

# BQE Water

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## **BQE WATER INC.**

### **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three months ended March 31, 2023 and 2022

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#### **NOTICE TO READER**

The accompanying condensed consolidated interim financial statements of the Company have been prepared by the Company's management and reviewed by the Audit Committee and Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Financial Position  
For the period ended March 31, 2023 and December 31, 2022  
(Unaudited – expressed in Canadian dollars)

		March 31 2023 \$	December 31 2022 \$
	note		
<b>Assets</b>			
<b>Current assets</b>			
Cash		5,777,319	6,234,352
Restricted cash	5	194,151	180,307
Trade and other receivables	6, 7	3,102,766	3,206,869
Prepaid and deposits		290,312	337,850
<b>Total current assets</b>		<b>9,364,548</b>	<b>9,959,378</b>
<b>Non-current assets</b>			
Plant and equipment	8	341,293	395,456
Intangible assets	9	293,790	314,775
Investment in joint ventures	10	5,400,896	5,301,227
Deposits		92,608	17,080
<b>Total non-current assets</b>		<b>6,128,587</b>	<b>6,028,538</b>
<b>Total assets</b>		<b>15,493,135</b>	<b>15,987,916</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payable and accrued liabilities	7, 11	1,203,960	1,240,780
Loans	12	82,500	82,500
Deferred revenues		419,279	436,039
Lease obligations	13	187,848	191,988
Other liabilities	9	142,000	142,000
Deferred benefits	14	644,739	700,949
<b>Total current liabilities</b>		<b>2,680,326</b>	<b>2,794,256</b>
<b>Non-current liabilities</b>			
Loans	12	165,000	185,625
Deferred revenues		283,740	283,740
Lease obligations	13	56,963	85,802
<b>Total non-current liabilities</b>		<b>505,703</b>	<b>555,167</b>
<b>Total liabilities</b>		<b>3,186,029</b>	<b>3,349,423</b>
<b>Shareholders' Equity</b>			
Share capital	15	56,576,959	56,654,061
Contributed surplus		10,995,162	10,919,623
Accumulated other comprehensive income		1,592,915	1,582,782
Accumulated deficit		(56,857,930)	(56,517,973)
<b>Total shareholders' equity</b>		<b>12,307,106</b>	<b>12,638,493</b>
<b>Total liabilities and shareholders' equity</b>		<b>15,493,135</b>	<b>15,987,916</b>
Commitments (note 18)			

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Income (Loss) and Other Comprehensive Income (Loss)

For the three months ended March 31, 2023 and 2022

(Unaudited – expressed in Canadian dollars)

		<b>3 months ended March 31</b>	
		<b>2023</b>	<b>2022</b>
		<b>\$</b>	<b>\$</b>
	note		
Revenues	19	<b>2,691,184</b>	2,466,694
Operating expenses (excluding depreciation)		<b>(1,693,603)</b>	(1,531,063)
Operating margin before depreciation		<b>997,581</b>	935,631
Share of income from joint ventures	10	<b>81,135</b>	333,407
General and administration		<b>(671,816)</b>	(603,851)
Sales and development		<b>(612,849)</b>	(354,372)
Share-based payments	7, 14	<b>(190,234)</b>	(22,518)
Depreciation and amortization	8, 9	<b>(81,557)</b>	(54,801)
(Loss) income from operations and joint ventures		<b>(477,740)</b>	233,496
Finance income (costs)		<b>37,037</b>	(4,157)
Foreign exchange gain (loss)		<b>59,382</b>	(37,111)
Other income		<b>46,948</b>	-
(Loss) income before income taxes		<b>(334,373)</b>	192,228
Income tax expenses		<b>(5,584)</b>	(1,915)
<b>Net (loss) income for the period</b>		<b>(339,957)</b>	190,313
<b>Other comprehensive income (loss)</b>			
<i>Items that will be reclassified subsequently to income</i>			
Translation gain (loss) on foreign operations		<b>10,133</b>	(108,903)
<b>Comprehensive (loss) income for the period</b>		<b>(329,824)</b>	81,410
<b>Net (loss) earnings per share</b>			
Basic	15 (d)	<b>(0.27)</b>	0.15
Diluted	15 (d)	<b>(0.27)</b>	0.15
<b>Weighted average number of shares outstanding</b>			
Basic	15 (d)	<b>1,255,629</b>	1,246,319
Diluted	15 (d)	<b>1,282,713</b>	1,270,375

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Changes in Equity  
For the three months ended March 31, 2023 and 2022  
(Unaudited – expressed in Canadian dollars)

		Number of Shares	3 months ended March 31, 2023 \$	Number of Shares	3 months ended March 31, 2022 \$
	note				
<b>Share Capital</b>					
Balance, beginning of the period	15(b)	1,256,928	56,654,061	1,244,968	56,573,611
Exercise of stock options	14(a)	-	-	3,160	27,650
Shares repurchased	15(c)	(2,600)	(77,102)	-	-
<b>Balance, end of the period</b>		<b>1,254,328</b>	<b>56,576,959</b>	1,248,128	56,601,261
<b>Contributed surplus</b>					
Balance, beginning of the period			10,919,623		10,669,159
Equity settled share-based payments	14(a)		75,539		10,966
<b>Balance, end of the period</b>			<b>10,995,162</b>		10,680,125
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,582,782		1,750,386
Other comprehensive income (loss) for the period			10,133		(108,903)
<b>Balance, end of the period</b>			<b>1,592,915</b>		1,641,483
<b>Accumulated deficit</b>					
Balance, beginning of the period			(56,517,973)		(57,679,766)
Net (loss) income for the period			(339,957)		190,313
<b>Balance, end of the period</b>			<b>(56,857,930)</b>		(57,489,453)
<b>Total shareholders' equity</b>					
Balance, beginning of the period			12,638,493		11,313,390
Exercise of stock options	14(a)		-		27,650
Shares repurchased	15(c)		(77,102)		-
Equity settled share-based payments	14(a)		75,539		10,966
Net (loss) income for the period			(339,957)		190,313
Other comprehensive income (loss) for the period			10,133		(108,903)
<b>Balance, end of the period</b>			<b>12,307,106</b>		11,433,416

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Cash Flows  
 For the three months ended March 31, 2023 and 2022  
 (Unaudited – expressed in Canadian dollars)

