

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three months ended March 31, 2019 and 2018

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three months ended March 31, 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. We have prepared this document in conjunction with our broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. 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 Q1 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 months ended March 31, 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 March 31, 2019. Our accounting policies are described in note 2 of our Audited Financial Statements. This MD&A has been prepared as at May 22, 2019.

All amounts are expressed in Canadian dollars unless otherwise noted. 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. BQE Water provides value for their clients in the areas of technical innovation, water management consulting and the operation of water treatment plants.

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 results of operations 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 results of operations in conjunction with the corresponding GAAP measures.

Proportional Results

Due to IFRS changes in 2012, the revenue and expenses associated with our Chinese joint ventures can no longer be proportionally consolidated into the Company's revenue and expenses as defined by GAAP. Currently, the revenue and expenses associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item as 'Share of results of equity accounted joint ventures' on our consolidated statements of income (loss) and comprehensive income (loss).

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 Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the three month periods ended March 31, 2019 and 2018 are as follows:

<i>(in \$'000s)</i>	2019	2018
	\$	\$
Reported revenues under GAAP	716	527
Share of reported revenues from joint ventures	1,341	755
Proportional Revenue for the period	2,057	1,282

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 proportionate share of joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income (loss) for the three month periods ended March 31, 2019 and 2018:

<i>(in \$'000s)</i>	2019	2018
	\$	\$
GAAP: Net loss	(327)	(601)
add: interest expense	1	30
add: income taxes recovery	15	(21)
add: depreciation and amortization	191	137
EBITDA	(120)	(455)
add: stock-based compensation (recovery)	22	55
add: net foreign exchange gain	18	(18)
Adjusted EBITDA	(80)	(418)

Q1 2019 COMMENTARY AND OUTLOOK

We are very pleased with our Q1 2019 financial results. We recorded the best Adjusted EBITDA during the first three months of a fiscal year in the Company's history. This follows the 2018 year-end results which produced the first net income reported for a fiscal year since the inception of the Company and which was also the fourth consecutive year-over-year improvement in financial results. We are delighted to be continuing the positive momentum of recent years into 2019.

Long-term followers of BQE Water know that Q1 is typically our weakest quarter in terms of financial performance primarily due to the impact of climatic conditions on our recurring revenues from plant operations which accounts for up to 70% of our total annual Proportional Revenue. Typically, our capacity to generate non-recurring revenue from technical services does not make up for the decrease of recurring revenues during Q1.

The improvement in our Q1 2019 performance compared to Q1 2018 was due to simultaneous increases in recurring revenue from our joint venture operations and in non-recurring revenue from technical services. Specifically, the mass of copper recovered and sold in Q1 2019 was close to 80% higher compared to Q1 2018. This is attributed to climatic factors in China that resulted in greater volumes of mine water to be treated and which are outside of the Company's control. Additionally, the value of technical services the Company provided to clients globally increased by 36%. This is a direct reflection of our expanding sales pipeline which can be linked to the success of our business development efforts over the past year and the general economic state of the mining sector.

Looking ahead to the remainder of 2019, we anticipate successful plant operations at Raglan Mine where we will begin our 16th operating season in late Q2 of 2019 and operation of the copper recovery plants in Jiangxi province of China. However, we also forecast weaker performance from the zinc recovery plant in Shandong province due to the reduced volume of wastewater generated by the smelter and the amount of recoverable zinc contained in the water. Both these factors are expected to be temporary and beyond the Company's control as they are linked to a temporary change in the smelter's throughput. Our non-recurring revenue from technical services in 2019 and 2020 will be influenced by the following:

- Clients' decisions on whether to proceed to the construction phase of three different SART plants in Q2;
- Client decision on whether to proceed with a pilot demonstration for sulphate and selenium treatment at a BC mine in Q3;
- Client decision on whether to proceed with a pilot demonstration for sulphate removal and copper recovery at a copper mine in Chile in Q3; and
- Successful commissioning of the first commercial Selen-IX™ plant at the Kemess Mine in Q4.

