

BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian Dollars unless stated otherwise)

(Unaudited)

For the three months ended March 31, 2021 and 2020

NOTICE TO READER

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
For the period ended March 31, 2021 and December 31, 2020
(Unaudited – expressed in Canadian dollars)

		March 31 2021 \$	December 31 2020 \$
	note		
Assets			
Current assets			
Cash		3,177,693	3,239,692
Trade and other receivables	5	1,333,491	1,685,717
Prepaid and other deposits		110,231	172,711
Total current assets		4,621,415	5,098,120
Non-current assets			
Plant and equipment	7	285,082	319,664
Investment in joint ventures	8	4,966,865	5,021,154
Deposits		24,881	24,881
Total non-current assets		5,276,828	5,365,699
Total assets		9,898,243	10,463,819
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	961,713	1,055,487
Loans	10	82,500	61,875
Deferred revenue		87,486	75,349
Lease obligations	11	95,339	92,128
Deferred benefits	12	329,646	270,003
Total current liabilities		1,556,684	1,554,842
Non-current liabilities			
Loans	10	330,000	350,625
Deferred revenues		283,740	283,740
Lease obligations	11	167,462	186,877
Total non-current liabilities		781,202	821,242
Total liabilities		2,337,886	2,376,084
Shareholders' Equity			
Share capital	13	56,423,002	56,386,413
Contributed surplus		10,593,742	10,565,312
Accumulated other comprehensive income		1,376,065	1,445,214
Accumulated deficit		(60,832,452)	(60,309,204)
Total shareholders' equity		7,560,357	8,087,735
Total liabilities and shareholders' equity		9,898,243	10,463,819
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 Loss and Other Comprehensive Income (Loss)

For the three months ended March 31, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		3 months ended March 31	
		2021	2020
		\$	\$
	note		
Revenues	17	979,685	1,935,697
Operating expenses (excluding depreciation)		507,497	1,195,206
Operating margin before depreciation		472,188	740,491
General and administration		400,896	432,673
Sales and development		452,993	228,947
Share-based payment expenses	6, 12	88,073	49,312
Depreciation	7	37,044	36,028
Share of (earnings) loss from joint ventures	8	(23,430)	127,194
Loss from operations and joint ventures		(483,388)	(133,663)
Finance costs, net		(5,820)	(1,824)
Foreign exchange (loss) gain		(34,040)	117,113
Net loss for the period		(523,248)	(18,374)
Other comprehensive (loss) income			
<i>Items that will be reclassified subsequently to income</i>			
Translation (loss) gain on foreign operations		(69,149)	386,567
Comprehensive (loss) income for the period		(592,397)	368,193
Net loss per share			
Basic	13(c)	(0.43)	(0.02)
Diluted	13(c)	(0.42)	(0.02)
Weighted average number of shares outstanding			
Basic	13(c)	1,218,906	1,213,768
Diluted	13(c)	1,246,752	1,221,550

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, 2021 and 2020

(Unaudited – expressed in Canadian dollars)

		Number of Shares	3 months ended March 31, 2021 \$	Number of Shares	3 months ended March 31, 2020 \$
	note				
Share Capital					
Balance, beginning of the period	13(b)	1,217,435	56,386,413	1,210,434	56,344,407
Exercise of stock options	12(a)	5,334	36,589	5,001	30,006
Balance, end of the period		1,222,769	56,423,002	1,215,435	56,374,413
Contributed surplus					
Balance, beginning of the period			10,565,312		10,320,533
Equity settled share-based payments	12(a)		28,430		57,440
Balance, end of the period			10,593,742		10,377,973
Accumulated other comprehensive income					
Balance, beginning of the period			1,445,214		1,216,730
Other comprehensive (loss) income for the period			(69,149)		386,567
Balance, end of the period			1,376,065		1,603,297
Accumulated deficit					
Balance, beginning of the period			(60,309,204)		(61,476,339)
Net loss for the period			(523,248)		(18,374)
Balance, end of the period			(60,832,452)		(61,494,713)
Total shareholders' equity					
Balance, beginning of the period			8,087,735		6,405,331
Exercise of stock options	12(a)		28,430		30,006
Equity settled share-based payments	12(a)		36,589		57,440
Net loss for the period			(523,248)		(18,374)
Other comprehensive (loss) income for the period			(69,149)		386,567
Balance, end of the period			7,560,357		6,860,970

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, 2021 and 2020
(Unaudited – expressed in Canadian dollars)

