

BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three months ended March 31, 2024 and 2023

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, 2024 and December 31, 2023
(Unaudited – expressed in Canadian dollars)

		March 31 2024 \$	December 31 2023 \$
	note		
Assets			
Current assets			
Cash and cash equivalents		8,232,427	7,927,603
Trade and other receivables	5, 6 (b)	3,259,873	4,374,275
Prepaid and deposits		354,821	407,717
Total current assets		11,847,121	12,709,595
Non-current assets			
Property and equipment	7	1,787,966	1,816,830
Intangible assets	8	209,850	230,835
Investment in joint ventures	9	4,403,934	4,046,677
Deposits		52,203	52,204
Total non-current assets		6,453,953	6,146,546
Total assets		18,301,074	18,856,141
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 10	1,057,751	1,340,240
Loans	11	82,500	82,500
Deferred revenues		36,750	37,350
Lease obligations	12	83,417	105,436
Deferred benefits	13	684,688	614,612
Total current liabilities		1,945,106	2,180,138
Non-current liabilities			
Loans	11	206,637	229,596
Deferred revenues		170,244	170,244
Lease obligations	12	1,535,996	1,500,346
Total non-current liabilities		1,912,877	1,900,186
Total liabilities		3,857,983	4,080,324
Shareholders' Equity			
Share capital	14	56,381,289	56,302,539
Contributed surplus		11,139,136	11,106,796
Accumulated other comprehensive income		1,274,514	1,231,278
Accumulated deficit		(54,351,848)	(53,864,796)
Total shareholders' equity		14,443,091	14,775,817
Total liabilities and shareholders' equity		18,301,074	18,856,141
Commitments (note 17)			

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, 2024 and 2023

(Unaudited – expressed in Canadian dollars)

		3 months ended March 31	
		2024	2023
		\$	\$
	note		
Revenues	18	2,507,557	2,691,184
Operating expenses (excluding depreciation)		(1,402,895)	(1,693,603)
Operating margin before depreciation		1,104,662	997,581
Share of income from joint ventures	9	331,843	81,135
General and administration		(699,963)	(671,816)
Sales and development		(923,755)	(612,849)
Share-based payments	6, 13	(273,179)	(190,234)
Depreciation and amortization	7, 8	(101,499)	(81,557)
Loss from operations and joint ventures		(561,891)	(477,740)
Finance income, net		27,234	37,037
Foreign exchange gain		60,032	59,382
Other income		-	46,948
Loss before income taxes		(474,625)	(334,373)
Income tax expenses		(12,427)	(5,584)
Net loss for the period		(487,052)	(339,957)
Other comprehensive income (loss)			
<i>Items that will be reclassified subsequently to income</i>			
Translation gain on foreign operations		43,236	10,133
Comprehensive loss for the period		(443,816)	(329,824)
Net loss per share			
Basic	14 (d)	(0.39)	(0.27)
Diluted	14 (d)	(0.38)	(0.27)
Weighted average number of shares outstanding			
Basic	14 (d)	1,254,090	1,255,629
Diluted	14 (d)	1,275,456	1,282,713

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, 2024 and 2023
(Unaudited – expressed in Canadian dollars)

		Number of Shares	3 months ended March 31, 2024 \$	Number of Shares	3 months ended March 31, 2023 \$
	note				
Share Capital					
Balance, beginning of the period	14(b)	1,246,628	56,302,539	1,256,928	56,654,061
Exercise of stock options	13(a)	9,000	78,750	-	-
Shares repurchased	14(c)	-	-	(2,600)	(77,102)
Balance, end of the period		1,255,628	56,381,289	1,254,328	56,576,959
Contributed surplus					
Balance, beginning of the period			11,106,796		10,919,623
Equity settled share-based payments	13(a)		32,340		75,539
Balance, end of the period			11,139,136		10,995,162
Accumulated other comprehensive income					
Balance, beginning of the period			1,231,278		1,582,782
Other comprehensive income for the period			43,236		10,133
Balance, end of the period			1,274,514		1,592,915
Accumulated deficit					
Balance, beginning of the period			(53,864,796)		(56,517,973)
Net loss for the period			(487,052)		(339,957)
Balance, end of the period			(54,351,848)		(56,857,930)
Total shareholders' equity					
Balance, beginning of the period			14,775,817		12,638,493
Exercise of stock options	13(a)		78,750		-
Shares repurchased	14(c)		-		(77,102)
Equity settled share-based payments	13(a)		32,340		75,539
Net loss for the period			(487,052)		(339,957)
Other comprehensive income for the period			43,236		10,133
Balance, end of the period			14,443,091		12,307,106

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, 2024 and 2023
(Unaudited – expressed in Canadian dollars)

