PRESS RELEASE
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H_2O Innovation Reports First Quarter Results
Gross Profit Margin Improvement and Strong Consolidated Backlog

Key financial highlights

(All comparisons are relative to the three-month period ended September 30, 2022, unless otherwise stated)

- Revenue growth of 5.7% reaching $59.3 M from $56.1 M;
- Recurring revenues by nature[1] of 89.1%;
- Gross profit margin of 25.5%, compared to 24.1%;
- Adjusted EBITDA[1] of $4.5 M, compared to $5.0 M;
- Net loss of $0.4 M, compared to breakeven net earnings; and
- Consolidated backlog[1] of $249.8 M up by 37.2%.

All amounts are in Canadian dollars unless otherwise stated.

Quebec City, November 14, 2023 – (TSX: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its financial results for the first quarter of its fiscal year 2024 ended September 30, 2023.

"Following the implementation of multiple measures to improve our gross profit margin, we are happy to observe a positive trend in our operating profit. This is the result of our commercial teams striving to protect margin erosion, combined with our manufacturing, engineering, operating and procurement teams working relentlessly to find ways to reduce our costs. The different CAPEX investments made in previous fiscal years such as the development of a mobile fleet of water and wastewater treatment systems, the plastic extrusion line and the in-house blending of the specialty powder cleaner in our UK-based facility should continue to fuel margin expansion in the coming years. Despite a soft revenue growth in our first quarter, mostly due to the timing of revenue recognition related to different projects and the timing of large international specialty component deliveries, we remain confident in our revenue growth target for FY2024. Our high-recurring revenue business model combined with the impressive 37.2% growth in our consolidated backlog of $249.8 M give us confidence in our ability to grow the Corporation in the coming quarters and reach our targets presented in our three-year plan," **stated Frédéric Dugré, President, Chief Executive Officer and co-Founder of H_2O Innovation.**

First Quarter Results

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue, enabling it to generate a sustained revenue growth. Consolidated revenues coming from our three business pillars, for the three-month period ended September 30, 2023, increased by $3.2 M, or 5.7%, to reach $59.3 M compared to $56.1 M for the comparable quarter of the previous fiscal year. This increase came from an organic revenue growth of $1.2 M, or 2.1% combined with a favorable exchange rate impact of $2.0 M, or 3.5%.

[1] Non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this press release. A definition of all non-IFRS measures and additional IFRS measures are provided in the MD&A in the section ''Non-IFRS financial measurements'' to give the reader a better understanding of the indicators used by management. Quantitative reconciliations of non-IFRS financial measures are presented below under the section "Non-IFRS financial measurements".

(In thousands of Canadian dollars)	Three-month periods ended September 30, **2023**		2022	
	$	**%(a)**	$	%(a)
Revenues per business pillar				
WTS	**14,139**	**23.8**	10,025	17.8
Specialty Products	**16,017**	**27.0**	18,392	32.8
O&M	**29,167**	**49.2**	27,732	49.4
Total revenues	**59,323**	**100.0**	56,149	100.0
Gross profit margin before depreciation and amortization	**15,102**	**25.5**	13,507	24.1
SG&A expenses(b)	**10,488**	**17.7**	9,064	16.1
Net earnings (loss) for the period	**(421)**	**(0.7)**	9	0.0
EBITDA[1]	**4,444**	**7.5**	4,412	7.9
Adjusted EBITDA[1]	**4,514**	**7.6**	4,968	8.8
Adjusted net earnings[1]	**717**	**1.2**	2,590	4.6
Recurring revenues[1]	**52,840**	**89.1**	50,206	89.4

(a) % of total consolidated revenues.
(b) Selling, general operating and administrative expenses ("SG&A").

WTS revenues stood at $14.1 M during the first quarter of fiscal year 2024, compared to $10.0 M for the same quarter of last fiscal year, representing an increase of $4.1 M, or 41.0%. The increase is coming from an organic revenue growth of $3.8 M, or 38.0%, related principally to service activities combined with a favorable foreign exchange impact. WTS's EBAC[2] stood at $1.7 M during the first quarter of fiscal year 2024, compared to $0.5 M for the same quarter of the previous fiscal year, representing an increase of $1.2 M, or 268.5%. The increase of WTS's EBAC in dollars and in percentage is mainly attributable to the improvement of the gross profit margin before depreciation and amortization due to higher revenues coming from the service activities.

