

BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three and nine months ended September 30, 2021 and 2020

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

		September 30 2021 \$	December 31 2020 \$
	note		
Assets			
Current assets			
Cash		4,260,622	3,239,692
Trade and other receivables	5	1,993,786	1,685,717
Prepaid and other deposits		193,358	172,711
Total current assets		6,447,766	5,098,120
Non-current assets			
Plant and equipment	7	252,413	319,664
Intangible assets	8	250,000	-
Investment in joint ventures	9	6,261,609	5,021,154
Deposits		24,881	24,881
Total non-current assets		6,788,903	5,365,699
Total assets		13,236,669	10,463,819
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	6, 10	1,267,884	1,055,487
Loans	11	82,500	61,875
Deferred revenues		302,375	75,349
Lease obligations	12	117,045	92,128
Deferred benefits	13	437,459	270,003
Total current liabilities		2,207,263	1,554,842
Non-current liabilities			
Loans	11	288,750	350,625
Deferred revenues		283,740	283,740
Lease obligations	12	124,250	186,877
Total non-current liabilities		696,740	821,242
Total liabilities		2,904,003	2,376,084
Shareholders' Equity			
Share capital	14	56,537,611	56,386,413
Contributed surplus		10,644,440	10,565,312
Accumulated other comprehensive income		1,630,880	1,445,214
Accumulated deficit		(58,480,265)	(60,309,204)
Total shareholders' equity		10,332,666	8,087,735
Total liabilities and shareholders' equity		13,236,669	10,463,819
Commitments (note 17)			

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

BQE WATER INC.

Condensed Consolidated Interim Statements of Income and Other Comprehensive Income

For the three and nine months ended September 30, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		3 months ended September 30		9 months ended September 30	
		2021	2020	2021	2020
		\$	\$	\$	\$
	note				
Revenues	18	2,773,189	2,737,571	4,941,189	6,087,579
Operating expenses (excluding depreciation)		(1,088,184)	(1,380,929)	(2,539,640)	(3,496,752)
Operating margin before depreciation		1,685,005	1,356,642	2,401,549	2,590,827
Share of income from joint ventures	9	700,267	784,840	2,303,776	1,038,130
General and administration expenses		(427,387)	(341,708)	(1,287,451)	(1,209,039)
Sales and development expenses		(273,254)	(153,497)	(1,104,318)	(621,545)
Share-based payment expenses	13	(19,460)	(112,947)	(291,796)	(279,798)
Depreciation	7	(37,375)	(33,154)	(111,449)	(105,400)
Income from operations and joint ventures		1,627,796	1,500,176	1,910,311	1,413,175
Finance costs, net		(6,441)	(40,496)	(18,340)	(45,821)
Foreign exchange gain (loss)		39,983	(17,697)	(27,368)	8,324
Bad debt recovery		-	-	94,630	-
Income before income taxes		1,661,338	1,441,983	1,959,233	1,375,678
Income tax expenses		(117,720)	-	(130,294)	(5,067)
Net income for the period		1,543,618	1,441,983	1,828,939	1,370,611
Other comprehensive income					
<i>Items that will be reclassified subsequently to income</i>					
Translation gain on foreign operations		226,802	96,544	185,666	291,685
Total comprehensive income for the period		1,770,420	1,538,527	2,014,605	1,662,296
Net earnings per share					
Basic	14(c)	1.25	1.18	1.49	1.13
Diluted	14(c)	1.23	1.17	1.46	1.12
Weighted average number of shares outstanding					
Basic	14(c)	1,238,490	1,216,870	1,228,552	1,215,363
Diluted	14(c)	1,259,777	1,228,192	1,248,739	1,224,241

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 nine months ended September 30, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		Number of Shares	9 months ended Sept. 30, 2021 \$	Number of Shares	9 months ended Sept. 30, 2020 \$
	note				
Share Capital					
Balance, beginning of the period	14(b)	1,217,435	56,386,413	1,210,434	56,344,407
Exercise of stock options	13(a)	21,533	151,198	7,001	42,006
Balance, end of the period		1,238,968	56,537,611	1,217,435	56,386,413
Contributed surplus					
Balance, beginning of the period			10,565,312		10,320,533
Equity settled share-based payments	13(a)		79,128		183,046
Balance, end of the period			10,644,440		10,503,579
Accumulated other comprehensive income					
Balance, beginning of the period			1,445,214		1,216,730
Other comprehensive income for the period			185,666		291,685
Balance, end of the period			1,630,880		1,508,415
Accumulated deficit					
Balance, beginning of the period			(60,309,204)		(61,476,339)
Net income for the period			1,828,939		1,370,611
Balance, end of the period			(58,480,265)		(60,105,728)
Total shareholders' equity					
Balance, beginning of the period			8,087,735		6,405,331
Exercise of stock options	13(a)		151,198		42,006
Equity settled share-based payments	13(a)		79,128		183,046
Net income for the period			1,828,939		1,370,611
Other comprehensive income for the period			185,666		291,685
Balance, end of the period			10,332,666		8,292,679