		3 months ended March 31	
		2021	2020
		\$	\$
	note		
Operating activities			
Net loss for the period		(523,248)	(18,374)
Items not affecting cash			
Share of (earnings) loss from joint ventures	8	(23,430)	127,194
Finance costs, net		5,820	1,824
Depreciation	7	37,044	36,028
Net foreign exchange loss (gain)		31,802	(66,307)
Share-based payment expenses	12	88,073	49,312
		(383,939)	129,677
Change in non-cash operating working capital items	15	327,591	(1,160,779)
Cash used in operations		(56,348)	(1,031,102)
Income taxes paid		-	(347)
Net cash used in operating activities		(56,348)	(1,031,449)
Investing activities			
Purchase of plant and equipment	7	(2,518)	(4,988)
Interest received		2,266	3,158
Net cash used in investing activities		(252)	(1,830)
Financing activities			
Lease payments on principal portion	11	(16,204)	(21,427)
Lease payments on interest portion	11	(8,039)	(4,422)
Proceeds from exercise of stock options	12(a)	36,589	30,006
Proceeds from loans	10	-	157,989
Interest paid		(46)	-
Net cash provided by financing activities		12,300	162,146
Effect of exchange rate changes on cash		(17,699)	70,684
Change in cash		(61,999)	(800,449)
Cash, beginning of the period		3,239,692	2,060,060
Cash, end of the period		3,177,693	1,259,611

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, 2021
(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 management services and treatment solutions provider with unique expertise and intellectual property to support the mining and metallurgical industry in reducing life cycle costs and risks associated with water.

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

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") on a basis consistent with the accounting policies disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Board of Directors of the Company approved these unaudited condensed consolidated interim financial statements on May 27, 2021.

b) 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.

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

Entity	Country of incorporation and operation	Ownership interest as at Mar. 31, 2021	Ownership interest as at Dec. 31, 2020
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BQE Water (Hangzhou) Co. Ltd.	China	100%	100%

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

Entity	Country of incorporation and operation	Ownership interest as at Mar. 31, 2021	Ownership interest as at Dec. 31, 2020
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

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Notes to Condensed Consolidated Interim Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 which includes information necessary or useful to understand the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as Note 3 in the audited consolidated financial statements for the year ended December 31, 2020 and have been consistently applied to all periods presented in the preparation of these unaudited condensed consolidated interim financial statements.

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 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 are consistent with those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2020.

COVID-19 Economic Uncertainty

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

The Company has assessed the economic impacts of the COVID-19 pandemic on its financial statements. As at March 31, 2021, management has determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

5. TRADE AND OTHER RECEIVABLES

	Mar. 31, 2021	Dec. 31, 2020
	\$	\$
Trade receivables	661,790	1,274,976
Contract assets	660,712	410,715
Tax receivables	10,989	-
Other	-	26
	<u>1,333,491</u>	<u>1,685,717</u>

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three months ended March 31, 2021 and 2020, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Salaries, fees and short-term benefits	163,779	167,626
Share-based payments (note 12(a))	18,396	35,667
	<u>182,175</u>	<u>203,293</u>

For the three months ended March 31, 2021, the consulting services received from companies owned by the Company's management amounted to \$33,750 (\$33,750 in Q1 2020).

Included in trade payables and accrued liabilities as of March 31, 2021 is \$36,800 (\$13,162 at December 31, 2020) of director fees and management consulting service fees with companies owned by the Company's management.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

7. PLANT AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
As at December 31, 2019	272,340	580,593	652,621	1,505,554
Additions	196,535	-	20,237	216,772
Foreign exchange translation	1,561	-	-	1,561
As at December 31, 2020	470,436	580,593	672,858	1,723,887
Additions	-	-	2,518	2,518
Foreign exchange translation	(558)	-	-	(558)
As at March 31, 2021	469,878	580,593	675,376	1,725,847
Accumulated Depreciation				
As at December 31, 2019	(95,336)	(580,593)	(580,181)	(1,256,110)
Depreciation for the year	(106,873)	-	(40,796)	(147,669)
Foreign exchange translation	(444)	-	-	(444)
As at December 31, 2020	(202,653)	(580,593)	(620,977)	(1,404,223)
Depreciation for the period	(28,351)	-	(8,693)	(37,044)
Foreign exchange translation	502	-	-	502
As at March 31, 2021	(230,502)	(580,593)	(629,670)	(1,440,765)
Carrying Amount				
As at December 31, 2020	267,783	-	51,881	319,664
As at March 31, 2021	239,376	-	45,706	285,082

¹Right-of-use assets (note 11) comprises lease assets such as office buildings and office equipment.