In addition to the opportunities listed above, we expect to continue to expand our projects pipeline which reinforces our overall positive outlook for the rest of 2019 and the first half of 2020.

Q1 2019 OVERVIEW

Financial Highlights

- Most successful Q1 financial results compared to prior years for the same period;
- Adjusted EBITDA was a loss of \$80,000 compared to a loss of \$418,000 in Q1 2018, which is a significant improvement compared to the average Adjusted EBITDA loss from the first quarter of 2015 to 2017 was \$549,000;
- Proportional Revenues of \$2 million compared to \$1.3 million in Q1 2018;
- Net loss as reported under GAAP was \$327,000 compared to \$601,000 in Q1 2018; and
- Proportional Cash, which includes our share held in joint ventures, as of March 31, 2019 was \$2.5 million compared to \$2 million at March 31, 2018, and to \$3.2 million at the end of 2018.

Operational Services Highlights

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

Revenue from Sales of Recovered Metals

The Company operates four water treatment plants that generate revenue 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 in Q1 2019 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2019	2018
Water treated (cubic metres)	5,809	3,544
Copper recovered (pounds)	782	440

During Q1 2019, all three plants met or exceeded mechanical availability and process performance. The volume of water treated and the mass of copper recovered increased by 64% and 78% respectively 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 for its first water treatment plant in Q4 2018. The water treatment plant in the Shandong province of China generates revenue from the sale of copper and zinc recovered from wastewater. The operating results for MWT-BQE in Q1 2019 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2019	2018
Zinc recovered (pounds)	709	-
Copper recovered (pounds)	53	-

Revenue from Water Treatment Fees

The Company is contracted to operate four water treatment plants that generate revenue in the form of treatment fees, which are the three plants at Raglan Mine owned by Glencore in Canada and one plant operated by MWT-BQE in China.

During Q1, the plants at Raglan Mine are shutdown as all water stored in the outdoor reservoirs is frozen. Consequently, no revenue is generated in Q1 from the three plants at Raglan Mine. The MWT-BQE plant in Shandong generates an operation support fee paid to the Company by MWT-BQE. This fee is not linked to the volume of water treated but to the achievement of operational targets which rely on the Company's expertise delivered through ongoing operations services. The operating results for the three months ended March 31, 2019 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2019	2018
Water treated at Raglan Mine (cubic metres)	-	-
Water treated at MWT-BQE (cubic metres)	151	-

Technical Services Highlights

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q1 2019 are summarized below.

Commercial Deployment of Selen-IX™ Technology

- Completion of Issued-for-Construction engineering design for the water treatment plant at Kemess Mine in Northern BC, which utilizes Selen-IX™ as one of the treatment stages.
- Preparation of the operating manual, emergency response plan and other documents required by regulatory agencies.

Engineering Design of New Water Treatment Plant

- Engineering design of a water treatment plant for the Hope Bay project in western Nunavut territory.

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

- Engineering design and cost estimate for a SART plant treating up to 600 m3/hr of gold leach solution and the recovery of approximately 3,400 metric tons of copper and 6,700 metric tons of cyanide per year in South America.
- Engineering design and cost estimate for a SART plant to treat 140 m3/hr of leach solution at the Parral project in Mexico.
- Cyanide management including engineering design for cyanide destruction and recovery plants at two gold processing facilities in China.

Water Management, Permitting Assistance & Toxicity Mitigation

- Independent review of water treatment options to manage toxicity from cyanide destruction residue at a gold mine in Quebec and created a plan to improve water management while reducing treatment requirements.
- Technical lead for the permitting of a new sulphate removal treatment system at a Central BC mine.
- Technical lead for the permitting of improvements and expansion of water treatment at the Silvertip Mine in BC.
- Investigation and laboratory testing of the root causes of toxicity at Kattinniq Mine in Quebec.
- Pilot testing of toxicity mitigation with the Sulf-IX™ process on lime plant effluent in the US.
- 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 water treatment at Raglan Mine.

