

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2019 and 2018

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 30, 2019 and 2018

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 Q3 2019 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and 2018 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2018 and 2017 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2018. Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of September 30, 2019. All financial information in this MD&A is derived from the Company's Financial Statements 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 2 of our Audited Financial Statements. All amounts are expressed in **Canadian dollars** unless otherwise noted.

The effective date of this MD&A is November 19, 2019.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.bqewater.com.

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. We have unique expertise and intellectual property related to the treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water. Central to our business model is that BQE Water produces clean water and stable residues (or saleable by-products) and that we monetize the value of our unique process know-how through recurring revenues generated from plant operations services. 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 which are actively engaged in through our own operations and requests from clients evaluating new projects.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets in 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 and on SEDAR at www.sedar.com.

NON-GAAP MEASURES

We use non-GAAP financial measures to supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance investors' and observers' overall understanding of the Company's current financial performance. 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 likely 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 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 Revenues add BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three and nine month periods ended September 30, 2019 and 2018 are as follows:

<i>(in \$'000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Reported revenues under GAAP	2,326	1,893	4,258	2,960
Share of reported revenues from joint ventures	1,665	1,595	4,927	4,642
Proportional Revenues for the period	<u>3,991</u>	<u>3,488</u>	<u>9,185</u>	<u>7,602</u>

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") are 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 joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income for the three and nine month periods ended September 30, 2019 and 2018:

<i>(in \$'000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
GAAP: Net income	849	944	869	405
add: interest expense	4	30	15	92
add: income taxes	149	123	304	282
add: depreciation and amortization	196	119	577	382
EBITDA	1,198	1,216	1,765	1,161
add: share-based payment expenses	55	37	140	101
add: net foreign exchange loss	21	19	46	18
Adjusted EBITDA	<u>1,274</u>	<u>1,272</u>	<u>1,951</u>	<u>1,280</u>

Q3 2019 OVERVIEW

Financial Highlights

- Revenues reported under GAAP of \$2.3 million compared to \$1.9 million in Q3 2018 and Proportional Revenues of \$4 million compared to \$3.5 million in Q3 2018, both representing historic highs for the third quarter;
- Adjusted EBITDA of \$1.3 million is unchanged when compared to Q3 of 2018 despite a bad debt write-off of \$287,000 recognized during Q3 2019;
- Net income as reported under GAAP was \$849,000 compared to \$944,000 in Q3 2018; and
- Proportional Cash, which includes our share held in joint ventures, as of September 30, 2019 was \$4 million compared to \$3.2 million at the end of 2018.

Operational Services Highlights

Our operational services consist of the operation of water treatment plants, which generate recurring revenues for the Company from two main sources: sales of recovered metals and water treatment fees.

Revenues from Sales of Recovered Metals

The Company operates four water treatment plants that generate revenues from the sale of recovered metals, three plants operating under the JCC-BQE Joint Venture and one plant operating under the MWT-BQE Joint Venture.

JCC-BQE Joint Venture ("JCC-BQE")

Our joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at the Dexing and Yinshan Mines 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 JCC-BQE for the three and nine months ended September 30, 2019 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
Water treated (cubic metres)	7,267	6,273	20,353	17,499
Copper produced (pounds)	1,095	1,040	3,066	2,821

During Q3 2019, all three plants met or exceeded mechanical availability and process performance. The volume of water treated increased by 16% and the mass of copper recovered increased by 5% over the same period in 2018. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period.