²Other comprises leasehold improvements, furniture, office equipment and lab equipment.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on March 31, 2021 is \$4,966,865 (\$5,021,154 on December 31, 2020), and is comprised of:

	JCC-BQE \$	MWT-BQE \$
Balance, January 1, 2020	4,641,460	-
Share of net income	1,139,450	19,795
Share of translation gain on foreign operation	213,744	6,285
Distributions received	(973,500)	-
Unrecognized share of net income and translations gain	-	(26,080)
Balance, December 31, 2020	5,021,154	-
Share of net income	23,430	25,574
Share of translation loss on foreign operation	(77,719)	(3,654)
Unrecognized share of net income and translation gain	-	(21,920)
Balance, March 31, 2021	4,966,865	-

a) JCC-BioteQ Environmental Technologies Co. Ltd.

In 2007, BQE Water entered into 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 utilizing 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 the 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 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 are 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 global commodity price risk.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(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, 2021	Dec. 31, 2020
	\$	\$
Assets		
Current assets		
Cash and short-term investments	1,789,161	2,000,668
Trade and other receivables	258,640	544,530
Income taxes recoverable	62,461	67,749
Inventory	226,622	117,191
Prepaid expenses	1,328	2,283
	<u>2,338,212</u>	<u>2,732,421</u>
Non-current assets		
Plant and equipment	3,218,924	3,401,170
Deferred tax assets	64,949	65,964
	<u>3,283,873</u>	<u>3,467,134</u>
Total assets	<u>5,622,085</u>	<u>6,199,555</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	655,220	1,178,401
Total liabilities	<u>655,220</u>	<u>1,178,401</u>
Partner's Equity		
Joint venture partner equity	3,961,989	3,961,989
Accumulated other comprehensive income	1,307,101	1,384,820
Accumulated deficits	(302,225)	(325,655)
Total partner's equity	<u>4,966,865</u>	<u>5,021,154</u>
Total liabilities and partner's equity	<u>5,622,085</u>	<u>6,199,555</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

Statement of operations and comprehensive income

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Revenues	439,536	364,765
Plant and other operating costs (excluding depreciation)	253,153	317,080
	186,383	47,685
General and administration	60,502	60,942
Depreciation of plant and equipment	109,138	130,731
Income (loss) from operations	16,743	(143,988)
Finance income	11,012	4,354
Current income tax (expense) recovery	(4,325)	12,440
Net income (loss) for the period	23,430	(127,194)
Other comprehensive (loss) income		
Translation (loss) gain on foreign operation	(77,719)	335,867
Comprehensive (loss) income for the period	(54,289)	208,673

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, China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. ("MWT-BQE"). The joint venture built a water treatment plant at a smelter owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). The joint venture operates the plant using BQE Water's patented technology to recover and sell copper and zinc metals from Zhaoye's industrial wastewater stream to generate revenues. 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 represents 4.35% of the total registered capital of the joint venture.

The Company's 20% share of the net income in the joint venture for the three months ended March 31, 2021 was \$25,574 (net loss of \$64,828 in Q1 2020). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of comprehensive income of the joint venture will be recognized on the investments of MWT-BQE when the unrecognized share of net losses is reduced to zero. As of March 31, 2020, the balance of the unrecognized share of net losses for MWT-BQE is \$118,294 (\$140,213 on December 31, 2020).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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The sections of the statement of financial position of BQE Water's portion of interest in the MWT-BQE joint venture are presented as follows:

	Mar. 31, 2021	Dec. 31, 2020
	\$	\$
Current assets	93,285	87,270
Plant and equipment	41,707	47,014
Current liabilities	56,774	60,388
Non-current liabilities	28,466	28,911
Partner's equity	-	-

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	
	2021	2020
	\$	\$
Revenues	131,392	54,899
Plant and other operating costs (excluding depreciation)	40,745	71,860
	90,647	(16,961)
Non-operating costs	43,365	24,085
Depreciation of plant and equipment	21,708	23,782
Net income (loss) for the period	25,574	(64,828)
Other comprehensive income	(3,654)	10,683
Comprehensive income (loss) for the period	21,920	(54,145)

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Mar. 31, 2021	Dec. 31, 2020
	\$	\$
Trade payable and accruals	399,038	429,035
Payroll liability	562,496	592,115
Tax payable	179	34,337
	961,713	1,055,487

10. LOANS

During 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offered the Company an interest-free loan contribution of \$412,500. The WINN loan was granted to the Company to assist in the 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.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

11. LEASES

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

	Mar. 31, 2021	Dec. 31, 2020
	\$	\$
Balance at January 1	279,005	181,033
Addition of lease obligations	-	196,535
Interest expense on lease obligations	8,039	21,463
Lease payments on interest portion	(8,039)	(21,478)
Lease payments on principal portion	(16,204)	(99,486)
Foreign exchange translation	-	938
Ending Balance	262,801	279,005
Less: current portion of lease obligations	95,339	92,128
Non-current portion of lease obligations	167,462	186,877