Specialty Products revenues stood at $16.0 M during the first quarter of fiscal year 2024, compared to $18.4 M for the same quarter of last fiscal year, representing a decrease of $2.4 M, or 12.9%. Timing in deliveries combined with lower Maple business line revenues due to the challenging 2023 sugaring season led to a decrease in organic revenue growth of $3.3 M, partly compensated by a favorable exchange rate impact of $0.9 M. Specialty Products' EBAC stood at $3.9 M during the first quarter of fiscal year 2024, compared to $4.6 M for the same quarter of last fiscal year, representing a decrease of $0.7 M, or 14.8%. Specialty Products' EBAC was impacted by the decrease in sales volume, while the selling and general expenses increased.

O&M revenues stood at $29.2 M during the first quarter of fiscal year 2024, compared to $27.7 M for the same quarter of the previous fiscal year, representing an increase of $1.5 M, or 5.2%. The O&M business pillar showed an organic growth of $0.7 M, or 2.4% coming from scope expansion and new projects secured in previous quarters, combined with a favorable foreign exchange rate impact of $0.8 M. Last fiscal year, a process of realigning the customer portfolio was underway to focus on the most profitable clients with enhanced future opportunities, which is reflected in the organic growth this quarter.

[1] These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this press release. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release in section ''Non-IFRS financial measurements'' to give the reader a better understanding of the indicators used by management.

[2] The definition of EBAC means the earnings before administrative costs and other items in note 11 of the condensed interim consolidated financial statements. 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.

The Corporation's gross profit margin before depreciation and amortization stood at $15.1 M, or 25.5%, during the first quarter of fiscal year 2024, compared to $13.5 M, or 24.1% for the same period of the previous fiscal year, representing an increase of $1.6 M, or 11.8%, while the revenues of the Corporation increased by 5.7%. The increase in percentage was primarily due to the improvement of the gross profit margin in the WTS business pillar, mostly explained by a higher proportion of revenues coming from our service activities, which are characterized by higher gross profit margins. Also, the business mix within the Specialty Products business pillar, with a higher proportion of sales coming from our Specialty Chemicals Group, resulted in higher gross profit margins for the first quarter of fiscal year 2024.

The Corporation's SG&A reached $10.5 M during the first quarter of fiscal year 2024, compared to $9.1 M for the same period of the previous fiscal year, representing an increase of $1.4 M, or 15.7%, while the revenues of the Corporation increased by 5.7%. The increase is due to the pressure on salaries, the hiring of additional resources and investments made in sales and business development, partly compensated by lower stock-based compensation costs. On a sequential basis, when compared to the fourth quarter of last fiscal year, the Corporation's SG&A decreased by $2.0 M to $10.5 M, from $12.5 M.

The Corporation's adjusted EBITDA[1] decreased by $0.5 M, or 9.1%, to reach $4.5 M during the first quarter of fiscal year 2024, from $5.0 M for the same period of the previous fiscal year, while the revenues of the Corporation increased by 5.7%. Consequently, the adjusted EBITDA % decreased by 1.2% and reached 7.6% for the first quarter of fiscal year 2024, compared to 8.8% for the same quarter of last fiscal year. Those variations are mostly explained by the reduction in sales volume of the Specialty Products business pillar, which is characterized by higher profit margins. Also, the investments made in the SG&A expenses to expand the sales force and increase business development had an impact on the Corporation's profitability this quarter.

Net loss amounted to ($0.4 M) or ($0.005) per share for the first quarter of fiscal year 2024 compared to net earnings of $0.0 M or $0.000 per share for the comparable quarter of last fiscal. The variation was impacted by lower gains related to the debt extinguishment, higher finance costs and higher SG&A expenses, partially compensated by the increase in the gross profit margin.