		<b>3 months ended March 31</b>	
		<b>2023</b>	<b>2022</b>
		<b>\$</b>	<b>\$</b>
	note		
<b>Operating activities</b>			
Net income (loss) for the period		<b>(339,957)</b>	190,313
Items not affecting cash			
Share of income from joint ventures	10	<b>(81,135)</b>	(333,407)
Finance (income) expense, net		<b>(37,037)</b>	4,157
Depreciation and amortization	8, 9	<b>81,557</b>	54,801
Foreign exchange loss		<b>(56,869)</b>	20,277
Share-based payments	14	<b>190,234</b>	22,518
		<b>(243,207)</b>	(41,341)
Change in non-cash operating working capital items	17	<b>(144,020)</b>	(79,510)
Net cash used in operating activities		<b>(387,227)</b>	(120,851)
<b>Investing activities</b>			
Purchase of plant and equipment	8	<b>(6,337)</b>	(39,356)
Contributions made to joint ventures	10	-	(49)
Interest received		<b>41,272</b>	1,682
Net cash used in investing activities		<b>34,935</b>	(37,723)
<b>Financing activities</b>			
Lease payments on principal portion	13	<b>(33,366)</b>	(19,415)
Lease payments on interest portion	13	<b>(7,299)</b>	(5,240)
Proceeds from exercise of stock options	14(a)	-	27,650
Repurchase of shares	15(c)	<b>(77,102)</b>	-
Repayment of loans	12	<b>(20,625)</b>	(20,625)
Interest paid		<b>(58)</b>	(8)
Net cash (used in) provided by financing activities		<b>(138,450)</b>	(17,638)
Effect of exchange rate changes on cash		<b>33,709</b>	(11,685)
Change in cash		<b>(457,033)</b>	(187,897)
Cash, beginning of the period		<b>6,234,352</b>	3,943,714
<b>Cash, end of the period</b>		<b>5,777,319</b>	3,755,817

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

### 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

BQE Water Inc. ("BQE Water" or the "Company") is the ultimate parent company of its consolidated group. BQE Water is an integrated water management services and treatment solutions provider with unique expertise and intellectual property to support the mining and metallurgical industry in reducing life cycle costs and risks associated with water.

The Company is a publicly listed company incorporated and domiciled in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange trading under the symbol BQE. The address of its registered office is Suite 250 – 900 Howe Street, Vancouver, British Columbia, V6Z 2M4, Canada.

### 2. BASIS OF PREPARATION

#### a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC") on a basis consistent with the accounting policies disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2022. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Board of Directors of the Company approved these unaudited condensed consolidated interim financial statements on May 30, 2023.

#### b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis except for deferred share units and restricted share units, which are measured at fair value through profit or loss.

#### c) Basis of Consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company, and the entities controlled by the Company, and the share of net assets and net earnings or losses in entities which the Company is a joint venture partner. The principal subsidiaries of the Company, which are accounted for under the consolidation method, are as follows:

Entity	Country of incorporation and operation	Ownership interest as at Mar. 31, 2023	Ownership interest as at Dec. 31, 2022
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BQE Water (Hangzhou) Co. Ltd.	China	100%	100%
BQE Water Delaware, Inc.	USA	100%	100%

The joint ventures of the Company, which are accounted for under the equity method, are as follows:

Entity	Country of incorporation and operation	Ownership interest as at Mar. 31, 2023	Ownership interest as at Dec. 31, 2022
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%
BQE Water Nuvumiut Development Inc.	Canada	49%	49%

## **BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023

(Unaudited)

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 which includes information necessary or useful to understand the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as Note 3 in the audited consolidated financial statements for the year ended December 31, 2022 and have been consistently applied to all periods presented in the preparation of these unaudited condensed consolidated interim financial statements.

### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty are consistent with those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2022.

#### **COVID-19 Economic Uncertainty**

The COVID-19 pandemic continued to disrupt global health and the economy in 2023. For BQE Water, the recurring services for the operations of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at March 31, 2023, management determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.



## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

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### 5. RESTRICTED CASH

The balance at March 31, 2023 and December 31, 2022 includes a term deposit held by Scotiabank as a letter of credit related to one customer in Chile until the completion of the project.

### 6. TRADE AND OTHER RECEIVABLES

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Trade receivables, net	2,452,203	2,468,929
Contract assets	620,270	715,237
Other receivables	30,293	22,703
	<u>3,102,766</u>	<u>3,206,869</u>

### 7. RELATED PARTY TRANSACTIONS AND BALANCES

The following transactions were carried out with related parties of the Company:

#### a) Management Compensation

Included in trade payables and accrued liabilities as of March 31, 2023 is \$16,925 (\$nil at December 31, 2022) of director fees.

For the three months ended March 31, 2023 and 2022, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Mar. 31	
	2023	2022
Salaries, fees and short-term benefits	206,300	192,050
Share-based payments (note 14(a) and 14(c))	59,619	18,843
	<u>265,919</u>	<u>210,893</u>

#### b) Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumiut Development Inc., for providing water treatment services in Nunavik. Revenue earned from the joint venture for the three months ended March 31, 2023 was \$88,568 (\$nil in 2022). Included in trade and other receivables as of March 31, 2023 is \$113,678 (\$154,611 at December 31, 2022) of trade receivables due from the joint venture.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023

(Unaudited)

**8. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup>	Pilot plants	Other <sup>2</sup>	Total
	\$	\$	\$	\$
<b>Cost</b>				
As at December 31, 2021	509,231	580,593	717,748	1,807,572
Additions	237,950	-	81,401	319,351
Adjustment	(1,638)	-	-	(1,638)
Foreign exchange translation	2,368	-	-	2,368
<b>As at December 31, 2022</b>	<b>747,911</b>	<b>580,593</b>	<b>799,149</b>	<b>2,127,653</b>
Additions	-	-	6,337	6,337
Foreign exchange translation	297	-	-	297
<b>As at March 31, 2023</b>	<b>748,208</b>	<b>580,593</b>	<b>805,486</b>	<b>2,134,287</b>
<b>Accumulated Depreciation</b>				
As at December 31, 2021	(317,281)	(580,593)	(654,557)	(1,552,431)
Depreciation for the year	(146,880)	-	(32,848)	(179,728)
Foreign exchange translation	(38)	-	-	(38)
<b>As at December 31, 2022</b>	<b>(464,199)</b>	<b>(580,593)</b>	<b>(687,405)</b>	<b>(1,732,197)</b>
Depreciation for the period	(50,394)	-	(10,178)	(60,572)
Foreign exchange translation	(225)	-	-	(225)
<b>As at March 31, 2023</b>	<b>(514,818)</b>	<b>(580,593)</b>	<b>(697,583)</b>	<b>(1,792,994)</b>
<b>Carrying Amount</b>				
As at December 31, 2022	283,712	-	111,744	395,456
<b>As at March 31, 2023</b>	<b>233,390</b>	<b>-</b>	<b>107,903</b>	<b>341,293</b>

<sup>1</sup>Right-of-use assets (note 13) comprises lease assets such as office buildings and office equipment.<sup>2</sup>Other comprises leasehold improvements, furniture, office equipment and lab equipment.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