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. The Company's lease expense, which is not counted under lease obligations, for the three months ended March 31, 2021 are as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Classified as short-term or as low value	5,250	5,675
Leases with variable lease payments	23,887	6,407
	29,137	12,082

The following is a schedule of the Company's future lease payments under lease obligations:

	Mar. 31, 2021
	\$
2021	95,633
2022	116,650
2023	91,236
Total undiscounted lease payments	303,519
Less: imputed interest	(40,718)
Total carrying value of lease obligations	262,801

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Notes to Condensed Consolidated Interim Financial Statements
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12. SHARE-BASED PAYMENT EXPENSES

The Company's recorded share-based compensation for the three months ended March 31, 2021 are comprised as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Stock options (a)	28,430	57,440
Deferred share units (b)	35,960	(5,038)
Restricted share units (c)	23,683	(3,090)
	<u>88,073</u>	<u>49,312</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 3 years 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:

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$		\$	
Outstanding at January 1	7.69	82,833	6.00	39,501
Granted	-	-	8.75	51,000
Exercised	6.86	(5,334)	6.00	(5,001)
Forfeited	-	-	6.00	(667)
Outstanding at March 31	<u>7.75</u>	<u>77,499</u>	<u>7.65</u>	<u>84,833</u>
Exercisable at March 31	<u>6.97</u>	<u>43,498</u>	<u>6.00</u>	<u>20,664</u>

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Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

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, 2021, the Company recognized \$28,430 (\$57,440 in 2020) of non-cash compensation expense related to stock options. The expiry date by exercise price at March 31, 2021 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	28,166	28,166
8.75	January 8, 2025	49,333	15,332

b) Deferred Share Units

The Company implemented a deferred share unit ("DSU") plan pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. 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 DSUs in lieu of cash 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. 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 no later than 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 whose fair value is adjusted 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, 2020	10,574	91,874
Fair value adjustment	-	104,742
Balance, December 31, 2020	10,574	196,616
Fair value adjustment	-	35,960
Balance, March 31, 2021	10,574	232,576

c) Restricted Share Units

The Company implemented a restricted share unit ("RSU") plan pursuant to which RSUs may be granted to the officers and employees 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 RSUs immediately in cash, with payment equal to the five-day volume weighted average trading price of the number of RSUs held preceding the date of redemption. The RSU plan was amended by the Board of Directors on January 8, 2020. Under the new amendment, any unvested RSUs shall be forfeited upon separation of employment with the Company. RSUs granted are accounted for and fair valued by recognizing share-based payment expenses on a straight-line basis over the vesting period.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2020	6,485	56,346
Granted	3,281	7,258
Forfeited	(381)	-
Redeemed	(2,032)	(20,320)
Fair value adjustment	-	30,103
Balance, December 31, 2020	7,353	73,387
Fair value adjustment	-	23,683
Balance, March 31, 2021	7,353	97,070

13. SHARE CAPITAL**a) Authorized**

An unlimited number of common shares, without nominal or par value.

b) Issued

As at March 31, 2021, the Company had 1,222,769 common shares outstanding (1,217,435 on December 31, 2020).

c) Net Loss Per Share

The calculation of net loss per share for the three months ended March 31, 2021 and 2020 are as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Net loss	(523,248)	(18,374)
Basic weighted average number of shares outstanding	1,218,906	1,213,768
Dilution of securities	27,846	7,782
Diluted weighted average number of shares outstanding	1,246,752	1,221,550
Net loss per share:		
Basic	(0.43)	(0.02)
Diluted	(0.42)	(0.02)

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-month period ended March 31, 2021 was 27% (27% at December 31, 2020).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(Unaudited)

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Change in non-cash working capital items		
Changes in trade receivables	345,897	(1,012,949)
Changes in other assets	62,406	14,043
Changes in accounts payable and accrued liabilities	(93,324)	(161,873)
Changes in deferred revenue	12,612	-
Change in non-cash working capital items	327,591	(1,160,779)

16. COMMITMENTS

The Company has commitments of \$335,528 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	\$
2021	162,629
2022	97,155
2023	75,744
	335,528

17. REVENUE

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 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 providers of operational services of water treatment plants and as providers of technical services relating to 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 revenue 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 its customer. 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, 2021
(Unaudited)

