

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2023 and 2022

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 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 Q3 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 nine months ended September 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 September 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 interim MD&A has been prepared as at November 28, 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 proven 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 for removal or saleable by-products, and we monetize the value of our unique process know-how through recurring revenues generated from plant operations services.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices or teams deployed in the US, Chile and China, which are 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 nine-month periods ended September 30, 2023 and 2022 are as follows:

(in \$'000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Reported revenues under GAAP	6,246	3,503	13,123	8,692
Share of revenues from joint ventures in China	1,718	2,204	4,173	5,707
Proportional Revenue for the period	7,964	5,707	17,296	14,399

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	
	2023	2022	2023	2022
	\$	\$	\$	\$
GAAP: Net income	2,131	573	2,404	1,404
deduct: interest income, net	(1)	(8)	(33)	(8)
add: income taxes	267	508	504	717
add: depreciation and amortization	229	193	671	561
EBITDA	2,626	1,266	3,546	2,674
add: share-based payment expenses	109	172	328	462
deduct: other income	-	-	(47)	(22)
add: bad debt expense	-	-	259	-
add: net foreign exchange loss (gain)	7	(77)	26	33
Adjusted EBITDA	2,742	1,361	4,112	3,147

FINANCIAL HIGHLIGHTS

- Recorded Proportional and GAAP revenues of \$8.0 million and \$6.2 million in Q3 2023 respectively, 40% and 78% increases compared to Q3 2022 and both historic highs during a quarter largely due to new recurring revenues from operations and growth in technical services in 2023.
- Operating margin of \$3.3 million in Q3 2023 compared to \$1.7 million in Q3 2022, an 88% increase.
- Record high net income of \$2.1 million in Q3 2023 compared to \$573,000 in Q3 2022, a 272% increase.
- Adjusted EBITDA of \$2.7 million in Q3 2023 compared to \$1.4 million in Q3 2022, a 101% increase.
- Working capital of \$10.0 million as at September 30, 2023, an increase of \$2.9 million or 40% from December 31, 2022.

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

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
Revenue from Operation Services	3,166	1,959	5,435	2,807
Revenue from Technical Services	3,080	1,544	7,688	5,885
Revenue from joint ventures in China	1,718	2,204	4,173	5,707
Proportional Revenues	7,964	5,707	17,296	14,399
Net income	2,131	573	2,404	1,404
Adjusted EBITDA	2,742	1,361	4,112	3,147

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 nine months ended September 30, 2023 are as follows:

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
Water treated (cubic metres)	6,631	6,395	17,068	15,183
Copper recovered (pounds)	741	1,097	1,757	2,509

In Q3 2023, all three plants met mechanical availability and process performance targets set by the Company. The volume of water treated increased by 4% while the mass of copper recovered decreased by 32% compared to Q3 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 nine months ended September 30, 2023 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
Water treated (cubic metres)	81	185	203	504
Zinc recovered (pounds)	35	199	114	305
Copper recovered (pounds)	4	7	45	113

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 Q3 2023, the plant was shut down intermittently 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 nine months ended September 30, 2023 are as follows:

<i>(in days)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
Raglan Mine water treatment plants	92	92	132	122
Minto Mine water treatment plant	92	35	273	35
Zhongkuang SART plant	92	92	272	257
Zhaojin SART plant	85	64	262	87
Water treatment plant in Eastern USA	55	92	182	273
Water treatment plants in Southwest USA	92	92	271	160

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

<i>(in '000s cubic metres)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
Raglan Mine water treatment plants	1,320	1,316	1,541	1,534
Minto Mine water treatment plant	328	128	830	128
SART plants in China	147	160	454	266
Water treatment plants in USA	15	8	25	15

The Company, with Inuit partner Nuvumiut Development, operates four treatment plants at Raglan Mine in Nunavik for Glencore Canada Corporation (“Glencore”). During Q3 2023, the total volume of water treated across all four plants at Raglan Mine is comparable to that of Q3 2022.

In September 2022, we began providing operational services for Minto Metals at Minto Mine in the Yukon. In May 2023, 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. During Q3 2023, while working directly for the Yukon Government, our team continued to treat and discharge clean water at the mine.

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 Q3 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 Q3 2023, our operations team continued providing water treatment services with the Selen-IX™ circuit to manage the presence of 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. During Q3 2023, our team completed the performance test milestone for a 2nd newly constructed selenium removal water treatment plant which entered the operation phase in August 2023. As a result, we are currently providing water treatment operation services for two water treatment plants in the American Southwest.

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 2023 are summarized below.

