

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, 2022 and 2021

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, 2022 and December 31, 2021
(Unaudited – expressed in Canadian dollars)

		September 30 2022 \$	December 31 2021 \$
	note		
Assets			
Current assets			
Cash		6,438,848	3,943,714
Restricted cash	5	161,471	83,137
Trade and other receivables	6, 7	3,156,231	2,009,201
Prepaid and deposits		88,690	233,022
Total current assets		9,845,240	6,269,074
Non-current assets			
Plant and equipment	8	371,433	255,141
Intangible assets	9	335,760	398,715
Investment in joint ventures	10	5,451,468	6,855,401
Deposits		27,266	24,881
Total non-current assets		6,185,927	7,534,138
Total assets		16,031,167	13,803,212
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 11	1,251,616	1,041,802
Loans	12	82,500	82,500
Deferred revenues		500,861	73,243
Lease obligations	13	152,413	120,039
Deferred benefits	14	605,518	394,441
Total current liabilities		2,592,908	1,712,025
Non-current liabilities			
Loans	12	206,250	268,125
Deferred revenues		283,740	253,560
Lease obligations	13	109,089	86,412
Other liabilities	9	169,700	169,700
Total non-current liabilities		768,779	777,797
Total liabilities		3,361,687	2,489,822
Shareholders' Equity			
Share capital	15	56,607,261	56,573,611
Contributed surplus		10,833,393	10,669,159
Accumulated other comprehensive income		1,502,789	1,750,386
Accumulated deficit		(56,273,963)	(57,679,766)
Total shareholders' equity		12,669,480	11,313,390
Total liabilities and shareholders' equity		16,031,167	13,803,212
Commitments (note 18)			

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, 2022 and 2021
 (Unaudited – expressed in Canadian dollars)

	note	3 months ended September 30		9 months ended September 30	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenues	19	3,503,412	2,773,189	8,692,350	4,941,189
Operating expenses (excluding depreciation)		(1,759,005)	(1,088,184)	(5,062,568)	(2,539,640)
Operating margin before depreciation		1,744,407	1,685,005	3,629,782	2,401,549
Share of income from joint ventures	10	280,886	700,267	1,742,911	2,303,776
General and administration		(590,900)	(427,387)	(1,773,824)	(1,287,451)
Sales and development		(414,111)	(273,254)	(1,204,690)	(1,104,318)
Share-based payments	7, 14	(172,139)	(19,460)	(461,588)	(291,796)
Depreciation and amortization	8, 9	(69,600)	(37,375)	(183,207)	(111,449)
Income from operations and joint ventures		778,543	1,627,796	1,749,384	1,910,311
Finance income (costs)		6,991	(6,441)	(1,586)	(18,340)
Foreign exchange gain (loss)		77,230	39,983	(32,753)	(27,368)
Bad debt recovery		-	-	-	94,630
Income before income taxes		862,764	1,661,338	1,715,045	1,959,233
Income tax expenses		(288,850)	(117,720)	(309,242)	(130,294)
Net income for the period		573,914	1,543,618	1,405,803	1,828,939
Other comprehensive income					
<i>Items that will be reclassified subsequently to income</i>					
Translation (loss) gain on foreign operations		(165)	226,802	(247,597)	185,666
Total comprehensive income for the period		573,749	1,770,420	1,158,206	2,014,605
Net earnings per share					
Basic	15(c)	0.46	1.25	1.13	1.49
Diluted	15(c)	0.45	1.23	1.11	1.46
Weighted average number of shares outstanding					
Basic	15(c)	1,249,128	1,238,490	1,247,894	1,228,552
Diluted	15(c)	1,273,385	1,259,777	1,271,848	1,248,739

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, 2022 and 2021
 (Unaudited – expressed in Canadian dollars)

