

BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three and six months ended June 30, 2023 and 2022

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 June 30, 2023 and December 31, 2022
(Unaudited – expressed in Canadian dollars)

		June 30 2023 \$	December 31 2022 \$
	note		
Assets			
Current assets			
Cash		4,731,682	6,234,352
Restricted cash	5	187,229	180,307
Trade and other receivables	6, 7	3,675,466	3,206,869
Prepaid and deposits		245,309	337,850
Total current assets		8,839,686	9,959,378
Non-current assets			
Property and equipment	8	1,481,929	395,456
Intangible assets	9	272,805	314,775
Investment in joint ventures	10	5,393,747	5,301,227
Deposits		68,626	17,080
Total non-current assets		7,217,107	6,028,538
Total assets		16,056,793	15,987,916
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 11	1,064,625	1,240,780
Loans	12	82,500	82,500
Deferred revenues		134,608	436,039
Lease obligations	13	152,063	191,988
Other liabilities	9	-	142,000
Deferred benefits	14	564,414	700,949
Total current liabilities		1,998,210	2,794,256
Non-current liabilities			
Loans	12	144,375	185,625
Deferred revenues		283,740	283,740
Lease obligations	13	1,246,477	85,802
Total non-current liabilities		1,674,592	555,167
Total liabilities		3,672,802	3,349,423
Shareholders' Equity			
Share capital	15	56,466,634	56,654,061
Contributed surplus		11,039,424	10,919,623
Accumulated other comprehensive income		1,121,743	1,582,782
Accumulated deficit		(56,243,810)	(56,517,973)
Total shareholders' equity		12,383,991	12,638,493
Total liabilities and shareholders' equity		16,056,793	15,987,916
Commitments (note 19)			
Subsequent event (note 22)			

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

BQE WATER INC.

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

For the three and six months ended June 30, 2023 and 2022

(Unaudited – expressed in Canadian dollars)

		3 months ended June 30		6 months ended June 30	
		2023	2022	2023	2022
		\$	\$	\$	\$
	note				
Revenues	20	4,185,999	2,722,244	6,877,183	5,188,938
Operating expenses (excluding depreciation)		(2,161,888)	(1,772,500)	(3,855,491)	(3,303,563)
Operating margin before depreciation		2,024,111	949,744	3,021,692	1,885,375
Share of income from joint ventures	10	407,002	1,128,618	488,137	1,462,025
General and administration		(749,792)	(579,073)	(1,421,608)	(1,182,924)
Sales and development		(557,465)	(436,207)	(1,170,314)	(790,579)
Share-based payments	7, 14	(29,040)	(266,931)	(219,274)	(289,449)
Depreciation and amortization	8, 9	(111,275)	(58,806)	(192,832)	(113,607)
Income from operations and joint ventures		983,541	737,345	505,801	970,841
Finance costs, net		(5,727)	(4,420)	31,310	(8,577)
Foreign exchange loss		(78,204)	(72,872)	(18,822)	(109,983)
Bad debt expenses	16	(258,737)	-	(258,737)	-
Other income		665	-	47,613	-
Income before income taxes		641,538	660,053	307,165	852,281
Income tax expenses		(27,418)	(18,477)	(33,002)	(20,392)
Net income for the period		614,120	641,576	274,163	831,889
Other comprehensive income (loss)					
<i>Items that will be reclassified subsequently to income</i>					
Translation loss on foreign operations		(471,172)	(138,529)	(461,039)	(247,432)
Total comprehensive income (loss) for the period		142,948	503,047	(186,876)	584,457
Net earnings per share					
Basic	15(d)	0.49	0.51	0.22	0.67
Diluted	15(d)	0.48	0.50	0.21	0.65
Weighted average number of shares outstanding					
Basic	15(d)	1,252,682	1,248,205	1,254,147	1,247,267
Diluted	15(d)	1,278,879	1,272,448	1,281,026	1,271,061

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 six months ended June 30, 2023 and 2022

(Unaudited – expressed in Canadian dollars)

		Number of Shares	6 months ended June 30, 2023 \$	Number of Shares	6 months ended June 30, 2022 \$
	note				
Share Capital					
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)	-	-	4,160	33,650
Shares repurchased	15(c)	(6,300)	(187,427)	-	-
Balance, end of the period		1,250,628	56,466,634	1,249,128	56,607,261
Contributed surplus					
Balance, beginning of the period			10,919,623		10,669,159
Equity settled share-based payments	14(a)		119,801		78,004
Balance, end of the period			11,039,424		10,747,163
Accumulated other comprehensive income					
Balance, beginning of the period			1,582,782		1,750,386
Other comprehensive loss for the period			(461,039)		(247,432)
Balance, end of the period			1,121,743		1,502,954
Accumulated deficit					
Balance, beginning of the period			(56,517,973)		(57,679,766)
Net income for the period			274,163		831,889
Balance, end of the period			(56,243,810)		(56,847,877)
Total shareholders' equity					
Balance, beginning of the period			12,638,493		11,313,390
Exercise of stock options	14(a)		-		33,650
Shares repurchased	15(c)		(187,427)		-
Equity settled share-based payments	14(a)		119,801		78,004
Net income for the period			274,163		831,889
Other comprehensive loss for the period			(461,039)		(247,432)
Balance, end of the period			12,383,991		12,009,501