Selenium Removal Projects

- Continued the wet commissioning phase of the third BQE designed Selen-IX™ plant at a US mine.
- Deployed on-site pilot testing of Selen-IX™ demonstration as a key component for permitting of a gold mine expansion in the US.
- Completed 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 technical assessment of water treatment requirements and options for closure and post-closure at a mine in the Yukon overseen by the provincial government.
- Continued to provide engineering design services for three water treatment plants to support permitting of the KSM gold-copper project in British Columbia.
- Continued to provide engineering services for design for the construction of a new water treatment plant for water recycle at a gold mine in Mexico.
- Completed the water treatment pilot test campaign integrated into a rare earth elements metallurgical extraction project in Chile.
- Initiated work on an investigation of root causes of effluent toxicity at a mine in Eastern Canada.
- Initiated pilot scale tests to demonstrate a new innovative method of managing thiosalts in mine effluents at an existing mine in Canada.
- Initiated an engineering review of an existing reverse osmosis plant, with a focus on increasing plant capacity through optimization to avoid major capital expense, for a customer in Chile.
- 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 lab scale program to confirm the design basis for a cyanide removal plant with the discharge limit of less than 10 ppb for a project in the US.
- Initiated proof of concept lab scale testing of removal of cobalt and associated cyanide from an existing gold mine in Canada.
- Continued with the engineering design for a third SART plant for Shandong Gold in China.

COMMENTARY AND OUTLOOK

We are remarkably pleased with our Q3 2023 and year-to-date financial results, which demonstrate that our strategic focus of rebalancing our revenue sources from the sales of recovered metals to fees from recurring water treatment operations is bearing fruit. On a year-to date basis, our water treatment fees from operations, for the first time, exceeded the sale of recovered metals by \$1.3 million. We expect this trend to continue and expand in future years.

In the first nine months of 2023, we extended our water treatment operation services to four different sites in North America and grew our year-to-date water treatment fee revenues to \$5.4 million, an increase of \$2.6 million or 94% compared to the same period in 2022. The growth in operation services was facilitated by a new selenium removal water treatment plant in the US entering the operation phase during Q3 2023 and our increased role in the operation of water treatment at the Minto Mine compared to 2022. Reflecting on the results of our China joint venture operations, it is too early to determine whether the drop in revenue from metals sales is a one-time event due to the lack of precipitation or part of a new long-term trend of diminishing tonnage of metals available for recovery. Either way, the financial impact of our long-term metals recovery operations have been mitigated with our current revenue model.

Revenue from technical services, which is generated from our specialized professional services in water management, has always been a forerunner to future operation services. Our year-to-date revenues from technical services grew to \$7.7 million, an increase of 31% from the same period in 2022 due to several major projects worked on in 2023. We are pleased with the successful completion of the pilot campaign for a rare-earth-extraction project in Chile, where successful integration and performance of water treatment into the extraction process plays a key role on obtaining environmental approvals for the project. We were also engaged with two new pilot projects: one involving site demonstration of our Selen-IX™ process at a gold mine in the US where selenium treatment is required as part of the mine expansion, and another related to a site demonstration of a new innovative treatment process developed by BQE to manage thiosalts in mining effluent for a mine in Canada.

Looking ahead to the remainder of 2023, we plan to continue executing our existing projects. In the fourth quarter, our operating season at our Canadian operations will pause and be winterized due the cold climate, while our US operations will continue year-round. While we do expect the revenue from either operation services or technical services to be at a similar level when compared to the year ago period, we do anticipate weaker results from our China joint venture in Q4 2023 compared to Q4 2022. We expect our balance sheet to continue to strengthen as we enter 2024.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues	6,246	3,503	13,123	8,692
Operating expenses (excluding depreciation)	(2,959)	(1,759)	(6,815)	(5,063)
Operating margin	3,287	1,744	6,308	3,629
Share of income from joint ventures	382	281	870	1,743
General and administration	(610)	(591)	(2,032)	(1,774)
Sales and development	(555)	(414)	(1,726)	(1,205)
Share-based payments	(109)	(172)	(328)	(462)
Depreciation and amortization	(111)	(70)	(304)	(183)
Income from operations and joint ventures	2,284	778	2,788	1,748
Other income (expenses)	(13)	84	48	(35)
Bad debt expenses	-	-	(259)	-
Income tax expenses	(140)	(289)	(173)	(309)
Net income for the period	2,131	573	2,404	1,404
Net earnings per share (basic)	1.71	0.46	1.92	1.13
Net earnings per share (diluted)	1.67	0.45	1.88	1.11
Proportional Revenues (Non-GAAP measures)	7,964	5,707	17,296	14,399
Adjusted EBITDA (Non-GAAP measures)	2,742	1,361	4,112	3,147
Comprehensive income	2,202	573	2,014	1,158

	at Sept. 30,	at Dec. 31,
	2023	2022
	\$	\$
Cash	6,526	6,234
Proportional cash (Non-GAAP measures)	8,344	9,582
Working capital	10,021	7,165
Total assets	18,882	15,988
Total non-current liabilities	1,690	555
Shareholders' equity	14,530	12,638