		Number of Shares	9 months ended Sept. 30, 2022 \$	Number of Shares	9 months ended Sept. 30, 2021 \$
	note				
Share Capital					
Balance, beginning of the period	15(b)	1,244,968	56,573,611	1,217,435	56,386,413
Exercise of stock options	14(a)	4,160	33,650	21,533	151,198
Balance, end of the period		1,249,128	56,607,261	1,238,968	56,537,611
Contributed surplus					
Balance, beginning of the period			10,669,159		10,565,312
Equity settled share-based payments	14(a)		164,234		79,128
Balance, end of the period			10,833,393		10,644,440
Accumulated other comprehensive income					
Balance, beginning of the period			1,750,386		1,445,214
Other comprehensive (loss) income for the period			(247,597)		185,666
Balance, end of the period			1,502,789		1,630,880
Accumulated deficit					
Balance, beginning of the period			(57,679,766)		(60,309,204)
Net income for the period			1,405,803		1,828,939
Balance, end of the period			(56,273,963)		(58,480,265)
Total shareholders' equity					
Balance, beginning of the period			11,313,390		8,087,735
Exercise of stock options	14(a)		164,234		151,198
Equity settled share-based payments	14(a)		33,650		79,128
Net income for the period			1,405,803		1,828,939
Other comprehensive (loss) income for the period			(247,597)		185,666
Balance, end of the period			12,669,480		10,332,666

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, 2022 and 2021
 (Unaudited – expressed in Canadian dollars)

		9 months ended September 30	
		2022	2021
		\$	\$
	note		
Operating activities			
Net income for the period		1,405,803	1,828,939
Items not affecting cash			
Bad debt recovery		-	(94,630)
Share of income from joint ventures	10	(1,742,911)	(2,303,776)
Finance costs, net		1,586	18,340
Depreciation and amortization	8, 9	183,207	111,449
Foreign exchange loss		74,249	10,358
Share-based payments	14	461,588	291,796
		383,522	(137,524)
Change in non-cash operating working capital items	17	(495,828)	105,040
Net cash used in operating activities		(112,306)	(32,484)
Investing activities			
Purchase of plant and equipment	8	(73,038)	(6,881)
Purchase of intangible assets	9	(100,000)	(150,000)
Contributions made to joint ventures	10	2,896,451	1,177,200
Interest received		17,145	4,477
Net cash used in investing activities		2,740,558	1,024,796
Financing activities			
Lease payments on principal portion	13	(107,974)	(75,072)
Lease payments on interest portion	13	(18,378)	(22,763)
Proceeds from exercise of stock options	14(a)	33,650	151,198
Repayment of loans	12	(61,875)	(41,250)
Interest paid		(71)	(54)
Net cash (used in) provided by financing activities		(154,648)	12,059
Effect of exchange rate changes on cash		21,530	16,559
Change in cash		2,495,134	1,020,930
Cash, beginning of the period		3,943,714	3,239,692
Cash, end of the period		6,438,848	4,260,622

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, 2022
(Unaudited – expressed in Canadian dollars)

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, 2021. 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 23, 2022.

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, 2022	Ownership interest as at Dec. 31, 2021
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, 2022	Ownership interest as at Dec. 31, 2021
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%

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022
(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, 2021 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, 2021 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, 2021.

COVID-19 Economic Uncertainty

The COVID-19 pandemic continued 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 operations 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.

The uncertainties around the outbreak of the COVID-19 pandemic required 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 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, 2022
(Unaudited – expressed in Canadian dollars)

5. RESTRICTED CASH

The balance at September 30, 2022 and December 31, 2021 includes a term deposit denominated in Chilean Pesos and is 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, 2022	Dec. 31, 2021
	\$	\$
Trade receivables, net	2,592,093	1,427,398
Contract assets	556,104	581,159
Other receivables	8,034	644
	<u>3,156,231</u>	<u>2,009,201</u>

7. RELATED PARTY TRANSACTIONS AND BALANCES

The following transactions were carried out with related parties of the Company:

a) Management Compensation

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.

b) 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.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022

(Unaudited – expressed in Canadian dollars)

