

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2021 and 2020

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 30, 2021 and 2020

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 2021 Interim MD&A update and the disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and 2020 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2020 and 2019 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2020.

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, 2021. 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 24, 2021.

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 overall understanding of the Company's current financial performance with investors and observers. Non-GAAP financial measures have limitations in that they do not reflect all amounts associated with our operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are 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-month and nine-month periods ended September 30, 2021 and 2020 are as follows:

<i>(in \$'000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Reported revenues under GAAP	2,773	2,738	4,941	6,088
Share of reported revenues from joint ventures	2,729	2,549	6,286	4,324
Proportional Revenue for the period	5,502	5,287	11,227	10,412

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	
	2021	2020	2021	2020
	\$	\$	\$	\$
GAAP: Net income	1,545	1,443	1,831	1,370
add/deduct: interest (income) expense	(2)	38	4	33
add: income taxes	439	268	815	316
add: depreciation and amortization	178	170	470	560
EBITDA	2,160	1,919	3,120	2,279
add: share-based payment expenses	19	113	292	280
deduct: other income	-	(11)	(95)	(11)
add/deduct: net foreign exchange (gain) loss	(40)	18	27	(8)
Adjusted EBITDA	2,139	2,039	3,344	2,540

COMMENTARY AND OUTLOOK

Q3 2021 was a strong quarter as we delivered year-over-year improvements in Proportional Revenue, Adjusted EBITDA, and net income for both the quarter itself and the first nine months of the fiscal year. Total revenues under GAAP for the first nine months in 2021 were 19% lower than in 2020. However, this was not due to a lack of project activity but rather due to a change in the nature of our activities. In the prior year, there were several projects in advanced stages of development that triggered significantly larger technical services contracts in the areas of plant engineering and pilot demonstration. This year, many new projects were in earlier stages of development with lower contract values, such as lab testing and consultation. As projects advance through the pipeline, we typically see increase in revenue from the same projects and expect this trend to continue. The fact that our revenue sources are diversified can at times help smooth out project revenue fluctuations. Specifically, in Q3 2021, a 24% decrease in technical services revenues was more than offset by a 41% increase in revenues from operations contracts, largely from the sale of metals recovered from our joint ventures that are benefiting from strong copper prices.

There were several major developments during Q3 2021 that are expected to generate positive results and growth opportunities for BQE Water in the short-term and the long-term. First, we acquired the intellectual property of, and simultaneously partnered with, Randy Agius, a global knowledge leader in cyanide destruction, one of the main environmental issues in the gold industry. This is a strategic asset acquisition that increases the scope of services we can provide in the area of cyanide management and is highly complementary to our expertise with the SART process and water treatment. We expect technical services revenues related to cyanide destruction to grow, leading to incremental recurring revenues from cyanide destruction and recovery projects. This is also an example of the Company investing in growth without materially impacting cash reserves. Second, we signed a major contract for pilot demonstrations of our sulphate and copper recovery technologies at multiple sites in Chile with Codelco, the world's largest copper producer. These pilot demonstrations have the potential to open doors to new long-term business opportunities with Codelco as well as other large mining companies in Latin America who take the lead from Codelco when it comes to water management for their projects.

Our overall outlook for the remainder of 2021 and 2022 is positive. We expect to complete commissioning and begin operating two new water treatment plants in the US in the next six months, adding additional streams of recurring revenues to our financial results. The Company has maintained a strong balance sheet while continuing to grow working capital. However, we continue to caution our shareholders with respect to geopolitical uncertainties which may affect our global business and/or interrupt the global economic recovery from the downturn caused by COVID-19.