FINANCIAL RESULTS

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

	Q1 2019	Q1 2018
	\$	\$
Revenues	716	527
less: Operating expenses (excluding depreciation)	444	460
	272	67
General and administration	383	369
Sales and development	319	324
Stock-based compensation	22	55
Depreciation and amortization	50	4
Share of results of equity accounted joint ventures	(202)	(97)
Loss from operations and joint ventures	(300)	(588)
Other expenses – net	(27)	(13)
Net loss for the period	(327)	(601)
Translation gain on foreign operations	27	320
Comprehensive loss for the period	(300)	(281)
Net loss per share (basic and diluted)	(0.27)	(0.64)
Proportional Revenues ¹	2,057	1,282
Adjusted EBITDA ¹	(80)	(418)
	at Mar. 31,	at Dec. 31,
	2019	2018
Working capital	616	1,286
Total assets	7,670	7,913
Total non-current liabilities	253	-
Shareholders' equity	6,095	6,382

Notes:

1. See Non-GAAP measures

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	716	1,310	1,893	540	527	858	1,578	953
Operating expenses <i>(excluding depreciation)</i>	444	557	573	439	460	599	642	656
	272	753	1,320	101	67	259	936	297
General and administration	383	427	369	344	369	410	383	376
Sales and development	319	257	211	328	324	364	263	303
Stock-based compensation	22	10	37	10	55	25	34	15
Depreciation and amortization	50	7	4	4	4	116	31	33
Share of results of equity accounted joint ventures	(202)	198	(302)	(697)	(97)	119	(470)	(764)
Income (loss) from operations and joint ventures	(300)	(146)	1,001	112	(588)	(775)	695	334
Other (expenses) income	(27)	15	(57)	(51)	(13)	(53)	(78)	(69)
Bad debt recovery	-	-	-	-	-	-	61	-
Income tax expense	-	(125)	-	-	-	(53)	153	-
Net income (loss)	(327)	(256)	944	61	(601)	(881)	831	265
Translation (loss) gain	27	257	(318)	(157)	320	128	(97)	(51)
Comprehensive (loss) income	(300)	(1)	626	(96)	(281)	(753)	734	214
Non-GAAP Measures:								
Proportional Revenue	2,057	2,198	3,488	2,832	1,282	1,839	3,147	3,182
Adjusted EBITDA	(80)	(100)	1,272	427	(418)	(559)	1,088	744

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 typically run from May to November of each year. Copper production from the Dexing operations increase between April and September of each year and decline 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 Q1 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended March 31, 2019 and 2018.

Revenues

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

<i>(unaudited, in \$'000s)</i>	Q1 2019		Q1 2018		% Change
Revenue source	\$	% of total	\$	% of total	
Sale of recovered metals from operations	1,341	65%	755	59%	78%
Water treatment fee from operations	46	2%	-	0%	-
Technical services	670	33%	527	41%	27%
Total Proportional Revenues	2,057	100%	1,282	100%	60%

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. During Q1 2019, the Company's share of revenues from the JCC-BQE joint venture increased from the comparable period in 2018. The net increase is due to a 77% increase in the quantity of copper recovered offset by an approximate 8% decrease in average copper prices for the period. The MWT-BQE joint venture contributed \$108,000 from the sale of recovered metals to the Company's share of Proportional Revenues in Q1 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 in Shandong. As the operating season at Raglan Mine typically starts in May, it does not generate revenue during the first quarter of the year. The Company continues to provide ongoing operation support at the MWT-BQE water treatment plant and earned \$46,000 in revenues from operations support fees.

Revenues from technical services relating to water management includes services such as engineering and plant design, construction and commissioning of water treatment plants, laboratory testing, pilot demonstrations and operations support. It represents the sum of multiple contracts from various clients of varying contract values. The timing of revenues from technical services fluctuates from quarter to quarter based on client needs and the project stage of completion at the reporting date.

