

# BQE Water

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## **BQE WATER INC.**

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

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three months ended March 31, 2022 and 2021

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#### **NOTICE TO READER**

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Financial Position  
For the period ended March 31, 2022 and December 31, 2021  
(Unaudited – expressed in Canadian dollars)

		March 31 2022 \$	December 31 2021 \$
	note		
<b>Assets</b>			
<b>Current assets</b>			
Cash		3,755,817	3,943,714
Restricted cash	5	179,967	83,137
Trade and other receivables	6	2,351,257	2,009,201
Prepaid and deposits		159,991	233,022
Total current assets		6,447,032	6,269,074
<b>Non-current assets</b>			
Plant and equipment	8	260,396	255,141
Intangible assets	9	377,730	398,715
Investment in joint ventures	10	7,102,377	6,855,401
Deposits		24,881	24,881
Total non-current assets		7,765,384	7,534,138
<b>Total assets</b>		<b>14,212,416</b>	<b>13,803,212</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payable and accrued liabilities	7, 11	1,156,799	1,041,802
Loans	12	82,500	82,500
Deferred revenues		245,382	73,243
Lease obligations	13	122,585	120,039
Deferred benefits	14	405,993	394,441
Total current liabilities		2,013,259	1,712,025
<b>Non-current liabilities</b>			
Loans	12	247,500	268,125
Deferred revenues		283,740	253,560
Lease obligations	13	64,801	86,412
Other liabilities	9	169,700	169,700
Total non-current liabilities		765,741	777,797
Total liabilities		2,779,000	2,489,822
<b>Shareholders' Equity</b>			
Share capital	15	56,601,261	56,573,611
Contributed surplus		10,680,125	10,669,159
Accumulated other comprehensive income		1,641,483	1,750,386
Accumulated deficit		(57,489,453)	(57,679,766)
Total shareholders' equity		11,433,416	11,313,390
<b>Total liabilities and shareholders' equity</b>		<b>14,212,416</b>	<b>13,803,212</b>
Commitments (note 18)			

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

**BQE WATER INC.**

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

For the three months ended March 31, 2022 and 2021

(Unaudited – expressed in Canadian dollars)

		<b>3 months ended March 31</b>	
		<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>
	note		
Revenues	19	<b>2,466,694</b>	979,685
Operating expenses (excluding depreciation)		<b>(1,531,063)</b>	(507,497)
Operating margin before depreciation		<b>935,631</b>	472,188
Share of income from joint ventures	10	<b>333,407</b>	23,430
General and administration		<b>(603,851)</b>	(400,896)
Sales and development		<b>(354,372)</b>	(452,993)
Share-based payments	7, 14	<b>(22,518)</b>	(88,073)
Depreciation and amortization	8, 9	<b>(54,801)</b>	(37,044)
Income (loss) from operations and joint ventures		<b>233,496</b>	(483,388)
Finance costs, net		<b>(4,157)</b>	(5,820)
Foreign exchange loss		<b>(37,111)</b>	(34,040)
Income (loss) before income taxes		<b>192,228</b>	(523,248)
Income tax expenses		<b>(1,915)</b>	-
<b>Net income (loss) for the period</b>		<b>190,313</b>	(523,248)
<b>Other comprehensive (loss) income</b>			
<i>Items that will be reclassified subsequently to income</i>			
Translation loss on foreign operations		<b>(108,903)</b>	(69,149)
<b>Comprehensive income (loss) for the period</b>		<b>81,410</b>	(592,397)
<b>Net earnings (loss) per share</b>			
Basic	15 (c)	<b>0.15</b>	(0.43)
Diluted	15 (c)	<b>0.15</b>	(0.42)
<b>Weighted average number of shares outstanding</b>			
Basic	15 (c)	<b>1,246,319</b>	1,218,906
Diluted	15 (c)	<b>1,270,375</b>	1,246,752

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, 2022 and 2021

(Unaudited – expressed in Canadian dollars)

		Number of Shares	3 months ended March 31, 2022 \$	Number of Shares	3 months ended March 31, 2021 \$
	note				
<b>Share Capital</b>					
Balance, beginning of the period	15(b)	1,244,968	56,573,611	1,217,435	56,386,413
Exercise of stock options	14(a)	3,160	27,650	5,334	36,589
<b>Balance, end of the period</b>		<b>1,248,128</b>	<b>56,601,261</b>	<b>1,222,769</b>	<b>56,423,002</b>
<b>Contributed surplus</b>					
Balance, beginning of the period			10,669,159		10,565,312
Equity settled share-based payments	14(a)		10,966		28,430
<b>Balance, end of the period</b>			<b>10,680,125</b>		<b>10,593,742</b>
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,750,386		1,445,214
Other comprehensive loss for the period			(108,903)		(69,149)
<b>Balance, end of the period</b>			<b>1,641,483</b>		<b>1,376,065</b>
<b>Accumulated deficit</b>					
Balance, beginning of the period			(57,679,766)		(60,309,204)
Net income (loss) for the period			190,313		(523,248)
<b>Balance, end of the period</b>			<b>(57,489,453)</b>		<b>(60,832,452)</b>
<b>Total shareholders' equity</b>					
Balance, beginning of the period			11,313,390		8,087,735
Exercise of stock options	14(a)		27,650		28,430
Equity settled share-based payments	14(a)		10,966		36,589
Net income (loss) for the period			190,313		(523,248)
Other comprehensive loss for the period			(108,903)		(69,149)
<b>Balance, end of the period</b>			<b>11,433,416</b>		<b>7,560,357</b>