FINANCIAL HIGHLIGHTS

- Proportional revenue for Q3 2021 was \$5.5 million, a \$215,000 or 4% increase from \$5.3 million in Q3 2020.
- Net income increased by \$102,000 to \$1.5 million in Q3 2021, compared to \$1.4 million in Q3 2020.
- Adjusted EBITDA for Q3 2021 was \$2.1 million compared to \$2.0 million in Q3 2020, a \$100,000 increase.
- Working capital was \$4.2 million at September 30, 2021, compared to \$3.5 million at December 31, 2020, and \$2.4 million at June 30, 2021, representing increases of 20% and 78% respectively.
- Proportional cash, which includes our share of cash held in joint ventures, at September 30, 2021 was \$7.7 million, compared to \$5.2 million at December 31, 2020, and \$5.0 million at June 30, 2021, representing increases of 47% and 54% respectively.

Selected financial results are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Revenues under GAAP	2,773	2,738	4,941	6,088
Proportional Revenues	5,502	5,287	11,227	10,412
Net Income	1,545	1,443	1,831	1,370
Adjusted EBITDA	2,139	2,039	3,344	2,540

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 Jiangxi Copper Company (“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	
	2021	2020	2021	2020
Water treated (cubic metres)	7,949	8,631	18,075	16,901
Copper recovered (pounds)	1,128	1,476	2,594	2,642

During Q3 2021, all three plants met or exceeded mechanical availability and process performance. The volume of water treated and the mass of copper recovered decreased by 8% and 24% respectively over the same period in 2020. Fluctuations in rainfall changes the water flowing into the treatment plants and alters the copper leaching from waste rock, leading to a higher or lower copper concentrations in the plant feed. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture 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 of China. MWT-BQE generates the majority of its revenues from the sale of zinc recovered from smelter wastewater, along with some copper found in the stream.

Operating results are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Zinc recovered (pounds)	185	167	774	886
Copper recovered (pounds)	38	44	192	144

During Q3 2021, the mass of zinc recovered increased by 11% and the mass of copper recovered decreased by 14% compared to the same period in 2020. The smelter periodically operated their production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed composition and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant.

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. The Company earns water treatment fees at the four plants operated by BQE Water for Glencore at Raglan Mine in Northern Québec. In addition, the Company earns operations support fees in China, which includes a plant operated by the MWT-BQE joint venture but supported and supervised by BQE Water in China, and the newly added Zhongkuang SART plant and the Zhaojin SART plant in Shandong province of China. The two new SART plants completed commissioning and began operations in 2021.

In April 2021, we mobilized our operations team to site to commence our 18th operating season at Raglan Mine. The team initiated operational activities in April 2021 and began discharging water in June 2021. During Q3 2021, the total water treated across all four plants at Raglan Mine increased by 51%.

For our operations in China, the Zhaojin SART plant has been operating since April 2021 while the Zhongkuang SART plant was put into care & maintenance during March to October 2021 due to the metallurgical circuit shutdown at the Zhongkuang leaching plant. The volume of water treated by the plants are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
Glencore water treatment plants	1,628	1,081	1,773	1,175
MWT-BQE water treatment plant	139	126	481	458
Zhongkuang SART plant	-	-	48	-
Zhaojin SART plant	76	-	184	-

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 2021 are summarized below.

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

- Continued to support detailed engineering for a second large scale Selex-IX™ plant to be installed at a mine in the US.
- Continued to provide engineering services for the first commercial scale direct selenium ERC plant at a mine in the US.
- Completed first fills (anodes and resin) and initiated pre-commissioning activities at the first Selen-IX™ plant, outside of the mining industry, at an ash pond in the US.

Cyanide Management and Recovery using SART and Electro-oxidation

- Initiated preliminary technical assessment for SART at a new mine in Mexico.
- Initiated preliminary technical assessment for SART integration at a Carbon in leach (CIL) circuit in Canada.
- Initiated cyanide destruction test program to expand an existing operation in Canada.
- Completed lab scale testing of cyanide recovery from thiocyanate using leach solution from an existing gold plant in Central America.