The disaggregated revenue of the Company are as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Operation contracts	145,173	46,723
Technical services contracts	834,512	1,888,974
	<u>979,685</u>	<u>1,935,697</u>

b) Remaining Performance Obligations

As at March 31, 2021, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,266,993, compared to \$1,555,007 as at December 31, 2020. The remaining performance obligations of the Company are expected to be fully completed in the next 18 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 providers of operational services 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:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Revenue		
Canada	123,053	354,619
USA	452,559	1,027,828
Latin America	101,299	462,178
China	302,774	91,072
	<u>979,685</u>	<u>1,935,697</u>

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

	Mar. 31, 2021	Dec. 31, 2020
	\$	\$
Canada	280,623	310,606
China	4,971,324	5,030,212
	<u>5,251,947</u>	<u>5,340,818</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2021
(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, 2021 and 2020:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Customer C	-	305,651
Customer D	302,774	91,072
Customer E	230,925	374,647
Customer F	201,245	652,896
Customer G	-	253,178
Total	734,944	1,677,445
Represents percentage of total revenue for the period	75%	87%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three months ended March 31, 2021 and 2020

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three months ended March 31, 2021 and 2020

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

This Q1 2021 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, 2021 and 2020 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2020 and 2019 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2020.

Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of March 31, 2021. Our accounting policies are described in Note 3 of our Audited Financial Statements. All financial information is presented in **Canadian dollars** unless otherwise noted. This MD&A has been prepared as at May 27, 2021.

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

OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing innovative water management and treatment solutions that support and improve operations in this sector. Central to our business model is that BQE Water produces clean water and stable residues (or saleable by-products) and that we monetize the value of our unique process know-how through recurring revenues generated from plant operations services.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets in our business. BQE Water is listed on the TSX Venture Exchange under the symbol BQE. Additional information may be found on our website at www.bqewater.com and on SEDAR at www.sedar.com.

NON-GAAP MEASURES

We use non-GAAP financial measures to supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance overall understanding of the Company's current financial performance with investors and observers. Non-GAAP financial measures have limitations in that they do not reflect all amounts associated with our operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are likely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our operational results in conjunction with the corresponding GAAP measures.

Proportional Results

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

Proportional Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three-month periods ended March 31, 2021 and 2020 are as follows:

(in \$'000s)	3 months ended Mar. 31	
	2021	2020
	\$	\$
Reported revenues under GAAP	980	1,936
Share of reported revenues from joint ventures	571	420
Proportional Revenue for the period	1,551	2,356

Adjusted EBITDA

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

(in \$'000s)	3 months ended Mar. 31	
	2021	2020
	\$	\$
GAAP: Net loss	(523)	(18)
deduct: interest income	(2)	(2)
add/deduct: income taxes expense (recovery)	4	(12)
add: depreciation and amortization	168	191
EBITDA	(353)	159
add: share-based payment expenses	88	49
add/deduct: net foreign exchange loss (gain)	34	(117)
Adjusted EBITDA	(231)	91

COMMENTARY AND OUTLOOK

Historically, the first quarter has always been our weakest in terms of financial performance, primarily due to the impact of climatic conditions on recurring revenues from existing operations. Specifically, operations at Raglan Mine are shut down over winter until spring and our joint venture operations in China also treat lower volumes of water – the carrier of the copper recovered during treatment – due to lower seasonal precipitation and annual maintenance schedules.

When comparing the financial results of Q1 2021 with Q1 2020, the primary reason for the decrease in Proportional Revenue was a reduction in non-recurring technical services revenue. Certain technical services projects that were expected to be advanced in Q1 2021 were postponed to later in the year or to early 2022. The delays and interruptions are mainly pandemic related, ranging from disruptions in supply chains to travel restrictions to business decision deferrals. From this perspective, the Company's Q1 2021 results reflect our historic quarterly sensitivity to difficult-to-predict technical services revenue. The drop in Proportional Revenue resulted in a commensurate decline in adjusted EBITDA and net earnings. With working capital of \$2.3 million and a Proportional Cash balance of \$5.0 million at the end of the quarter, we significantly strengthened our financial and operational position year over year.

Looking into 2022 and beyond, as new water treatment plants currently under construction are brought online over the next 12 months and begin to drive growth in recurring revenues from their operations, we anticipate general quarter-to-quarter fluctuations in financial performance to begin to ease and to decrease the trends of weaker first quarters. Additionally, unlike our operations at Raglan Mine and our copper recovery joint venture in China, the new plants are projected to operate year-round under contracts where we will be compensated with a fixed monthly fee and a volume-based bonus. This will make our revenues less sensitive to seasonality, climatic conditions and metal price volatility, which has been a key long-term strategy of ours. One of our recently commissioned SART plants in China has begun to contribute new recurring revenue, with the second plant expected to start contributing in Q2 2021. Other plant design projects are currently in advanced stages of engineering and we anticipate equipment procurement and construction for these to begin in the second half of the year.

