

# BQE Water

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## **BQE WATER INC.**

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

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three and six months ended June 30, 2021 and 2020

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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 June 30, 2021 and December 31, 2020  
(Unaudited – expressed in Canadian dollars)

		June 30 2021 \$	December 31 2020 \$
	note		
<b>Assets</b>			
<b>Current assets</b>			
Cash		2,426,092	3,239,692
Trade and other receivables	5	1,731,865	1,685,717
Prepaid and other deposits		108,612	172,711
Total current assets		4,266,569	5,098,120
<b>Non-current assets</b>			
Plant and equipment	7	286,040	319,664
Investment in joint ventures	8	6,561,067	5,021,154
Deposits		24,881	24,881
Total non-current assets		6,871,988	5,365,699
<b>Total assets</b>		<b>11,138,557</b>	<b>10,463,819</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables and accrued liabilities	6, 9	1,016,805	1,055,487
Loans	10	82,500	61,875
Deferred revenues		214,652	75,349
Lease obligations	11	124,187	92,128
Deferred benefits	12	442,718	270,003
Total current liabilities		1,880,862	1,554,842
<b>Non-current liabilities</b>			
Loans	10	309,375	350,625
Deferred revenues		283,740	283,740
Lease obligations	11	150,553	186,877
Total non-current liabilities		743,668	821,242
Total liabilities		2,624,530	2,376,084
<b>Shareholders' Equity</b>			
Share capital	13	56,514,111	56,386,413
Contributed surplus		10,619,721	10,565,312
Accumulated other comprehensive income		1,404,078	1,445,214
Accumulated deficit		(60,023,883)	(60,309,204)
Total shareholders' equity		8,514,027	8,087,735
<b>Total liabilities and shareholders' equity</b>		<b>11,138,557</b>	<b>10,463,819</b>
Commitments (note 16)			

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 and six months ended June 30, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		<b>3 months ended June 30</b>		<b>6 months ended June 30</b>	
		<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	note				
Revenues	17	<b>1,188,315</b>	1,414,311	<b>2,168,000</b>	3,350,008
Operating expenses (excluding depreciation)		<b>(943,959)</b>	(920,617)	<b>(1,451,456)</b>	(2,115,823)
Operating margin before depreciation		<b>244,356</b>	493,694	<b>716,544</b>	1,234,185
Share of income from joint ventures	8	<b>1,580,079</b>	380,484	<b>1,603,509</b>	253,290
General and administration expenses		<b>(459,168)</b>	(434,658)	<b>(860,064)</b>	(867,331)
Sales and development expenses		<b>(378,071)</b>	(239,101)	<b>(831,064)</b>	(468,048)
Share-based payment expenses	12	<b>(184,263)</b>	(117,539)	<b>(272,336)</b>	(166,851)
Depreciation	7	<b>(37,030)</b>	(36,218)	<b>(74,074)</b>	(72,246)
Income (loss) from operations and joint ventures		<b>765,903</b>	46,662	<b>282,515</b>	(87,001)
Finance costs, net		<b>(6,079)</b>	(3,501)	<b>(11,899)</b>	(5,325)
Foreign exchange (loss) gain		<b>(33,311)</b>	(91,092)	<b>(67,351)</b>	26,021
Bad debt recovery		<b>94,630</b>	-	<b>94,630</b>	-
Income (loss) before income taxes		<b>821,143</b>	(47,931)	<b>297,895</b>	(66,305)
Income tax expenses		<b>(12,574)</b>	(5,067)	<b>(12,574)</b>	(5,067)
<b>Net income (loss) for the period</b>		<b>808,569</b>	(52,998)	<b>285,321</b>	(71,372)
<b>Other comprehensive income (loss)</b>					
<i>Items that will be reclassified subsequently to income</i>					
Translation gain (loss) on foreign operations		<b>28,013</b>	(191,426)	<b>(41,136)</b>	195,141
<b>Total comprehensive income (loss) for the period</b>		<b>836,582</b>	(244,424)	<b>244,185</b>	123,769
<b>Net earnings (loss) per share</b>					
Basic	13(c)	<b>0.66</b>	(0.04)	<b>0.23</b>	(0.06)
Diluted	13(c)	<b>0.65</b>	(0.04)	<b>0.23</b>	(0.06)
<b>Weighted average number of shares outstanding</b>					
Basic	13(c)	<b>1,228,044</b>	1,215,435	<b>1,223,500</b>	1,214,602
Diluted	13(c)	<b>1,250,956</b>	1,224,222	<b>1,244,990</b>	1,222,249

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

**BQE WATER INC.**

## Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended June 30, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		Number of Shares	6 months ended June 30, 2021 \$	Number of Shares	6 months ended June 30, 2020 \$
	note				
<b>Share Capital</b>					
Balance, beginning of the period	13(b)	1,217,435	56,386,413	1,210,434	56,344,407
Exercise of stock options	12(a)	18,533	127,698	5,001	30,006
<b>Balance, end of the period</b>		<b>1,235,968</b>	<b>56,514,111</b>	<b>1,215,435</b>	<b>56,374,413</b>
<b>Contributed surplus</b>					
Balance, beginning of the period			10,565,312		10,320,533
Equity settled share-based payments	12(a)		54,409		119,900
<b>Balance, end of the period</b>			<b>10,619,721</b>		<b>10,440,433</b>
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,445,214		1,216,730
Other comprehensive (loss) income for the period			(41,136)		195,141
<b>Balance, end of the period</b>			<b>1,404,078</b>		<b>1,411,871</b>
<b>Accumulated deficit</b>					
Balance, beginning of the period			(60,309,204)		(61,476,339)
Net income (loss) for the period			285,321		(71,372)
<b>Balance, end of the period</b>			<b>(60,023,883)</b>		<b>(61,547,711)</b>
<b>Total shareholders' equity</b>					
Balance, beginning of the period			8,087,735		6,405,331
Exercise of stock options	12(a)		127,698		30,006
Equity settled share-based payments	12(a)		54,409		119,900
Net income (loss) for the period			285,321		(71,372)
Other comprehensive (loss) income for the period			(41,136)		195,141
<b>Balance, end of the period</b>			<b>8,514,027</b>		<b>6,679,006</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 six months ended June 30, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		6 months ended June 30	
		2021	2020
		\$	\$
	note		
<b>Operating activities</b>			
Net income (loss) for the period		285,321	(71,372)
Items not affecting cash			
Income tax expenses		12,574	5,067
Bad debt recovery		(94,630)	-
Income from equity accounted joint ventures	8	(1,603,509)	(253,290)
Finance costs, net		11,899	5,325
Depreciation	7	74,074	72,246
Foreign exchange loss (gain)		57,665	(8,265)
Share-based payment expenses	12	272,336	166,851
		(984,270)	(83,438)
Change in non-cash operating working capital items	15	168,052	(212,900)
Cash used in operations		(816,218)	(296,338)
Income taxes paid		(12,099)	(5,414)
Net cash used in operating activities		(828,317)	(301,752)
<b>Investing activities</b>			
Purchase of plant and equipment	7	(4,050)	(6,347)
Interest received		3,514	3,999
Net cash used in investing activities		(536)	(2,348)
<b>Financing activities</b>			
Lease payments on principal portion	11	(40,760)	(49,795)
Lease payments on interest portion	11	(15,361)	(9,333)
Proceeds from exercise of stock options	12(a)	127,698	30,006
Repayment of loan	10	(20,625)	-
Proceeds from loan	10	-	157,989
Interest paid		(52)	-
Net cash provided in financing activities		50,900	128,867
Effect of exchange rate changes on cash		(35,647)	21,478
Change in cash		(813,600)	(153,755)
Cash, beginning of the period		3,239,692	2,060,060
<b>Cash, end of the period</b>		<b>2,426,092</b>	<b>1,906,305</b>

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

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(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, 2020. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Board of Directors of the Company approved these unaudited condensed consolidated interim financial statements on August 25, 2021.

#### b) Basis of Measurement

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

#### c) Basis of Consolidation

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

Entity	Country of incorporation and operation	Ownership interest as at Jun. 30, 2021	Ownership interest as at Dec. 31, 2020
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%	0%

\* Incorporated on April 21, 2021

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

Entity	Country of incorporation and operation	Ownership interest as at Jun. 30, 2021	Ownership interest as at Dec. 31, 2020
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(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, 2020 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, 2020 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, 2020.

**COVID-19 Economic Uncertainty**

The COVID-19 pandemic has continued to disrupt global health and the economy in 2021. Notwithstanding the vaccination programs that are underway, COVID-19 along with the variants of the virus that have emerged, continue to have a significant negative 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 have been delayed or suspended due to the pandemic.

The Company has assessed the economic impacts of the COVID-19 pandemic on its financial statements. As at June 30, 2021, management has determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, 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 and six months ended June 30 2021  
(Unaudited)

**5. TRADE AND OTHER RECEIVABLES**

	Jun. 30, 2021	Dec. 31, 2020
	\$	\$
Trade receivables	1,287,997	1,274,976
Contract assets	443,868	410,715
Other	-	26
	<u>1,731,865</u>	<u>1,685,717</u>

**6. RELATED PARTY TRANSACTIONS AND BALANCES**

For the three and six months ended June 30, 2021 and 2020, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	178,778	170,623	342,558	338,249
Share-based payments (note 12(a))	42,910	43,995	61,306	79,663
	<u>221,688</u>	<u>214,618</u>	<u>403,864</u>	<u>417,912</u>

For the three and six months ended June 30, 2021, the consulting services received from companies owned by the Company's management amounted to \$43,950 and \$77,700 (\$33,750 and \$67,500 in 2020).

Included in trade payables and accrued liabilities as of June 30, 2021 is \$43,849 (\$13,162 at December 31, 2020) of director fees and management consulting service fees with companies owned by the Company's management.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30 2021

(Unaudited)

**7. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup>	Pilot plants	Other <sup>2</sup>	Total
	\$	\$	\$	\$
<b>Cost</b>				
As at December 31, 2019	272,340	580,593	652,621	1,505,554
Additions	196,535	-	20,237	216,772
Foreign exchange translation	1,561	-	-	1,561
As at December 31, 2020	470,436	580,593	672,858	1,723,887
Additions	36,495	-	4,050	40,545
Foreign exchange translation	(558)	-	-	(558)
<b>As at June 30, 2021</b>	<b>506,373</b>	<b>580,593</b>	<b>676,908</b>	<b>1,763,874</b>
<b>Accumulated Depreciation</b>				
As at December 31, 2019	(95,336)	(580,593)	(580,181)	(1,256,110)
Depreciation for the year	(106,873)	-	(40,796)	(147,669)
Foreign exchange translation	(444)	-	-	(444)
As at December 31, 2020	(202,653)	(580,593)	(620,977)	(1,404,223)
Depreciation for the period	(56,579)	-	(17,495)	(74,074)
Foreign exchange translation	463	-	-	463
<b>As at June 30, 2021</b>	<b>(258,769)</b>	<b>(580,593)</b>	<b>(638,472)</b>	<b>(1,477,834)</b>
<b>Carrying Amount</b>				
As at December 31, 2020	267,783	-	51,881	319,664
As at June 30, 2021	247,604	-	38,436	286,040

<sup>1</sup>Right-of-use assets (note 11) 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 and six months ended June 30 2021  
(Unaudited)

**8. INVESTMENT IN JOINT VENTURES**

The Company's share of investment in joint ventures on June 30, 2021 is \$6,561,067 (\$5,021,154 on December 31, 2020), and is comprised of:

	JCC-BQE \$	MWT-BQE \$
Balance, January 1, 2020	4,641,460	-
Share of net income	1,139,450	19,795
Share of translation gain on foreign operation	213,744	6,285
Distributions received	(973,500)	-
Unrecognized share of net income and translations gain	-	(26,080)
Balance, December 31, 2020	5,021,154	-
Share of net income	1,603,509	48,102
Share of translation loss on foreign operation	(63,596)	(3,456)
Unrecognized share of net income and translation gain	-	(44,646)
Balance, June 30, 2021	6,561,067	-

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

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

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

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

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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

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

**Statement of financial position**

	Jun. 30, 2021 \$	Dec. 31, 2020 \$
<b>Assets</b>		
Current assets		
Cash and short-term investments	2,586,899	2,000,668
Trade and other receivables	1,914,909	544,530
Income taxes recoverable	-	67,749
Inventory	291,097	117,191
Prepaid expenses	2,406	2,283
	<u>4,795,311</u>	<u>2,732,421</u>
Non-current assets		
Plant and equipment	3,079,072	3,401,170
Deferred tax assets	64,949	65,964
	<u>3,144,021</u>	<u>3,467,134</u>
Total assets	<u>7,939,332</u>	<u>6,199,555</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,050,593	1,178,401
Income taxes payable	327,672	-
Total liabilities	<u>1,378,265</u>	<u>1,178,401</u>
<b>Partner's Equity</b>		
Joint venture partner equity	3,961,989	3,961,989
Accumulated other comprehensive income	1,321,224	1,384,820
Accumulated earnings (deficits)	1,277,854	(325,655)
Total partner's equity	<u>6,561,067</u>	<u>5,021,154</u>
Total liabilities and partner's equity	<u>7,939,332</u>	<u>6,199,555</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

**Statement of operations and comprehensive income**

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues	2,878,460	1,310,986	3,317,996	1,675,751
Operating costs (excluding depreciation)	(801,770)	(688,829)	(1,054,923)	(1,005,909)
	2,076,690	622,157	2,263,073	669,842
General and administration expenses	(71,817)	(58,851)	(132,319)	(119,793)
Depreciation of plant and equipment	(66,138)	(133,124)	(175,276)	(263,855)
Income from operations	1,938,735	430,182	1,955,478	286,194
Finance income	497	6,261	11,509	10,615
Income before income taxes	1,939,232	436,443	1,966,987	296,809
Current income tax expense	(359,153)	(55,959)	(363,478)	(43,519)
Net income for the period	1,580,079	380,484	1,603,509	253,290
Other comprehensive income				
Translation gain (loss) on foreign operation	14,123	(184,533)	(63,596)	151,334
Comprehensive income for the period	1,594,202	195,951	1,539,913	404,624

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

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

The Company's 20% share of the net income in the joint venture for the three and six months ended June 30, 2021 was \$22,528 and \$48,102 (net loss of \$34,493 for the three months and net loss of \$99,321 for the six months ended June 30, 2020). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of comprehensive income of the joint venture will be recognized on the investments of MWT-BQE when the unrecognized share of net losses is reduced to zero. As of June 30, 2021, the balance of the unrecognized share of net losses for MWT-BQE is \$95,568 (\$140,213 on December 31, 2020).

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

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

	Jun. 30, 2021	Dec. 31, 2020
	\$	\$
Current assets	79,906	87,270
Plant and equipment	37,071	47,014
Current liabilities	34,567	60,388
Non-current liabilities	27,714	28,911
Partner's equity	-	-

The statement of loss of BQE Water's 20% interest in the MWT-BQE joint venture is presented as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue	107,523	45,614	238,915	100,513
Operating costs (excluding depreciation)	(32,152)	(25,498)	(72,897)	(97,358)
	75,371	20,116	166,018	3,155
Non-operating costs	(31,715)	(24,730)	(75,080)	(48,815)
Depreciation of plant and equipment	(21,128)	(29,879)	(42,836)	(53,661)
Net income (loss) for the period	22,528	(34,493)	48,102	(99,321)
Other comprehensive income (loss)	198	(4,201)	(3,456)	6,482
Comprehensive income (loss) for the period	22,726	(38,694)	44,646	(92,839)

**9. TRADE PAYABLES AND ACCRUED LIABILITIES**

	Jun. 30, 2021	Dec. 31, 2020
	\$	\$
Trade payables and accruals	390,916	429,035
Payroll liability	613,200	592,115
Tax payable	12,689	34,337
	1,016,805	1,055,487

**10. LOANS**

During 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 offered the Company an interest-free loan contribution 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, which began April 1, 2021 and continue until March 1, 2026.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

**11. LEASES**

The Company's carrying value of lease obligations are as follows:

	Jun. 30, 2021 \$	Dec. 31, 2020 \$
Balance at January 1	279,005	181,033
Addition of lease obligations	36,495	196,535
Interest expense on lease obligations	15,361	21,463
Lease payments on interest portion	(15,361)	(21,478)
Lease payments on principal portion	(40,760)	(99,486)
Foreign exchange translation	-	938
Ending Balance	274,740	279,005
Less: current portion of lease obligations	124,187	92,128
Non-current portion of lease obligations	150,553	186,877

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. The Company's lease expense, which is not counted under lease obligations, for the three and six months ended June 30, 2021 are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Classified as short-term or as low value	5,419	5,220	10,669	10,895
Leases with variable lease payments	20,041	22,827	43,928	29,233
	25,460	28,047	54,597	40,128

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

	Jun. 30, 2021 \$
2021	83,276
2022	137,342
2023	91,236
Total undiscounted lease payments	311,854
Less: imputed interest	(37,114)
Total carrying value of lease obligations	274,740

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
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**12. SHARE-BASED PAYMENT EXPENSES**

The Company's recorded share-based compensation for the three and six months ended June 30, 2021 are comprised as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Stock options (a)	25,979	62,460	54,409	119,900
Deferred share units (b)	113,229	36,201	149,189	31,163
Restricted share units (c)	45,055	18,878	68,738	15,788
	<u>184,263</u>	<u>117,539</u>	<u>272,336</u>	<u>166,851</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.

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

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$		\$	
Outstanding at January 1	7.69	82,833	6.00	39,501
Granted	-	-	8.75	51,000
Exercised	6.89	(18,533)	6.00	(5,001)
Forfeited	8.75	(2,000)	6.00	(667)
Outstanding at June 30	<u>7.90</u>	<u>62,300</u>	<u>7.65</u>	<u>84,833</u>
Exercisable at June 30	<u>7.00</u>	<u>30,299</u>	<u>6.00</u>	<u>20,664</u>



**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
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The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three and six months ended June 30, 2021, the Company recognized \$25,979 and \$54,409 (\$62,460 and \$119,900 in 2020) of non-cash compensation expense related to stock options. The expiry date by exercise price at June 30, 2021 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	19,300	19,300
8.75	January 8, 2025	43,000	10,999

**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, 2020	10,574	91,874
Fair value adjustment	-	104,742
Balance, December 31, 2020	10,574	196,616
Fair value adjustment	-	149,189
Balance, June 30, 2021	10,574	345,805

**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.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
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(Unaudited)

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2020	6,485	56,346
Granted	3,281	7,258
Forfeited	(381)	-
Redeemed	(2,032)	(20,320)
Fair value adjustment	-	30,103
Balance, December 31, 2020	7,353	73,387
Granted	3,281	7,806
Forfeited	(1,027)	-
Redeemed	(2,032)	(45,212)
Fair value adjustment	-	60,932
Balance, June 30, 2021	7,575	96,913

**13. SHARE CAPITAL****a) Authorized**

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

**b) Issued**

As at June 30, 2021, the Company had 1,235,968 common shares outstanding (1,217,435 on December 31, 2020).

**c) Net Earnings (Loss) Per Share**

The calculation of net earnings (loss) per share for the three and six months ended June 30, 2021 and 2020 are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net income (loss)	808,569	(52,998)	285,321	(71,372)
Basic weighted average number of shares outstanding	1,228,044	1,215,435	1,223,500	1,214,602
Add: Dilution of securities	22,912	8,787	21,490	7,648
Diluted weighted average number of shares outstanding	1,250,956	1,224,222	1,244,990	1,222,250
<b>Net earnings (loss) per share:</b>				
Basic	0.66	(0.04)	0.23	(0.06)
Diluted	0.65	(0.04)	0.23	(0.06)

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

**14. INCOME TAXES**

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three-month period ended June 30, 2021 was 27% (27% at December 31, 2020).

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	6 months ended Jun. 30	
	2021	2020
	\$	\$
<b>Change in non-cash working capital items</b>		
Changes in trade receivables	28,026	(521,920)
Changes in other assets	64,022	32,602
Changes in accounts payable and accrued liabilities	(18,831)	(164,375)
Changes in deferred revenue	140,047	461,113
Changes in other liabilities	(45,212)	(20,320)
Change in non-cash working capital items	168,052	(212,900)

**16. COMMITMENTS**

The Company has commitments of \$281,319 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2021	108,420
2022	97,155
2023	75,744
	281,319

**17. 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 fee.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three and six months ended June 30 2021  
(Unaudited)

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

The disaggregated revenue of the Company are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operations contracts	260,818	144,054	405,992	190,777
Technical services contracts	927,497	1,270,257	1,762,008	3,159,231
	<u>1,188,315</u>	<u>1,414,311</u>	<u>2,168,000</u>	<u>3,350,008</u>

**b) Remaining Performance Obligations**

As at June 30, 2021, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,269,337, compared to \$1,555,007 as at December 31, 2020. 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.

