

H2O Innovation Signs Definitive Agreement to Be Acquired by Ember Alongside IQ, CDPQ and Management

10/3/2023

All amounts are in Canadian dollars

QUÉBEC CITY--(BUSINESS WIRE)-- (TSX: HEO)-- H2O Innovation Inc. ("H2O Innovation" or the "Corporation") announces that it has 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 H2O Innovation (the "Shares"), other than the Shares to be rolled over by Investissement Québec ("IQ"), Caisse de dépôt et placement du Québec ("CDPQ") and the key executives of the Corporation (collectively, the "Rollover Shareholders"), for \$4.251 in cash (the "Consideration") per Share (the "Transaction").

Key Transaction Highlights

- The shareholders of H2O Innovation (the "Shareholders") will receive a price of \$4.25 per Share, payable entirely in cash, which represents a premium of approximately 68% to the closing price of the Shares on the Toronto Stock Exchange (the "TSX") on October 2, 2023, a premium of approximately 66% to the 20-day volume-weighted average Share price on the TSX for the period ending on October 2, 2023, and a 26% premium to the 52-week high price on the TSX of \$3.37 per Share achieved on July 4, 2023;
- H2O Innovation's board of directors (the "Board") (excluding any director not entitled to vote) unanimously recommends that Shareholders vote in favour of the Transaction;
- Ember will leverage the expertise of the existing management team led by Frédéric Dugré, President, Chief

Executive Officer and co-Founder of H2O Innovation, to continue to support H2O Innovation's growth strategy;

- Ember is committed to continue employing the Corporation's current key executives and maintaining H2OInnovation's head office and substantially the same number of employees in the Province of Québec; and
- Ember is partnering with IQ and CDPQ, important Québec-based institutions and significant Shareholders of H2OInnovation, that together with the key executives of H2OInnovation will, in the aggregate, hold an equity interest of approximately 21% in H2OInnovation post-Transaction.

The Transaction values H2OInnovation at \$395million, on a fully diluted equity basis. Ember is funding its portion of the purchase price with capital it manages on behalf of its limited partners via private equity fund capital as well as select co-investors, including funds affiliated with the Ontario Power Generation Inc. Pension Fund. Under the terms of the Arrangement Agreement, the Corporation may solicit a superior offer for a defined "go-shop" period, as further outlined below, during which Scotia Capital Inc. ("Scotiabank"), the Corporation's financial advisor, will approach potential interested parties with a view to soliciting a higher offer, which the Purchaser is entitled to match.

Ember and H2OInnovation have put in place appropriate measures to ensure a seamless transition to the new ownership, with minimal disruption for the employees of H2OInnovation, and the Corporation's numerous loyal customers and partners across Canada, the United States, Mexico and Europe.

"After extensive work we have concluded that this transaction is in the best interest of H2OInnovation and fair to our Shareholders. Following a comprehensive assessment and our extensive negotiations with the Purchaser, we are pleased to have reached an agreement that provides immediate and fair value to our Shareholders. In addition to the attractive premium offered to H2OInnovation's Shareholders, Ember has agreed to key commitments for H2OInnovation and its stakeholders. Ember appreciates the significance of H2OInnovation's Québec roots that will remain an important foundation for the Corporation as it continues its growth, and has agreed to maintain H2OInnovation's head office in the Province of Québec," said Lisa Henthorne, Chairwoman of the Board.

"We are very excited to partner with Ember to accelerate growth. We look forward to leveraging their relationships, resources, and expertise as we execute on our growth strategy in a manner consistent with our core values of loyalty, entrepreneurship, achievement and unity," stated Mr. Dugré. "As a private equity firm investing in infrastructure solutions to reduce carbon intensity, increase resource efficiency, and enhance climate resilience, Ember is the ideal partner for H2OInnovation."