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

- On-site technical support for water treatment plant operations at the Hope Bay project in Nunavut.
- Preliminary engineering for a new non-biological ammonia removal system in Northern Ontario.
- On-site technical support and optimization of a non-biological ammonia removal plant in Ontario.
- Water treatment design for permitting in BC.
- Water treatment design for a new gold mine in Central America.
- Completed a review of water quality and chronic toxicity data for an existing mine in Québec.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues	2,773	2,738	4,941	6,088
Operating expenses	(1,088)	(1,381)	(2,540)	(3,497)
Operating margin	1,685	1,357	2,401	2,591
Share of income from joint ventures	700	785	2,304	1,038
General and administration expenses	(427)	(342)	(1,287)	(1,209)
Sales and development expenses	(273)	(153)	(1,104)	(622)
Share-based payment expenses	(19)	(113)	(292)	(280)
Depreciation	(37)	(33)	(111)	(105)
Income from operations and joint ventures	1,629	1,501	1,911	1,413
Other income (expenses), net	34	(58)	(45)	(38)
Bad debt recovery	-	-	95	-
Income tax expense	(118)	-	(130)	(5)
Net income for the period	1,545	1,443	1,831	1,370
Net earnings per share (basic)	1.25	1.18	1.49	1.13
Net earnings per share (diluted)	1.23	1.17	1.46	1.12
Proportional Revenues ¹	5,502	5,287	11,227	10,412
Adjusted EBITDA ¹	2,139	2,039	3,344	2,540
			at Sept. 30,	at Dec. 31,
			2021	2020
Working capital			4,241	3,543
Total assets			13,237	10,464
Total non-current liabilities			697	821
Shareholders' equity			10,333	8,088
Proportional cash ¹			7,709	5,241

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

<i>(in \$'000s)</i>	Sept-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	2,773	1,188	980	1,609	2,738	1,414	1,936	1,382
Operating expenses	(1,088)	(944)	(507)	(934)	(1,381)	(921)	(1,195)	(882)
	1,685	244	473	675	1,357	493	741	500
Share of income (loss) from joint ventures	700	1,580	23	101	785	380	(127)	(263)
General and administration	(427)	(459)	(401)	(413)	(342)	(435)	(433)	(480)
Sales and development	(273)	(378)	(453)	(349)	(153)	(239)	(229)	(230)
Share-based payment expenses	(19)	(184)	(88)	(107)	(113)	(118)	(49)	(13)
Depreciation	(37)	(37)	(37)	(42)	(33)	(36)	(36)	23
Income (loss) from operations	1,629	766	(483)	(135)	1,501	45	(133)	(463)
Other income (expenses), net	34	(39)	(40)	30	(58)	(95)	115	21
Bad debt recovery (expenses)	-	95	-	-	-	-	-	(95)
Income tax expense	(118)	(13)	-	(97)	-	(5)	-	(91)
Net income (loss)	1,545	809	(523)	(202)	1,443	(55)	(18)	(628)
Translation gain (loss)	227	28	(69)	(63)	97	(191)	387	70
Comprehensive income (loss)	1,772	837	(592)	(265)	1,540	(246)	369	(558)
Non-GAAP Measures:								
Proportional Revenue	5,502	4,174	1,551	3,085	5,287	2,771	2,356	2,005
Adjusted EBITDA	2,139	1,435	(231)	133	2,039	412	91	(451)

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

SUMMARY OF Q3 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended September 30, 2021 and 2020.

Proportional Revenue

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

<i>(in \$'000s)</i>	Q3 2021		Q3 2020		% Change
	\$	% of total	\$	% of total	
Revenue source					
Sale of recovered metals from operations	2,729	50%	2,549	48%	7%
Water treatment fees from operations	1,498	27%	1,061	20%	41%
Technical services	1,275	23%	1,677	32%	(24%)
Total Proportional Revenue	5,502	100%	5,287	100%	4%

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 2021, the Company's share of revenues from the JCC-BQE joint venture increased by \$190,000 from the comparable period in 2020. The gain can be attributed to a 41% increase in the average copper price offset by a 24% decrease in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture was \$56,000 in Q3 2021 compared to \$68,000 in Q3 2020.

