

# BQE Water

---

## **BQE WATER INC.**

### **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three months ended March 31, 2019 and 2018

---

**NOTICE TO READER**

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BQE WATER INC.**Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

		March 31 2019 \$	December 31 2018 \$
	note		
<b>Assets</b>			
Current assets			
Cash		585,276	1,425,312
Trade and other receivables	5	1,236,181	1,304,821
Prepaid and other deposits		116,555	86,931
<b>Total current assets</b>		<b>1,938,012</b>	<b>2,817,064</b>
Non-current assets			
Plant and equipment	7	489,075	98,439
Investment in joint ventures	8	5,208,064	4,962,449
Deposits		34,699	34,699
<b>Total non-current assets</b>		<b>5,731,838</b>	<b>5,095,587</b>
<b>Total assets</b>		<b>7,669,850</b>	<b>7,912,651</b>
<b>Liabilities</b>			
Current liabilities			
Trade payable and accrued liabilities	6, 9	991,272	1,352,280
Deferred revenues		85,267	92,556
Current portion of lease obligations	10	151,375	-
Deferred benefits	11	94,228	86,171
<b>Total current liabilities</b>		<b>1,322,142</b>	<b>1,531,007</b>
Non-current liabilities			
Lease obligations	10	253,019	-
<b>Total liabilities</b>		<b>1,575,161</b>	<b>1,531,007</b>
<b>Shareholders' Equity</b>			
Share capital	11, 12	56,332,413	56,332,413
Contributed surplus	12	10,280,050	10,265,959
Accumulated other comprehensive income		1,527,584	1,500,791
Accumulated deficit		(62,045,358)	(61,717,519)
<b>Total shareholders' equity</b>		<b>6,094,689</b>	<b>6,381,644</b>
<b>Total liabilities and shareholders' equity</b>		<b>7,669,850</b>	<b>7,912,651</b>
Going concern (note 2(b))			
Commitments (note 15)			

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss  
 For the three months ended March 31, 2019 and 2018  
 (Unaudited)

		<b>3 months ended March 31</b>	
		<b>2019</b>	<b>2018</b>
		<b>\$</b>	<b>\$</b>
	note		
Revenues	16	<b>716,360</b>	527,493
Operating expenses (excluding depreciation)		<b>444,000</b>	459,780
Operating margin before depreciation		<b>272,360</b>	67,713
General and administration		<b>383,468</b>	369,053
Sales and development		<b>319,190</b>	324,073
Stock-based compensation	11	<b>22,148</b>	54,520
Depreciation of plant and equipment	7	<b>49,829</b>	3,537
Share of results of equity accounted joint ventures	8	<b>(202,136)</b>	(96,650)
Loss from operations and joint ventures		<b>(300,139)</b>	(586,820)
Finance costs, net		<b>(9,285)</b>	(30,540)
Foreign exchange (loss) gain		<b>(18,415)</b>	17,992
Loss before income taxes		<b>(327,839)</b>	(599,368)
Income tax expense		-	-
<b>Net loss for the period</b>		<b>(327,839)</b>	(599,368)
<b>Other comprehensive income</b>			
<i>Items that will be reclassified subsequently to loss</i>			
Translation gain on foreign operations		<b>26,793</b>	319,719
<b>Comprehensive loss for the period</b>		<b>(301,046)</b>	(279,649)
<b>Net loss per share</b>			
Basic and diluted		<b>(0.27)</b>	(0.64)
<b>Weighted average number of shares outstanding</b>			
Basic and diluted		<b>1,208,435</b>	939,667

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Changes in Equity  
 For the three months ended March 31, 2019 and 2018  
 (Unaudited)

