

# BQE Water

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## **BQE WATER INC.**

### **Interim Management's Discussion and Analysis (Quarterly Highlights)**

For the three and nine months ended September 30, 2022 and 2021

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# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

*Quarterly Highlights – for the three and nine months ended September 30, 2022 and 2021*

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 its 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 2022 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, 2022 and 2021 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2021 and 2020 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2021.

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, 2022. Our accounting policies are described in Note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at November 23, 2022.

Certain statements contained in this MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which are relevant only on the date they are made and, as such, readers are advised to consider such forward-looking statements in light of the associated 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](http://www.bqewater.com) and on SEDAR at [www.sedar.com](http://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 that we would have reported if our Chinese joint venture operations had been proportionately integrated into our results and are referred to as BQE Water's proportional share ("Proportional"). All Proportional financial measures disclosed in this MD&A are non-GAAP measures.

### Proportional Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of 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, 2022 and 2021 are as follows:

<i>(in \$'000s)</i>	<b>3 months ended Sept. 30</b>		<b>9 months ended Sept. 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Reported revenues under GAAP	<b>3,503</b>	2,773	<b>8,692</b>	4,941
Share of revenues from joint ventures in China	<b>2,204</b>	2,729	<b>5,707</b>	6,286
Proportional Revenue for the period	<b>5,707</b>	5,502	<b>14,399</b>	11,227

### 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, 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 income from our China joint ventures. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income:

<i>(in \$'000s)</i>	<b>3 months ended Sept. 30</b>		<b>9 months ended Sept. 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
GAAP: Net income	<b>573</b>	1,545	<b>1,404</b>	1,831
add/deduct: interest expense	<b>(8)</b>	(2)	<b>(8)</b>	4
add: income taxes	<b>508</b>	439	<b>717</b>	815
add: depreciation and amortization	<b>193</b>	178	<b>561</b>	470
EBITDA	<b>1,266</b>	2,160	<b>2,674</b>	3,120
add: share-based payment expenses	<b>172</b>	19	<b>462</b>	292
deduct: other income	<b>-</b>	-	<b>(22)</b>	(95)
add: net foreign exchange loss	<b>(77)</b>	(40)	<b>33</b>	27
Adjusted EBITDA	<b>1,361</b>	2,139	<b>3,147</b>	3,344

## FINANCIAL HIGHLIGHTS

- Added new recurring operational services revenues of \$242,000 in Q3 2022 from a water treatment plant in the Yukon that commenced operations during the quarter.
- Grew Proportional Revenues by \$205,000 or 4% and revenues by \$730,000 or 26% compared to Q3 2021.
- Recorded net income of \$573,000 and Adjusted EBITDA of \$1.4 million in Q3 2022 compared to \$1.5 million and \$2.1 million in Q3 2021.
- Increased working capital to \$7.3 million as at September 30 2022, an increase of \$3.2 million from June 30 2022.
- Increased Proportional Cash to \$9.7 million as at September 30 2022, an increase of \$2.5 million from June 30 2022.

Other selected financial results for the three and nine months ended September 30, 2022 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Revenues under GAAP	3,503	2,773	8,692	4,941
Proportional Revenues	5,707	5,502	14,399	11,227
Net income	573	1,545	1,404	1,831
Adjusted EBITDA	1,361	2,139	3,147	3,344

## OPERATIONAL SERVICES HIGHLIGHTS

Our operational services consist of the technical supervision and plant operation of water treatment plants, which generate recurring revenues from three main sources: sales of recovered metals, water treatment fees and operations support fees. Sales of recovered metals are based on the mass of metals recovered and market prices of metals sold. Water treatment fees mainly consist of a variable fee based on water treated and may include a fixed guaranteed minimum fee regardless of volume of water treated. Operations support fees are fixed fees in exchange for onsite plant support services. 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 Minto Metals	Yukon, Canada	Water treatment fees
Kemess Property for Centerra	Northern BC, 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	Southwestern 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, 2022 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Water treated (cubic metres)	6,395	7,949	15,183	18,075
Copper recovered (pounds)	1,097	1,128	2,509	2,594

In Q3 2022, all three plants met mechanical availability and process performance set by the Company. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture.