		3 months ended March 31	
		2024	2023
		\$	\$
	note		
Operating activities			
Net loss for the period		(487,052)	(339,957)
Items not affecting cash			
Share of income from joint ventures	9	(331,843)	(81,135)
Finance income, net		(27,234)	(37,037)
Depreciation and amortization	7, 8	101,499	81,557
Unrealized foreign exchange gain		(15,946)	(56,869)
Share-based payments	13	273,179	190,234
		(487,397)	(243,207)
Change in non-cash operating working capital items	16	821,232	(144,020)
Income taxes paid		(3,426)	-
Net cash from (used in) operating activities		330,409	(387,227)
Investing activities			
Purchase of property and equipment	7	(49,252)	(6,337)
Interest received		12,622	41,272
Net cash from (used in) investing activities		(36,630)	34,935
Financing activities			
Lease payments on principal portion	12	(32,752)	(33,366)
Lease payments on interest portion	12	(3,608)	(7,299)
Proceeds from exercise of stock options	13(a)	78,750	-
Repurchase of shares	14(c)	-	(77,102)
Repayment of loan	11	(27,500)	(20,625)
Interest paid		(3)	(58)
Net cash from (used in) financing activities		14,887	(138,450)
Effect of exchange rate changes on cash balances		(3,842)	33,709
Change in cash and cash equivalents		304,824	(457,033)
Cash and cash equivalents, beginning of the period		7,927,603	6,234,352
Cash and cash equivalents, end of the period		8,232,427	5,777,319

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, 2024
(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 200 – 30 East 6th Avenue, Vancouver, British Columbia, V5T 1J4, 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, 2023. 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 29, 2024.

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, 2024	Ownership interest as at Dec. 31, 2023
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, 2024	Ownership interest as at Dec. 31, 2023
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
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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, 2023 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, 2023 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 consolidated financial statements and related notes to the condensed consolidated interim 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, 2023.

5. TRADE AND OTHER RECEIVABLES

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Trade receivables, net	2,222,785	3,781,299
Contract assets	287,179	506,866
Other receivables	749,909	86,110
	<u>3,259,873</u>	<u>4,374,275</u>

6. 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, 2024 is \$17,530 (\$nil at December 31, 2023) of director fees.

For the three months ended March 31, 2024 and 2023, 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	
	2024	2023
Salaries, fees and short-term benefits	222,959	206,300
Share-based payments (note 13(a) and 13(c))	57,859	59,619
	<u>280,818</u>	<u>265,919</u>

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(Unaudited)

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, 2024 was \$5,575 (\$88,568 for March 31, 2023). Included in trade and other receivables as of March 31, 2024 is \$59,898 (\$382,837 at December 31, 2023) of trade receivables due from the joint venture.

7. PROPERTY AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
As at December 31, 2022	747,911	580,593	799,149	2,127,653
Additions	1,470,048	-	300,773	1,770,821
Adjustment	-	-	(192,991)	(192,991)
Foreign exchange translation	(8,214)	-	(5,653)	(13,867)
As at December 31, 2023	2,209,745	580,593	901,278	3,691,616
Additions	-	-	49,252	49,252
Foreign exchange translation	4,158	-	(1,328)	2,830
As at March 31, 2024	2,213,903	580,593	949,202	3,743,698
Accumulated Depreciation				
As at December 31, 2022	(464,199)	(580,593)	(687,405)	(1,732,197)
Depreciation for the year	(306,232)	-	(40,228)	(346,460)
Disposals	-	-	192,991	192,991
Foreign exchange translation	5,228	-	5,652	10,880
As at December 31, 2023	(765,203)	(580,593)	(528,990)	(1,874,786)
Depreciation for the period	(71,403)	-	(9,111)	(80,514)
Foreign exchange translation	(1,760)	-	1,328	(432)
As at March 31, 2024	(838,366)	(580,593)	(536,773)	(1,955,732)
Carrying Amount				
As at December 31, 2023	1,444,542	-	372,288	1,816,830
As at March 31, 2024	1,375,537	-	412,429	1,787,966

¹Right-of-use assets (note 12) 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
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(Unaudited)

8. INTANGIBLE ASSETS

	Total \$
Cost	
As at December 31, 2022 & 2023	419,700
As at March 31, 2024	419,700
Accumulated Depreciation	
As at December 31, 2022	(104,925)
Depreciation for the year	(83,940)
As at December 31, 2023	(188,865)
Depreciation for the period	(20,985)
As at March 31, 2024	(209,850)
Carrying Amount	
As at December 31, 2023	230,835
As at March 31, 2024	209,850

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 would 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. The total cost of the acquisition of \$419,700 includes the total cash consideration of \$250,000, plus the contingent consideration, or the earn-out bonus. The fair value of the earn-out bonus was contingent on net profits generated from the newly acquired intellectual properties, which was fair valued at \$169,700 at the time of acquisition.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

9. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on March 31, 2024 is \$4,403,934 (\$4,046,677 on December 31, 2023), and is comprised of:

	JCC-BQE	MWT-BQE	NVM-BQE
	\$	\$	\$
Balance, January 1, 2023	5,264,299	-	36,928
Share of net income (loss)	381,190	(99,312)	37,626
Share of translation loss on foreign operation	(286,616)	(12,465)	-
Dividends received	(1,386,750)	-	-
Unrecognized share of net income and translation loss	-	111,777	-
Balance, December 31, 2023	3,972,123	-	74,554
Share of net income (loss)	330,583	(38,299)	1,260
Share of translation gain on foreign operation	25,414	708	-
Unrecognized share of net income and translation gain	-	37,591	-
Balance, March 31, 2024	4,328,120	-	75,814

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.