Water treatment revenues consist of tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees in China. During Q3 2021, the total water discharged across the 4 plants at Raglan Mine increased by 51% from the comparable period in 2020, leading to a \$516,000 increase in revenues compared to Q3 2020. During Q3 2021, the Company continued to provide ongoing operations support at the Zhaojin SART plant and MWT-BQE water treatment plant, earning a total of \$145,000 in support fees.

Revenues from technical services decreased by \$402,000 or 24% in Q3 2021 compared to Q3 2020. Technical services revenue was lower due to the timing and nature of the projects we worked on, which were smaller in scope despite being larger in number. These revenues are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. Such revenues represent the sum of multiple contracts from various clients of varying values.

Operating Expenses

Total operating expenses during Q3 2021 were \$1.1 million compared to \$1.4 million in Q3 2020, a decrease of \$293,000 or 21%. The higher operating margin (61% in Q3 2021 vs. 50% in Q3 2020) is attributable to the additional deployment of labour resources required in preparing for the commissioning of the Kemess Selen-IX™ water treatment plant in Q3 2020. The remainder of the variance is due to the decrease in project activity related to technical services completed in the quarter. Also impacting operating expenses is the level of technical expertise and resources required, which vary depending on the specific mine conditions and treatment for each project.

Expenses

In Q3 2021, general and administration expenses were \$427,000 compared to \$342,000 in Q3 2020. The increase of \$85,000 in general and administration expenses was due to increases in insurance premiums and fees for professional services.

Sales and development costs in Q3 2021 were \$273,000 compared to \$153,000 in Q3 2020, an increase of \$120,000. Due to the decrease of technical services activity during the quarter, more labour resources were designated for business and technology development initiatives.

Share-based payment expenses were \$19,000 in Q3 2021 compared to \$113,000 in Q3 2020. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock options expenses which are expensed on a

straight-line basis over the vesting period. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from the changes of the Company's share price during the reporting period.

Depreciation expense was \$37,000 in Q3 2021, consistent with the \$33,000 reported in Q3 2020.

Other Income and Expenses

Net finance costs were \$6,000 in Q3 2021 compared to \$40,000 in Q3 2020. As 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 gain was \$40,000 in Q3 2021 compared to a foreign exchange loss of \$18,000 in Q3 2020. 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, the Company's reporting currency.

Income tax expenses were \$118,000 in Q3 2021, compared to \$nil in Q3 2020. Income tax expenses are mainly attributed to 10% withholding taxes deducted from dividends received during Q3 2021 from the Company's investment from joint venture income earned in China during fiscal year 2020.

Net Income

Overall net income for Q3 2021 was \$1.5 million compared to net income of \$1.4 million in the same period in 2020.

SUMMARY OF YEAR-TO-DATE Q3 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine-month periods ended September 30, 2021 and 2020.

Proportional Revenues

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

<i>(unaudited, in \$'000s)</i>	YTD 2021		YTD 2020		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	6,286	56%	4,324	42%	45%
Water treatment fees from operations	1,904	17%	1,251	12%	52%
Technical services	3,037	27%	4,837	46%	(37%)
Total Proportional Revenues	11,227	100%	10,412	100%	8%

Total year-to-date revenues from the sale of recovered metals increased by \$2.0 million or 45% over the same period in 2020. Sales from recovered metals increased primarily due to higher revenues from the JCC-BQE joint venture, where copper recovery decreased by 2% but average copper prices for the period increased by 47%. Changes in water volumes, and copper recoveries by extension, are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period. The share of revenue from the MWT-BQE joint venture was \$295,000 in the first nine months of 2021, compared to \$168,000 in 2020, an increase of 75% due to higher zinc and copper prices during the period.

Year-to-date water treatment fee revenues increased by \$653,000 or 52%. New to 2021, the Company began two new operation support contracts, the Zhongkuang SART and Zhaojin SART plants, which contributed new revenues of \$287,000 in 2021. Further, unlike the previous year, the Raglan operations began discharging water in early June resulting in an increase of \$539,000 in water treatment fees compared to 2020. The Company continued to earn fixed fees of \$144,000 for technical support at the MWT-BQE treatment plant for the first nine months of 2021.