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 six months ended June 30, 2023 and 2022
 (Unaudited – expressed in Canadian dollars)

		6 months ended June 30	
		2023	2022
		\$	\$
	note		
Operating activities			
Net income (loss) for the period		274,163	831,889
Items not affecting cash			
Bad debt expenses		258,737	-
Share of income from joint ventures	10	(488,137)	(1,462,025)
Finance (income) expense, net		(31,310)	8,577
Depreciation and amortization	8, 9	192,832	113,607
Foreign exchange (gain) loss		(11,930)	160,036
Share-based payments	14	219,274	289,449
		413,629	(58,467)
Change in non-cash operating working capital items	18	(1,412,352)	(799,823)
Net cash used in operating activities		(998,723)	(858,290)
Investing activities			
Purchase of plant and equipment	8	(29,880)	(54,992)
Purchase of intangible assets	9	(142,000)	-
Contributions made to joint ventures	10	-	(49)
Interest received		62,549	2,983
Net cash used in investing activities		(109,331)	(52,058)
Financing activities			
Lease payments on principal portion	13	(87,693)	(71,557)
Lease payments on interest portion	13	(58,346)	(11,508)
Proceeds from exercise of stock options	14(a)	-	33,650
Repurchase of shares	15(c)	(187,427)	-
Repayment of loans	12	(41,250)	(41,250)
Interest paid		(228)	(36)
Net cash used in financing activities		(374,944)	(90,701)
Effect of exchange rate changes on cash		(19,672)	(43,987)
Change in cash		(1,502,670)	(1,045,036)
Cash, beginning of the period		6,234,352	3,943,714
Cash, end of the period		4,731,682	2,898,678

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 and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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 August 25, 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 Jun. 30, 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 Jun. 30, 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 and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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.

5. RESTRICTED CASH

The balance at June 30, 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

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Trade receivables, net	2,946,915	2,468,929
Contract assets	704,362	715,237
Other receivables	24,189	22,703
	<u>3,675,466</u>	<u>3,206,869</u>

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) 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 and six months ended June 30, 2023 was \$317,092 and \$405,660 (\$193,793 and \$193,793 in 2022). Included in trade and other receivables as of June 30, 2023 is \$364,577 (\$154,611 at December 31, 2022) of trade receivables due from the joint venture.

b) Management Compensation

Included in trade payables and accrued liabilities as of June 30, 2023 is \$39,950 (\$nil at December 31, 2022) of director fees.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2023

(Unaudited – expressed in Canadian dollars)

For the three and six months ended June 30, 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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries, fees and short-term benefits	232,357	199,072	438,656	391,122
Share-based payments (note 14(a) & (c))	26,212	71,438	85,832	90,280
	<u>258,569</u>	<u>270,510</u>	<u>524,488</u>	<u>481,402</u>

8. PROPERTY AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
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
As at December 31, 2022	<u>747,911</u>	<u>580,593</u>	<u>799,149</u>	<u>2,127,653</u>
Additions	1,209,833	-	29,880	1,293,713
Foreign exchange translation	(8,771)	-	-	(8,771)
As at June 30, 2023	<u>1,948,973</u>	<u>580,593</u>	<u>829,029</u>	<u>3,358,595</u>
Accumulated Depreciation				
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)
As at December 31, 2022	<u>(464,199)</u>	<u>(580,593)</u>	<u>(687,405)</u>	<u>(1,732,197)</u>
Depreciation for the period	(130,739)	-	(20,123)	(150,862)
Foreign exchange translation	6,393	-	-	6,393
As at June 30, 2023	<u>(588,545)</u>	<u>(580,593)</u>	<u>(707,528)</u>	<u>(1,876,666)</u>
Carrying Amount				
As at December 31, 2022	283,712	-	111,744	395,456
As at June 30, 2023	<u>1,360,428</u>	<u>-</u>	<u>121,501</u>	<u>1,481,929</u>

¹Right-of-use assets (note 13) comprises lease assets such as office buildings and office equipment.

²Other comprises leasehold improvements, furniture, office equipment and lab equipment.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

9. INTANGIBLE ASSETS

	Total \$
Cost	
As at December 31, 2021	-
Additions	419,700
As at December 31, 2022 & June 30, 2023	419,700
Accumulated Depreciation	
As at December 31, 2021	(20,985)
Depreciation for the year	(83,940)
As at December 31, 2022	(104,925)
Depreciation for the period	(41,970)
As at June 30, 2023	(146,895)
Carrying Amount	
As at December 31, 2022	314,775
As at June 30, 2023	272,805

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 regard 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 at the time of acquisition. The fair value of the earn-out bonus is contingent on net profits generated from the newly acquired intellectual properties, and \$142,000 was confirmed as the earn-out bonus as of December 31, 2022 and payment was made in full in May 2023.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on June 30, 2023 is \$5,393,747 (\$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	489,633	12,446	(1,496)
Share of translation gain on foreign operation	(395,617)	(17,278)	-
Unrecognized share of net income and translation gain	-	4,832	-
Balance, June 30, 2023	5,358,315	-	35,432

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 and six months ended June 30, 2023

(Unaudited – expressed in Canadian dollars)