"Ember looks forward to partnering with the H2OInnovation management team to continue building a leading integrated water solutions company focused on providing best-in-class technologies and services to its customers," declared Elena Savostianova, Managing Partner of Ember. "Sustainability is core to Ember's investment philosophy,

and water and wastewater solutions are central to our sustainability thesis. While H2OInnovation has achieved significant success in delivering its services and solutions to its customers both organically and through acquisition-driven growth since its inception, we see a unique opportunity for H2OInnovation to enter a new phase of growth supported by our capital and industry expertise. We intend to take a long-term view as we support the ongoing implementation of H2OInnovation's existing strategy, while continuing to find additional opportunities to better serve its customers."

Guy LeBlanc, President and CEO of IQ, added: "Investissement Québec supports Ember as a partner of choice to help H2OInnovation on its growth journey. It is committed to maintaining Québec operations and leveraging H2OInnovation's expertise to make it a consolidator and global leader in its field. This investment project is part of our mission to drive economic development."

"As a long-time shareholder, CDPQ is pleased to continue its partnership with H2OInnovation, a growing company operating in a strategic sector of our economy," said Kim Thomassin, Executive Vice-President and Head of Québec at CDPQ. "With this privatization, the Corporation will be able to continue executing its acquisition plan while maintaining its infrastructure and talent in Québec."

The process and negotiation of the Transaction were supervised by a committee of independent directors of H2OInnovation (the "Special Committee"). The Transaction has been approved unanimously by the Board (with interested and non-independent directors abstaining from voting) following the unanimous recommendation of the Special Committee. Both the Board and the Special Committee determined, after receiving financial and legal advice, that the Transaction is in the best interests of the Corporation and is fair to the Shareholders (other than the Rollover Shareholders). The Board also unanimously recommends that the Shareholders vote in favour of the Transaction at the special meeting of Shareholders to be called to approve the Transaction (the "Meeting").

As part of the Transaction, IQ, the largest shareholder of the Corporation, has agreed to roll over all of its Shares and increase its existing equity ownership in the Corporation by acquiring approximately \$20million of additional Shares from the Purchaser for an amount per Share equal to the Consideration. Furthermore, CDPQ has agreed to roll over the majority of its Shares and the key executives of H2O Innovation have agreed to roll over a portion of their Shares for an amount per Share equal to the Consideration. Upon completion of the Transaction, Ember will be the controlling shareholder of H2O Innovation, with IQ, CDPQ and the key executives of H2O Innovation, together, holding an equity interest in the Corporation of approximately 21%.

The Rollover Shareholders and each other director and officer of the Corporation, who currently collectively hold approximately 24% of all issued and outstanding Shares, have entered into customary support and voting agreements pursuant to which they have agreed to vote all their Shares in favour of the Transaction at the Meeting, subject to certain conditions.

Fairness Opinions and Formal Valuation

Desjardins Capital Markets (“Desjardins”), the independent financial advisor to the Special Committee, has delivered to the Special Committee a formal valuation of the Shares completed under the supervision of the Special Committee, as required by Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”), which determined that as at October 3, 2023 and based upon and subject to the assumptions, limitations and qualifications communicated to the Special Committee by Desjardins and to be contained in Desjardins’ written formal valuation, the fair market value of the Shares is in the range of \$3.25 to \$4.00 per Share.

Scotiabank, the Corporation’s exclusive financial advisor, and Desjardins have also each provided an opinion to the Special Committee and the Board that as at October 3, 2023, subject to the assumptions, qualifications and limitations communicated to the Special Committee and the Board and to be set out in each of Scotiabank’s and Desjardins’ written fairness opinion, the Consideration is fair, from a financial point of view, to the Shareholders (other than the Rollover Shareholders in respect of their Shares being rolled over).

The formal valuation and both fairness opinions will be included in the management information circular to be mailed to the Shareholders in connection with the Meeting and filed by the Corporation under its profile on SEDAR+ at www.sedarplus.ca and made available on the Corporation’s website at www.h2oinnovation.com.