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**9. INTANGIBLE ASSETS**

	Total \$
<b>Cost</b>	
As at December 31, 2021	-
Additions	419,700
<b>As at December 31, 2022 &amp; March 31, 2023</b>	<b>419,700</b>
<b>Accumulated Depreciation</b>	
As at December 31, 2021	(20,985)
Depreciation for the year	(83,940)
As at December 31, 2022	(104,925)
Depreciation for the period	(20,985)
<b>As at March 31, 2023</b>	<b>(125,910)</b>
<b>Carrying Amount</b>	
As at December 31, 2022	314,775
<b>As at March 31, 2023</b>	<b>293,790</b>

On September 3, 2021 (the "Acquisition Date"), the Company entered into an intellectual property purchase agreement and a consulting agreement (together as the "Agreements") with R&S Environmental Consulting Services Inc. and its sole owner Randy Aguis (together as "R&S"). Under the terms of the Agreements, R&S will receive an aggregate cash payment of \$250,000 and an earn-out bonus payable on the second anniversary of the Acquisition Date, for intangible asset rights pertaining to cyanide destruction. Intangible asset rights include all intellectual properties, such as the know-how, results, trade secrets, methods, and designs related to cyanide destruction. Also under the Agreements, R&S will work exclusively for the Company for a term of 2 years, collaborating with the Company's engineering and business development teams, training and mentoring Company staff in regards to cyanide destruction, in exchange of a fixed monthly consulting fee.

The Company concluded the transaction should be accounted for as an asset acquisition and recognized the acquired assets at cost. On the Acquisition Date, it was determined that the acquired assets are a group of similar identifiable assets with similar nature, class and risk, therefore all the acquisition costs have been allocated to this group. The total cost of the acquisition \$419,700 includes the total cash consideration of \$250,000, plus the contingent consideration, or the earn-out bonus, which was fair valued at \$169,700 on the Acquisition Date and included in other liabilities. As the fair value of the earn-out bonus is contingent on the future net profits generated from the newly acquired intellectual properties, the fair value of contingent consideration was adjusted to \$142,000 on December 31, 2022 and remained unchanged as at March 31, 2023.

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

### 10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on March 31, 2023 is \$5,400,896 (\$5,301,227 on December 31, 2022), and is comprised of:

	JCC-BQE	MWT-BQE	NVM-BQE
	\$	\$	\$
Balance, January 1, 2022	6,855,401	-	-
Contributions made	-	-	49
Share of net income	1,450,457	52,034	36,879
Share of translation loss on foreign operation	(145,059)	(192)	-
Dividends received	(2,896,500)	-	-
Unrecognized share of net income and translation loss	-	(51,842)	-
Balance, December 31, 2022	5,264,299	-	36,928
Share of net income	78,843	45,681	2,292
Share of translation gain on foreign operation	18,534	640	-
Unrecognized share of net income and translation gain	-	(46,321)	-
Balance, March 31, 2023	5,361,676	-	39,220

#### a) JCC-BioteQ Environmental Technologies Co. Ltd.

In 2007, BQE Water entered into a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing Mine in Jiangxi Province, China. The joint venture, which forms a 50/50 share joint venture company between BQE Water and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd. ("JCC-BQE"). The joint venture builds and operates water treatment plants utilizing BQE Water's technologies. The agreement includes a license contract whereby BQE Water will provide its patented technology on a royalty-free basis to the joint venture company for use at Dexing Mine and up to five potential additional sites owned and operated by JCC.

The joint venture sells the metal concentrate recovered in its operations to the joint venture partner, JCC. All related party sales are recorded on the date of sale at the fair market price of the metal with adjustments in accordance with the agreed upon terms. Currently, the joint venture operates three water treatment plants.

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year.

The joint venture derives its revenue from recovered copper sales, which are subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to global commodity price risk.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

The statement of financial position of the Company's 50% interest in the JCC-BQE joint venture are presented as follows:

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Assets		
Cash	2,799,499	3,348,036
Other current assets	518,203	539,830
Non-current assets	2,692,704	2,806,376
Total assets	<u>6,010,406</u>	<u>6,694,242</u>
Liabilities	648,730	1,429,943
Partner's Equity	<u>5,361,676</u>	<u>5,264,299</u>
Total liabilities and partner's equity	<u>6,010,406</u>	<u>6,694,242</u>

The condensed statement of income and comprehensive income of the Company's 50% interest in the JCC-BQE joint venture are presented as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Revenues	667,745	963,590
Operating expenses (excluding depreciation)	<u>(385,577)</u>	<u>(434,975)</u>
	282,168	528,615
Non-operating expenses	(79,269)	(56,317)
Depreciation of plant and equipment	(124,056)	(125,133)
Income tax expense	-	(13,756)
Net income for the period	<u>78,843</u>	<u>333,409</u>
Other comprehensive income (loss)	<u>18,534</u>	<u>(86,480)</u>
Comprehensive income for the period	<u>97,377</u>	<u>246,929</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

**b) Shandong MWT BioteQ Environmental Technologies Co. Ltd.**

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company (“MWT”) for the construction and operation of a water treatment plant located in Shandong Province, China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). The joint venture built a water treatment plant at a smelter owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). The joint venture operates the plant using BQE Water’s patented technology to recover and sell copper and zinc metals from Zhaoye’s industrial wastewater stream to generate revenues. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of \$96,400 (RMB \$500,000) as registered capital, which represents 4.35% of the total registered capital of the joint venture.

The Company’s 20% share of the net income in the joint venture for the three months ended March 31, 2023 was \$45,681 (net loss of \$24,393 in Q1 2022). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of comprehensive income of the joint venture will be recognized on the investments of MWT-BQE when the unrecognized share of net losses is reduced to zero. As of March 31, 2023, the balance of the unrecognized share of net losses for MWT-BQE is \$82,170 (\$128,490 on December 31, 2022).

The sections of the statement of financial position of BQE Water’s portion of interest in the MWT-BQE joint venture are presented as follows:

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Current assets	96,589	92,214
Plant and equipment	28,148	28,908
Current liabilities	40,991	47,573
Non-current liabilities	26,137	26,014
Partner’s equity	-	-

The condensed statement of income (loss) of BQE Water’s 20% interest in the MWT-BQE joint venture is presented as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Revenues	200,612	97,829
Operating expense (excluding depreciation)	(113,177)	(82,264)
	87,435	15,565
Non-operating expenses	(37,775)	(35,912)
Depreciation of plant and equipment	(3,979)	(4,046)
Net income (loss) for the period	45,681	(24,393)
Other comprehensive income (loss)	640	(1,713)
Comprehensive income (loss) for the period	46,321	(26,106)

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

### c) BQE Water Nuvumiut Development Inc.

In 2021, BQE Water entered into a joint venture agreement with Nuvumiut Development Inc. ("NVM"), as partners with the Inuit community, to jointly provide water management and treatment services in the Nunavik regions, located in Northern Quebec, Canada. The joint venture, BQE Water Nuvumiut Development Inc. ("NVM-BQE") was federally incorporated on December 2, 2021, with a 49% ownership belonging to BQE and 51% to NVM.