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, 2022 and 2021  
(Unaudited – expressed in Canadian dollars)

		<b>3 months ended March 31</b>	
		<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>
	note		
<b>Operating activities</b>			
Net income (loss) for the period		<b>190,313</b>	(523,248)
Items not affecting cash			
Share of income from joint ventures	10	<b>(333,407)</b>	(23,430)
Finance costs, net		<b>4,157</b>	5,820
Depreciation and amortization	8, 9	<b>54,801</b>	37,044
Foreign exchange loss		<b>20,277</b>	31,802
Share-based payments	14	<b>22,518</b>	88,073
		<b>(41,341)</b>	(383,939)
Change in non-cash operating working capital items	17	<b>(79,510)</b>	327,591
Net cash used in operating activities		<b>(120,851)</b>	(56,348)
<b>Investing activities</b>			
Purchase of plant and equipment	8	<b>(39,356)</b>	(2,518)
Contributions made to joint ventures	10	<b>(49)</b>	-
Interest received		<b>1,682</b>	2,266
Net cash used in investing activities		<b>(37,723)</b>	(252)
<b>Financing activities</b>			
Lease payments on principal portion	13	<b>(19,415)</b>	(16,204)
Lease payments on interest portion	13	<b>(5,240)</b>	(8,039)
Proceeds from exercise of stock options	14(a)	<b>27,650</b>	36,589
Repayment of loans	12	<b>(20,625)</b>	-
Interest paid		<b>(8)</b>	(46)
Net cash (used in) provided by financing activities		<b>(17,638)</b>	12,300
Effect of exchange rate changes on cash		<b>(11,685)</b>	(17,699)
Change in cash		<b>(187,897)</b>	(61,999)
Cash, beginning of the period		<b>3,943,714</b>	3,239,692
<b>Cash, end of the period</b>		<b>3,755,817</b>	3,177,693

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, 2022  
(Unaudited)

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

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

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

### 2. BASIS OF PREPARATION

#### a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC") on a basis consistent with the accounting policies disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2021. 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 25, 2022.

#### 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, 2022	Ownership interest as at Dec. 31, 2021
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, 2022	Ownership interest as at Dec. 31, 2021
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%
BQE Water Nuvumiut Development Inc.	Canada	49%	49%

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 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, 2021 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, 2021.

**COVID-19 Economic Uncertainty**

The COVID-19 pandemic continued to disrupt global health and the economy in 2022. Notwithstanding the vaccination programs underway, COVID-19 along with the variants of the virus that have emerged, continue to have a significant impact on the global and Canadian economies. For BQE Water, the recurring services for the operations of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at March 31, 2022, management determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.



**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

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**5. RESTRICTED CASH**

The balance at March 31, 2022 and December 31, 2021 includes a term deposit held by Scotiabank as a letter of credit related to one customer in Chile until the completion of the project.

**6. TRADE AND OTHER RECEIVABLES**

	Mar. 31, 2022	Dec. 31, 2021
	\$	\$
Trade receivables, net	1,547,945	1,427,398
Contract assets	759,209	581,159
Other receivables	44,103	644
	<u>2,351,257</u>	<u>2,009,201</u>

**7. RELATED PARTY TRANSACTIONS AND BALANCES**

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

For the three months ended March 31, 2022 and 2021, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Salaries, fees and short-term benefits	192,050	163,779
Share-based payments (note 14(a))	18,843	18,396
	<u>210,893</u>	<u>182,175</u>

