

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2020 and 2019

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 30, 2020 and 2019

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 2020 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, 2020 and 2019 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2019 and 2018 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2019.

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, 2020. Our accounting policies are described in note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at November 25, 2020.

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 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.

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 Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three and nine months ended September 30, 2020 and 2019 are as follows:

<i>(in \$'000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Reported revenues under GAAP	2,738	2,326	6,088	4,258
Share of reported revenues from joint ventures	2,549	1,665	4,324	4,927
Proportional Revenues for the period	5,287	3,991	10,412	9,185

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 joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income:

<i>(in \$'000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
GAAP: Net income	1,443	849	1,370	869
Add: interest expense	38	4	33	15
Add: income tax expense	268	149	316	304
Add: depreciation and amortization	170	196	560	577
EBITDA	1,919	1,198	2,279	1,765
Add: share-based payment expense	113	55	280	140
Add: bad debt expense	-	287	-	288
Deduct: non-operating income	(11)	(66)	(11)	(66)
Add/Deduct: net foreign exchange loss (gain)	18	21	(8)	46
Adjusted EBITDA	2,039	1,495	2,540	2,173

COMMENTARY AND OUTLOOK

We are very pleased with our Q3 2020 financial performance, which represents the strongest third quarter ever recorded by the Company. Following a moderate second quarter, our Q3 2020 financial results again confirm that the Company's quarterly performance can be variable and that a more reliable performance indicator is to compare our financial results over the longer term. Our Q3 2020 results also confirm the positive outlook we presented last quarter for the remainder of 2020. More specifically, the year-over-year decline in revenues in Q2 2020, which was caused by the late start to the operating season at our Canadian water treatment plants, the delay in commissioning the plant at Kemess and the drought in China, was substantially erased in Q3 2020 as the bulk of our recurring revenues shifted from Q2 2020 to Q3 2020. When combined with continued strength in our technical services revenues, 2020 is positioned for significant improvement in our overall financial performance relative to 2019. We also maintained a working capital balance of \$2.9 million as at September 30, 2020, up 58% from December 31, 2019.

There remain some uncertainties in Q4 2020, such as the climatic conditions at our operating sites and metal prices, both of which affect our recurring revenues. However, we expect revenues from technical services contracts in Q4 2020 to remain strong. Adding to our cash balance as at September 30, 2020, we subsequently received our 2019 annual dividend from our China joint venture with Jiangxi Copper Company ("JCC") in October. Therefore, our overall outlook for the remainder of the year remains positive and we expect to enter 2021 with a strong balance sheet, positioning us well to withstand any ongoing uncertainty and impacts stemming from COVID-19.

Our longer-term outlook remains positive as it is driven by new water treatment plants being operational in the US, Canada and China. These include:

- The newly added selenium removal treatment circuit for an existing plant at a US mine that is expected to be operational in Q3 2021;
- The first BQE Water treatment plant for selenium removal outside of mining that is currently under construction at a power utility to remediate an ash pond in the US; and
- Two SART plants in China that will complete construction in 2020 and transition from commissioning to ongoing operations in 2021.

While the start of revenue contributions from these plants is subject to various potential project delays, this reality does not fundamentally alter the projected growth in the long-term recurring revenues associated with these projects. Moreover, based on our current technical services contracts and project pipeline, we anticipate that we will continue to deliver on our target of adding two new plants per year to our portfolio of ongoing operations beyond 2021. This positive outlook is strengthened by our potential to significantly increase our presence beyond the mining industry over the long term, subject to the success of the first selenium treatment plant at a power utility.

FINANCIAL HIGHLIGHTS

- Adjusted EBITDA of \$2.0 million in Q3 2020 compared to \$1.5 million in Q3 2019;
- Revenues reported under GAAP of \$2.7 million in Q3 2020 compared to \$2.3 million in Q3 2019;
- Proportional Revenues of \$5.3 million in Q3 2020 compared to \$4.0 million in Q3 2019;
- Net income of \$1.4 million in Q3 2020 compared to \$849,000 in Q3 2019;
- Working capital increased by 58% over the nine-month period, from \$1.8 million at the end of 2019 to \$2.9 million at the end of Q3 2020; and
- Proportional Cash, which includes our share held in joint ventures, as at September 30, 2020 was \$4.6 million compared to \$4.2 million as at December 31, 2019.

