

# BQE Water

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## **BQE WATER INC.**

### **CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2022 and 2021

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To the Shareholders of BQE Water Inc.:

## Opinion

We have audited the consolidated financial statements of BQE Water Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### ***Revenue recognition – Estimate of total expected hours or costs to complete project contracts***

#### *Key Audit Matter Description*

As described in Note 3(l), Note 4(c), and Note 22 to the consolidated financial statements, technical services contracts are remunerated on agreed upon time-based rates or fixed prices. For most fixed price technical services contracts, the Company recognizes the revenue over time based on the project stage of completion method, whereby the percentage of revenues earned to date is estimated using an input measure, usually as the ratio of labor hours or contract costs incurred to date to total estimated labor hours or costs.

We considered this to be a key audit matter due to the significant judgements made by management in estimating the costs to complete which drives the timing of revenue. Changes to costs to complete estimates can have a material impact on the amount of revenue recognized. These estimates are subjective and complex due to the unique nature of many of the projects and are dependent on the status of each individual project at year end. As a result, significant auditor judgement and audit effort was required.

#### *Audit Response*

We responded to this matter by performing procedures over the estimate of total expected hours for each project or the costs to complete project contracts. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained an understanding and evaluated the design and implementation of essential controls related to the Company's process for estimating and updating hours or costs required to complete projects;
- Compared the hours and costs incurred and the estimated hours or costs to complete against the original estimates and

- investigated any significant changes;
- Assessed management's ability to forecast, by comparing the original total estimated hours or costs to the total hours or costs incurred for contracts completed during the year;
  - Obtained management's calculations and tested the mathematical accuracy;
  - Inspected a sample of contracts, and when applicable, change orders, to understand the contract scope and key terms in order to assess the appropriateness of revenue recognition;
  - Interviewed, on a sample basis, operational personnel of the Company to evaluate reasonability of progress to date, the estimate of labor hours and costs to be incurred to complete the project, and factors impacting the amount of time and cost to complete the project;
  - Tested, on a sample basis, the labour hours and costs incurred to supporting evidence; and
  - Assessed the adequacy and appropriateness of the related financial statement disclosures.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design

and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jian-Kun Xu.

Vancouver, British Columbia

April 27, 2023

*MNP* LLP

Chartered Professional Accountants

**BQE WATER INC.**

Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

(Expressed in Canadian dollars)

		December 31 2022 \$	December 31 2021 \$
	note		
<b>Assets</b>			
<b>Current assets</b>			
Cash		6,234,352	3,943,714
Restricted cash	5	180,307	83,137
Trade and other receivables	6, 7 (b)	3,206,869	2,009,201
Prepaid and deposits		337,850	233,022
<b>Total current assets</b>		<b>9,959,378</b>	<b>6,269,074</b>
<b>Non-current assets</b>			
Plant and equipment	8	395,456	255,141
Intangible assets	9	314,775	398,715
Investment in joint ventures	10	5,301,227	6,855,401
Deposits		17,080	24,881
<b>Total non-current assets</b>		<b>6,028,538</b>	<b>7,534,138</b>
<b>Total assets</b>		<b>15,987,916</b>	<b>13,803,212</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payable and accrued liabilities	7, 11	1,240,780	1,041,802
Loans	12	82,500	82,500
Deferred revenues	22 (d)	436,039	73,243
Lease obligations	13	191,988	120,039
Other liabilities	9	142,000	-
Deferred benefits	14	700,949	394,441
<b>Total current liabilities</b>		<b>2,794,256</b>	<b>1,712,025</b>
<b>Non-current liabilities</b>			
Loans	12	185,625	268,125
Deferred revenues	22 (d)	283,740	253,560
Lease obligations	13	85,802	86,412
Other liabilities	9	-	169,700
<b>Total non-current liabilities</b>		<b>555,167</b>	<b>777,797</b>
<b>Total liabilities</b>		<b>3,349,423</b>	<b>2,489,822</b>
<b>Shareholders' Equity</b>			
Share capital	15	56,654,061	56,573,611
Contributed surplus		10,919,623	10,669,159
Accumulated other comprehensive income		1,582,782	1,750,386
Accumulated deficit		(56,517,973)	(57,679,766)
<b>Total shareholders' equity</b>		<b>12,638,493</b>	<b>11,313,390</b>
<b>Total liabilities and shareholders' equity</b>		<b>15,987,916</b>	<b>13,803,212</b>
Commitments (note 21)			

Approved and authorized by the Board of Directors:

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*"Peter Gleeson"*, Executive Chairman

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*"Sara Elford"*, Director

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

**BQE WATER INC.**

## Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

		<b>Year ended December 31</b>	
		<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>
	note		
Revenues	7 (b), 22	<b>12,157,696</b>	7,511,259
Operating expenses (excluding depreciation)	18	<b>(7,106,966)</b>	(3,948,527)
Operating margin before depreciation		<b>5,050,730</b>	3,562,732
Share of income from joint ventures	10	<b>1,487,336</b>	2,803,151
General and administration	18	<b>(2,464,143)</b>	(1,822,932)
Sales and development	18	<b>(1,768,322)</b>	(1,373,867)
Share-based payments	7 (a), 14	<b>(670,615)</b>	(302,749)
Depreciation and amortization	8, 9	<b>(263,668)</b>	(167,995)
Income from operations and joint ventures		<b>1,371,318</b>	2,698,340
Finance income (costs)	16	<b>26,834</b>	(23,832)
Foreign exchange gain (loss)		<b>48,098</b>	(21,342)
Other income	17	<b>24,785</b>	106,645
Income before income taxes		<b>1,471,035</b>	2,759,811
Income tax expenses	19	<b>(309,242)</b>	(130,373)
<b>Net income for the year</b>		<b>1,161,793</b>	2,629,438
<b>Other comprehensive income</b>			
<i>Items that will be reclassified subsequently to income</i>			
Translation (loss) gain on foreign operations		<b>(167,604)</b>	305,172
<b>Comprehensive income for the year</b>		<b>994,189</b>	2,934,610
<b>Earnings per share</b>			
Basic	15 (d)	<b>0.93</b>	2.13
Diluted	15 (d)	<b>0.92</b>	2.11
<b>Weighted average number of shares outstanding</b>			
Basic	15 (d)	<b>1,248,890</b>	1,231,673
Diluted	15 (d)	<b>1,263,912</b>	1,247,374

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

**BQE WATER INC.**

Consolidated Statements of Changes in Equity  
 For the years ended December 31, 2022 and 2021  
 (Expressed in Canadian dollars)

	note	Year ended December 31		Year ended December 31	
		Number of Shares	2022 \$	Number of Shares	2021 \$
<b>Share Capital</b>					
Balance, beginning of the year	15 (b)	1,244,968	56,573,611	1,217,435	56,386,413
Exercise of stock options	14 (a)	11,960	80,450	27,533	187,198
<b>Balance, end of the year</b>		<b>1,256,928</b>	<b>56,654,061</b>	<b>1,244,968</b>	<b>56,573,611</b>
<b>Contributed surplus</b>					
Balance, beginning of the year			10,669,159		10,565,312
Equity settled share-based payments	14 (a)		250,464		103,847
<b>Balance, end of the year</b>			<b>10,919,623</b>		<b>10,669,159</b>
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the year			1,750,386		1,445,214
Other comprehensive (loss) income for the year			(167,604)		305,172
<b>Balance, end of the year</b>			<b>1,582,782</b>		<b>1,750,386</b>
<b>Accumulated deficit</b>					
Balance, beginning of the year			(57,679,766)		(60,309,204)
Net income for the year			1,161,793		2,629,438
<b>Balance, end of the year</b>			<b>(56,517,973)</b>		<b>(57,679,766)</b>
<b>Total shareholders' equity</b>					
Balance, beginning of the year			11,313,390		8,087,735
Exercise of options	14 (a)		80,450		187,198
Equity settled share-based payments	14 (a)		250,464		103,847
Other comprehensive (loss) income for the year			(167,604)		305,172
Net income for the year			1,161,793		2,629,438
<b>Balance, end of the year</b>			<b>12,638,493</b>		<b>11,313,390</b>

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

**BQE WATER INC.**

Consolidated Statements of Cash Flow  
For the years ended December 31, 2022 and 2021  
(Expressed in Canadian dollars)

		Year ended December 31	
		2022	2021
		\$	\$
	note		
<b>Operating activities</b>			
Net income for the year		1,161,793	2,629,438
Items not affecting cash			
Bad debt expense (recovery)	6, 17	8,050	(94,630)
Share of income from joint ventures	10	(1,487,336)	(2,803,151)
Finance (income) expense, net	16	(26,834)	23,832
Depreciation and amortization	8, 9	263,668	167,995
Foreign exchange (gain) loss		(49,574)	32,460
Share-based payments	14	670,615	302,749
		540,382	258,694
Change in non-cash operating working capital items	20	(904,105)	(508,516)
Net cash used in operating activities		(363,723)	(249,822)
<b>Investing activities</b>			
Purchase of plant and equipment	8	(81,401)	(44,890)
Purchase of intangible assets	9	(100,000)	(150,000)
Dividends received from joint ventures	10 (a)	2,896,500	1,177,200
Contributions made to joint ventures	10 (c)	(49)	-
Interest received	16	53,345	5,573
Net cash provided by investing activities		2,768,395	987,883
<b>Financing activities</b>			
Lease payments on principal portion	13	(166,360)	(110,012)
Lease payments on interest portion	13	(26,400)	(29,322)
Proceeds from exercise of stock options	14 (a)	80,450	187,198
Repayment of loans	12	(82,500)	(61,875)
Interest paid		(94)	(84)
Net cash used in financing activities		(194,904)	(14,095)
Effect of exchange rate changes on cash		80,870	(19,944)
Net increase in cash		2,290,638	704,022
Cash, beginning of the year		3,943,714	3,239,692
<b>Cash, end of the year</b>		<b>6,234,352</b>	<b>3,943,714</b>

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



## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

### 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue on April 27, 2023 by the Company's Board of Directors.

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, and have been prepared under the historical cost basis except for those assets and liabilities that are measured at fair values at the end of each reporting period.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in the consolidated financial statements:

#### a) Basis of Consolidation

These consolidated 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:

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Dec. 31, 2022</b>	<b>Ownership interest as at Dec. 31, 2021</b>
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:

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Dec. 31, 2022</b>	<b>Ownership interest as at Dec. 31, 2021</b>
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%

#### i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the

## **BQE WATER INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

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entity. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. The activities of any dissolved subsidiary are recorded up to the date of dissolution.

### *ii) Investments in Joint Ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The financial results, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. The Company will record a subsequent investment in joint venture adjustment upon the receipt of cash distribution or dividend produced by the joint venture's profit. When the Company's share of losses in the joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports a profit, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

When the Company transacts with a joint venture, profits or losses resulting from the transactions with the joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Company.

### *iii) Business Combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree.

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance. Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration paid less the fair value of the net identifiable assets and liabilities recognized.

If the Company's interest in the fair value of the acquiree's net identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is recognized immediately in the statement of operations as a bargain purchase. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

## **b) Foreign Currency Translation**

### *i) Functional and Presentation Currency*

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's presentation currency.

Items included in the financial statements of each consolidated entity in BQE Water Inc.'s group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries and its joint ventures, except for BioteQ Water Mexico S.A. de C.V. which is CAD, are respective of their local currency, such as the United States dollars ("USD"), Chilean peso ("CLP") and Chinese renminbi ("RMB").

## **BQE WATER INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

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For the purpose of presenting these consolidated financial statements, entities including joint ventures that have a functional currency different from the presentation currency (“foreign operations”) are translated into CAD as follows:

- Assets and liabilities: at the closing rate at the date of the statement of financial position.
- Income and expenses: at the average rate for the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates).

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

### *ii) Transactions and Balances*

In preparing the financial statements of each individual BQE Water entity, transactions in currencies other than the entity’s functional currency (“foreign currency”) are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for the exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

### **c) Cash**

Cash consists of cash on hand, on demand bank deposits and guaranteed investment certificates with maturity less than 91 days, some of which are interest-bearing.

### **d) Restricted Cash**

Restricted cash is comprised of cash that is held by a bank as collateral for stand-by letters of credit. These balances are subject to collateral restrictions until the completion of the project and are therefore, not available for general use by the Company.

### **e) Inventory and Work in Progress**

Inventories of metal concentrates in the Company’s joint venture are valued at the lower of average production cost and net realizable value. Production costs that are inventoried include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour and other direct costs (including external services) and related production overheads but exclude administrative and finance costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Chemical and spare part inventories in the Company’s joint ventures are valued at the lower of cost and net replacement cost, which approximates net realizable value. Work in progress represents the costs that the Company incurred for projects that are not completed at the statement of financial position date. This amount includes both direct materials and direct labour costs.

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

### f) Plant and Equipment

#### *i) Recognition and Measurement*

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. The cost of self-constructed plant and equipment includes the costs of materials, costs directly attributable to bringing the assets to a working condition for their intended use such as labour, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Self-constructed assets are classified to the appropriate categories of plant and equipment and subject to depreciation when ready for their intended use. If significant components of a plant or equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment.