8. PLANT AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
As at December 31, 2020	470,436	580,593	672,858	1,723,887
Additions	36,495	-	44,890	81,385
Foreign exchange translation	2,300	-	-	2,300
As at December 31, 2021	509,231	580,593	717,748	1,807,572
Additions	161,013	-	73,038	234,051
Foreign exchange translation	1,120	-	-	1,120
As at September 30, 2022	671,364	580,593	790,786	2,042,743
Accumulated Depreciation				
As at December 31, 2020	(202,653)	(580,593)	(620,977)	(1,404,223)
Depreciation for the year	(113,430)	-	(33,580)	(147,010)
Foreign exchange translation	(1,198)	-	-	(1,198)
As at December 31, 2021	(317,281)	(580,593)	(654,557)	(1,552,431)
Depreciation for the period	(97,835)	-	(22,417)	(120,252)
Foreign exchange translation	1,373	-	-	1,373
As at September 30, 2022	(413,743)	(580,593)	(676,974)	(1,671,310)
Carrying Amount				
As at December 31, 2021	191,950	-	63,191	255,141
As at September 30, 2022	257,621	-	113,812	371,433

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022
(Unaudited – expressed in Canadian dollars)

9. INTANGIBLE ASSETS

	Total \$
Cost	
As at December 31, 2020	-
Additions	419,700
As at December 31, 2021	419,700
Additions	-
As at September 30, 2022	419,700
Accumulated Depreciation	
As at December 31, 2020	-
Depreciation for the year	(20,985)
As at December 31, 2021	(20,985)
Depreciation for the period	(62,955)
As at September 30, 2022	(83,940)
Carrying Amount	
As at December 31, 2021	398,715
As at September 30, 2022	335,760

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 will 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 will 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 regards 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 have been allocated to this group. The total cost of the acquisition \$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 on the Acquisition Date and included in non-current other liabilities. The fair value of the earn-out bonus is contingent on the future net profits generated from the newly acquired intellectual properties. The fair value of contingent consideration remained unchanged as at September 30, 2022.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022
(Unaudited – expressed in Canadian dollars)

10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2022 is \$5,451,468 (\$6,855,401 on December 31, 2021), and is comprised of:

	JCC-BQE	MWT-BQE	NVM-BQE
	\$	\$	\$
Balance, January 1, 2021	5,021,154	-	-
Share of net income (loss)	2,803,151	(44,206)	-
Share of translation gain on foreign operation	208,296	4,087	-
Dividends received	(1,177,200)	-	-
Unrecognized share of net income and translations gain	-	40,119	-
Balance, December 31, 2021	6,855,401	-	-
Contributions made	-	-	49
Share of net income (loss)	1,714,414	(44,907)	28,497
Share of translation loss on foreign operation	(250,393)	(5,356)	-
Dividends received	(2,896,500)	-	-
Unrecognized share of net income and translation gain	-	50,263	-
Balance, September 30, 2022	5,422,922	-	28,546

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, 2022
 (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, 2022	Dec. 31, 2021
	\$	\$
Assets		
Cash	3,282,764	4,145,245
Other current assets	875,749	1,331,127
Non-current assets	2,786,532	3,264,457
Total assets	<u>6,945,045</u>	<u>8,740,829</u>
Liabilities	1,522,123	1,885,428
Partner's Equity	<u>5,422,922</u>	<u>6,855,401</u>
Total liabilities and partner's equity	<u>6,945,045</u>	<u>8,740,829</u>

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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues	2,169,278	2,672,872	5,514,400	5,990,868
Operating expenses (excluding depreciation)	<u>(1,437,644)</u>	<u>(1,436,603)</u>	<u>(2,776,929)</u>	<u>(2,491,526)</u>
	731,634	1,236,269	2,737,471	3,499,342
Non-operating expenses	(136,355)	(95,349)	(250,172)	(216,159)
Depreciation of plant and equipment	(119,303)	(119,015)	(365,531)	(294,291)
Income tax expense	<u>(219,376)</u>	<u>(321,638)</u>	<u>(407,354)</u>	<u>(685,116)</u>
Net income for the year	256,600	700,267	1,714,414	2,303,776
Other comprehensive income (loss)	<u>10,105</u>	<u>177,475</u>	<u>(250,393)</u>	<u>113,879</u>
Comprehensive income for the year	<u>266,705</u>	<u>877,742</u>	<u>1,464,021</u>	<u>2,417,655</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022
(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 results in the joint venture for the three and nine months ended September 30, 2022 was a net loss of \$23,448 and net loss of \$44,907, respectively (net loss of \$59,536 and \$11,434 for the three and nine months ended September 30, 2021). As the Company 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, 2022, the balance of the unrecognized share of net losses for MWT-BQE is \$230,596 (\$180,332 on December 31, 2021).