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

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

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Assets		
Cash	1,311,898	1,861,985
Other current assets	1,196,631	546,913
Non-current assets	2,327,728	2,405,888
Total assets	4,836,257	4,814,786
Liabilities	508,137	842,663
Partner's Equity	4,328,120	3,972,123
Total liabilities and partner's equity	4,836,257	4,814,786

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	
	2024	2023
	\$	\$
Revenues	902,348	667,745
Operating expenses (excluding depreciation)	(432,670)	(385,577)
	469,678	282,168
Non-operating expenses	(53,802)	(79,269)
Depreciation of plant and equipment	(114,692)	(124,056)
Income tax recovery	29,399	-
Net income for the period	330,583	78,843
Other comprehensive income	25,414	18,534
Comprehensive income for the period	355,997	97,377

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024
(Unaudited)

b) Shandong MWT BioteQ Environmental Technologies Co. Ltd.

In 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 loss in the joint venture for the three months ended March 31, 2024 was \$38,299 (net income of \$45,681 in Q1 2023). 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, 2024, the balance of the unrecognized share of net losses for MWT-BQE is \$277,858 (\$240,267 on December 31, 2023).

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, 2024	Dec. 31, 2023
	\$	\$
Current assets	55,371	49,040
Plant and equipment	23,889	24,447
Current liabilities	64,213	50,264
Non-current liabilities	-	-
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	
	2024	2023
	\$	\$
Revenues	84	200,612
Operating expense (excluding depreciation)	(13,091)	(113,177)
	(13,007)	87,435
Non-operating expenses	(22,001)	(37,775)
Depreciation of plant and equipment	(3,291)	(3,979)
Net (loss) income for the period	(38,299)	45,681
Other comprehensive income	708	640
Comprehensive (loss) income for the period	(37,591)	46,321

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Notes to Condensed Consolidated Interim Financial Statements
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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, 2024	Dec. 31, 2023
	\$	\$
Current assets	110,260	280,439
Current liabilities	34,446	205,885
Partner's equity	75,814	74,554

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

	Mar. 31, 2024	Mar. 31, 2023
	\$	\$
Revenues	28,424	47,738
Operating expenses	(27,276)	(45,810)
	1,148	1,928
Non-operating income	112	364
Net income for the period	1,260	2,292

10. TRADE PAYABLE AND ACCRUED LIABILITIES

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Trade payable and accruals	494,278	661,989
Payroll liability	547,082	654,118
Tax payable	16,391	24,133
	1,057,751	1,340,240

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

11. LOANS

In 2018, the Company entered into the first loan agreement with the Minister responsible for 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 of its selenium removal technology in the resource sector. Under the loan agreement, the Company is required to 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 Company’s carrying value of the WINN loan are as follows:

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Balance at January 1	192,500	268,125
Repayments	(27,500)	(75,625)
Ending Balance	165,000	192,500
Less: current portion of loan	82,500	82,500
Non-current portion of loan	82,500	110,000

In 2023, the Company entered into a second loan agreement with Minister responsible for Pacific Economic Development Canada under the Business Scale-Up & Productivity Program (“BSP”). The BSP program offers the Company an interest-free loan contribution up to a maximum of \$1,725,000. The BSP loan was granted to assist the Company to scale-up its water treatment plant commissioning capacity, with activities including marketing, and recruiting, hiring, and training of new staff for plant commissioning and operation expansion. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments commencing on April 1, 2027 until March 1, 2032. The BSP loan will be advanced in multiple tranches throughout the program. Cash received under this loan agreement will be initially recorded at fair value, discounted by the effective interest rate of 12%. The Company’s carrying value of the BSP loan as of March 31, 2024 is \$124,137 (\$119,596 on December 31, 2023).

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Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

12. LEASES

The Company recognizes right-of-use assets (note 7) 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 rates at the time the lease was assumed or entered into. The incremental borrowing rates used are between 12% to 15% and it varies depending on the geographic area of the lease. The Company's carrying value of lease obligations are as follows:

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Balance at January 1	1,605,782	277,790
Additions	-	1,470,048
Interest expense	48,298	151,368
Payments on interest portion	(3,608)	(26,467)
Payments on principal portion	(32,752)	(264,994)
Foreign exchange translation	1,693	(1,963)
Ending Balance	<u>1,619,413</u>	<u>1,605,782</u>
Less: current portion of lease obligations	<u>83,417</u>	<u>105,436</u>
Non-current portion of lease obligations	<u>1,535,996</u>	<u>1,500,346</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, 2024 are as follows:

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Classified as short-term or as low value	<u>17,463</u>	<u>19,229</u>
Leases with variable lease payments	<u>17,215</u>	<u>33,266</u>
	<u>34,678</u>	<u>52,495</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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The following is a schedule of the Company's future lease payments under lease obligations:

	Mar. 31, 2024
	\$
2024	218,161
2025	281,862
2026	264,960
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	2,790,599
Less: imputed interest	(1,171,186)
Total carrying value of lease obligations	1,619,413

13. SHARE-BASED PAYMENT EXPENSES

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

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Stock options (a)	32,340	75,539
Deferred share units (b)	84,465	15,163
Restricted share units (c)	156,374	99,532
	273,179	190,234

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.