Included in trade payables and accrued liabilities as of March 31, 2022 is \$15,550 (\$nil at December 31, 2021) of director fees.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**8. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup>	Pilot plants	Other <sup>2</sup>	Total
	\$	\$	\$	\$
<b>Cost</b>				
As at December 31, 2020	470,436	580,593	672,858	1,723,887
Additions	36,495	-	44,890	81,385
Foreign exchange translation	2,300	-	-	2,300
<b>As at December 31, 2021</b>	<b>509,231</b>	<b>580,593</b>	<b>717,748</b>	<b>1,807,572</b>
Additions	-	-	39,356	39,356
Foreign exchange translation	(902)	-	-	(902)
<b>As at March 31, 2022</b>	<b>508,329</b>	<b>580,593</b>	<b>757,104</b>	<b>1,846,026</b>
<b>Accumulated Depreciation</b>				
As at December 31, 2020	(202,653)	(580,593)	(620,977)	(1,404,223)
Depreciation for the year	(113,430)	-	(33,580)	(147,010)
Foreign exchange translation	(1,198)	-	-	(1,198)
<b>As at December 31, 2021</b>	<b>(317,281)</b>	<b>(580,593)</b>	<b>(654,557)</b>	<b>(1,552,431)</b>
Depreciation for the period	(28,550)	-	(5,266)	(33,816)
Foreign exchange translation	617	-	-	617
<b>As at March 31, 2022</b>	<b>(345,214)</b>	<b>(580,593)</b>	<b>(659,823)</b>	<b>(1,585,630)</b>
<b>Carrying Amount</b>				
As at December 31, 2021	191,950	-	63,191	255,141
<b>As at March 31, 2022</b>	<b>163,115</b>	<b>-</b>	<b>97,281</b>	<b>260,396</b>

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

<sup>2</sup>Other comprises leasehold improvements, furniture, office equipment and lab equipment.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**9. INTANGIBLE ASSETS**

	Total \$
<b>Cost</b>	
As at December 31, 2020	-
Additions	419,700
As at December 31, 2021	419,700
Additions	-
<b>As at March 31, 2022</b>	<b>419,700</b>
<b>Accumulated Depreciation</b>	
As at December 31, 2020	-
Depreciation for the year	(20,985)
As at December 31, 2021	(20,985)
Depreciation for the period	(20,985)
<b>As at March 31, 2022</b>	<b>(41,970)</b>
<b>Carrying Amount</b>	
As at December 31, 2021	398,715
<b>As at March 31, 2022</b>	<b>377,730</b>

On September 3, 2021 (the "Acquisition Date"), the Company entered into an intellectual property purchase agreement and a consulting agreement (together as the "Agreements") with R&S Environmental Consulting Services Inc. and its sole owner Randy Aguis (together as "R&S"). Under the terms of the Agreements, R&S will receive an aggregate cash payment of \$250,000, of which \$150,000 was paid on the Acquisition Date and the remaining \$100,000 is payable on the first anniversary of the Acquisition Date, plus an earn-out bonus payable on the second anniversary of the Acquisition Date, for intangible asset rights pertaining to cyanide destruction. Intangible asset rights include all intellectual properties, such as the know-how, results, trade secrets, methods, and designs related to cyanide destruction. Also under the Agreements, R&S will work exclusively for the Company for a term of 2 years, collaborating with the Company's engineering and business development teams, training and mentoring Company staff in regards to cyanide destruction, in exchange of a fixed monthly consulting fee.

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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**10. INVESTMENT IN JOINT VENTURES**

The Company's share of investment in joint ventures on March 31, 2022 is \$7,102,377 (\$6,855,401 on December 31, 2021), and is comprised of:

	JCC-BQE \$	MWT-BQE \$	NVM-BQE \$
Balance, January 1, 2021	5,021,154	-	-
Share of net income (loss)	2,803,151	(44,206)	-
Share of translation gain on foreign operation	208,296	4,087	-
Distributions received	(1,177,200)	-	-
Unrecognized share of net income and translations gain	-	40,119	-
Balance, December 31, 2021	6,855,401	-	-
Contributions made	-	-	49
Share of net income (loss)	333,409	(24,393)	(2)
Share of translation loss on foreign operation	(86,480)	(1,713)	-
Unrecognized share of net income and translation gain	-	26,106	-
Balance, March 31, 2022	7,102,330	-	47

**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  
For the three months ended March 31, 2022  
(Unaudited)

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

	Mar. 31, 2022	Dec. 31, 2021
	\$	\$
Assets		
Cash	4,095,687	4,145,245
Other current assets	928,975	1,331,127
Non-current assets	3,101,559	3,264,457
Total assets	8,126,221	8,740,829
Liabilities	1,023,891	1,885,428
Partner's Equity	7,102,330	6,855,401
Total liabilities and partner's equity	8,126,221	8,740,829

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	
	2022	2021
	\$	\$
Revenues	963,590	439,536
Operating expenses (excluding depreciation)	(434,975)	(253,153)
	528,615	186,383
Non-operating expenses	(56,317)	(49,490)
Depreciation of plant and equipment	(125,133)	(109,138)
Income tax expense	(13,756)	(4,325)
Net income for the year	333,409	23,430
Other comprehensive income	(86,480)	(77,719)
Comprehensive income (loss) for the year	246,929	(54,289)

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

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

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

The Company's 20% share of the net loss in the joint venture for the three months ended March 31, 2022 was \$24,393 (net income of \$25,574 in Q1 2021). 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, 2022, the balance of the unrecognized share of net losses for MWT-BQE is \$206,439 (\$180,332 on December 31, 2021).