#### *ii) Subsequent Measurement*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of income in the financial period in which they are incurred.

Plant and equipment items are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of a plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### *iii) Depreciation*

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost net of their residual values, over the shorter of their estimated useful lives and the contract life. Depreciation commences when the asset is fully constructed and available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Depreciation categories and useful lives for items included in plant and equipment are as follows:

<b>Asset</b>	<b>Estimated useful life</b>
Computer equipment	3 years
Furniture, office and lab equipment	5 years
Right-of-use assets & leasehold improvements	Remaining lease term
Pilot plants	3 to 5 years
Water treatment plants	Shorter of contract life or 10 to 20 years

### g) Intangible assets

Intangible assets are recorded at cost, net of amortization and any provision for impairment.

Intellectual property assets are being amortized over the useful life of 5 years, being the remaining useful life of the related intellectual property assets from acquisition. Residual values and useful lives are reviewed at each reporting date. Where an indicator of impairment exists, intangible assets are subject to impairment testing as described in "Impairment of assets" under Note 3 (j).

### h) Financial Instruments

Financial assets and liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

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### *i) Fair Value Estimation*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. These levels are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

### *ii) Financial Assets*

Based on their nature, the Company classifies its non-derivative financial assets as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets is based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVTOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. This designation will be recorded until the financial asset is derecognized.

Derivative instruments are recorded in the consolidated statements of financial position at fair value with both realized and unrealized changes in fair value recognized immediately in other income in the consolidated statements of income and other comprehensive income. As at December 31, 2022, the Company did not have any outstanding financial derivatives.

Financial assets are derecognized when the contractual cash flows from the asset expire or when the Company transfers the right to receive the contractual cash flows of the asset in a transaction whereby all risks and rewards of the financial asset are transferred. Any retained interest in the financial asset transferred is recognized as a separate financial asset or liability.

Financial assets and liabilities are offset and presented net in the consolidated statements of financial position only when a legal right of offset exists and the Company intends to settle the transaction on a net basis or realize the asset and the liability simultaneously.

#### *Financial Assets at Amortized Cost*

Financial assets with fixed or determinable payments that are neither derivatives nor quoted in an active market are classified as financial assets at amortized cost. The objective is to hold such assets to collect contractual cash flows and contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. These financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. These assets, including any interest-bearing financial assets, are subsequently measured at amortized cost using the effective interest method, less any impairment losses.

#### *Financial Assets at Fair Value Through Other Comprehensive Income ("FVTOCI")*

Financial assets at FVTOCI represent those non-derivative financial assets that are held to achieve an objective by both collecting contractual cash flows and selling the financial assets, where contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial assets at FVTOCI are initially measured at fair value plus any transaction costs directly attributable to the asset. Subsequent fair value gains or losses are recognized in other comprehensive income, except for impairment.

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### *Financial Assets at Fair Value Through Profit or Loss (“FVTPL”)*

A financial asset is measured at FVTPL if it does not meet the criteria for assets measured at amortized cost or fair value through other comprehensive income. Financial assets at FVTPL include held for trading assets and derivative instruments. Financial assets are classified as held for trading if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s documented risk management or investment strategy and have been acquired principally for the purpose of selling in the near term. A financial asset is measured at FVTPL if it is a derivative that is not designated as effective as a hedging instrument. Financial assets at FVTPL are measured at fair value with changes recognized in profit or loss. Transaction costs associated with assets classified as FVTPL are recognized as incurred through profit or loss.

Cash, restricted cash, and trade and other receivables excluding all tax receivable, such as value added tax (“VAT”) and GST/PST/QST/HST/IVA, are classified as financial assets at amortized cost. No financial asset was designated as FVTPL or FVTOCI as at December 31, 2022 and 2021.

### *iii) Financial Liabilities*

The Company classifies its financial liabilities into one of the following categories:

#### *Financial Liabilities at Fair Value Through Profit or Loss*

This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company has classified contingent liabilities, included in other liabilities, and deferred benefits, which are the provisions related to the Company’s Deferred Share Units (“DSU”) and Restricted Share Units (“RSU”), as FVTPL. Financial liabilities that are initially recognized at FVTPL originally include any transaction costs directly attributable to the liability.

#### *Other Financial Liabilities*

This category consists of liabilities carried at amortized cost using the effective interest method. The Company has classified trade payable and accrued liabilities, which exclude all tax payable such as VAT and GST/PST/QST/HST/IVA, lease obligations, and loans as financial liabilities at amortized cost.

The Company initially recognizes financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are derecognized when their contractual obligations are discharged, cancelled or have expired. Any adjustment to the amortized cost of the financial liability arising from a modification or exchange is recognized in profit or loss at the date of the modification or exchange.

### **i) Leases**

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether 1) the supplier has a substantive substitution right, 2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and 3) the Company has the right to direct the use of the asset.

For contracts that contain a lease, the Company recognizes a right-of-use (“RoU”) asset and a lease obligation at the lease commencement date in the consolidated statement of financial position. The RoU asset is initially measured based on the initial amount of the lease obligation plus any initial direct costs incurred less any lease incentives received. The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the RoU asset or the end of the lease term.

The lease obligation is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s

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incremental borrowing rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

A lease modification is accounted for as a separate lease from the original lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets; and the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. If the lease modification merely extends the Company's right to use an existing leased asset to which it already has access, the modification is not accounted for as a separate lease. Instead, the Company recalculates the existing lease obligations on the effective date of the lease modification to include the lease payments until the end of the extended period and a corresponding adjustment is also made to the RoU asset. The additional RoU asset and lease obligations relating to the extended period are therefore recognized on the date of modification.

For short-term leases (terms of 12 months or less) and leases of low-value assets, the Company has opted to recognize these lease payments as expenses on the consolidated statement of income, as permitted by IFRS 16. This expense is presented within general and administration expenses.

### **j) Impairment**

#### *i) Plant and equipment & intangible assets*

The Company's plant and equipment & intangible assets are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated to determine whether impairment exists. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation can be identified.

An asset's recoverable amount is the higher of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recognized in profit and loss for the period. Impairment losses recorded may be subsequently reversed if the recoverable amount of the assets is once again higher than their carrying value. Where impairment is subsequently reversed, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that it does not exceed the carrying value that would have been determined (net of depreciation) had no impairment loss been recognized in prior periods.

#### *ii) Receivables*

Receivables measured at amortized cost are assessed at each reporting date to determine whether there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash shortfalls over the expected life of the receivable. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the receivable, and that the loss event will have a negative effect on the estimated future cash flows of that receivable that can be estimated reliably.

An impairment loss in respect of receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired receivables continues to

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be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### *iii) Equity-Accounted Investment in Joint Venture*

An equity accounted investment in joint venture is reviewed for indication of impairment at each financial position date. Indications include observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its FVLCD and VIU. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings or loss in the period in which the reversal occurs.

## **k) Provisions**

A provision is a liability of uncertain timing or amount. Provisions are recognized when: (i) the Company has present legal or constructive obligations as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligations; and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligations. The increase in the provision due to passage of time is recognized as interest expense.

## **l) Revenue Recognition**

Revenue is recognized by applying the five-step model under IFRS 15. The Company recognizes revenue when or as the control of goods or services are transferred to the customer and performance obligations are satisfied.

### *i) Operation of Water Treatment Plants*

For revenue based on water treatment fees, the performance obligations are satisfied and revenue is recognized when water treatment services are provided and the customer receives control of the clean water to be discharged into the environment and as discharge limits and targets are achieved. The Company has agreements with a customers for the operation of different water treatment plants, and considerations for such plants are earned based on a fixed monthly fee, an hourly fee based on time onsite, or water treatment fee based on the volume of water treated and discharged into the environment. Some agreements have a combination of the above as total considerations for water treatment operation services. The Company also has an agreement with the Company's joint venture and other customers for the operations support of a water treatment plants, with revenues earned for ongoing operations support and supervisory services.

Revenues are also earned by the Company's joint ventures on the sale of metal concentrates recovered from the operation of water treatment plants. For the sale of metal concentrate, the performance obligations are satisfied when the control of the metal concentrate is passed from the Company's joint ventures to the customer. Revenue is recognized based on the final settlement of weights and assays and is recorded at the fair value, based on prevailing market prices adjusted in accordance with agreed upon terms. Smelting and transportation charges are netted against revenue for sales of metal concentrate.

### *ii) Technical Services Relating to Water Management*

Technical services include both water management consulting and technical innovation services. Water management consulting services include feasibility and assessment studies, toxicity investigations, process engineering design, plant commissioning and plant optimization. Technical innovation services include field pilot demonstrations, laboratory treatability assessments, designing and conducting experiments, and delivery of final reports on the results. Technical services contracts can be remunerated on agreed upon time-based rates or a fixed price commitment for the scope of the contract. The services are passed onto the customer upon the delivery of the work product, such as a written report or



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completion of a performance test, or as hours of services are performed for the customer. As control of the services passes from the Company to the customer over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Depending on the specific circumstances of the individual contracts, such as the nature, scope and value of the contracts, the Company recognizes revenue from technical services by either the project stage of completion method or the completed contract method.

### **m) Government Grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to plant and equipment are included in non-current liabilities as deferred government grants are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in the statement of profit or loss on a systematic basis in the periods in which the intended expenses are recognized.

### **n) Employee Benefits**

#### *i) Bonus Plans*

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the key performance indicators of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### *ii) Defined Contribution Plans*

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which the related service is provided by the employees.

#### *iii) Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates:

- When the Company can no longer withdraw the offer of those benefits.
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.
- When benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### **o) Share-based Payments**

The Company maintains a Deferred Share Unit (“DSU”) plan, a Restricted Share unit (“RSU”) plan and a stock option plan for employees and directors of the Company. The DSU plan and the RSU plan are considered as cash-settled share-based payments and the stock option plan is considered as equity-settled share-based payments.

RSUs are measured initially at the fair value and the amount payable is recognized as an expense with a corresponding increase in liabilities over the vesting period. The RSUs vest over three years in equal installments and the Company will settle all RSUs in cash. Compensation expense relating to the initial award and changes in the market price at each reporting date is recognized on a straight-line basis in profit or loss over the vesting period.

DSUs are measured initially at the fair value and such liabilities are recognized as an obligation at the grant date. The fair value of the amount payable to holders of DSUs is equivalent to the cash value of the common shares at the report date. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in profit or loss for the period.

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Stock options are measured at the fair value of the equity instruments at the grant date. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus. Upon exercise of stock options, the consideration paid by the option holder is recorded as an increase to share capital and the amount previously recognized in contributed surplus will not be reversed back to share capital.

Equity-settled share-based payment with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### **p) Income Tax**

The Company follows the asset and liability method of accounting for income taxes. Income tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. Income tax comprises of two components: current and deferred.

#### *i) Current Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxes as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### *ii) Deferred Tax*

Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against those deductible temporary differences which can be utilized.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets and liabilities are not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries, associates and joint arrangements, and interests in joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the

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related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse or the tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Management believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### **q) Earnings Per Share**

Basic earnings per share is calculated by dividing the net income for the year attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments. If the Company incurs net losses in a fiscal year, basic and diluted losses per share are the same.

### **r) Recent Accounting Pronouncements**

There are new accounting standards and amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2023 that have not been applied in preparing the financial statements for the year ended December 31, 2022. These standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Company's consolidated 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 consolidated 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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

### **a) Impact of COVID-19**

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 December 31, 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

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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.

### **b) Critical Judgements**

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are:

- i) Management's assessment of the Company's ability to continue as a going concern, as the consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.
- ii) Management's judgement on revenue recognition, when determining the performance obligations that exist in an arrangement and the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time.
- iii) Management's assessment of the intellectual property transaction in the previous year as an intangible asset acquisition and not a business combination arrangement.
- iv) Management's assessment of impairment indicators for asset impairment on long-term assets such as plant and equipment or investment in joint ventures.

### **c) Key Sources of Estimation Uncertainty and Assumptions**

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

#### *i) Revenue Recognition*

Revenue for technical services relating to water management are recognized using the project stage of completion method, which requires judgment for estimating project inputs and costs for completion and making assumptions for scope changes. Depending on the services provided and on the contract terms, many variables are used in assessing the revenues earned based on the project stage of completion at the reporting date. For the revenue arrangements comprise multiple performance obligations, estimates are required when determining the relative fair value of each performance obligation utilizing standalone prices for similar deliverables where it exists or internally generated estimates of standalone price.

#### *ii) Expected Credit Loss*

Trade and other receivables are assessed for impairment at each reporting date by applying the expected credit loss impairment model. Expected credit loss represents management's best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also takes into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

#### *iii) Right-of-Use Assets & Lease Obligations*

To determine the value of the initial recognition and subsequent re-measurement of RoU assets and lease obligations, management is required to exercise judgment in several areas. Management has reviewed its lease agreements to estimate the lease term by evaluating the probability of exercising its option to extend or renew its lease contracts. Further judgement is required to determine the discount rate on lease payments by assessing its incremental borrowing rate at each of the Company's locations.