### **MWT-BQE Joint Venture Operations**

Our 20% share of MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company (“MWT”) and together we operate a water treatment plant at a smelter in Shandong province of China. MWT-BQE generates revenues from the sale of zinc and copper recovered from smelter wastewater. Operating results for the three and nine months ended September 30, 2022 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Water treated (cubic metres)	185	139	504	481
Zinc recovered (pounds)	199	185	305	774
Copper recovered (pounds)	7	38	113	192

The smelter periodically operated its production lines with ores from different sources, leading to varying levels of zinc and copper in the feed and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control over the composition and volume of feed flowing into the plant.

### **BQE Water Operations**

The Company operates four treatment plants at Raglan Mine for Glencore Canada Corporation (“Glencore”). In May 2022, we mobilized our operations team to site to commence our 19th operating season at the mine. Due to a drier season, the total volume of water treated across all four plants at Raglan Mine in Q3 2022 decreased by 19% compared to that of Q3 2021.

In August 2022, we entered into an operational services agreement with Minto Metals to operate a water treatment plant at Minto Mine. The mine is expected to treat approximately 750,000 to 1 million cubic metres of water per year. Our team mobilized to site on August 27, 2022 and began treating and discharging clean water.

In 2021, we began operations of the Zhongkuang SART plant and the Zhaojin SART plant for metallurgical facilities in China. Both plants have been under our technical supervision since beginning full production. During Q3 2022, both SART plants operated for the full quarter as the upstream circuit returned to normal operations.

At the end of 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”). We also began providing ongoing plant operational services in exchange for water treatment fees with fixed and variable components. During Q3 2022, we recommenced water treatment with the Selen-IX™ circuit as the upstream feed pumping system resumed operations.

In April 2022, we completed commissioning of a treatment plant utilizing a combination of nanofiltration and our proprietary selenium electro-reduction process to simultaneously remove selenium and sulphate from mine water for a base metal project in the American Southwest. Upon completion of commissioning, we began providing ongoing plant operational services in exchange for water treatment fees comprised of a fixed guaranteed minimum and a variable fee linked to the volume of water treated. In Q3 2022, due to a limited supply of feed water into our treatment circuits, we received only the fixed guaranteed minimum fee for the months during which the plant was ready to operate.

The number of operating days contributing to water treatment or support fees for the three and nine months ended September 30, 2022 are as follows:

<i>(in days)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Raglan Mine water treatment plants	92	92	122	115
Minto Mine water treatment plant	35	-	35	-
Zhongkuang SART plant	92	-	257	64
Zhaojin SART plant	64	48	87	112
Water treatment plant for ash pond in the US	92	-	273	-
Water treatment plant in American Southwest	92	-	160	-

The volume of water treated for the three and nine months ended September 30, 2022 are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
Raglan Mine water treatment plants	1,316	1,628	1,534	1,773
Minto Mine water treatment plant	128	-	128	-
SART plants in China	160	76	266	232
Water treatment plants in USA	8	-	15	-

## 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 2022 are summarized below.

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

- Continued to provide engineering services for a third Selen-IX™ plant currently in the construction stage for a US mine.
- Initiated lab testing and preliminary engineering for a new uranium project in North America.
- Initiated lab testing for selenium removal from Flue Gas Desulphurization scrubber blow-down water for a US utility.

### ***Cyanide Recovery, Destruction and Thiocyanate Management***

- Initiated technical assessments to improve cyanide destruction systems at two mines in the US.
- Initiated technical assessment to optimize cyanide destruction and effluent discharge using reverse osmosis at a large gold heap leach operation in Peru.

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

- Continued to provide engineering design services for three water treatment plants to support permitting of the KSM project in BC.
- Continued to provide water treatment consulting services to support permitting of the Blackwater project in BC.
- Initiated a conceptual design study for water treatment to support the permitting of a new lithium project in Canada.
- Initiated the engineering design for a water treatment pilot plant to support permitting of a rare earth elements project in South America.
- Completed an onsite sulphate removal pilot operation for Codelco at the El Teniente operation and initiated planning to move the pilot plant to the Andina operation in Chile.
- Continued to provide engineering design services for a water treatment plant to produce clean water for recycle at a mine in Mexico.

