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, 2023 and 2022

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, 2023 and December 31, 2022
(Unaudited – expressed in Canadian dollars)

	note	**September 30 2023 $**	December 31 2022 $
Assets			
Current assets			
Cash		**6,525,684**	6,234,352
Restricted cash	5	**172,818**	180,307
Trade and other receivables	6, 7	**5,518,712**	3,206,869
Prepaid and deposits		**466,408**	337,850
Total current assets		**12,683,622**	9,959,378
Non-current assets			
Property and equipment	8	**1,427,718**	395,456
Intangible assets	9	**251,820**	314,775
Investment in joint ventures	10	**4,466,761**	5,301,227
Deposits		**52,203**	17,080
Total non-current assets		**6,198,502**	6,028,538
Total assets		**18,882,124**	15,987,916
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 11	**1,758,416**	1,240,780
Loans	12	**82,500**	82,500
Deferred revenues		**63,557**	436,039
Lease obligations	13	**135,817**	191,988
Other liabilities	9	**-**	142,000
Deferred benefits	14	**621,861**	700,949
Total current liabilities		**2,662,151**	2,794,256
Non-current liabilities			
Loans	12	**123,750**	185,625
Deferred revenues		**283,740**	283,740
Lease obligations	13	**1,282,480**	85,802
Total non-current liabilities		**1,689,970**	555,167
Total liabilities		**4,352,121**	3,349,423
Shareholders' Equity			
Share capital	15	**56,376,657**	56,654,061
Contributed surplus		**11,074,101**	10,919,623
Accumulated other comprehensive income		**1,192,603**	1,582,782
Accumulated deficit		**(54,113,358)**	(56,517,973)
Total shareholders' equity		**14,530,003**	12,638,493
Total liabilities and shareholders' equity		**18,882,124**	15,987,916

Commitments (note 19)

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, 2023 and 2022
(Unaudited – expressed in Canadian dollars)

	note	3 months ended September 30 2023 $	3 months ended September 30 2022 $	9 months ended September 30 2023 $	9 months ended September 30 2022 $
Revenues	20	**6,245,654**	3,503,412	**13,122,837**	8,692,350
Operating expenses (excluding depreciation)		**(2,959,479)**	(1,759,005)	**(6,814,970)**	(5,062,568)
Operating margin before depreciation		**3,286,175**	1,744,407	**6,307,867**	3,629,782
Share of income from joint ventures	10	**382,355**	280,886	**870,492**	1,742,911
General and administration		**(609,928)**	(590,900)	**(2,031,536)**	(1,773,824)
Sales and development		**(555,193)**	(414,111)	**(1,725,507)**	(1,204,690)
Share-based payments	7, 14	**(108,626)**	(172,139)	**(327,900)**	(461,588)
Depreciation and amortization	8, 9	**(111,403)**	(69,600)	**(304,235)**	(183,207)
Income from operations and joint ventures		**2,283,380**	778,543	**2,789,181**	1,749,384
Finance income (expense), net		**(5,653)**	6,991	**25,657**	(1,586)
Foreign exchange (loss) gain		**(7,460)**	77,230	**(26,282)**	(32,753)
Bad debt expenses	16	**-**	-	**(258,737)**	-
Other income		**-**	-	**47,613**	-
Income before income taxes		**2,270,267**	862,764	**2,577,432**	1,715,045
Income tax expenses		**(139,815)**	(288,850)	**(172,817)**	(309,242)
Net income for the period		**2,130,452**	573,914	**2,404,615**	1,405,803
Other comprehensive income (loss)					
Items that will be reclassified subsequently to income					
Translation gain (loss) on foreign operations		**70,860**	(165)	**(390,179)**	(247,597)
Total comprehensive income for the period		**2,201,312**	573,749	**2,014,436**	1,158,206
Net earnings per share					
Basic	15(d)	**1.71**	0.46	**1.92**	1.13
Diluted	15(d)	**1.67**	0.45	**1.88**	1.11
Weighted average number of shares outstanding					
Basic	15(d)	**1,249,424**	1,249,128	**1,252,555**	1,247,894
Diluted	15(d)	**1,272,314**	1,273,385	**1,278,231**	1,271,848