#### *iv) Contingent Consideration*

Contingent consideration, resulting from purchase of intangible assets, is valued at fair value at the acquisition date as part the asset acquisition price. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on estimation of the earn-out

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bonus to be paid in the future. The key assumptions take into consideration are the eligible projects' revenue and costs in the contract term and the discount factor.

### 5. RESTRICTED CASH

The balance at December 31, 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

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Trade receivables, net	2,468,929	1,427,398
Contract assets (note 22 (c))	715,237	581,159
Other receivables	22,703	644
	<u>3,206,869</u>	<u>2,009,201</u>

The Company's changes in allowance for expected credit loss for the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Allowance for expected credit loss, beginning of the year	-	94,630
Recognition of expected credit loss	-	-
Bad debt recovery (note 17)	-	(94,630)
	<u>-</u>	<u>-</u>
Allowance for expected credit loss, end of the year	-	-

### 7. RELATED PARTY TRANSACTIONS AND BALANCES

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

#### a) Management Compensation

For the year ended December 31, 2022 and 2021, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2022	2021
	\$	\$
Salaries, fees and short-term benefits	786,908	698,615
Share-based payments (note 14 (a) and 14 (c))	223,842	101,595
	<u>1,010,750</u>	<u>800,210</u>

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**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 Nunavik. As the newly incorporated joint venture commenced financial activities in 2022, revenue earned from the joint venture for the year ended December 31, 2022 was \$1,722,390 (\$nil in 2021). Included in trade and other receivables as of December 31, 2022 is \$154,611 (\$nil at December 31, 2021) of trade receivables due from the joint venture.

**8. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup> \$	Pilot plants \$	Other <sup>2</sup> \$	Total \$
<b>Cost</b>				
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
<b>As at December 31, 2021</b>	<b>509,231</b>	<b>580,593</b>	<b>717,748</b>	<b>1,807,572</b>
Additions	237,950	-	81,401	319,351
Adjustment	(1,638)	-	-	(1,638)
Foreign exchange translation	2,368	-	-	2,368
<b>As at December 31, 2022</b>	<b>747,911</b>	<b>580,593</b>	<b>799,149</b>	<b>2,127,653</b>
<b>Accumulated Depreciation</b>				
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)
<b>As at December 31, 2021</b>	<b>(317,281)</b>	<b>(580,593)</b>	<b>(654,557)</b>	<b>(1,552,431)</b>
Depreciation for the year	(146,880)	-	(32,848)	(179,728)
Foreign exchange translation	(38)	-	-	(38)
<b>As at December 31, 2022</b>	<b>(464,199)</b>	<b>(580,593)</b>	<b>(687,405)</b>	<b>(1,732,197)</b>
<b>Carrying Amount</b>				
As at December 31, 2021	191,950	-	63,191	255,141
<b>As at December 31, 2022</b>	<b>283,712</b>	<b>-</b>	<b>111,744</b>	<b>395,456</b>

<sup>1</sup>Right-of-use assets comprises lease assets (note 13) such as office building and office equipment.

<sup>2</sup>Other comprises leasehold improvements, furniture, office equipment and lab equipment.

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
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### 9. INTANGIBLE ASSETS

	Total \$
<b>Cost</b>	
As at December 31, 2020	-
Additions	419,700
<b>As at December 31, 2021 &amp; 2022</b>	<b>419,700</b>
<b>Accumulated Depreciation</b>	
As at December 31, 2020	-
Depreciation for the year	(20,985)
As at December 31, 2021	(20,985)
Depreciation for the year	(83,940)
<b>As at December 31, 2022</b>	<b>(104,925)</b>
<b>Carrying Amount</b>	
As at December 31, 2021	398,715
<b>As at December 31, 2022</b>	<b>314,775</b>

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 other liabilities. As 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 was adjusted to \$142,000 as at December 31, 2022 and the fair value adjustment has been recorded in other income (note 17).

## BQE WATER INC.

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### 10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on December 31, 2022 was \$5,301,227 (\$6,855,401 on December 31, 2021), 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	1,450,457	52,034	36,879
Share of translation loss on foreign operation	(145,059)	(192)	-
Dividends received	(2,896,500)	-	-
Unrecognized share of net income and translation loss	-	(51,842)	-
Balance, December 31, 2022	5,264,299	-	36,928

#### 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. In 2022, the Company received a gross cash distribution of \$2,896,500 (\$15 million RMB) compared to \$1,177,200 (\$6 million RMB) in 2021.

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.



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

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Assets		
Cash	3,348,036	4,145,245
Other current assets	539,830	1,331,127
Non-current assets	2,806,376	3,264,457
Total assets	<u>6,694,242</u>	<u>8,740,829</u>
Liabilities	1,429,943	1,885,428
Partner's Equity	<u>5,264,299</u>	<u>6,855,401</u>
Total liabilities and partner's equity	<u>6,694,242</u>	<u>8,740,829</u>

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

	2022	2021
	\$	\$
Revenues	6,241,425	7,714,751
Operating expenses (excluding depreciation)	<u>(3,554,958)</u>	<u>(3,629,017)</u>
	2,686,467	4,085,734
Non-operating expenses	(447,169)	(238,312)
Depreciation of plant and equipment	(485,254)	(414,724)
Income tax expense	<u>(303,587)</u>	<u>(629,547)</u>
Net income for the year	1,450,457	2,803,151
Other comprehensive (loss) income	<u>(145,059)</u>	208,296
Comprehensive income for the year	<u>1,305,398</u>	<u>3,011,447</u>

## BQE WATER INC.

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### 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 comprehensive income in the joint venture for the year ended December 31, 2022 was \$51,842 (comprehensive loss of \$40,119 in 2021). 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 are reduced to zero. As of December 31, 2022, the balance of unrecognized share of net losses for MWT-BQE is \$128,490 (\$180,332 on December 31, 2021).

The sections of the statement of financial position of the Company’s portion of interest in the MWT-BQE joint venture are presented as follows:

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Current assets	92,214	59,672
Plant and equipment	28,908	32,873
Current liabilities	47,573	28,255
Non-current liabilities	26,014	28,031
Partner’s equity	-	-

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

	2022	2021
	\$	\$
Revenues	480,345	389,904
Operating expenses (excluding depreciation)	(298,257)	(174,164)
	182,088	215,740
Non-operating expenses	(130,054)	(259,946)
Net income (loss) for the year	52,034	(44,206)
Other comprehensive (loss) income	(192)	4,087
Comprehensive income (loss) for the year	51,842	(40,119)

## BQE WATER INC.

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### c) BQE Water Nuvumiut Development Inc.

During 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:

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Current assets	139,743	-
Current liabilities	102,815	-
Partner’s equity	36,928	-

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

	2022	2021
	\$	\$
Revenues	928,368	-
Operating expenses	(890,859)	-
	37,509	-
Non-operating expenses	(630)	-
Net income for the year	36,879	-

## 11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Trade payable and accruals	647,151	591,533
Payroll liability	566,151	414,438
Tax payable	27,478	35,831
	1,240,780	1,041,802

## BQE WATER INC.

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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 December 31, 2022 is \$268,125 (\$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:

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Balance at January 1	206,451	279,005
Addition of lease obligations	237,950	36,495
Adjustment of lease obligations	(1,638)	-
Interest expense on lease obligations	26,417	29,322
Lease payments on interest portion	(26,400)	(29,322)
Lease payments on principal portion	(166,360)	(110,012)
Foreign exchange translation	1,370	963
Ending Balance	277,790	206,451
Less: current portion of lease obligations	191,988	120,039
Non-current portion of lease obligations	85,802	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 year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Classified as short-term or as low value	85,507	31,771
Leases with variable lease payments	99,855	83,491
	185,362	115,262

## BQE WATER INC.

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

	Dec. 31, 2022
	\$
2023	213,453
2024	77,424
2025	9,109
2026	3,508
2027	1,754
Total undiscounted lease payments	305,248
Less: imputed interest	(27,458)
Total carrying value of lease obligations	277,790

## 14. SHARE-BASED PAYMENT EXPENSES

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

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Stock options (a)	250,464	103,847
Deferred share units (b)	21,155	94,162
Restricted share units (c)	398,996	104,740
	670,615	302,749

### a) Stock Options

Under the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for exercise of all options granted by the Company may not exceed 10% of the Company's shares issued and outstanding at the time the options are granted. The exercise price of each option granted under the Plan is determined at the discretion of the Board at no less than the five-day volume weighted average share price preceding the grant date. Options granted under the Plan expire no later than the fifth anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board although the Company has a practice of having options vest over 3 years in equal installments.

Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

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

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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	(11,960)	6.73
Expired	(3,500)	6.00
Balance, December 31, 2022	90,340	21.10

As at December 31, 2022, the Company has 21,841 of share options outstanding which were exercisable with a weighted average exercise price of \$8.75 (21,299 on December 31, 2021 with a weighted average exercise price of \$7.16).

The weighted average market price per common share on the days of exercise during the year ended December 31, 2022 was \$26.88 (\$27.35 in 2021).

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the year ended December 31, 2022, the Company recognized \$250,464 (\$103,847 in 2021) of non-cash compensation expense related to stock options. The expiry date by exercise price at December 31, 2022 are as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
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 that is fair valued 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:

**BQE WATER INC.**

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	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	-	21,155
Balance, December 31, 2022	10,574	311,933

**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 December 31, 2022 are as follows:

Grant date	Number of RSUs	Fair value \$
April 28, 2021	3,520	79,200
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	-
Forfeited	(318)	-
Redeemed	(4,136)	(113,643)
Fair value adjustment	-	398,996
Balance, December 31, 2022	24,139	389,016

## BQE WATER INC.

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### 15. SHARE CAPITAL

#### a) Authorized

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

#### b) Issued

As at December 31, 2022, the Company had 1,256,928 common shares outstanding (1,244,968 on December 31, 2021).

#### c) Normal course issuer bid (NCIB)

On December 6, 2022, the Company had obtained the approval of the TSX Venture Exchange to commence on a NCIB to repurchase for cancellation up to 62,556 common shares, representing 5% of common shares issued and outstanding, over a 12-month period starting on December 12, 2022. As of December 31, 2022, no common shares have been purchased and cancelled under the NCIB.

Subsequent to the reporting year, between January 1, 2023 to April 27, 2023, the Company repurchased for cancellation 2,600 of common shares under the NCIB.

#### d) Earnings per share

The calculation of earnings per share for the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Net income	1,161,793	2,629,438
Basic weighted average number of shares outstanding	1,248,890	1,231,673
Dilution of securities	15,022	15,701
Diluted weighted average number of shares outstanding	1,263,912	1,247,374
<b>Earnings per share:</b>		
Basic	0.93	2.13
Diluted	0.92	2.11

### 16. FINANCE INCOME (COST)

The net of finance income (cost) is comprised as follows:

	2022	2021
	\$	\$
Finance income	53,345	5,573
Interest expense	(26,511)	(29,405)
	26,834	(23,832)



**BQE WATER INC.**

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**17. OTHER INCOME**

The net of other income is comprised as follows:

	2022	2021
	\$	\$
Other income	5,135	12,015
Fair value adjustment on contingent consideration (note 9)	27,700	-
Bad debt (expense) recovery	(8,050)	94,630
	<u>24,785</u>	<u>106,645</u>

**18. EXPENSES BY NATURE**

	2022	2021
	\$	\$
<b>Operating expenses (excluding depreciation)</b>		
Employee benefits	4,829,730	2,798,433
Consulting and contractor expenses	1,285,307	858,877
Travel expenses	648,921	194,909
Raw materials and consumables used	278,733	80,642
Other expenses	64,275	15,666
	<u>7,106,966</u>	<u>3,948,527</u>
<b>General and administration</b>		
Employee benefits	1,178,594	773,818
Consulting and contractor expenses	485,193	525,405
Insurance expenses	323,883	238,696
Rental expenses	142,828	90,677
Travel expenses	107,377	21,918
Director fees	74,700	66,600
Other expenses	151,568	105,818
	<u>2,464,143</u>	<u>1,822,932</u>
<b>Sales and development</b>		
Employee benefits	1,360,695	1,123,434
Consulting and contractor expenses	157,383	133,161
Travel expenses	108,044	22,544
Rental expenses	42,534	24,585
Other expenses	99,666	70,143
	<u>1,768,322</u>	<u>1,373,867</u>

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**19. INCOME TAXES**

Income tax expense differs from that computed by applying the applicable Canadian federal and provincial statutory rate of 27% (2021 – 27%) before taxes as follows:

	2022	2021
	\$	\$
Expected income tax expense at statutory rates	397,179	754,149
Non-taxable income	(336,613)	(724,872)
Withholding tax	308,688	129,819
Functional currency adjustments	88,384	15,878
Different statutory tax rates on foreign subsidiaries	28,036	(13,820)
Change in unrecognized deferred tax assets	(176,432)	(21,781)
	<u>309,242</u>	<u>130,373</u>
Income tax expense	<u>309,242</u>	<u>130,373</u>
	2022	2021
	\$	\$
Current tax expense	309,242	130,373
Deferred tax expense	-	-
	<u>309,242</u>	<u>130,373</u>
Income tax expense	<u>309,242</u>	<u>130,373</u>