The sections of the statement of financial position of BQE Water's 49% interest in the NVM-BQE joint venture are presented as follows:

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Current assets	97,912	139,743
Current liabilities	58,692	102,815
Partner's equity	39,220	36,928

The Company's 49% share of the net income in the joint venture for the three months ended March 31, 2023 was \$2,292 (net loss of \$2 in Q1 2022).

## 11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Trade payable and accruals	567,525	647,151
Payroll liability	616,720	566,151
Tax payable	19,715	27,478
	<u>1,203,960</u>	<u>1,240,780</u>

## 12. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of \$412,500. The WINN loan was granted to the Company to assist in the commercialization and scale-up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments, equal to \$6,875 per month, which began April 1, 2021 and continues until March 1, 2026. The total remaining balance of the WINN loan, including both current and non-current portions, as of March 31, 2023 is \$247,500 (\$268,125 on December 31, 2022).

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2023  
 (Unaudited)

**13. LEASES**

The Company recognizes right-of-use assets (note 8) and lease obligations in relation to office and equipment leases. The assets and liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 12% at the time the lease was assumed or entered into. The Company's carrying value of lease obligations are as follows:

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Balance at January 1	277,790	206,451
Addition of lease obligations	-	237,950
Adjustment of lease obligations	-	(1,638)
Interest expense on lease obligations	7,675	26,417
Lease payments on interest portion	(7,299)	(26,400)
Lease payments on principal portion	(33,366)	(166,360)
Foreign exchange translation	11	1,370
Ending Balance	<u>244,811</u>	<u>277,790</u>
Less: current portion of lease obligations	<u>187,848</u>	<u>191,988</u>
Non-current portion of lease obligations	<u>56,963</u>	<u>85,802</u>

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. The Company's lease expense, which is not counted under lease obligations, for the three months ended March 31, 2023 are as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Classified as short-term or as low value	<u>19,229</u>	<u>21,587</u>
Leases with variable lease payments	<u>33,266</u>	<u>23,715</u>
	<u>52,495</u>	<u>45,302</u>

The following is a schedule of the Company's future lease payments under lease obligations:

	Mar. 31, 2023
	\$
2023	<u>172,780</u>
2024	77,424
2025	9,109
2026	3,508
2027	<u>1,754</u>
Total undiscounted lease payments	264,575
Less: imputed interest	<u>(19,764)</u>
Total carrying value of lease obligations	<u>244,811</u>



**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2023  
 (Unaudited)

**14. SHARE-BASED PAYMENT EXPENSES**

The Company's share-based payment expenses are comprised as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Stock options (a)	75,539	10,966
Deferred share units (b)	15,163	(34,180)
Restricted share units (c)	99,532	45,732
	<u>190,234</u>	<u>22,518</u>

**a) Stock Options**

Under the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for exercise of all options granted by the Company may not exceed 10% of the Company's shares issued and outstanding at the time the options are granted. The exercise price of each option granted under the Plan is determined at the discretion of the Board at no less than the five-day volume weighted average share price preceding the grant date. Options granted under the Plan expire no later than the fifth anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board although the Company has a practice of having options vest over 3 years in equal installments.

Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

On April 22, 2022, the Company granted 52,500 stock options with an exercise price of \$30.00 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date. The fair value of these options determined using the Black-Scholes valuation model was \$9.45 per option. The significant assumptions in the valuation model were with a volatility of 44.75%, an expected option life of 2.72 years and an annual risk-free interest rate of 2.79%.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Number	Weighted average
	of options	exercise price
		\$
Balance, January 1, 2022	53,300	8.12
Granted	52,500	30.00
Exercised	(11,960)	6.73
Expired	(3,500)	6.00
Balance, December 31, 2022	<u>90,340</u>	<u>21.10</u>
Balance, March 31, 2023	<u>90,340</u>	<u>21.10</u>

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

As at March 31, 2023, 37,840 of share options outstanding were exercisable with a weighted average exercise price of \$8.75 (21,841 on December 31, 2022 with a weighted average exercise price of \$8.75).

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three months ended March 31, 2023, the Company recognized \$75,539 (\$10,966 in 2022) of non-cash compensation expense related to stock options. The expiry date by exercise price at March 31, 2023 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
8.75	January 8, 2025	37,840	37,840
30.00	April 22, 2027	52,500	-

### b) Deferred Share Units

The Company implemented a deferred share unit (“DSU”) plan pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. The number of DSUs granted to a participant is calculated by dividing: (i) a specified dollar amount of the participant’s compensation amount paid in DSUs in lieu of cash by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan, with payment no later than December 31 of the following calendar year.

As the Company is required to settle this award in cash, it records these awards as a liability and a corresponding charge including changes to the fair value to stock-based compensation expense. The DSU is a financial instrument whose fair value is adjusted at each reporting date based on the five-day volume weighted average price of the Company’s common shares. The following table presents the changes to the DSU plan:

	Number of units	Value \$
Balance, January 1, 2022	10,574	290,778
Fair value adjustment	-	21,155
Balance, December 31, 2022	10,574	311,933
Fair value adjustment	-	15,163
Balance, March 31, 2023	10,574	327,096

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

### c) Restricted Share Units

The Company implemented a restricted share unit ("RSU") plan pursuant to which RSUs may be granted to the officers and employees of the Company. Under this plan, notional RSUs are granted and vested annually over a three-year term in general or otherwise determined by the Board. Upon vesting, the Company will settle the RSUs immediately in cash, with payment equal to the five-day volume weighted average trading price of the number of RSUs held preceding the date of redemption. The RSU plan was amended by the Board of Directors on January 8, 2020. Under the new amendment, any unvested RSUs shall be forfeited upon separation of employment with the Company.

RSUs granted are accounted for and fair valued by recognizing share-based payment expenses on a straight-line basis over the vesting period. The fair value per RSU on grant date was determined based on the Company's share price on the day of grant. The initial fair values determined upon each grant date between January 1, 2022 and March 31, 2023 are as follows:

Grant date	Number of RSUs	Fair value \$
February 1, 2022	16,767	411,966
April 22, 2022	3,076	78,438
September 20, 2022	864	25,000

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2022	7,886	103,663
Granted	20,707	-
Forfeited	(318)	-
Redeemed	(4,136)	(113,643)
Fair value adjustment	-	398,996
Balance, December 31, 2022	24,139	389,016
Redeemed	(5,483)	(170,905)
Fair value adjustment	-	99,532
Balance, March 31, 2023	18,656	317,643

## 15. SHARE CAPITAL

### a) Authorized

An unlimited number of common shares, without nominal or par value.

### b) Issued

As at March 31, 2023, the Company had 1,254,328 common shares outstanding (1,256,928 on December 31, 2022).