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, 2022	Dec. 31, 2021
	\$	\$
Current assets	68,461	59,672
Plant and equipment	29,161	32,873
Current liabilities	46,029	28,255
Non-current liabilities	26,266	28,031
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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues	35,070	55,982	193,066	294,897
Operating expense (excluding depreciation)	(37,130)	(30,007)	(155,349)	(102,904)
	(2,060)	25,975	37,717	191,993
Non-operating expenses	(17,518)	(63,867)	(70,790)	(138,947)
Depreciation of plant and equipment	(3,870)	(21,644)	(11,834)	(64,480)
Net loss for the period	(23,448)	(59,536)	(44,907)	(11,434)
Other comprehensive (loss) income	(280)	6,013	(5,356)	2,557
Comprehensive loss for the period	(23,728)	(53,523)	(50,263)	(8,877)

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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, 2022	Dec. 31, 2021
	\$	\$
Current assets	206,931	-
Current liabilities	178,385	-
Partner’s equity	28,546	-

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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenues	602,298	-	706,752	-
Operating expenses	(577,962)	-	(678,196)	-
	24,336	-	28,556	-
Non-operating expenses	(50)	-	(59)	-
Net income for the period	24,286	-	28,497	-

11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Sept. 30, 2022	Dec. 31, 2021
	\$	\$
Trade payable and accruals	546,631	591,533
Payroll liability	574,146	414,438
Tax payable	130,839	35,831
	1,251,616	1,041,802

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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 shall 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, as of September 30, 2022 is \$288,750 (\$350,625 on December 31, 2021).

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 of 12% at the time the lease was assumed or entered into. The Company’s carrying value of lease obligations are as follows:

	Sept. 30, 2022	Dec. 31, 2021
	\$	\$
Balance at January 1	206,451	279,005
Addition of lease obligations	162,651	36,495
Adjustment of lease obligations	(1,638)	-
Interest expense on lease obligations	18,661	29,322
Lease payments on interest portion	(18,378)	(29,322)
Lease payments on principal portion	(107,974)	(110,012)
Foreign exchange translation	1,729	963
Ending Balance	261,502	206,451
Less: current portion of lease obligations	152,413	120,039
Non-current portion of lease obligations	109,089	86,412

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, 2022 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Classified as short-term or as low value	19,631	5,483	59,392	16,152
Leases with variable lease payments	25,800	15,677	71,171	59,605
	45,431	21,160	130,563	75,757

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

	Sept. 30, 2022
	<u>\$</u>
2022	53,787
2023	157,810
2024	62,651
2025	8,837
Total undiscounted lease payments	283,085
Less: imputed interest	<u>(21,583)</u>
Total carrying value of lease obligations	<u>261,502</u>

14. SHARE-BASED PAYMENT EXPENSES

The Company's recorded share-based compensation for the three and nine months ended September 30, 2022 are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Stock options (a)	86,230	24,719	164,234	79,128
Deferred share units (b)	(10,071)	(25,085)	9,328	124,104
Restricted share units (c)	95,980	19,826	288,026	88,564
	<u>172,139</u>	<u>19,460</u>	<u>461,588</u>	<u>291,796</u>

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.

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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, 2021	82,833	7.69
Forfeited	(2,000)	8.75
Exercised	(27,533)	6.80
Balance, December 31, 2021	53,300	8.12
Granted	52,500	30.00
Exercised	(4,160)	8.09
Balance, September 30, 2022	101,640	19.42

As at September 30, 2022, the Company has 33,141 of share options outstanding which were exercisable with a weighted average exercise price of \$7.81 (21,299 on December 31, 2021 with a weighted average exercise price of \$7.16).

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, 2022, the Company recognized \$86,230 and \$164,234 (\$24,719 and \$79,128 in 2021) of non-cash compensation expense related to stock options. The expiry dates by exercise price at September 30, 2022 are as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	11,300	11,300
8.75	January 8, 2025	37,840	21,841
30.00	April 22, 2027	52,500	-

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.