## COMMENTARY AND OUTLOOK

2022 has, to date, been a year of promising growth for BQE Water in terms of our active project list, cash on hand and our future project pipeline. We also recorded another profitable quarter, with multiple encouraging developments, despite uncertainties in the global economy and rising inflation.

On the positive side, the success of our long-term business strategy and commercial model was demonstrated by:

- Signing a new multi-year plant operating services agreement with Minto Mine in the Yukon.
- Bringing into operation two US plants within the last nine months that are a source of steady recurring revenues.
- Nearly doubling our technical services revenue on a year-to-date basis compared to 2021, providing a good indication of the strength of our project pipeline as well as expected future growth in recurring revenues since technical services often precede plant operations services.
- Reaching record levels of working capital and cash derived from operations.
- Completing a successful demonstration of our Sulf-IX™ technology for sulphate removal at the first of multiple sites owned by the world's largest copper producer Codelco in Chile.

Challenges consist of a mix of those we are actively managing and those that are outside of our control:

- An increase in the number of employees and the associated costs of hiring, onboarding and training for new water treatment plant operations and technical roles in engineering, projects, lab and piloting has slightly reduced our operating margin. However, investing in building our team for the long term is essential to our growth and success.
- Inflation and a tight labour market are driving year-over-year increases in expenses through compensation adjustments, corporate insurance, employee health benefits and other professional service fees.
- A drought in China during a period that is normally the “wet season” reduces the income earned from our China joint venture.

Looking ahead to the remainder of the year, we expect continued strong revenues from operations and technical services as these are directly underpinned by our solid project pipeline. However, we are anticipating a shortfall in copper sales from our China joint venture to further increase in Q4 2022 as the Dexing region enters the dry season earlier than usual. While this shortfall in copper sales will reduce the share of income received from the joint venture, we anticipate it will be partially offset by the increase in revenues from operations and technical services.

We expect results for the remainder of the year to produce another consecutive year-over-year increase in working capital driven by normal operations. We also anticipate our project pipeline will remain robust as we enter 2023. As always, we need to caution investors about the possible negative impacts of a downturn in the global economy and particularly the resource sector on our performance. However, our proven and unique expertise in supporting clients with their environmental compliance and sustainable water treatment needs is highly supportive of our long-term outlook for strong corporate growth.

## SELECTED FINANCIAL INFORMATION

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues	<b>3,503</b>	2,773	<b>8,692</b>	4,941
Operating expenses (excluding depreciation)	<b>(1,759)</b>	(1,088)	<b>(5,063)</b>	(2,540)
Operating margin	<b>1,744</b>	1,685	<b>3,629</b>	2,401
Share of income from joint ventures	<b>281</b>	700	<b>1,743</b>	2,304
General and administration	<b>(591)</b>	(427)	<b>(1,774)</b>	(1,287)
Sales and development	<b>(414)</b>	(273)	<b>(1,205)</b>	(1,104)
Share-based payments	<b>(172)</b>	(19)	<b>(462)</b>	(292)
Depreciation and amortization	<b>(70)</b>	(37)	<b>(183)</b>	(111)
Income from operations and joint ventures	<b>778</b>	1,629	<b>1,748</b>	1,911
Other expenses, net	<b>84</b>	34	<b>(35)</b>	(45)
Bad debt recovery	-	-	-	95
Income tax expense	<b>(289)</b>	(118)	<b>(309)</b>	(130)
<b>Net income for the period</b>	<b>573</b>	1,545	<b>1,404</b>	1,831
Net earnings per share (basic)	<b>0.46</b>	1.25	<b>1.13</b>	1.49
Net earnings per share (diluted)	<b>0.45</b>	1.23	<b>1.11</b>	1.46
Proportional Revenues <sup>1</sup>	<b>5,707</b>	5,502	<b>14,399</b>	11,227
Adjusted EBITDA <sup>1</sup>	<b>1,361</b>	2,139	<b>3,147</b>	3,344

	at Sept. 30,	at Dec. 31,
	2022	2021
	\$	\$
Cash	<b>6,439</b>	3,944
Proportional cash <sup>1</sup>	<b>9,722</b>	8,089
Working capital	<b>7,252</b>	4,557
Total assets	<b>16,031</b>	13,803
Total non-current liabilities	<b>769</b>	778
Shareholders' equity	<b>12,669</b>	11,313