### c) Normal course issuer bid (NCIB)

On December 6, 2022, the Company had obtained the approval of the TSX Venture Exchange to commence on a NCIB to repurchase for cancellation up to 62,556 common shares, representing 5% of common shares issued and outstanding, over a 12-month period starting on December 12, 2022. As of March 31, 2023, 2,600 common shares have been purchased and cancelled under the NCIB.

Subsequent to the reporting period, between April 1, 2023 to May 30, 2023, the Company repurchased for cancellation 1,800 of common shares under the NCIB.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

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**d) Earnings Per Share**

The calculation of (loss) earnings per share for the three months ended March 31, 2023 and 2022 are as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Net (loss) income	(339,957)	190,313
Basic weighted average number of shares outstanding	1,255,629	1,246,319
Dilution of securities	27,084	24,056
Diluted weighted average number of shares outstanding	1,282,713	1,270,375
<b>Earnings per share:</b>		
Basic	(0.27)	0.15
Diluted	(0.27)	0.15

**16. INCOME TAXES**

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three-month period ended March 31, 2023 was 27% (27% at December 31, 2022).

**17. SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental cash flow information (included within operating activities) is as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
<b>Change in non-cash working capital items</b>		
Changes in trade receivables	148,909	(329,803)
Changes in restricted cash	-	(90,204)
Changes in other assets	(27,901)	72,956
Changes in accounts payable and accrued liabilities	(82,947)	94,800
Changes in deferred revenue	(16,760)	170,907
Changes in other liabilities	(165,321)	1,834
Change in non-cash working capital items	(144,020)	(79,510)

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

### 18. COMMITMENTS

The Company has commitments of \$406,564 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2023	262,333
2024	144,231
	<u>406,564</u>

### 19. REVENUE

The Company monetizes the value of its intellectual property and expertise primarily through the services of long-term operations and maintenance of water treatment plants to generate recurring revenue that is linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, the Company also generates revenues from technical services relating to water management that are project specific and generally non-recurring in nature.

#### a) Disaggregation of Revenue

The Company functions as providers of operational services of water treatment plants and as providers of technical services relating to water management. The Company disaggregates revenues from contracts with customer into operations contracts and technical services contracts.

Operations contracts are when the Company is appointed to operate water treatment plants and to provide operations support for a customer. Operations contracts generate recurring revenue for the Company, which is either based on an agreed upon tolling fee for water treated and discharged into the environment or based on an operation support fee, or a combination of the two.

Technical services contracts are when the Company is appointed to provide water management consulting services and technical innovation services to its customer. Such services include feasibility & assessment studies, toxicity investigation, process engineering design, plant commissioning, plant optimization, laboratory treatability assessments and field pilot demonstrations. Depending on the need of the customer or the project requirements, technical services contracts may be in the form of a fixed priced contract or a time-based contract. The disaggregated revenue of the Company are as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Operation contracts	835,068	189,288
Technical services contracts	1,856,116	2,277,406
	<u>2,691,184</u>	<u>2,466,694</u>

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2023  
(Unaudited)

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### b) Remaining Performance Obligations

As at March 31, 2023, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$2,997,775, compared to \$3,262,663 as at December 31, 2022. The remaining performance obligations of the Company are expected to be fully completed in the next 18 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

## 20. SEGMENTED INFORMATION

The Company has one operating segment, principally being an integrated water management services and treatment solutions provider. The Company functions as providers of operational services of water treatment plants and as providers of technical services relating to water management.

### a) Geographic Information

The Company mainly generates revenue from North America and occasionally from other foreign countries. The Company's revenue by geographic locations, presented based on the location in which the sale originated from, are as follows:

Revenue	3 months ended Mar. 31	
	2023	2022
	\$	\$
Canada	622,857	329,282
USA	938,969	1,348,656
Latin America	845,494	617,359
China	283,864	94,104
Other	-	77,293
	<u>2,691,184</u>	<u>2,466,694</u>

The Company's non-current assets, excluding non-current deposits, by location of assets are as follows:

	Mar. 31, 2023	Dec. 31, 2022
	\$	\$
Canada	614,866	674,618
USA	40,826	45,762
China	5,380,287	5,291,078
	<u>6,035,979</u>	<u>6,011,458</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2023

(Unaudited)

**b) Information About Major Customers**

The following table presents revenue from individual customers exceeding 10% of total revenue for the three months ended March 31, 2023 and 2022:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Customer B	758,272	1,229,320
Customer D	283,864	94,104
Customer E	389,613	351,369
Total	<u>1,431,749</u>	<u>1,674,793</u>
Represents percentage of total revenue for the period	53%	68%

# BQE Water

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## **BQE WATER INC.**

### **Interim Management's Discussion and Analysis (Quarterly Highlights)**

For the three months ended March 31, 2023 and 2022

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# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

*Quarterly Highlights – for the three months ended March 31, 2023 and 2022*

The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. Management of the Company has prepared this document in conjunction with their broader responsibilities for reasonable assurance regarding the reliability of the financial reporting and the establishment and maintenance of adequate information systems and internal controls to ensure that the financial information is complete and reliable. Management also believes that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

This Q1 2023 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2023 and 2022 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2022 and 2021 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2022.

Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of March 31, 2023. Our accounting policies are described in Note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at May 30, 2023.

Certain statements contained in the MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which are reflective only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

## OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing innovative water management and treatment solutions that support and improve operations in this sector. Central to our business model, BQE Water produces clean water and stable residues or saleable by-products, and we monetize the value of our unique process know-how through recurring revenues generated from plant operations services.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets for our business. BQE Water is listed on the TSX Venture Exchange under the symbol "BQE". Additional information may be found on our website at [www.bqewater.com](http://www.bqewater.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## NON-GAAP MEASURES

We use non-GAAP financial measures to supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance overall understanding of the Company's current financial performance with investors and observers. Non-GAAP financial measures have limitations in that they do not reflect all amounts associated with our operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our operational results in conjunction with the corresponding GAAP measures.

### Proportional Results

To provide additional insight into our financial results, certain statements in this MD&A disclose the effective portion of results we would have reported if our Chinese joint venture operations had been proportionately integrated and are referred to as BQE Water's proportional share ("Proportional"). All Proportional financial measures disclosed in this MD&A are non-GAAP measures.