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Details of deferred tax assets (liabilities) as at December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
<b>Foreign Jurisdictions</b>		
Non-capital losses carry-forwards	89,632	-
Tax reserves	(81,500)	-
Plant and equipment	(17,273)	-
Other	9,141	-
	<u>-</u>	<u>-</u>
Deferred tax assets (liabilities)	<u>-</u>	<u>-</u>

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2022 and 2021 are as follows:

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	2022	2021
	\$	\$
<b>Canada</b>		
Plant and equipment	1,512,113	1,437,971
Net capital losses	8,056,712	8,056,712
Non-capital losses	26,966,018	27,201,361
Deferred benefits and others	932,018	581,318
	<u>37,466,861</u>	<u>37,277,362</u>
<b>Foreign Jurisdictions</b>		
Plant and equipment	200,572	163,829
Unrealized foreign exchange loss	951,680	1,547,146
Non-capital losses	199,569	2,580,111
Other	1,375,605	282,333
	<u>2,727,426</u>	<u>4,573,419</u>
<b>Total unrecognized deductible temporary differences</b>	<u>40,194,287</u>	<u>41,850,781</u>

The Company's investment tax credits, expiring between 2021 and 2022, may be used to reduce future Canadian income taxes that are otherwise payable. As at December 31, 2022, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately \$26,966,018 (\$27,201,361 in 2021) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	\$
2026	1,290,024
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	3,007,451
2032	3,735,949
2033	3,403,636
2034	2,414,568
2035	1,458,931
2036	584,241
2037	3,191,545
2038	312,657
2039	647,505
	<u>26,966,018</u>

In addition, the Company has available tax losses in other jurisdictions that total \$1,375,605 (\$2,580,111 in 2021). These losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 5 years to indefinitely, with losses of \$236,988 beginning to expire in 2024.

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For the years ended December 31, 2022 and 2021

### 20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2022	2021
	\$	\$
<b>Change in non-cash working capital items</b>		
Changes in trade receivables	(1,202,274)	(244,384)
Changes in restricted cash	(90,204)	(85,035)
Changes in other assets	(96,613)	(60,230)
Changes in trade payable and accrued liabilities	235,937	(43,675)
Changes in deferred revenues	362,713	(796)
Changes in other liabilities	(113,664)	(74,396)
	<u>(904,105)</u>	<u>(508,516)</u>
Change in non-cash working capital items	(904,105)	(508,516)

### 21. COMMITMENTS

The Company has commitments of \$392,951 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2023	<u>256,027</u>
2024	<u>136,924</u>
	<u>392,951</u>

### 22. 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 an operation support fee, or a combination of the two.

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

**BQE WATER INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

The disaggregated revenue of the Company are as follows:

	2022	2021
	\$	\$
Operations contracts	4,132,834	2,481,484
Technical services contracts	8,024,862	5,029,775
	<u>12,157,696</u>	<u>7,511,259</u>

**b) Remaining Performance Obligations**

As at December 31, 2022, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$3,262,663, 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.

**c) Changes in Contract Assets**

The Company's contract assets are grouped within trade and other receivables (note 6), and the changes in contract assets for the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Contract assets, beginning of the year	581,159	410,715
Amounts invoiced included in the beginning balance	(514,839)	(410,715)
Net increase in contract assets recognized during the year	648,917	581,159
	<u>715,237</u>	<u>581,159</u>

**d) Changes in Deferred Revenue**

The Company's changes in deferred revenue for the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Deferred revenue, beginning of the year	326,803	359,089
Recognition of deferred revenue included in the beginning balance	(73,243)	(54,211)
Net increase in deferred revenue recognized during the year	436,039	52,105
Revaluation on non-current portion of deferred revenue	30,180	(30,180)
	<u>719,779</u>	<u>326,803</u>
Less: Non-current portion of deferred revenue, end of the year	(283,740)	(253,560)
	<u>436,039</u>	<u>73,243</u>

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

### 23. SEGMENTED INFORMATION

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

#### a) Geographic Information

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

	2022	2021
	\$	\$
Revenue		
Canada	4,249,190	3,307,028
USA	4,234,847	2,173,228
Latin America	2,951,577	995,326
China	585,386	986,668
Other	136,696	49,009
	<u>12,157,696</u>	<u>7,511,259</u>

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

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Canada	674,618	625,400
USA	45,762	-
China	5,291,078	6,883,857
	<u>6,011,458</u>	<u>7,509,257</u>

#### b) Information about Major Customers

The following table presents revenue for individual customers exceeding 10% of annual revenue for the year ended December 31, 2022 and 2021:

	2022	2021
	\$	\$
Customer A	1,723,851	2,058,059
Customer B	3,405,173	1,620,119
Customer C	545,503	829,414
Customer D	1,640,478	97,631
Total	<u>7,315,005</u>	<u>4,605,223</u>
Represents percentage of total revenue for the year	60%	61%

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

### 24. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure that the Company has the financial capacity to support its current and anticipated volume of business and mix of geographical establishments, to manage unforeseen operational and project requirements, and to provide its investors with maximum long-term returns on equity.

In the management of capital, the Company defines capital as shareholder's equity and non-current liabilities, which includes loans, lease obligations, and deferred revenues. In order to facilitate the management of its capital requirements, the Company prepares annual budgets, which are approved by the Board of Directors annually. As a component of working capital, the Company maintains balances of cash, which are intended to cover current liabilities. To maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise additional debt financing or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the year.

The amounts of shareholders' equity, working capital and non-current liabilities at December 31, 2022 and 2021 as are follows:

	2022	2021
	\$	\$
Shareholders' equity	12,638,493	11,313,390
Working capital	7,165,122	4,557,049
Non-current liabilities	555,167	777,797

### 25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various risks, including credit risk, market risks such as foreign currency risk, liquidity risk, and commodity price risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on the preservation of capital. Risk management activities are managed by the Company's finance and accounting department, with oversight from the Board of Directors. The Company's risk management policies and procedures have not changed from 2021.

#### a) Credit Risk

Credit risk is the risk of an unexpected loss if a party to the Company's financial instruments fails to meet their contractual obligations. The Company's financial assets are primarily comprised of cash, restricted cash, and trade and other receivables excluding taxes receivable. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash.

The Company's maximum exposure to credit risk is as follows:

	Dec. 31, 2022	Dec. 31, 2021
	\$	\$
Cash & restricted cash	6,414,659	4,026,851
Trade and other receivables (exclude tax receivable)	3,206,869	2,009,201
	9,621,528	6,036,052

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Company does not expect any counterparties holding this cash to fail to meet their obligations. The Company's short-time investments, being on-demand within 90 days, are subject to minimal credit risk as they are placed with a major Canadian financial institution.

The Company transacts with customers with strong credit ratings and strives to minimize credit risk by performing credit reviews, ongoing credit evaluation and account monitoring procedures. The credit risk associated with trade receivables with aging balances over 90 days at December 31, 2022 is considered higher than normal. The Company used a historical 3-year trend to make estimates on expected credit loss. As at December 31, 2022, the Company has an allowance for expected credit losses of \$nil (\$nil at December 31, 2021). All of the Company's receivables have been reviewed for indicators of impairment. The aging of trade and other receivables is as follows:

				Dec. 31, 2022	Dec. 31, 2021
	0-30 days	31-90 days	Over 90 days	Total	Total
	\$	\$	\$	\$	\$
Trade and other receivables (exclude tax receivable)	1,904,285	1,209,135	93,449	3,206,869	2,009,201

Of the Company's receivables, despite over 90 days overdue balances of \$93,449, collection is reasonably assured. The definition of items that are past due is determined by reference to terms agreed upon with individual customers, typically ranging between 15 to 45 days. No trade receivables have been challenged by the respective customers and the Company continues to conduct business with them on an ongoing basis.

### b) Currency Risk

The Company conducts business in Canada, United States, Mexico, Chile and China. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The two main types of foreign exchange risk for the Company can be categorized as follows:

#### i) Transaction Exposure

The Company's operations sell mainly services and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

#### ii) Foreign Exchange Exposure

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the Canadian dollar: cash, restricted cash, trade and other receivable excluding tax receivable, and trade payable and accrued liabilities excluding tax payable. The currencies of the Company's financial instruments and other foreign currency denominated liabilities exposed to currency risk, based on notional amounts and presented in CAD, were as follows:



**BQE WATER INC.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

	December 31, 2022			
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash & restricted cash	902,226	11,081	584,803	396,030
Trade and other receivables (exclude tax)	996,225	-	473,108	441,122
Trade and other payables (exclude tax)	(19,143)	(4,100)	(535,612)	(5,784)
Gross balance sheet exposure	<u>1,879,308</u>	<u>6,981</u>	<u>522,299</u>	<u>831,368</u>

	December 31, 2021			
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash & restricted cash	749,094	14,844	360,842	786,795
Trade and other receivables (exclude tax)	640,802	-	172,971	392,668
Trade and other payables (exclude tax)	(14,991)	2,734	(281,168)	(25,280)
Gross balance sheet exposure	<u>1,374,905</u>	<u>17,578</u>	<u>252,645</u>	<u>1,154,183</u>

A 10% strengthening (weakening) of the Canadian dollar against the following currencies would have decreased (increased) the Company's net loss from its financial instruments presented by the amounts shown below.

	2022	2021
	\$	\$
U.S. dollar	187,931	137,491
Mexican peso	698	1,758
Chilean peso	52,230	25,264
Chinese RMB	83,137	115,418
	<u>323,996</u>	<u>279,931</u>

**c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations from Cash. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash in excess of anticipated needs. As of December 31, 2022, the Company has working capital of \$7,165,122 (\$4,557,049 as of December 31, 2021). To further improve the Company's access to liquidity, 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 \$1,000,000. As of December 31, 2022, the revolving demand credit facility remains undrawn. The Company believes that it has access to sufficient funding through its Cash to meet its foreseeable operating requirements without the use of the credit facility.

The following table shows the contractual maturities of debt commitments. Refer to note 12 in respect to the loan agreement between the Company and the Minister of Western Economic Diversification Canada. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amounts on the consolidated statements of financial position.

## BQE WATER INC.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2022 and 2021

				Dec. 31, 2022	Dec. 31, 2021
	< 1 year	1 to 3 years	> 3 years	Total	Total
	\$	\$	\$	\$	\$
Trade payable and other payables (excludes tax payable)	1,213,302	-	-	1,213,302	1,005,971
Deferred benefits	700,949	-	-	700,949	394,441
Loans	82,500	185,625	-	268,125	350,625
Other liabilities	142,000	-	-	142,000	169,700
Lease obligations	213,453	86,533	5,262	305,248	228,578
	2,352,204	272,158	5,262	2,629,624	2,149,315

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company continues to review expenditures to ensure adequate liquidity. A period of extended depression in the mining industry, which is the Company's main customer base, may necessitate the Company to seek financing opportunities in accordance with its capital management strategy (note 24).

### d) Price Risk

The Company's net income or loss, and financial condition are subject to price risk due to fluctuations of the following:

#### i) Commodity Price Risk

The profitability of the Company's investment in joint ventures will be significantly affected by changes in the commodity price of copper being sold by the joint ventures of the Company. Copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for copper, the level of interest rates, the rate of inflation, investment decisions by large holders of copper, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in copper prices. A 10% change in copper prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by \$624,143 in 2022 (\$771,475 in 2021).

#### ii) Common Stock Price Risk

The Company is subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, the DSU and RSU plans that the Company is required to satisfy in cash upon vesting. The Company considers the plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in stock-based compensation expense in each period: an increase in share unit award prices would decrease the Company's net income or loss. A 10% change in common stock prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by \$102,403 in 2022 (\$48,919 in 2021).

