

# BQE Water

---

## **BQE WATER INC.**

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

(in Canadian dollars unless stated otherwise)

(Unaudited)

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

---

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying condensed consolidated interim financial statements of the Company have been prepared by the Company's management and reviewed by the Audit Committee and Board of Directors of the Company. 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 – expressed in Canadian dollars)

		September 30 2019	December 31 2018
	Note	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash		1,091,981	1,425,312
Trade and other receivables	5	1,776,393	1,304,821
Prepaid and other deposits		116,322	86,931
Total current assets		2,984,696	2,817,064
<b>Non-current assets</b>			
Plant and equipment	7	420,815	98,439
Investment in joint ventures	8	5,717,912	4,962,449
Deposits		29,576	34,699
Total non-current assets		6,168,303	5,095,587
<b>Total assets</b>		<b>9,152,999</b>	<b>7,912,651</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payable and accrued liabilities	6, 9	1,447,355	1,352,280
Deferred revenues		74,727	92,556
Current portion of lease obligations	11	179,138	-
Deferred benefits	12	183,867	86,171
Total current liabilities		1,885,087	1,531,007
<b>Non-current liabilities</b>			
Loans	10	146,680	-
Lease obligations	11	178,782	-
Total non-current liabilities		325,462	-
Total liabilities		2,210,549	1,531,007
<b>Shareholders' Equity</b>			
Share capital	13	56,336,409	56,332,413
Contributed surplus	12	10,308,529	10,265,959
Accumulated other comprehensive income		1,146,581	1,500,791
Accumulated deficit		(60,849,069)	(61,717,519)
Total shareholders' equity		6,942,450	6,381,644
<b>Total liabilities and shareholders' equity</b>		<b>9,152,999</b>	<b>7,912,651</b>
Going concern (note 2(b))			
Commitments (note 16)			

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Income and Other Comprehensive Income  
For the three and nine months ended September 30, 2019 and 2018  
(Unaudited – expressed in Canadian dollars)

	Note	3 months ended September 30		9 months ended September 30	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenues	17	<b>2,326,324</b>	1,893,177	<b>4,258,324</b>	2,960,418
Operating expenses (excluding depreciation)		<b>856,921</b>	573,098	<b>1,907,486</b>	1,471,836
Operating margin before depreciation		<b>1,469,403</b>	1,320,079	<b>2,350,838</b>	1,488,582
General and administration		<b>405,475</b>	368,638	<b>1,150,594</b>	1,081,983
Sales and development		<b>240,502</b>	211,319	<b>833,322</b>	863,685
Share-based payment expenses	12	<b>54,594</b>	36,923	<b>140,266</b>	101,031
Depreciation of plant and equipment	7	<b>54,281</b>	4,122	<b>154,040</b>	11,886
Share of results of equity accounted joint ventures	8	<b>(402,392)</b>	(301,785)	<b>(1,111,285)</b>	(1,095,641)
Income from operations and joint ventures		<b>1,116,943</b>	1,000,862	<b>1,183,901</b>	525,638
Finance costs, net		<b>(7,920)</b>	(38,404)	<b>(27,303)</b>	(102,310)
Foreign exchange losses		<b>(20,626)</b>	(18,653)	<b>(46,105)</b>	(18,378)
Bad debt expenses		<b>(287,420)</b>	-	<b>(288,405)</b>	-
Non-operating income		<b>66,430</b>	-	<b>66,430</b>	-
Income before income taxes		<b>867,407</b>	943,805	<b>888,518</b>	404,950
Income tax expense		<b>(16,797)</b>	-	<b>(20,068)</b>	-
<b>Net income for the period</b>		<b>850,610</b>	943,805	<b>868,450</b>	404,950
<b>Other comprehensive income</b>					
<i>Items that will be reclassified subsequently to income</i>					
Translation loss on foreign operations		<b>(140,231)</b>	(318,427)	<b>(354,210)</b>	(155,340)
<b>Comprehensive income for the period</b>		<b>710,379</b>	625,378	<b>514,240</b>	249,610
<b>Net income per share</b>					
Basic and diluted		<b>0.70</b>	1.00	<b>0.72</b>	0.43
<b>Weighted average number of shares outstanding</b>					
Basic and diluted		<b>1,208,616</b>	939,667	<b>1,208,496</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 nine months ended September 30, 2019 and 2018  
 (Unaudited – expressed in Canadian dollars)

