non-IFRS financial measurements". Refer to page 23 for detailed information about non-IFRS measures used in this MD&A.

new sales resources, higher labour costs and commissions, resumption of travel and our participation to tradeshows and conferences.

WTS's EBAC stood at $1.0 M during the second quarter of fiscal year 2023, compared to $0.5 M for the same quarter of the previous fiscal year, representing an increase of $0.5 M, or 110.3%. For the six-month period ended December 31, 2022, WTS' EBAC remained stable at $1.5 M compared to same period of last year. The increase of WTS's EBAC in dollars is mainly attributable to the improvement of the gross profit margin before depreciation and amortization.

SPECIALTY PRODUCTS

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from Specialty Products	**23,920**	13,794	10,126	73.4	**42,312**	25,129	17,183	68.4
Organic growth			*6,656*	*48.3*			*11,877*	*47.2*
Acquisition growth			*3,561*	*25.8*			*6,160*	*24.5*
Fx impact			*(91)*	*(0.7)*			*(854)*	*(3.3)*
Cost of goods sold	**13,914**	7,397	6,517	88.1	**24,630**	12,767	11,863	92.9
Gross profit margins[1]	**10,006**	6,397	3,609	56.4	**17,682**	12,362	5,320	43.0
Gross profit margins (%)[1]	**41.8%**	46.4%	-	-	**41.8%**	49.2%	-	-
Selling and general expenses	**4,200**	2,440	1,760	72.1	**7,241**	4,853	2,388	49.2
EBAC[2] from Specialty Products	**5,806**	3,957	1,849	46.7	**10,441**	7,509	2,932	39.0
EBAC[2] over revenues from Specialty Products	**24.3%**	28.7%	-	-	**24.7%**	29.9%	-	-

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 $23.9 M during the second quarter of fiscal year 2023, compared to $13.8 M for the same quarter of last year, representing an increase of $10.1 M, or 73.4%, with an organic revenue growth of $6.7 M, or 48.3%. Leader Evaporator, which was acquired on June 30, 2022, generated $3.6 M, or 25.8%, of acquisition growth. For the six-month period ended December 31, 2022, revenues stood at $42.3 M compared to $25.1 M for the same period of last year, representing an increase of $17.2 M, or 68.4%. Those increases for the three and six-month period ended December 31, 2022 were mainly driven by strong sales and an efficient marketing strategy execution combined with additional strategic sales resources. We delivered components and consumables to large desalination plants and penetrated strategic regions in the Middle East. Furthermore, we achieved more sales synergies between our various product lines creating a positive momentum.

The gross profit margins before depreciation and amortization stood at $10.0 M, or 41.8%, for the second quarter of fiscal year 2023, compared with $6.4 M, or 46.4% for the same quarter of last fiscal year, representing an increase of $3.6 M but a decrease of the gross profit margin in percentage. For the six-month period ended December 31, 2022, the gross profit margins before depreciation and amortization stood at $17.7 M, or 41.8%, compared to $12.4 M, or 49.2% for the same period of last year, representing an increase of $5.3 M but a decrease of the gross profit margin in percentage.

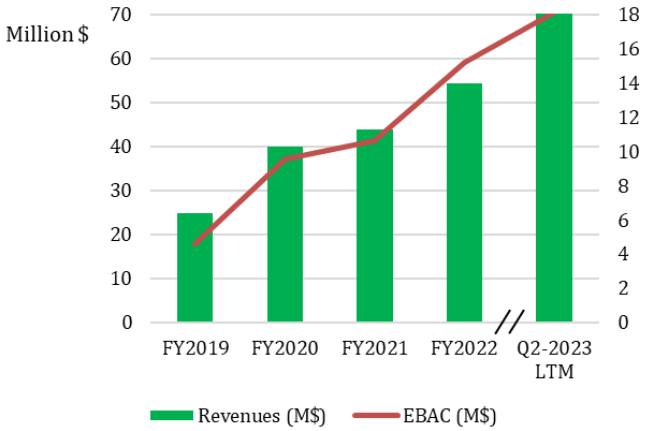
Those variations are explained by two main reasons: the business mix within this business pillar due to the acquisition of Leader which have lower average gross margins than the rest of the specialty products; and increase of costs of raw material of chemicals.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 23 for detailed information about non-IFRS measures used in this MD&A.

The SG&A expenses stood at $4.2 M during the second quarter of fiscal year 2023, compared to $2.4 M, for the same quarter of the previous fiscal year, representing an increase of $1.8 M. For the six-month period ended December 31, 2022, SG&A expenses stood at $7.2 M compared to $4.9 M, for the same period of the previous year, representing an increase of $2.3 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 those variations. Despite the increase in SG&A expenses, the percentage of expenses over revenues remained stable for the three-month period and for the six-month period decreased by 2.2%.

Specialty Products' EBAC stood at $5.8 M during the second quarter of fiscal year 2023, compared to $4.0 M for the same quarter of last fiscal year, representing an increase of $1.8 M, or 46.7%. For the six-month period ended December 31, 2022, Specialty Products' EBAC stood at $10.4 M, compared to $7.5 M for the same period of last year, representing an increase of $2.9 M, or 39.0%.