## 26. FAIR VALUE MEASUREMENT

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

**BQE WATER INC.**

Notes to the Consolidated Financial Statements  
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The Company's financial assets and liabilities by category and information about financial assets and liabilities in the statement of financial position are classified and measured as follows:

	Category	Dec. 31, 2022 \$	Dec. 31, 2021 \$
<b>Financial assets</b>			
Cash	Financial assets at amortized cost	6,234,352	3,943,714
Restricted cash	Financial assets at amortized cost	180,307	83,137
Trade and other receivables (excludes tax receivable)	Financial assets at amortized cost	3,206,869	2,009,201
<b>Financial liabilities</b>			
Trade payable and other payables (excludes tax payable)	Financial liabilities at amortized cost	1,213,302	1,005,971
Loans	Financial liabilities at amortized cost	268,125	350,625
Lease obligation	Financial liabilities at amortized cost	277,790	206,451
Other liabilities	Financial liabilities at fair value	142,000	169,700
Deferred benefits	Financial liabilities at fair value	700,949	394,441

The carrying values of the financial assets and liabilities at amortized cost presented above other than long-term portion of loans and lease obligation approximate their fair values due to the short-term maturities of these instruments. Carrying amount of long-term loan and lease obligation approximate fair value due to prevailing interest rates and the risk characteristics of the instruments. The Company has not offset financial assets with financial liabilities.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described in note 3(h). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's deferred benefits, which consist of DSUs and RSUs, are held at fair value, measured by Level 1 inputs. The Company's contingent liabilities, recorded as other liabilities, are held at fair value, measured by Level 3 inputs. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2022 and 2021. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

# BQE Water

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## **BQE WATER INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the years ended December 31, 2022 and 2021

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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 have prepared this document in conjunction with their broader responsibilities for reasonable assurance regarding the reliability of the financial reporting and the establishment and maintenance of adequate information systems and internal controls to ensure that the financial information is complete and reliable. Management also believes that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

This 2022 MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2022, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). All financial information in this MD&A is derived from the Company's Financial Statements, as prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business operations for the foreseeable future. Our accounting policies are described in note 3 of our audited consolidated financial statements. All financial information is presented in **Canadian dollars** (the presentation currency of the Company's financial statements) and all tabular amounts are in \$000s, unless otherwise noted. This MD&A has been prepared as at April 27, 2023.

Certain statements contained in the 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 speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

## OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing 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 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 in Chile and China, which are two 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).

## OUR STRATEGY

The Company's strategy is to apply our unique expertise and intellectual property ("IP") related to the treatment of mine water and metallurgical bleed streams to help clients minimize their life cycle costs and risks associated with water. Additionally, we recognize that sustained growth and the financial success of our business are linked to ongoing innovation and the expansion of our IP portfolio, activities we are actively engaged in through our own operations and through inquiries from clients evaluating new projects.

The Company monetizes the value of its IP and expertise through services that span the full life cycle of mining projects from pre-permitting to post-closure. The Company's primary service is the long-term operation of water treatment plants, designed by our team, to generate recurring revenues linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, we also generate revenues from technical services that are project specific and generally non-recurring in nature. As such, our services are grouped into two key areas:

### **Operational Services**

Revenues from operational services provided by the Company are recurring in nature and are earned through water treatment fees, support fees or through the sale of recovered base metals. Water treatment fees are either tolling fees charged per cubic metre of clean water treated and discharged subject to specific water quality criteria, monthly fees, hourly fees, or a combination of them. Support fees are earned for the Company's expertise linked to the achievement of operational targets and delivered through supervisory and ongoing operational support services. The Company also monetizes the value of its IP through joint ventures by sharing in the value of metals recovered from treating wastewater.

### **Technical Services**

Technical services provided by the Company can be grouped into consulting and technical innovation services. Consulting services help mining companies define water problems, identify opportunities for improving project performance and present solutions to address specific water management issues. Such services include feasibility & assessment studies, toxicity investigations, process engineering design, treatment plant commissioning and plant optimization. Technical innovation services offer our clients beneficial design and technological improvements drawn from our unique knowledge and expertise acquired from ongoing plant operations services. This also provides the Company with opportunities to develop new technologies, through either laboratory treatability assessments or field pilot demonstrations, as triggered by industry needs. These services allow us to follow projects through the entirety of their development and implementation phases, and to provide recurring operational services for our clients.

## 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 Revenues

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 year ended December 31, 2022 and 2021 are as follows:

<i>(in \$'000s)</i>	<b>2022</b>	2021
	\$	\$
Reported revenues under GAAP	<b>12,158</b>	7,511
Share of reported revenues from joint ventures	<b>6,721</b>	8,105
Proportional Revenues for the year	<b>18,879</b>	15,616

### Adjusted EBITDA

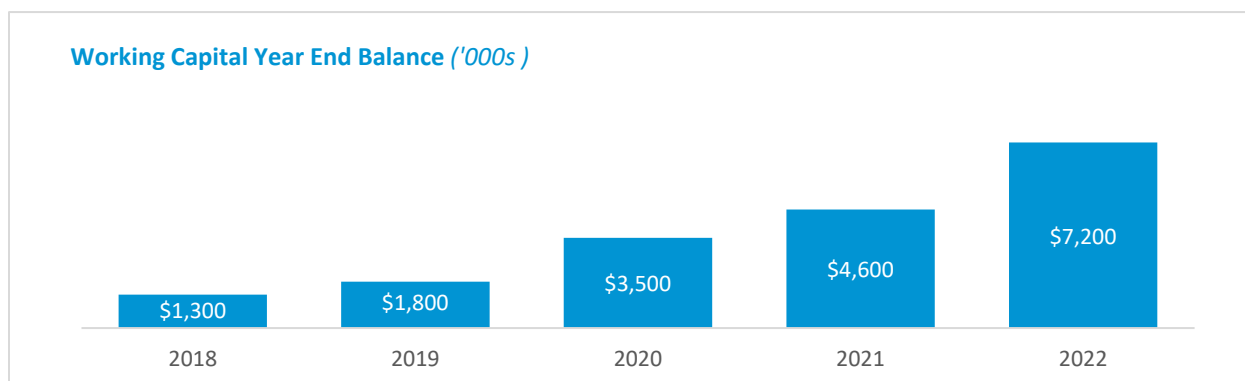
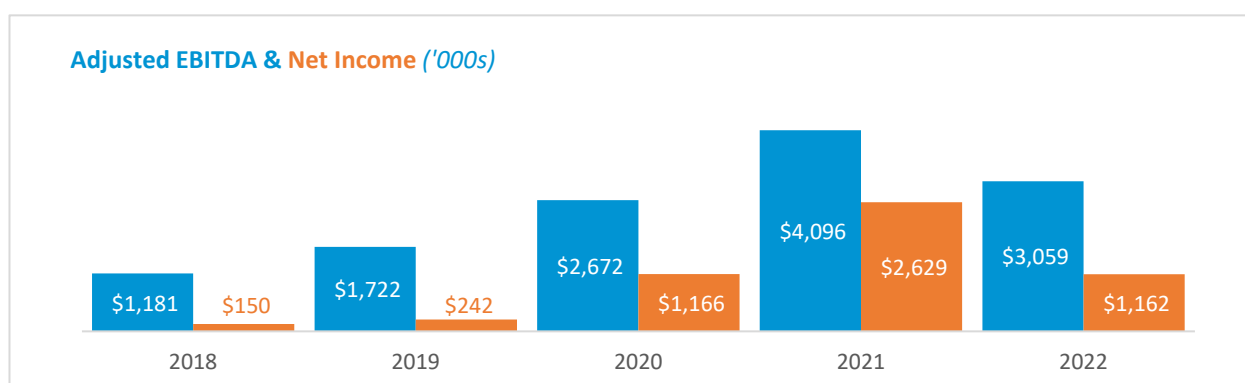
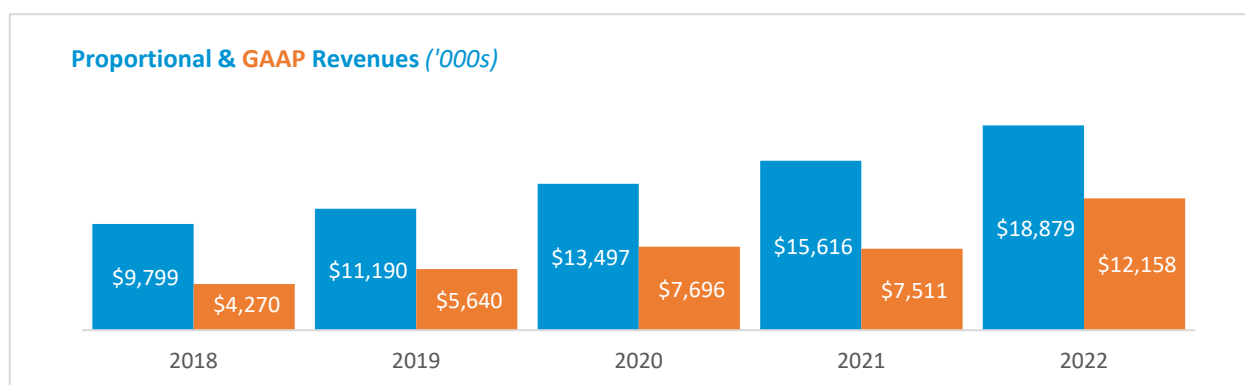
Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Consequently, the presentation of Adjusted EBITDA enables shareholders to better understand the underlying financial performance of our business through the eyes of management. Adjusted EBITDA includes adjustments of the Company's Proportional share of 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>2022</b>	2021
	\$	\$
GAAP: Net income	<b>1,162</b>	2,629
deduct/add: net interest (income) expense	<b>(30)</b>	11
add: income tax expense	<b>613</b>	760
add: depreciation and amortization	<b>765</b>	651
EBITDA	<b>2,510</b>	4,051
add: share-based payment expenses	<b>671</b>	303
deduct: other income	<b>(74)</b>	(279)
deduct/add: net foreign exchange (gain) loss	<b>(48)</b>	21
Adjusted EBITDA	<b>3,059</b>	4,096

## FINANCIAL HIGHLIGHTS

- Achieved record Proportional Revenues of \$18.9 million in 2022, a 21% increase from 2021.
- Recorded historic high revenues under GAAP of \$12.2 million in 2022, a 62% increase compared to 2021.
- Share of income from joint ventures was \$1.5 million, \$1.3 million lower than in 2021.
- Net income for the year was \$1.2 million compared to \$2.6 million in 2021.
- Adjusted EBITDA was \$3.1 million compared to \$4.1 million the year prior.
- Increased working capital by 57% year-over-year to \$7.2 million as of December 31, 2022.
- Grew net cash by 58% to \$6.2 million and Proportional Cash by 18% to \$9.6 million at the end of 2022.

Selected financial results for the last 5 years are as follows:





Selected financial results for the 3 and 12 months ended December 31, 2022 are as follows:

<i>(in '000s)</i>	3 months ended Dec. 31		12 months ended Dec. 31	
	2022	2021	2022	2021
Revenues under GAAP	<b>3,465</b>	2,570	<b>12,158</b>	7,511
Proportional Revenues	<b>4,479</b>	4,389	<b>18,879</b>	15,616
Net income (loss)	<b>(244)</b>	800	<b>1,162</b>	2,629
Adjusted EBITDA	<b>(90)</b>	754	<b>3,059</b>	4,096

## OPERATIONAL SERVICES HIGHLIGHTS

Our operational services consist of the operation or technical supervision of water treatment plants, which generate recurring revenues from three main sources: sales of recovered metals, water treatment fees and operations support fees. The Company's active operations for the 12 months ended December 31, 2022 and 2021 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
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 12 months ended December 31, 2022 are as follows:

<i>(in '000s)</i>	2022	2021
Water treated (cubic metres)	17,704	21,552
Copper recovered (pounds)	2,829	3,337

During 2022, all three plants met mechanical availability and process performance set by the Company. Both the volume of water treated and the mass of copper recovered decreased year-over-year, by 18% and 15% respectively. The region experienced an unusually low volume of precipitation in the last half of 2022, with approximately 34% of the total rainfall compared to the same period the year prior. Lower rainfall not only lessened the water flowing into the treatment plants but also affected copper leaching from waste rock, reducing copper concentrations in the plant feed. 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. The operating results for the 12 months ended December 31, 2022 are as follows:

<i>(in '000s pounds)</i>	2022	2021
Zinc recovered	527	845
Copper recovered	218	237

The mass of zinc recovered decreased by 38% while copper recovery decreased by 8%. The smelter periodically operated their production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed composition and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant.

### **BQE Water Operations**

The Company, with our Inuit partner Nuvumiut Development, operates four water 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 2022 decreased by 20% compared to 2021.

In August 2022, we entered into a new 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 1.5 million cubic metres of water per year. Our team mobilized to site on August 27, 2022 and began treating and discharging clean water without interruption.

In 2021, we began operations of the Zhongkuang SART plant and the Zhaojin SART plant at metallurgical facilities in China. Both plants have been under our technical supervision since the start of full production. During 2022, as government restrictions relating to the pandemic were lifted, both SART plants resumed operations as the upstream circuit returned to normal operation.

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. In 2022, our team was onsite providing water treatment services with the Selen-IX™ circuit to manage the presence of selenium in the feed.

In April 2022, we completed the commissioning of a treatment plant utilizing a combination of nanofiltration and our proprietary selenium electro-reduction process for the simultaneous removal of selenium and sulphate from mine water for a base metal project in the American Southwest. Upon completion of commissioning, we began providing ongoing plant operations 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 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 12 months ended December 31, 2022 are as follows:

<i>(in days)</i>	2022	2021
Raglan Mine water treatment plants	157	129
Minto Mine water treatment plant	127	-
Zhongkuang SART plant	349	126
Zhaojin SART plant	159	161
Water treatment plant for ash pond in Eastern USA	328	-
Water treatment plant in Southwest USA	248	-

The volume of water treated for the 12 months ended December 31, 2022 are as follows:

<i>(in '000s cubic metres)</i>	2022	2021
Raglan Mine water treatment plants	1,870	2,327
Minto Mine water treatment plant	378	-
SART plants in China	411	336
Water treatment plants in the USA	18	-

## TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. Some highlights of technical services, services outside of ongoing plant operations, provided to clients and technical innovation projects during 2022 are summarized below.