	Note	Number of Shares	9 months ended Sept. 30, 2019 \$	Number of Shares	9 months ended Sept. 30, 2018 \$
<b>Share Capital</b>					
Balance, beginning of the period	13	1,208,435	56,332,413	939,667	54,719,814
Exercise of options	12	666	3,996	-	-
<b>Balance, end of the period</b>		<b>1,209,101</b>	<b>56,336,409</b>	<b>939,667</b>	<b>54,719,814</b>
<b>Contributed surplus</b>					
Balance, beginning of the period			10,265,959		10,058,149
Equity settled share-based payments	12		42,570		94,051
<b>Balance, end of the period</b>			<b>10,308,529</b>		<b>10,152,200</b>
<b>Equity component of convertible loan</b>					
Balance, beginning of the period			-		86,575
<b>Balance, end of the period</b>			<b>-</b>		<b>86,575</b>
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,500,791		1,398,709
Other comprehensive loss for the period			(354,210)		(155,340)
<b>Balance, end of the period</b>			<b>1,146,581</b>		<b>1,243,369</b>
<b>Accumulated deficit</b>					
Balance, beginning of the period			(61,717,519)		(61,867,916)
Net income for the period			868,450		404,950
<b>Balance, end of the period</b>			<b>(60,849,069)</b>		<b>(61,462,966)</b>
<b>Total shareholders' equity</b>					
Balance, beginning of the period			6,381,644		4,395,331
Exercise of options	12		3,996		-
Equity settled share-based payments	12		42,570		94,051
Net income for the period			868,450		404,950
Other comprehensive loss for the period			(354,210)		(155,340)
<b>Balance, end of the period</b>			<b>6,942,450</b>		<b>4,738,992</b>

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 nine months ended September 30, 2019 and 2018  
 (Unaudited – expressed in Canadian dollars)

	Note	9 months ended September 30	
		2019	2018
		\$	\$
<b>Operating activities</b>			
Net income for the period		868,450	404,950
Adjustments for items not affecting cash:			
Income tax expense		20,068	-
Bad debt expenses		288,405	-
Share of results of equity accounted joint ventures	8	(1,111,285)	(1,095,641)
Interest expense, net		27,303	102,310
Depreciation of plant and equipment	7	154,040	11,886
Net foreign exchange loss (gain)		39,654	2,239
Shared-based payment expenses	12	140,266	101,031
		426,901	(473,225)
Change in non-cash operating working capital items	15	(700,237)	(602,449)
Cash used in operations		(273,336)	(1,075,674)
Income tax paid		(13,081)	-
Net cash used in operating activities		(286,417)	(1,075,674)
<b>Investing activities</b>			
Purchase of equipment	7	(2,792)	(19,996)
Contributions made to joint ventures	8	(40,457)	(70,500)
Interest received		7,455	4,514
Net cash used in investing activities		(35,794)	(85,982)
<b>Financing activities</b>			
Lease payments	11	(115,766)	-
Proceeds from exercise of stock options	12	3,996	-
Proceeds from loans	10	146,680	325,930
Interest paid		(34,759)	(73,417)
Net cash generated from financing activities		151	252,513
Effect of exchange rate changes on cash		(11,271)	13,454
Change in cash		(333,331)	(895,689)
Cash, beginning of the period		1,425,312	984,298
<b>Cash, end of the period</b>		<b>1,091,981</b>	<b>88,609</b>

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 and nine months ended September 30, 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 September 30, 2019.

The Board of Directors of the Company has approved these unaudited condensed consolidated interim financial statements on November 19, 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 nine months ended September 30, 2019, the Company reported net income of \$868,450 (\$404,950 in 2018) and used net cash in operating activities of \$286,417 (\$1,075,674 in 2018). At September 30, 2019, the Company had a net working capital of \$1,099,609 (\$1,286,057 at December 31, 2018) and a cumulative deficit of \$60,849,069 (\$61,717,519 at December 31, 2018).

The Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months. Nevertheless, there are risks related to the Company's ability to continue as a going concern. Such risks include the suspension or major delays in existing projects, working capital fluctuations caused by the seasonality of the Company's plant operations, uncertainty of timing of non-recurring revenue from new projects, delays in the repatriation of funds from the Company's joint venture investments in China, and the possibility of devaluation of the annual dividend due to unfavourable fluctuations in exchange rates between the Chinese renminbi and the Canadian dollar. Although Management of the Company has partial influence on the Company's ability to maintain profitable operations, the majority of the remaining risks are outside of Management's control.

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

#### **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 and nine months ended September 30, 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 Sept. 30, 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%
BioteQ (Hangzhou) Water Treatment Technologies Co. Ltd.	China	100%	0%

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 Sept. 30, 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 and nine months ended September 30, 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

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Trade receivables	1,476,789	786,445
Contract assets	299,515	199,719
Other	89	318,657
	<u>1,776,393</u>	<u>1,304,821</u>

### 6. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

**7. PLANT AND EQUIPMENT**

	Right-of-use assets <sup>1</sup>	Pilot plants	Other <sup>2</sup>	Total
	\$	\$	\$	\$
<b>As at Dec. 31, 2018</b>				
Opening net book value	-	-	42,463	42,463
Additions	-	-	74,692	74,692
Depreciation	-	-	(18,716)	(18,716)
<b>Closing net book value</b>	<b>-</b>	<b>-</b>	<b>98,439</b>	<b>98,439</b>
<b>As at Dec. 31, 2018</b>				
Cost	-	580,593	642,757	1,223,350
Accumulated depreciation	-	(580,593)	(544,318)	(1,124,911)
<b>Closing net book value</b>	<b>-</b>	<b>-</b>	<b>98,439</b>	<b>98,439</b>
<b>As at Sept. 30, 2019</b>				
Opening net book value	-	-	98,439	98,439
Additions	473,557	-	2,792	476,349
Depreciation	(127,394)	-	(26,646)	(154,040)
Foreign exchange translation	67	-	-	67
<b>Closing net book value</b>	<b>346,230</b>	<b>-</b>	<b>74,585</b>	<b>420,815</b>
<b>As at Sept. 30, 2019</b>				
Cost	473,557	580,593	643,233	1,697,383
Accumulated depreciation	(127,394)	(580,593)	(568,648)	(1,276,635)
Foreign exchange translation	67	-	-	67
<b>Closing net book value</b>	<b>346,230</b>	<b>-</b>	<b>74,585</b>	<b>420,815</b>

<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 and nine months ended September 30, 2019  
(Unaudited)

### 8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2019 is \$5,717,912 (\$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)	1,181,975	(70,690)
Share of translation loss on foreign operation	(374,848)	(21,431)
Contributions made	40,457	-
Balance, September 30, 2019	5,795,382	(77,470)

#### 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 and nine months ended September 30, 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**

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash and short-term investments	2,990,389	1,806,938
Trade and other receivables	330,885	252,350
Income taxes recoverable	-	134,412
Inventory	34,371	37,654
Prepaid expenses	1,711	13,549
	<u>3,357,356</u>	<u>2,244,903</u>
Non-current assets		
Plant and equipment	3,542,041	4,100,733
Deferred tax assets	62,715	67,115
	<u>3,604,756</u>	<u>4,167,848</u>
Total assets	<u>6,962,112</u>	<u>6,412,751</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,073,480	1,464,953
Income taxes payable	93,250	-
Total liabilities	<u>1,166,730</u>	<u>1,464,953</u>
<b>Partner's Equity</b>		
Joint venture partner equity	3,904,812	3,864,356
Accumulated other comprehensive income	1,141,292	1,516,139
Accumulated earnings (deficits)	749,278	(432,697)
Total partner's equity	<u>5,795,382</u>	<u>4,947,798</u>
Total liabilities and partner's equity	<u>6,962,112</u>	<u>6,412,751</u>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