BQE WATER INC.

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(Unaudited)

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, 2023	90,340	21.10
Exercised	(3,000)	8.75
Forfeited	(3,000)	30
Balance, December 31, 2023	84,340	21.22
Exercised	(9,000)	8.75
Balance, March 31, 2024	75,340	22.71

As at March 31, 2024, 42,340 of share options outstanding were exercisable with a weighted average exercise price of \$17.03 (51,340 on December 31, 2023 with a weighted average exercise price of \$15.58).

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, 2024, the Company recognized \$32,340 (\$75,539 in 2023) of non-cash compensation expense related to stock options. The expiry date by exercise price at March 31, 2024 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
8.75	January 8, 2025	25,840	25,840
30.00	April 22, 2027	49,500	16,500

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:

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(Unaudited)

	Number of units	Value \$
Balance, January 1, 2023	10,574	311,933
Redeemed	(2,737)	(85,449)
Fair value adjustment	-	10,264
Balance, December 31, 2023	7,837	236,748
Fair value adjustment	-	84,465
Balance, March 31, 2024	7,837	321,213

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, 2023 and March 31, 2024 are as follows:

Grant date	Number of RSUs	Fair value \$
April 27, 2023	3,651	109,843
September 20, 2023	847	25,003

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2023	24,139	389,016
Granted	4,498	-
Redeemed	(9,136)	(279,812)
Forfeited	(1,180)	-
Fair value adjustment	-	268,660
Balance, December 31, 2023	18,321	377,864
Redeemed	(5,145)	(170,763)
Forfeited	(264)	-
Fair value adjustment	-	156,374
Balance, March 31, 2024	12,912	363,475

BQE WATER INC.

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For the three months ended March 31, 2024
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14. SHARE CAPITAL

a) Authorized

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

b) Issued

As at March 31, 2024, the Company had 1,255,628 common shares outstanding (1,246,628 on December 31, 2023).

c) Normal course issuer bid (NCIB)

On December 6, 2022, the Company obtained the approval of the TSX Venture Exchange to commence a NCIB to repurchase for cancellation up to 62,556 common shares over a 12-month period starting on December 12, 2022. On December 6, 2023, the Company renewed the NCIB to repurchase for cancellation up to 62,351, representing 5% of common shares issued and outstanding, over a 12-month period starting on December 13, 2023.

For the three months ended March 31, 2024, and for the period subsequent to the reporting year between April 1, 2024 to May 29, 2024, no common shares were purchased and cancelled under the NCIB.

d) Earnings Per Share

The calculation of (loss) earnings per share for the three months ended March 31, 2024 and 2023 are as follows:

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Net loss	(487,052)	(339,957)
Basic weighted average number of shares outstanding	1,254,090	1,255,629
Dilution of securities	21,366	27,084
Diluted weighted average number of shares outstanding	1,275,456	1,282,713
Earnings per share:		
Basic	(0.39)	(0.27)
Diluted	(0.38)	(0.27)

15. 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, 2024 was 27% (27% at December 31, 2023).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024
(Unaudited)

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Change in non-cash working capital items		
Changes in trade receivables	1,184,993	148,909
Changes in other assets	51,848	(27,901)
Changes in accounts payable and accrued liabilities	(254,728)	(82,947)
Changes in deferred revenue	(600)	(16,760)
Changes in other liabilities	(160,281)	(165,321)
Change in non-cash working capital items	<u>821,232</u>	<u>(144,020)</u>

17. COMMITMENTS

The Company has commitments of \$2,167,727 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2024	274,505
2025	206,204
2026	204,487
2027	204,487
2028	204,487
2029	204,487
2030	204,487
2031	204,487
2032	204,487
2033	204,487
2034	51,122
	<u>2,167,727</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024
(Unaudited)

18. 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	
	2024	2023
	\$	\$
Operation contracts	1,789,244	835,068
Technical services contracts	718,313	1,856,116
	<u>2,507,557</u>	<u>2,691,184</u>

b) Remaining Performance Obligations

As at March 31, 2024, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$535,809, compared to \$465,196 as at December 31, 2023. 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.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

19. SEGMENTED INFORMATION

Segmented information is reviewed by the Company's chief decision maker to assess performance and allocate resources within the Company. The Company has one operating segment, principally being an integrated water management services and treatment solutions provider. The Company functions as a provider 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	
	2024	2023
	\$	\$
Canada	345,662	622,857
USA	1,904,625	938,969
Latin America	52,604	845,494
China	177,817	283,864
Other	26,849	-
	<u>2,507,557</u>	<u>2,691,184</u>

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

	Mar. 31, 2024	Dec. 31, 2023
	\$	\$
Canada	1,968,443	2,000,758
USA	82,767	92,215
China	4,350,540	4,001,369
	<u>6,401,750</u>	<u>6,094,342</u>

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, 2024 and 2023:

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Customer A	1,512,998	758,272
Customer B	177,817	283,864
Total	<u>1,690,815</u>	<u>1,431,749</u>
Represents percentage of total revenue for the period	67%	39%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three months ended March 31, 2024 and 2023

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three months ended March 31, 2024 and 2023

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 2024 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, 2024 and 2023 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2023 and 2022 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2023.