### Selenium Removal Projects

- Successfully completed the commissioning of a water treatment plant for simultaneous selenium and sulphate removal at a mine in the US.
- Continued to provide engineering services for the construction of a third Selen-IX™ plant at a US mine.
- Successfully completed lab testing and preliminary engineering for a selenium removal system to treat Flue Gas Desulphurization (FGD) scrubber blow-down at a US power utility provider.
- Successfully completed lab testing and preliminary engineering for a selenium removal system to support permitting of a new uranium project in Canada.

### Water Consulting Projects (Water 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.
- Completed water treatment consulting services resulting in the issue of a permit for the Blackwater project in BC.
- Completed a water treatment conceptual design study to support the permitting of a new lithium project in Ontario.
- Completed engineering design for a water treatment pilot plant to support permitting of a rare earth elements project in Chile.
- Completed pilot demonstrations of the company's sulphate removal Sulf-IX™ technology and selective copper recovery BioSulphide® process at multiple sites across Codelco operations including the El Teniente and Andina mines in Chile.
- Completed process engineering design for the construction of a water treatment plant to recycle water at a mine in Mexico.
- Initiated engineering for an expansion project of the water treatment plant at Minto Mine in the Yukon.

### Cyanide Management Projects (Cyanide Destruction, Recycle)

- Completed site testing to investigate possible improvements in cyanide destruction at a gold mine in Nevada.
- Completed technical assessment for a cyanide destruction plant at the Pogo Mine in Alaska to identify operating cost reductions through process optimization.
- Completed a study to optimize cyanide destruction and effluent discharge using reverse osmosis at a large gold heap leach operation in Peru.
- Initiated engineering design of a SART plant for Shandong Gold in China.
- Performed a trade-off study for the expansion of the existing SART plant in Mexico to include a zinc recovery circuit.

## 2022 COMMENTARY AND OUTLOOK FOR 2023

When comparing our 2022 results against the previous year, it is important to first consider the exceptional net income from our China joint venture with JCC in 2021. Historically, our share of the annual net income from the joint venture has averaged \$1.2 million. Buoyed by high copper prices and high amounts of copper in the wastewater, our share of this net income in 2021 was \$2.8 million, more than double the long-term average. While our share of \$1.5 million recorded in 2022 represents a return to the norm, its comparison to the outsized share from 2021 resulted in a year-over-year variance in some of our financial metrics.

In fact, 2022 was an exciting year for the Company, dominated by growth in both the team's technical capabilities and overall capacity to execute a larger number of projects, ensure the successful operation of a growing portfolio of plants under long-term contracts, and support sales and development activities that included new products and services.

When asked what we consider as the main challenge for BQE Water, our answer over the last two years has been very consistent – managing growth; specifically as it relates to the expansion of our team to provide successful operational services for new plants in the pipeline. Our 2022 results reflect this challenge superimposed on the lower net income from our China joint venture. Some of the challenges are the same as those faced by other professional services firms growing organically in the post pandemic world; namely, tight labour markets and general cost increases largely driven by rising wages. Others are more unique to BQE Water such as the need to bring on new hires well ahead of projects entering the operations phase due to the IP-heavy onboarding that extends the training period and initially increases our costs as a percentage of revenues.

Another challenge exclusive to BQE Water that impacted our 2022 results was the lack of water to be treated at the new plants we commissioned in the last 18 months. While we protect ourselves from incurring losses should there be limited water, our fee structure is tilted towards earning profit from actual performance for the volume of water treated and discharged. We are currently engaged in discussions with our clients and partners to extend the operating contract terms to make up for the periods where water volumes are significantly below the anticipated design through no influence of our own.

Lastly, another challenge unique to us has been the increase in plant operations services and the associated shift in the balance of services from the laboratory and engineering office out into the field. This shift produced the need for adjustments in skillsets and internal restructuring to manage such a transition.

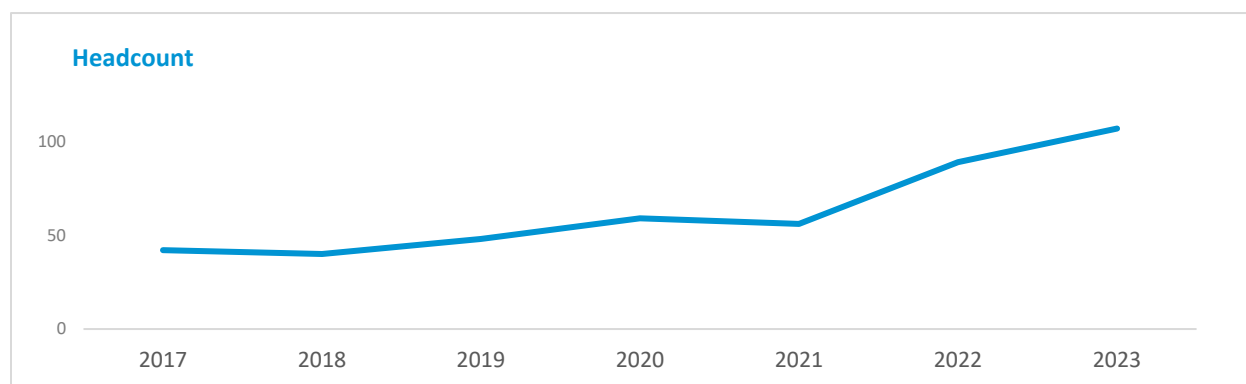
Despite some natural growing pains, the Company continued to demonstrate a positive long-term trajectory which is reflected in our 2022 financial results as follows:

- Added new recurring operational revenues of \$2.0 million from projects outside of China, effectively doubling our operations business.
- Achieved record technical services revenues of \$8.0 million, which is a leading indicator of future operations services.
- Reduced our reliance on metal sales in China for the recurring revenue portion of the total net income to de-risk our exposure to commodity price fluctuations and geopolitical uncertainties.
- Continued to increase the Company's treasury by growing working capital to \$7.2 million, which represents the highest year-end balance since the new commercial strategy and business model was implemented in 2014.

In terms of technical development, there were several milestone achievements in 2022:

- Successful commissioning of the first treatment plant that combines selenium and sulphate removal.
- Successful pilot demonstrations of our BioSulphide® process for selective copper recovery and Sulf-IX™ process for sulphate removal at three different sites for CodeLco.
- Completion of half a dozen cyanide destruction projects which cemented the integration of newly acquired IP in this area into the Company's IP portfolio.

The figure below shows the evolution of our staffing from 2017 to 2022, including our projections for 2023. The graph provides good insight into the changes that occurred during this period of growth and the challenges therein. Between 2017 and 2020, the turnaround in business performance was supported by resources and infrastructure already in place when the new business strategy was fully implemented in 2015. Since that time, the Company has experienced a strain on existing resources and has roughly doubled our team size.



In summary, while 2022 is the first year since 2017 where Adjusted EBITDA and net income did not increase year-over-year, the management team of BQE Water believes this is a direct and natural reflection of being in the growth stage of its evolutionary cycle.

Looking ahead, we have good visibility for projects in 2023. Our recurring revenue and gross margin from operational services are expected to continue to increase: there will be a full year of operation at Minto Mine, the newest Selen-IX™ plant is expected to start generating recurring revenue in Q4 of 2023, and the volume of water at our power utility ash pond project is anticipated to increase. In addition, we foresee our margins on technical services to improve as inflation-adjusted fees were applied in January 2023.

In the long-term, the drivers for continued company growth remains firmly in place including:

- Global decarbonization driving demand for metals production.
- Tightening government regulations and increased enforcement around water quality.
- Environmental responsibility and social acceptability guiding water management and treatment decisions.
- Increased role of Indigenous communities in clean water production and environmental monitoring.
- Outsourcing of innovation in the mine water space combined with our track record of bringing innovation to market.
- Clean-up and closure of ash ponds as one of the largest environmental liabilities faced by power utilities.

Despite these trends and our optimistic outlook for 2023, readers need to be cautioned about the risks that may create sudden and potentially significant headwinds for us and our business. First, geopolitical tensions between China and the West may complicate our ongoing China operations and any future business. Second, a global recession may lead to a drop in commodity prices and put new mine development projects on hold. For these reasons, we remain focused on fiscal prudence and maintaining our working capital at a level that would shield us from these exogenous impacts. Our financial results for 2022 and the current outlook for 2023 underpin our view that we are on track for profitable growth and have sufficient cash reserves to mitigate these risks.

## SELECTED FINANCIAL INFORMATION

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

	2022	2021
	\$	\$
Revenues	12,158	7,511
Operating expenses	(7,107)	(3,949)
Operating margin	5,051	3,562
Share of income from joint ventures	1,487	2,803
General and administration	(2,464)	(1,823)
Sales and development	(1,768)	(1,374)
Share-based payments	(671)	(303)
Depreciation and amortization	(264)	(168)
Income from operations and joint ventures	1,371	2,697
Other income (expenses)	108	(33)
Bad debt (expense) recovery	(8)	95
Income tax expenses	(309)	(130)
<b>Net income for the year</b>	<b>1,162</b>	<b>2,629</b>
Earnings per share (basic)	0.93	2.13
Earnings per share (diluted)	0.92	2.11
Proportional Revenues <sup>1</sup>	18,879	15,616
Adjusted EBITDA <sup>1</sup>	3,059	4,096
Comprehensive income	994	2,934
	at Dec 31	at Dec 31
	2022	2021
	\$	\$
Cash	6,234	3,944
Proportional cash <sup>1</sup>	9,582	8,089
Working capital	7,165	4,557
Total assets	15,988	13,803
Total non-current liabilities	555	778
Shareholders' equity	12,638	11,313

### Notes:

1. See Non-GAAP measures

## COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	<b>Dec-22</b>	Sept-22	Jun-22	Mar-22	Dec-21	Sept-21	Jun-21	Mar-21
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	<b>3,465</b>	3,503	2,722	2,467	2,570	2,773	1,188	980
Operating expenses	<b>(2,044)</b>	(1,759)	(1,773)	(1,531)	(1,409)	(1,088)	(944)	(507)
	<b>1,421</b>	1,744	949	936	1,161	1,685	244	473
Share of (loss) income from joint ventures	<b>(256)</b>	281	1,129	333	499	700	1,580	23
General and administration	<b>(690)</b>	(591)	(579)	(604)	(535)	(427)	(459)	(401)
Sales and development	<b>(564)</b>	(414)	(436)	(354)	(270)	(273)	(378)	(453)
Share-based payments	<b>(209)</b>	(172)	(267)	(23)	(11)	(19)	(184)	(88)
Depreciation and amortization	<b>(80)</b>	(70)	(59)	(55)	(57)	(37)	(37)	(37)
Income (loss) from operations	<b>(378)</b>	778	737	233	787	1,629	766	(483)
Other income (expenses), net	<b>142</b>	84	(77)	(41)	13	34	(39)	(40)
Bad debt (expense) recovery	<b>(8)</b>	-	-	-	-	-	95	-
Income tax expense	-	(289)	(18)	(2)	-	(118)	(13)	-
Net income (loss)	<b>(244)</b>	573	642	190	800	1,545	809	(523)
Translation gain (loss)	<b>80</b>	-	(139)	(109)	120	227	28	(69)
Comprehensive income (loss)	<b>(164)</b>	573	503	81	920	1,772	837	(592)
<b>Non-GAAP Measures:</b>								
Proportional Revenue	<b>4,479</b>	5,707	5,164	3,529	4,389	5,502	4,174	1,551
Adjusted EBITDA	<b>(90)</b>	1,361	1,341	446	754	2,139	1,435	(231)

Quarterly 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 Q4 2022 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended December 31, 2022 and 2021.

### Proportional Revenues

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

<i>(in \$'000s)</i>	Q4 2022		Q4 2021		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	1,014	22%	1,819	41%	(44%)
Water treatment fees from operations	1,326	30%	577	13%	130%
Technical services	2,139	48%	1,993	46%	7%
Total Proportional Revenues	4,479	100%	4,389	100%	2%

Revenues from the sale of recovered metals of value comprise the Company's share of joint venture revenue from the operation of water treatment plants. The amount of revenue is impacted by the quantity of metals recovered and the metal prices listed on the Shanghai Futures Exchange. During Q4 2022, the JCC-BQE joint venture contributed \$727,000 to the Company's share of Proportional Revenue compared to \$1.7 million in Q4 2021. The 58% decrease in revenue against 2021 was due to an approximate 57% decrease in the quantity of copper recovered and a 2% decrease in average copper prices. During Q4 2022, the regions near Dexing Mine received significantly lower rainfall which decreased copper recovery. During Q4 2022, the MWT-BQE joint venture contributed \$287,000 to the Company's share of Proportional Revenue compared to \$95,000 in Q4 2021. The increase was due to a substantial one-time sale of copper and zinc in the quarter.