Even if Specialty Products' EBAC was positively impacted by strong sales growth, pressure on gross margin and business mix between specialty chemicals, components, consumables and maple farming equipment negatively affected the ratios.



O&M

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Revenues from O&M	**28,927**	19,676	9,251	47.0	**56,659**	37,714	18,945	50.2
Organic growth			*2,794*	*14.2*			*6,481*	*17.2*
Acquisition growth			*4,773*	*24.3*			*10,009*	*26.5*
Fx impact			*1,684*	*8.5*			*2,455*	*6.5*
Cost of goods sold	**24,589**	16,582	8,007	48.3	**48,382**	31,734	16,648	52.5
Gross profit margins[1]	**4,338**	3,094	1,244	40.2	**8,277**	5,980	2,297	38.4
Gross profit margins (%)[1]	**15.0%**	15.7%	-	-	**14.6%**	15.9%	-	-
Selling and general expenses	**1,245**	1,022	223	21.8	**2,176**	1,950	226	11.6
EBAC[2] from O&M	**3,093**	2,072	1,021	49.3	**6,101**	4,030	2,071	51.4
EBAC[2] over revenues from O&M	**10.7%**	10.5%	-	-	**10.8%**	10.7%	-	-

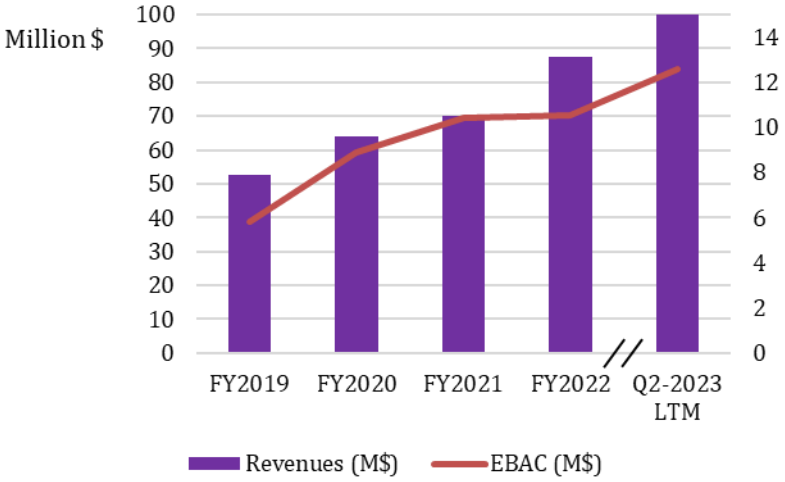
O&M revenues stood at $28.9 M during the second quarter of fiscal year 2023, compared to $19.7 M for the same quarter of the previous fiscal year, representing an increase of $9.2 M, or 47.0%. For the six-month period ended December 31, 2022, revenues stood at $56.7 M, compared to $37.7 M for the same period of the previous year, representing an increase of $19.0 M, or 50.2%. The O&M business pillar showed an organic growth for the three and six-month period ended December 31, 2022 respectively for $2.8 M, or 14.2% and $6.5 M, or 17.2%. Those increases are coming both from important scope expansions and new projects secured in previous quarters. The acquisition of JCO & EC contributed to an acquisition growth for the three and six-month period ended December 31, 2022 respectively for $4.8 M, or 24.3% and $10.0 M, or 26.5%, combined with a favorable foreign exchange rate impact.

[1] Gross profit margins presented before depreciation and amortization.
[2] Refer to the section "Non-IFRS financial measurements". Refer to page 23 for detailed information about non-IFRS measures used in this MD&A.

The gross profit margin before depreciation and amortization increased at $4.3 M, or 15.0% for the second quarter of fiscal year 2023, compared with $3.1 M, or 15.7%, for the same quarter of last year, representing an increase of $1.2 M, or 40.2%. For the six-month period ended December 31, 2022, gross profit margin before depreciation and amortization increased at $8.3 M, or 14.6%, compared with $6.0 M, or 15.9%, for the same period of last year, representing an increase of $2.3 M, or 38.4%. The gross profit margin in % remained fairly stable for the second quarter of fiscal year 2023. For the six-month period ended December 31, 2022, the decrease of 1.3% is due to pressure on employee salaries and inflation. Since over 70.0% of the Corporation's employees are working for this business pillar, the factors related to workforce impacted more this pillar. Hence, to create a safe and attractive environment for our workforce, and to create value for our customers by offering them a talented team, we decided to establish a minimum wage of US $15/hour for all.

The SG&A expenses stood at $1.2 M during the second quarter of fiscal year 2023, compared to $1.0 M for the same quarter of the previous fiscal year. For the six-month period ended December 31, 2022, SG&A expenses stood at $2.2 M compared to $2.0 M for the same quarter of the previous fiscal year. Those increases in SG&A expenses were driven primarily by higher employee compensation costs. Moreover, the percentage of SG&A expenses over revenues decreased for the three and six-month period ended December 31, 2022, of 0.8% and 1.3% respectively.