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 from the JCC-BQE Joint Venture (“JCC-BQE”) and one plant from the MWT-BQE Joint Venture (“MWT-BQE”).

JCC-BQE Joint Venture

Our 50/50 joint venture with partner JCC operates 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 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
Water treated (cubic metres)	8,631	7,267	16,901	20,353
Copper produced (pounds)	1,476	1,095	2,642	3,066

During Q3 2020, all three plants met or exceeded mechanical availability and process performance. The volume of water treated increased by 19% and the mass of copper recovered increased by 35% over the same period in 2019. Unlike the drought experienced in the first five months of 2020, rainfall at Dexing Mine exceeded average precipitation levels in the region during the third quarter. 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

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. MWT-BQE 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 are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
Zinc recovered (pounds)	167	135	886	899
Copper recovered (pounds)	44	30	144	134

During the third quarter, the smelter continued operating their production lines with higher-grade ore, which led to a higher concentration of zinc and copper in the feed composition and also an increase in the volume of wastewater to be treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant. The changes made by the smelter are believed to be temporary and are expected to resume regular production in the next three to six months.

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. They include four plants operated by BQE Water for Glencore at Raglan Mine in Northern Québec, the newly commissioned plant at Kemess in Northern BC, and a plant operated by the MWT-BQE joint venture but supported and supervised by BQE Water in China. Operating fees from the Glencore and Kemess operations are primarily based on the volume of water treated and discharged in accordance with strict regulatory requirements. The MWT-BQE plant generates fixed operations support fees for the achievement of operational targets that rely on the Company’s technical expertise.

For our 17th operating season at Raglan Mine, the team mobilized to site in April 2020. Water discharge from the lime plants was on schedule while discharge was delayed from the ChemSulphide[®] plant to mid-July due to the long lead time required for the replacement of a discharge pump.

The Company successfully completed the commissioning of the first industrial scale plant utilizing its patented Selen-IX™ process for selenium management at the Kemess property in Northern BC owned by Centerra Gold. Since late August 2020, the plant has operated continuously treating 5,600 m³/day of mine influenced water to produce treated water with selenium concentrations of less than 2 parts per billion. During Q3 2020, the plant generated water treatment fees during the second half of September.

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 volume of water treated and discharged are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
4 Treatment plants at Raglan Mine (cubic metres)	1,081	1,412	1,175	1,753
Treatment plant at Kemess (cubic metres)	98	-	98	-
Treatment plant at MWT-BQE (cubic metres)	126	164	458	446

TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during Q3 2020 are summarized below.

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

- Completed the commissioning and the performance test of the Selen-IX™ plant at Kemess Mine in Northern BC.
- Completed engineering design and initiated procurement for the first commercial scale direct selenium ERC plant at a mine in North America.
- Continued to provide engineering services to support procurement and fabrication of equipment for the first Selen-IX™ plant outside of mining currently under construction at a power utility ash pond in the US.

Cyanide Management and Recovery for Precious Metals Extraction Projects using SART

- Initiated the commissioning phase of the SART plant for Shandong Zhongkuang Group in China.
- Continued to provide engineering support for the construction of a SART plant for Zhaojin Mining Industry in China.