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 nine months ended September 30, 2021 and 2020
(Unaudited – expressed in Canadian dollars)

		9 months ended September 30	
		2021	2020
		\$	\$
	note		
Operating activities			
Net income for the period		1,828,939	1,370,611
Items not affecting cash			
Income tax expenses		130,294	5,067
Bad debt recovery		(94,630)	-
Income from equity accounted joint ventures	9	(2,303,776)	(1,038,130)
Finance costs, net		18,340	45,821
Depreciation	7	111,449	105,400
Foreign exchange loss (gain)		10,358	(25,088)
Share-based payment expenses	13	291,796	279,798
		(7,230)	743,479
Change in non-cash operating working capital items	16	105,051	(948,352)
Cash provided by (used in) operations		97,821	(204,873)
Income taxes paid		(130,305)	(3,458)
Net cash used in operating activities		(32,484)	(208,331)
Investing activities			
Purchase of plant and equipment	7	(6,881)	(11,111)
Purchase of intangible assets	8	(150,000)	-
Dividends received from joint venture	9	1,177,200	-
Interest received		4,477	4,257
Net cash provided (used) in investing activities		1,024,796	(6,854)
Financing activities			
Lease payments on principal portion	12	(75,072)	(66,673)
Lease payments on interest portion	12	(22,763)	(18,305)
Proceeds from exercise of stock options	13(a)	151,198	42,006
Repayment of loan	11	(41,250)	-
Proceeds from loan	11	-	157,989
Interest paid		(54)	(216)
Net cash provided in financing activities		12,059	114,801
Effect of exchange rate changes on cash		16,559	29,788
Change in cash		1,020,930	(70,596)
Cash, beginning of the period		3,239,692	2,060,060
Cash, end of the period		4,260,622	1,989,464

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 nine months ended September 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 November 24, 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 Sept. 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 Sept. 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
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(Unaudited)

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 September 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 nine months ended September 30 2021
(Unaudited)

5. TRADE AND OTHER RECEIVABLES

	Sept. 30, 2021	Dec. 31, 2020
	\$	\$
Trade receivables	1,356,420	1,274,976
Contract assets	637,366	410,715
Other	-	26
	<u>1,993,786</u>	<u>1,685,717</u>

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three and nine months ended September 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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	173,028	166,223	515,586	504,472
Share-based payments (note 12(a))	16,994	39,343	78,300	119,005
	<u>190,022</u>	<u>205,566</u>	<u>593,886</u>	<u>623,477</u>

For the three and nine months ended September 30, 2021, the consulting services received from companies owned by the Company's management amounted to \$25,900 and \$103,600 (\$33,750 and \$101,250 in 2020).

Included in trade payables and accrued liabilities as of September 30, 2021 is \$69,856 (\$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 nine months ended September 30 2021
(Unaudited)

7. PLANT AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
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	-	6,881	43,376
Foreign exchange translation	1,360	-	-	1,360
As at September 30, 2021	508,291	580,593	679,739	1,768,623
Accumulated Depreciation				
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	(85,019)	-	(26,430)	(111,449)
Foreign exchange translation	(538)	-	-	(538)
As at September 30, 2021	(288,210)	(580,593)	(647,407)	(1,516,210)
Carrying Amount				
As at December 31, 2020	267,783	-	51,881	319,664
As at September 30, 2021	220,081	-	32,332	252,413

¹Right-of-use assets (note 12) comprises lease assets such as office buildings and office equipment.