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

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Assets		
Cash	2,806,513	3,348,036
Other current assets	915,381	539,830
Non-current assets	2,399,799	2,806,376
Total assets	<u>6,121,693</u>	<u>6,694,242</u>
Liabilities	763,378	1,429,943
Partner's Equity	<u>5,358,315</u>	<u>5,264,299</u>
Total liabilities and partner's equity	<u>6,121,693</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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues	1,584,658	2,381,532	2,252,403	3,345,122
Operating expenses (excluding depreciation)	<u>(755,069)</u>	<u>(904,310)</u>	<u>(1,140,646)</u>	<u>(1,339,285)</u>
	829,589	1,477,222	1,111,757	2,005,837
Non-operating expenses	(97,007)	(57,500)	(176,276)	(113,817)
Depreciation of plant and equipment	(117,975)	(121,095)	(242,031)	(246,228)
Income tax expense	<u>(203,817)</u>	<u>(174,222)</u>	<u>(203,817)</u>	<u>(187,978)</u>
Net income for the period	410,790	1,124,405	489,633	1,457,814
Other comprehensive loss	<u>(414,151)</u>	<u>(174,018)</u>	<u>(395,617)</u>	<u>(260,498)</u>
Comprehensive (loss) income for the period	<u>(3,361)</u>	<u>950,387</u>	<u>94,016</u>	<u>1,197,316</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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 results in the joint venture for the three and six months ended June 30, 2023 was net loss of \$33,235 and net income of \$12,446 (net income of \$2,934 and net loss of \$21,459 for 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 June 30, 2023, the balance of the unrecognized share of net losses for MWT-BQE is \$133,323 (\$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:

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Current assets	67,190	92,214
Plant and equipment	25,277	28,908
Current liabilities	45,984	47,573
Non-current liabilities	-	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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues	1,188	60,167	201,800	157,996
Operating expense (excluding depreciation)	(13,436)	(35,955)	(126,613)	(118,219)
	(12,248)	24,212	75,187	39,777
Non-operating expenses	(16,861)	(17,360)	(54,636)	(53,272)
Depreciation of plant and equipment	(3,858)	(3,918)	(7,837)	(7,964)
Income tax expense	(268)	-	(268)	-
Net (loss) income for the period	(33,235)	2,934	12,446	(21,459)
Other comprehensive loss	(17,918)	(3,363)	(17,278)	(5,076)
Comprehensive loss for the period	(51,153)	(429)	(4,832)	(26,535)

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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:

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Current assets	217,064	139,743
Current liabilities	181,632	102,815
Partner’s equity	35,432	36,928

The condensed statement of income of BQE Water’s 49% interest in the NVM-BQE joint venture are presented as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues	170,938	104,454	218,676	104,454
Operating expenses	(164,007)	(100,234)	(209,817)	(100,234)
	6,931	4,220	8,859	4,220
Non-operating expenses	(790)	(7)	(426)	(9)
Income tax expense	(9,929)	-	(9,929)	-
Net (loss) income for the period	(3,788)	4,213	(1,496)	4,211

11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Trade payable and accruals	401,372	647,151
Payroll liability	646,249	566,151
Tax payable	17,004	27,478
	1,064,625	1,240,780

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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 June 30, 2023 is \$226,875 (\$268,125 on December 31, 2022).

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:

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Balance at January 1	277,789	206,451
Addition of lease obligations	1,209,833	237,950
Adjustment of lease obligations	-	(1,638)
Interest expense on lease obligations	58,357	26,417
Lease payments on interest portion	(58,346)	(26,400)
Lease payments on principal portion	(87,693)	(166,360)
Foreign exchange translation	(1,400)	1,370
Ending Balance	1,398,540	277,790
Less: current portion of lease obligations	152,063	191,988
Non-current portion of lease obligations	1,246,477	85,802

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 and six months ended June 30, 2023 are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Classified as short-term or as low value	18,918	18,174	38,146	39,761
Leases with variable lease payments	32,230	21,656	65,495	45,371
	51,148	39,830	103,641	85,132

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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

	Jun. 30, 2023
	\$
2023	112,886
2024	226,578
2025	272,143
2026	257,036
2027	252,114
2028	253,205
2029	280,588
2030	284,856
2031	289,123
2032	293,391
2033	297,658
2034	74,681
Total undiscounted lease payments	2,894,259
Less: imputed interest	(1,495,719)
Total carrying value of lease obligations	1,398,540

14. SHARE-BASED PAYMENT EXPENSES

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Stock options (a)	44,262	67,038	119,801	78,004
Deferred share units (b)	(41,361)	53,579	(26,198)	19,399
Restricted share units (c)	26,139	146,314	125,671	192,046
	29,040	266,931	219,274	289,449

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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 of options	Weighted average 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	90,340	21.10
Balance, June 30, 2023	90,340	21.10

As at June 30, 2023, 55,340 of share options outstanding were exercisable with a weighted average exercise price of \$15.47 (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 and six months ended June 30, 2023, the Company recognized \$44,262 and \$119,801 (\$67,038 and \$78,004 in 2022) of non-cash compensation expense related to stock options. The expiry date by exercise price at June 30, 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	17,500

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:

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

	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	-	(26,198)
Balance, June 30, 2023	10,574	285,735

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 June 30, 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	24,987
April 27, 2023	3,651	109,843

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
Granted	3,651	-
Forfeited	(56)	-
Redeemed	(7,616)	(236,008)
Fair value adjustment	-	125,671
Balance, June 30, 2023	20,118	278,679

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

15. SHARE CAPITAL

a) Authorized

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

b) Issued

As at June 30, 2023, the Company had 1,250,628 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 June 30, 2023, 6,300 common shares have been purchased and cancelled under the NCIB.