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

- Water management strategy for El Mirador Mine in Ecuador.
- Technical assessment of water treatment requirements to introduce a flotation circuit upstream of an existing cyanide leaching process for an existing gold mine in North America.
- Scoping level engineering for a selenium removal plant at an active mine in Canada.
- Treatability assessment of organo-arsenic removal from mine water at an active gold mine in Southeast Asia.
- Development of an alternate water management and treatment strategy for the KSM project in BC.
- Assessment of water treatment requirements and upgrades of an existing system at a mine in Central America.
- Engineering design of a plant for the simultaneous removal of sulphate and selenium from mine influenced water in the US.
- Completed the pilot demonstration of selenium removal to support the permitting of a new mine in North America.
- Preliminary technical assessment for selective thiocyanate removal combined with cyanide recovery from carbon-in-pulp tailings at a project site in North America.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenues	2,738	2,326	6,088	4,258
Operating expenses	1,381	857	3,497	1,907
	1,357	1,469	2,591	2,351
General and administration expenses	342	405	1,209	1,151
Sales and development expenses	153	241	622	833
Share-based payment expenses	113	55	280	140
Depreciation	33	54	105	154
Share of earnings from joint ventures	(785)	(402)	(1,038)	(1,111)
Income from operations and joint ventures	1,501	1,116	1,413	1,184
Other expenses, net	(58)	(267)	(43)	(315)
Net income for the period	1,443	849	1,370	869
Other comprehensive income (loss)				
Translation gain (loss) on foreign operations	97	(140)	292	(354)
Comprehensive income for the period	1,540	709	1,662	515
Net earnings per share (basic)	1.18	0.70	1.13	0.72
Net earnings per share (diluted)	1.17	0.70	1.12	0.72
Proportional Revenues ¹	5,287	3,991	10,412	9,185
Adjusted EBITDA ¹	2,039	1,495	2,540	2,173

	at Sept. 30,	at Dec. 31,
	2020	2019
Working capital	2,882	1,829
Total assets	11,201	8,376
Total long-term liabilities	868	331
Shareholders' equity	8,293	6,405

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in \$'000s)

Quarters ended	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19	Jun-19	Mar-19	Dec-18
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	2,738	1,414	1,936	1,382	2,326	1,216	716	1,310
Operating expenses	1,381	921	1,195	882	857	607	444	557
	1,357	493	741	500	1,469	609	272	753
General and administration	342	435	433	480	405	362	383	427
Sales and development	153	239	229	230	241	274	319	257
Share-based payment expenses	113	118	49	13	55	64	22	10
Depreciation	33	36	36	(23)	54	50	50	7
Share of (earnings) loss from joint ventures	(785)	(380)	127	263	(402)	(507)	(202)	198
Income (loss) from operations and joint ventures	1,501	45	(133)	(463)	1,116	366	(300)	(146)
Other (expenses) income, net	(58)	(95)	115	21	37	(17)	(27)	15
Bad debt expense	-	-	-	(95)	(287)	(1)	-	-
Income tax expense	-	(5)	-	(91)	(17)	(3)	-	(125)
Net income (loss)	1,443	(55)	(18)	(628)	849	345	(327)	(256)
Translation gain (loss)	97	(191)	387	70	(140)	(241)	27	257
Comprehensive income (loss)	1,540	(246)	369	(558)	709	104	(300)	(1)
Non-GAAP Measures:								
Proportional Revenue	5,287	2,771	2,356	2,005	3,991	3,138	2,057	2,198
Adjusted EBITDA	2,039	412	91	(451)	1,495	756	(80)	(100)

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

SUMMARY OF Q3 2020 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended September 30, 2020 and 2019.

Proportional Revenue

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

<i>(in \$'000s)</i>	Q3 2020		Q3 2019		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	2,549	48%	1,665	42%	53%
Water treatment fee from operations	1,061	20%	1,212	30%	(12%)
Technical services	1,677	32%	1,114	28%	51%
Total Proportional Revenue	5,287	100%	3,991	100%	32%

Revenues from the sale of base metals of value recovered comprises the Company's share of revenues from its joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is impacted by the amount and market price of metal concentrate sold. During Q3 2020, the Company's share of revenue from the JCC-BQE joint venture increased from the comparable period in 2019 due to a 35% increase in the quantity of copper recovered and a 12% increase in average copper prices. The Company's share of revenue from the MWT-BQE joint venture was \$68,000 compared to \$27,000 at Q3 2020.

Water treatment fee revenues include the tolling fees earned from each cubic metre of water discharged at Raglan Mine in Northern Québec and the newly commissioned plant at Kemess in Northern BC, and operations support fees from the MWT-BQE plant in China. The addition of the Selen-IX™ plant at Kemess added new revenues of \$177,000 during Q3 2020. Despite the addition, total water treatment fee revenues decreased by \$151,000, or 12%, due to the late start of the ChemSulphide® treatment plant at Raglan Mine as water was not being discharged until mid-July due to the long lead time to replace a discharge pump. During the quarter, the Company continued to provide ongoing operation support at the MWT-BQE water treatment plant and earned \$47,000 in revenues from operations support fees.