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Sept-23	Jun-23	Mar-23	Dec-22	Sept-22	Jun-22	Mar-22	Dec-21
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	6,246	4,186	2,691	3,465	3,503	2,722	2,467	2,570
Operating expenses	(2,959)	(2,162)	(1,694)	(2,044)	(1,759)	(1,773)	(1,531)	(1,409)
	3,287	2,024	997	1,421	1,744	949	936	1,161
Share of results from								
joint ventures	382	407	81	(256)	281	1,129	333	499
General and administration	(610)	(750)	(672)	(690)	(591)	(579)	(604)	(535)
Sales and development	(555)	(557)	(613)	(564)	(414)	(436)	(354)	(270)
Share-based payments	(109)	(29)	(190)	(209)	(172)	(267)	(23)	(11)
Depreciation and amortization	(111)	(111)	(82)	(80)	(70)	(59)	(55)	(57)
Income (loss) from operations	2,284	984	(479)	(378)	778	737	233	787
Other income (expenses), net	(13)	(83)	143	142	84	(77)	(41)	13
Bad debt expense	-	(259)	-	(8)	-	-	-	-
Income tax expenses	(140)	(27)	(6)	-	(289)	(18)	(2)	-
Net income (loss)	2,131	615	(342)	(244)	573	642	190	800
Translation gain (loss)	71	(471)	10	80	-	(139)	(109)	120
Comprehensive income (loss)	2,202	144	(332)	(164)	573	503	81	920
Non-GAAP Measures:								
Proportional Revenue	7,964	5,772	3,560	4,479	5,707	5,164	3,529	4,389
Adjusted EBITDA	2,742	1,451	(80)	(90)	1,361	1,341	446	754

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 related to water management and technical innovation projects occur based on the timing of client requirements.

SUMMARY OF Q3 2023 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended September 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>	Q3 2023		Q3 2022		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	1,718	22%	2,204	39%	(22%)
Water treatment fee from operations	3,166	40%	1,959	34%	62%
Technical services	3,080	38%	1,544	27%	99%
Total Proportional Revenues	7,964	100%	5,707	100%	40%

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 Q3 2023, our share of revenues from the JCC-BQE joint venture decreased by \$461,000 or 21% compared to the comparable period in 2022. The decrease is largely attributed to a 33% decrease in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture in Q3 2023 was \$10,000, compared to \$35,000 in Q3 2022.

The Company earns water treatment fee revenues, including monthly fees and tolling fees from the volume of water treated and operations support fees, at four different sites including Raglan Mine in Nunavik through our partnership with Inuit company Nuvumiut Development, at Minto Mine in the Yukon, and at the three selenium removal plants in the US. The 62% increase in water treatment fees in the quarter is due to several operations. The new Minto Mine operations that commenced September 2022, provided \$588,000 of new revenues in Q3 2023. During Q3 2023, the third selenium removal treatment plant in the US began operations, and all three US plants in aggregate provided \$1.1 million of recurring revenues compared to \$446,000 in Q3 2022. In our operations at Raglan Mine, we earned comparable water treatment fees when compared to Q3 2022, as the volume of water treated between these two periods was similar. Our operation support fees are comprised of recurring technical support services at two SART plants in China that generated revenues of \$175,000 in Q3 2023 compared to \$180,000 in Q3 2022.

Revenues from technical services doubled in Q3 2023 when compared to Q3 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 Q3 2023 due to several major projects. In Q3 2023, we continued the onsite commissioning of a third selenium removal treatment plant at a US mine and began a new pilot demonstration campaign for a mining customer in South Dakota.

Operating Expenses

Total operating expenses during Q3 2023 were \$3.0 million compared to \$1.8 million in Q3 2022, an increase of \$1.2 million or 68%. The increase in operating expenses is directly attributable to the 78% 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 Q3 2023, we improved our operating margin to 53% compared to 50% in Q3 2022.

Expenses

In Q3 2023, general and administration costs were \$610,000 compared to \$591,000 in Q3 2022, representing a \$19,000 increase. The increase was attributable to the increase in insurance premiums for the comparable period.

Sales and development costs during Q3 2023 were \$555,000 compared to \$414,000 in Q3 2022, an increase of \$141,000 or 34%. The increase was mainly attributable to a \$118,000 increase in labor resources allocated to fulfill technological and business development initiatives, and a \$29,000 increase in travel expenses related to business development.