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

8. INTANGIBLE ASSETS

On September 3, 2021, the Company entered into an intellectual property purchase agreement and a consulting agreement (together as the "Agreements") with R&S Environmental Consulting Services Inc. and its sole owner Randy Aguis (together as "R&S"). Under the terms of the Agreements, R&S will receive an aggregate cash payment of \$250,000 as consideration for intangible asset rights pertaining to cyanide destruction. Intangible asset rights include all intellectual properties, such as the know-how, results, trade secrets, methods, and designs related to cyanide destruction. Also under the Agreements, R&S will work exclusively for the Company for a term of 2 years, to train and help mentor Company staff in regards to cyanide destruction. During the term of the Agreements, R&S will earn a fixed monthly consulting fee and an earn-out bonus at the end of the term.

BQE WATER INC.

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

9. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2021 is \$6,261,609 (\$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 (loss)	2,303,776	(11,434)
Share of translation gain on foreign operation	113,879	2,557
Distributions received	(1,177,200)	-
Unrecognized share of net loss and translation gain	-	8,877
Balance, September 30, 2021	6,261,609	-

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 nine months ended September 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

	Sept. 30, 2021 \$	Dec. 31, 2020 \$
Assets		
Current assets		
Cash and short-term investments	3,448,094	2,000,668
Trade and other receivables	1,445,508	544,530
Income taxes recoverable	-	67,749
Inventory	282,080	117,191
Prepaid expenses	1,581	2,283
	<u>5,177,263</u>	<u>2,732,421</u>
Non-current assets		
Plant and equipment	3,083,081	3,401,170
Deferred tax assets	66,675	65,964
	<u>3,149,756</u>	<u>3,467,134</u>
Total assets	<u>8,327,019</u>	<u>6,199,555</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,740,139	1,178,401
Income taxes payable	325,271	-
Total liabilities	<u>2,065,410</u>	<u>1,178,401</u>
Partner's Equity		
Joint venture partner equity	3,961,989	3,961,989
Accumulated other comprehensive income	1,498,699	1,384,820
Accumulated earnings (deficits)	800,921	(325,655)
Total partner's equity	<u>6,261,609</u>	<u>5,021,154</u>
Total liabilities and partner's equity	<u>8,327,019</u>	<u>6,199,555</u>

BQE WATER INC.

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

Statement of operations and comprehensive income

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues	2,672,872	2,480,669	5,990,868	4,156,420
Operating costs (excluding depreciation)	(1,436,603)	(1,245,829)	(2,491,526)	(2,251,738)
	1,236,269	1,234,840	3,499,342	1,904,682
General and administration expenses	(105,621)	(68,201)	(237,940)	(187,994)
Depreciation of plant and equipment	(119,015)	(130,415)	(294,291)	(394,270)
Income from operations	1,011,633	1,036,224	2,967,111	1,322,418
Finance income	10,272	5,077	21,781	15,692
Other income	-	11,239	-	11,239
Income before income taxes	1,021,905	1,052,540	2,988,892	1,349,349
Current income tax expense	(321,638)	(267,700)	(685,116)	(311,219)
Net income for the period	700,267	784,840	2,303,776	1,038,130
Other comprehensive income				
Translation gain (loss) on foreign operation	177,475	106,682	113,879	258,016
Comprehensive income for the period	877,742	891,522	2,417,655	1,296,146

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 net loss in the joint venture for the three and nine months ended September 30, 2021 was \$59,536 and \$11,434 (net loss of \$2,952 for the three months and net loss of \$102,273 for the nine months ended September 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 September 30, 2021, the balance of the unrecognized share of net losses for MWT-BQE is \$149,091 (\$140,213 on December 31, 2020).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 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:

	Sept. 30, 2021	Dec. 31, 2020
	\$	\$
Current assets	65,989	87,270
Plant and equipment	33,329	47,014
Current liabilities	27,814	60,388
Non-current liabilities	28,451	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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue	55,982	67,810	294,897	168,323
Operating costs (excluding depreciation)	(30,007)	(36,438)	(102,904)	(133,796)
	25,975	31,372	191,993	34,527
Non-operating costs	(63,867)	(27,371)	(138,947)	(76,186)
Depreciation of plant and equipment	(21,644)	(6,953)	(64,480)	60,614
Net income (loss) for the period	(59,536)	(2,952)	(11,434)	(102,273)
Other comprehensive income (loss)	6,013	1,538	2,557	8,020
Comprehensive income (loss) for the period	(53,523)	(1,414)	(8,877)	(94,253)

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	Sept. 30, 2021	Dec. 31, 2020
	\$	\$
Trade payables and accruals	515,805	429,035
Payroll liability	608,303	592,115
Tax payable	143,776	34,337
	1,267,884	1,055,487

11. LOANS

In 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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments, equal to \$6,875 per month, which began April 1, 2021 and continue until March 1, 2026.