Revenues from technical services incurred the largest increase of \$563,000, or 51%, in Q3 2020 when compared to the same period in 2019. These revenues are non-recurring in nature and consist of 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. It represents the sum of multiple contracts from various clients of varying contract values. In Q3 2020, there was an increase in project activity across the full spectrum of Company services, most notably in the areas of engineering and plant design for three US-based water treatment plants utilizing the Company's patented Selen-IX™ process technology.

Operating Expenses

Total operating expenses during Q3 2020 were \$1.4 million compared to \$857,000 in Q3 2019, an increase of \$524,000, or 61%. The increase in operating expenses is mainly attributed to the additional staff required during the commissioning of the water treatment plant at Kemess. The remainder of the variance is due to the increase in project activity related to technical services completed in the quarter. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

Expenses

In Q3 2020, general and administration costs were \$342,000 compared to \$405,000 in Q3 2019. The decrease of \$63,000, or 16%, in general and administration costs was mainly due to the re-allocation of internal management and executive efforts to fulfill technical services during Q3 2020.

Sales and development costs during Q3 2020 were \$153,000 compared to \$241,000 in Q3 2019, a decrease of \$88,000, or 37%. The variance was due to internal labour resources being re-allocated from technology development to carry out technical services contracts during the period.

Depreciation expenses were \$33,000 in Q3 2020 compared to \$54,000 in Q3 2019. With the adoption of IFRS 16 on January 1, 2019, the Company's depreciation expense includes the amortization of right-of-use assets. The decrease of \$21,000, or 39%, was due to an office lease extension which extended the amortization period of right-of-use assets for another 36 months.

Share-based payment expenses were \$113,000 in Q3 2020 compared to \$55,000 in Q3 2019. Share-based payment expenses consist of non-cash compensation expenses relating to stock options and grants of deferred and restricted share units. In January 2020, the Company granted 51,000 stock options, which accounted for \$58,000 of additional share-based payment expenses during the quarter. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from the movement of the Company's share price.

Other Income and Expenses

Net finance costs were \$40,000 in Q3 2020 compared to \$8,000 in Q3 2019. Since the Company currently does not hold any interest-bearing debt, finance costs arise from the interest accretion of the Company's long-term liabilities, such as lease obligations.

Foreign exchange loss was \$18,000 in Q3 2020 compared to a loss of \$21,000 in Q3 2019. Foreign exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar, the Company's reporting currency.

Net Income and Comprehensive Income

Overall net income for the three months ending September 30, 2020 was \$1.4 million, up 70% compared to \$849,000 in the same period in 2019. As the Company operates through subsidiaries and joint ventures with functional currencies that differ from the Company's reporting currency, exchange differences on the translation of the net assets of such entities are recognized through other comprehensive income or loss. Net of translation of such foreign entities, total comprehensive income for the third quarter was a \$1.5 million compared to \$709,000 in Q3 2019.

SUMMARY OF YEAR-TO-DATE Q3 2020 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine-month periods ended September 30, 2020 and 2019.

Proportional 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
	2020	% of total	2019	% of total	
Revenue source	\$		\$		
Sale of recovered metals from operations	4,324	42%	4,927	53%	(12%)
Water treatment fee from operations	1,251	12%	1,533	17%	(18%)
Technical services	4,837	46%	2,725	30%	77%
Total Proportional Revenues	10,412	100%	9,185	100%	13%

Total year-to-date revenues from the sale of recovered metals decreased by \$603,000, or 12%, over the same period in 2019. The Company's share of revenues from the JCC-BQE joint venture decreased by 12% due to a 14% decrease in copper recovered offset by a 2% increase in average copper prices during the period. Changes in water volume are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period. The share of revenues from the water treatment plant at the MWT-BQE joint venture was \$168,000 during the first nine months in 2020 when compared to \$184,000 in 2019, with the decrease due to lower zinc prices during the period.

Year-to-date water treatment fee revenues decreased by \$282,000, or 18%, when compared to 2019, mainly attributable to our operations at Raglan Mine. Unlike the previous year, the ChemSulphide® plant only began discharging water in mid-July 2020 due to the long lead time in receiving a replacement discharge pump, resulting in a decrease of \$459,000 in water treatment fees when compared to 2019. The decrease in fees from Raglan Mine was offset by the newly commissioned

plant at Kemess which contributed new water treatment fees of \$177,000. For our support at the MWT-BQE treatment plant, the Company continued to earn fixed fees of \$141,000 during the nine-month period ended September 30, 2020.

Year-to-date revenues from technical services increased by \$2.1 million from the same period in 2019. The 77% increase over 2019 was attributable to higher project activity in all areas of technical services, but specifically for the engineering and design of three Selen-IX™ treatment plants in the US.

Operating Expenses (excluding depreciation)

Year-to-date operating expenses (excluding depreciation) in 2020 increased by \$1.6 million, or 83%, compared to the same period in 2019. The increase is mainly due to the additional labour resources required for the commissioning of the Kemess plant and the new SART plants in China, both of which are required prior to the generation of new recurring revenues.

Expenses

The year-to-date general and administration expenses increased by \$58,000, or 5%, compared to the same period in 2019. This increase was due to increases in salary expenses and in fees paid for professional services.

The year-to-date sales and development expenses decreased by \$211,000, or 25%, compared to 2019. The decrease was due to the increase in reallocating labour resources to complete technical services contracts during 2020.

Net Income

Overall net income for the nine-month periods ended September 30, 2020 was \$1.4 million, up 58% compared to \$867,000 in the same period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2020, BQE Water had 1,217,435 common shares issued and outstanding (1,210,434 at December 31, 2019), and 82,833 stock options outstanding (39,501 at December 31, 2019). As of November 25, 2020, the common shares issued and outstanding and the stock options outstanding remained unchanged.

On January 8, 2020, the Company granted 51,000 stock options with an exercise price of \$8.75 to 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, as determined using the Black-Scholes valuation model, was \$7.36 per option. The significant assumptions in the valuation model were: volatility of 124.2%, an expected option life of five years, and an annual risk-free interest rate of 1.62%.

At September 30, 2020, the Company had cash of \$2.0 million, a decrease of \$71,000 from December 31, 2019. For the nine months ended September 30, 2020, the Company's net cash used in operating activities was \$208,000 compared to \$286,000 for the same period in 2019. Subsequent to the end of the reporting period, on October 22, 2020, the Company received \$4.5 million RMB, which is approximately equal to \$870,000 CAD, of its annual dividend distribution from JCC joint venture.

The Company had a working capital position at the end of the quarter of \$2.9 million, an increase of \$1.1 million from December 31, 2019. At September 30, 2020, BQE Water's significant working capital items, aside from cash, include trade and other receivables of \$2.8 million (\$1.2 million at December 31, 2019) and trade payables and accrued liabilities of \$1.5 million (\$1.4 million at December 31, 2019).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN") program. As of September 30, 2020, the WINN loan balance is \$412,500 and the Company has obligations to repay it in 60 equal monthly installments commencing on April 1, 2021 until March 1, 2026. Further, the Company has credit facilities available with the Royal Bank of Canada ("RBC") including a credit card facility of \$15,000 and a revolving demand credit facility of \$500,000 which had not been utilized as of September 30, 2020. The credit facilities with RBC bears interest at a variable rate of RBC's prime rate plus 2.40% and is secured with a General Security Agreement constituting a first ranking security interest in the Company's property.

The Company has commitments of \$411,000 until 2023 under operating leases for office and laboratory premises and for office equipment.

RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2020 and 2019, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries, fees and short-term benefits	166,223	154,714	504,472	476,838
Share-based payments	39,343	6,269	119,005	37,997
	<u>205,566</u>	<u>160,983</u>	<u>623,477</u>	<u>514,835</u>

Included in the trade payables and accrued liabilities as of September 30, 2020 is \$102,002 (\$100,768 at December 31, 2019) 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, 2020, the consulting services received from companies owned by the Company's management amounted to \$33,750 and \$101,250 (\$30,000 and \$90,000 in 2019).

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 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, 2019, with the exception of:

COVID-19 Economic Uncertainty

The Company has assessed the economic impacts of the COVID-19 pandemic on its condensed consolidated interim financial statements. As of September 30, 2020, management has 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 market for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact that COVID-19 may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.