O&M's EBAC stood at $3.1 M during the second quarter of fiscal year 2023, compared to $2.1 M for the same quarter of last year, representing an increase of $1.0 M, or 49.3%. For the six-month period ended December 31, 2022, O&M's EBAC stood at $6.1 M compared to $4.0 M for the same period of last year, representing an increase of $2.1 M, or 51.4%. However, the O&M EBAC remains stable in % due primarily to lower gross profit margin explained by higher pressure on labor costs combined with lower SG&A expenses in % of revenues.



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 December 31, 2022 and 2021 is presented below:

(In thousands of Canadian dollars)	Three-month periods ended December 31,				Six-month periods ended December 31,			
	2022	2021	Variation		**2022**	2021	Variation	
	$	$	$	%	**$**	$	$	%
Cash flows from operating activities before change in working capital items	**3,515**	3,908	(393)	(10.1)	**10,502**	8,330	2,172	26.1
Change in working capital items	**3,076**	(6,324)	9,400	(148.6)	**(6,036)**	(11,712)	5,676	(48.5)
	6,591	(2,416)	9,007	(372.8)	**4,466**	(3,382)	7,848	(232.1)
Interests received (paid) / Income taxes paid	**(21)**	(927)	906	(97.7)	**(445)**	(1,454)	1,009	(69.4)
Cash flows from (used in) operating activities	**6,570**	(3,343)	9,913	(296.5)	**4,021**	(4,836)	8,857	(183.1)
Cash flows used in investing activities	**(2,981)**	(22,755)	19,774	(86.9)	**(7,784)**	(23,288)	15,504	(66.6)
Cash flows from (used in) financing activities	**(263)**	19,184	(19,447)	(101.4)	**6,247**	17,673	(11,426)	(64.7)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(160)**	64	(224)	(350.0)	**(407)**	(40)	(367)	917.5
Net change	**3,166**	(6,850)	10,016	(146.2)	**2,077**	(10,491)	12,568	(119.8)
Cash – Beginning of period	**6,293**	11,768	(5,475)	(46.5)	**7,382**	15,409	(8,027)	(52.1)
Cash – End of period	**9,459**	4,918	4,541	92.3	**9,459**	4,918	4,541	92.3

Cash increased by $3.2 M during the second quarter of fiscal year 2023, compared with a decrease of ($6.9 M) for the comparable quarter of the previous year. The variation is explained by the following:

Cash Flows from Operating Activities

Cash flows from operating activities generated $6.6 M for the second quarter of fiscal year 2023, compared to ($3.3 M) of cash flows used from operating activities during the same period of the previous year. For the six-month period ended December 31, 2022, cash flows from operating activities generated $4.0 M, compared to ($4.8 M) of cash flows used from operating activities during the comparable period last year. The variation is mainly explained by the favorable changes in working capital items.

Cash Flows from Investing Activities

Investing activities used ($3.0 M) of cash flows for the second quarter of fiscal year 2023, compared to ($22.8 M) of cash flows used in investing activities during the comparable quarter of the previous year. The variation was primarily due to higher acquisition of property, plant and equipment.

For the six-month period ended December 31, 2022, cash flows from investing activities used ($7.8 M), compared to ($23.3 M) of cash flows used in investing activities during the comparable period last 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 ($0.3 M) for the quarter ended December 31, 2022, compared to $19.2 M of cash flows generated in financing activities during the comparable quarter of the previous year. For the six-month period ended December 31, 2022, cash flows from financing activities generated $6.2 M for the quarter ended December 31, 2022, compared to $17.7 M of cash flows generated in financing activities during the comparable period of the previous year. Those variations for the three and six-month periods ended December 31, 2022, are explained by the variation of the bank loan combined with higher payments of lease liabilities and higher interest payments.

FINANCIAL POSITION

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

(In thousands of Canadian dollars)	**December 31, 2022**	June 30, 2022	Variation		Explanations
	$	$	$	%	
Accounts receivable	**42,293**	35,696	6,597	18.5	The increase is mostly attributable to higher revenues and a foreign exchange rate impact of $2.1M or 5.8%.
Inventories	**24,395**	20,171	4,224	20.9	The increase is due to proactive measures to respond to the customers' demand. The increase is also attributable to the seasonality trend since Maple business line is currently building its inventory for the upcoming maple season and represents 51.2% of total inventories. Foreign exchange rate variations also contributed to $0.7 M or 3.5%.
Contract assets	**8,630**	11,591	(2,961)	(25.5)	The decrease is mostly attributable to deliveries or invoicing of projects in the WTS business pillar.
Accounts payable and accrued liabilities	**25,232**	23,600	1,632	6.9	The increase is mostly attributable to the foreign exchange rate impact that has contributed to $1.9 M or 8.2%, and to the timing of payments to suppliers.
Contract liabilities	**5,654**	6,207	(553)	(8.9)	The decrease is attributable to the difference between project advancement and project invoicing schedules.
Contingent considerations, including current portion	**6,513**	10,017	(3,504)	(35.0)	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)	**December 31, 2022**	June 30, 2022	Variation	
	$	$	$	%
Bank loans	**55,725**	45,562	10,163	22.3
Current portion of long-term debt	**301**	1,563	(1,262)	(80.7)
Long-term debt	**404**	510	(106)	(20.8)
Contingent considerations	**6,513**	10,017	(3,504)	(35.0)
Less: Cash	**(9,459)**	(7,382)	(2,077)	28.1
Net debt including contingent considerations [(1)]	**53,484**	50,270	3,214	6.4
Contingent considerations	**6,513**	10,017	(3,504)	(35.0)
Net debt excluding contingent considerations (''Net debt'') [(1)]	**46,971**	40,253	6,718	16.7
Adjusted EBITDA [(1)]	**21,705**	18,101	3,604	19.9

[(1)] Non-IFRS measure. Refer to the "Non-IFRS financial measurements" section on page 23 for detailed information about the non-IFRS measures used in this MD&A.