Subsequent to the reporting period, between July 1, 2023 to July 31, 2023, the Company repurchased and cancelled 1,200 common shares under the NCIB.

d) Earnings Per Share

The calculation of (loss) earnings per share for the three and six months ended June 30, 2023 and 2022 are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net income	614,120	641,576	274,163	831,889
Basic weighted average number of shares outstanding	1,252,682	1,248,205	1,254,147	1,247,267
Dilution of securities	26,197	24,243	26,879	23,794
Diluted weighted average number of shares outstanding	1,278,879	1,272,448	1,281,026	1,271,061
Net earnings per share:				
Basic	0.49	0.51	0.22	0.67
Diluted	0.48	0.50	0.21	0.65

16. BAD DEBT EXPENSES

For the three and six months ended June 30, 2023, the Company wrote off trade receivables of \$258,737 due to the non-payment from one of its customers in Yukon. During the quarter, the customer decided to cease operations at the mine site and the government has later appointed a receiver for certain mining assets at site. The Company have assessed the event as an indicator of impairment and recorded a portion of its trade receivables from the customer as bad debt expenses.

17. 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 June 30, 2023 was 27% (27% at December 31, 2022).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	6 months ended Jun. 30	
	2023	2022
	\$	\$
Change in non-cash working capital items		
Changes in trade receivables	(720,040)	(766,897)
Changes in restricted cash	-	(90,204)
Changes in other assets	40,422	88,731
Changes in accounts payable and accrued liabilities	(196,529)	3,739
Changes in deferred revenue	(301,431)	43,269
Changes in other liabilities	(234,774)	(78,461)
Change in non-cash working capital items	<u>(1,412,352)</u>	<u>(799,823)</u>

19. COMMITMENTS

The Company has commitments of \$1,816,460 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2023	173,196
2024	256,513
2025	149,919
2026	149,919
2027	149,919
2028	149,919
2029	149,919
2030	149,919
2031	149,919
2032	149,919
2033	149,919
2034	<u>37,480</u>
	<u>1,816,460</u>

20. 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.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2023

(Unaudited – expressed in Canadian dollars)

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 a monthly operation 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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operations contracts	1,433,746	659,022	2,268,814	848,310
Technical services contracts	2,752,253	2,063,222	4,608,369	4,340,628
	<u>4,185,999</u>	<u>2,722,244</u>	<u>6,877,183</u>	<u>5,188,938</u>

b) Remaining Performance Obligations

As at June 30, 2023, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,945,287, 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.

21. 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:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Canada	1,412,057	779,235	2,034,913	1,108,517
USA	1,481,054	1,125,710	2,420,024	2,474,366
Latin America	922,776	676,323	1,768,270	1,293,682
China	370,112	121,509	653,976	215,613
Other	-	19,467	-	96,760
	<u>4,185,999</u>	<u>2,722,244</u>	<u>6,877,183</u>	<u>5,188,938</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2023
(Unaudited – expressed in Canadian dollars)

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

	Jun. 30, 2023	Dec. 31, 2022
	\$	\$
Canada	1,704,184	674,618
USA	75,563	45,762
China	5,368,734	5,291,078
	<u>7,148,481</u>	<u>6,011,458</u>

b) Information About Major Customers

The following table presents revenue from individual customers exceeding 10% of total revenue for the three and six months ended June 30, 2023 and 2022:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Customer A	317,092	194,164	405,660	195,255
Customer B	1,282,531	978,454	2,040,803	2,207,775
Customer C	592,596	-	820,598	39,000
Customer D	180,755	121,509	653,976	215,613
Customer E	349,939	392,222	739,552	743,591
	<u>2,722,913</u>	<u>1,686,350</u>	<u>4,660,589</u>	<u>3,401,234</u>
Represents percentage of total revenue for the period	65%	62%	68%	66%

22. SUBSEQUENT EVENT

Subsequent to the end of the reporting period, on August 3, 2023, the Company received its share of the annual dividend distribution from JCC joint venture. The dividend represents the Company's 50% share of the joint venture profit earned and reported in its consolidated financial statements for 2022. The after-tax value of the dividend is \$6,750,000 RMB, which is approximately equal to \$1,258,000 CAD.

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and six months ended June 30, 2023 and 2022

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and six months ended June 30, 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 Q2 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 and six months ended June 30, 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 June 30, 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 August 25, 2023.