### Notes:

1. See Non-GAAP measures

## COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	<b>Sept-22</b>	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21	Mar-21	Dec-20
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	<b>3,503</b>	2,722	2,467	2,570	2,773	1,188	980	1,609
Operating expenses	<b>(1,759)</b>	(1,773)	(1,531)	(1,409)	(1,088)	(944)	(507)	(934)
	<b>1,744</b>	949	936	1,161	1,685	244	473	675
Share of income from								
joint ventures	<b>281</b>	1,129	333	499	700	1,580	23	101
General and administration	<b>(591)</b>	(579)	(604)	(535)	(427)	(459)	(401)	(413)
Sales and development	<b>(414)</b>	(436)	(354)	(270)	(273)	(378)	(453)	(349)
Share-based payments	<b>(172)</b>	(267)	(23)	(11)	(19)	(184)	(88)	(107)
Depreciation and amortization	<b>(70)</b>	(59)	(55)	(57)	(37)	(37)	(37)	(42)
Income (loss) from operations	<b>778</b>	737	233	787	1,629	766	(483)	(135)
Other income (expenses), net	<b>84</b>	(77)	(41)	13	34	(39)	(40)	30
Bad debt recovery	-	-	-	-	-	95	-	-
Income tax expenses	<b>(289)</b>	(18)	(2)	-	(118)	(13)	-	(97)
Net income (loss)	<b>573</b>	642	190	800	1,545	809	(523)	(202)
Translation (loss) gain	-	(139)	(109)	120	227	28	(69)	(63)
Comprehensive income (loss)	<b>573</b>	503	81	920	1,772	837	(592)	(265)
<b>Non-GAAP Measures:</b>								
Proportional Revenue	<b>5,707</b>	5,164	3,529	4,389	5,502	4,174	1,551	3,085
Adjusted EBITDA	<b>1,361</b>	1,341	446	754	2,139	1,435	(231)	133

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

## SUMMARY OF Q3 2022 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended September 30, 2022 and 2021.

### Proportional Revenue

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

<i>(in \$'000s)</i>	Q3 2022		Q3 2021		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	2,204	39%	2,729	50%	(19%)
Water treatment fee from operations	1,959	34%	1,498	27%	31%
Technical services	1,544	27%	1,275	23%	21%
Total Proportional Revenues	5,707	100%	5,502	100%	4%

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 impacted by the amount and market price of metal concentrate sold. During Q3 2022, our share of revenues from the JCC-BQE joint venture declined by \$504,000 or 19% compared to the comparable period in 2021. This was attributed to a 3% decrease in the quantity of copper recovered and a 17% decrease in average copper prices during the period. The Company's share of revenue from the MWT-BQE joint venture in Q3 2022 was \$35,000, compared to \$56,000 in Q3 2021.

Water treatment fee revenues include tolling fees from the volume of water treated and operations support fees. We earn recurring tolling fees at Raglan Mine through our partnership with Inuit company Nuvumiut Development, at the newly signed Minto Mine operations, and at the recently commissioned selenium removal plants in the US. The increase in water treatment fees is mainly due to the Minto Mine and US selenium treatment plant operations that generated \$689,000 in recurring revenues for Q3 2022. As water treatment at the US selenium plants was not required in the quarter, revenues earned from these operations consist of the fixed guaranteed fee for on-site water treatment services. The Raglan Mine operation treated 19% less water than the prior year's Q3, and we earned \$1.1 million in water treatment fees during the quarter compared to \$1.4 million in Q3 2021. Our operations support fees are comprised of recurring technical support services at several SART plants in China that generated revenues of \$180,000 in Q3 2022 compared to \$145,000 in Q3 2021.