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, 2023 and 2022
(Unaudited – expressed in Canadian dollars)

	note	**Number of Shares**	**9 months ended Sept. 30, 2023 $**	Number of Shares	9 months ended Sept. 30, 2022 $
Share Capital					
Balance, beginning of the period	15(b)	**1,256,928**	**56,654,061**	1,244,968	56,573,611
Exercise of stock options	14(a)	**-**	**-**	4,160	33,650
Shares repurchased	15(c)	**(9,700)**	**(277,404)**	-	-
Balance, end of the period		**1,247,228**	**56,376,657**	1,249,128	56,607,261
Contributed surplus					
Balance, beginning of the period			**10,919,623**		10,669,159
Equity settled share-based payments	14(a)		**154,478**		164,234
Balance, end of the period			**11,074,101**		10,833,393
Accumulated other comprehensive income					
Balance, beginning of the period			**1,582,782**		1,750,386
Other comprehensive loss for the period			**(390,179)**		(247,597)
Balance, end of the period			**1,192,603**		1,502,789
Accumulated deficit					
Balance, beginning of the period			**(56,517,973)**		(57,679,766)
Net income for the period			**2,404,615**		1,405,803
Balance, end of the period			**(54,113,358)**		(56,273,963)
Total shareholders' equity					
Balance, beginning of the period			**12,638,493**		11,313,390
Exercise of stock options	14(a)		**-**		33,650
Shares repurchased	15(c)		**(277,404)**		-
Equity settled share-based payments	14(a)		**154,478**		164,234
Net income for the period			**2,404,615**		1,405,803
Other comprehensive loss for the period			**(390,179)**		(247,597)
Balance, end of the period			**14,530,003**		12,669,480

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, 2023 and 2022
(Unaudited – expressed in Canadian dollars)

	note	9 months ended September 30 **2023** $	2022 $
Operating activities			
Net income for the period		**2,404,615**	1,405,803
Items not affecting cash			
Bad debt expenses		**258,737**	-
Share of income from joint ventures	10	**(870,492)**	(1,742,911)
Finance (income) expense, net		**(25,657)**	1,586
Depreciation and amortization	8, 9	**304,235**	183,207
Foreign exchange (gain) loss		**(25,948)**	74,249
Share-based payments	14	**327,900**	461,588
		2,373,390	383,522
Change in non-cash operating working capital items	18	**(2,800,572)**	(495,828)
Net cash used in operating activities		**(427,182)**	(112,306)
Investing activities			
Purchase of plant and equipment	8	**(32,055)**	(73,038)
Purchase of intangible assets	9	**(142,000)**	(100,000)
Dividends received from joint ventures	10	**1,386,750**	2,896,451
Interest received		**84,278**	17,145
Net cash used in investing activities		**1,296,973**	2,740,558
Financing activities			
Lease payments on principal portion	13	**(166,974)**	(107,974)
Lease payments on interest portion	13	**(44,078)**	(18,378)
Proceeds from exercise of stock options	14(a)	**-**	33,650
Repurchase of shares	15(c)	**(277,404)**	-
Repayment of loans	12	**(61,875)**	(61,875)
Interest paid		**(239)**	(71)
Net cash used in financing activities		**(550,570)**	(154,648)
Effect of exchange rate changes on cash		**(27,889)**	21,530
Change in cash		**291,332**	2,495,134
Cash, beginning of the period		**6,234,352**	3,943,714
Cash, end of the period		**6,525,684**	6,438,848

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

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, 2022. 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 28, 2023.

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, 2023	Ownership interest as at Dec. 31, 2022
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BQE Water (Hangzhou) Co. Ltd.	China	100%	100%
BQE Water Delaware, Inc.	USA	100%	100%

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

Entity	Country of incorporation and operation	Ownership interest as at Sept. 30, 2023	Ownership interest as at Dec. 31, 2022
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%
BQE Water Nuvumiut Development Inc.	Canada	49%	49%

(Unaudited – expressed in Canadian dollars)

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, 2022 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, 2022 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, 2022.

5. RESTRICTED CASH

The balance at September 30, 2023 and December 31, 2022 includes a term deposit held by Scotiabank as a letter of credit related to one customer in Chile until the completion of the project.