Certain statements contained in the MD&A constitute forward-looking statements. Such forward-looking statements involve several 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 socially acceptable 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. 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 and on SEDAR at 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 and six-month periods ended June 30, 2023 and 2022 are as follows:

<i>(in \$'000s)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Reported revenues under GAAP	4,186	2,722	6,877	5,189
Share of revenues from joint ventures in China	1,586	2,442	2,454	3,503
Proportional Revenue for the period	5,772	5,164	9,331	8,692

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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
GAAP: Net income	615	642	274	831
add/deduct: interest expense	5	4	(32)	-
add: income taxes	232	193	237	208
add: depreciation and amortization	233	184	443	368
EBITDA	1,085	1,023	922	1,407
add: share-based payment expenses	29	267	219	289
deduct: other income	-	(22)	(47)	(22)
add: bad debt expense	259	-	259	-
add: net foreign exchange loss	78	73	19	110
Adjusted EBITDA	1,451	1,341	1,372	1,784

FINANCIAL HIGHLIGHTS

- Grew both Proportional and GAAP revenues by 12% and 54% respectively, compared to Q2 2022.
- Doubled our operating margin from \$949,000 in Q2 2022 to \$2.0 million in Q2 2023.
- Recorded net income of \$615,000 and Adjusted EBITDA of \$1.5 million in Q2 2023 compared to \$642,000 and \$1.3 million in Q2 2022.
- Ended Q2 2023 with \$6.8 million in working capital, \$4.7 million in cash and \$7.5 million in Proportional cash.

Other selected financial results for the three and six months ended June 30, 2023 are as follows:

<i>(in '000s)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
Revenues under GAAP	4,186	2,722	6,877	5,189
Proportional Revenues	5,772	5,164	9,331	8,692
Net income	615	642	274	831
Adjusted EBITDA	1,451	1,341	1,372	1,784

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 Government of Yukon	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	Southwest 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 the three and six months ended June 30, 2023 are as follows:

<i>(in '000s)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
Water treated (cubic metres)	7,538	5,925	10,437	8,788
Copper recovered (pounds)	725	1,010	1,016	1,412

In Q2 2023, all three plants met mechanical availability and process performance targets set by the Company. The volume of water treated increased by 27% while the mass of copper recovered decreased by 28% compared to Q2 2022. 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. The operating results for the three and six months ended June 30, 2023 are as follows:

<i>(in '000s)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
Water treated (cubic metres)	13	181	122	319
Zinc recovered (pounds)	1	45	79	106
Copper recovered (pounds)	-	52	41	106

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 fluctuations 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. During Q2 2023, the plant was shut down temporarily as the value of zinc and copper in the feed was lower than the recovery cost of the metals.

BQE Water Operations

The number of operating days contributing to water treatment or support fees by plant for the three and six months ended June 30, 2023 are as follows:

<i>(in days)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
Raglan Mine water treatment plants	40	30	40	30
Minto Mine water treatment plant	91	-	181	-
Zhongkuang SART plant	90	75	180	165
Zhaojin SART plant	87	23	177	23
Water treatment plant in Eastern USA	63	91	127	181
Water treatment plant in Southwest USA	91	68	179	68

The volume of water treated by geographic location for the three and six months ended June 30, 2023 are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
Raglan Mine water treatment plants	221	218	221	218
Minto Mine water treatment plant	279	-	502	-
SART plants in China	176	74	307	106
Water treatment plants in USA	4	-	9	7

The Company, with Inuit partner Nuvumiut Development, operates four treatment plants at Raglan Mine in Nunavik for Glencore Canada Corporation (“Glencore”). During Q2 2023, we mobilized our operations team to site to commence our 20th operating season at the mine. Operational activities were initiated in May and treated water discharge began the same month.

In September 2022, we began providing operational services for Minto Metals at Minto Mine in the Yukon. During the second quarter, the customer ceased active operations at the mine and the Yukon Government stepped in to ensure the continuation of water management services in support of environmental protection. Throughout this transition, our operators were onsite to operate the water treatment plant and provide continuous water treatment.

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 Q2 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 Q2 2023, our operations team continued providing water treatment services with the Selen-IX™ circuit to manage the presence of any selenium in the feed.

In 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. In Q1 2023, our team successfully completed the performance test milestone for the treatment plant. As a result, we are now also receiving a variable treatment fee based on the volume of water treated, in addition to the monthly base fee.

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 Q2 2023 are summarized below.

Selenium Removal Projects

- Initiated the wet commissioning phase of a third Selen-IX™ plant at a US mine.
- Completed a lab scale treatability assessment for selenium removal from contact water at an existing gold mine undergoing expansion in the US.
- Initiated a preliminary technical assessment to treat selenium rich wastewater at a power generation site in the US.

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

- Completed a feasibility study design report for post closure water treatment at an existing copper mine in BC.
- Continued to provide engineering design services for three water treatment plants to support permitting of the KSM gold-copper project in BC.
- Operated a pilot water treatment facility at a rare earth elements project in Chile.
- Completed a treatability assessment and preliminary design for copper concentrate filtrate that will need to comply with stringent limits for molybdenum and sulphate in Argentina.
- Completed a lab scale treatability study utilizing our Sulf-IX™ technology to treat and eliminate brine as part of a broader study to comply with sulphate discharge regulations for a tailings storage facility at an existing iron ore processing facility in the US.
- Completed a laboratory scale program aimed at increasing water recovery and reducing brine waste for a reverse osmosis system being planned for implementation at a gold mine in BC.