As at December 31, 2022, the Net debt stood at $53.5 M, compared with $50.3 M as at June 30, 2022, representing a $3.2 M increase. This increase is mainly attributable to the cash flows used from investing activities combined with the cash flows used from financing activities related to higher interest payments.

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 December 31, 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.

These terms and ratios are defined in the credit facility agreements and do not correspond to the Corporation's metrics described in section "Non-IFRS financial measurements", or to other terms used in this MD&A. As at December 31, 2022, the Corporation is in compliance with the ratios required under its credit agreements.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 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 December 31, 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 December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**620**	762	**629**	1,380
Finance costs – net	**1,373**	493	**2,531**	1,050
Income taxes (recovery)	**374**	83	**680**	223
Depreciation of property, plant and equipment and right-of-use assets	**1,417**	886	**2,760**	1,752
Amortization of intangible assets	**1,624**	1,200	**3,220**	2,295
EBITDA	**5,408**	3,424	**9,820**	6,700
(Gain) on debt extinguishment	**-**	-	**(1,029)**	-
Unrealized exchange (gain) loss	**(88)**	(306)	**319**	(552)
Stock-based compensation costs	**583**	274	**1,200**	493
Changes in fair value of the contingent considerations	**291**	188	**471**	955
Acquisition and integration costs	**259**	219	**640**	221
Adjusted EBITDA	**6,453**	3,799	**11,421**	7,817
Revenues	**63,850**	42,009	**119,999**	80,393
Adjusted EBITDA over revenues	**10.1%**	9.0%	**9.5%**	9.7%

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 December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenue from external customers:				
Revenue recognized over time	**35,332**	25,123	**69,007**	48,449
Revenue recognized at a point in time	**28,518**	16,886	**50,992**	31,944
	63,850	42,009	**119,999**	80,393
Cost of goods sold	**46,837**	30,913	**89,479**	58,377
Gross profit before depreciation and amortization	**17,013**	11,096	**30,520**	22,016
Selling and general expenses	**7,069**	4,570	**12,460**	8,977
Earnings before administrative costs (EBAC)	**9,944**	6,526	**18,060**	13,039

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 December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**620**	762	**629**	1,380
Acquisition and integration costs	**259**	219	**640**	221
Amortization of intangible assets related to business combinations	**1,408**	1,115	**2,885**	2,107
Unrealized exchange (gain) loss	**(88)**	(306)	**319**	(552)
Changes in fair value of the contingent considerations	**291**	188	**471**	955
Stock-based compensation costs	**583**	274	**1,200**	493
Income taxes related to above items	**(361)**	(256)	**(842)**	(476)
Adjusted net earnings	**2,712**	1,996	**5,302**	4,128
Adjusted basic EPS	**0.030**	0.023	**0.059**	0.048
Adjusted diluted EPS	**0.029**	0.022	**0.057**	0.045

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 22 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 December 31, 2022,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	11,003	23,920	28,927	63,850
Recurring revenues	**4,598**	**23,920**	**28,927**	**57,445**

(In thousands of Canadian dollars)	**Six-month period ended December 31, 2022,**			
	WTS	**Specialty Products**	**O&M**	**Total**
	$	**$**	**$**	**$**
Revenues	21,028	42,312	56,659	119,999
Recurring revenues	**8,680**	**42,312**	**56,659**	**107,651**

(In thousands of Canadian dollars)	Three-month period ended December 31, 2021,			
	WTS	Specialty Products	O&M	Total
	$	$	$	$
Revenues	8,539	13,794	19,676	42,009
Recurring revenues	**3,092**	**13,794**	**19,676**	**36,562**

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

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 December 31, 2022.

Changes in Internal Controls over Financial Reporting

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

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

Management's assessment of and conclusion on the design of the Corporation's DC&P and ICFR as at 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)