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, 2022	Dec. 31, 2021
	\$	\$
Current assets	57,750	59,672
Plant and equipment	31,608	32,873
Current liabilities	31,083	28,255
Non-current liabilities	27,694	28,031
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	
	2022	2021
	\$	\$
Revenues	97,829	131,392
Operating expense (excluding depreciation)	(82,264)	(40,745)
	15,565	90,647
Non-operating expenses	(35,912)	(43,365)
Depreciation of plant and equipment	(4,046)	(21,708)
Net income (loss) for the period	(24,393)	25,574
Other comprehensive income (loss)	(1,713)	(3,654)
Comprehensive income (loss) for the period	(26,106)	21,920

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**c) BQE Water Nuvumiut Development Inc.**

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

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

	Mar. 31, 2022	Dec. 31, 2021
	\$	\$
Current assets	292	-
Current liabilities	245	-
Non-current liabilities	47	-

The Company's 49% share of the net loss in the joint venture for the three months ended March 31, 2022 was \$2 (\$nil Q1 2021).

**11. TRADE PAYABLE AND ACCRUED LIABILITIES**

	Mar. 31, 2022	Dec. 31, 2021
	\$	\$
Trade payable and accruals	639,621	591,533
Payroll liability	500,769	414,438
Tax payable	16,409	35,831
	<u>1,156,799</u>	<u>1,041,802</u>

**12. LOANS**

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of \$412,500. The WINN loan was granted to the Company to assist in the commercialization and scale-up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments, equal to \$6,875 per month, which began April 1, 2021 and continue until March 1, 2026. The total remaining balance of the WINN loan, including both current and non-current portions, as of March 31, 2022 is \$330,000 (\$350,625 on December 31, 2021).

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**13. LEASES**

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

	Mar. 31, 2022 \$	Dec. 31, 2021 \$
Balance at January 1	206,451	279,005
Addition of lease obligations	-	36,495
Interest expense on lease obligations	5,833	29,322
Lease payments on interest portion	(5,240)	(29,322)
Lease payments on principal portion	(19,415)	(110,012)
Foreign exchange translation	(243)	963
Ending Balance	187,386	206,451
Less: current portion of lease obligations	122,585	120,039
Non-current portion of lease obligations	64,801	86,412

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, 2022 are as follows:

	3 months ended Mar. 31 2022 \$	2021 \$
Classified as short-term or as low value	21,587	5,250
Leases with variable lease payments	23,715	23,887
	45,302	29,137

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

	Mar. 31, 2022 \$
2022	112,687
2023	91,236
Total undiscounted lease payments	203,923
Less: imputed interest	(16,537)
Total carrying value of lease obligations	187,386



**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**14. SHARE-BASED PAYMENT EXPENSES**

The Company's recorded share-based compensation for the three months ended March 31, 2022 are comprised as follows:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Stock options (a)	10,966	28,430
Deferred share units (b)	(34,180)	35,960
Restricted share units (c)	45,732	23,683
	<u>22,518</u>	<u>88,073</u>

**a) Stock Options**

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

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

Subsequent to March 31, 2022, on April 22, 2022, the Company granted 52,500 stock options with an exercise price of \$30.00 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date.

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

	Number	Weighted average
	of options	exercise price
		\$
Balance, January 1, 2021	82,833	7.69
Forfeited	(2,000)	8.75
Exercised	(27,533)	6.80
Balance, December 31, 2021	53,300	8.12
Exercised	(3,160)	8.75
Balance, March 31, 2022	<u>50,140</u>	<u>8.08</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

As at March 31, 2022, 34,141 of share options outstanding were exercisable with a weighted average exercise price of \$7.76 (21,299 on December 31, 2021 with a weighted average exercise price of \$7.16).

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, 2022, the Company recognized \$10,966 (\$28,430 in 2021) of non-cash compensation expense related to stock options. The expiry date by exercise price at March 31, 2022 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	12,300	12,300
8.75	January 8, 2025	37,840	21,841

**b) Deferred Share Units**

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

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

	Number of units	Value \$
Balance, January 1, 2021	10,574	196,616
Fair value adjustment	-	94,162
Balance, December 31, 2021	10,574	290,778
Fair value adjustment	-	(34,180)
Balance, March 31, 2022	10,574	256,598

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**c) Restricted Share Units**

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

RSUs granted are accounted for and fair valued by recognizing share-based payment expenses on a straight-line basis over the vesting period. The fair value per RSU on grant date was determined based on the Company's share price on the day of grant. The initial fair values determined upon each grant date between January 1, 2021 and March 31, 2022 are as follows:

Grant date	Number of RSUs	Fair value \$
April 28, 2021	3,520	79,290
September 20, 2021	813	25,000
February 1, 2022	16,767	411,966

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2021	7,353	73,387
Granted	4,333	-
Forfeited	(801)	-
Redeemed	(2,999)	(74,464)
Fair value adjustment	-	104,740
Balance, December 31, 2021	7,886	103,663
Granted	16,767	-
Fair value adjustment	-	45,732
Balance, March 31, 2022	24,653	149,395

**15. SHARE CAPITAL****a) Authorized**

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

**b) Issued**

As at March 31, 2022, the Company had 1,248,128 common shares outstanding (1,244,968 on December 31, 2021).

