

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)

	note	3 months ended September 30		9 months ended September 30	
		2021	2020	2021	2020
		\$	\$	\$	\$
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
For the three and nine months ended September 30 2021
(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
 For the three and nine months ended September 30 2021
 (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	<u>241,295</u>	<u>279,005</u>
Less: current portion of lease obligations	<u>117,045</u>	<u>92,128</u>
Non-current portion of lease obligations	<u>124,250</u>	<u>186,877</u>

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
	<u>21,160</u>	<u>27,978</u>	<u>75,757</u>	<u>68,106</u>

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	<u>(28,841)</u>
Total carrying value of lease obligations	<u>241,295</u>

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.

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

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

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2020	6,485	56,346
Granted	3,281	-
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
(Unaudited)

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
For the three and nine months ended September 30 2021
(Unaudited)

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

The disaggregated revenue of the Company are as follows:

	3 months ended 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.

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