Share-based payment expenses were \$109,000 in Q3 2023 compared to \$172,000 in Q3 2022. Share-based payment expenses mainly consist of non-cash compensation expenses relating to the recently issued stock option and restricted share units, 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 Q3 2023 compared to \$70,000 in Q3 2022. The increase in Q3 2023 was due to several newly added right-of-use assets, including 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 \$13,000 in Q3 2023 compared to income of \$84,000 in Q3 2022. Other income or expenses consists of net finance cost and foreign exchange.

Net finance cost was \$6,000 in Q3 2023 compared to income of \$7,000 in Q3 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 \$7,000 in Q3 2023 compared to income of \$77,000 in Q3 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.

Income Taxes

Income tax expenses were \$140,000 in Q3 2023, compared to \$289,000 in Q3 2022. Income tax expenses are mainly attributed to 10% withholding taxes deducted from annual dividends received during quarter from the Company's investment from joint venture income earned in China during the preceding fiscal years, which is 2022 net income is roughly 50% of that in 2021.

Net Income

After income tax, overall net income for Q3 2023 was \$2.1 million compared to \$573,000 for the same period in 2022.

SUMMARY OF YEAR-TO-DATE 2023 FINANCIAL RESULTS

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

Proportional Revenues

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

(in \$'000s) Revenue source	YTD 2023		YTD 2022		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	4,173	24%	5,707	40%	(27%)
Water treatment fees from operations	5,435	31%	2,807	19%	94%
Technical services	7,688	45%	5,885	41%	31%
Total Proportional Revenues	17,296	100%	14,399	100%	20%

Sales of recovered metals decreased by \$1.5 million or 27%, primarily due to lower revenues from the JCC-BQE joint venture. This decrease was attributable to a 30% decrease in the quantity of copper recovered 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 \$212,000 in 2023 compared to \$193,000 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 \$2.6 million or 94% compared to 2022, mainly due to the full year of new operations which started in 2022, such as a selenium removal plant in the US in April 2022 and Minto Mine operations in September 2022. In addition, the third selenium removal plant in the US began operations in August 2023 to further contribute water treatment fees. The Raglan Mine operations began discharging water in May and earned similar levels of revenue compared to 2022. The Company also continued to earn support fees in China for all of 2023, similar to the same period in 2022.

Revenues from technical services during the year increased by \$1.8 million from the same period in 2022. The 31% increase is attributable to increases in project activity in all areas of technical services, including commissioning activities in the US and multiple pilot demonstration projects in Chile.

Operating Expenses

Year-to-date operating expenses in 2023 were \$6.8 million compared to \$5.1 million for the same period in 2022, an increase of \$1.7 million. This 35% increase is consistent with the 51% increase in total revenues from water treatment fees and technical services. Year-to-date operating margin in 2023 increased to 48% compared to 42% for the same period in 2022.

Expenses

Year-to-date general and administration expenses were \$2.0 million compared to \$1.8 million for the same period in 2022. The \$258,000 increase was due to the \$169,000 increase in employee benefits and the \$58,000 increase in insurance premiums.

Year-to-date sales and development expenses were \$1.7 million compared to \$1.2 million for the same period in 2022, an increase of \$522,000. 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 \$2.4 million compared to \$1.4 million in the same period in 2022.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2023, BQE Water had 1,247,228 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, November 28, 2023, the Company has 1,256,728 common shares issued and outstanding, and 87,340 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 November 28, 2023, the Company has repurchased for cancellation 12,900 common shares under the NCIB (nil as of Dec 31, 2022).

At September 30, 2023, we had cash of \$6.5 million, an increase of approximately \$292,000 from December 31, 2022. For the nine months ended September 30, 2023, cash used in operating activities was \$427,000 compared to \$112,000 in 2022.

At September 30, 2023, we had restricted cash of \$173,000, 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 \$10.0 million, an increase of \$2.9 million from December 31, 2022. At September 30, 2023, our significant working capital items, aside from cash, include trade and other receivables of \$5.5 million (\$3.2 million at December 31, 2022) and trade payables and accrued liabilities of \$1.8 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 September 30, 2023, the WINN loan balance was \$206,000 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 September 30, 2023.

The Company has commitments of \$1.7 million until 2034 under operating leases for office and laboratory premises and for assay services.

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

RELATED PARTY TRANSACTIONS

Management Compensation

For the three and nine months ended September 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 Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries, fees and short-term benefits	209,564	195,297	648,220	586,420
Share-based payments	31,394	65,085	117,226	155,365
	240,958	260,382	765,446	741,785

Included in trade payables and accrued liabilities as of September 30, 2023 is \$58,375 (\$nil at December 31, 2022) of director fees.

Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumit Development Inc., for providing water treatment services in Nunavik. Revenue earned from the joint venture for the three and nine months ended September 30, 2023 was \$1,140,027 and \$1,545,688 (\$1,117,435 and \$1,311,228 in 2022). Included in trade and other receivables as of September 30, 2023 is \$838,696 (\$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.