Cyanide Management Projects (Cyanide Destruction, Recycle)

- Completed a cyanide removal treatability test and preliminary engineering design for a cyanide removal plant at a project where the discharge limit is expected to be less 10 ppb in the US.
- Performed a site visit and completed a preliminary technical assessment to integrate a SART process and recover cyanide from thiocyanate at a gold mining operation in Ontario.
- Continued with the engineering design for a third SART plant for Shandong Gold in China.
- Completed humidity cell testing to support permitting for the co-disposal of tailings containing traces of residual cyanide and residue from the electro-reduction of selenium for a project in the US.

COMMENTARY AND OUTLOOK

Overall, we are very pleased with our second quarter results. We delivered significant growth in GAAP revenues, which more than offset a decline in our share of revenues from China joint ventures and allowed us to deliver good growth in Proportional revenues as well. A closer look at our revenue breakdown shows strong progress in the execution of our key strategic initiatives.

First, recurring revenues from water treatment fees are foundational to our business model. During Q2 2023 water treatment fees increased by \$775,000 from Q2 2022, offsetting the \$856,000 decrease in recurring revenues from the sale of recovered metals that are largely dependent on commodity prices and seasonal climate fluctuations in China. This shift is part of an anticipated longer-term rebalancing trend in favour of water treatment fees.

Second, our technical services revenues also increased \$689,000 from Q2 2022. As technical services precede and often lead to future full-scale plants and the accompanying plant operations that generate recurring revenues from water treatment fees, a strong and steady stream of revenues from technical services bodes well for our long-term growth.

Another development in Q2 2023 that deserves mention is the operational status of Minto Mine. Despite the sudden stoppage in mine operations, we continue to be responsible for clean water production and environmental protection at the site under new contractual arrangements, first with JDS Energy and Mining and now with the Yukon Government. Although we recorded a bad debt expense of \$259,000 on receivables from Minto Metals during the quarter, we have gained an opportunity for long-term engagement with the Yukon Government for this site and potentially other sites in the territory.

On the project side, we are pleased with the successful completion of pilot campaigns for Codelco utilizing our Sulf-IX™ and BioSulphide® processes. These campaigns met all project objectives set out by Codelco, and Codelco has now initiated internal planning of next steps, including the engineering of an industrial scale demonstration facility to support scale-up to the full flow of mine water.

We received important industry recognition for our Selen-IX™ process for selenium removal when we were awarded the 2023 MetSoc Innovation Award winner. MetSoc is a constituent society of the Canadian Institute of Mining, Metallurgy and Petroleum, and organizes annual awards to acknowledge advancements in the industry. Equally gratifying is the steady stream of inquiries about selenium management we are receiving from different projects across North America. We are continuing to grow our track record as water specialists helping mines in development fulfill their permitting requirements to secure the necessary approvals to advance their projects. Reviews for these projects have been completed by both government regulators and Indigenous groups.

Looking at our year-to-date results, while our operating margin increased in 2023 compared to 2022, our team and costs have grown, resulting in a lower net income. There are two components in the overall cost increases: general inflation and corporate growth. We anticipate that the peak of cost increases is now behind us. Pricing for our technical services has been adjusted for inflation and all future contracts include an inflation adjustment provision. Costs to establish operations support infrastructure and to grow our capacity to execute projects – both required for long-term growth – are already reflected in our costs. We do not anticipate our overall costs to decrease moving forward, but we do expect them to stabilize as our internal processes for onboarding and professional development improve, and our capacity to execute projects starts to benefit from training already completed.

Looking ahead to the remainder of 2023, we plan to continue executing on existing projects and expect to add a new stream of water treatment fees in Q3 2023 from the latest selenium removal plant in the US. While we expect strong revenues from technical services in 2023, we are seeing delays in investment decisions related to new projects, which may affect our revenues in 2024. Our technical services are a mix of activities related not only to capital spending for new mines but also expansions of existing mines, with operational improvements, optimizations, and permitting activities all preceding major capital spending. We expect this to mitigate impacts from a slow-down in major capital investments in the short-term. In the medium and long-term, we see no change in the heightened focus on environmental protection, stricter regulations, need for social acceptability of natural resource extraction projects, and the outsourcing of water know-how; all factors that support our long-term growth.

We expect our balance sheet to remain strong as we enter 2024. We are pleased to announce that we received our 2022 annual dividend of \$1.2 million in July 2023 from our China joint venture. As the dividend was subsequently received after the reporting period, the cash receipt of the dividend is not reflected in our Q2 2023 financial statements.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues	4,186	2,722	6,877	5,189
Operating expenses (excluding depreciation)	(2,162)	(1,773)	(3,855)	(3,304)
Operating margin	2,024	949	3,022	1,885
Share of income from joint ventures	407	1,129	488	1,462
General and administration	(750)	(579)	(1,422)	(1,183)
Sales and development	(557)	(436)	(1,170)	(791)
Share-based payments	(29)	(267)	(219)	(289)
Depreciation and amortization	(111)	(59)	(193)	(114)
Income from operations and joint ventures	984	737	506	970
Other expenses	(83)	(77)	60	(119)
Bad debt expenses	(259)	-	(259)	-
Income tax expenses	(27)	(18)	(33)	(20)
Net income for the period	615	642	274	831
Net earnings per share (basic)	0.49	0.51	0.22	0.67
Net earnings per share (diluted)	0.48	0.50	0.21	0.65
Proportional Revenues (Non-GAAP measures)	5,772	5,164	9,331	8,692
Adjusted EBITDA (Non-GAAP measures)	1,451	1,341	1,372	1,784
Comprehensive income (loss)	144	503	(187)	584
			at Jun. 30,	at Dec. 31,
			2023	2022
			\$	\$
Cash			4,732	6,234
Proportional cash (Non-GAAP measures)			7,539	9,582
Working capital			6,841	7,165
Total assets			16,057	15,988
Total non-current liabilities			1,675	555
Shareholders' equity			12,384	12,638