		Number of Shares	3 months ended March 31, 2019 \$	Number of Shares	3 months ended March 31, 2018 \$
	note				
<b>Share Capital</b>					
Balance, beginning of the period	12	1,208,435	56,332,413	939,667	54,719,814
			-		-
<b>Balance, end of the period</b>			<b>56,332,413</b>	939,667	54,719,814
<b>Contributed surplus</b>					
Balance, beginning of the period			10,265,959		10,058,149
Equity settled share-based payments	11		14,091		31,006
<b>Balance, end of the period</b>			<b>10,280,050</b>		10,089,155
<b>Equity component of convertible loan</b>					
Balance, beginning of the period			-		86,575
			-		-
<b>Balance, end of the period</b>			<b>-</b>		86,575
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,500,791		1,398,709
Other comprehensive income for the period			26,793		319,719
<b>Balance, end of the period</b>			<b>1,527,584</b>		1,718,428
<b>Accumulated deficit</b>					
Balance, beginning of the period			(61,717,519)		(61,867,916)
Net loss for the period			(327,839)		(599,368)
<b>Balance, end of the period</b>			<b>(62,045,358)</b>		(62,467,284)
<b>Total shareholders' equity</b>					
Balance, beginning of the period			6,381,644		4,395,331
Equity settled share-based payments	11		14,091		31,006
Net loss for the period			(327,839)		(599,368)
Other comprehensive income for the period			26,793		319,719
<b>Balance, end of the period</b>			<b>6,094,689</b>		4,146,688

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Cash Flows  
 For the three months ended March 31, 2019 and 2018  
 (Unaudited)

		<b>3 months ended March 31</b>	
		<b>2019</b>	<b>2018</b>
		<b>\$</b>	<b>\$</b>
	note		
<b>Operating activities</b>			
Net loss for the period		<b>(327,839)</b>	(599,368)
Adjustments for items not affecting cash:			
Share of results of equity accounted joint ventures	8	<b>(202,136)</b>	(96,650)
Interest expense		<b>9,285</b>	30,540
Depreciation of plant and equipment	7	<b>49,829</b>	3,537
Net foreign exchange loss (gain)		<b>7,436</b>	(36,991)
Stock-based compensation	11	<b>22,148</b>	54,520
		<b>(441,277)</b>	(644,412)
Change in non-cash working capital items	14	<b>(328,313)</b>	91,111
Cash used in operations		<b>(769,590)</b>	(553,301)
Income taxes paid		-	-
Net cash used in operating activities		<b>(769,590)</b>	(553,301)
<b>Investing activities</b>			
Purchase of equipment	7	<b>(1,353)</b>	(13,064)
Contributions made to joint venture	8	<b>(19,698)</b>	(27,375)
Interest received		<b>3,073</b>	755
Net cash used in investing activities		<b>(17,978)</b>	(39,684)
<b>Financing activities</b>			
Lease payments	10	<b>(34,717)</b>	-
Interest paid		<b>(12,358)</b>	(60,566)
Net cash used in financing activities		<b>(47,075)</b>	(60,566)
Effect of exchange rate changes on cash		<b>(5,393)</b>	18,076
Change in cash		<b>(840,036)</b>	(635,475)
Cash, beginning of the period		<b>1,425,312</b>	984,298
<b>Cash, end of the period</b>		<b>585,276</b>	348,823

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

## **BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

---

### **1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

BQE Water Inc. ("BQE Water" or the "Company") is the ultimate parent company of its consolidated group. BQE Water is an integrated water services provider with unique expertise and intellectual property related to the management and treatment of water at mines and metallurgical facilities with a focus on reducing Life Cycle Costs and eliminating long-term liabilities.

The Company is a publicly listed company incorporated and domiciled in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange trading under the symbol BQE. The address of its registered office is Suite 250 – 900 Howe Street, Vancouver, British Columbia, V6Z 2M4, Canada.

### **2. BASIS OF PREPARATION AND GOING CONCERN**

#### **a. Statement of compliance**

These unaudited condensed consolidated 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.

The Board of Directors of the Company have approved these unaudited condensed consolidated interim financial statements on May 22, 2019.

#### **b. Going concern assumption**

The condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

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 a net working capital of \$615,870 (\$1,286,057 at December 31, 2018) and a cumulative deficit of \$62,045,358 (\$61,717,519 at December 31, 2018).

The Company expects to have sufficient working capital resources to meet ongoing operating requirements over the next 12 months. 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 may need to secure new sources of working capital to continue operations.

Historically, the Company has not consistently generated positive cash flow from operations and has relied on non-operational sources of financing to fund its 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 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.

#### **c. Basis of measurement**

These condensed consolidated interim financial statements have been prepared under the historical cost basis except for deferred share units and restricted share units, which are measured at fair value through profit or loss.