Our outlook for the remainder of 2021 and 2022 remains positive and we expect our working capital position to remain stable in 2021. Nevertheless, the Company believes it is prudent to caution our shareholders with respect to the uncertainties that could affect our outlook. As the effects of COVID-19 and its variants continue to unfold on the global economy, risks remain. Many of these risks are outside of management's control, including geopolitical uncertainties that may affect our business in China, the industry's continued cautious approach to spending, concerns about liquidity in the real economy that may affect our future sales, and the possibility of weak commodity prices that could lead to a slow-down in the global mining industry. Fortunately, BQE Water is to an extent hedged against these risks as most of our projects are driven by the need for clean water and compliance with evolving environmental regulations.

FINANCIAL HIGHLIGHTS

- Adjusted EBITDA for the three-month period ended March 31, 2021 was (\$231,000), compared to \$91,000 for the same period last year.
- Proportional Revenue for Q1 2021 was \$1.5 million, an \$805,000 or 34% decrease compared to \$2.4 million in Q1 2020.
- Net loss for the three-month period ended March 31, 2021 was \$523,000 compared to a net loss of \$18,000 for the same period in 2020.
- Working capital increased \$810,000 or 36% from \$2.3 million as at March 31, 2020 to \$3.1 million as at March 31, 2021.
- Proportional Cash, which includes our share held in joint ventures, as of March 31, 2021 was \$5.0 million compared to \$2.9 million at March 31, 2020, an increase of \$2.1 million or 70%.

OPERATIONAL SERVICES HIGHLIGHTS

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

Revenues from Sales of Recovered Metals

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

JCC-BQE Joint Venture

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates water treatment plants at Dexing Mine and at Yinshan Mine in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for Q1 2021 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2021	2020
Water treated (cubic metres)	2,424	2,709
Copper recovered (pounds)	204	257

During Q1 2021, all three plants met or exceeded mechanical availability and process performance. However, the volume of water treated and the mass of copper recovered decreased by 11% and 20% respectively over the same period in 2020, a 13-year historic low. Dexing Mine experienced an unusually low volume of precipitation during Q4 2020 to Q1 2021, with approximately 40% of the total rainfall compared to the same period in the year prior. Lower rainfall not only limited the water flowing into the treatment plants but also affected copper leaching from waste rock, reducing the copper concentration in the plant feed. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period.

MWT-BQE Joint Venture

Our 20% share of MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company ("MWT") and together we operate a water treatment plant at a smelter in Shandong province of China. MWT-BQE generates the majority of its revenues from the sale of zinc recovered from smelter wastewater, along with small traces of copper found in the stream. Operating results for Q1 2021 are as follows:

<i>(in '000s)</i>	3 months ended Mar. 31	
	2021	2020
Zinc recovered (pounds)	270	183
Copper recovered (pounds)	76	28

The mass of zinc recovered increased by 48% and the mass of copper recovered increased by 171% when compared to the same period in 2020. Beginning in Q3 2020, the smelter periodically operated their production lines with a slightly higher-grade ore, which led to a higher concentration of zinc and copper in the feed composition and also an increase in the volume of wastewater treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant.

Revenues from Water Treatment Fees

The Company is contracted to operate and provide technical support for water treatment plants that generate recurring revenues in the form of water treatment and operations support fees. They include four plants operated by BQE Water for Glencore at Raglan Mine in Northern Québec, a plant operated by the MWT-BQE joint venture but supported and supervised by BQE Water in China, and the newly added Zhongkuang SART plant in Shandong province of China. The new SART plant completed commissioning and began operations in Q1 2021.

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 and the Zhongkuang SART plant generates fixed operations support fees for the achievement of operational targets that rely on the Company's technical expertise. During Q1, the plants at Raglan Mine are shut down as water stored in the outdoor reservoirs is frozen. Consequently, no revenue is generated in Q1 from the Raglan Mine plants. The volume of water treated by plants are as follows:

<i>(in '000s cubic metres)</i>	3 months ended Mar. 31	
	2021	2020
Glencore water treatment plants	-	-
MWT-BQE water treatment plant	167	153
Zhongkuang SART plant	48	-

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 2021 are summarized below.

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

- Continued to provide engineering services for the first commercial scale direct selenium ERC plant at a mine in the US.
- Continued to support equipment procurement and fabrication for the first Selen-IX™ plant outside of mining currently under construction at a power utility ash pond in the US.