Operating Expenses (excluding depreciation)

Operating expenses (excluding depreciation) in Q1 2019 were \$444,000 compared to \$460,000 in Q1 2018. Each technical services project will require 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 first quarter is due to the costs required to complete the scope of projects.

Our share of operating expenses (excluding depreciation) in the China joint ventures for Q1 2019 was \$886,000 compared to \$481,000 in Q1 2018. The 84% increase in expenses is attributed to the cost of recovering 77% more copper and zinc during the quarter and a slight increase in reagent costs.

Expenses

In Q1 2019, general and administration costs were \$383,000 compared to \$369,000 in Q1 2018. The variance in general and administration costs were mainly due to minor increases in fees for professional services during Q1 2019.

Sales and development costs in Q1 2019 were \$319,000, which is comparable to the \$324,000 in the first quarter of the prior year.

Depreciation expenses were \$50,000 in Q1 2019 compared to \$4,000 in Q1 2018. The increase is due to the Company adopting IFRS 16 on January 1, 2019 as described in note 3 and note 10 of our Interim Financial Statements. Upon adoption, operating leases of the Company were included in the statement of financial position as right-of-use assets. Amortization expenses for these right-of-use assets totaled \$41,000 in Q1 2019.

Stock-based compensation costs in Q1 2019 were \$22,000 compared to \$55,000 in Q1 2018. Stock-based compensation costs consisted 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 Income and Losses

Net finance costs were \$9,000 in Q1 2019 compared to \$31,000 in 2018. During Q1 of 2018, the Company recorded three months of accrued interest expense related to the convertible loan which was converted by the end of 2018.

Foreign exchange loss was \$18,000 in Q1 2019 compared to a gain of \$18,000 in 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.

Net Loss and Comprehensive Loss

Overall net loss for the first three months in 2019 was \$327,000 compared to a net loss of \$601,000 in the same period in 2018. The Company's comprehensive loss in Q1 2019 was \$300,000 compared to a comprehensive loss of \$281,000 in Q1 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.

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 March 31, 2019, BQE Water had 1,208,435 common shares issued and outstanding (1,208,435 at December 31, 2018), and 62,000 stock options outstanding (62,000 at December 31, 2018).

As of May 22, 2019, the number of common shares issued and outstanding remain unchanged from March 31, 2019 while the Company stock options outstanding decreased to 42,000.

For the three months ended March 31, 2019, the Company incurred a net loss of \$327,839 (\$599,368 in 2018) and used net cash in operating activities of \$769,590 (\$553,301 in 2018). At March 31, 2019, the Company had working capital of \$615,870 (\$1,286,057 at December 31, 2018).

The Company has commitments of \$769,317 until 2023 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended March 31, 2019 and in the "Q1 2019 COMMENTARY AND OUTLOOK" section of this MD&A, the Company believes that it has sufficient working capital resources to continue current operations for the next 12 months. Aside from working capital received from existing operations, the Company expects potential sources of new working capital from new projects. Beyond this point, we will need to secure new non-operational sources of working capital to continue operations, such as debt or equity investments.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. This assumes BQE Water is able to continue successful plant operations at Raglan Mine and its Chinese joint ventures, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, the Company will need to secure new sources of working capital to continue operations.

Whether and when the Company can sustain profitability and positive cash flow from operations is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is material uncertainty that may cast doubt upon the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustment 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 months ended March 31, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	Mar. 31, 2019	Mar. 31, 2018
	\$	\$
Salaries, fees and short-term benefits	155,610	126,211
Share-based payments	6,207	13,288
Total compensation	161,817	139,499

Included in the trade payables and accrued liabilities as of March 31, 2019 is \$75,470 (\$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 months ended March 31, 2019, the consulting services received from companies owned by the Company's management amounted to \$30,000 (\$39,000 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 the 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.