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, 2024. 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 29, 2024.

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. The Company has been in operation for over 25 years and draws upon the extensive experience of over 100 employees to deliver exceptional operational and technical services. 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

The Company uses 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, 2024 and 2023 are as follows:

<i>(in \$'000s)</i>	3 months ended Mar. 31	
	2024	2023
	\$	\$
Reported revenues under GAAP	2,508	2,691
Share of reported revenues from joint ventures in China	902	869
Proportional Revenue for the period	3,410	3,560

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	
	2024	2023
	\$	\$
GAAP: Net loss	(486)	(342)
deduct: interest income	(30)	(38)
deduct/add: income tax (recovery) expenses	(17)	6
add: depreciation and amortization	219	210
EBITDA	(314)	(164)
add: share-based payments	273	190
deduct: non-operating income	(20)	(47)
deduct: foreign exchange gain	(60)	(59)
Adjusted EBITDA	(121)	(80)

FINANCIAL HIGHLIGHTS

- Recorded Proportional and GAAP revenues of \$3.4 million and \$2.5 million in Q1 2024 respectively, compared \$3.6 million and \$2.7 million in Q1 2023.
- Doubled recurring plant operation revenues to \$1.8 million in Q1 2024 when compared to Q1 2023.
- Gross margin of \$1.1 million in Q1 2024 compared to \$1.0 million in Q1 2023, an 11% increase.
- Net loss of \$486,000 in Q1 2024 compared to a loss of \$342,000 in Q1 2023.
- Adjusted EBITDA loss of \$121,000 in Q1 2024 compared to a loss of \$80,000 in Q1 2023.
- Net cash and cash equivalents of \$8.2 million at March 31, 2024, compared to \$7.9 million at December 31, 2023, a 4% increase.
- Working capital of \$9.9 million at March 31, 2024, compared to \$10.5 million at December 31, 2023, a 6% decrease.

Selected financial results are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2024	2023
Revenue from Operation Services	1,789	835
Revenue from Technical Services	719	1,856
Revenue from joint ventures in China	902	869
Proportional Revenues	3,410	3,560

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	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 2024 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2024	2023
Water treated (cubic metres)	4,217	2,899
Copper recovered (pounds)	380	291

In Q1 2024, all three plants met mechanical availability and process performance targets set by the Company. The volume of water treated increased by 45% and the mass of copper recovered increased by 31% compared to Q1 2023. Such

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 2024 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2024	2023
Zinc recovered (pounds)	31	78
Copper recovered (pounds)	5	41

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 number of operating days contributing to water treatment or support fees for the three months ended March 31, 2024 are as follows:

<i>(in days)</i>	3 months ended Mar. 31	
	2024	2023
Raglan Mine water treatment plants	-	-
Minto Mine water treatment plant	-	90
Zhongkuang SART plant	91	90
Zhaojin SART plant	91	90
Water treatment plant in Eastern USA	67	64
Water treatment plant in Southwest USA	91	88

The volume of water treated by geographic location for the three months ended March 31, 2024 are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Mar. 31	
	2024	2023
Raglan Mine water treatment plants	-	-
Minto Mine water treatment plant	-	214
SART plants in China	136	131
Water treatment plants in USA	200	5

The Company, with our Inuit partner Nuvumiut Development, operates four water treatment plants at Raglan Mine for Glencore Canada Corporation (“Glencore”). In the first quarter, the plants at Raglan Mine were shut down as water stored in the outdoor reservoirs was frozen. Consequently, no water was treated and no revenue was generated in Q1 2024 from the Raglan Mine plants. We expect to begin water treatment in June 2024.

In 2022, we began to provide water treatment services at Minto Mine in the Yukon. During 2023, the Company contracted directly with the Yukon Government to treat and discharge clean water at the mine in support of environmental protection. In Q1 2024, the treatment plant at Minto Mine was shut down as the plant winterization is typically between October to April when the mine is not in operation. We expect to begin water treatment in June 2024.

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 2024 without disruption.

In 2022, we began operations of a treatment plant utilizing our Selen-IX™ process to remove selenium from ash pond water for WesTech Engineering (“WesTech”). In Q1 2024, our team continued at site providing water treatment services with the Selen-IX™ circuit to manage the presence of selenium in the feed.

In January 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 August 2023, our team completed the performance test milestone for a 2nd newly constructed selenium removal water treatment plant which entered the operation phase. As a result, we are currently providing water treatment operation services for two water treatment plants in the American Southwest. In Q1 2024, the plants operated and treated 133,000 cubic metres of water.

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 2024 are summarized below.