6. TRADE AND OTHER RECEIVABLES

	Sept. 30, 2023 $	Dec. 31, 2022 $
Trade receivables, net	4,494,271	2,468,929
Contract assets	999,739	715,237
Other receivables	24,702	22,703
	5,518,712	3,206,869

7. RELATED PARTY TRANSACTIONS AND BALANCES

a) Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumiut Development Inc., for providing water treatment services in Nunavik. Revenue earned from the joint venture for the three and 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 at September 30, 2023 is $838,696 ($154,611 at December 31, 2022) of trade receivables due from the joint venture.

b) Management Compensation

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

(Unaudited – expressed in Canadian dollars)

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 (note 14(a) & (c))	31,394	65,085	117,226	155,365
	240,958	260,382	765,446	741,785

8. PROPERTY AND EQUIPMENT

	Right-of-use assets[1]	Pilot plants	Other[2]	Total
	$	$	$	$
Cost				
As at December 31, 2021	509,231	580,593	717,748	1,807,572
Additions	237,950	-	81,401	319,351
Adjustment	(1,638)	-	-	(1,638)
Foreign exchange translation	2,368	-	-	2,368
As at December 31, 2022	747,911	580,593	799,149	2,127,653
Additions	1,241,840	-	32,055	1,273,894
Foreign exchange translation	(4,944)	-	-	(4,944)
As at September 30, 2023	**1,984,807**	**580,593**	**831,204**	**3,396,604**
Accumulated Depreciation				
As at December 31, 2021	(317,281)	(580,593)	(654,557)	(1,552,431)
Depreciation for the year	(146,880)	-	(32,848)	(179,728)
Foreign exchange translation	(38)	-	-	(38)
As at December 31, 2022	(464,199)	(580,593)	(687,405)	(1,732,197)
Depreciation for the period	(210,830)	-	(30,450)	(241,280)
Foreign exchange translation	4,591	-	-	4,591
As at September 30, 2023	**(670,438)**	**(580,593)**	**(717,855)**	**(1,968,886)**
Carrying Amount				
As at December 31, 2022	283,712	-	111,744	395,456
As at September 30, 2023	**1,314,369**	**-**	**113,349**	**1,427,718**

[1]Right-of-use assets (note 13) comprises lease assets such as office buildings and office equipment.
[2]Other comprises leasehold improvements, furniture, office equipment and lab equipment.

(Unaudited – expressed in Canadian dollars)

9. INTANGIBLE ASSETS

	Total $
Cost	
As at December 31, 2021	-
Additions	419,700
As at Dec. 31, 2022 & Sept. 30, 2023	**419,700**
Accumulated Depreciation	
As at December 31, 2021	(20,985)
Depreciation for the year	(83,940)
As at December 31, 2022	(104,925)
Depreciation for the period	(62,955)
As at September 30, 2023	**(167,880)**
Carrying Amount	
As at December 31, 2022	314,775
As at September 30, 2023	251,820

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

The Company concluded the transaction should be accounted for as an asset acquisition and recognized the acquired assets at cost. On the Acquisition Date, it was determined that the acquired assets are a group of similar identifiable assets with similar nature, class, and risk, therefore all the acquisition costs were allocated to this group. The total cost of the acquisition of $419,700 includes the total cash consideration of $250,000, plus the contingent consideration, or the earn-out bonus, which was fair valued at $169,700 at the time of acquisition. The fair value of the earn-out bonus was contingent on net profits generated from the newly acquired intellectual properties, and $142,000 was confirmed as the earn-out bonus as at December 31, 2022 and payment was made in full in May 2023.

(Unaudited – expressed in Canadian dollars)

10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2023 is $4,466,761 ($5,301,227 on December 31, 2022), and is comprised of:

	JCC-BQE $	MWT-BQE $	NVM-BQE $
Balance, January 1, 2022	6,855,401	-	-
Contributions made	-	-	49
Share of net income	1,450,457	52,034	36,879
Share of translation loss on foreign operation	(145,059)	(192)	-
Dividends received	(2,896,500)	-	-
Unrecognized share of net income and translation loss	-	(51,842)	-
Balance, December 31, 2022	5,264,299	-	36,928
Share of net income (loss)	846,195	(37,981)	24,297
Share of translation loss on foreign operation	(318,208)	(14,170)	-
Dividends received	(1,386,750)	-	-
Unrecognized share of net loss and translation loss	-	52,151	-
Balance, September 30, 2023	4,405,536	-	61,225

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.