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Jun-23	Mar-23	Dec-22	Sept-22	Jun-22	Mar-22	Dec-21	Sept-21
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	4,186	2,691	3,465	3,503	2,722	2,467	2,570	2,773
Operating expenses	(2,162)	(1,694)	(2,044)	(1,759)	(1,773)	(1,531)	(1,409)	(1,088)
	2,024	997	1,421	1,744	949	936	1,161	1,685
Share of results from								
joint ventures	407	81	(256)	281	1,129	333	499	700
General and administration	(750)	(672)	(690)	(591)	(579)	(604)	(535)	(427)
Sales and development	(557)	(613)	(564)	(414)	(436)	(354)	(270)	(273)
Share-based payments	(29)	(190)	(209)	(172)	(267)	(23)	(11)	(19)
Depreciation and amortization	(111)	(82)	(80)	(70)	(59)	(55)	(57)	(37)
Income (loss) from operations	984	(479)	(378)	778	737	233	787	1,629
Other income (expenses), net	(83)	143	142	84	(77)	(41)	13	34
Bad debt expense	(259)	-	(8)	-	-	-	-	-
Income tax expenses	(27)	(6)	-	(289)	(18)	(2)	-	(118)
Net income (loss)	615	(342)	(244)	573	642	190	800	1,545
Translation gain (loss)	(471)	10	80	-	(139)	(109)	120	227
Comprehensive income (loss)	144	(332)	(164)	573	503	81	920	1,772
Non-GAAP Measures:								
Proportional Revenue	5,772	3,560	4,479	5,707	5,164	3,529	4,389	5,502
Adjusted EBITDA	1,451	(80)	(90)	1,361	1,341	446	754	2,139

Quarterly results can fluctuate based on the number of plants operating, variations 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 Q2 2023 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended June 30, 2023 and 2022.

Proportional Revenue

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

<i>(in \$'000s)</i>	Q2 2023		Q2 2022		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	1,586	27%	2,442	47%	(35%)
Water treatment fee from operations	1,434	25%	659	13%	118%
Technical services	2,752	48%	2,063	40%	33%
Total Proportional Revenues	5,772	100%	5,164	100%	12%

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 Q2 2023, our share of revenues from the JCC-BQE joint venture decreased by \$797,000 or 33% compared to the comparable period in 2022. The decrease is attributed to a 7% decrease in average copper prices and a 28% decrease in the quantity of copper recovered. The MWT-BQE joint venture was not operating and did not have any metal sales in Q2 2023.

The Company earns water treatment fee revenues, including monthly fees, tolling fees from the volume of water treated and operations support fees, at Raglan Mine in Nunavik through our partnership with Inuit company Nuvumiut Development, at Minto Mine in the Yukon, and at the two selenium removal plants in the US. The doubling in water treatment fees in the quarter is mainly due to the new Minto Mine operations that commenced September 2022, providing \$588,000 of new revenues in Q2 2023. During Q2 2023, the recently commissioned selenium treatment plants in the US operated for the full quarter and provided \$459,000 of recurring revenues compared to \$344,000 in Q2 2022. The operating season at Raglan Mine began May 2023 and we earned \$207,000 in water treatment fees compared to \$194,000 in Q2 2022. Our operations support fees are comprised of recurring technical support services at two SART plants in China that generated revenues of \$181,000 in Q2 2023 compared to \$122,000 in Q2 2022.

Revenues from technical services increased by \$689,000 or 33% in Q2 2023 compared to Q2 2022. These revenues are non-recurring in nature and are related 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 of varying contract values. Revenues from technical services were strong in Q2 2023 due to several major projects. We began the onsite commissioning of a fourth selenium removal treatment plant at a US mine and wrapped up the multi-pilot demonstration and reporting for Codelco in Chile.

Operating Expenses

Total operating expenses during Q2 2023 were \$2.2 million compared to \$1.8 million in Q2 2022, an increase of \$389,000 or 22%. The increase in operating expenses is directly attributable to the 54% 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 Q2 2023, we improved our operating margin to 48% compared to 35% in Q2 2022.

Expenses

In Q2 2023, general and administration costs were \$750,000 compared to \$579,000 in Q2 2022, representing a \$171,000 increase. The increase was attributable to a \$133,000 increase in employee benefits and a \$19,000 increase in insurance premiums for the comparable period.

Sales and development costs during Q2 2023 were \$557,000 compared to \$436,000 in Q2 2022, an increase of \$121,000 or 28%. The increase was mainly attributable to a \$75,000 increase in labour resources allocated to fulfill technological and business development initiatives, and a \$47,000 increase in assay costs and software licenses relating to technology development.