### Proportional Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of revenues from its China joint ventures to the Company's revenues reported under GAAP. Proportional Revenues for the three-month periods ended March 31, 2023 and 2022 are as follows:

<i>(in \$'000s)</i>	3 months ended Mar. 31	
	2023	2022
	\$	\$
Reported revenues under GAAP	2,691	2,467
Share of reported revenues from joint ventures	869	1,062
Proportional Revenue for the period	3,560	3,529

### Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Consequently, the presentation of Adjusted EBITDA enables shareholders to better understand the underlying financial performance of our business through the eyes of management. Adjusted EBITDA includes adjustments of the Company's Proportional share of joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income (loss):

<i>(in \$'000s)</i>	3 months ended Mar. 31	
	2023	2022
	\$	\$
GAAP: Net (loss) income	(342)	190
deduct: interest income	(38)	(4)
add: income taxes expenses	6	16
add: depreciation and amortization	210	184
EBITDA	(164)	386
add: share-based payments	190	23
deduct: non-operating income	(47)	-
deduct/add: foreign exchange (income) loss	(59)	37
Adjusted EBITDA	(80)	446

## FINANCIAL HIGHLIGHTS

- Grew total revenues by 9% primarily driven by a fourfold, or \$646,000, increase in recurring plant operation revenues compared to Q1 2022.
- Net loss of \$342,000 and Adjusted EBITDA loss of \$80,000, compared to net income of \$190,000 and Adjusted EBITDA of \$446,000 in Q1 2022.
- Working capital of \$6.7 million at March 31, 2023, compared to \$7.2 million at December 31, 2022, a decrease of \$481,000 or 7% over the three months.
- Net cash of \$5.8 million at March 31, 2023, compared to \$6.2 million at December 31, 2022, a 7% decrease.

Selected financial results are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2023	2022
	\$	\$
Revenues under GAAP	<b>2,691</b>	2,467
Proportional Revenues	<b>3,560</b>	3,529
Net income (loss)	<b>(342)</b>	190
Adjusted EBITDA	<b>(80)</b>	446

## OPERATIONAL SERVICES HIGHLIGHTS

Our operational services consist of the operation or technical supervision of water treatment plants, which generate recurring revenues from three main sources: sales of recovered metals, water treatment fees and operations support fees. The Company's operations by source of revenue are as follows:

Operations	Location	Revenue Source
JCC-BQE Joint Venture	Jiangxi province, China	Sales of recovered metals
MWT-BQE Joint Venture	Shandong province, China	Sales of recovered metals
Raglan Mine for Glencore	Northern Québec, Canada	Water treatment fees
Minto Mine for Minto Metals	Yukon, Canada	Water treatment fees
Zhongkuang Metallurgical Facilities for MWT	Shandong province, China	Operations support fees
Zhaojin Metallurgical Facilities for MWT	Shandong province, China	Operations support fees
Power utility ash pond for WesTech	Eastern USA	Water treatment fees
Base metal project for a metal producer	Southwestern USA	Water treatment fees

### JCC-BQE Joint Venture Operations

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at Dexing Mine and at Yinshan Mine in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for Q1 2023 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2023	2022
Water treated (cubic metres)	2,899	2,864
Copper recovered (pounds)	291	402

In the first quarter of 2023, all three plants met mechanical availability and process performance targets set by the Company. The volume of water treated is comparable to the year prior while the mass of copper recovered decreased by 28%. Changes in water volume and feed grade from period to period are largely the result of environmental conditions beyond the control of the joint venture.

### MWT-BQE Joint Venture Operations

Our 20% share in MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company (“MWT”) and together we operate a water treatment plant at a smelter in Shandong province of China. MWT-BQE generates revenues from the sale of zinc and copper recovered from smelter wastewater. Operating results for Q1 2023 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2023	2022
Zinc recovered (pounds)	78	61
Copper recovered (pounds)	41	54

The smelter periodically operated its production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control over the composition and volume of feed that flows into the plant.

### BQE Water Operations

The Company, with Inuit partner Nuvumiut Development, operates four treatment plants at Raglan Mine in Nunavik for Glencore Canada Corporation (“Glencore”). In the first quarter, the plants at Raglan Mine are shut down as water stored in the outdoor reservoirs are frozen. Consequently, no water was treated and no revenue was generated in Q1 2023 from the Raglan Mine plants.

In 2022, we entered into a new operational services agreement with Minto Metals to operate a water treatment plant at Minto Mine in the Yukon. The mine is expected to treat approximately 750,000 to 1.4 million cubic metres of water per year. During Q1 2023, we treated and discharged 214,000 cubic metres of clean water without interruption.

In 2021, we began operations of the Zhongkuang SART plant and the Zhaojin SART plant at metallurgical facilities in China. Both plants have been under our technical supervision since the start of full production. Both SART plants operated fully throughout Q1 2023 without disruption.

In 2021, we completed the commissioning of our first project in the power generation industry, a treatment plant utilizing our Selen-IX™ process to remove selenium from ash pond water for WesTech Engineering (“WesTech”). In Q1 2023, our team continued at site providing water treatment services with the Selen-IX™ circuit to manage the presence of selenium in the feed.

In April 2022, we completed the commissioning of a treatment plant utilizing a combination of nanofiltration and our proprietary selenium electro-reduction process for the simultaneous removal of selenium and sulphate from mine water for a base metal project in the American Southwest. Our team completed the performance test milestone for the treatment plant in February 2023, initiating a variable treatment fee based on the volume of water treated. In Q1 2023, the plant operated and treated 3,000 cubic metres of water.

The number of operating days contributing to water treatment or support fees for the three months ended March 31, 2023 are as follows:

<i>(in days)</i>	3 months ended Mar. 31	
	2023	2022
Raglan Mine water treatment plants	-	-
Minto Mine water treatment plant	90	-
Zhongkuang SART plant	90	90
Zhaojin SART plant	90	-
Water treatment plant for ash pond in Eastern USA	90	90
Water treatment plant in Southwest USA	90	-

The volume of water treated for the three months ended March 31, 2023 are as follows:

(in '000s cubic metres)

	3 months ended Mar. 31	
	2023	2022
Raglan Mine water treatment plants	-	-
Minto Mine water treatment plant	214	-
Eastern China SART plants	131	32
Water treatment plants in USA	3	7

## TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q1 2023 are summarized below.

### Selenium Removal Projects

- Successfully completed the performance test including bioassays for acute and chronic toxicity at a treatment plant removing selenium and sulphate simultaneously at a US mine.
- Continued to provide engineering services for the construction of a third Selen-IX™ plant at a US mine.

### Water Consulting Projects (Water Management, Treatability, Permitting Assistance, Toxicity Mitigation)

- Continued to provide engineering design services for three water treatment plants to support permitting of the KSM project in BC.
- Completed the installation and initiated commissioning of a water treatment pilot plant for a rare earth elements project under permitting in Chile.
- Initiated a treatability assessment for copper concentrate filtrate that will need to comply with stringent limits for molybdenum and sulphate in Argentina.
- Performed a toxicity investigation evaluation to demonstrate treatment for toxicity mitigation at an existing mine prior to the spring freshet in Québec.
- Partially completed – due to the project being put on hold – the design of an ammonia removal system for a mine in Ontario.
- Assisted with the water treatment expansion requirements at Minto Mine in the Yukon.
- Initiated laboratory scale testing aimed at increasing water recovery and reducing brine waste for a reverse osmosis system in BC.