Additional Transaction Details

The Transaction will be implemented by way of statutory plan of arrangement under the Canada Business Corporations Act and is subject to court approval, after considering the procedural and substantive fairness of the Transaction, and the approval of at least 66 2/3% of the votes cast by Shareholders present in person or by proxy at the Meeting. The Transaction is also subject to approval by holders of more than 50% of the votes cast by H2OInnovation’s minority Shareholders, being all Shareholders excluding the Rollover Shareholders and any of their respective affiliates, present in person or by proxy at the Meeting, in accordance with MI 61-101.

Pursuant to the Arrangement Agreement, H2OInnovation has a 30-day go-shop period that will extend from October 3, 2023 to November 2, 2023 (the “Go-Shop Period”), during which Scotiabank will solicit third-party interest in submitting a proposal which is superior to the proposal made by the Purchaser. The Purchaser will have a right to match a superior proposal during and after the Go-Shop Period. There can be no assurance that the go-shop process will result in a superior proposal. H2OInnovation does not intend to disclose developments with respect to the go-shop process unless and until the Board makes a determination requiring further disclosure.

After the expiry of the Go-Shop Period, H2OInnovation will be subject to a non-solicitation covenant with customary “fiduciary out” provisions under the terms of the Arrangement Agreement. The Arrangement Agreement contains other customary representations, warranties, covenants and closing conditions. The Transaction is not subject to any financing condition and is expected to close in the fourth quarter of 2023.

Upon closing of the Transaction, Ember intends to cause the Shares to be delisted from the TSX and Euronext Growth Paris and to be withdrawn from the OTCQX designation, and to cause the Corporation to submit an application to cease to be a reporting issuer under applicable Canadian securities laws.

Additional details regarding the terms and conditions of the Transaction, the rationale for the recommendations made by the Special Committee and the Board, the fairness opinions and the formal valuation, and how Shareholders can participate in and vote at the Meeting, will be set out in H2OInnovation’s management information circular to be prepared and made available to Shareholders in connection with the Meeting on SEDAR+ at www.sedarplus.ca and on the Corporation’s website at www.h2oinnovation.com. Copies of the Arrangement Agreement, the voting and support agreements, the management information circular and proxy materials in respect of the Meeting will be filed by the Corporation under its profile on SEDAR+ at www.sedarplus.ca.

Advisors

Norton Rose Fulbright Canada LLP is H2O Innovation’s legal counsel, Weil, Gotshal & Manges LLP and Davies Ward Phillips & Vineberg LLP are legal counsel to Ember, Fasken Martineau DuMoulin LLP is legal counsel to IQ and Blake, Cassels & Graydon LLP is legal counsel to CDPQ. Scotiabank acted as exclusive financial advisor to H2O Innovation and Desjardins acted as independent financial advisor to the Special Committee. Raymond James acted as financial advisor to Ember.

No Prospectus (France)

The Transaction will not imply a prospectus requiring the approval of France’s Autorité des marchés financiers.

About H2O Innovation

Innovation is in our name, and it is what drives the organization. H2O 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.

About Ember

Ember is a private equity firm investing in businesses delivering infrastructure solutions that reduce carbon intensity, enhance resource efficiency, and increase resilience to climate impacts. Headquartered in New York City, Ember invests across the energy transition, water, waste and industrial sectors. For more information, please visit www.ember-infra.com.

About CDPQ

At CDPQ, we invest constructively to generate sustainable returns over the long term. As a global investment group managing funds for public pension and insurance plans, we work alongside our partners to build enterprises that drive performance and progress. We are active in the major financial markets, private equity, infrastructure, real estate and private debt. As at June 30, 2023, CDPQ's net assets totalled CAD 424 billion. For more information, visit cdpq.com, consult our [LinkedIn](#) or [Instagram](#) pages, or follow us on [X](#).

CDPQ is a registered trademark owned by Caisse de dépôt et placement du Québec and licensed for use by its subsidiaries.

About IQ

Investissement Québec's mission is to play an active role in Quebec's economic development by stimulating business innovation, entrepreneurship and business acquisitions, as well as growth in investment and exports. Operating in all of the province's administrative regions, the Corporation supports the creation and growth of businesses of all sizes with investments and customized financial solutions. It also assists businesses by providing consulting services and other support measures, including technological assistance available from Investissement Québec – CRIQ. In addition, through Investissement Québec International, the Corporation prospects for talent and foreign investment, and assists Quebec businesses with export activities.