#### **d. Basis of consolidation**

These condensed consolidated interim financial statements incorporate the financial statements of the Company, and the entities controlled by the Company, and the share of net assets and net earnings or losses in entities which the Company is a

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

joint venture partner. The principal subsidiaries of the Company, which are accounted for under the consolidation method, are as follows:

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Mar. 31, 2019</b>	<b>Ownership interest as at Dec. 31, 2018</b>
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	China	100%	100%

The joint ventures of the Company, which are accounted for under the equity method, are as follows:

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Mar. 31, 2019</b>	<b>Ownership interest as at Dec. 31, 2018</b>
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these condensed consolidated interim financial statements and are prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, with the exception of the adoption of IFRS 16 as described below. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

#### IFRS 16 – Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and the effective date for reporting periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, as permitted under the specific transitional provisions in the standard. Additionally, the Company has adopted the exemption by election of not recognizing right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net income on a straight-line basis over the term of the lease.

On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as an operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's applicable incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 is 12%. The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. Given that the Company's recognition of right-of-use assets were measured at the amount equal to the lease liability at the date of initial application, no adjustment to equity has been recognized upon IFRS 16 adoption on January 1, 2019.



## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2018, other than those additional areas which have arisen as a result of the implementation effective January 1, 2019 of IFRS 16 as discussed earlier.

### 5. TRADE AND OTHER RECEIVABLES

	Mar. 31, 2019	Dec. 31, 2018
	\$	\$
Trade receivables	692,940	786,445
Contract assets	351,397	199,719
Other	191,844	318,657
	<u>1,236,181</u>	<u>1,304,821</u>

### 6. RELATED PARTY TRANSACTIONS AND BALANCES

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
	<u>161,817</u>	<u>139,499</u>

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).

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019

(Unaudited)

**7. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup>	Pilot plants	Other <sup>2</sup>	Total
	\$	\$	\$	\$
<hr/>				
As at Dec. 31, 2018				
Opening net book value	-	-	42,463	42,463
Additions	-	-	74,692	74,692
Depreciation	-	-	(18,716)	(18,716)
<hr/>				
<b>Closing net book value</b>	<b>-</b>	<b>-</b>	<b>98,439</b>	<b>98,439</b>
<hr/>				
As at Dec. 31, 2018				
Cost	-	580,593	642,757	1,223,350
Accumulated depreciation	-	(580,593)	(544,318)	(1,124,911)
<hr/>				
<b>Closing net book value</b>	<b>-</b>	<b>-</b>	<b>98,439</b>	<b>98,439</b>
<hr/>				
As at Mar. 31, 2019				
Opening net book value	-	-	98,439	98,439
Additions	439,111	-	1,354	440,465
Depreciation	(41,007)	-	(8,822)	(49,829)
<hr/>				
<b>Closing net book value</b>	<b>398,104</b>	<b>-</b>	<b>90,971</b>	<b>489,075</b>
<hr/>				
As at Mar. 31, 2019				
Cost	439,111	580,593	644,112	1,663,816
Accumulated depreciation	(41,007)	(580,593)	(553,141)	(1,174,741)
<hr/>				
<b>Closing net book value</b>	<b>398,104</b>	<b>-</b>	<b>90,971</b>	<b>489,075</b>
<hr/>				

<sup>1</sup>Right-of-use assets comprises of lease assets such as office building and office equipment.<sup>2</sup>Other comprises of leasehold improvements, furniture, lab equipment and computer equipment.

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

### 8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on March 31, 2019 is \$5,208,064 (\$4,962,449 on December 31, 2018), and they are comprised of:

	JCC-BQE \$	MWT-BQE \$
Balance, January 1, 2018	5,020,343	74,913
Share of net income (loss)	968,749	(70,616)
Share of translation gain on foreign operation	72,173	10,354
Contributions made	131,953	-
Distributions received	(1,245,420)	-
Balance, December 31, 2018	4,947,798	14,651
Share of net income (loss)	208,863	(6,727)
Share of translation gain on foreign operation	22,395	1,386
Contributions made	19,698	-
Balance, March 31, 2019	5,198,754	9,310

#### a. JCC-BioteQ Environmental Technologies Co. Ltd.

During 2006, BQE Water signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing Mine in Jiangxi Province, China. The joint venture, which forms a 50/50 share joint venture company between BQE Water and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd ("JCC-BQE"). The joint venture builds and operates water treatment plants using BQE Water's technologies. The agreement includes a license contract whereby BQE Water will provide its patented technology on a royalty-free basis to the joint venture company for use at Dexing Mine and up to five potential additional sites owned and operated by JCC.