MWT-BQE Joint Venture ("MWT-BQE")

Our joint venture with partner Beijing MWT Water Treatment Project Limited Company ("MWT") began operations of its first water treatment plant in Q4 2018. The water treatment plant in the Shandong province of China generates the majority of its revenues from the sale of zinc recovered from smelter wastewater, along with small traces of copper found in the stream. The operating results for MWT-BQE for the three and nine months ended September 30, 2019 are as follows:

<i>(in '000s of pounds)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
Zinc recovered	152	-	1,229	-
Copper recovered	30	-	134	-

During Q3 2019, the MWT-BQE water treatment plant recovered 59% less zinc than Q2 2019. The decrease in zinc recovery is due to a reduction in the volume of wastewater generated by the smelter and in the grade of recoverable zinc contained in the wastewater. The Company expects both of these factors to continue for the remainder of 2019. Such factors are beyond the Company's control as they are linked to a temporary change in the smelter's throughput. Copper recovery for the quarter is consistent with production during Q2 2019.

Revenues from Water Treatment Fees

The Company is contracted to operate and provide technical support for water treatment plants that generate recurring revenues in the form of water treatment and operations support fees.

Compared to 2018, the number of water treatment plants generating recurring revenues from water treatment fees has increased by two to a total of five water treatment plants. They include four plants operated by BQE Water for Glencore at Raglan Mine and one plant operated by the MWT-BQE joint venture but supervised by BQE Water in China. The operating fees from the Glencore operations are primarily based on the volume of water treated and discharged in accordance with strict regulatory requirements. The MWT-BQE plant generates operations support fees for the achievement of operational targets that rely on the Company's technical expertise. The volume of water treated for the three and nine months ended September 30, 2019 are as follows:

<i>(in '000s of cubic metres)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
3 Glencore plants operated historically	1,049	862	1,216	862
1 new Glencore plant in 2019	363	-	537	-
1 MWT-BQE plant	164	99	446	99

Technical Services Highlights

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of our technical services and technical innovation projects during Q3 2019 are summarized below.

Commercial Deployment of Selen-IX™ Technology

- Assist with the procurement and installation of Selen-IX™ plant equipment at the Kemess Mine in Northern BC.
- Preparation of the operating manual, pre-commissioning and commissioning plan.

Engineering Design & Supply of Modular Treatment Systems

- Engineering design of a containerized modular water treatment plant for the Hope Bay project in Western Nunavut.
- Assist with the procurement and oversight of equipment fabrication to meet a port delivery deadline for shipment to site by boat.

Water Services – Management, Treatability, Permitting Assistance, Toxicity Mitigation

- Treatability study for waste brine at a base metal refinery in Eastern Canada.
- Pilot demonstration for the simultaneous removal of sulphate and selenium to support the permitting of a mine expansion in Canada.
- Peer review of a proposed mine water treatment solution for the permitting of a new gold mine in Eastern Canada.
- Engineering design of a temporary water treatment system to manage toxicity from cyanide destruction residue at a gold mine in Québec.
- Assessment of water quality control and general water management improvements, waste residue minimization, scaling mitigation, flotation improvements and copper recovery from waste, at a large copper mine in Chile.
- Technical review of water treatment for First Nations engaged in the permitting and re-start of an existing BC mine.

Optimization of Existing Water Treatment Plant

- Assessment of options to upgrade and expand the Spoon water treatment facility at Raglan Mine in response to mine expansion.
- Assessment of water treatment performance improvements for a silver-zinc-lead mine in BC.

Cyanide Management/Recovery for Precious Metals Extraction Projects using SART and the Management of Nitrogen Residues with various Treatment Approaches

- Engineering design and procurement assistance for a new SART plant at the Parral operation in Mexico.
- Engineering design and cost estimate for a SART plant to be integrated into either a heap leach or CIP operation at an existing gold mine in South America.
- Engineering design for the construction of two new SART plants that will be integrated into the gold metallurgical processing facility for Shandong Zhongkuang Group and Zhaojin Group in China.