As at September 30, 2023, the combined backlog of secured contracts between WTS and O&M reached $249.8 M compared to $182.0 M as at September 30, 2022. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2024 and beyond.

The net debt including contingent considerations[1] stood at $47.9 M, compared with $39.9 M as at June 30, 2023, representing a $8.0 M increase mainly attributable to unfavourable changes in working capital items and investments in CAPEX to support growth and operations.

Events After the Reporting Period

On October 3, 2023, the Corporation announced that it had entered into a definitive arrangement agreement (the "Arrangement Agreement") with Ember SPV I Purchaser Inc. (the "Purchaser"), an entity controlled by funds managed by Ember Infrastructure Management, LP ("Ember"), a New York-based private equity firm, whereby the Purchaser will acquire all of the issued and outstanding common shares in the capital of the Corporation (the "Shares"), other than the Shares to be rolled over by Investissement

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Québec, Caisse de dépôt et placement du Québec and certain key executives of the Corporation (collectively, the “Rollover Shareholders”), for $4.25 in cash per Share (the “Transaction”). The Transaction is to be implemented by way of statutory plan of arrangement under the Canada Business Corporations Act and is subject to court approval and the approval of at least two-thirds (i.e., 66 2/3%) of the votes cast by shareholders of the Corporation (the “Shareholders”), voting together as a single class, at the special meeting of Shareholders scheduled to be held on November 28, 2023 to approve the Transaction (the “Meeting”). The Transaction is also subject to approval by a simple majority (i.e., more than 50%) of the votes cast by the Shareholders voting together as a single class, excluding the votes attached to Shares beneficially owned, or over which control or direction is exercised by, the Rollover Shareholders, at the Meeting, in accordance with Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

Non-IFRS financial measurements

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 condensed interim consolidated financial statements. 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 and other items (“EBAC”), EBAC over revenues, adjusted net earnings, adjusted net earnings per share (“Adjusted EPS”), organic revenue, organic revenue growth, acquisition revenue growth, net debt including and excluding contingent considerations, net debt-to-Adjusted EBITDA ratio, recurring revenues by nature, O&M contracts renewal rate, and backlog.

Additional details for these non-IFRS and other financial measures can be found in section “Non-IFRS financial measurements” of the Corporation’s MD&A for the three-month period ended September 30, 2023, which is available on the Corporation’s website www.h2oinnovation.com and filed on SEDAR+ at www.sedarplus.ca. Reconciliations of non-IFRS financial measures and ratios to the most directly comparable IFRS measures are provided below.

Reconciliation of Net Earnings (loss) to EBITDA and to Adjusted EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2023	2022
	$	$
Net earnings (loss) for the period	**(421)**	9
Finance costs – net	**1,597**	1,158
Income taxes	**155**	306
Depreciation of property, plant and equipment and right-of-use assets	**1,543**	1,343
Amortization of intangible assets	**1,570**	1,596
EBITDA	**4,444**	4,412
Gain on debt extinguishment	**-**	(1,029)
Unrealized exchange (gain) loss	**(164)**	407
Stock-based compensation costs	**213**	617
Changes in fair value of the contingent considerations	**-**	180
Acquisition and integration costs	**21**	381
Adjusted EBITDA	**4,514**	4,968
Revenues	**59,323**	56,149
Adjusted EBITDA over revenues	**7.6%**	8.8%

Reconciliation of Net Earnings (loss) to Adjusted Net Earnings

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2023	2022
	$	$
Net earnings (loss) for the period	**(421)**	9
Acquisition and integration costs	**21**	381
Amortization of intangible assets related to business combinations	**1,379**	1,477
Unrealized exchange (gain) loss	**(164)**	407
Changes in fair value of the contingent considerations	**-**	180
Stock-based compensation costs	**213**	617
Income taxes related to above items	**(311)**	(481)
Adjusted net earnings	**717**	2,590