The joint venture sells all metal concentrate recovered in its operations to the joint venture partner, JCC. All related party sales are recorded on the date of sale at the fair market price of the metal with adjustments in accordance with the agreed upon terms. Currently, the joint venture operates three water treatment plants.

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year.

The joint venture derives its revenue from recovered copper sales, which is subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to the world commodity price risk.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

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

**Statement of financial position**

	Mar. 31, 2019	Dec. 31, 2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash and short-term investments	1,915,240	1,806,938
Trade and other receivables	610,998	252,350
Income taxes recoverable	119,582	134,412
Inventory	33,459	37,654
Prepaid expenses	1,976	13,549
	<u>2,681,255</u>	<u>2,244,903</u>
Non-current assets		
Plant and equipment	4,036,281	4,100,733
Deferred tax assets	67,386	67,115
	<u>4,103,667</u>	<u>4,167,848</u>
Total assets	<u>6,784,922</u>	<u>6,412,751</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,586,168	1,464,953
Total liabilities	<u>1,586,168</u>	<u>1,464,953</u>
<b>Partner's Equity</b>		
Joint venture partner equity	3,884,054	3,864,356
Accumulated other comprehensive income	1,538,534	1,516,139
Accumulated deficit	(223,834)	(432,697)
Total partner's equity	<u>5,198,754</u>	<u>4,947,798</u>
Total liabilities and partner's equity	<u>6,784,922</u>	<u>6,412,751</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2019  
 (Unaudited)

**Statements of operations and comprehensive income**

	3 months ended Mar. 31	
	2019	2018
	\$	\$
Revenue	1,233,439	754,758
Operating costs (excluding depreciation)	832,215	480,934
	401,224	273,824
General and administration	65,588	56,387
Depreciation of plant and equipment	119,563	132,750
Income from operations	216,073	84,687
Finance income	8,000	1,050
Other expenses	-	(1,250)
Income before income taxes	224,073	84,487
Current income tax (expense) recovery	(15,210)	20,662
Net income for the period	208,863	105,149
Other comprehensive income		
Translation gain on foreign operation	22,395	321,670
Comprehensive income for the period	231,258	426,819

**b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.**

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company (“MWT”) for the construction and operation of a water treatment plant located in Shandong Province of China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). The joint venture will build a water treatment plant located on a vacant lot owned by Shandong Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). The joint venture will operate the plant using BQE Water’s patented technology to recover and sell copper and zinc metals from Zhaoye’s industrial wastewater stream to generate profits. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of \$96,400 (RMB \$500,000) as registered capital, which is 4.35% of the total registered capital of the joint venture. Starting September 2018, the joint venture began recovering metals through the operation.

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

	Mar. 31, 2019	Dec. 31, 2018
	\$	\$
Current assets	68,810	54,641
Plant and equipment	77,280	81,926
Current liabilities	68,583	57,899
Partner’s equity	9,310	14,651

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2019  
 (Unaudited)

The statement of loss of BQE Water's 20% interest in the MWT-BQE joint venture is presented as follows:

	3 months ended Mar. 31	
	2019	2018
	\$	\$
Revenue	107,618	-
Operating costs (excluding depreciation)	54,285	-
	53,333	
General and administration	39,161	8,488
Depreciation of plant and equipment	20,851	32
Loss from operations	(6,679)	(8,520)
Net finance (income) cost	(48)	21
Net loss for the period	(6,727)	(8,499)
Other comprehensive income	1,386	26,443
Comprehensive (loss) income for the period	(5,341)	17,944

**9. TRADE PAYABLE AND ACCRUED LIABILITIES**

	Mar. 31, 2019	Dec. 31, 2018
	\$	\$
Trade payable and accruals	536,196	887,630
Payroll liability	455,076	464,650
	991,272	1,352,280

**10. LEASES**

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company adopted the exemption for leases with a lease term of 12 months or less and for leases that are low value. As the Company's recognition of lease liabilities is an equal amount to the initial recognition of the right-of-use assets, no adjustment to equity was recognized upon IFRS 16 adoption on January 1, 2019.