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
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**c) Earnings Per Share**

The calculation of earnings per share for the three months ended March 31, 2022 and 2021 are as follows:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Net income (loss)	190,313	(523,248)
Basic weighted average number of shares outstanding	1,246,319	1,218,906
Dilution of securities	24,056	27,846
Diluted weighted average number of shares outstanding	1,270,375	1,246,752
<b>Earnings per share:</b>		
Basic	0.15	(0.43)
Diluted	0.15	(0.42)

**16. INCOME TAXES**

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three-month period ended March 31, 2022 was 27% (27% at December 31, 2021).

**17. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	3 months ended Mar. 31	
	2022	2021
	\$	\$
<b>Change in non-cash working capital items</b>		
Changes in trade receivables	(329,803)	345,897
Changes in restricted cash	(90,204)	-
Changes in other assets	72,956	62,406
Changes in accounts payable and accrued liabilities	94,800	(93,324)
Changes in deferred revenue	170,907	12,612
Changes in other liabilities	1,834	-
Change in non-cash working capital items	(79,510)	327,591

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
(Unaudited)

**18. COMMITMENTS**

The Company has commitments of \$485,860 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2022	205,988
2023	177,872
2024	102,000
	<u>485,860</u>

**19. REVENUE**

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

**a) Disaggregation of Revenue**

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

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

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	
	2022	2021
	\$	\$
Operation contracts	189,288	145,173
Technical services contracts	2,277,406	834,512
	<u>2,466,694</u>	<u>979,685</u>

**b) Remaining Performance Obligations**

As at March 31, 2022, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$5,536,777, compared to \$3,050,993 as at December 31, 2021. 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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2022  
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of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

**20. SEGMENTED INFORMATION**

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

**a) Geographic Information**

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

Revenue	3 months ended Mar. 31	
	2022	2021
	\$	\$
Canada	329,282	123,053
USA	1,348,656	452,559
Latin America	617,359	101,299
China	94,104	302,774
Other	77,293	-
	<u>2,466,694</u>	<u>979,685</u>

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

	Mar. 31, 2022	Dec. 31, 2021
	\$	\$
Canada	614,698	625,400
China	7,125,805	6,883,857
	<u>7,740,503</u>	<u>7,509,257</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, 2022 and 2021:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Customer B	1,229,320	230,925
Customer C	115,490	201,245
Customer D	94,104	302,774
Customer E	351,369	-
Total	<u>1,790,283</u>	<u>734,944</u>
Represents percentage of total revenue for the period	73%	75%

# BQE Water

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## **BQE WATER INC.**

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

For the three months ended March 31, 2022 and 2021

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# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

*Quarterly Highlights – for the three months ended March 31, 2022 and 2021*

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 have 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 2022 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, 2022 and 2021 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2021 and 2020 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2021.

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, 2022. 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 25, 2022.

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 speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

## OUR BUSINESS

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

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



## NON-GAAP MEASURES

We use non-GAAP financial measures to supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance overall understanding of the Company's current financial performance with investors and observers. Non-GAAP financial measures have limitations in that they do not reflect all amounts associated with our operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are likely 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 that we would have reported if our joint venture operations had been proportionately integrated into our results 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 joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three-month periods ended March 31, 2022 and 2021 are as follows:

(in \$'000s)

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Reported revenues under GAAP	2,467	980
Share of reported revenues from joint ventures	1,062	571
Proportional Revenue for the period	3,529	1,551

### 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):

(in \$'000s)

	3 months ended Mar. 31	
	2022	2021
	\$	\$
GAAP: Net income (loss)	190	(523)
deduct: interest income	(4)	(2)
add: income taxes expenses	16	4
add: depreciation and amortization	184	168
EBITDA	386	(353)
add: share-based payments	23	88
add: foreign exchange loss	37	34
Adjusted EBITDA	446	(231)

## FINANCIAL HIGHLIGHTS

- Grew Proportional Revenues by \$2.0 million or 128% compared to Q1 2021.
- Recorded an historic high net income for Q1 of \$190,000. This is our first Q1, typically the weakest quarter, with positive net income.
- Increased Adjusted EBITDA by \$677,000 compared to Q1 2021.
- Increased working capital by \$1.3 million or 45% over a 12-month period, from \$3.1 million at March 31, 2021 to \$4.4 million at March 31, 2022.
- Increased net cash by \$578,000 over a 12-month period, from \$3.2 million at March 31, 2021 to \$3.8 million at March 31, 2022.