**Statements of operations and comprehensive income**

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	1,637,816	1,594,856	4,743,180	4,641,345
Operating costs (excluding depreciation)	853,509	1,039,926	2,698,295	2,651,975
Operating margin before depreciation	784,307	554,930	2,044,885	1,989,370
General and administration	91,105	14,408	230,305	223,325
Depreciation of plant and equipment	122,050	115,109	360,856	369,737
Income from operations	571,152	425,413	1,453,724	1,396,308
Finance income	4,120	8,479	12,459	10,052
Other income	56	1,296	56	46
Income before income taxes	575,328	435,188	1,466,239	1,406,406
Current income tax expense	(131,579)	(123,169)	(284,264)	(282,019)
Net income for the period	443,749	312,019	1,181,975	1,124,387
Other comprehensive income (loss)				
Translation loss on foreign operation	(162,918)	(324,371)	(374,848)	(178,155)
Comprehensive income (loss) for the period	280,831	(12,352)	807,127	946,232

**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”). Under the agreement, the joint venture built a water treatment plant located on a vacant lot owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”).

The water treatment plant was commissioned and has been operating since September 2018. The joint venture operates the water treatment plant using BQE Water’s patented technology to recover copper and zinc metals from Zhaoye’s industrial wastewater stream. To generate profits, the joint venture sells the recovered copper back to Zhaoye and sells the recovered zinc to other local metal smelters. 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.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

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:

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Current assets	41,328	54,641
Plant and equipment	63,522	81,926
Current liabilities	46,218	57,899
Partner's equity	(77,470)	14,651

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	27,019	-	184,314	-
Operating costs (excluding depreciation)	21,024	-	110,637	-
Operating margin before depreciation	5,995	-	73,677	-
General and administration	27,323	10,401	82,587	28,918
Depreciation of plant and equipment	20,004	31	61,711	95
Loss from operations	(41,332)	(10,432)	(70,621)	(29,013)
Net finance (costs) income, net	(25)	198	(69)	267
Net loss for the period	(41,357)	(10,234)	(70,690)	(28,746)
Other comprehensive loss				
Translation loss on foreign operation	(8,405)	(21,820)	(21,431)	(8,294)
Comprehensive loss for the period	(49,762)	(32,054)	(92,121)	(37,040)

**9. TRADE PAYABLE AND ACCRUED LIABILITIES**

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Trade payable and accruals	704,264	824,720
Payroll liabilities	539,477	464,650
VAT and taxes payable	203,614	62,910
	1,447,355	1,352,280

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2019  
(Unaudited)

---

### 10. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative (“WINN”). The WINN loan offers the Company an interest-free loan contribution up to a maximum of \$412,500. The WINN loan was granted to the Company to assist the Company in its commercialization and scale up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments commencing on April 1, 2021 until March 1, 2026. As of September 30, 2019, the Company has received a total of \$146,680 under this loan agreement.

### 11. 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 and nine months ended September 30, 2019, the Company expensed \$14,110 and \$32,621 related to leases that are classified as short term and as low value assets.

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

	\$
Balance, December 31, 2018	-
Addition due to adoption of IFRS 16	473,557
Interest accretion	34,758
Interest paid	(34,758)
Foreign exchange translation	860
Lease payments	(116,497)
	<hr/>
Balance, September 30, 2019	357,920
	<hr/>
Less: current portion of lease obligations	179,138
	<hr/>
Non-current portion of lease obligations	178,782
	<hr/>

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

**12. SHARE-BASED PAYMENT EXPENSES**

The Company's share-based payment expenses for the three and nine months ended are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Stock options (a)	14,232	31,695	42,570	94,051
Deferred share units (b)	28,050	5,165	41,610	6,779
Restricted share units (c)	12,312	63	56,086	201
	<u>54,594</u>	<u>36,923</u>	<u>140,266</u>	<u>101,031</u>

**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:

	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	6	(500)	7	(4,000)
Expired	7	(20,000)	15	(5,333)
Exercised	6	(666)	-	-
Outstanding at September 30	<u>6</u>	<u>40,834</u>	<u>6</u>	<u>62,000</u>
Exercisable at September 30	<u>6</u>	<u>13,167</u>	<u>7</u>	<u>20,000</u>