Revenue Growth

(In thousands of Canadian dollars)	Three-month periods ended September 30,				Foreign exchange impact		Acquisitions revenue growth		Organic revenue growth	
	2023	2022	Variation							
	$	$	$	%	$	%	$	%	$	%
Revenues per business pillar										
WTS	**14,139**	10,025	4,114	41.0	302	0.5	-	-	3,812	6.8
Specialty Products	**16,017**	18,392	(2,375)	(12.9)	911	1.6	-	-	(3,286)	(5.9)
O&M	**29,167**	27,732	1,435	5.2	764	1.4	-	-	671	1.2
Total revenues	**59,323**	56,149	3,174	5.7	1,977	3.5	-	-	1,197	2.1

Net Debt

(In thousands of Canadian dollars)	**September 30, 2023**	June 30, 2023	Variation	
	$	$	$	%
Bank loans	**54,983**	51,274	3,709	7.2
Current portion of long-term debt	**226**	243	(17)	(7.0)
Long-term debt	**257**	299	(42)	(14.0)
Contingent considerations	**-**	5,144	(5,144)	(100.0)
Less: Cash	**(7,572)**	(17,071)	9,499	(55.6)
Net debt including contingent considerations	**47,894**	39,889	8,005	20.1
Contingent considerations	**-**	5,144	(5,144)	(100.0)
Net debt excluding contingent considerations ("Net debt")	**47,894**	34,745	13,149	37.8
Adjusted EBITDA	**20,950**	21,404	(454)	(2.1)

H_2O Innovation Conference Call

Frédéric Dugré, President and Chief Executive Officer, and Marc Blanchet, Chief Financial Officer, will hold an investor conference call to discuss the first quarter financial results in further details at 10:00 a.m. Eastern Time on Tuesday, November 14, 2023.

To access the call, please call 1-888-396-8049 or 1-416-764-8646, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on the Corporate Presentations page of the Investors section of the Corporation's website.

The first quarter financial report is available on www.h2oinnovation.com. Additional information on the Corporation is also available on SEDAR+ (www.sedarplus.ca).

Forward-Looking Statements

Certain information and statements contained in this press release and in other Corporation's oral and written public communications regarding the Corporation's business and activities and/or describing management's objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of the applicable securities legislation. Forward-looking statements include the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "if," "intend," "may," "plan," "potential," "predict," "project," "should" or "will," and other similar expressions, as well as those usually used in the future and the conditional, although not all forward-looking statements include such words. H_2O Innovation would like to point out that forward-looking statements involve a number of uncertainties, known and unknown risks and other factors which may cause the actual results, performance or achievements of the Corporation, or of its industry, to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Major factors that may lead to a material difference between the Corporation's actual results and the projections or expectations set forth in the forward-looking statements include, without limitation, statements regarding future capital expenditures, revenues, expenses, earnings, economic performance, indebtedness and financial position; business and management strategies; expansion and growth of the Corporation's operations; the Corporation's backlog, the execution of such backlog and the timing of new and existing projects and contracts; the Corporation's ability to deliver projects and contracts in due time, without additional costs, considering labor shortage and the global impact on the supply chain; the Corporation's ability to generate future cash flows; the Corporation's ability to capitalize on future growth opportunities; anticipated trends in the Corporation's revenue streams and business mix; expectations of customers' needs; customers' acceptance of and confidence in the Corporation's existing technologies and product innovation; and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions and results and such other risks as described in the Corporation's Annual Information Form dated September 27, 2023, which is available on SEDAR+ (www.sedarplus.ca). The forward-looking information contained in this press release is based on information available as of the date of the release and is subject to change after this date. Unless otherwise required by the applicable securities laws, H_2O Innovation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

About H_2O Innovation
Innovation is in our name, and it is what drives the organization. H_2O Innovation is a complete water solutions company focused on providing best-in-class technologies and services to its customers. The Corporation's activities rely on three pillars: i) Water Technologies & Services (WTS) applies membrane technologies and engineering expertise to deliver equipment and services to municipal and industrial water, wastewater, and water reuse customers, ii) Specialty Products (SP) is a set of businesses that manufacture and supply a complete line of specialty chemicals, consumables and engineered products for the global water treatment industry, and iii) Operation & Maintenance (O&M) provides contract operations and associated services for water and wastewater treatment systems. Through innovation, we strive to simplify water. For more information, visit www.h2oinnovation.com.

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