Cyanide Management and Recovery using SART and Electro-oxidation

- Successfully completed the commissioning of the SART plant for Zhaojin Mining Industry in China.
- Continued the design of a SART plant for a gold mine in Central America.
- Technical assessment of SART integration into an existing metallurgical plant using AVR for cyanide recovery.
- Lab scale demonstration and scoping level engineering assessment of cyanide recovery from thiocyanate

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

- Due diligence on water management and treatment for a proposed new mine in South East Asia.
- Treatment process modification recommendations and laboratory scale validation of improvements for a mine water treatment plant in Peru.
- Assistance with water treatment for permitting of a new mine in BC.
- Water management and treatment for a prefeasibility study for a new gold mine in the US.
- Design of a water treatment plant integrated into a gold metallurgical plant to enable Zero Liquid Discharge operation in China.
- Expansion of an existing ammonia removal water treatment system for a gold mine in Ontario.
- Assessment of improvements to the water management and treatment strategy for the KSM project in BC.
- Water treatment design for a feasibility study and permitting of a new gold mine in Central America.

SELECTED FINANCIAL INFORMATION

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

	3 months ended Mar. 31	
	Q1 2021	Q1 2020
	\$	\$
Revenues	980	1,936
Operating expenses	507	1,195
	473	741
General and administration expenses	401	433
Sales and development expenses	453	229
Share-based payment expenses	88	49
Depreciation	37	36
Share of (income) loss from joint ventures	(23)	127
Loss from operations and joint ventures	(483)	(133)
Other (expense) income, net	(40)	115
Net loss for the period	(523)	(18)
Net loss per share (basic)	(0.43)	(0.02)
Net loss per share (diluted)	(0.42)	(0.02)
Non-GAAP Measures:		
Proportional Revenues ¹	1,551	2,356
Adjusted EBITDA ¹	(231)	91
	at Mar. 31,	at Dec. 31,
	2021	2020
Working capital	3,065	3,543
Total assets	9,898	10,464
Total non-current liabilities	781	821
Shareholders' equity	7,560	8,088

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in \$'000s)

Quarters ended	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20	Dec-19	Sept-19	Jun-19
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	980	1,609	2,738	1,414	1,936	1,382	2,326	1,216
Operating expenses	507	934	1,381	921	1,195	882	857	607
	473	675	1,357	493	741	500	1,469	609
General and administration	401	413	342	435	433	480	405	362
Sales and development	453	349	153	239	229	230	241	274
Share-based payment expenses	88	107	113	118	49	13	55	64
Depreciation	37	42	33	36	36	(23)	54	50
Share of loss (income) from joint ventures	(23)	(101)	(785)	(380)	127	263	(402)	(507)
(Loss) income from operations and joint ventures	(483)	(135)	1,501	45	(133)	(463)	1,116	366
Other income (expenses), net	(40)	30	(58)	(95)	115	21	37	(17)
Bad debt expense	-	-	-	-	-	(95)	(287)	(1)
Income tax expense	-	(97)	-	(5)	-	(91)	(17)	(3)
Net (loss) income	(523)	(202)	1,443	(55)	(18)	(628)	849	345
Translation gain (loss)	(69)	(63)	97	(191)	387	70	(140)	(241)
Comprehensive income (loss)	(592)	(265)	1,540	(246)	369	(558)	709	104
Non-GAAP Measures:								
Proportional Revenue	1,551	3,085	5,287	2,771	2,356	2,005	3,991	3,138
Adjusted EBITDA	(231)	133	2,039	412	91	(451)	1,495	756

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

SUMMARY OF Q1 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended March 31, 2021 and 2020.

Proportional Revenue

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

<i>(in \$'000s)</i>	Q1 2021		Q1 2020		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	571	37%	420	18%	36%
Water treatment fee from operations	145	9%	46	2%	215%
Technical services	835	54%	1,890	80%	(56%)
Total Proportional Revenue	1,551	100%	2,356	100%	(34%)

Revenues from the sale of base metals of value recovered comprises the Company's share of revenues from its joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is impacted by the amount and market price of metal concentrate sold. During Q1 2021, the Company's share of revenues from the JCC-BQE joint venture increased by \$75,000 or 20% for the comparable period in 2020. The gain was attributed to a 51% increase in average copper prices, offset by a 20% decrease in the quantity of copper recovered. The Company's share of revenue from the MWT-BQE joint venture increased by \$76,000 when compared to Q1 2020.

Water treatment fee revenues include the tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees in China. As the operating season at Raglan Mine typically starts in May, it does not generate revenue during the first quarter of the year. In Q1 2021, the Company began to provide ongoing operation support at the Zhongkuang SART plant and earned an additional \$97,000 in operations support fees.