Selected financial results are as follows:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Revenues under GAAP	<b>2,467</b>	980
Proportional Revenues	<b>3,529</b>	1,551
Net income (loss)	<b>190</b>	(523)
Adjusted EBITDA	<b>446</b>	(231)

## 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
Kemess Property for Centerra	Northern BC, Canada	Water treatment fees
Eastern China Metallurgical Facilities for MWT	Shandong province, China	Operations support fees
Power utility ash pond for WesTech	Virginia, 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 2022 are as follows:

	3 months ended Mar. 31	
	2022	2021
Water treated (cubic metres)	2,864	2,424
Copper recovered (pounds)	402	204

In the first quarter of 2022, all three plants met mechanical availability and process performance set by the Company. Both the volume of water treated and the mass of copper recovered increased year-over-year by 18% and 97% respectively. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture.

### MWT-BQE Joint Venture Operations

Our 20% share of 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 2022 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2022	2021
Zinc recovered (pounds)	61	270
Copper recovered (pounds)	54	76

The mass of zinc recovered decreased by 77% while copper recovery decreased by 29%. The smelter periodically operated its production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control over the composition and volume of feed that flows into the plant.

### BQE Water Operations

The Company operates four treatment plants at Raglan Mine for Glencore Canada Corporation (“Glencore”). During the first quarter, the plants at Raglan Mine are shut down as water stored in the outdoor reservoirs is frozen. Consequently, no water is treated and no revenue is generated in Q1 from the Raglan Mine plants.

In 2020, we completed the commissioning of the first industrial scale treatment plant utilizing our patented and award-winning Selen-IX™ process for selenium management at the Kemess property owned by Centerra Gold (“Centerra”). In 2021 and to date in 2022, the Kemess property was not operating as it was placed in an extended state of care and maintenance, and water treatment is not required and the Selen-IX™ plant was not operational.

At the beginning of 2021, we began operations of the Zhongkuang SART plant and the Zhaojin SART plant for metallurgical facilities in China. Both plants have been under our technical supervision since beginning full production. During Q1 2022, the Zhongkuang SART plant operated for the full quarter while the Zhaojin SART plant remained in care and maintenance due to the lack of feed from the metallurgical facility caused by various disruptions beyond our control. Both the upstream circuit and Zhaojin SART plant are expected to gradually return to normal operations in Q2 2022.

At the end of 2021, we completed the commissioning of our first project in the power industry, a treatment plant utilizing our Selen-IX™ process to remove selenium from ash pond water for WesTech Engineering (“WesTech”). We also began providing on-going plant operational services in return for water treatment fees with fixed and variable components.

The volume of water treated for the three months ended March 31, 2022 are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Mar. 31	
	2022	2021
Raglan Mine water treatment plants	-	-
MWT-BQE joint venture water treatment plant	138	167
Kemess water treatment plant	-	-
Eastern China SART plants	32	48
Virginia ash pond water treatment plant	7	-

## TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q1 2022 are summarized below.

### ***Commercial Deployment of Selen-IX™ and Direct Selenium Electro-Reduction (ERC) Technology***

- Began commissioning of a treatment plant designed to simultaneously remove sulphate and selenate using nanofiltration and direct selenium ERC at a mine in the US.
- Continued to provide engineering services for a third large scale Selex-IX™ plant currently in the procurement stage for a mine in the US.

### ***Cyanide Recovery, Destruction, and Thiocyanate Management***

- Completed field assessments and troubleshooting for several cyanide destruction plants in Canada and Mexico.
- Completed cyanide destruction laboratory testing for projects in Canada and Mexico.
- Initiated an engineering prefeasibility study for a thiocyanate removal plant with concurrent recovery of cyanide for recycle at an active mine in Mexico.

### ***Water Consulting Services – Management, Treatability, Permitting Assistance, Toxicity Mitigation***

- Provided troubleshooting and optimization services for an existing ammonia removal plant in Ontario.
- Provided oversight of pilot equipment fabrication and completed commissioning plans and operating procedures for a pilot plant designed for boron removal in Peru.
- Initiated a 2-year pilot demonstration program for sulphate removal and copper recovery for Codelco in Chile.
- Initiated the design stage of three water treatment plants for permitting in BC.
- Completed lab scale treatability testing for the permitting of new mines in Canada and the US.
- Completed lab scale testing of arsenic and ammonia removal for an existing mine in Canada.
- Completed feasibility level engineering for water treatment to support the permitting and development of a mine in Central America.

## COMMENTARY AND OUTLOOK

We are very pleased with our Q1 2022 results which showed sustained strength in the project pipeline that underlies our long-term financial performance. Historically, the first quarter has been our weakest financially, primarily due to the impact of seasonality on recurring revenues from existing operations. Specifically, our operations in Northern Québec are shut down over the winter months while our joint venture operations in China treat lower water volumes during their dry season. Despite the same conditions and challenges faced in previous years, we recorded our first positive net income for a first quarter in 2022 due to robust revenues from technical services.