### Cyanide Management Projects (Cyanide Destruction, Recycle)

- Completed lab scale testing and preliminary engineering for a cyanide destruction system to comply with a weak acid dissociable (WAD) cyanide limit below 50 ppb at a US mine.
- Completed a second round of on-site cyanide destruction testing to identify options to reduce operating costs and establish the engineering design basis for the design of a new system at the Pogo Mine in Alaska.
- Completed a trade-off study to upgrade an existing cyanide destruction plant using a sulphur burner and an oxygen generator for a mine in Mexico.
- Continued optimization for a cyanide destruction and effluent discharge system using reverse osmosis at a large gold heap leach operation in Peru.
- Continued with the engineering design for a third SART plant for Shandong Gold in China.

## COMMENTARY AND OUTLOOK

Historically, the first quarter has been our weakest financially, primarily due to the impact of seasonality on recurring revenues from existing operations. Specifically, our operations in Northern Québec are shut down over the winter months while our joint venture operations in China treat lower water volumes during their dry season. The two new water treatment plants in the US that began operations in 2022 continued to experience a lack of water, and although the two plants have a monthly base treatment fee, this did not fully mitigate seasonality from other plants. Overall, we recorded Proportional Revenues of \$3.5 million in Q1 2023.

In comparison to Q1 2022, the financial results for Q1 2023 reflect higher labour costs associated with the onboarding of new staff; a reorganization aimed at establishing operations support infrastructure required for long-term growth; and lower technical services revenues due to some project delays and suspensions.

Looking ahead to the remainder of 2023, we plan to continue to execute on our existing project backlog and expect recurring revenues from operations to improve in Q2 and Q3. With travel restrictions easing globally, travel related to business development activities is increasing and is expected to contribute to growth in our opportunity pipeline going into 2024 and beyond. At the same time, the management team plans to focus on opportunities to reduce expenditures moving forward in anticipation of a slowing economy.

The trends of increased environmental protection, stricter regulations, and the outsourcing of water know-how continue to be supportive of the Company's long-term growth. However, we continue to caution investors with respect to uncertainties that could affect the shorter-term outlook; specifically, the risk of a global recession, which could affect the development of new mining projects, and geopolitical risks. That said, we have meaningfully strengthened our balance sheet over the past three years and have grown our recurring revenue base. Additionally, we secured a second interest free loan through a new government program to support the development of our professional team. All this positions us well to sustain any temporary exogenous shocks and also supports our growth plans as we capitalize on long-term opportunities in mining and ESG.

## SELECTED FINANCIAL INFORMATION

(in \$'000 except for per share amounts)

	3 months ended Mar. 31	
	Q1 2023	Q1 2022
	\$	\$
Revenues	2,691	2,467
Operating expenses (excluding depreciation)	(1,694)	(1,531)
Operating margin	997	936
Share of income from joint ventures	81	333
General and administration	(672)	(604)
Sales and development	(613)	(354)
Share-based payments	(190)	(23)
Depreciation and amortization	(82)	(55)
(Loss) income from operations and joint ventures	(479)	233
Other income (expenses), net	137	(43)
<b>Net (loss) income for the period</b>	<b>(342)</b>	190
(Loss) earnings per share (basic)	(0.27)	0.15
(Loss) earnings per share (diluted)	(0.27)	0.15
Proportional Revenues <sup>1</sup>	3,560	3,529
Adjusted EBITDA <sup>1</sup>	(80)	446
Comprehensive (loss) income	(332)	81
	<b>at Mar. 31</b>	<b>at Dec. 31</b>
	<b>2023</b>	<b>2022</b>
	\$	\$
Cash	5,777	6,234
Proportional cash <sup>1</sup>	8,576	9,582
Working capital	6,684	7,165
Total assets	15,493	15,988
Total non-current liabilities	506	555
Shareholders' equity	12,307	12,638

### Notes:

1. See Non-GAAP measures

## COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	<b>Mar-23</b>	Dec-22	Sept-22	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	<b>2,691</b>	3,465	3,503	2,722	2,467	2,570	2,773	1,188
Operating expenses	<b>(1,694)</b>	(2,044)	(1,759)	(1,773)	(1,531)	(1,409)	(1,088)	(944)
	<b>997</b>	1,421	1,744	949	936	1,161	1,685	244
Share of income (loss) from joint ventures	<b>81</b>	(256)	281	1,129	333	499	700	1,580
General and administration	<b>(672)</b>	(690)	(591)	(579)	(604)	(535)	(427)	(459)
Sales and development	<b>(613)</b>	(564)	(414)	(436)	(354)	(270)	(273)	(378)
Share-based payments	<b>(190)</b>	(209)	(172)	(267)	(23)	(11)	(19)	(184)
Depreciation and amortization	<b>(82)</b>	(80)	(70)	(59)	(55)	(57)	(37)	(37)
Income (loss) from operations	<b>(479)</b>	(378)	778	737	233	787	1,629	766
Other income (expenses), net	<b>143</b>	142	84	(77)	(41)	13	34	(39)
Bad debt recovery (expense)	-	(8)	-	-	-	-	-	95
Income tax expenses	<b>(6)</b>	-	(289)	(18)	(2)	-	(118)	(13)
Net income (loss)	<b>(342)</b>	(244)	573	642	190	800	1,545	809
Translation gain (loss)	<b>10</b>	80	-	(139)	(109)	120	227	28
Comprehensive income (loss)	<b>(332)</b>	(164)	573	503	81	920	1,772	837
<b>Non-GAAP Measures:</b>								
Proportional Revenue	<b>3,560</b>	4,479	5,707	5,164	3,529	4,389	5,502	4,174
Adjusted EBITDA	<b>(80)</b>	(90)	1,361	1,341	446	754	2,139	1,435

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated, and movements in commodity prices. Seasonality at each operation also impacts the timing of revenues. Operations at Raglan Mine typically run from May to October of each year. Copper production at the Dexing operations increase between April and September and decline during the winter months due to lower seasonal precipitation and the annual maintenance schedule. Revenues from contracts for technical services relating to water management and technical innovation projects occur based on the timing of client requirements.



## SUMMARY OF Q1 2023 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended March 31, 2023 and 2022.

### Proportional Revenue

The change in Proportional Revenue from each revenue source is shown in the table below:

<i>(in \$'000s)</i>	Q1 2023		Q1 2022		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	869	24%	1,062	30%	(18%)
Water treatment fee from operations	835	23%	189	5%	342%
Technical services	1,856	53%	2,278	65%	(19%)
Total Proportional Revenues	3,560	100%	3,529	100%	1%

Revenues from the sale of base metals recovered comprises the Company's share of revenues from its joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is affected by the amount and market price of metal concentrate sold. During Q1 2023, our share of revenues from the JCC-BQE joint venture decreased by \$296,000 or 31% compared to the comparable period in 2022. The decrease is attributed to a 4% decrease in average copper prices and a 28% decrease in the quantity of copper recovered. The MWT-BQE joint venture contributed \$201,000 to the Company's share of revenue in Q1 2023, compared to \$98,000 in Q1 2022.