(Unaudited – expressed in Canadian dollars)

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

	Sept. 30, 2023 $	Dec. 31, 2022 $
Assets		
Cash	1,818,495	3,348,036
Other current assets	1,081,736	539,830
Non-current assets	2,323,005	2,806,376
Total assets	5,223,236	6,694,242
Liabilities	817,700	1,429,943
Partner's Equity	4,405,536	5,264,299
Total liabilities and partner's equity	5,233,236	6,694,242

The condensed statement of income and comprehensive income of the Company's 50% interest in the JCC-BQE joint venture are presented as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023 $	2022 $	2023 $	2022 $
Revenues	1,708,456	2,169,278	3,960,859	5,514,400
Operating expenses (excluding depreciation)	(928,909)	(1,437,644)	(2,069,555)	(2,776,929)
	779,547	731,634	1,891,304	2,737,471
Non-operating expenses	(182,325)	(136,355)	(358,601)	(250,172)
Depreciation of plant and equipment	(113,633)	(119,303)	(355,664)	(365,531)
Income tax expense	(127,027)	(219,376)	(330,844)	(407,354)
Net income for the period	356,562	256,600	846,195	1,714,414
Other comprehensive income (loss)	77,409	10,105	(318,208)	(250,393)
Comprehensive income for the period	433,971	266,705	527,987	1,464,021

(Unaudited – expressed in Canadian dollars)

b) Shandong MWT BioteQ Environmental Technologies Co. Ltd.

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

The Company's 20% share of the results in the joint venture for the three and nine months ended September 30, 2023 included net losses of $50,427 and $37,981, respectively (net loss of $23,448 and $44,907 for the three and nine months ended September 30, 2022). 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. On September 30, 2023, the balance of the unrecognized share of net losses for MWT-BQE was $180,642 ($128,490 on December 31, 2022).

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, 2023	Dec. 31, 2022
	$	$
Current assets	51,268	92,214
Plant and equipment	24,927	28,908
Current liabilities	40,003	47,573
Non-current liabilities	-	26,014
Partner's equity	-	-

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Revenues	9,920	35,070	211,720	193,066
Operating expense (excluding depreciation)	(23,398)	(37,130)	(150,011)	(155,349)
	(13,478)	(2,060)	61,709	37,717
Non-operating expenses	(33,209)	(17,518)	(87,845)	(70,790)
Depreciation of plant and equipment	(3,740)	(3,870)	(11,577)	(11,834)
Income tax expense	-	-	(268)	-
Net (loss) income for the period	(50,427)	(23,448)	(37,981)	(44,907)
Other comprehensive loss	3,108	(280)	(14,170)	(5,356)
Comprehensive loss for the period	(47,319)	(23,728)	(52,151)	(50,263)

(Unaudited – expressed in Canadian dollars)

c) BQE Water Nuvumiut Development Inc.

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

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

	Sept. 30, 2023	Dec. 31, 2022
	$	$
Current assets	498,008	139,743
Current liabilities	436,783	102,815
Partner's equity	61,225	36,928

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Revenues	614,475	602,298	833,151	706,752
Operating expenses	(589,648)	(577,962)	(799,465)	(678,196)
	24,827	24,336	33,686	28,556
Non-operating expenses	966	(50)	540	(59)
Income tax expense	-	-	(9,929)	-
Net income for the period	25,793	24,286	24,297	28,497

11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Sept. 30, 2023	Dec. 31, 2022
	$	$
Trade payable and accruals	1,007,750	647,151
Payroll liability	658,004	566,151
Tax payable	92,662	27,478
	1,758,416	1,240,780

(Unaudited – expressed in Canadian dollars)

12. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of $412,500. The WINN loan was granted to the Company to assist in the commercialization and scale-up of its selenium removal technology in the resource sector. Under the loan agreement, the Company is required to repay the total contribution in 60 equal monthly installments, equal to $6,875 per month, which began April 1, 2021 and continues until March 1, 2026. The total remaining balance of the WINN loan, including both current and non-current portions, on September 30, 2023 is $206,250 ($268,125 on December 31, 2022).