The Company's lease assets such as buildings and office equipment. These assets are included in the plant and equipment assets on the statement of financial position and are classified as right-of-use assets as per note 7.

For the three months ended March 31, 2019, the Company expensed \$9,298 related to leases that are classified as short term and as low value assets.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2019  
 (Unaudited)

The Company's carrying value of lease obligations are as follows:

	\$
Balance, December 31, 2018	-
Addition due to adoption of IFRS 16	439,111
Interest expense	12,358
Interest paid	(12,358)
Repayments of leases	(34,717)
Balance, March 31, 2019	404,394
Less: current portion of lease obligations	(151,375)
Non-current portion of lease obligations	253,019

**11. SHARE-BASED PAYMENTS**

The Company's recorded stock-based compensation for the three months ended are comprised as follows:

	Mar. 31, 2019	Mar. 31, 2018
	\$	\$
Stock options (a)	14,091	31,006
Deferred share units (b)	8,057	22,821
Restricted share units (c)	-	693
	22,148	54,520

**a. Stock options**

Under the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for exercise of all options granted by the Company may not exceed 10% of the Company's shares issued and outstanding at the time the options are granted. The exercise price of each option granted under the Plan is determined at the discretion of the Board at no less than the five-day volume weighted average share price preceding the grant date. Options granted under the Plan expire no later than the fifth anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board although the Company has a practice of having options vest over 36 months in equal installments.

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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2019  
 (Unaudited)

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$		\$	
Outstanding at January 1	6	62,000	7	71,333
Forfeited	-	-	7	(4,000)
Expired	-	-	15	(5,333)
Outstanding at March 31	6	62,000	6	62,000
Exercisable at March 31	7	34,000	7	20,000

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three months ended March 31, 2019, the Company recognized \$14,091 (\$31,006 in 2018) of non-cash compensation expense related to stock options.

Exercise price	Expiry Date	March 31, 2019 number of outstanding share options
\$		
6.00	December 7, 2022	42,000
7.00	April 10, 2019	20,000

**b. Deferred share unit**

The Company implemented a deferred share units (“DSU”) plan, effective July 1, 2010, pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. Effective from October 1, 2013, the DSU Plan was amended to include certain senior managers of the Company. The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant’s compensation amount paid in DSU in lieu of cash, and by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan with payment made no later than the end of day on December 31 of the following calendar year.

As the Company is required to settle this award in cash, it records these awards as a liability and a corresponding charge including changes to the fair value to stock-based compensation expense. The DSU is a financial instrument that is fair valued at each reporting date based on the five-day volume weighted average price of the Company’s common shares.

The following table presents the changes to the DSU plan:

	Number of units	Value
		\$
Balance, January 1, 2018	25,043	156,529
Redeemed	(9,658)	(61,288)
Fair value adjustment	-	(9,070)
Balance, December 31, 2018	15,385	86,171
Redeemed	(610)	(3,660)
Fair value adjustment	-	11,717
Balance, March 31, 2019	14,775	94,228



## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

---

### c. Restricted share units

The Company implemented a restricted share units (“RSU”) plan, effective August 5, 2010, pursuant to which RSUs may be granted to the officers of the Company. Under this plan, notional RSUs are granted and vested annually over a three-year term in general or otherwise determined by the Board. Upon vesting, the Company will settle the RSU in cash, having payment equal to the five-day volume weighted average trading price of the number of RSUs held preceding the date of redemption. RSU granted are accounted for and fair valued using the same methodology as DSUs.

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2018	529	3,306
Redeemed	(529)	(1,746)
Fair value adjustment	-	(1,560)
Balance, December 31, 2018	-	-
Fair value adjustment	-	-
Balance, March 31, 2019	-	-

## 12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at March 31, 2019, the Company had 1,208,435 common shares outstanding (unchanged from December 31, 2018).

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 these consolidated financial statements is 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.

## 13. INCOME TAXES

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three month period ended March 31, 2019 was 27% (27% at December 31, 2018).