12. LEASES

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

	Sept. 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	22,763	21,463
Lease payments on interest portion	(22,763)	(21,478)
Lease payments on principal portion	(75,072)	(99,486)
Foreign exchange translation	867	938
Ending Balance	241,295	279,005
Less: current portion of lease obligations	117,045	92,128
Non-current portion of lease obligations	124,250	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 nine months ended September 30, 2021 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Classified as short-term or as low value	5,483	5,151	16,152	16,046
Leases with variable lease payments	15,677	22,827	59,605	52,060
	21,160	27,978	75,757	68,106

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

	Sept. 30, 2021 \$
2021	41,558
2022	137,342
2023	91,236
Total undiscounted lease payments	270,136
Less: imputed interest	(28,841)
Total carrying value of lease obligations	241,295

BQE WATER INC.

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

13. SHARE-BASED PAYMENT EXPENSES

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Stock options (a)	24,719	63,146	79,128	183,046
Deferred share units (b)	(25,085)	35,043	124,104	66,206
Restricted share units (c)	19,826	14,758	88,564	30,546
	19,460	112,947	291,796	279,798

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	7.02	(21,533)	6.00	(7,001)
Forfeited	8.75	(2,000)	6.00	(667)
Outstanding at September 30	7.90	59,300	7.69	82,833
Exercisable at September 30	6.91	27,299	6.00	18,664

BQE WATER INC.

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(Unaudited)

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three and nine months ended September 30, 2021, the Company recognized \$24,719 and \$79,128 (\$63,146 and \$183,046 in 2020) of non-cash compensation expense related to stock options. The expiry date by exercise price at September 30, 2021 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	18,300	18,300
8.75	January 8, 2025	41,000	8,999

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	-	124,104
Balance, September 30, 2021	10,574	320,720

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.

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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	-
Forfeited	(381)	-
Redeemed	(2,032)	(20,320)
Fair value adjustment	-	37,361
Balance, December 31, 2020	7,353	73,387
Granted	4,094	-
Forfeited	(1,027)	-
Redeemed	(2,032)	(45,212)
Fair value adjustment	-	88,564
Balance, September 30, 2021	8,388	116,739

14. SHARE CAPITAL**a) Authorized**

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

b) Issued

As at September 30, 2021, the Company had 1,238,968 common shares outstanding (1,217,435 on December 31, 2020).

c) Net Earnings Per Share

The calculation of net earnings per share for the three and nine months ended September 30, 2021 and 2020 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net income	1,543,618	1,441,983	1,828,939	1,370,611
Basic weighted average number of shares outstanding	1,238,490	1,216,870	1,228,552	1,215,363
Add: Dilution of securities	21,287	11,322	20,187	8,878
Diluted weighted average number of shares outstanding	1,259,777	1,228,192	1,248,739	1,224,241
Net earnings per share:				
Basic	1.25	1.18	1.49	1.13
Diluted	1.23	1.17	1.46	1.12

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30 2021
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15. INCOME TAXES

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2021	2020
	\$	\$
Change in non-cash working capital items		
Changes in trade receivables	(221,788)	(1,542,806)
Changes in other assets	(20,566)	15,090
Changes in accounts payable and accrued liabilities	164,847	162,141
Changes in deferred revenue	227,770	437,543
Changes in other liabilities	(45,212)	(20,320)
Change in non-cash working capital items	105,051	(948,352)

17. COMMITMENTS

The Company has commitments of \$227,109 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2021	54,210
2022	97,155
2023	75,744
	227,109

18. REVENUE

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

a) Disaggregation of Revenue

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

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operations contracts	1,498,107	1,060,781	1,904,099	1,251,558
Technical services contracts	1,275,082	1,676,790	3,037,090	4,836,021
	<u>2,773,189</u>	<u>2,737,571</u>	<u>4,941,189</u>	<u>6,087,579</u>

b) Remaining Performance Obligations

As at September 30, 2021, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,580,767, 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.

19. 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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Canada	1,921,752	1,217,353	2,442,510	1,924,777
USA	313,256	1,166,817	1,131,040	2,976,541
Latin America	346,852	239,942	598,621	865,999
China	173,829	113,459	751,518	320,262
Other	17,500	-	17,500	-
	<u>2,773,189</u>	<u>2,737,571</u>	<u>4,941,189</u>	<u>6,087,579</u>

BQE WATER INC.

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(Unaudited)

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

	Sept. 30, 2021	Dec. 31, 2020
	\$	\$
Canada	469,632	310,606
China	6,294,390	5,030,212
	<u>6,764,022</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 nine months ended September 30, 2021 and 2020:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Customer A	1,379,384	837,266	1,502,987	933,869
Customer B	332,000	318,328	332,000	386,703
Customer D	147,149	113,459	612,039	320,262
Customer E	312,975	1,080,552	908,793	2,148,687
Customer F	-	20,479	201,245	705,346
	<u>2,171,508</u>	<u>2,370,084</u>	<u>3,557,064</u>	<u>4,494,867</u>
Represents percentage of total revenue for the period	78%	87%	72%	74%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2021 and 2020

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 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 Q3 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 nine months ended September 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 September 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 November 24, 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 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 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 nine-month periods ended September 30, 2021 and 2020 are as follows:

(in \$'000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Reported revenues under GAAP	2,773	2,738	4,941	6,088
Share of reported revenues from joint ventures	2,729	2,549	6,286	4,324
Proportional Revenue for the period	5,502	5,287	11,227	10,412

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:

(in \$'000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
GAAP: Net income	1,545	1,443	1,831	1,370
add/deduct: interest (income) expense	(2)	38	4	33
add: income taxes	439	268	815	316
add: depreciation and amortization	178	170	470	560
EBITDA	2,160	1,919	3,120	2,279
add: share-based payment expenses	19	113	292	280
deduct: other income	-	(11)	(95)	(11)
add/deduct: net foreign exchange (gain) loss	(40)	18	27	(8)
Adjusted EBITDA	2,139	2,039	3,344	2,540

COMMENTARY AND OUTLOOK

Q3 2021 was a strong quarter as we delivered year-over-year improvements in Proportional Revenue, Adjusted EBITDA, and net income for both the quarter itself and the first nine months of the fiscal year. Total revenues under GAAP for the first nine months in 2021 were 19% lower than in 2020. However, this was not due to a lack of project activity but rather due to a change in the nature of our activities. In the prior year, there were several projects in advanced stages of development that triggered significantly larger technical services contracts in the areas of plant engineering and pilot demonstration. This year, many new projects were in earlier stages of development with lower contract values, such as lab testing and consultation. As projects advance through the pipeline, we typically see increase in revenue from the same projects and expect this trend to continue. The fact that our revenue sources are diversified can at times help smooth out project revenue fluctuations. Specifically, in Q3 2021, a 24% decrease in technical services revenues was more than offset by a 41% increase in revenues from operations contracts, largely from the sale of metals recovered from our joint ventures that are benefiting from strong copper prices.

There were several major developments during Q3 2021 that are expected to generate positive results and growth opportunities for BQE Water in the short-term and the long-term. First, we acquired the intellectual property of, and simultaneously partnered with, Randy Agius, a global knowledge leader in cyanide destruction, one of the main environmental issues in the gold industry. This is a strategic asset acquisition that increases the scope of services we can provide in the area of cyanide management and is highly complementary to our expertise with the SART process and water treatment. We expect technical services revenues related to cyanide destruction to grow, leading to incremental recurring revenues from cyanide destruction and recovery projects. This is also an example of the Company investing in growth without materially impacting cash reserves. Second, we signed a major contract for pilot demonstrations of our sulphate and copper recovery technologies at multiple sites in Chile with Codelco, the world's largest copper producer. These pilot demonstrations have the potential to open doors to new long-term business opportunities with Codelco as well as other large mining companies in Latin America who take the lead from Codelco when it comes to water management for their projects.

Our overall outlook for the remainder of 2021 and 2022 is positive. We expect to complete commissioning and begin operating two new water treatment plants in the US in the next six months, adding additional streams of recurring revenues to our financial results. The Company has maintained a strong balance sheet while continuing to grow working capital. However, we continue to caution our shareholders with respect to geopolitical uncertainties which may affect our global business and/or interrupt the global economic recovery from the downturn caused by COVID-19.

FINANCIAL HIGHLIGHTS

- Proportional revenue for Q3 2021 was \$5.5 million, a \$215,000 or 4% increase from \$5.3 million in Q3 2020.
- Net income increased by \$102,000 to \$1.5 million in Q3 2021, compared to \$1.4 million in Q3 2020.
- Adjusted EBITDA for Q3 2021 was \$2.1 million compared to \$2.0 million in Q3 2020, a \$100,000 increase.
- Working capital was \$4.2 million at September 30, 2021, compared to \$3.5 million at December 31, 2020, and \$2.4 million at June 30, 2021, representing increases of 20% and 78% respectively.
- Proportional cash, which includes our share of cash held in joint ventures, at September 30, 2021 was \$7.7 million, compared to \$5.2 million at December 31, 2020, and \$5.0 million at June 30, 2021, representing increases of 47% and 54% respectively.

Selected financial results are as follows:

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Revenues under GAAP	2,773	2,738	4,941	6,088
Proportional Revenues	5,502	5,287	11,227	10,412
Net Income	1,545	1,443	1,831	1,370
Adjusted EBITDA	2,139	2,039	3,344	2,540

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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Water treated (cubic metres)	7,949	8,631	18,075	16,901
Copper recovered (pounds)	1,128	1,476	2,594	2,642

During Q3 2021, all three plants met or exceeded mechanical availability and process performance. The volume of water treated and the mass of copper recovered decreased by 8% and 24% respectively over the same period in 2020. Fluctuations in rainfall changes the water flowing into the treatment plants and alters the copper leaching from waste rock, leading to a higher or lower 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:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Zinc recovered (pounds)	185	167	774	886
Copper recovered (pounds)	38	44	192	144

During Q3 2021, the mass of zinc recovered increased by 11% and the mass of copper recovered decreased by 14% compared to the same period in 2020. The smelter periodically operated their production lines with ores from different sources which led to varying concentrations 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. The Company earns water treatment fees at the four plants operated by BQE Water for Glencore at Raglan Mine in Northern Québec. In addition, the Company earns operations support fees in China, which includes 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.

In April 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. During Q3 2021, the total water treated across all four plants at Raglan Mine increased by 51%.

For our operations in China, the Zhaojin SART plant has been operating since April 2021 while the Zhongkuang SART plant was put into care & maintenance during March to October 2021 due to the metallurgical circuit shutdown at the Zhongkuang leaching plant. The volume of water treated by the plants are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Glencore water treatment plants	1,628	1,081	1,773	1,175
MWT-BQE water treatment plant	139	126	481	458
Zhongkuang SART plant	-	-	48	-
Zhaojin SART plant	76	-	184	-

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 Q3 2021 are summarized below.

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

- Continued to support detailed engineering for a second large scale Selex-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.
- Completed first fills (anodes and resin) and initiated pre-commissioning activities at the first Selen-IX™ plant, outside of the mining industry, at an ash pond in the US.

Cyanide Management and Recovery using SART and Electro-oxidation

- Initiated preliminary technical assessment for SART at a new mine in Mexico.
- Initiated preliminary technical assessment for SART integration at a Carbon in leach (CIL) circuit in Canada.
- Initiated cyanide destruction test program to expand an existing operation in Canada.
- Completed lab scale testing of cyanide recovery from thiocyanate using leach solution from an existing gold plant in Central America.

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

- On-site technical support for water treatment plant operations at the Hope Bay project in Nunavut.
- Preliminary engineering for a new non-biological ammonia removal system in Northern Ontario.
- On-site technical support and optimization of a non-biological ammonia removal plant in Ontario.
- Water treatment design for permitting in BC.
- Water treatment design for a new gold mine in Central America.
- Completed a review of water quality and chronic toxicity data for an existing mine in Québec.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues	2,773	2,738	4,941	6,088
Operating expenses	(1,088)	(1,381)	(2,540)	(3,497)
Operating margin	1,685	1,357	2,401	2,591
Share of income from joint ventures	700	785	2,304	1,038
General and administration expenses	(427)	(342)	(1,287)	(1,209)
Sales and development expenses	(273)	(153)	(1,104)	(622)
Share-based payment expenses	(19)	(113)	(292)	(280)
Depreciation	(37)	(33)	(111)	(105)
Income from operations and joint ventures	1,629	1,501	1,911	1,413
Other income (expenses), net	34	(58)	(45)	(38)
Bad debt recovery	-	-	95	-
Income tax expense	(118)	-	(130)	(5)
Net income for the period	1,545	1,443	1,831	1,370
Net earnings per share (basic)	1.25	1.18	1.49	1.13
Net earnings per share (diluted)	1.23	1.17	1.46	1.12
Proportional Revenues ¹	5,502	5,287	11,227	10,412
Adjusted EBITDA ¹	2,139	2,039	3,344	2,540

	at Sept. 30, 2021	at Dec. 31, 2020
Working capital	4,241	3,543
Total assets	13,237	10,464
Total non-current liabilities	697	821
Shareholders' equity	10,333	8,088
Proportional cash ¹	7,709	5,241

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Sept-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	2,773	1,188	980	1,609	2,738	1,414	1,936	1,382
Operating expenses	(1,088)	(944)	(507)	(934)	(1,381)	(921)	(1,195)	(882)
	1,685	244	473	675	1,357	493	741	500
Share of income (loss) from joint ventures	700	1,580	23	101	785	380	(127)	(263)
General and administration	(427)	(459)	(401)	(413)	(342)	(435)	(433)	(480)
Sales and development	(273)	(378)	(453)	(349)	(153)	(239)	(229)	(230)
Share-based payment expenses	(19)	(184)	(88)	(107)	(113)	(118)	(49)	(13)
Depreciation	(37)	(37)	(37)	(42)	(33)	(36)	(36)	23
Income (loss) from operations	1,629	766	(483)	(135)	1,501	45	(133)	(463)
Other income (expenses), net	34	(39)	(40)	30	(58)	(95)	115	21
Bad debt recovery (expenses)	-	95	-	-	-	-	-	(95)
Income tax expense	(118)	(13)	-	(97)	-	(5)	-	(91)
Net income (loss)	1,545	809	(523)	(202)	1,443	(55)	(18)	(628)
Translation gain (loss)	227	28	(69)	(63)	97	(191)	387	70
Comprehensive income (loss)	1,772	837	(592)	(265)	1,540	(246)	369	(558)
Non-GAAP Measures:								
Proportional Revenue	5,502	4,174	1,551	3,085	5,287	2,771	2,356	2,005
Adjusted EBITDA	2,139	1,435	(231)	133	2,039	412	91	(451)

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 Q3 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended September 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>	Q3 2021		Q3 2020		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	2,729	50%	2,549	48%	7%
Water treatment fees from operations	1,498	27%	1,061	20%	41%
Technical services	1,275	23%	1,677	32%	(24%)
Total Proportional Revenue	5,502	100%	5,287	100%	4%

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 Q3 2021, the Company's share of revenues from the JCC-BQE joint venture increased by \$190,000 from the comparable period in 2020. The gain can be attributed to a 41% increase in the average copper price offset by a 24% decrease in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture was \$56,000 in Q3 2021 compared to \$68,000 in Q3 2020.

Water treatment revenues consist of tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees in China. During Q3 2021, the total water discharged across the 4 plants at Raglan Mine increased by 51% from the comparable period in 2020, leading to a \$516,000 increase in revenues compared to Q3 2020. During Q3 2021, the Company continued to provide ongoing operations support at the Zhaojin SART plant and MWT-BQE water treatment plant, earning a total of \$145,000 in support fees.

Revenues from technical services decreased by \$402,000 or 24% in Q3 2021 compared to Q3 2020. Technical services revenue was lower due to the timing and nature of the projects 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 Q3 2021 were \$1.1 million compared to \$1.4 million in Q3 2020, a decrease of \$293,000 or 21%. The higher operating margin (61% in Q3 2021 vs. 50% in Q3 2020) is attributable to the additional deployment of labour resources required in preparing for the commissioning of the Kemess Selen-IX™ water treatment plant in Q3 2020. The remainder of the variance is due to the decrease in project activity related to technical services completed in the quarter. 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 Q3 2021, general and administration expenses were \$427,000 compared to \$342,000 in Q3 2020. The increase of \$85,000 in general and administration expenses was due to increases in insurance premiums and fees for professional services.

Sales and development costs in Q3 2021 were \$273,000 compared to \$153,000 in Q3 2020, an increase of \$120,000. 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 \$19,000 in Q3 2021 compared to \$113,000 in Q3 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 changes of the Company's share price during the reporting period.

Depreciation expense was \$37,000 in Q3 2021, consistent with the \$33,000 reported in Q3 2020.

Other Income and Expenses

Net finance costs were \$6,000 in Q3 2021 compared to \$40,000 in Q3 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 gain was \$40,000 in Q3 2021 compared to a foreign exchange loss of \$18,000 in Q3 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.

Income tax expenses were \$118,000 in Q3 2021, compared to \$nil in Q3 2020. Income tax expenses are mainly attributed to 10% withholding taxes deducted from dividends received during Q3 2021 from the Company's investment from joint venture income earned in China during fiscal year 2020.

Net Income

Overall net income for Q3 2021 was \$1.5 million compared to net income of \$1.4 million in the same period in 2020.

SUMMARY OF YEAR-TO-DATE Q3 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine-month periods ended September 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	6,286	56%	4,324	42%	45%
Water treatment fees from operations	1,904	17%	1,251	12%	52%
Technical services	3,037	27%	4,837	46%	(37%)
Total Proportional Revenues	11,227	100%	10,412	100%	8%

Total year-to-date revenues from the sale of recovered metals increased by \$2.0 million or 45% over the same period in 2020. Sales from recovered metals increased primarily due to higher revenues from the JCC-BQE joint venture, where copper recovery decreased by 2% but average copper prices for the period increased by 47%. 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 \$295,000 in the first nine months of 2021, compared to \$168,000 in 2020, an increase of 75% due to higher zinc and copper prices during the period.

Year-to-date water treatment fee revenues increased by \$653,000 or 52%. New to 2021, the Company began two new operation support contracts, the Zhongkuang SART and Zhaojin SART plants, which contributed new revenues of \$287,000 in 2021. Further, unlike the previous year, the Raglan operations began discharging water in early June resulting in an increase of \$539,000 in water treatment fees compared to 2020. The Company continued to earn fixed fees of \$144,000 for technical support at the MWT-BQE treatment plant for the first nine months of 2021.

Year-to-date revenues from technical services decreased by \$1.8 million from the same period in 2020. The 37% 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 2020 were exceptionally strong, exceeding historic averages by more than 80%.

Operating Expenses

Year-to-date operating expenses in 2021 were \$2.5 million compared to \$3.5 million for the same period in 2020, a decrease of \$957,000 or 27%. This decrease is consistent with the 37% decrease revenues from technical services. During 2020, additional labour resources were deployed for the commissioning of the Kemess plant and the SART plants in China.

Expenses

Year-to-date general and administration expenses were \$1.3 million compared to \$1.2 million for the same period in 2020. The increase of \$78,000 or 6% was due to increases in salary expenses, insurance premiums, and fees paid for professional services.

Year-to-date sales and development expenses were \$1.1 million compared to \$622,000 for the same period in 2020, an increase of \$482,000 or 77%. The increase was due to the deployment of additional labour resources designated for business and technology development initiatives.

During 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.

Net Income

Overall, net income year-to-date for 2021 was \$1.8 million compared to \$1.4 million in the same period in 2020, a gain of \$461,000 or 34%.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2021, BQE Water had 1,238,968 common shares issued and outstanding (1,217,435 at December 31, 2020) and 59,300 stock options outstanding (82,833 at December 31, 2020).

As of the date of this MD&A, November 24, 2021, the Company has 1,239,968 common shares issued and outstanding, and 58,300 stock options outstanding.

At September 30, 2021, the Company had cash of \$4.3 million, an increase of approximately \$1 million from December 31, 2020. For the nine months ended September 30, 2021, the Company's cash used in operating activities was \$32,000 compared to \$208,000 for the same period in 2020.

The Company had a working capital position at the end of the quarter of \$4.2 million, an increase of approximately \$698,000 from December 31, 2020. At September 30, 2021, BQE Water's significant working capital items, aside from cash, include trade and other receivables of \$2.0 million (\$1.7 million at December 31, 2020) and trade payables and accrued liabilities of \$1.3 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 September 30, 2021, the WINN loan balance is \$371,000 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 September 30, 2021.

The Company has commitments of \$227,000 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 nine months ended September 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 Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	173,028	166,223	515,586	504,472
Share-based payments	16,994	39,343	78,300	119,005
	190,022	205,566	593,886	623,477

For the three and nine months ended September 30, 2021, the consulting services received from companies owned by the Company's management amounted to \$25,900 and \$103,600 (\$33,750 and \$101,250 in 2021).

Included in trade payables and accrued liabilities as of September 30, 2021 is \$69,856 (\$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 September 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.