Trusted Advisory Services (Water Management and Water Studies)

- Initiated engineering services for the design and construction of a fourth selenium removal plant in the US using Selen-IX™ at a gold mine to meet end-of-pipe limit of less than 2 parts per billion.
- Performed a site visit and technical assessment of treatment options for removing sulphate to a discharge limit less than 1,500 mg/L at an integrated lead smelter-recycling facility in Eastern Canada.
- Performed field engineering assessment of the root causes of poor performance of an existing water treatment plant removing metals and ammonia from mine wastewater in Western Canada.
- Completed a laboratory treatability test program on mine water for selenium removal from an existing mine in the US.
- Initiated METSIM modelling of a build-up on impurities in metallurgical process water for a new project in the US.
- Initiated the review of a water management plan for a proposed new gold mine in the Yukon with comments to support the regulatory reviews by the territorial government.
- Initiated a technical assessment on options for the disposal of large quantities of elemental sulphur at a mine in BC.
- Continued to provide water treatment expertise to the executive team of a top tier metal producer in due diligence for an acquisition of an existing mining operation.
- Continued to provide engineering design services for three water treatment plants to support permitting of the KSM gold-copper project in British Columbia.
- Continued to provide engineering and design services for the construction of a new water treatment plant for water recycle at a gold mine in Mexico.

Cyanide Management (Destruction and Recycle)

- Initiated a review of requirements for cyanide recycle at a new project currently in development in Mexico.
- Completed a treatability assessment for the removal of cobalt and associated cyanide from an existing gold mine in Ontario.
- Continued with the engineering design for a third SART plant for Shandong Gold in China.

COMMENTARY AND OUTLOOK

The change in the Company's financial performance between Q1 2024 and Q1 2023, was predominantly affected by the following:

- a 114% increase in recurring revenue from new water treatment operations in Q1 2024 compared to Q1 2023;
- a 61% decrease in non-recurring revenue from technical services in Q1 2024 compared to Q1 2023, which in turn contributed to a 51% increase in sales and development expenses as resources not utilized to fulfill revenue contracts were allocated to sales and marketing instead of direct operating expenses;
- a 35% increase in revenue from our JCC-BQE joint venture in Q1 2024 compared to Q1 2023, primarily due to a higher volume of recovered copper;
- the decline in revenue from the MWT-BQE joint venture due to a one-time sale of a large quantity of metal concentrate in Q1 2023 that did not recur in Q1 2024; and
- a 44% increase in share-based payments in Q1 2024 compared to Q1 2023 due to the vesting of Restricted Share Units ("RSUs") issued to staff in previous years and the RSUs being valued at the Company's higher share price.

The winter shut-down of our operations in Northern Canada and lower volumes of water reporting to treatment in the China joint ventures traditionally contribute to weaker financial performance for the Company during the first quarter of the year. With the recently commissioned plant operations in the US, there is now an expanded base of recurring revenue in the first quarter that serves to mitigate the ongoing seasonality of our Canadian operations. It remains a strategic priority for BQE Water to continue to expand its recurring revenues through additional plant operations over time.

The timing of non-recurring technical advisory contracts and the associated revenue varies from quarter to quarter based on several factors:

- our clients' schedules, which are not in our control;
- the short average contract duration of approximately 4 to 6 months; and
- the stage of the project, since very early stages typically contribute less revenue than later stages.

Except for one project, most of the technical services delivered by the Company in Q1 2024 were associated with new projects at early stages. These early stages often contribute less than \$50,000 per project; however, they are a critical component of our business development. Not only do these projects typically start to contribute a higher share of revenue as they advance, but the quality of services delivered in the early stage also tends to contribute positively to future business, ideally advancing to the operations stage eventually. A typical quarter would have a mix of projects in different stages of development, producing a better balance between billable services and sales and development expenses when compared to Q1 2024. Overall, we have seen a steady level of business activity, and we currently expect our technical services revenue to catch up to 2023 levels over the remainder of the year. Management also continues to focus on increasing efficiency across all business functions within the organization following the significant increase in headcount in recent years. This includes accelerated professional development for our staff and improvements to our internal systems, both of which are expected to contribute to higher staff utilization, improved resource allocation, and higher operating margins over time.

Copper recovery from the JCC-BQE JV in China showed a 31% increase over the same period a year ago. Although the tonnage of recoverable copper is expected to decline over the long-term, the drop in copper production in 2023 compared to previous years was more sudden and substantial. In management's view, the fact that copper recovery increased significantly in Q1 2024 over Q1 2023 suggests the drop in 2023 was more likely caused by climate conditions rather than accelerated depletion of recoverable copper.

The other significant expenses that increased the net loss in the quarter are non-cash share-based payments as well as depreciation expense. A significant portion of the share-based payments is due to the amortization of RSUs, which are compensation linked to the Company's share price. RSUs, a key component of BQE Water's overall staff retention, vest over a 3-year period with annual cash payouts, which avoids share dilution. While the Company does not carry operating plant

and equipment on its balance sheet as capital assets, the Company does carry and depreciate right-of-use (lease) assets. The higher depreciation expense in Q1 2024 was due to a new 10-year office lease contract commenced in April 2023, whereby the Company consolidated its laboratory technology team with the engineering and operations teams in a new head office. For the remainder of 2024, our quarterly depreciation expenses will continue to increase slightly as we add new assets such as office furniture and laboratory equipment.