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three and nine months ended September 30, 2019, the Company recognized \$14,232 and \$42,570 (\$31,695 and \$94,051 in 2018) of non-cash compensation expense related to stock options. The expiry date by exercise price at September 30, 2019 are as follows:

Exercise price \$	Expiry Date	number of outstanding share options
6.00	December 7, 2022	40,834



**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

**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 share-based payment expenses. 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	-	45,270
Balance, September 30, 2019	14,775	127,781

**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	-	-
Granted	6,485	42,477
Fair value adjustment	-	13,609
Balance, September 30, 2019	6,485	56,086

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2019  
(Unaudited)

### 13. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at September 30, 2019, the Company had 1,209,101 common shares outstanding (1,208,435 on 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.

### 14. 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 and six month period ended September 30, 2019 was 27% (27% at December 31, 2018).

### 15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2019	2018
	\$	\$
Change in non-cash operating working capital items		
Increase in trade receivables	(778,495)	(1,531,826)
Increase in other assets	(24,714)	(11,140)
Increase in accounts payable and accrued liabilities	117,347	846,038
(Decrease) increase in deferred revenue	(14,375)	94,479
Change in non-cash working capital items	(700,237)	(602,449)

### 16. COMMITMENTS

The Company has commitments of \$642,607 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2019	87,371
2020	314,079
2021	165,882
2022	60,560
2023	14,715
	642,607

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2019  
(Unaudited)

---

### 17. 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.

The disaggregated revenue of the Company are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Operations contracts	1,211,988	912,367	1,532,573	986,696
Technical services contracts	1,114,336	980,810	2,725,751	1,973,722
	<u>2,326,324</u>	<u>1,893,177</u>	<u>4,258,324</u>	<u>2,960,418</u>

#### b) Remaining Performance Obligations

As at September 30, 2019, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,676,323, 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.

### 18. 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.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2019  
 (Unaudited)

**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:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Canada	1,715,400	1,548,549	2,466,806	2,290,118
Latin America	222,358	235,818	929,942	466,666
China	332,699	-	728,277	-
Other	55,867	108,810	133,299	203,634
	<u>2,326,324</u>	<u>1,893,177</u>	<u>4,258,324</u>	<u>2,960,418</u>

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

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Canada	390,675	98,439
China	5,748,052	4,962,449
	<u>6,138,727</u>	<u>5,060,888</u>

**b) Information about major customers**

The following table presents revenue from individual customers exceeding 10% of total revenue for the three and nine months ended September 30, 2019 and 2018.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Customer A	1,212,640	912,367	1,479,639	986,696
Customer B	29,891	-	464,053	-
Customer G	84,066	132,326	259,534	352,951
	<u>1,326,597</u>	<u>1,044,693</u>	<u>2,203,226</u>	<u>1,339,647</u>
Represents percentage of total revenue for the period	57%	55%	52%	45%

# BQE Water

---

## **BQE WATER INC.**

### **Interim Management's Discussion and Analysis (Quarterly Highlights)**

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

---

# INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. Management of the Company have prepared this document in conjunction with their broader responsibilities for reasonable assurance regarding the reliability of the financial reporting and the establishment and maintenance of adequate information systems and internal controls to ensure that the financial information is complete and reliable. Management also believes that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

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

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

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.bqewater.com](http://www.bqewater.com).

Certain statements contained in the MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

## OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing innovative water management and treatment solutions that support and improve operations in this sector. We have unique expertise and intellectual property related to the treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water. Central to our business model is that BQE Water produces clean water and stable residues (or saleable by-products) and that we monetize the value of our unique process know-how through recurring revenues generated from plant operations services. Additionally, we recognize that sustained growth and the financial success of our business are linked to ongoing innovation and the expansion of our IP portfolio which are actively engaged in through our own operations and requests from clients evaluating new projects.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets in our business. BQE Water is listed on the TSX Venture Exchange under the symbol BQE. Additional information may be found on our website at [www.bqewater.com](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 operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are likely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our operational results in conjunction with the corresponding GAAP measures.