Early Warning Disclosure by IQ

As at the date hereof, IQ owns 9,003,544 Shares, representing approximately 10% of the issued and outstanding Shares, and currently files early warning reports pursuant to the requirements of Regulation 62-104 respecting Take-Over Bids and Issuer Bids and Regulation 62-103 respecting the Early Warning System and Related Take-Over Bid and Insider Reporting Issues with respect to H2OInnovation. An amended early warning report, stating that IQ

has agreed with the Purchaser to transfer to the Purchaser all of its Shares (and receive shares of the Purchaser as a counterpart) and acquire additional Shares from the Purchaser in the context of the Transaction, and that it has entered into a support and voting agreement with the Purchaser pursuant to which it has agreed to vote in favour of the Transaction at the Meeting, will be filed with the applicable securities commissions and will be made available on SEDAR+ at www.sedarplus.ca. Further information may be obtained by contacting Isabelle Fontaine, Senior Director, Media and Government Affairs of IQ at 438-622-4087.

Cautionary Note and Forward-Looking Statements

The Corporation's oral and written public communications may include forward-looking statements. These statements are included in this press release and may be included in other filings or communications from the Corporation. The forward-looking statements are made pursuant to the applicable securities legislation. Forward-looking statements may include, but are not limited to, statements and comments with respect to the rationale of the Special Committee and the Board for entering into the Arrangement Agreement, the expected benefits of the Transaction, the undertakings of Emberwith respect to the Corporation's operations and stakeholders, the terms and conditions of the Arrangement Agreement, the Consideration and premium to be received by Shareholders, the anticipated timing and the various steps to be completed in connection with the Transaction, including receipt of Shareholder, regulatory and court approvals, the anticipated timing of closing of the Transaction, the anticipated delisting of the Shares from the TSX and Euronext, the withdrawal of the Shares from the OTCQX designation and the Corporation ceasing to be a reporting issuer under Canadian securities laws. Forward-looking information also relates to, among other things, the Corporation's strategies to achieve its objectives, as well as information with respect to management's beliefs, plans, expectations, anticipations, estimations and intentions, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions. The management of H2O 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 to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. In preparing its outlook, the Corporation made assumptions that do not consider extraordinary events or circumstances beyond its control. When used in this press release, words such as "aim", "anticipate", "assume", "believe", "continue", "could", "estimate", "expect", "forecast", "foresee", "future", "goal", "guidance", "indicate", "intend", "likely", "maintain", "may", "objective", "outlook", "plan", "potential", "predict", "project", "seek", "should", "strategy", "synergies", "target", "undertake", "view", "vision", "will", "would" or the negative or comparable terminology as well as terms usually used in the future and the conditional are generally intended to identify forward-looking statements, although not all forward-looking statements include such words.

The information contained in forward-looking statements is based upon certain material assumptions that were

applied in drawing a conclusion or making expectations, forecasts, projections, predictions, or estimations, including, without limitation: that the Transaction will be completed on the terms currently contemplated, and in accordance with the timing currently expected; that all conditions to the completion of the Transaction will be satisfied or waived and the Arrangement Agreement will not be terminated prior to the completion of the Transaction; and various assumptions and expectations related to premiums to the trading price of Shares and returns to Shareholders. A change affecting an assumption can also have an impact on other interrelated assumptions, which could increase or diminish the effect of the change. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of the Corporation's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Corporation's business and anticipated operating environment.