The outlook for 2024, and our assessment of long-term drivers for growth as well as risks and downsides remain unchanged from our last commentary in the Q4 2023 MD&A.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Mar. 31	
	2024	2023
	\$	\$
Revenues	2,508	2,691
Operating expenses (excluding depreciation)	(1,403)	(1,694)
Gross margin	1,105	997
Share of income from joint ventures	332	81
General and administration	(700)	(672)
Sales and development	(924)	(613)
Share-based payments	(273)	(190)
Depreciation and amortization	(101)	(82)
Loss from operations and joint ventures	(561)	(479)
Other income, net	87	143
Income tax expenses	(12)	(6)
Net loss for the period	(486)	(342)
Loss per share (basic)	(0.39)	(0.27)
Loss per share (diluted)	(0.38)	(0.27)
Proportional Revenues (Non-GAAP measures)	3,410	3,560
Adjusted EBITDA (Non-GAAP measures)	(121)	(80)
Comprehensive loss	(443)	(332)
	at Mar. 31	at Dec. 31
	2024	2023
	\$	\$
Cash	8,232	7,928
Proportional cash (Non-GAAP measures)	9,544	9,790
Working capital	9,902	10,529
Total assets	18,301	18,856
Total non-current liabilities	1,913	1,900
Shareholders' equity	14,443	14,776

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Mar-24	Dec-23	Sept-23	Jun-23	Mar-23	Dec-22	Sept-22	Jun-22
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	2,508	5,014	6,246	4,186	2,691	3,465	3,503	2,722
Operating expenses	(1,403)	(2,260)	(2,959)	(2,162)	(1,694)	(2,044)	(1,759)	(1,773)
	1,105	2,754	3,287	2,024	997	1,421	1,744	949
Share of results from								
joint ventures	332	(452)	382	407	81	(256)	281	1,129
General and administration	(700)	(695)	(610)	(750)	(672)	(690)	(591)	(579)
Sales and development	(924)	(930)	(555)	(557)	(613)	(564)	(414)	(436)
Share-based payments	(273)	(138)	(109)	(29)	(190)	(209)	(172)	(267)
Depreciation and amortization	(101)	(126)	(111)	(111)	(82)	(80)	(70)	(59)
Income (loss) from operations	(561)	413	2,284	984	(479)	(378)	778	737
Other income (expenses), net	87	68	(13)	(83)	143	142	84	(77)
Bad debt expenses	-	(214)	-	(259)	-	(8)	-	-
Income tax expenses	(12)	(18)	(140)	(27)	(6)	-	(289)	(18)
Net income (loss)	(486)	249	2,131	615	(342)	(244)	573	642
Translation gain (loss)	43	39	71	(471)	10	80	-	(139)
Comprehensive income (loss)	(443)	288	2,202	144	(332)	(164)	573	503
Non-GAAP Measures:								
Proportional Revenue	3,410	5,431	7,964	5,772	3,560	4,479	5,707	5,164
Adjusted EBITDA	(121)	541	2,742	1,451	(80)	(90)	1,361	1,341

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 site also impacts the timing of revenues. Operations at Raglan Mine and Minto Mine run in the warmer months, typically from May to October of each year. Copper production at the Dexing operations traditionally increases between April and September and declines during the winter months due to lower seasonal precipitation and the annual maintenance schedule. Revenues from contracts for technical services related to water management and technical innovation projects occur based on the timing of client requirements.

SUMMARY OF Q1 2024 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended March 31, 2024 and 2023.

Proportional Revenue

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

<i>(in \$'000s)</i>	Q1 2024		Q1 2023		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	902	26%	869	24%	4%
Water treatment fee from operations	1,789	52%	835	23%	114%
Technical services	719	21%	1,856	53%	(61%)
Total Proportional Revenues	3,410	100%	3,560	100%	(4%)

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 2024, our share of revenues from the JCC-BQE joint venture increased by \$235,000 or 35% compared to the same period in 2023. The increase is attributed to the combination of a 3% increase in average copper prices and a 31% increase in the quantity of copper recovered. The MWT-BQE joint venture did not have any sales of metals in Q1 2024, compared to \$201,000 of the Company's share of revenue in Q1 2023.

The Company earns water treatment fee revenues, including monthly fees and tolling fees from the volume of water treated and operations support fees, at four different sites including Raglan Mine in Nunavik through our partnership with Inuit company Nuvumiut Development, at Minto Mine in the Yukon, and at the three selenium removal plants in the US. As the operating season at Raglan Mine and Minto Mine typically starts in June, both sites do not generate revenue during the first quarter of the year. The selenium treatment plants in the US operate year-round and provided \$1.6 million of recurring revenues during Q1 2024. Our operations support fees are comprised of recurring technical support services at two SART plants in China that generated revenues of \$176,000 in Q1 2024 compared to \$186,000 in Q1 2023.

Revenues from technical services decreased by \$1.1 million or 61% in Q1 2024 compared to Q1 2023. 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 particularly strong in Q1 2023 as we completed the multiple pilot demonstration for two mining customers in the Chile during the quarter.