Looking ahead to the balance of the year, we expect continued strong financial performance due to a strong backlog of technical services projects, the re-start of our seasonal operations, and new recurring revenues from plants entering operations for the first time in 2022. As always, the Company would like to caution investors with respect to the uncertainties that could affect this positive outlook. Specifically, geopolitical risks, high inflation, monetary tightening and the continued impact of COVID-19 could all have negative impacts on the world economy, including our sector. That said, we believe that the environmental compliance and sustainability requirements of natural resource companies coupled with our healthy balance sheet and recurring revenues position us well to sustain any temporary exogenous shocks and will allow us to continue to grow as we capitalize on long-term opportunities in mining and ESG.

## SELECTED FINANCIAL INFORMATION

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

	3 months ended Mar. 31	
	Q1 2022	Q1 2021
	\$	\$
Revenues	2,467	980
Operating expenses (excluding depreciation)	(1,531)	(507)
Operating margin	936	473
Share of income from joint ventures	333	23
General and administration	(604)	(401)
Sales and development	(354)	(453)
Share-based payments	(23)	(88)
Depreciation and amortization	(55)	(37)
Income (loss) from operations and joint ventures	233	(483)
Other expenses, net	(43)	(40)
<b>Net income (loss) for the period</b>	<b>190</b>	<b>(523)</b>
Earnings per share (basic)	0.15	(0.43)
Earnings per share (diluted)	0.15	(0.42)
Proportional Revenues <sup>1</sup>	3,529	1,551
Adjusted EBITDA <sup>1</sup>	446	(231)
Comprehensive income (loss)	81	(592)

	at Mar. 31	at Dec. 31
	2022	2021
	\$	\$
Cash	3,756	3,944
Working capital	4,434	4,557
Total assets	14,212	13,803
Total non-current liabilities	766	778
Shareholders' equity	11,433	11,313
Proportional cash <sup>1</sup>	7,852	8,089

### Notes:

1. See Non-GAAP measures

## COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	<b>Mar-22</b>	Dec-21	Sept-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	<b>2,467</b>	2,570	2,773	1,188	980	1,609	2,738	1,414
Operating expenses	<b>(1,531)</b>	(1,409)	(1,088)	(944)	(507)	(934)	(1,381)	(921)
	<b>936</b>	1,161	1,685	244	473	675	1,357	493
Share of income from								
joint ventures	<b>333</b>	499	700	1,580	23	101	785	380
General and administration	<b>(604)</b>	(535)	(427)	(459)	(401)	(413)	(342)	(435)
Sales and development	<b>(354)</b>	(270)	(273)	(378)	(453)	(349)	(153)	(239)
Share-based payments	<b>(23)</b>	(11)	(19)	(184)	(88)	(107)	(113)	(118)
Depreciation and amortization	<b>(55)</b>	(57)	(37)	(37)	(37)	(42)	(33)	(36)
Income (loss) from operations	<b>233</b>	787	1,629	766	(483)	(135)	1,501	45
Other income (expenses), net	<b>(41)</b>	13	34	(39)	(40)	30	(58)	(95)
Bad debt recovery	-	-	-	95	-	-	-	-
Income tax expenses	<b>(2)</b>	-	(118)	(13)	-	(97)	-	(5)
Net income (loss)	<b>190</b>	800	1,545	809	(523)	(202)	1,443	(55)
Translation (loss) gain	<b>(109)</b>	120	227	28	(69)	(63)	97	(191)
Comprehensive income (loss)	<b>81</b>	920	1,772	837	(592)	(265)	1,540	(246)
<b>Non-GAAP Measures:</b>								
Proportional Revenue	<b>3,529</b>	4,389	5,502	4,174	1,551	3,085	5,287	2,771
Adjusted EBITDA	<b>446</b>	754	2,139	1,435	(231)	133	2,039	412

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

## SUMMARY OF Q1 2022 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended March 31, 2022 and 2021.

### Proportional Revenue

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

<i>(in \$'000s)</i>	Q1 2022		Q1 2021		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	1,062	30%	571	37%	86%
Water treatment fee from operations	189	5%	145	9%	30%
Technical services	2,278	65%	835	54%	173%
Total Proportional Revenues	3,529	100%	1,551	100%	128%

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 impacted by the amount and market price of metal concentrate sold. During Q1 2022, our share of revenues from the JCC-BQE joint venture increased by \$524,000 or 119% compared to the comparable period in 2021. The gain was attributed to a 11% increase in average copper prices and by a 97% increase in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture in Q1 2022 was \$98,000, compared to \$131,000 in Q1 2021.

Water treatment fee revenues include tolling fees from water treated and operations support fees. We earn recurring tolling fees at Raglan Mine and at the newly commissioned selenium removal plant in Virginia for ash pond treatment. During Q1 2022, the selenium treatment plant in Virginia provided \$96,000 of new recurring revenue. As the operating season at Raglan Mine typically starts in May, it does not generate revenue during the first quarter of the year. Our operations support fees are comprised of recurring technical support services at several plants in China that generated revenues of \$94,000 in Q1 2022 compared to \$145,000 in Q1 2021.