Q3 2019 COMMENTARY AND OUTLOOK

The third quarter tends to be the Company's strongest financially as all water treatment plant operations contribute the maximum recurring revenues during this period. Moreover, as discussed in our previous quarter's outlook, we anticipated the non-recurring revenues from technical services to remain stable and strong in the third quarter due to new contracts we had entered into during the first half of 2019. Looking at the financial results for Q3, it confirms that we have delivered according to expectations. The Proportional Revenues and revenues reported under GAAP for the third quarter both reached historic highs of \$2.3 million and \$4 million, respectively. Moreover, the Company had a bad debt write-off of \$287,000 during the third quarter, as one of the Company's customers declared bankruptcy and had no further assets to settle the debt owed to its unsecured creditors. Despite the one time bad debt write-off, the Adjusted EBITDA for the first nine months of 2019 is approximately 50% higher and the net income has doubled in comparison to the same time period a year ago. We are very pleased with our Q3 financial performance and believe it is yet another reflection of our ongoing trend of reported steady improvements since 2014.

The fourth quarter is anticipated to be a busy one with two new SART China plants entering the construction phase, the first commercial scale Selen-IX™ plant in Northern BC advancing to commissioning, and the new SART plant designed for a precious metals producer in Mexico earlier in the year expecting to start pre-commissioning. We will also be completing a pilot demonstration for the simultaneous removal of sulphate and selenium to support the permitting for the expansion of an existing mine in Canada. That said, the recurring revenues earned from plant operations will decrease in Q4 when compared to Q3, due to seasonality and maintenance schedules. Nevertheless, we expect to end the year 2019 with positive net earnings and a healthy balance sheet. In this regard, we are pleased to report that we have received the annual JCC-BQE dividend from China earlier this month.

Regarding the longer term outlook into 2020, we are excited to report that during this quarter, we managed to advance several new long-term opportunities in our project pipeline to the point of possibly reaching commercial agreements in Q4 2019 or Q1 2020. Provided we secure these new opportunities, 2020 and beyond looks very positive. This also takes into account the fact that several new water treatment plants currently under construction are scheduled to be fully commissioned and will enter the operations phase in the second half of 2020. At that point, these operations will start to contribute new recurring revenues.

FINANCIAL RESULTS

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	2,326	1,893	4,258	2,960
less: Operating expenses (excluding depreciation)	857	573	1,907	1,472
	1,469	1,320	2,351	1,488
General and administration	405	369	1,151	1,082
Sales and development	241	211	833	864
Share-based payment expenses	55	37	140	101
Depreciation and amortization	54	4	154	12
Share of results of equity accounted joint ventures	(402)	(302)	(1,111)	(1,096)
Income from operations and joint ventures	1,116	1,001	1,184	525
Other income (expenses) - net	37	(57)	(7)	(120)
Bad debt expense	(287)	-	(288)	-
Income tax expense	(17)	-	(20)	-
Net income for the period	849	944	869	405
Other comprehensive income				
Translation loss on foreign operations	(140)	(318)	(354)	(155)
Comprehensive income for the period	709	626	515	250
Net earnings per share (basic and diluted)	0.70	1.00	0.72	0.43
Proportional Revenues ¹	3,991	3,488	9,185	7,602
Adjusted EBITDA ¹	1,274	1,272	1,951	1,280
			at Sept. 30,	at Dec. 31,
			2019	2018
Working capital			1,100	1,286
Total assets			9,153	7,913
Total long term liabilities			325	-
Shareholders' equity			6,942	6,382

Notes:

1. See Non-GAAP measures

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	Sept-19	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	2,326	1,216	716	1,310	1,893	540	527	858
Operating expenses <i>(excluding depreciation)</i>	857	607	444	557	573	439	460	599
	1,469	609	272	753	1,320	101	67	259
General and administration	405	362	383	427	369	344	369	410
Sales and development	241	274	319	257	211	328	324	364
Shared-based payment expenses	55	64	22	10	37	10	55	25
Depreciation and amortization	54	50	50	7	4	4	4	116
Share of results of equity accounted joint ventures	(402)	(507)	(202)	198	(302)	(697)	(97)	119
Income (loss) from operations and joint ventures	1,116	366	(300)	(146)	1,001	112	(588)	(775)
Other income (expenses) - net	37	(17)	(27)	15	(57)	(51)	(13)	(53)
Bad debt expense	(287)	(1)	-	-	-	-	-	-
Income tax expense	(17)	(3)	-	(125)	-	-	-	(53)
Net income (loss)	849	345	(327)	(256)	944	61	(601)	(881)
Translation (loss) gain	(140)	(241)	27	257	(318)	(157)	320	128
Comprehensive income (loss)	709	104	(300)	(1)	626	(96)	(281)	(753)
Non-GAAP Measures:								
Proportional Revenues	3,991	3,138	2,057	2,198	3,488	2,832	1,282	1,839
Adjusted EBITDA	1,274	756	(80)	(100)	1,272	427	(418)	(559)

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated and variation in commodity prices. Seasonality at each operation also impacts the timing of revenues.

Operations at Raglan Mine typically run from May to November of each year. Copper production from the Dexing operations increases between April and September of each year and declines during the winter months due to variations in precipitation and the annual maintenance schedule. Revenues from contracts for technical services relating to water management and technical innovation projects occur based on the timing of client requirements.

SUMMARY OF Q3 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended September 30, 2019 and 2018.

Revenues

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

<i>(unaudited, in \$'000s)</i>	Q3-2019		Q3-2018		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	1,665	42%	1,595	46%	4%
Water treatment fee from operations	1,212	30%	912	26%	33%
Technical services	1,114	28%	981	28%	14%
Total Proportional Revenues	3,991	100%	3,488	100%	14%

Revenues from the sale of recovered metals of value comprises the Company's share of joint venture revenue from the operation of water treatment plants in China. The amount of revenue is impacted by the quantity of metals recovered and the metal prices listed on the Shanghai Futures Exchange at the date of sale. During Q3 2019, the Company's share of revenues from the JCC-BQE joint venture increased by 4% from the comparable period in 2018. The increase is due to a 5% increase in the quantity of copper recovered and offset by a 2% decrease in average copper prices for the period. In addition, the MWT-BQE joint venture contributed \$27,000 from the sale of recovered metals to the Company's share of Proportional Revenues in Q3 2019.

Revenues from water treatment fees are generated from the Company's seasonal operation of water treatment plants at Raglan Mine and from operations support at the MWT-BQE plant. The increase of \$300,000 from the same period in 2018 is attributed to several factors. First, the majority of the increase is due to the three treatment plants at Raglan Mine treating 22% more water than the same period in 2018. Second, the Company took responsibility for a fourth treatment plant at Raglan Mine starting in 2019, earning an additional \$75,000 in revenues. Lastly, the Company continued to provide ongoing operations support at the MWT-BQE water treatment plant during Q3 and earned \$46,000 in revenues.

Revenues from technical services relating to water management includes services such as effluent treatability assessment, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. It represents the sum of multiple contracts from various clients of varying contract values with the timing of revenues fluctuating from quarter to quarter based on client needs and the project stage of completion at the reporting date. During Q3 2019, the 14% increase in technical services revenues mainly stems from the engineering and design of SART plants in China, which amounts to \$287,000.

Operating Expenses (excluding depreciation)

Operating expenses (excluding depreciation) in Q3 2019 were \$857,000 compared to \$573,000 in Q3 2018. Each technical services project required different levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. The year over year change in operating expenses for the third quarter is due to the costs required to complete the project scopes.

Our share of operating expenses (excluding depreciation) in the China joint ventures for Q3 2019 was \$875,000 compared to \$1 million in Q3 2018. The 13% decrease in expenses is attributed to the decrease in the reagent costs from our JCC-BQE joint venture and is offset by the increased production cost for zinc recovery from the new water treatment plant operated by the MWT-BQE joint venture.

Expenses

In Q3 2019, general and administration costs were \$405,000 compared to \$369,000 in Q3 2018. The 10% increase is mainly due to increases in professional services fees and other overhead expenses during the quarter.