Revenues from technical services decreased by \$1.1 million or 56% in Q1 2021 compared to Q1 2020. These revenues are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. Such revenues represent the sum of multiple contracts from various clients of varying contract values. The revenue streams from technical services during Q1 2020 were particularly strong, as it exceeded the historic average Q1 activities by more than 100%.

Operating Expenses

Total operating expenses during Q1 2021 were \$507,000 compared to \$1.2 million in Q1 2020, a decrease of \$688,000 or 58%. The decrease in operating expenses is directly attributable to the 56% decrease in project activity related to technical services completed in the quarter. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. During the quarter, total labour expenses within operating expenses were \$443,000 compared to \$645,000 in the previous year's first quarter.

Expenses

In Q1 2021, general and administration costs were \$401,000 compared to \$433,000 in Q1 2020. The decrease of \$32,000 or 7% in general and administration costs was mainly due to the increase allocation of internal management and executive efforts to fulfill certain technical services contracts requiring senior technical specialist oversight during Q1 2021.

Sales and development costs during Q1 2021 were \$453,000 compared to \$229,000 in Q1 2020, an increase of \$224,000. Due to the decrease of technical services activity during the quarter, more labour resources and assay expenses were designated for technology development initiatives during the quarter when compared to Q1 2020.

Share-based payment expenses were \$88,000 in Q1 2021 compared to \$49,000 in Q1 2020. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock options expenses which are expensed on a straight-line basis over the vesting period. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from the increase of the Company's share price during the reporting period.

Depreciation expenses was consistent with prior year's first quarter at \$37,000 in Q1 2021 compared to \$36,000 in Q1 2020.

Other Income and Expenses

Net finance costs were \$6,000 in Q1 2021 compared to \$2,000 in Q1 2020. As the Company currently does not hold any interest-bearing debt, finance costs arise from the interest accretion of the Company's long-term liabilities, such as lease obligations.

Foreign exchange loss was \$34,000 in Q1 2021 compared to a gain of \$117,000 in Q1 2020. These exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar, the Company's reporting currency.

Net Loss and Comprehensive Income

Overall net loss for the first three months in 2021 was \$523,000 compared to a net loss of \$18,000 in the same period in 2020. As the Company operates through subsidiaries and joint ventures with functional currencies that differ from the Company's reporting currency, exchange differences on the translation of the net assets of such entities are recognized through other comprehensive income or loss. Total comprehensive loss for the first quarter was \$592,000 compared to a comprehensive income of \$369,000 in Q1 2020.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2021, BQE Water had 1,222,769 common shares issued and outstanding (1,217,435 at December 31, 2020), and 77,499 stock options outstanding (82,833 at December 31, 2020).

As of the date of this MD&A, on May 27, 2021, the Company has 1,225,969 common shares issued and outstanding; and 74,299 stock options outstanding.

At March 31, 2021, the Company had Cash of \$3.2 million, a decrease of approximately \$62,000 from December 31, 2020. For the three months ended March 31, 2021, the Company's Cash used in operating activities was \$56,000 compared to \$1.0 million in Q1 2020.

The Company had a working capital position at the end of the quarter of \$3.1 million, a decrease of \$478,000 from December 31, 2020. At March 31, 2021, BQE Water's significant working capital items, aside from Cash, include trade and other receivables of \$1.3 million (\$1.7 million at December 31, 2020) and trade payable and accrued liabilities of \$962,000 (\$1.1 million at December 31, 2020).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN") program. As of March 31, 2021, the WINN loan balance is \$412,500 and the Company has obligations to repay it in 60 equal monthly installments commencing on April 1, 2021 until March 1, 2026. Further, the Company has credit facilities available with the Royal Bank of Canada ("RBC") including a credit card facility of \$15,000 and a revolving demand credit facility of \$500,000 which had not been utilized as of March 31, 2021.

The Company has commitments of \$336,000 until 2023 under operating leases for office and laboratory premises and for assay services.

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

RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2021 and 2020, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

	3 months ended Mar. 31	
	2021	2020
	\$	\$
Salaries, fees and short-term benefits	163,779	167,626
Share-based payments (note 12(a))	18,396	35,667
	182,175	203,293

For the three months ended March 31, 2021, the consulting services received from companies owned by the Company's management amounted to \$33,750 (\$33,750 in Q1 2020).

Included in trade payables and accrued liabilities as of March 31, 2021 is \$36,800 (\$13,162 at December 31, 2020) of director fees and management consulting service fees with companies owned by the Company's management.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2020.

COVID-19 Economic Uncertainty

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

The Company has assessed the economic impacts of the COVID-19 pandemic on its financial statements. As at March 31, 2021, management has determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.