Revenues from technical services increased by \$269,000 or 21% in Q3 2022 compared to the same period in 2021. 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 particularly strong in Q3 2022 as we continued the engineering design of a fourth selenium removal treatment plant in the American Southwest, supported the permitting at a project in BC, and with the 18-month pilot demonstration program for Codelco in Chile.

### Operating Expenses

Total operating expenses during Q3 2022 were \$1.8 million compared to \$1.1 million in Q3 2021, an increase of \$671,000 or 62%. The increase in operating expenses is attributable to the 26% increase in project activity related to technical services completed and operational services provided in the quarter. Also included in the increase are compensation adjustments, headcount growth and their associated costs to service new water treatment plant operations and engineering contracts. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

### Expenses

In Q3 2022, general and administration costs were \$591,000 compared to \$427,000 in Q3 2021, representing a \$164,000 increase. This increase was attributable to a \$68,000 increase in employee benefits, a \$46,000 net increase in professional services fees, a \$33,000 increase in travel expenses, and a \$18,000 increase in insurance premiums for the comparable period.

Sales and development costs during Q3 2022 were \$414,000 compared to \$273,000 in Q3 2021, an increase of \$141,000. The increase was attributable to a \$62,000 increase in internal labour resources allocated for technology development initiatives, a \$40,000 increase in professional services fees, and a \$12,000 increase in travel and event expenses related to business development.

Share-based payment expenses were \$172,000 in Q3 2022 compared to \$19,000 in Q3 2021. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock option expenses and restricted share unit benefits, 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. The increase of \$153,000 is largely attributed to the issuance of stock options in April 2022 and RSU grants in February 2022.

Depreciation and amortization expenses were \$70,000 in Q3 2022 compared to \$37,000 in Q3 2021. The increase of \$33,000 was due to amortization expenses for the newly acquired intellectual property from R&S Environmental Consulting Services Inc. in Q4 2021 and for the new right-of-use assets, or office leases, added in Q3 2022.

### **Other Income and Expenses**

Net finance income was \$7,000 in Q3 2022 compared to an expense of \$6,000 in Q3 2021. Finance income is earned from cash or 90-day Guaranteed Investment Certificates held by a financial institution. As we currently do not hold any interest-bearing debt, finance costs arise from the interest accretion of our long-term liabilities, such as lease obligations.

Foreign exchange gain was \$77,000 in Q3 2022 compared to \$40,000 in Q3 2021. 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 tax expenses were \$289,000 in Q3 2022, compared to \$118,000 in Q3 2021. 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.

### **Net Income**

Overall net income for the three months ended September 30, 2022 was \$573,000 compared to \$1.5 million in the same period in 2021.

## SUMMARY OF YEAR-TO-DATE Q3 2022 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine-month periods ended September 30, 2022 and 2021.

### Proportional Revenues

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

<i>(in \$'000s)</i> Revenue source	YTD 2022		YTD 2021		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	5,707	40%	6,286	56%	(9%)
Water treatment fees from operations	2,807	19%	1,904	17%	47%
Technical services	5,885	41%	3,037	27%	94%
Total Proportional Revenues	14,399	100%	11,227	100%	28%

Sales of recovered metals decreased by \$579,000 or 9%, primarily due to revenues from the JCC-BQE joint venture where our share of revenues decreased by \$477,000 or 8% compared to 2021. This decrease was attributable to a 3% decrease in the quantity of copper recovered and a 5% decrease in the average copper prices during the period. Changes in water volumes, and copper recoveries by extension, are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period. The share of revenues from the MWT-BQE joint venture was \$193,000 in the first nine months of 2022 compared to \$295,000 in 2021, a decrease of \$102,000 due to lower zinc and copper recovered during the period.

Year-to-date water treatment fee revenues increased by \$903,000 or 47% compared to 2021, mainly due to the start of new operations in 2022. The two recently commissioned plants in the US provided new recurring revenues of \$886,000 and the new operations at Minto Mine provided new revenues of \$242,000. For the 2022 season, the Raglan Mine operations treated 13% less water than the prior year, resulting in a decrease of \$190,000 or 13% in water treatment fees compared to 2021. The Company continued to earn support fees in China of \$395,000 for the first nine months of 2022 compared to \$431,000 for the same period in 2021.