Revenues from technical services increased by \$1.4 million or 173% in Q1 2022 compared to Q1 2021. These revenues are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. These revenues represent the sum of multiple contracts from various clients and varying contract values. Revenues from technical services were particularly strong in Q1 2022 as we began onsite commissioning of a third selenium removal treatment plant for a mining customer in the US.

### Operating Expenses

Total operating expenses during Q1 2022 were \$1.5 million compared to \$507,000 in Q1 2021, an increase of \$1 million. The increase in operating expenses is directly attributable to the increase in project activity related to technical services completed in the quarter. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. During the quarter, total labour expenses within operating expenses were \$906,000 compared to \$443,000 in the previous year's first quarter.

### Expenses

In Q1 2022, general and administration costs were \$604,000 compared to \$401,000 in Q1 2021, representing a \$203,000 increase. The increase was attributable to a \$96,000 increase in employee benefits, a \$48,000 net increase in professional services fees and a \$23,000 increase in insurance premiums for the comparable period.

Sales and development costs during Q1 2022 were \$354,000 compared to \$453,000 in Q1 2021, a decrease of \$99,000 or 22%. Due to the increase of technical services activity during the quarter, less labour resources were designated for technology development initiatives compared to Q1 2021.

Share-based payment expenses were \$23,000 in Q1 2022 compared to \$88,000 in Q1 2021. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock option expenses and restricted share unit benefits,

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 \$55,000 in Q1 2022 compared to \$37,000 in Q1 2021. The increase of \$18,000 was due to amortization expenses for the newly acquired intellectual property from R&S Environmental Consulting Services Inc. in Q4 2021.

### **Other Income and Expenses**

Net finance costs were \$4,000 in Q1 2022 compared to \$6,000 in Q1 2021. As we currently do not hold any interest-bearing debt, finance costs arise from the interest accretion of our long-term liabilities, such as lease obligations.

Foreign exchange loss was \$37,000 in Q1 2022 compared to a loss of \$34,000 in Q1 2021. 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.

### **Net Income**

Overall net income for the first three months in 2022 was \$190,000 compared to a net loss of \$523,000 in the same period in 2021.

## **LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2022, BQE Water had 1,248,128 common shares issued and outstanding (1,244,968 at December 31, 2021), and 50,140 stock options outstanding (53,300 at December 31, 2021).

Subsequent to March 31, 2022, on April 22, 2022, the Company granted 52,500 stock options with an exercise price of \$30.00 to directors and employees of the Company. As of the date of this MD&A, on May 25, 2022, the Company has 1,248,128 common shares issued and outstanding; and 102,640 stock options outstanding.

At March 31, 2022, we had cash of \$3.8 million, a decrease of approximately \$188,000 from December 31, 2021. For the three months ended March 31, 2022, cash used in operating activities was \$121,000 compared to \$56,000 in Q1 2021.

At March 31, 2022, we had restricted cash of \$180,000, compared to \$83,000 from December 31, 2021. Such balances include a term deposit held by Scotiabank as a letter of credit related to a customer in Chile until completion of the project.

The Company had a working capital position at the end of the quarter of \$4.4 million, a decrease of \$123,000 from December 31, 2021. At March 31, 2022, our significant working capital items, aside from cash, include trade and other receivables of \$2.3 million (\$2.0 million at December 31, 2021) and trade payable and accrued liabilities of \$1.1 million (\$1.0 million at December 31, 2021).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN") program. At March 31, 2022, the WINN loan balance was \$330,000 with obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. Furthermore, 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 million which had not been utilized as at March 31, 2022.

The Company has commitments of \$486,000 until 2024 under operating leases for office and laboratory premises and for assay services.

We believe we have sufficient working capital resources to finance current operations beyond the next 12 months, albeit with the continuing potential for a temporary working capital shortfall based on short-term fluctuations in our non-recurring revenues combined with the timing of the annual dividend payment from China.



## RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2022 and 2021, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Mar. 31	
	2022	2021
	\$	\$
Salaries, fees and short-term benefits	192,050	163,779
Share-based payments (note 14(a))	18,843	18,396
	<u>210,893</u>	<u>182,175</u>

Included in trade payables and accrued liabilities as of March 31, 2022 is \$15,550 (\$nil at December 31, 2021) of director fees.

## 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, 2021.

### COVID-19 Economic Uncertainty

The COVID-19 pandemic continues to disrupt global health and the economy in 2022. Notwithstanding the vaccination programs underway, COVID-19 along with the variants of the virus that have emerged, continue to have a significant impact on the global and Canadian economies. For BQE Water, the recurring services for the operations of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

Uncertainties around the COVID-19 pandemic necessitates the use of significant judgments and estimates. As at March 31, 2022, management determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions we have taken at our operations to protect the health and safety of our workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on us is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.