Sales and development costs in Q3 2019 were \$241,000 compared to \$211,000 in the third quarter of the prior year. The 14% increase is due to incremental labour resources allocated to business development in Q3 2019.

Depreciation expenses were \$54,000 in Q3 2019 compared to \$4,000 in Q3 2018. As described in note 3 and note 10 of our Interim Financial Statements, the increase is due to the adoption of IFRS 16 in 2019. Upon adoption, operating leases will now be included in the statement of financial position as right-of-use assets. Amortization expenses for these right-of-use assets was \$45,000 in Q3 2019.

Share-based payment expenses in Q3 2019 were \$55,000 compared to \$37,000 in Q3 2018. From quarter to quarter, share-based payment expenses also consist of amortization expense for issued stock options and fair value adjustments of deferred and restricted share units resulting from changes in the Company's share price.

Other Incomes and Expenses

Other income and expenses consist of finance costs, foreign exchange, and other non-operating income during the quarter. Net finance costs were \$8,000 in Q3 2019 compared to \$38,000 in Q3 2018. As the convertible loan was fully converted at the end of 2018, the Company no longer accrues interest expense related to the loan in 2019. Foreign exchange loss was \$21,000 in Q3 2019 compared to \$19,000 in Q3 2018. 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 Canadian dollar. During Q3 2019, under other non-operating income, the Company also earned a one-time referral fee of \$66,000 for the reagent required at the Selen-IX™ plant at the Kemess Mine.

During Q3 2019, the Company incurred a bad debt expense of \$287,000 as one of the Company's customer since 2017 declared bankruptcy during the quarter and had no further assets to pay to its unsecured creditors. As there is no expectation of recovery for this debt, the Company has fully written off the accounts receivable balance from this customer.

Income tax expense of \$17,000 during Q3 2019 were related to income tax expense and withholding tax from the Company's China subsidiary.

Net Income and Comprehensive Income

Net income for the three months ended September 30, 2019 was \$849,000 compared to \$944,000 in the same period in 2018. The Company's comprehensive income for Q3 2019 was \$709,000 compared to \$626,000 in Q3 2018. As the Company operates through subsidiaries and joint ventures with functional currencies which differs from the Company's reporting currency of the Canadian dollar, any exchange differences on the translation of the net assets of such entities are recognized in a separate component of equity through other comprehensive income or loss.

SUMMARY OF YEAR-TO-DATE Q3 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine month periods ended September 30, 2019 and 2018.

Revenues

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

<i>(unaudited, in \$'000s)</i>	Year-to-date		Year-to-date		% Change
	2019	% of total	2018	% of total	
Revenue source	\$		\$		
Sale of recovered metals from operations	4,927	53%	4,642	61%	6%
Water treatment fees from operations	1,533	17%	986	13%	55%
Technical services	2,725	30%	1,974	26%	38%
Total Proportional Revenues	9,185	100%	7,602	100%	21%

Total year-to-date revenues from the sale of recovered metals increased by \$285,000 over 2018. During the nine months in 2019, revenues from the JCC-BQE joint venture increased by 2%, which was due to a 9% increase in copper recovered but was offset by a 6% drop in average copper prices during the period. The newly built water treatment plant at the MWT-BQE joint venture contributed an additional \$184,000 of revenues during the nine months in 2019.

The year-to-date water treatment fee revenues increased by \$547,000 when compared to 2018. Of this, \$406,000 was derived from an increase of water treated by the three Raglan Mine operations and the new fourth plant. Similar to previous seasons but unlike the previous year, the 2019 Raglan operating season began discharging water in June and discharged 41% more water compared to 2018. Since commissioning of the MWT-BQE water treatment plant, the Company has earned an additional \$140,000 of operations support fees during the first nine months of 2019 compared to the previous year.

Revenues from technical services during the first nine months of the year increased by \$751,000 from the same period in 2018. The 38% increase over 2018 is attributable to higher project activity in the engineering and design of SART treatment plants in China and in Latin America during 2019.