Operating Expenses

Total operating expenses during Q1 2024 were \$1.4 million compared to \$1.7 million in Q1 2023, a decrease of \$291,000 or 17%. The decrease in operating expenses is directly attributable to the decrease in project activity related to technical services completed in the quarter. Each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and treatment solutions.

Expenses

In Q1 2024, general and administration costs were \$700,000 compared to \$672,000 in Q1 2023, representing a \$28,000 increase. The increase was attributable to the increase in professional service, especially for financial audit fees.

Sales and development costs during Q1 2024 were \$924,000 compared to \$613,000 in Q1 2023, an increase of \$311,000 or 51%. The increase was mainly attributable to a \$265,000 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 \$273,000 in Q1 2024 compared to \$190,000 in Q1 2023. Share-based payment expenses mainly consist of non-cash compensation expenses relating to the recently issued stock option and RSUs, both of which are amortized 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 \$101,000 in Q1 2024 compared to \$82,000 in Q1 2023. The increase was due to depreciation expenses for recently added office building lease assets and related inducement improvements.

Other Income and Expenses

The net of other income was \$87,000 in Q1 2024 compared to \$143,000 in Q1 2023, and it consists of net finance income, foreign exchange, and other income or expenses.

Net finance income was \$27,000 in Q1 2024 compared to income of \$37,000 in Q1 2023. Finance income consists of interest income earned primarily from on-demand guaranteed investment certificates and is netted against finance costs, which consist of interest paid and interest accrued for loans and lease obligations.

Foreign exchange gain was \$60,000 in Q1 2024 compared to a gain of \$59,000 in Q1 2023. 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 Company's reporting currency of Canadian dollars.

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

Net Income

After income tax, overall net loss for the first three months in 2024 was \$486,000 compared to a net loss of \$342,000 for the same period in 2023.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2024, BQE Water had 1,255,628 common shares issued and outstanding (1,246,628 at December 31, 2023), and 75,340 stock options outstanding (84,340 at December 31, 2023).

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. The NCIB was renewed for another 12-month period starting December 13, 2023. As of March 31, 2024, the Company has repurchased for cancellation 13,300 common shares at a weighted average price per share of \$28.40 under the terms of the NCIB (unchanged as of December 31, 2023).

As of the date of this MD&A on May 29, 2024, there were 1,272,351 common shares issued and outstanding, and 58,617 stock options outstanding, and no additional common shares have been purchased and cancelled under the NCIB.

At March 31, 2024, we had cash and cash equivalents of \$8.2 million, an increase of approximately \$304,000 from December 31, 2023. For the three months ended March 31, 2024, net cash from operating activities was \$330,000 compared to net cash used of \$387,000 in Q1 2023.

Working capital is defined as current assets minus current liabilities. At March 31, 2024, the Company had a consolidated working capital position of \$9.9 million, a decrease of \$627,000 from December 31, 2023. At March 31, 2024, significant working capital items, aside from cash, include trade and other receivables of \$3.3 million (\$4.4 million at December 31, 2023) and trade payables and accrued liabilities of \$1.1 million (\$1.3 million at December 31, 2023).

The Company has interest-free loans with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative (“WINN”) program and with Pacific Economic Development Canada under the Business Scale-Up & Productivity Program (“BSP”). At March 31, 2024, the combined balance of the WINN and BSP loans was \$289,000, both with obligations to repay the loan with 60 equal monthly installments upon completion of the initiative (\$312,000 at December 31, 2023). Additionally, there are credit facilities available with the Royal Bank of Canada including credit card facilities in aggregate of \$70,000, and a revolving demand credit facility of \$1.0 million which had not been utilized as of March 31, 2024.

The Company has commitments of \$2.2 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 March 31, 2024 is \$17,530 (\$nil at December 31, 2023) of director fees.

For the three months ended March 31, 2024 and 2023, 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	
	2024	2023
	\$	\$
Salaries, fees, and short-term benefits	222,959	206,300
Share-based payments	57,859	59,619
	<u>280,818</u>	<u>265,919</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, 2024 was \$5,575 (\$88,568 in Q1 2023). Included in trade and other receivables as of March 31, 2024 is \$59,898 (\$382,837 at December 31, 2023) 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, 2023.

FORM 52-109FV2
CERTIFICATION OF INTERIM FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, **David Kratochvil, Chief Executive Officer of BQE Water Inc.**, certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of **BQE Water Inc.** (the “issuer”) for the interim period ended **March 31, 2024**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: **May 29, 2024**

signed “David Kratochvil”

David Kratochvil
Chief Executive Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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CERTIFICATION OF INTERIM FILINGS
VENTURE ISSUER BASIC CERTIFICATE

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Date: **May 29, 2024**



David Kratochvil
Chief Executive Officer

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FORM 52-109FV2
CERTIFICATION OF INTERIM FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, **Heman Wong, Chief Financial Officer of BQE Water Inc.**, certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of **BQE Water Inc.** (the “issuer”) for the interim period ended **March 31, 2024**.
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Date: **May 29, 2024**

signed “Heman Wong”

Heman Wong
Chief Financial Officer

NOTE TO READER

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Date: **May 29, 2024**



Heman Wong
Chief Financial Officer

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