Revenues from technical services year-to-date increased by \$2.8 million or 94% compared to the same period in 2021. The nearly doubled increase was attributable to higher project activity in all areas of technical services, including commissioning activities in the US, engineering design of treatment plants, and the 18-month pilot demonstration project in Chile.

### Operating Expenses

Year-to-date operating expenses in 2022 were \$5.1 million compared to \$2.5 million for the same period in 2021, an increase of \$2.6 million. This 99% increase is consistent with the 76% increase in total revenues from water treatment fees and technical services. Year-to-date operating margin in 2022 was 42% compared to 49% for the same period in 2021.

### Expenses

Year-to-date general and administration expenses were \$1.8 million compared to \$1.3 million for the same period in 2021. The \$487,000 increase was due to a \$208,000 increase in employee benefits, a \$68,000 increase in insurance premiums and a net increase of \$108,000 paid to professional services.

Year-to-date sales and development expenses were \$1.2 million compared to \$1.1 million for the same period in 2021, an increase of \$101,000 or 9%. The increase was largely attributed to the increase of \$58,000 in travel and event expenses related to business development.

### Net Income

Overall, net income year-to-date for 2022 was \$1.4 million compared to \$1.8 million in the same period in 2021, a decrease of \$427,000.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2022, BQE Water had 1,249,128 common shares issued and outstanding (1,244,968 at December 31, 2021), and 101,640 stock options outstanding (53,300 at December 31, 2021).

As of the date of this MD&A on November 23, 2022, the number of common shares issued and outstanding, and stock options outstanding remain unchanged.

On April 22, 2022, the Company granted 52,500 stock options with an exercise price of \$30.00 to directors and employees of the Company.

At September 30, 2022, we had cash of \$6.4 million, an increase of approximately \$2.5 million from December 31, 2021. For the nine months ended September 30, 2022, cash used in operating activities was \$112,000 compared to \$32,000 in 2021.

At September 30, 2022, we had restricted cash of \$161,000, compared to \$83,000 from December 31, 2021. 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.

The Company had a working capital position at the end of the quarter of \$7.3 million, an increase of \$2.7 million from December 31, 2021. At September 30, 2022, our significant working capital items, aside from cash, include trade and other receivables of \$3.2 million (\$2.0 million at December 31, 2021) and trade payables and accrued liabilities of \$1.3 million (\$1.0 million at December 31, 2021).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative (“WINN”) program and has obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. At September 30, 2022, the WINN loan payable balance was \$289,000. Furthermore, 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 million which has not been utilized as at September 30, 2022.

The Company has commitments of \$434,000 until 2025 under operating leases for office and laboratory premises, and for assay services.

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

## RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2022 and 2021, 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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries, fees and short-term benefits	195,297	173,028	586,420	515,586
Share-based payments (note 14(a))	65,085	16,994	155,365	78,300
	<u>260,382</u>	<u>190,022</u>	<u>741,785</u>	<u>593,886</u>

Included in trade payables and accrued liabilities as of September 30, 2022 is \$54,250 (\$nil at December 31, 2021) of director fees.

### 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 Quebec. As the newly incorporated joint venture begin to have financial activities in 2022, for the three and nine months ended September 30, 2022, the revenue earned from the joint venture was \$1,117,435 and \$1,311,228 respectively (\$nil in 2021). Included in trade and other receivables as of September 30, 2022 is \$311,278 (\$nil at December 31, 2021) of trade receivables due from the joint venture.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, 2021.

### COVID-19 Economic Uncertainty

The COVID-19 pandemic continues to disrupt global health and the economy in 2022. Notwithstanding the vaccination programs underway, COVID-19 along with the variants of the virus that have emerged, continue to have a significant impact on the global and Canadian economies. For BQE Water, the recurring services for the operation of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

Uncertainties around the COVID-19 pandemic necessitates the use of significant judgments and estimates. As at September 30, 2022, management 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 we have taken at our operations to protect the health and safety of our workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on us is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.