December 31, 2022

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

For additional information:
Investor Relations
investor@h2oinnovation.com

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

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

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

As at	December 31, 2022	June 30, 2022
	$	$
ASSETS (note 6)		
Current assets		
Cash	**9,459**	7,382
Accounts receivable (note 4)	**42,293**	35,696
Inventories (note 5)	**24,395**	20,171
Income taxes receivable	**905**	982
Contract assets	**8,630**	11,591
Prepaid expenses and deposits	**4,562**	4,236
	90,244	80,058
Non-current assets		
Property, plant and equipment	**18,389**	15,632
Intangible assets	**46,495**	47,993
Right-of-use assets	**16,514**	16,012
Other assets	**166**	157
Related party loans receivable (note 13 a)	**1,250**	1,250
Goodwill (note 3)	**38,753**	37,672
Deferred income tax assets	**6,330**	6,889
	218,141	205,663
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**25,232**	23,600
Provisions	**163**	159
Contract liabilities	**5,654**	6,207
Contingent considerations (note 9)	**6,513**	10,017
Current portion of long-term debt (note 8)	**301**	1,563
Current portion of lease liabilities	**1,939**	1,898
	39,802	43,444
Non-current liabilities		
Bank loan (note 6)	**55,725**	45,562
Long-term debt (note 8)	**404**	510
Other non-current financial liabilities	**130**	173
Deferred income tax liabilities	**4,077**	4,519
Lease liabilities	**15,665**	15,027
	115,803	109,235
SHAREHOLDERS' EQUITY		
Share capital	**130,027**	130,027
Reserve – Stock options	**6,229**	5,029
Deficit	**(39,456)**	(40,085)
Accumulated other comprehensive income	**5,538**	1,457
	102,338	96,428
	218,141	205,663

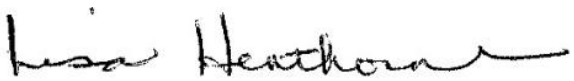
See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board,

Frédéric Dugré

President and Chief Executive Officer

Lisa Henthorne



Chairwoman of the Board of Directors

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the six-month periods ended December 31, 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, 2021	85,137,204	119,780	3,726	679	(45,192)	402	79,395
Stock-based compensation costs	-	-	493	-	-	-	493
Net earnings for the period	-	-	-	-	1,380	-	1,380
Issuance of common shares (note 3)	1,107,733	2,632	-	-	-	-	2,632
Shares issued on warrants exercised	3,762,471	5,939	-	(672)	-	-	5,267
Share issue expenses	-	(16)	-	-	-	-	(16)
Other comprehensive income (loss) – Currency translation adjustments	-	-	-	-	-	352	352
Other comprehensive income (loss) – Cash flow hedges net gains arising during the period (net of tax)	-	-	-	-	-	203	203
Other comprehensive income (loss) – Net gain on cash flow hedges reclassified to consolidated statement of earnings (loss) (note 8)	-	-	-	-	-	(237)	(237)
Balance as at December 31, 2021	90,007,408	128,335	4,219	7	(43,812)	720	89,469
Balance as at June 30, 2022	**90,007,408**	**130,027**	**5,029**	**-**	**(40,085)**	**1,457**	**96,428**
Stock-based compensation costs	**-**	**-**	**1,200**	**-**	**-**	**-**	**1,200**
Net earnings for the period	**-**	**-**	**-**	**-**	**629**	**-**	**629**
Other comprehensive income (loss) – Currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**4,081**	**4,081**
Balance as at December 31, 2022	**90,007,408**	**130,027**	**6,229**	**-**	**(39,456)**	**5,538**	**102,338**

See accompanying notes to condensed interim consolidated financial statements.

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

	Three-month periods ended December 31		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenues (note 12)	**63,850**	42,009	**119,999**	80,393
Cost of goods sold (note 10 a)	**46,837**	30,913	**89,479**	58,377
Gross profit before depreciation and amortization	**17,013**	11,096	**30,520**	22,016
Selling, general and administrative expenses (note 10 a)	**11,158**	7,526	**20,222**	14,611
Depreciation of property, plant and equipment and right-of-use assets (note 10 b)	**1,417**	886	**2,760**	1,752
Amortization of intangible assets (note 10 b)	**1,624**	1,200	**3,220**	2,295
Other (gains) and losses – net (note 10 c)	**188**	(73)	**(162)**	484
Acquisition and integration costs	**259**	219	**640**	221
Operating costs total	**14,646**	9,758	**26,680**	19,363
Operating profit	**2,367**	1,338	**3,840**	2,653
Finance income (note 12)	**(9)**	(7)	**(18)**	(18)
Finance costs	**1,382**	500	**2,549**	1,068
Finance costs – net	**1,373**	493	**2,531**	1,050
Earnings before income taxes	**994**	845	**1,309**	1,603
Current income tax expense	**184**	442	**540**	823
Deferred tax expense (recovery)	**190**	(359)	**140**	(600)
	374	83	**680**	223
Net earnings for the period	**620**	762	**629**	1,380
Basic net earnings per share (note 11)	**0.007**	0.009	**0.007**	0.016
Diluted net earnings per share (note 11)	**0.007**	0.008	**0.007**	0.015
Weighted average number of shares outstanding – Basic (note 11)	**90,007,408**	87,597,576	**90,007,408**	86,400,354
Weighted average number of shares outstanding – Diluted (note 11)	**92,310,742**	91,395,658	**92,310,742**	91,299,334

See accompanying notes to condensed interim consolidated financial statements.

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings for the period	**620**	762	**629**	1,380
Other comprehensive income (loss) – Items that may be reclassified subsequently to net earnings				
Currency translation adjustments	**(1,228)**	(496)	**4,081**	352
Cash flow hedges net gains arising during the period (net of tax)	**-**	163	**-**	203
Net gain on cash flow hedges reclassified to consolidated statement of earnings (note 8)	**-**	(237)	**-**	(237)
Comprehensive earnings (loss) for the period	**(608)**	192	**4,710**	1,698

See accompanying notes to condensed interim consolidated financial statements.