Share-based payment expenses were \$29,000 in Q2 2023 compared to \$267,000 in Q2 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 and 2023, 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 \$111,000 in Q2 2023 compared to \$59,000 in Q2 2022. The increase in Q2 2023 was due to several newly added right-of-use assets, an office building lease valued at \$1.2 million depreciating over 10 years, a lab lease and a vehicle lease.

Other Income and Expenses

The net of other expenses was \$342,000 in Q2 2023 compared to \$77,000 in Q2 2022. Other income or expenses consists of net finance cost, foreign exchange and bad debt expenses.

Net finance cost was \$6,000 in Q2 2023 compared to \$4,000 in Q2 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 loss was \$78,000 in Q2 2023 compared to a loss of \$73,000 in Q2 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.

In Q2 2023, the Company recorded a bad debt expense of \$259,000 to write off the accounts receivables of a mining client in the Yukon. In May 2023, the customer decided to cease operations at the mine site and the Yukon government stepped in to ensure the environmental protection of the site, and later a receiver was appointed for certain assets at site.

Net Income

After income tax, overall net income for Q2 2023 was \$615,000 compared to \$642,000 for the same period in 2022.

SUMMARY OF YEAR-TO-DATE Q2 2023 FINANCIAL RESULTS

The following is a summary of selected financial results for the six-month periods ended June 30, 2023 and 2022.

Proportional Revenues

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

<i>(in \$'000s)</i> Revenue source	YTD 2023		YTD 2022		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	2,454	26%	3,503	40%	(30%)
Water treatment fees from operations	2,269	24%	848	10%	168%
Technical services	4,608	50%	4,341	50%	6%
Total Proportional Revenues	9,331	100%	8,692	100%	7%

Sales of recovered metals decreased by \$1.1 million or 30%, primarily due to lower revenues from the JCC-BQE joint venture. This decrease was attributable to a 28% decrease in the quantity of copper recovered and a 6% decrease in the average copper prices during the period. Changes in water volumes and copper recoveries by extension, are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period. The share of revenues from the MWT-BQE joint venture was \$202,000 in the first half of 2023 compared to \$158,000 in 2022, which was due to higher amounts of zinc and copper sold during the period.

Year-to-date water treatment fee revenues increased by \$1.4 million or 168% compared to 2022, mainly due to the start of operations of a selenium removal plant in the US in April 2022 and Minto Mine operations in September 2022, both contributing a total of \$1.5 million in new recurring revenues. The Raglan Mine operations began discharging water in May which earned similar levels of revenue compared to 2022. The Company earned support fees in China of \$367,000 for the first six months of 2023 compared to \$216,000 for the same period in 2022.

Revenues from technical services during the first half of the year increased by \$267,000 from the same period in 2022. The 6% increase is attributable to increases in project activity in all areas of technical services, including commissioning activities in the US and the 18-month pilot demonstration project in Chile.

Operating Expenses

Year-to-date operating expenses in 2023 were \$3.9 million compared to \$3.3 million for the same period in 2022, an increase of \$551,000. This 17% increase is consistent with the 33% increase in total revenues from water treatment fees and technical services. Year-to-date operating margin in 2023 increased to 44% compared to 36% for the same period in 2022.

Expenses

Year-to-date general and administration expenses were \$1.4 million compared to \$1.2 million for the same period in 2022. The \$239,000 increase was due to increases in employee benefits and in insurance premiums.

Year-to-date sales and development expenses were \$1.2 million compared to \$791,000 for the same period in 2022, an increase of \$380,000. The increase was due to the deployment of additional labour resources for technical development initiatives and increases in travel related to business development.

Net Income

Overall, net income year-to-date for 2023 was \$274,000 compared to \$831,000 in the same period in 2022.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2023, BQE Water had 1,250,628 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, August 25, 2023, the Company has 1,249,428 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 August 25, 2023, the Company has repurchased for cancellation 7,500 common shares under the NCIB (nil as of Dec 31, 2022).

At June 30, 2023, we had cash of \$4.7 million, a decrease of approximately \$1.5 million from December 31, 2022. For the six months ended June 30, 2023, cash used in operating activities was \$1.0 million compared to \$858,000 in 2022.

At June 30, 2023, we had restricted cash of \$187,000, 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 \$6.8 million, a decrease of \$324,000 from December 31, 2022. At June 30, 2023, our significant working capital items, aside from cash, include trade and other receivables of \$3.7 million (\$3.2 million at December 31, 2022) and trade payable and accrued liabilities of \$1.1 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 June 30, 2023, the WINN loan balance was \$227,000 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 June 30, 2023.

The Company has commitments of \$1.8 million until 2034 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 June 30, 2023 is \$39,950 (\$nil at December 31, 2022) of director fees.

For the three and six months ended June 30, 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 Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries, fees and short-term benefits	232,357	199,072	438,656	391,122
Share-based payments	26,212	71,438	85,832	90,280
	<u>258,569</u>	<u>270,510</u>	<u>524,488</u>	<u>481,402</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 and six months ended June 30, 2023 was \$317,092 and \$446,779 (\$193,793 and \$193,793 in 2022). Included in trade and other receivables as of June 30, 2023 is \$364,577 (\$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.