Forward-looking statements are necessarily based on a number of opinions, assumptions and estimates that, while considered reasonable by the Corporation as of the date of this press release, are subject to inherent uncertainties, risks and changes in circumstances that may differ materially from those contemplated by the forward-looking statements. Moreover, the proposed Transaction could be modified or the Arrangement Agreement terminated in accordance with its terms. Several factors, risks or uncertainties could cause the actual results to differ materially from the results discussed in the forward-looking statements. Should one or more of these factors, risks or uncertainties materialize or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. Such factors include, without limitation: (a) the failure of the parties to obtain any necessary regulatory approvals or the required Shareholder and court approvals or to otherwise satisfy the conditions to the completion of the Transaction, and failure of the parties to obtain such approvals or satisfy such conditions in a timely manner; (b) lack of assurance that if the Corporation had solicited expressions of interest from other potential arm's length investors or acquirors prior to entering into the Arrangement Agreement, that one or more would not have been willing to complete a Transaction on more favourable terms than the Purchaser; (c) the Arrangement Agreement restricts the Corporation from taking specified actions until the Transaction is completed without the Purchaser's consent, which may prevent the Corporation from pursuing or attracting business opportunities; (d) the ability of the Board to solicit and approve a superior proposal during the Go-Shop Period; (e) the ability of the Board to consider and approve a superior proposal following the expiry of the Go-Shop Period; (f) significant Transaction costs or unknown liabilities; (g) litigation relating to the Transaction may be commenced which may prevent, delay or give rise to significant costs or liabilities; (h) the Arrangement Agreement may be terminated prior to its consummation; (i) the Corporation may be required to pay a termination fee to the Purchaser in certain circumstances if the Transaction is not completed or if the Arrangement Agreement is terminated by the Corporation to accept a superior proposal; (j) directors and officers of the Corporation may have interests in the Transaction that may be different from those of Shareholders generally; (k) the focus of management's time and attention on the Transaction may detract from other aspects of the Corporation's business; (l) the tax treatment of the Transaction may be subject to uncertainties; (m) general

economic conditions; (n) the market price of the Shares may be materially adversely affected if the Transaction is not completed or its completion is materially delayed; and (o) failure to realize the expected benefits of the Transaction.

Failure to obtain any necessary regulatory approvals or the required Shareholder and court approvals, or failure of the parties to otherwise satisfy the conditions to the completion of the Transaction may result in the Transaction not being completed on the proposed terms, or at all. If the Transaction is not completed, and the Corporation continues as a publicly-traded entity, there are risks that the announcement of the Transaction and the dedication of substantial resources of the Corporation to the completion of the Transaction could have an impact on its business and strategic relationships (including with future and prospective employees, customers, suppliers and partners), operating results and activities in general, and could have a material adverse effect on its current and future operations, financial condition and prospects. Furthermore, pursuant to the terms of the Arrangement Agreement, the Corporation may, in certain circumstances, be required to pay a fee to the Purchaser, the result of which could have an adverse effect on its financial position. The Corporation cautions that the foregoing list of factors is not exhaustive. Additional information about the risk factors to which the Corporation is exposed to is provided in the Annual Information Form dated September 27, 2023, which is available on SEDAR+ (www.sedarplus.ca).

The forward-looking statements set forth herein reflect the Corporation's expectations as of the date hereof, and are subject to change after this date. The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraphs and the risk factors described herein should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. 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 press release or in other communications as a result of new information, future events, and other changes.

Source:

H2O Innovation Inc.

www.h2oinnovation.com

This press release shall not constitute an offer to purchase or a solicitation of an offer to sell any securities, or a solicitation of a proxy of any securityholder of any person in any jurisdiction. Any offers or solicitations will be made in accordance with the requirements under applicable law. Shareholders are advised to review any documents that may be filed with securities regulatory authorities and any subsequent announcements because they will contain important information regarding the Transaction and the terms and conditions thereof. The circulation of this press release and the Transaction may be subject to a specific regulation or restrictions in some countries. Consequently,

persons in possession of this press release must familiarize themselves and comply with any restrictions that may apply to them.

1 The Bank of Canada Euro to CAD daily exchange rate as of September 29, 2023 was €1 =C\$1.4304.

2 The closing price of the Shares on the Euronext Growth Paris on October 2, 2023 was €1.70.

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Source: H2O Innovation