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2019  
(Unaudited)

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	3 months ended Mar. 31	
	2019	2018
	\$	\$
<b>Change in non-cash working capital items</b>		
Decrease in trade receivables	69,200	106,316
Increase in other assets	(29,509)	(21,836)
(Decrease) increase in accounts payable and accrued liabilities	(360,555)	6,631
Decrease in deferred revenue	(7,449)	-
Change in non-cash working capital items	<u>(328,313)</u>	<u>91,111</u>

### 15. COMMITMENTS

The Company has commitments of \$769,317 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2019	233,335
2020	294,825
2021	165,882
2022	60,560
2023	14,715
	<u>769,317</u>

### 16. REVENUES

The Company monetizes the value of its intellectual property and expertise primarily through the services of long-term operations and maintenance of water treatment plants to generate recurring revenue that is directly linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, the Company also generates revenues from technical services relating to water management that are project specific and generally non-recurring in nature.

#### a) Disaggregation of Revenue

The Company functions as operators of water treatment plants and as providers of technical services relating to mine water management. The Company disaggregates revenues from contracts with customer into operations contracts and technical services contracts.

Operations contracts are when the Company is appointed to operate water treatment plants and to provide operations support for a customer. Operations contracts generate recurring revenues for the Company, which is either based on an agreed upon tolling fee for water treated and discharged into the environment or based on a fixed technical support fee.

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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three months ended March 31, 2019  
 (Unaudited)

The disaggregated revenue of the Company are as follows:

	3 months ended Mar. 31	
	2019	2018
	\$	\$
Operations contracts	46,381	-
Technical services contracts	669,979	527,493
	<u>716,360</u>	<u>527,493</u>

**b) Remaining Performance Obligations**

As at March 31, 2019, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,430,308, compared to \$1,129,533 as at December 31, 2018. The remaining performance obligations of the Company are expected to be fully completed in the next 12 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

**17. SEGMENTED INFORMATION**

The Company has one operating segment, being principally to build and operate water treatment plants. The Company functions as operators of water treatment plants and as providers of technical services relating to water management.

**a) Geographic information**

The Company mainly generates revenue from Canada (country of domicile) and occasionally from other foreign countries. The Company's revenue by geographic locations, presented based on the location in which the sale originated from, are as follows:

Revenue	3 months ended Mar. 31	
	2019	2018
	\$	\$
Canada	188,358	355,843
Latin America	362,528	134,762
China	122,886	-
Other	42,588	36,889
	<u>716,360</u>	<u>527,493</u>

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

	Mar. 31, 2019	Dec. 31, 2018
	\$	\$
Canada	489,075	98,439
China	5,208,064	4,962,449
	<u>5,697,139</u>	<u>5,060,888</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019

(Unaudited)

**b) Information about major customers**

The following table presents revenue from individual customers exceeding 10% of total revenue for the three months ended March 31, 2019 and 2018.

	2019	2018
	\$	\$
Customer A	14,256	-
Customer B	93,968	37,278
Customer C	276,595	-
Total	384,819	37,278
Represents percentage of total revenue for the period	54%	7%

# 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](http://www.bqewater.com) and on SEDAR at [www.sedar.com](http://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 16<sup>th</sup> 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
	<b>272</b>	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	<b>(300)</b>	(588)
Other expenses – net	<b>(27)</b>	(13)
Net loss for the period	<b>(327)</b>	(601)
Translation gain on foreign operations	<b>27</b>	320
Comprehensive loss for the period	<b>(300)</b>	(281)
Net loss per share (basic and diluted)	<b>(0.27)</b>	(0.64)
Proportional Revenues <sup>1</sup>	<b>2,057</b>	1,282
Adjusted EBITDA <sup>1</sup>	<b>(80)</b>	(418)
	<b>at Mar. 31,</b>	at Dec. 31,
	<b>2019</b>	2018
Working capital	<b>616</b>	1,286
Total assets	<b>7,670</b>	7,913
Total non-current liabilities	<b>253</b>	-
Shareholders' equity	<b>6,095</b>	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
<b>Non-GAAP Measures:</b>								
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		
Revenue source	\$	% of total	\$	% of total	% Change
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	<u>161,817</u>	<u>139,499</u>

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.