13. LEASES

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

	Sept. 30, 2023 $	Dec. 31, 2022 $
Balance at January 1	277,790	206,451
Addition of lease obligations	1,241,840	237,950
Adjustment of lease obligations	-	(1,638)
Interest expense on lease obligations	109,640	26,417
Lease payments on interest portion	(44,078)	(26,400)
Lease payments on principal portion	(166,974)	(166,360)
Foreign exchange translation	79	1,370
Ending Balance	1,418,297	277,790
Less: current portion of lease obligations	135,817	191,988
Non-current portion of lease obligations	1,282,480	85,802

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, 2023 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023 $	2022 $	2023 $	2022 $
Classified as short-term or as low value	19,402	19,631	57,548	59,392
Leases with variable lease payments	32,230	25,800	97,534	71,171
	51,632	45,431	155,082	130,563

(Unaudited – expressed in Canadian dollars)

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

	Sept. 30, 2023
	$
2023	64,988
2024	244,855
2025	272,401
2026	257,103
2027	252,114
2028	253,205
2029	280,588
2030	284,856
2031	289,123
2032	293,391
2033	297,658
2034	74,681
Total undiscounted lease payments	2,864,963
Less: imputed interest	(1,446,666)
Total carrying value of lease obligations	1,418,297

14. SHARE-BASED PAYMENT EXPENSES

The Company's share-based payment expenses are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Stock options (a)	34,677	86,230	154,478	164,234
Deferred share units (b)	4,946	(10,071)	(21,252)	9,328
Restricted share units (c)	69,003	95,980	194,674	288,026
	108,626	172,139	327,900	461,588

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.

On April 22, 2022, the Company granted 52,500 stock options with an exercise price of $30.00 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date. The fair value of these options determined using the Black-Scholes valuation model was $9.45 per option. The significant assumptions in the valuation model were with a volatility of 44.75%, an expected option life of 2.72 years and an annual risk-free interest rate of 2.79%.

(Unaudited – expressed in Canadian dollars)

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

	Number of options	Weighted average exercise price $
Balance, January 1, 2022	53,300	8.12
Granted	52,500	30.00
Exercised	(11,960)	6.73
Expired	(3,500)	6.00
Balance, December 31, 2022	90,340	21.10
Balance, September 30, 2023	90,340	21.10

As at September 30, 2023, 55,340 of share options outstanding were exercisable with a weighted average exercise price of $15.47 (21,841 on December 31, 2022 with a weighted average exercise price of $8.75).

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, 2023, the Company recognized $34,677 and $154,478 ($86,230 and $164,234 in 2022) of non-cash compensation expense related to stock options. The expiry date by exercise price at September 30, 2023 is as follows:

Exercise price $	Expiry Date	number of outstanding share options	number of exercisable share options
8.75	January 8, 2025	37,840	37,840
30.00	April 22, 2027	52,500	17,500

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:

(Unaudited – expressed in Canadian dollars)

	Number of units	Value $
Balance, January 1, 2022	10,574	290,778
Fair value adjustment	-	21,155
Balance, December 31, 2022	10,574	311,933
Fair value adjustment	-	(21,252)
Balance, September 30, 2023	10,574	290,681

c) Restricted Share Units

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

RSUs granted are accounted for and fair valued by recognizing share-based payment expenses on a straight-line basis over the vesting period. The fair value per RSU on grant date was determined based on the Company's share price on the day of grant. The initial fair values determined upon each grant date between January 1, 2022 and September 30, 2023 are as follows:

Grant date	Number of RSUs	Fair value $
February 1, 2022	16,767	411,966
April 22, 2022	3,076	78,438
September 20, 2022	864	24,987
April 27, 2023	3,651	109,843
September 20, 2023	847	25,003

The following table presents the changes to the RSU plan:

	Number of units	Value $
Balance, January 1, 2022	7,886	103,663
Granted	20,707	-
Forfeited	(318)	-
Redeemed	(4,136)	(113,643)
Fair value adjustment	-	398,996
Balance, December 31, 2022	24,139	389,016
Granted	4,498	-
Forfeited	(56)	-
Redeemed	(8,175)	(252,510)
Fair value adjustment	-	194,674
Balance, September 30, 2023	20,406	331,180

(Unaudited – expressed in Canadian dollars)

15. SHARE CAPITAL

a) Authorized

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

b) Issued

As at September 30, 2023, the Company had 1,247,228 common shares outstanding (1,256,928 on December 31, 2022).

c) Normal course issuer bid (NCIB)

On December 6, 2022, the Company had obtained the approval of the TSX Venture Exchange to commence on a 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 on December 12, 2022. As of September 30, 2023, 9,700 common shares have been purchased and cancelled under the NCIB.