Water treatment fee revenues include tolling fees from the volume of water treated and operations support fees. We earn recurring tolling fees at Raglan Mine through our partnership with Inuit company Nuvumiut Development, at the Minto Mine operations, and at the recently commissioned selenium removal plants in the US. As the operating season at Raglan Mine typically starts in May, it does not generate revenue during the first quarter of the year. During Q1 2023, the new selenium treatment plants in the US and Minto Mine operations provided \$649,000 of recurring revenues. Our operations support fees are comprised of recurring technical support services at two SART plants in China that generated revenues of \$186,000 in Q1 2023 compared to \$94,000 in Q1 2022.

Revenues from technical services decreased by \$422,000 or 19% in Q1 2023 compared to Q1 2022. These revenues are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. These revenues represent the sum of multiple contracts from various clients and varying contract values. Revenues from technical services were particularly strong in Q1 2022 as we completed the commissioning of a selenium removal treatment plant for a mining customer in the US.

### Operating Expenses

Total operating expenses during Q1 2023 were \$1.7 million compared to \$1.5 million in Q1 2022, an increase of \$163,000 or 11%. The increase in operating expenses is directly attributable to the increase in operations services and project activity related to technical services completed in the quarter. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. During the quarter, total labour costs within operating expenses were \$1.2 million compared to \$906,000 in the previous year's first quarter.

### Expenses

In Q1 2023, general and administration costs were \$672,000 compared to \$604,000 in Q1 2022, representing a \$68,000 increase. The increase was attributable to a \$72,000 increase in employee benefits, a \$38,000 net decrease in professional services fees and a \$22,000 increase in insurance premiums for the comparable period.

Sales and development costs during Q1 2023 were \$613,000 compared to \$354,000 in Q1 2022, an increase of \$259,000 or 73%. The increase was mainly attributable to a \$210,000 increase in labour resources allocated to fulfill technological and business development initiatives, and a \$30,000 increase in travel and event expenses related to business development.

Share-based payment expenses were \$190,000 in Q1 2023 compared to \$23,000 in Q1 2022. Share-based payment expenses mainly consist of non-cash compensation expenses relating to the recently issued stock option and restricted share units in 2022, both of which are expensed on a straight-line basis over the vesting period. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from changes in the Company's share price during the reporting period.

Depreciation and amortization expenses were \$82,000 in Q1 2023 compared to \$55,000 in Q1 2022. The increase was due to depreciation expenses for the several newly added lease assets, such as office building leases, during 2022.

### **Other Income and Expenses**

The net of other income was \$143,000 in Q1 2023 compared to an expense of \$41,000 in Q1 2022. Other income or expenses consists of net finance income, foreign exchange and other income.

Net finance income was \$37,000 in Q1 2023 compared to an expense \$4,000 in Q1 2022. Finance income consists of interest income earned predominantly from on-demand guaranteed investment certificates and is netted against finance costs, which consist of interest paid and interest accrued for other liabilities.

Foreign exchange gain was \$59,000 in Q1 2023 compared to a loss of \$37,000 in Q1 2022. Foreign exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar, our reporting currency.

The remaining variance is the other income of \$47,000 in Q1 2023, which are finder's fees earned and are non-operating in nature.

### **Net Income**

After income tax, overall net loss for the first three months in 2023 was \$342,000 compared to a net income of \$190,000 for the same period in 2022.

## LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2023, BQE Water had 1,254,328 common shares issued and outstanding (1,256,928 at December 31, 2022), and 90,340 stock options outstanding (90,340 at December 31, 2022).

As of the date of this MD&A, May 30, 2023, the Company has 1,252,528 common shares issued and outstanding, and 90,340 stock options outstanding.

In 2022, the Company obtained the approval of the TSX Venture Exchange to commence a Normal Course Issuer Bid (NCIB) to repurchase for cancellation up to 62,556 common shares, representing 5% of common shares issued and outstanding, over a 12-month period starting December 12, 2022. As of May 30, 2023, the Company has repurchased for cancellation 4,400 common shares under the NCIB (nil as of Dec 31, 2022).

At March 31, 2023, we had cash of \$5.8 million, a decrease of approximately \$457,000 from December 31, 2022. For the three months ended March 31, 2023, cash used in operating activities was \$387,000 compared to \$121,000 in Q1 2022.

At March 31, 2023, we had restricted cash of \$194,000, compared to \$180,000 from December 31, 2022. Such balances include a term deposit denominated in CLP held by Scotiabank as a letter of credit related to a customer in Chile until completion of the project.

Working capital is defined as current assets minus current liabilities. The Company had a working capital position at the end of the quarter of \$6.7 million, a decrease of \$481,000 from December 31, 2022. At March 31, 2023, our significant working capital items, aside from cash, include trade and other receivables of \$3.1 million (\$3.2 million at December 31, 2022) and trade payable and accrued liabilities of \$1.2 million (\$1.2 million at December 31, 2022).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative (WINN) program. At March 31, 2023, the WINN loan balance was \$248,000 with obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. Additionally, there are credit facilities available with the Royal Bank of Canada including a credit card facility of \$30,000 and a revolving demand credit facility of \$1.0 million which has not been utilized as of March 31, 2023.

The Company has commitments of \$407,000 until 2024 under operating leases for office and laboratory premises and for assay services.

We believe we have sufficient working capital resources to finance current operations beyond the next 12 months.

## RELATED PARTY TRANSACTIONS

### Management Compensation

Included in trade payables and accrued liabilities as of March 31, 2023 is \$16,925 (\$nil at December 31, 2022) of director fees. For the three months ended March 31, 2023 and 2022, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Mar. 31	
	2023	2022
	\$	\$
Salaries, fees and short-term benefits	206,300	192,050
Share-based payments	59,619	18,843
	<u>265,919</u>	<u>210,893</u>

### Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumiut Development Inc., for providing water treatment services in Nunavik. Revenue earned from the joint venture for the three months ended March 31, 2023 was \$88,568 (\$nil in 2022). Included in trade and other receivables as of March 31, 2023 is \$113,678 (\$154,611 at December 31, 2022) of trade receivables due from the joint venture.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2022.

### COVID-19 Economic Uncertainty

The COVID-19 pandemic continued to disrupt global health and the economy in 2023. For BQE Water, the recurring services for the operation of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

The uncertainties around the outbreak of the COVID-19 pandemic requires the use of significant judgments and estimates. As of March 31, 2023, management has determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets, and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, environmental regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices, and foreign exchange prices together with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities.