

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

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

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and six months ended June 30, 2023 and 2022

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

This Q2 2023 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2023 and 2022 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2022 and 2021 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2022.

Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of June 30, 2023. Our accounting policies are described in Note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at August 25, 2023.

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

OUR BUSINESS

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

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

NON-GAAP MEASURES

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

Proportional Results

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

Proportional Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of revenues from its China joint ventures to the Company's revenues reported under GAAP. Proportional Revenues for the three and six-month periods ended June 30, 2023 and 2022 are as follows:

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

Adjusted EBITDA

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

<i>(in \$'000s)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
GAAP: Net income	615	642	274	831
add/deduct: interest expense	5	4	(32)	-
add: income taxes	232	193	237	208
add: depreciation and amortization	233	184	443	368
EBITDA	1,085	1,023	922	1,407
add: share-based payment expenses	29	267	219	289
deduct: other income	-	(22)	(47)	(22)
add: bad debt expense	259	-	259	-
add: net foreign exchange loss	78	73	19	110
Adjusted EBITDA	1,451	1,341	1,372	1,784

FINANCIAL HIGHLIGHTS

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

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

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

OPERATIONAL SERVICES HIGHLIGHTS

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

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

JCC-BQE Joint Venture Operations

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at Dexing Mine and at Yinshan Mine in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for the three and six months ended June 30, 2023 are as follows:

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

In Q2 2023, all three plants met mechanical availability and process performance targets set by the Company. The volume of water treated increased by 27% while the mass of copper recovered decreased by 28% compared to Q2 2022. Changes in water volume and feed grade from period to period are largely the result of environmental conditions beyond the control of the joint venture.

MWT-BQE Joint Venture Operations

Our 20% share in MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company (“MWT”) and together we operate a water treatment plant at a smelter in Shandong province of China. MWT-BQE generates revenues from the sale of zinc and copper recovered from smelter wastewater. The operating results for the three and six months ended June 30, 2023 are as follows:

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

The smelter periodically operated its production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed and fluctuations in the volume of wastewater treated by the plant. The joint venture has no control over the composition and volume of feed that flows into the plant. During Q2 2023, the plant was shut down temporarily as the value of zinc and copper in the feed was lower than the recovery cost of the metals.

BQE Water Operations

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

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

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

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

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

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

In 2021, we began operations of the Zhongkuang SART plant and the Zhaojin SART plant at metallurgical facilities in China. Both plants have been under our technical supervision since the start of full production. Both SART plants operated fully throughout Q2 2023 without disruption.

In 2021, we completed the commissioning of our first project in the power generation industry, a treatment plant utilizing our Selen-IX™ process to remove selenium from ash pond water for WesTech Engineering (“WesTech”). In Q2 2023, our operations team continued providing water treatment services with the Selen-IX™ circuit to manage the presence of any selenium in the feed.

In 2022, we completed the commissioning of a treatment plant utilizing a combination of nanofiltration and our proprietary selenium electro-reduction process for the simultaneous removal of selenium and sulphate from mine water for a base metal project in the American Southwest. In Q1 2023, our team successfully completed the performance test milestone for the treatment plant. As a result, we are now also receiving a variable treatment fee based on the volume of water treated, in addition to the monthly base fee.

TECHNICAL SERVICES HIGHLIGHTS

BQE Water’s technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q2 2023 are summarized below.

Selenium Removal Projects

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

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

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

Cyanide Management Projects (Cyanide Destruction, Recycle)

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

COMMENTARY AND OUTLOOK

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

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

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

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

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

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

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

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

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

SUMMARY OF Q2 2023 FINANCIAL RESULTS

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

Proportional Revenue

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

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

Revenues from the sale of base metals recovered comprises the Company's share of revenues from its joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is affected by the amount and market price of metal concentrate sold. During Q2 2023, our share of revenues from the JCC-BQE joint venture decreased by \$797,000 or 33% compared to the comparable period in 2022. The decrease is attributed to a 7% decrease in average copper prices and a 28% decrease in the quantity of copper recovered. The MWT-BQE joint venture was not operating and did not have any metal sales in Q2 2023.

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

Revenues from technical services increased by \$689,000 or 33% in Q2 2023 compared to Q2 2022. These revenues are non-recurring in nature and are related to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. These revenues represent the sum of multiple contracts from various clients of varying contract values. Revenues from technical services were strong in Q2 2023 due to several major projects. We began the onsite commissioning of a fourth selenium removal treatment plant at a US mine and wrapped up the multi-pilot demonstration and reporting for Codelco in Chile.

Operating Expenses

Total operating expenses during Q2 2023 were \$2.2 million compared to \$1.8 million in Q2 2022, an increase of \$389,000 or 22%. The increase in operating expenses is directly attributable to the 54% increase in operations services and project activity related to technical services completed in the quarter. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. During Q2 2023, we improved our operating margin to 48% compared to 35% in Q2 2022.

Expenses

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

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

Share-based payment expenses were \$29,000 in Q2 2023 compared to \$267,000 in Q2 2022. Share-based payment expenses mainly consist of non-cash compensation expenses relating to the recently issued stock option and restricted share units in 2022 and 2023, both of which are expensed on a straight-line basis over the vesting period. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from changes in the Company's share price during the reporting period.

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

Other Income and Expenses

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

Net finance cost was \$6,000 in Q2 2023 compared to \$4,000 in Q2 2022. Finance income consists of interest income earned predominantly from on-demand guaranteed investment certificates and is netted against finance costs, which consist of interest paid and interest accrued for other liabilities.

Foreign exchange loss was \$78,000 in Q2 2023 compared to a loss of \$73,000 in Q2 2022. Foreign exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar, our reporting currency.

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

Net Income

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

SUMMARY OF YEAR-TO-DATE Q2 2023 FINANCIAL RESULTS

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

Proportional Revenues

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

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

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

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

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

Operating Expenses

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

Expenses

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

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

Net Income

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2023, BQE Water had 1,250,628 common shares issued and outstanding (1,256,928 at December 31, 2022), and 90,340 stock options outstanding (90,340 at December 31, 2022).

As of the date of this MD&A, August 25, 2023, the Company has 1,249,428 common shares issued and outstanding, and 90,340 stock options outstanding.

In 2022, the Company obtained the approval of the TSX Venture Exchange to commence a Normal Course Issuer Bid (NCIB) to repurchase for cancellation up to 62,556 common shares, representing 5% of common shares issued and outstanding, over a 12-month period starting December 12, 2022. As of August 25, 2023, the Company has repurchased for cancellation 7,500 common shares under the NCIB (nil as of Dec 31, 2022).

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

At June 30, 2023, we had restricted cash of \$187,000, compared to \$180,000 from December 31, 2022. Such balances include a term deposit denominated in CLP held by Scotiabank as a letter of credit related to a customer in Chile until completion of the project.

Working capital is defined as current assets minus current liabilities. The Company had a working capital position at the end of the quarter of \$6.8 million, a decrease of \$324,000 from December 31, 2022. At June 30, 2023, our significant working capital items, aside from cash, include trade and other receivables of \$3.7 million (\$3.2 million at December 31, 2022) and trade payable and accrued liabilities of \$1.1 million (\$1.2 million at December 31, 2022).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative (WINN) program. At June 30, 2023, the WINN loan balance was \$227,000 with obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. Additionally, there are credit facilities available with the Royal Bank of Canada including a credit card facility of \$30,000 and a revolving demand credit facility of \$1.0 million which has not been utilized as of June 30, 2023.

The Company has commitments of \$1.8 million until 2034 under operating leases for office and laboratory premises and for assay services.

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

RELATED PARTY TRANSACTIONS

Management Compensation

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

For the three and six months ended June 30, 2023 and 2022, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries, fees and short-term benefits	232,357	199,072	438,656	391,122
Share-based payments	26,212	71,438	85,832	90,280
	<u>258,569</u>	<u>270,510</u>	<u>524,488</u>	<u>481,402</u>

Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumiut Development Inc., for providing water treatment services in Nunavik. Revenue earned from the joint venture for the three and six months ended June 30, 2023 was \$317,092 and \$446,779 (\$193,793 and \$193,793 in 2022). Included in trade and other receivables as of June 30, 2023 is \$364,577 (\$154,611 at December 31, 2022) of trade receivables due from the joint venture.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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