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Operating activities				
Earnings before income taxes for the period	**994**	845	**1,309**	1,603
Non-cash items				
Finance costs – net	**1,373**	493	**2,531**	1,050
Depreciation of property, plant and equipment and right-of-use assets	**1,417**	886	**2,760**	1,752
Amortization of intangible assets	**1,624**	1,200	**3,220**	2,295
Changes in fair value of contingent considerations (note 9)	**291**	188	**471**	955
Others	**4**	76	**9**	109
Net unrealized foreign exchange differences	**(2,771)**	(54)	**31**	73
Stock-based compensation costs	**583**	274	**1,200**	493
Gain on debt extinguishment (note 8)	**-**	-	**(1,029)**	-
	3,515	3,908	**10,502**	8,330
Change in working capital items	**3,076**	(6,324)	**(6,036)**	(11,712)
Interests received	**-**	7	**-**	18
Income taxes paid	**(21)**	(934)	**(445)**	(1,472)
Net cash flows from (used in) operating activities	**6,570**	(3,343)	**4,021**	(4,836)
Investing activities				
Variation of other assets	**-**	5	**-**	36
Acquisition of property, plant and equipment	**(2,835)**	(981)	**(3,460)**	(1,441)
Acquisition of intangible assets	**(146)**	(313)	**(249)**	(417)
Business combination, net of cash acquired (note 3)	**-**	(21,466)	**-**	(21,466)
Payment of contingent consideration	**-**	-	**(4,075)**	-
Net cash flows used in investing activities	**(2,981)**	(22,755)	**(7,784)**	(23,288)
Financing activities				
Variation of bank loans	**1,951**	29,880	**10,179**	29,880
Long-term debt reimbursement (note 8)	**(305)**	(14,568)	**(373)**	(15,338)
Payment of lease liabilities	**(783)**	(507)	**(1,440)**	(1,022)
Interest paid	**(1,109)**	(458)	**(2,085)**	(894)
Financing costs	**(17)**	(204)	**(34)**	(204)
Warrants exercised	**-**	5,057	**-**	5,267
Share issue expenses	**-**	(16)	**-**	(16)
Net cash flows from (used in) financing activities	**(263)**	19,184	**6,247**	17,673
Net change in cash	**3,326**	(6,914)	**2,484**	(10,451)
Effect of exchange rate changes on the balance of cash held in foreign currencies	**(160)**	64	**(407)**	(40)
Increase (decrease) in cash	**3,166**	(6,850)	**2,077**	(10,491)
Cash – Beginning of period	**6,293**	11,768	**7,382**	15,409
Cash – End of period	**9,459**	4,918	**9,459**	4,918

See accompanying notes to condensed interim consolidated financial statements.

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

1. Description of business

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

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 six-month period ended December 31, 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 February 13, 2023, the Board reviewed and approved the accompanying condensed interim consolidated financial statements and authorized its publication.

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.

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

(In thousands of Canadian dollars)	Final Allocation – JCO	Final Allocation – EC	Final Allocation – Total
	$	$	$
Assets acquired			
Cash	487	242	729
Accounts receivable [1]	787	926	1,713
Contract assets	62	177	239
Prepaid expenses	14	123	137
Property, plant and equipment	506	84	590
Right-of-use assets [2]	74	92	166
Liabilities assumed			
Accounts payable and accrued liabilities	(332)	(351)	(683)
Lease liabilities [2]	(74)	(92)	(166)
Contract liabilities	(399)	(60)	(459)
Long-term debt	(480)	-	(480)
Deferred tax liabilities	-	-	-
Identifiable net tangible assets acquired	645	1,141	1,786
Intangible assets acquired			
Customer relationships	11,036	6,331	17,367
Non-compete agreements	141	-	141
Goodwill arising on acquisition	5,599	1,374	6,973
Fair value of identifiable net assets acquired	17,421	8,846	26,267
Consideration			
Cash			22,195
Contingent considerations			1,745
Issuance of common shares			2,641
Working capital adjustment			(314)
Total consideration payable			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.

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

The purchase price allocation shown above is final and is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. It was completed during the fourth quarter of fiscal year 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 $6,973 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	**December 31, 2022**	June 30, 2022
	$	$
Trade accounts receivable	**37,971**	31,902
Hold back from customers under manufacturing contracts	**4,291**	3,806
Allowance for expected credit losses	**(256)**	(196)
	42,006	35,512
Other receivables	**287**	184
	42,293	35,696

5. Inventories

As at	**December 31, 2022**	June 30, 2022
	$	$
Raw materials	**6,772**	5,362
Work in progress	**1,336**	525
Finished goods	**16,287**	14,284
	24,395	20,171

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

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 $55.7 M was used as at December 31, 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.* $28.5 M ($16.3 M as at June 30, 2022) bearing interest at Banker Acceptance plus 3.00% (7.55% as at December 31, 2022);
   - *b.* $1.6 M ($2.3 M as at June 30, 2022) bearing interest at CDN prime rate plus 1.75% (8.20% as at December 31, 2022);
   - *c.* US$19.0 M ($25.7 M as at December 31, 2022 and $23.4 M as at June 30, 2022) bearing interest at US$ SOFR plus 3.00% (7.25% as at December 31, 2022); and
   - *d.* US$ nil ($ nil as at December 31, 2022 and $3.7 M as at June 30, 2022) bearing interest at US$ base rate plus 1.75% (9.75% as at December 31, 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 December 31, 2022.