Year-to-date revenues from technical services decreased by \$1.8 million from the same period in 2020. The 37% decrease over 2020 is attributable to lower project activity in all areas of technical services. It should be noted that revenues from technical services in 2020 were exceptionally strong, exceeding historic averages by more than 80%.

Operating Expenses

Year-to-date operating expenses in 2021 were \$2.5 million compared to \$3.5 million for the same period in 2020, a decrease of \$957,000 or 27%. This decrease is consistent with the 37% decrease revenues from technical services. During 2020, additional labour resources were deployed for the commissioning of the Kemess plant and the SART plants in China.

Expenses

Year-to-date general and administration expenses were \$1.3 million compared to \$1.2 million for the same period in 2020. The increase of \$78,000 or 6% was due to increases in salary expenses, insurance premiums, and fees paid for professional services.

Year-to-date sales and development expenses were \$1.1 million compared to \$622,000 for the same period in 2020, an increase of \$482,000 or 77%. The increase was due to the deployment of additional labour resources designated for business and technology development initiatives.

During 2021, the Company reversed a previously recorded allowance of doubtful accounts of \$95,000. The recovery of bad debt is attributed to the full recovery of an accounts receivable balance outstanding for more than two years.

Net Income

Overall, net income year-to-date for 2021 was \$1.8 million compared to \$1.4 million in the same period in 2020, a gain of \$461,000 or 34%.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2021, BQE Water had 1,238,968 common shares issued and outstanding (1,217,435 at December 31, 2020) and 59,300 stock options outstanding (82,833 at December 31, 2020).

As of the date of this MD&A, November 24, 2021, the Company has 1,239,968 common shares issued and outstanding, and 58,300 stock options outstanding.

At September 30, 2021, the Company had cash of \$4.3 million, an increase of approximately \$1 million from December 31, 2020. For the nine months ended September 30, 2021, the Company's cash used in operating activities was \$32,000 compared to \$208,000 for the same period in 2020.

The Company had a working capital position at the end of the quarter of \$4.2 million, an increase of approximately \$698,000 from December 31, 2020. At September 30, 2021, BQE Water's significant working capital items, aside from cash, include trade and other receivables of \$2.0 million (\$1.7 million at December 31, 2020) and trade payables and accrued liabilities of \$1.3 million (\$1.1 million at December 31, 2020).

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, 2021, the WINN loan balance is \$371,000 and the Company has obligations to repay it in 60 equal monthly installments over a period from April 1, 2021 to March 1, 2026. In addition, 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 \$1 million which had not been utilized as of September 30, 2021.

The Company has commitments of \$227,000 until 2023 under operating leases for office and laboratory premises and for assay services.

The Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months, albeit with the continuing potential for a temporary working capital shortfall based on short-term fluctuations in the Company's non-recurring revenues combined with the timing of the annual dividend payment from China.

RELATED PARTY TRANSACTIONS

For the three and nine months ended September 30, 2021 and 2020, 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	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries, fees and short-term benefits	173,028	166,223	515,586	504,472
Share-based payments	16,994	39,343	78,300	119,005
	<u>190,022</u>	<u>205,566</u>	<u>593,886</u>	<u>623,477</u>

For the three and nine months ended September 30, 2021, the consulting services received from companies owned by the Company's management amounted to \$25,900 and \$103,600 (\$33,750 and \$101,250 in 2021).

Included in trade payables and accrued liabilities as of September 30, 2021 is \$69,856 (\$13,162 at December 31, 2020) of director fees and management consulting service fees with companies owned by the Company's management.

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, 2020.

COVID-19 Economic Uncertainty

The COVID-19 pandemic has continued to disrupt global health and the economy in 2021. Notwithstanding the vaccination programs that are underway, COVID-19 along with variants of the virus that have emerged continue to have a significant negative impact on the global and Canadian economies. For BQE Water, recurring services for the operation of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured have been delayed or suspended due to the pandemic.

The Company has assessed the economic impacts of the COVID-19 pandemic on its financial statements. As at September 30, 2021, 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 markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.