Operating Expenses (excluding depreciation)

Year-to-date operating expenses (excluding depreciation) in 2019 were \$1.9 million compared to \$1.5 million of 2018. The 27% increase was mainly due to increases in technical services contracts during 2019.

Expenses

The year-to-date general and administration expenses in 2019 increased by \$69,000 compared to the same period in 2018. This increase was due to increases in professional services fees and other overhead expenses.

Sales and development costs year-to-date in 2019 decreased by \$30,000 compared to 2018. The decrease was due to the reallocation of labour resources to complete technical services contracts during the year.

LIQUIDITY AND CAPITAL RESOURCES

On March 5, 2019, the Company completed a consolidation (the "Share Consolidation") of its share capital on the basis of 100 existing common shares for one new common share of the Company. Following the Share Consolidation, the Company had 1,208,435 common shares outstanding. The Share Consolidation was previously approved by shareholders at a meeting held on November 20, 2018. All information in the MD&A and the Condensed Consolidated Interim Financial Statements are presented on a post-Share Consolidation basis. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to the stock option exercise prices. All comparative period information has been adjusted to reflect this Share Consolidation.

At September 30, 2019, BQE Water had 1,209,101 common shares issued and outstanding (1,208,435 at December 31, 2018), and 40,834 stock options outstanding (62,000 at December 31, 2018).

As of November 19, 2019, the number of common shares issued and outstanding remain unchanged from September 30, 2019 and the stock options outstanding also remain unchanged from September 30, 2019.

For the nine months ended September 30, 2019, the Company reported net income of \$868,450 (\$404,950 in 2018) and used net cash in operating activities of \$286,417 (\$1,075,674 in 2018). At September 30, 2019, the Company had a net working capital of \$1,099,609 (\$1,286,057 at December 31, 2018) and a cumulative deficit of \$60,849,069 (\$61,717,519 at December 31, 2018).

The Company has commitments of \$642,607 until 2023 under operating leases for office and laboratory premises and for office equipment.

The Company continually monitors its capital resources to assess the liquidity necessary to fund operations and future strategic initiatives. Historically, the Company financed its working capital requirements through debt or equity financing. Since the Company became profitable through its operations, the Company expects to continue financing its working capital requirements internally through the combination of recurring revenues from plant operations, non-recurring revenues from technical services provided as part of new projects, and the Company's share of income from its investments in joint ventures. As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended September 30, 2019 and in the "Q3 2019 COMMENTARY AND OUTLOOK" section of this MD&A, the Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months.

Nevertheless, there are risks related to the Company's ability to continue as a going concern. Such risks include the suspension or major delays in existing projects, working capital fluctuations caused by the seasonality of the Company's plant operations, uncertainty of timing of non-recurring revenue from new projects, delays in the repatriation of funds from the Company's joint venture investments in China, and the possibility of devaluation of the annual dividend due to unfavourable fluctuations in exchange rates between the Chinese renminbi and the Canadian dollar. Although Management of the Company has partial influence on the Company's ability to maintain profitable operations, the majority of the remaining risks are outside of Management's control.

Accordingly, such uncertainties may cast doubt upon the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustments to the recoverability and classification on recorded assets and liabilities. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries, fees and short-term benefits	154,714	139,454	476,838	399,076
Share-based payments	6,269	13,961	37,997	40,685
	<u>160,983</u>	<u>153,415</u>	<u>514,835</u>	<u>439,761</u>

Included in the trade payables and accrued liabilities as of September 30, 2019 is \$136,756 (\$131,723 at December 31, 2018) of salaries, management consulting service fees with companies owned by the Company's management, director fees and termination benefits. For the three and nine months ended September 30, 2019, the consulting services received from companies owned by the Company's management amounted to \$30,000 and \$90,000 respectively (\$35,000 and \$112,000 in 2018).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2018.