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

(i) a hedging facility of $3.5 M, from which no amount was used as at December 31, 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 $0.1 M was used as at December 31, 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 December 31, 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	December 31, 2022	June 30, 2022
	$	$
Trade accounts payable	**13,300**	13,058
Other accrued liabilities	**11,932**	10,542
	25,232	23,600

8. Long-term debt

As at	December 31, 2022	June 30, 2022
	$	$
At amortised cost		
Loans denominated in US dollars (a)	**615**	1,960
Loans denominated in Canadian dollars (b)	**90**	113
	705	2,073
Less: Current portion	**301**	1,563
Long-term debt	**404**	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	**471**
Less: Payment of contingent considerations	**4,075**
Effect of foreign exchange differences	**100**
Balance as at December 31, 2022	**6,513**
Less: Current portion	**6,513**
Contingent consideration – non-current portion	**-**

10. Additional information about the nature of costs components

a) Expenses by nature

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Material	**25,342**	15,159	**47,243**	28,959
Salaries and fringe benefits	**24,192**	16,355	**45,535**	31,736
Subcontractors and professional fees	**2,518**	3,044	**6,211**	5,387
Rent, electricity, insurance and office expenses	**1,525**	1,170	**2,932**	2,228
Telecommunications and travel expenses	**1,666**	822	**2,811**	1,402
Expected credit losses expenses	**4**	17	**77**	17
Share based compensation	**583**	274	**1,200**	493
Other expenses	**2,165**	1,598	**3,692**	2,766
Total cost of goods sold, operating, selling and administrative expenses	**57,995**	38,439	**109,701**	72,988
Depreciation of property, plant and equipment and right-of-use assets	**1,417**	886	**2,760**	1,752
Amortization of intangible assets	**1,624**	1,200	**3,220**	2,295
Costs including depreciation and amortization	**61,036**	40,525	**115,681**	77,035

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

b) Depreciation and amortization

The Corporation has elected to present depreciation and amortization as a separate line item in its condensed interim consolidated statement of earnings, as opposed to reflecting the fraction of such amount that pertains to each of the cost of goods sold, selling, general and administrative expenses, within those cost categories. The following tables provide: i) a breakdown of the depreciation and amortization expense by cost category as noted above, for the three-month and six-month periods ended December 31, 2022 and 2021; and ii) the amounts of cost of goods sold, selling, general and administrative expenses, if depreciation and amortization were allocated within those cost categories for the periods as noted above.

Depreciation of property, plant and equipment and right-of-use assets by function	**Three-month periods ended December 31,**		**Six-month periods ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**1,102**	622	**2,137**	1,224
Selling, general and administrative expenses	**315**	264	**623**	528
	1,417	886	**2,760**	1,752

Amortization of intangible assets by function	**Three-month periods ended December 31,**		**Six-month periods ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**54**	56	**63**	111
Selling, general and administrative expenses	**1,570**	1,144	**3,157**	2,184
	1,624	1,200	**3,220**	2,295

Cost per function including depreciation and amortization	**Three-month periods ended December 31,**		**Six-month periods ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cost of goods sold	**47,993**	31,591	**91,679**	59,712
Selling, general and administrative expenses	**13,043**	8,934	**24,002**	17,323
	61,036	40,525	**115,681**	77,035

c) Other (gains) and losses – net

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	**$**
Unrealized exchange (gain) loss	**(88)**	(306)	**319**	(552)
Realized exchange loss	**(18)**	51	**131**	93
Gain on debt extinguishment	**-**	-	**(1,029)**	-
Other gains	**3**	(6)	**(54)**	(12)
Changes in fair value of contingent considerations	**291**	188	**471**	955
	188	(73)	**(162)**	484

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 December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
Net earnings	**$620**	$762	**$629**	$1,380
Basic weighted average number of share outstanding	**90,007,408**	87,597,576	**90,007,408**	86,400,354
Effects of dilution from:				
Warrants if not anti-dilutive	**-**	1,494,748	**-**	2,595,646
Stock options if not anti-dilutive	**2,303,334**	2,303,334	**2,303,334**	2,303,334
Weighted average number of share outstanding adjusted for the effect of dilution	**92,310,742**	91,395,658	**92,310,742**	91,299,334
Basic net earnings per share	**$0.007**	$0.009	**$0.007**	$0.016
Diluted net earnings per share	**$0.007**	$0.008	**$0.007**	$0.015

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

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
Stock options	**3,705,000**	1,629,000	**3,705,000**	1,629,000

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 December 31, 2022			
	WTS $	Specialty Products $	O&M $	Total $
Revenue from external customers:				
Revenue recognized over time	6,405	-	28,927	35,332
Revenue recognized at a point in time	4,598	23,920	-	28,518
	11,003	23,920	28,927	63,850
Cost of goods sold	8,334	13,914	24,589	46,837
Gross profit before depreciation and amortization	2,669	10,006	4,338	17,013
Selling and general expenses	1,624	4,200	1,245	7,069
Earnings before administrative costs and other items listed below (EBAC)	1,045	5,806	3,093	9,944
Administrative costs				4,089
Depreciation of property, plant and equipment and right-of-use assets				1,417
Amortization of intangible assets				1,624
Other (gains) and losses – net				188
Acquisition and integration costs				259
Finance costs – net				1,373
Earnings before income taxes				994