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 \$749,000 increase in water treatment fees is primarily due to the Minto Mine and US-based selenium treatment plant operations that generated \$819,000 of new recurring revenues for Q4 2022. As water treatment at the US-based 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 39% less water than the prior year's Q4, and we earned \$356,000 in water treatment fees during the quarter compared to \$521,000 in Q4 2022. Our operations support fees are comprised of recurring technical support services at several SART plants in China that generated revenues of \$150,000 in Q4 2022 compared to \$56,000 in Q4 2021.

Revenues from technical services increased by \$146,000 from 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.

### Expenses

Total operating expenses in Q4 2022 were \$2.0 million compared to \$1.4 million in Q4 2021, an increase of \$634,000, which is consistent with the increase in operations and project activity during the quarter. Each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and treatment solutions.

In Q4 2022, general and administration costs were \$690,000 compared to \$535,000 in Q4 2021. The \$155,000 increase was due to an \$89,000 increase in employee benefits, an \$18,000 increase in insurance premiums and a \$26,000 increase in travel expenses.

Sales and development costs in Q4 2022 were \$564,000 compared to \$270,000 in Q4 2021, representing an increase of \$294,000. The increase was largely attributable to a \$271,000 increase in labour resources allocated to fulfill technological and business development incentives, and a \$29,000 increase in travel and event expenses related to business development.



## SUMMARY OF 2022 FINANCIAL RESULTS

The following is a summary of selected financial results for the years ending December 31, 2022 and 2021.

### Proportional Revenues

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

<i>(in \$'000s)</i>	2022		2021		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	6,721	36%	8,105	52%	(17%)
Water treatment fee from operations	4,133	21%	2,481	16%	67%
Technical services	8,025	43%	5,030	32%	60%
<b>Total Proportional Revenues</b>	<b>18,879</b>	<b>100%</b>	<b>15,616</b>	<b>100%</b>	<b>21%</b>

Revenues from the sale of base metals recovered comprises the Company's share of revenues from 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 concentrates sold. During 2022, our share of revenues from the JCC-BQE joint venture was \$6.2 million compared to \$7.7 million in 2021, representing a \$1.5 million or 19% decrease. The decrease is a combination of a 15% decrease in the total pounds of copper recovered and a 5% decrease in average copper prices. The remaining variance was from the MWT-BQE joint venture, which contributed copper and zinc recovery sales of \$480,000 to the Company's Proportional Revenue in 2022 compared to \$390,000 in 2021. Such variance is due to the change in concentration of metals contained in the feed going into the treatment plant and the amount sold within the year.

Water treatment fee revenues increased by \$1.7 million or 67% compared to 2021, mainly due to the start of new operations in 2022. The two recently commissioned plants in the US contributed new recurring revenues of \$1.4 million and the new operations at Minto Mine added \$587,000 to recurring revenues in 2022. Additional recurring water treatment fee revenues include the tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees from metallurgical facilities in Eastern China. Treatment fees from the Raglan operations are the largest contributor, providing \$1.6 million in water treatment fees in 2022 compared to \$2.0 million in 2021, a decrease of \$354,000 or 18% year-over-year. This decrease was due to 20% less water requiring treatment across the four plants from the year prior. In 2022, we continued to earn support fees in our SART plants in China totalling \$546,000 compared to \$487,000 from the prior year.

Revenues from technical services increased by \$3.0 million or 60% in 2022 compared to 2021. The significant increase is attributed to higher project activity in all areas of technical services, including commissioning activities in the US, engineering design of new water treatment plants, and the 18-month pilot demonstration project in Chile. These revenues are non-recurring in nature and relate 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. Such revenues represent the sum of multiple contracts from various clients of varying values.

### Operating Expenses

Total operating expenses in 2022 were \$7.1 million compared to \$3.9 million in 2021, an increase of \$3.2 million. The 80% increase in operating expenses is largely attributable to the 60% increase in project activity related to technical services completed in the year. The remaining 20% was due to the start of new water treatment plant operations in 2022, with the initial years requiring additional resources for planning and training at each location. Lastly, each individual project calls for varying levels of technical expertise and resources depending on the specific mine conditions and treatment needs. Total employee benefits, which is the largest component contained within operating expenses, were \$4.8 million in 2022 compared to \$2.8 million in 2021, a 71% increase.

### Expenses

General and administration expenses in 2022 were \$2.5 million compared to \$1.8 million in 2021, representing a \$641,000 or 35% increase. The increase was attributable to a \$297,000 increase in employee benefits, a \$62,000 net increase in

professional services fees, a \$51,000 increase in travel expenses, a \$85,000 increase in insurance premiums, and a \$75,000 increase in other overhead expenses for the year.

Sales and development costs in 2022 were \$1.8 million compared \$1.4 million in 2021, an increase of 29%. The \$394,000 increase was largely attributed to a \$236,000 increase in employee benefits, a \$34,000 increase in consultant fees, and a \$101,000 increase in travel and event expenses related to business development.

Share-based payment expenses were \$671,000 in 2022 compared to \$303,000 in 2021, an increase of \$368,000. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock options which are expensed on a straight-line basis over the vesting period. The issuance of stock options in April 2022 resulted in \$250,000 of new share-based payment expenses and the RSUs granted in 2022 resulted in an additional \$313,000. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from an increase in the Company share price.

Depreciation and amortization expenses were \$264,000 in 2022 compared to \$168,000 in 2021. The increase of \$96,000 was largely due to the additional amortization expenses on the intellectual property acquired in September 2021 from R&S Environmental Consulting Services Inc.

### **Other Income and Expenses**

The net of other income was \$108,000 in 2022 compared to an expense of \$33,000 in 2021. Other income consists of net finance income, foreign exchange and other income.

Net finance income was \$27,000 in 2022 compared to an expense of \$24,000 in 2021. Finance income consists of interest income earned predominantly from on-demand guaranteed investment certificates and is netted against finance costs, which consist of interest paid and interest accrued for other liabilities.

Foreign exchange gain was \$48,000 in 2022 compared to a loss of \$21,000 in 2021. These 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 Company's reporting currency of Canadian dollars.

The remaining variance is from other income of \$33,000 in 2022 compared to \$12,000 in 2021. Other income consists of fair value adjustments on contingent liabilities, and other gains and fees earned which are non-operating in nature.

During 2022, a bad debt expense of \$8,000 was recorded against a customer undergoing restructuring. In 2021, a previously recorded allowance of doubtful accounts of \$95,000 was reversed.

### **Income Tax**

In 2022, income tax expenses were \$309,000 compared to \$130,000 in the prior year. The income tax charges in both years consist of a 10% withholding tax in China for the distributions made by the JCC-BQE joint venture and by the Company's wholly owned Chinese operating subsidiary. The distributions and withholding tax recognized are based on the net earnings of the prior year. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions.

### **Net Income and Comprehensive Loss**

Overall, net income for the year was \$1.2 million compared to \$2.6 million in 2021.

## SUMMARY OF OPERATIONAL SERVICES

### JCC-BQE Joint Venture Operation, Jiangxi Province, China

In 2007, BQE Water entered into a 50/50 joint venture arrangement with JCC, China's largest copper producer. In April 2008, the joint venture completed the construction and commissioning of its first water treatment plant at JCC's Dexing Mine, an active copper mine in China. The plant utilizes our patented ChemSulphide® process to remove and recover dissolved copper from acid mine drainage generated by waste dumps and low-grade stockpiles. The recovered high-grade copper concentrate is shipped to JCC's refinery. In 2014, the joint venture completed the construction and commissioning of two additional water treatment plants at JCC's Yinshan Mine and Dexing Mine sites. Both plants also utilize the ChemSulphide® process.

All three water treatment plants were designed by BQE Water and are operated by the joint venture. The plants are managed jointly whereby BQE Water is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share 50% of the revenues and costs. Revenues are generated through the sale of recovered copper from the plants based on the metal price during the day when the concentrate is shipped, less refining costs.

Operating results for all three plants during the year were as follows:

<i>(in '000s)</i>	2022	2021
<b><i>Dexing 1</i></b>		
Water treated (cubic metres)	8,051	8,648
Copper produced (pounds)	1,298	1,341
<b><i>Dexing 2</i></b>		
Water treated (cubic metres)	5,666	8,854
Copper produced (pounds)	911	1,272
<b><i>Yinshan</i></b>		
Water treated (cubic metres)	3,987	4,050
Copper produced (pounds)	620	724
<b><i>Total</i></b>		
Water treated (cubic metres)	17,704	21,552
Copper produced (pounds)	2,829	3,337

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and the prevailing environmental conditions at site. The two plants, Dexing 1 and Dexing 2, treat water from the same source and water may be diverted from one plant to the other to optimize operations.

During 2022, all three plants met or exceeded mechanical availability and process performance. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period.

### **MWT-BQE Joint Venture Operation, Shandong Province, China**

In 2016, BQE Water entered into a joint venture agreement with MWT for the design, construction and operation of a treatment plant that recovers copper and zinc from wastewater generated by the Guoda gold smelter and refinery owned by Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). BQE Water provides its technology and plant operating experience in exchange for an ongoing 20% share of the profit from metals recovered and technical support fees. Copper concentrate produced by the plant is sold back to Zhaoye and the zinc concentrate is sold to local metal traders.

Operating results for the plant during the year were as follows:

<i>(in '000s)</i>	2022	2021
Water treated (cubic metres)	690	617
Zinc recovered (pounds)	527	845
Copper recovered (pounds)	218	237

### **Raglan Mine Operation for Glencore Canada Corporation, Québec, Canada**

BQE Water operates four water treatment plants at Raglan Mine, an active nickel mine in Northern Québec which is owned by Glencore. The four plants include: BQE Water’s ChemSulphide® process plant, BQE Water’s Met-IX™ process plant, the lime neutralization plant at Spoon pit and the lime plant at Katinniq. All four plants discharge treated water into the environment. The ChemSulphide® and Met-IX™ plants also recover nickel from wastewater which is blended into the nickel concentrate produced by the mine. Because of the harsh winter conditions in Northern Québec, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. BQE Water is responsible for all aspects of plant operations and receives a treatment fee per cubic metre of water treated and discharged.

The volume of water treated for the four plants during the year were as follows:

<i>(in '000s cubic metres)</i>	2022	2021
ChemSulphide® and Met-IX™ plants	993	1,032
Spoon plant	392	515
Katinniq plant	485	779
Total	1,870	2,326

### **Minto Mine Operation for Minto Metals Corporation, Yukon, Canada**

During 2022, BQE Water entered into a multi-year operational services agreement with Minto Metals to operate an existing water treatment plant at Minto Mine. As part of the operational services, BQE Water provides operations labour and coordination of mechanical and electrical maintenance to ensure effluent from the water treatment plant meets the specific discharge limits set within the permit parameters. It is expected that BQE Water will be treating approximately 750,000 to 1.5 million cubic metres of water annually. Since mobilization to site on August 27, 2022, we have treated and discharged 378,000 cubic metres of mine water in 127 days of operation.

### **Kemess Property Operation for Centerra Gold, British Columbia, Canada**

In 2020, we completed the commissioning of the first industrial scale plant utilizing our patented Selen-IX™ process for selenium management at the Kemess property in Northern BC owned by Centerra Gold. Upon commissioning, the plant operated continuously for a month treating up to 5,600 m<sup>3</sup>/day of mine impacted water to produce clean water containing selenium concentrations of less than 2 parts per billion. In December 2020, the Kemess site was declared to be in a state of care and maintenance. With the site requiring active water treatment only during mine construction, operation and closure but not during care and maintenance, the water treatment plant is not expected to operate until the site status changes. During 2022, we completed annual maintenance activities required to maintain the water treatment plant during this state.

### **China Metallurgical Facilities Operations for MWT Water Treatment Ltd., Shandong Province, China**

In 2021, BQE Water completed the commissioning of two SART plants at two metallurgical facilities located in Eastern China, owned by Shandong Zhongkuang Group Co., Ltd. (“Zhongkuang”) and Zhaojin Mining Industry Co., Ltd. (“Zhaojin”).

The Zhongkuang SART plant began operations in January 2021 and the Zhaojin SART plant in April 2021. Both SART plants are operated under the ongoing technical supervision of BQE Water. During operations, the SART plants are expected to recover cyanide, copper and zinc. Recovered cyanide will be re-used within the metallurgical process and the copper and zinc will be sold to generate incremental revenues for each owner.

The volume of water treated for the two plants during the year were as follows:

<i>(in '000s cubic metres)</i>	2022	2021
Zhongkuang SART plant	147	70
Zhaojin SART plant	264	266

### **Ash Pond Clean-up Operations for WesTech Engineering, Virginia, USA**

At the end of 2021, BQE Water 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. The Selen-IX™ plant has a treatment capacity of 1,500 US gallons per minute and is designed to remove selenium down to below 7.7 parts per billion. BQE Water will operate the Selen-IX™ plant under contract to WesTech who manages overall site operations. During 2022, our team was onsite providing water treatment services and utilizing the Selen-IX™ circuit, as selenium is present to remove selenium down below the designed 7.7 parts per billion.