**18. 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 Canada (country of domicile) and occasionally from other foreign countries. The Company's revenue by geographic locations, presented based on the location in which the sale originated from, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Canada	397,706	352,805	520,758	707,424
USA	365,224	781,895	817,784	1,809,724
Latin America	150,470	163,880	251,769	626,057
China	274,915	115,731	577,689	206,803
	<u>1,188,315</u>	<u>1,414,311</u>	<u>2,168,000</u>	<u>3,350,008</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
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The Company's non-current assets, excluding non-current deposits, by location of assets are as follows:

	Jun. 30, 2021	Dec. 31, 2020
	\$	\$
Canada	249,545	310,606
China	6,597,562	5,030,212
	<u>6,847,107</u>	<u>5,340,818</u>

**b) Information About Major Customers**

The following table presents revenue from individual customers exceeding 10% of total revenue for the three and six months ended June 30, 2021 and 2020:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Customer A	123,603	96,603	123,603	96,603
Customer C	-	79,049	-	384,700
Customer D	162,116	115,731	464,890	206,803
Customer E	364,893	693,487	595,818	1,068,134
Customer F	-	31,971	201,245	684,867
	<u>650,612</u>	<u>1,016,841</u>	<u>1,385,556</u>	<u>2,441,107</u>
Represents percentage of total revenue for the period	55%	72%	64%	73%

# BQE Water

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## **BQE WATER INC.**

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

For the three and six months ended June 30, 2021 and 2020

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# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

*Quarterly Highlights – for the three and six months ended June 30, 2021 and 2020*

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 Q2 2021 Interim MD&A update and the disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2021 and 2020 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2020 and 2019 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2020.

Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of June 30, 2021. Our accounting policies are described in Note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at August 25, 2021.

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 is that BQE Water produces clean water and stable residues or saleable by-products and that 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 in 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 and six-month periods ended June 30, 2021 and 2020 are as follows:

(in \$'000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Reported revenues under GAAP	<b>1,188</b>	1,414	<b>2,168</b>	3,350
Share of reported revenues from joint ventures	<b>2,986</b>	1,357	<b>3,557</b>	1,777
Proportional Revenue for the period	<b>4,174</b>	2,771	<b>5,725</b>	5,127

### 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 Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
GAAP: Net income (loss)	<b>809</b>	(55)	<b>287</b>	(71)
add/deduct: interest expense (income)	<b>8</b>	(2)	<b>6</b>	(6)
add: income taxes	<b>372</b>	61	<b>376</b>	49
add: depreciation and amortization	<b>124</b>	199	<b>292</b>	390
EBITDA	<b>1,313</b>	203	<b>961</b>	362
add: share-based payment expenses	<b>184</b>	118	<b>272</b>	167
deduct: bad debt recovery	<b>(95)</b>	-	<b>(95)</b>	-
add/deduct: net foreign exchange loss (gain)	<b>33</b>	91	<b>67</b>	(26)
Adjusted EBITDA	<b>1,435</b>	412	<b>1,205</b>	503



## COMMENTARY AND OUTLOOK

When compared to previous second quarters, we set record highs during Q2 2021 for Proportional Revenue, Adjusted EBITDA and net income. Building on last year's growth trajectory, we also posted the strongest Adjusted EBITDA and net income achieved in the first six months of a year. Our strong financial performance was supported by an increase in copper prices. Both our China joint ventures, at Dexing Mine and in Shandong province, primarily benefited from higher copper prices along with higher copper recoveries, with the associated increase in revenues going to our bottom line.

To date, we have experienced and expect further interruptions at our two new SART plant operations in China. These interruptions are attributed to a combination of a government mandated province-wide shut down of all underground mining operations to conduct safety audits and remedial activities following an incident at an unrelated mine site, and additional lock-downs and operational delays triggered by the resurgence of COVID-19 and its variants. As a result, revenues from these operations may be deferred by a quarter or two. Our joint venture operation that recovers copper and zinc at a smelter is unaffected and is expected to continue operating without interruption.

Although our volume of operations and technical service projects remained relatively stable, we saw a slight decrease in technical services revenue from Q2 2020. This is due to the timing and nature of the projects we worked on, which were smaller in scope despite being larger in number. In Q2 2021, we also started building our US based operations team in preparation for the commissioning and subsequent operation of two new water treatment plants in the US, one at a power generation facility and the other at a US mine. This accounts for the reduced operations margin recorded during the quarter as we train our new operations personnel, similar to what occurred in 2020 as part of the lead up to the commissioning of the first industrial scale Selen-IX™ plant in BC, Canada.

Our overall outlook for the second half of 2021 and going into 2022 remains positive. The Company continues to maintain a strong balance sheet while growing our working capital position when compared to 12 months ago. Furthermore, as new operations come online later in 2021, management expects to see revenue growth in the next two quarters. But as the severity and duration of the pandemic persists, we continue to caution our shareholders with respect to the risks and uncertainties surrounding COVID-19 and its variants, which remain unchanged from Q1 2021.

## FINANCIAL HIGHLIGHTS

- Adjusted EBITDA for Q2 2021 was \$1.4 million compared to \$412,000 in Q2 2020, a 248% increase.
- Proportional Revenue for Q2 2021 was \$4.2 million, a \$1.4 million or 51% increase from \$2.8 million in Q2 2020.
- Net Income increased by \$864,000 to \$809,000 in Q2 2021, compared to a net loss of \$55,000 in Q2 2020.
- Working capital was \$2.4 million at June 30, 2021, compared to \$3.5 million at December 31, 2020, and \$2.2 million at June 30, 2020, representing a 9% increase over the last 12 months.
- Proportional Cash, which includes our share held in joint ventures, at June 30, 2021 was \$5.0 million, compared to \$5.2 million at December 31, 2020, and \$3.4 million at June 30, 2020, a 47% increase over the last 12 months.

## OPERATIONAL SERVICES HIGHLIGHTS

Our operational services consist of the operation of water treatment plants, which generate recurring revenues for the Company from two main sources: sales of recovered metals and water treatment fees.

### Revenues from Sales of Recovered Metals

The Company operates four water treatment plants that generate revenues from the sale of recovered metals, three plants from the JCC-BQE Joint Venture ("JCC-BQE") and one plant from the MWT-BQE Joint Venture ("MWT-BQE").

#### JCC-BQE Joint Venture

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates 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 are as follows:

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
Water treated (cubic metres)	7,702	5,561	10,126	8,270
Copper recovered (pounds)	1,262	909	1,466	1,166

During Q2 2021, all three plants met or exceeded mechanical availability and process performance. The volume of water treated and the mass of copper recovered both increased by 39% over the same period in 2020. Dexing Mine experienced a higher level of precipitation during Q2 2021 compared to Q2 2020. Higher rainfall increases the water flowing into the treatment plants and improves copper leaching from waste rock, leading to higher copper concentrations in the plant feed. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period.

#### MWT-BQE Joint Venture

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 the majority of its revenues from the sale of zinc recovered from smelter wastewater, along with some copper found in the stream. Operating results are as follows:

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
Zinc recovered (pounds)	319	536	589	719
Copper recovered (pounds)	78	72	154	100

During Q2 2021, the mass of zinc recovered decreased by 40% and the mass of copper recovered increased by 8% compared to the same period in 2020. The smelter periodically operated their production lines with ores from different sources which led to varying concentration of zinc and copper in the feed composition and a fluctuation in the volume of

wastewater treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant.

### Revenues from Water Treatment Fees

The Company is contracted to operate and provide technical support for water treatment plants that generate recurring revenues in the form of water treatment and operations support fees. They include four plants operated by BQE Water for Glencore at Raglan Mine in Northern Québec, a plant operated by the MWT-BQE joint venture but supported and supervised by BQE Water in China, and the newly added Zhongkuang SART plant and the Zhaojin SART plant in Shandong province of China. The two new SART plants completed commissioning and began operations in 2021.

During Q2 2021, we mobilized our operations team to site to commence our 18th operating season at Raglan Mine. The team initiated operational activities in April 2021 and began discharging water in June 2021.

The MWT-BQE, Zhongkuang SART and Zhaojin SART plants generate fixed operations support fees for achieving operational targets that rely on the Company's technical expertise. In Q2 2021, the Zhongkuang SART plant was not operational due to a temporary government mandated stoppage of all underground mining operations to conduct safety audits and remedial activities following an incident at an unrelated mine site. The mine, along with the requirement of water treatment from our SART plant, is expected to be back online by September 2021. The volume of water treated by plants are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
Glencore water treatment plants	145	94	145	94
MWT-BQE water treatment plant	175	179	342	332
Zhongkuang SART plant	-	-	48	-
Zhaojin SART plant	102	-	102	-

## TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q2 2021 are summarized below.

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

- Initiated engineering for a second large scale Selen-IX™ plant to be installed at a mine in the US.
- Continued to provide engineering services for the first commercial scale direct selenium ERC plant at a mine in the US.
- Supported equipment installation at the first Selen-IX™ plant, outside of the mining industry, at an ash pond in the US and prepared a plant commissioning plan.

### ***Cyanide Management and Recovery using SART and Electro-oxidation***

- Initiated the investigation into improving the performance of an existing cyanide destruction plant.
- Initiated lab scale testing of cyanide recovery from thiocyanate using leach solution from an existing gold plant.

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

- Re-commissioning of the existing water treatment plant at Minto Mine in the Yukon.
- Upgrades and optimization of water treatment plant operation at the Hope Bay project in Nunavut.
- Completion of various trade-off studies prior to engineering for the construction of a sulphate removal plant in BC.
- Water treatment design for permitting, including one in the mine operations phase and the other for post-closure in BC.
- Expansion of an existing ammonia removal water treatment system for a gold mine in Ontario.
- Assessment of improvements to the water management and treatment strategy for the KSM project in BC.
- Water treatment design for a new gold mine in Central America.
- Initiated a study to mitigate chronic toxicity at an existing mining operation in Québec.
- Design of a water treatment plant for water re-use and cyanide recycle at a gold plant in México.
- Review of a water treatment plant design completed by a third party for a mine in Peru.
- Design of a pilot plant for boron removal from wastewater at a mine in Peru.

## SELECTED FINANCIAL INFORMATION

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues	1,188	1,414	2,168	3,350
Operating expenses	(944)	(921)	(1,451)	(2,116)
Operating margin	244	493	717	1,234
Share of income from joint ventures	1,580	380	1,604	253
General and administration expenses	(459)	(435)	(860)	(867)
Sales and development expenses	(378)	(239)	(831)	(468)
Share-based payment expenses	(184)	(118)	(272)	(167)
Depreciation	(37)	(36)	(74)	(72)
Income (loss) from operations and joint ventures	766	45	284	(87)
Other (expenses) income, net	(39)	(95)	(79)	21
Bad debt recovery	95	-	95	-
Income tax expense	(13)	(5)	(13)	(5)
<b>Net income (loss) for the period</b>	<b>809</b>	<b>(55)</b>	<b>287</b>	<b>(71)</b>
Net earnings (loss) per share (basic)	0.66	(0.04)	0.23	(0.06)
Net earnings (loss) per share (diluted)	0.65	(0.04)	0.23	(0.06)
Proportional Revenues <sup>1</sup>	4,174	2,771	5,725	5,127
Adjusted EBITDA <sup>1</sup>	1,435	412	1,205	503

	at Jun. 30, 2021	at Dec. 31, 2020
Working capital	2,386	3,543
Total assets	11,139	10,464
Total non-current liabilities	744	821
Shareholders' equity	8,514	8,088

### Notes:

1. See Non-GAAP measures

## COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	<b>1,188</b>	980	1,609	2,738	1,414	1,936	1,382	2,326
Operating expenses	<b>(944)</b>	(507)	(934)	(1,381)	(921)	(1,195)	(882)	(857)
	<b>244</b>	473	675	1,357	493	741	500	1,469
Share of income (loss) from joint ventures	<b>1,580</b>	23	101	785	380	(127)	(263)	402
General and administration	<b>(459)</b>	(401)	(413)	(342)	(435)	(433)	(480)	(405)
Sales and development	<b>(378)</b>	(453)	(349)	(153)	(239)	(229)	(230)	(241)
Share-based payment expenses	<b>(184)</b>	(88)	(107)	(113)	(118)	(49)	(13)	(55)
Depreciation	<b>(37)</b>	(37)	(42)	(33)	(36)	(36)	23	(54)
Income (loss) from operations	<b>766</b>	(483)	(135)	1,501	45	(133)	(463)	1,116
Other income (expenses), net	<b>(39)</b>	(40)	30	(58)	(95)	115	21	37
Bad debt recovery (expenses)	<b>95</b>	-	-	-	-	-	(95)	(287)
Income tax expense	<b>(13)</b>	-	(97)	-	(5)	-	(91)	(17)
Net income (loss)	<b>809</b>	(523)	(202)	1,443	(55)	(18)	(628)	849
Translation gain (loss)	<b>28</b>	(69)	(63)	97	(191)	387	70	(140)
Comprehensive income (loss)	<b>837</b>	(592)	(265)	1,540	(246)	369	(558)	709
<b>Non-GAAP Measures:</b>								
Proportional Revenue	<b>4,174</b>	1,551	3,085	5,287	2,771	2,356	2,005	3,991
Adjusted EBITDA	<b>1,435</b>	(231)	133	2,039	412	91	(451)	1,495

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 Q2 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended June 30, 2021 and 2020.

### Proportional Revenue

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

<i>(in \$'000s)</i>	Q2 2021		Q2 2020		% Change
Revenue source	\$	% of total	\$	% of total	
Sale of recovered metals from operations	2,986	72%	1,357	49%	120%
Water treatment fees from operations	261	6%	144	5%	81%
Technical services	927	22%	1,270	46%	(27%)
Total Proportional Revenue	4,174	100%	2,771	100%	51%

Revenues from the sale of base metals of value 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 Q2 2021, the Company's share of revenues from the JCC-BQE joint venture increased by \$1.6 million or 120% from the comparable period in 2020. The gain can be attributed to a 58% increase in the average copper prices together with a 39% increase in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture increased by \$62,000 when compared to Q2 2020, mainly due to the increase in average copper and zinc prices for the period.

Water treatment fee revenue consists of tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees in China. The 2021 operating season at Raglan Mine began slightly earlier compared to 2020, leading to a \$23,000 increase in revenue compared to Q2 2020. At the beginning of Q2 2021, the Company also began providing ongoing operations support at the Zhaojin SART plant, earning an additional \$94,000 in support fees.

Revenues from technical services decreased by \$343,000 or 27% in Q2 2021 compared to Q2 2020. Technical services revenue was lower due to the timing and nature of the projects that we worked on, which were smaller in scope despite being larger in number. 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. Such revenues represent the sum of multiple contracts from various clients of varying values.

### Operating Expenses

Total operating expenses during Q2 2021 were \$944,000 compared to \$921,000 in Q2 2020, an increase of \$23,000 or 2%. The lower operating margin (21% in Q2 2021 vs. 35% in Q2 2020) is attributable to the additional deployment of labour resources required in preparing for the commissioning and subsequent operation of new water treatment plants in the US. During the quarter, total labour expenses, including the Company's internal labour resources and external engineering contractors, were \$855,000 compared to \$837,000 in the same quarter of the year prior. Also impacting operating expenses is the level of technical expertise and resources required, which vary depending on the specific mine conditions and treatment for each project.

### Expenses

In Q2 2021, general and administration expenses were \$459,000 compared to \$435,000 in Q2 2020. The increase of \$24,000 or 6% in general and administration expenses was due to increases in insurance premiums and fees for professional services.

Sales and development costs in Q2 2021 were \$378,000 compared to \$239,000 in Q2 2020, an increase of \$139,000 or 58%. Due to the decrease of technical services activity during the quarter, more labour resources were designated for business and technology development initiatives.

Share-based payment expenses were \$184,000 in Q2 2021 compared to \$118,000 in Q2 2020. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock options expenses 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 the increase of the Company's share price during the reporting period.

Depreciation expense was \$37,000 in Q2 2021, consistent with the \$36,000 reported in Q2 2020.

### **Other Income and Expenses**

Net finance costs were \$6,000 in Q2 2021 compared to \$4,000 in Q2 2020. As the Company currently does not hold any interest-bearing debt, finance costs arise from the interest accretion of the Company's long-term liabilities, such as lease obligations.

Foreign exchange loss was \$33,000 in Q2 2021 compared to \$91,000 in Q2 2020. These 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, the Company's reporting currency.

During Q2 2021, the Company reversed a previously recorded allowance of doubtful accounts of \$95,000. The recovery of bad debt is attributed to the full recovery of an accounts receivable balance outstanding for more than two years.

Income tax expenses were \$13,000 in Q2 2021, compared to \$5,000 in Q2 2020. Income tax expenses are mainly attributed to withholding taxes deducted from dividends earned in the Company's joint venture options or income earned in the Company's operations in China.

### **Net Income**

Overall net income for Q2 2021 was \$809,000 compared to a net loss of \$55,000 in the same period in 2020.



## SUMMARY OF YEAR-TO-DATE Q2 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the six-month periods ended June 30, 2021 and 2020.

### Proportional Revenues

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

<i>(unaudited, in \$'000s)</i> Revenue source	YTD 2021		YTD 2020		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	3,557	62%	1,777	35%	100%
Water treatment fees from operations	406	7%	190	4%	114%
Technical services	1,762	31%	3,160	61%	(44%)
Total Proportional Revenues	5,725	100%	5,127	100%	12%

Total year-to-date revenues from the sale of recovered metals increased by \$1.8 million or 100% over the same period in 2020. Sales from recovered metals doubled, primarily due to higher revenues from the JCC-BQE joint venture, where copper recovery increased by 26% and average copper prices for the period increased by 57%. Changes in water volumes, and copper recoveries by extension, are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period. The share of revenue from the MWT-BQE joint venture was \$239,000 in the first six months of 2021, compared to \$101,000 in 2020, an increase of 138% due to higher zinc and copper prices during the period.

Year-to-date water treatment fee revenues increased by \$216,000, or 114%, compared to 2020, mainly due to our two new operation support contracts, the Zhongkuang SART and Zhaojin SART plants, being operational in 2021. Unlike the previous year, the Raglan operations began discharging water in early June resulting in an increase of \$23,000 in water treatment fees compared to 2020. The Company continued to earn fixed fees of \$95,000 for our support at the MWT-BQE treatment plant for the first six months of 2021.

Revenues from technical services during the first half of the year decreased by \$1.4 million from the same period in 2020. The 44% decrease over 2020 is attributable to lower project activity in all areas of technical services. It should be noted that revenues from technical services in the first six months of 2020 were exceptionally strong, exceeding historic averages by more than 100%.

### Operating Expenses

Year-to-date operating expenses in 2021 were \$1.4 million compared to \$2.1 million for the same period in 2020, a decrease of \$665,000 or 31%. This decrease is consistent with the 35% decrease in total revenues from water treatment fees and technical services.

### Expenses

Year-to-date general and administration expenses were \$860,000 compared to \$868,000 for the same period in 2020. This variance was due to changes in salary expenses and in fees paid for professional services.

Year-to-date sales and development expenses were \$831,000 compared to \$468,000 for the same period in 2020, an increase of \$363,000 or 78%. The increase was due to the deployment of additional labour resources designated for business and technology development initiatives.

### Net Income

Overall, net income year-to-date for 2021 was \$287,000 compared to a net loss of \$71,000 in the same period in 2020, an improvement of \$358,000.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2021, BQE Water had 1,235,968 common shares issued and outstanding (1,217,435 at December 31, 2020) and 62,300 stock options outstanding (82,833 at December 31, 2020).

As of the date of this MD&A, August 25, 2021, the Company has 1,238,968 common shares issued and outstanding; and 59,300 stock options outstanding.

At June 30, 2021, the Company had cash of \$2.4 million, a decrease of approximately \$814,000 from December 31, 2020. For the six months ended June 30, 2021, the Company's cash used in operating activities was \$828,000 compared to \$302,000 for the same period in 2020.

The Company had a working capital position at the end of the quarter of \$2.4 million, a decrease of \$1.1 million from December 31, 2020. At June 30, 2021, BQE Water's significant working capital items, aside from cash, include trade and other receivables of \$1.7 million (\$1.7 million at December 31, 2020) and trade payables and accrued liabilities of \$1.0 million (\$1.1 million at December 31, 2020).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN") program. As of June 30, 2021, the WINN loan balance is \$392,000 and the Company has obligations to repay it in 60 equal monthly installments over a period from April 1, 2021 to March 1, 2026. In addition, the Company has credit facilities available with the Royal Bank of Canada ("RBC") including a credit card facility of \$15,000 and a revolving demand credit facility of \$1 million which had not been utilized as of June 30, 2021.

The Company has commitments of \$281,000 until 2023 under operating leases for office and laboratory premises and for assay services.

The Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months, albeit with the continuing potential for a temporary working capital shortfall based on short-term fluctuations in the Company's non-recurring revenues combined with the timing of the annual dividend payment from China.

## RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2021 and 2020, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	178,778	170,623	342,558	338,249
Share-based payments (note 12(a))	42,910	43,995	61,306	79,663
	221,688	214,618	403,864	417,912

For the three and six months ended June 30, 2021, consulting services received from companies owned by the Company's management amounted to \$43,950 and \$77,700 (\$33,750 and \$67,500 in 2020).

Included in trade payables and accrued liabilities as of June 30, 2021 is \$43,849 (\$13,162 at December 31, 2020) of director fees and management consulting service fees with companies owned by the Company's management.

## 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, 2020.

### COVID-19 Economic Uncertainty

The COVID-19 pandemic has continued to disrupt global health and the economy in 2021. Notwithstanding the vaccination programs that are underway, COVID-19 along with variants of the virus that have emerged continue to have a significant negative impact on the global and Canadian economies. For BQE Water, recurring services for the operation of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured have been delayed or suspended due to the pandemic.

The Company has assessed the economic impacts of the COVID-19 pandemic on its financial statements. As at June 30, 2021, management has determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, 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.