Subsequent to the reporting period, between October 1, 2023 to October 31, 2023, the Company repurchased and cancelled 3,200 common shares under the NCIB.

d) Earnings Per Share

The calculation of earnings per share for the three and nine months ended September 30, 2023 and 2022 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Net income	2,130,452	573,914	2,404,615	1,405,803
Basic weighted average number of shares outstanding	1,249,424	1,249,128	1,252,555	1,247,894
Dilution of securities	22,890	24,257	25,676	23,954
Diluted weighted average number of shares outstanding	1,272,314	1,273,385	1,278,231	1,271,848
Net earnings per share:				
Basic	1.71	0.46	1.92	1.13
Diluted	1.67	0.45	1.88	1.11

16. BAD DEBT EXPENSES

For the three and nine months ended September 30, 2023, the Company wrote off trade receivables of $258,737 due to the non-payment from one of its customers in Yukon. In May 2023, the customer ceased their operations at the mine site and the government later appointed a receiver for certain mining assets at site. The Company assessed the event as an indicator of impairment and recorded a substantial portion of trade receivables from this customer as bad debt expenses.

17. 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, 2023 was 27% (27% at December 31, 2022).

(Unaudited – expressed in Canadian dollars)

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2023	2022
Change in non-cash working capital items	$	$
Changes in trade receivables	(2,547,139)	(1,216,438)
Changes in restricted cash	-	(90,204)
Changes in other assets	(164,063)	142,410
Changes in accounts payable and accrued liabilities	534,237	327,167
Changes in deferred revenue	(372,504)	427,535
Changes in other liabilities	(251,103)	(86,298)
Change in non-cash working capital items	2,800,572	(495,828)

19. COMMITMENTS

The Company has commitments of $1,742,740 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	$
2023	88,167
2024	267,822
2025	149,919
2026	149,919
2027	149,919
2028	149,919
2029	149,919
2030	149,919
2031	149,919
2032	149,919
2033	149,919
2034	37,480
	1,742,740

20. 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.

(Unaudited – expressed in Canadian dollars)

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 monthly operation fee, or a combination of the two.

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Operations contracts	3,165,821	1,958,831	5,434,635	2,807,140
Technical services contracts	3,079,833	1,544,581	7,688,202	5,885,210
	6,245,654	3,503,412	13,122,837	8,692,350

b) Remaining Performance Obligations

As at September 30, 2023, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $1,036,255, compared to $3,262,663 as at December 31, 2022. 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.

21. SEGMENTED INFORMATION

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

a) Geographic Information

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Canada	2,976,026	1,968,596	5,010,940	3,077,111
USA	2,586,254	759,715	5,006,278	3,234,082
Latin America	434,237	595,290	2,202,506	1,888,972
China	249,137	179,811	903,113	395,425
Other	-	-	-	96,760
	6,245,654	3,503,412	13,122,837	8,692,350

(Unaudited – expressed in Canadian dollars)

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

	Sept. 30, 2023	Dec. 31, 2022
	$	$
Canada	1,636,247	674,618
USA	68,515	45,762
China	4,441,537	5,291,078
	6,146,299	6,011,458

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, 2023 and 2022:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2023	2022	2023	2022
	$	$	$	$
Customer A	1,140,027	1,117,435	1,545,688	1,312,690
Customer B	2,096,699	564,377	4,137,503	2,772,151
Customer C	859,786	242,282	1,680,384	281,282
Customer D	603,425	303,758	1,060,278	687,185
	4,699,937	2,227,852	8,423,853	5,053,308
Represents percentage of total revenue for the period	75%	64%	64%	58%