	For the six-month period ended December 31, 2022			
	WTS $	Specialty Products $	O&M $	Total $
Revenue from external customers:				
Revenue recognized over time	12,348	-	56,659	69,007
Revenue recognized at a point in time	8,680	42,312	-	50,992
	21,028	42,312	56,659	119,999
Cost of goods sold	16,467	24,630	48,382	89,479
Gross profit before depreciation and amortization	4,561	17,682	8,277	30,520
Selling and general expenses	3,043	7,241	2,176	12,460
Earnings before administrative costs and other items listed below (EBAC)	1,518	10,441	6,101	18,060
Administrative costs				7,762
Depreciation of property, plant and equipment and right-of-use assets				2,760
Amortization of intangible assets				3,220
Other (gains) and losses – net				(162)
Acquisition and integration costs				640
Finance costs – net				2,531
Earnings before income taxes				1,309

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

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

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

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

Geographical information

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2022	2021	**2022**	2021
Revenues from external customers	**$**	$	**$**	$
Revenue according to geographic area				
Americas:				
Canada	**5,396**	5,053	**8,983**	9,074
United States	**45,323**	28,930	**86,701**	54,683
Chile	**1,570**	664	**2,431**	1,686
Latin America	**1,329**	857	**1,967**	1,961
Europe:				
United Kingdom	**387**	309	**738**	599
Spain	**872**	1,117	**1,655**	1,841
Others	**794**	703	**1,548**	1,308
Middle East and Africa:				
Saudi Arabia	**652**	268	**1,671**	1,755
United Arab Emirates	**561**	337	**680**	851
Other Middle East countries	**448**	365	**1,533**	1,093
Africa	**2,148**	871	**4,192**	1,653
Asia Pacific:				
China	**3,815**	930	**5,211**	1,536
Republic of Korea	**67**	61	**1,632**	98
Others	**488**	1,544	**1,057**	2,255
	63,850	42,009	**119,999**	80,393

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

As at	**December 31, 2022**	June 30, 2022
	$	$
Non-current assets excluding other assets, related party loans receivable and deferred income tax asset according to geographic location		
Canada	**9,798**	7,631
United States	**72,541**	71,191
United Kingdom	**26,107**	26,533
Spain	**11,595**	11,861
Chile	**110**	93
	120,151	117,309

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

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 December 31, 2022 ($1,250 as at June 30, 2022).

An amount of $13 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 six-month period ended December 31, 2022 ($13 for the six-month period ended December 31, 2021).

b) Compensation of executive officers and board of directors

The remuneration of executive officers and of the Board of Directors during the period was as follows:

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Short-term benefits [1]	**910**	885	**1,319**	1,302
Post-employment benefits [2]	**49**	51	**102**	116
Share-based payments	**583**	274	**1,200**	493
Long-term incentive plan	**130**	44	**130**	87
	1,672	1,254	**2,751**	1,998

(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
Pierre Côté, Director [3]
Frédéric Dugré, President, Chief Executive Officer and Director
Stéphane Guérin, Director [1]
Lisa Henthorne, Chairwoman of the Board of Directors [2]
Richard Hoel, Director and Vice Chairman of the Board of Directors [1][3]
Bertrand Lauzon, Director [1][2]
Caroline Lemoine, Director [2][3]
Elisa Speranza, Director [2]

Management
Frédéric Dugré, President and Chief Executive Officer [3]
Marc Blanchet, Chief Financial Officer
Guillaume Clairet, Chief Operating Officer [3]
Gregory Madden, Chief Strategy Officer
Edith Allain, Vice President, Corporate & Legal Affairs and Secretary
Jean-Philippe Pilote, Vice President, Finance
Jean-Paul Bêty, Vice President, IT and Business Software Solution
Denis Guibert, Vice President & Managing Director of WTS [4]
Rock Gaulin, Vice President & Managing Director of Maple
William Douglass, Vice President & Managing Director of O&M [5]
Ties Venema, Vice President & Managing Director of S3C [6]

Advisory Member
Leonard Graziano [3]

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

Legal Counsel
McCarthy Tétrault S.E.N.C.R.L.

Independent Auditors
Ernst & Young LLP

Transfer Agent
TSX Trust Company

OFFICES AND PLANTS

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

investor@h2oinnovation.com
www.h2oinnovation.com

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

1048 La Mirada Court, Vista, CA 92081

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

3a and 5 Aston Way
Middlewich, Cheshire, CW10 0HS UK

49 and 60 Jonergin Drive, Swanton, VT 05488

Offices
1046 18th Ave SE, Calgary, Alberta T2G 1L6

Uribitarte no 18, 6ª planta, Bilbao, Spain 48001

1710 23rd Avenue, Gulfport, MS 39501

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

2200 Sciaaca Road, Spring, TX 77373

12337 Jones Road, Suite 320, Houston, TX 77070

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

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

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