### Proportional Results

To provide additional insight into our financial results, certain statements in this MD&A disclose the effective portion of results that we would have reported if our joint venture operations had been proportionately integrated into our results and are referred to as BQE Water's proportional share ("Proportional"). All Proportional financial measures disclosed in this MD&A are non-GAAP measures.

### Proportional Revenues

This non-GAAP financial measure of Proportional Revenues add BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three and nine month periods ended September 30, 2019 and 2018 are as follows:

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

### Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") are intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Consequently, the presentation of Adjusted EBITDA enables shareholders to better understand the underlying financial performance of our business through the eyes of management. Adjusted EBITDA includes adjustments of the Company's Proportional share of joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income for the three and nine month periods ended September 30, 2019 and 2018:

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

## Q3 2019 OVERVIEW

### Financial Highlights

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

### Operational Services Highlights

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

#### Revenues from Sales of Recovered Metals

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

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

Our joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at the Dexing and Yinshan Mines in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for JCC-BQE for the three and nine months ended September 30, 2019 are as follows:

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

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

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

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

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

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



### **Revenues from Water Treatment Fees**

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

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

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

### **Technical Services Highlights**

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

#### *Commercial Deployment of Selen-IX™ Technology*

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

#### *Engineering Design & Supply of Modular Treatment Systems*

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

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

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

#### *Optimization of Existing Water Treatment Plant*

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

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

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

### **Q3 2019 COMMENTARY AND OUTLOOK**

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

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

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

## FINANCIAL RESULTS

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

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

	at Sept. 30,	at Dec. 31,
	2019	2018
Working capital	<b>1,100</b>	1,286
Total assets	<b>9,153</b>	7,913
Total long term liabilities	<b>325</b>	-
Shareholders' equity	<b>6,942</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	Sept-19	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	<b>2,326</b>	1,216	716	1,310	1,893	540	527	858
Operating expenses <i>(excluding depreciation)</i>	<b>857</b>	607	444	557	573	439	460	599
	<b>1,469</b>	609	272	753	1,320	101	67	259
General and administration	<b>405</b>	362	383	427	369	344	369	410
Sales and development	<b>241</b>	274	319	257	211	328	324	364
Shared-based payment expenses	<b>55</b>	64	22	10	37	10	55	25
Depreciation and amortization	<b>54</b>	50	50	7	4	4	4	116
Share of results of equity accounted joint ventures	<b>(402)</b>	(507)	(202)	198	(302)	(697)	(97)	119
Income (loss) from operations and joint ventures	<b>1,116</b>	366	(300)	(146)	1,001	112	(588)	(775)
Other income (expenses) - net	<b>37</b>	(17)	(27)	15	(57)	(51)	(13)	(53)
Bad debt expense	<b>(287)</b>	(1)	-	-	-	-	-	-
Income tax expense	<b>(17)</b>	(3)	-	(125)	-	-	-	(53)
Net income (loss)	<b>849</b>	345	(327)	(256)	944	61	(601)	(881)
Translation (loss) gain	<b>(140)</b>	(241)	27	257	(318)	(157)	320	128
Comprehensive income (loss)	<b>709</b>	104	(300)	(1)	626	(96)	(281)	(753)
<b>Non-GAAP Measures:</b>								
Proportional Revenues	<b>3,991</b>	3,138	2,057	2,198	3,488	2,832	1,282	1,839
Adjusted EBITDA	<b>1,274</b>	756	(80)	(100)	1,272	427	(418)	(559)

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

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

## SUMMARY OF Q3 2019 FINANCIAL RESULTS

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

### Revenues

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

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

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

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

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

### Operating Expenses (excluding depreciation)

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

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

### Expenses

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

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

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

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

### Other Incomes and Expenses

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

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

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

### Net Income and Comprehensive Income

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

## SUMMARY OF YEAR-TO-DATE Q3 2019 FINANCIAL RESULTS

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

### Revenues

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

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

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

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

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

### **Operating Expenses (excluding depreciation)**

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

### **Expenses**

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

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

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

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

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

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

## RELATED PARTY TRANSACTIONS

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

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

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

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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