### **Base Metal Project in Southwestern, USA**

In April 2022, BQE Water completed the 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 operations 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 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.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2022, BQE Water had 1,256,928 common shares issued (1,244,968 at December 31, 2021) and 90,340 stock options outstanding (53,300 at December 31, 2021).

As of the date of this MD&A, on April 27, 2023, there were 1,254,328 common shares issued and outstanding, and 90,340 stock options outstanding.

On December 6, 2022, the Company had obtained the approval of the TSX Venture Exchange to commence a NCIB to repurchase for cancellation up to 62,556 common shares, representing 5% of common shares issued and outstanding, over a 12-month period starting on December 12, 2022. As of April 27, 2023, the Company has repurchased for cancellation 2,600 of common shares under the NCIB (nil as of Dec 31, 2022).

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 December 31, 2022, we had net cash of \$6.2 million, an increase of approximately \$2.3 million, or 58%, from December 31, 2021. For the 12 months ended December 31, 2022, our net cash used in operating activities was \$364,000 (\$250,000 in 2021).

At December 31, 2022, we had restricted cash of \$180,000, 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.

Working capital is defined as current assets minus current liabilities. At December 31, 2022, the Company had a consolidated working capital position of \$7.2 million, an increase of \$2.6 million from December 31, 2021. At December 31, 2022, 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 \$1.2 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. At December 31, 2022, the WINN loan balance was \$268,000 with obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. 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 \$1.0 million which had not been utilized as at December 31, 2022.

The Company has commitments of \$393,000 until 2024 under operating leases for office and laboratory premises, and assay services.

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

## RELATED PARTY TRANSACTIONS

### Management Compensation

For the year ended December 31, 2022 and 2021, the compensation awarded to the Company’s key management, which includes the Board of Directors and executive management, are as follows:

	2022 \$	2021 \$
Salaries, fees and short-term benefits	786,908	698,615
Share-based payments	223,842	101,595
	<u>1,010,750</u>	<u>800,210</u>

### Revenue Earned from Joint Venture

The Company earns operating fees from the joint venture, BQE Water Nuvumiut Development Inc., for providing water treatment services in Nunavik. As the newly incorporated joint venture commenced financial activities in 2022, revenue earned from the joint venture for the year ended December 31, 2022 was \$1,722,390 (\$nil in 2021). Included in trade and other receivables as of December 31, 2022 is \$154,611 (\$nil at December 31, 2021) of trade receivables due from the joint venture.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated 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 our assets and liabilities are accounted for prospectively.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

### COVID-19 Economic Uncertainties

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 significant impacts

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 December 31, 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.

### **Critical Judgements**

Critical judgements management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are:

- a) Management's assessment of the Company's ability to continue as a going concern, as the consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.
- b) Management's judgement on revenue recognition, when determining the performance obligations that exist in an arrangement and the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time.
- c) Management' assessment of the intellectual property transaction in the current year as an intangible asset acquisition and not a business combination arrangement.
- d) Management' assessment of impairment indicators for asset impairment on long-term assets such as plant and equipment or investment in joint ventures.

### **Key Sources of Estimation Uncertainty and Assumptions**

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

#### *Revenue Recognition*

Revenue for technical services relating to water management are recognized using the project stage of completion method, which requires judgment for estimating project inputs and costs for completion and making assumptions for scope changes. Depending on the services provided and on the contract terms, many variables are used in assessing the revenues earned based on the project stage of completion at the reporting date. For the revenue arrangements comprise multiple performance obligations, estimates are required when determining the relative fair value of each performance obligation utilizing standalone prices for similar deliverables where it exists or internally generated estimates of standalone price.

#### *Expected Credit Loss*

Trade and other receivables are assessed for impairment at each reporting date by applying the expected credit loss impairment model. Expected credit loss represents management's best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also takes into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

#### *Right-of-Use Assets & Lease Obligations*

To determine the value of the initial recognition and subsequent re-measurement of right-of-use-assets and lease obligations, management is required to exercise judgment in several areas. Management has reviewed its lease agreements to estimate the lease term by evaluating the probability of exercising its option to extend or renew its lease contracts. Further judgement is required to determine the discount rate on lease payments by assessing its incremental borrowing rate at each of the Company's locations.

### *Contingent Consideration*

Contingent consideration, resulting from the purchase of intangible assets, is valued at the fair value at the acquisition date as part of the asset acquisition price. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on an estimation of the earn-out bonus to be paid in the future. The key assumptions take into consideration eligible project revenues and costs in the contract term and the discount factor.

## **GENERAL**

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected.

The Company's management has evaluated the design and effectiveness of our disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in the reports it files are recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management has also evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by this report. The risk of a significant error is mitigated by the active involvement of senior management and the oversight of the Board of Directors in all affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; and the thorough review of the Company's financial statements by management and the Board of Directors. Based on the result of the assessment, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting have been adequately designed. During the current year, management implemented a formal testing program on the operating effectiveness of its controls and concluded that they are also effective.

There has been no change in BQE Water's internal controls over financial reporting during the year ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### **Future Accounting Standards and Amendments**

There are a number of accounting standard amendments issued by the IASB which we have not yet adopted. None of the future amendments are expected to have a significant impact on the Company's consolidated financial statements on adoption.



## RISKS AND UNCERTAINTIES

Companies operating in the process technology sector face many and varied risks. While we strive to manage such risks to the extent possible and practical, risk management cannot eliminate risk completely. Following are the risk factors which management believes are most important in the context of the Company's business. It should be noted that this list may not be exhaustive and other risks may apply. An investment in the Company may not be suitable for all investors.

### **Dependence on Key Personnel**

The Company is substantially dependent upon a number of key management, technical, project and business development personnel. The loss of any one or more key employees or consultants could have an adverse material effect on our business. Additionally, the Company's ability to develop, manufacture and market its services and compete with current and future competitors depends, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel may prove to be intense and it may have to compete for personnel with companies that have substantially greater financial and other resources than it does. Failure to attract and retain qualified personnel could have an adverse material effect on the Company's business operating results and financial condition.

### **Maintaining Safety and Protecting the Environment**

Despite the Company's efforts to minimize the risk of safety and environmental incidents, they can occur from time to time and, if and when they do, the impact on the Company can be significant. Our success in the water management and treatment space is highly dependent on our ability to keep project and work sites safe and any failure to do so can have serious impact on the personal safety of our employees and others. In addition, it can expose the Company to contract termination, fines, regulatory sanctions or even criminal prosecution.

Our safety record and operational safety practices also have a direct bearing on our ability to secure new project work. Certain clients will not engage contractors or consultants to perform work if their safety practices do not conform to predetermined standards or if they have an unacceptably high incidence of safety infractions or incidents.

We adhere to very rigorous safety policies and procedures which are continually reinforced on project and work sites. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of our operations or competitive position.

### **Management of Growth**

The Company's current growth trajectory could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train and manage its employee base to manage growth. As the Company establishes additional water treatment facilities and streams of recurring revenue, it would create additional operational and management complexities. In addition, the Company expects that its operational and management systems will face increased strain as a result of the expansion of the Company's technologies and services. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies and services. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition could suffer.

### **Economic and Project Site Dependence**

The Company currently derives its revenues from a limited number of sources (contracts). For certain contracts, we have made significant investments in fixed plants that are dependent on conditions at the project site that may be beyond our control. Changes in site conditions and/or the loss of any one contract could result in a materially adverse effect to our financial condition.

### **Commodity Prices**

For the Company's joint venture operations, it generates revenues by selling recovered metals of value from treated water. These recovered metals face commodity price risks and thus their prices may vary based on world supply and demand. There can be no assurance that the prices of these metals will maintain at current buying rates.

## **Competition**

The Company is aware of and does address existing competitors for water treatment opportunities. There is a possibility that other companies will enter these markets and compete with the Company. Such competitors could possess greater financial resources and technical facilities. Increased competition could result in significant price competition, reduced profit margins or loss of market share. The Company believes its technologies for water treatment solutions is far beyond the capabilities of others available in the market, but the Company may not be able to compete successfully with future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results and financial condition.

## **Technology Risk**

The Company has completed the construction and commissioning of a number of plants. The operating and engineering data from these plants is used in estimates for new projects under evaluation and/or in the design engineering stage. Notwithstanding the foregoing, each new commercial venture undertaken by the Company has the inherent technical risk of any continuous biological and/or chemical process, which could include the loss of the biological feedstock.

## **Intellectual Property Protection**

The Company cannot provide any assurance that any further intellectual property applications will be approved. Even if they are approved, such patents, trademarks or other intellectual property registrations may be successfully challenged by others or invalidated. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies and processes which the Company will need to protect through a combination of patent, copyright, trade secret and trademark law.

The trademark, copyright and trade secret positions of the Company's business are uncertain and involve complex and evolving legal and factual questions. In addition, there can be no assurance that competitors will not seek to apply for and obtain trademarks and trade names that will prevent, limit or interfere with the Company's BioSulphide®, ChemSulphide®, Met-IX™, Sulf-IX™ and Selen-IX™ processes. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may also be necessary to enforce the intellectual property rights of the Company or to determine the scope and validity of other parties' proprietary rights. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks and copyrights from infringement or claims of invalidity.

The patent positions of emerging companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede the ability of the Company to do business or that third parties will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented product developed for the benefit of the Company.

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the inventors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

The Company is not currently aware of any claims asserted by third parties that the Company's intellectual property infringes on their intellectual property. However, in the future, a third party may assert a claim that the Company infringes on their intellectual property. If the Company is forced to defend against these claims, which may be with or without any merit or whether they are resolved in favour or against the Company, the Company may face costly litigation and diversion of management's attention and resources. As a result of such a dispute, the Company may have to develop costly non-infringement technology or enter into license agreements which may not be available at favourable terms.

### **Credit Risk**

The Company's credit risk is primarily associated with trade and other receivables, however, it also arises on cash. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. To manage credit risk on trade and other receivables, the Company transacts with customers with strong credit ratings with ongoing credit evaluation and account monitoring procedures. Even such, the credit risk associated with trade receivables with aging balances over 90 days are considered higher than normal.

### **Currency Risk**

The Company conducts significant business in Canada, the United States, Mexico, Chile and China. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The Company's joint venture operations sell and incur costs mainly in Chinese renminbi. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations. The Company is also exposed to currency risk through assets and liabilities denominated in currencies other than the Canadian dollar.

### **Access to Proprietary Information**

The Company generally controls access to and distribution of its technologies, documentation and other proprietary information. Despite efforts by the Company to protect its proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain or use its solutions or technologies. There can be no assurance that the steps the Company has taken or will be taking will prevent misappropriation of its solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in Canada or the United States.

### **Information Systems and Cyber-Security Risk**

The Company relies on information technology to manage, process, store and transmit electronic information. Complete, accurate, available and secure information is vital to the Company's operations and any compromise in such information could result in improper decision making, inaccurate or delayed operational and/or financial reporting, delayed resolution to problems, breach of privacy and/or unintended disclosure of confidential information. Failure in the completeness, accuracy, availability or security of the Company's information systems, the risk of system interruption or failure during system upgrades or implementation, or a breach of data security could adversely affect the Company's operations and financial results.

In addition, cyber-security incidents relating to the Company's information technology systems may disrupt operations and impact operating results. Cyber-security incidents may occur from a range of techniques, from phishing or hacking attacks to sophisticated malware, hardware or network attacks. While the Company has implemented systems, policies, procedures, practices, hardware and backups designed to prevent and limit the effect of cyber-security attacks, there can be no assurance that these measures will be sufficient to prevent, detect or address the attacks in a timely matter or at all. A successful cyber-attack may allow unauthorized interception, destruction, use or dissemination of the Company's confidential information, which could have a material adverse effect on the business.

### **Environmental Regulation**

The Company's business and operations are subject to environmental regulations in various jurisdictions in which it operates. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business and operations.

### **Global Pandemic**

Efforts to fight the COVID-19 pandemic have been taken by national and local governments. These efforts have had a significant impact on businesses through the restrictions put in place by the Canadian federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. Throughout the pandemic, the Company promoted a work from home policy and requested all employees to engage in active social distancing. A majority of the Company's ongoing projects, being regulatory driven, are considered essential and continued without any significant disruptions. The Company's operation of water treatment plants continues since treatment of contaminated water is considered an essential service.

Although there is currently no significant direct COVID-19 impact to the Company, the COVID-19 pandemic could impact our suppliers, customers, local communities and other stakeholders, which could impact the Company's ability to operate in the future. The COVID-19 pandemic and responses to it may also lead to an economic recession or downturn that may materially adversely affect the Company's operations or liquidity position. At this time, the full extent of the impact the COVID-19 outbreak, including any future outbreaks, that may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

### **Conflicts of Interest**

Certain directors, officers and other members of management of the Company and its subsidiaries serve (and may in the future serve) as directors, officers, promoters and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company or its subsidiaries and their duties as a director, officer, promoter or member of management of such other companies. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (British Columbia) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

### **Possible Volatility of Share Price**

The market price of the Company's common shares could be subject to wide fluctuations in response to, and may be adversely affected by, quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Company's common shares.