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The following table presents the changes to the DSU plan:

	Number of units	Value \$
Balance, January 1, 2021	10,574	196,616
Fair value adjustment	-	94,162
Balance, December 31, 2021	10,574	290,778
Fair value adjustment	-	9,328
Balance, September 30, 2022	10,574	300,106

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, 2021 and September 30, 2022 are as follows:

Grant date	Number of RSUs	Fair value \$
April 28, 2021	3,520	79,290
September 20, 2021	813	25,000
February 1, 2022	16,767	411,966
April 22, 2022	3,076	78,438
September 20, 2022	864	25,000

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2021	7,353	73,387
Granted	4,333	-
Forfeited	(801)	-
Redeemed	(2,999)	(74,464)
Fair value adjustment	-	104,740
Balance, December 31, 2021	7,886	103,663
Granted	20,707	-
Redeemed	(3,169)	(86,277)
Fair value adjustment	-	288,026
Balance, September 30, 2022	25,424	305,412

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15. SHARE CAPITAL

a) Authorized

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

b) Issued

As at September 30, 2022, the Company had 1,249,128 common shares outstanding (1,244,968 on December 31, 2021).

c) Earnings Per Share

The calculation of earnings per share for the three and nine months ended September 30, 2022 and 2021 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net income	573,914	1,543,618	1,405,803	1,828,939
Basic weighted average number of shares outstanding	1,249,128	1,238,490	1,247,894	1,228,552
Dilution of securities	24,257	21,287	23,954	20,187
Diluted weighted average number of shares outstanding	1,273,385	1,259,777	1,271,848	1,248,739
Net earnings per share:				
Basic	0.46	1.25	1.13	1.49
Diluted	0.45	1.23	1.11	1.46

16. 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, 2022 was 27% (27% at December 31, 2021).

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2022	2021
	\$	\$
Change in non-cash working capital items		
Changes in trade receivables	(1,216,438)	(221,788)
Changes in restricted cash	(90,204)	-
Changes in other assets	142,410	(20,566)
Changes in accounts payable and accrued liabilities	327,167	164,847
Changes in deferred revenue	427,535	227,770
Changes in other liabilities	(86,298)	(45,223)
Change in non-cash working capital items	(495,828)	105,040

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18. COMMITMENTS

The Company has commitments of \$433,615 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2022	69,450
2023	212,127
2024	127,019
2025	25,019
	<u>433,615</u>

19. 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 or operations fee.

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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Operations contracts	1,958,831	1,498,107	2,807,140	1,904,099
Technical services contracts	1,544,581	1,275,082	5,885,210	3,037,090
	<u>3,503,412</u>	<u>2,773,189</u>	<u>8,692,350</u>	<u>4,941,189</u>

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b) Remaining Performance Obligations

As at September 30, 2022, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$3,717,714 compared to \$3,050,993 as at December 31, 2021. 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.

20. 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 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	
	2022	2021	2022	2021
	\$	\$	\$	\$
Canada	1,968,596	1,921,752	3,077,111	2,442,510
USA	759,715	313,256	3,234,082	1,131,040
Latin America	595,290	346,852	1,888,972	598,621
China	179,811	173,829	395,425	751,518
Other	-	17,500	96,760	17,500
	<u>3,503,412</u>	<u>2,773,189</u>	<u>8,692,350</u>	<u>4,941,189</u>

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

	Sept. 30, 2022	Dec. 31, 2021
	\$	\$
Canada	671,884	625,400
China	5,435,502	6,883,857
USA	51,275	-
	<u>6,158,661</u>	<u>7,509,257</u>

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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, 2022 and 2021:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
Customer A	1,117,435	1,379,384	1,312,690	1,502,987
Customer B	564,377	312,975	2,772,151	908,793
Customer C	99,557	-	305,496	201,245
Customer D	179,811	147,149	395,425	612,039
Customer E	244,521	-	988,112	-
Customer F	303,758	1,440	687,185	63,509
	<u>2,509,459</u>	<u>1,840,948</u>	<u>6,461,059</u>	<u>3,288,573</u>
Represents percentage of total revenue for the period	72%	66%	74%	67%