BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three months ended March 31, 2018 and 2017

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three months ended March 31, 2018 and 2017

The following Interim 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 consolidated financial condition. We have prepared this document in conjunction with our broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

This Q1 2018 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, 2018 and 2017 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2017 and 2016 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2017.

Our Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Our accounting policies are described in note 2 of our Audited Financial Statements. This MD&A has been prepared as at May 15, 2018.

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 making the mining and metallurgical industry more sustainable and profitable by implementing innovative water management and treatment in this sector. We have unique expertise and intellectual property related to treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water.

BQE Water is listed on the TSX Venture Exchange under the symbol BQE.

Additional information may be found on our website www.bqewater.com and also on SEDAR at www.sedar.com.

NON-GAAP MEASURES

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

Proportional Results

Due to changes to IFRS in 2012, the revenue and expenses associated with our Chinese joint ventures can no longer be proportionally consolidated into the Company's revenue and expenses as defined by GAAP. Currently, the revenue and expenses associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item as 'Share of results of equity accounted joint ventures' on our consolidated statements of loss.

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

Proportional Revenue

The Non-GAAP financial measures of Proportional Revenue adds BQE Water's shares of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the three month periods ended March 31, 2018 and 2017 are as follows:

(in $'000s)

	2018	2017
	$	$
Reported revenues under GAAP	**527**	668
Share of reported revenues from joint ventures	**755**	440
Proportional Revenue for the period	**1,282**	1,108

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") for the three month periods ended March 31, 2018 and 2017 is derived as follows:

(in $'000s, all amounts include BQE Water's proportionate share of joint venture results)

	2018	2017
	$	$
GAAP: Net loss	**(601)**	(573)
add: interest expense	**30**	50
add: income taxes recovery	**(21)**	(127)
add: depreciation and amortization	**137**	160
EBITDA	**(455)**	(490)
add: stock-based compensation (recovery)	**55**	(7)
add: net foreign exchange gain	**(18)**	-
Adjusted EBITDA	**(418)**	(497)

Q1 2018 COMMENTARY AND 2018 OUTLOOK

Long-term followers of BQE Water have come to know that recurring revenue from our water treatment plant operations in Canada and China, which account for up to 70% of our total annual proportional revenue, fluctuate significantly on a quarterly basis due to the impact of climatic conditions. Specifically, Q1 is the quarter with the lowest recurring revenue as Canadian operations are shut down for the winter while the Chinese operations typically treat lower volumes of wastewater due to the area's dry season.

In Q1 2018, we were able to improve operations with our plants in China compared to the prior year's quarter due to our improvement in water management at the Yinshan plant. These improvements resulted in an increase in copper recovery with our share of revenue growing by $315,000 compared to Q1 2017.

Our non-recurring revenue from technical services in Q1 2018 was slightly lower in comparison to the same period last year, but remained at a healthy level from a historical perspective. Over the last several years, selenium pilot demonstration services involving the use of our existing mobile pilot plant accounted for up to 40% of our total non-recurring revenue on an annual basis. Despite not having a selenium pilot project in Q1 2018, our non-recurring revenue of over $500,000 is a reflection of increased revenues from technical services associated with designing new water treatment plants and developing water management plans for a number of new mining projects. Overall, we reduced our adjusted EBIDTA loss by 16% compared to the same quarter in 2017.

While we believe our existing project pipeline will allow us to continue the trend of year-over-year financial performance improvements in 2018, it is difficult to determine the exact timing of when we will recognize the non-recurring revenue from such projects. These projects tend to take place in stages and/or require extended reviews and approvals by regulatory agencies and our client's executive management.

The combination of seasonality on our recurring revenue and the uncertain timing of non-recurring revenue creates fluctuations in our working capital. Consequently, management and the Board of Directors are actively exploring different options for securing additional short-term financing, including a potential employee based loan or a line of credit from a financial institution. While the improvements in our financial performance over the past several years may allow us to obtain a line of credit from a financial institution, this process will take time and other sources of financing may be required. Although the company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company.

Q1 2018 OVERVIEW

Financial Highlights:

- Revenues as reported under GAAP were $527,000 compared $668,000 in Q1 2017;
- Proportional revenues were $1.3 million compared to $1.1 million in Q1 2017;
- Net loss as reported under GAAP was $601,000 compared to $573,000 in Q1 2017;
- Adjusted EBITDA was a loss of $418,000 compared to a loss of $497,000 in Q1 2017;
- Cash reported under GAAP as of March 31, 2018 was $349,000 compared to $984,000 at December 31, 2017; and
- Proportional Cash, which includes our share held in joint ventures, as of March 31, 2018 was $2 million compared to $2.5 million at the end of 2017.

Operating Highlights:

Our joint venture in China with partner Jiangxi Copper Company ("JCC") operated three plants during Q1 2018. Although most of the treated water is discharged into the environment, some treated water is occasionally recycled. Revenue is derived from the sale of copper recovered from the wastewater. The following is summary of operating results for all three plants during Q1 2018.

Dexing 1	3 months ended Mar. 31	
(in '000s)	2018	2017
Water treated (cubic metres)	869	290
Copper produced (pounds)	60	-

Dexing 2	3 months ended Mar. 31	
(in '000s)	2018	2017
Water treated (cubic metres)	1,875	1,131
Copper produced (pounds)	136	139

Yinshan	3 months ended Mar. 31	
(in '000s)	2018	2017
Water treated (cubic metres)	800	513
Copper produced (pounds)	244	164

Total Joint Venture	3 months ended Mar. 31	
(in '000s)	2018	2017
Water treated (cubic metres)	3,544	1,934
Copper produced (pounds)	440	303

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and the prevailing environmental conditions at each site. The two plants Dexing 1 and Dexing 2 treat water from the same sources and water may be diverted from one plant to the other to optimize operations.

During 2018, all three plants met or exceeded mechanical availability and process performance. 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. During Q1 2018, due to higher water volume, water treated increased by 83% and copper recovery increased by 45% respectively over the same period in 2017. Management does not anticipate this increase to continue as Q1 2017 was an exceptionally dry season compared to the usual seasonal trends encountered during the first quarter of the year.

Project Highlights:

BQE Water's technical expertise and intellectual property are applicable across broad areas of water management. The highlights of the technical services provided to clients for projects globally during Q1 2018 are summarized below.

Smelter Effluent Treatment Optimization

In Q1, BQE Water completed the engineering design for retrofits at an existing water treatment plant operating at a base metal smelter. The retrofits will enable the plant to improve effluent water quality and allow the treated water to be re-used in applications where fresh water is currently consumed, reduce the amount of waste solid residue generated, and significantly lower the reagent consumption compared to the current operation. The investment required to implement the retrofits including on-site construction costs is currently being verified by the client's in-house engineering team for presentation to their executive management in Q3 2018. If approved, this project would move to implementation in 2019 and would involve BQE Water's engineering services for retrofit implementation, plant commissioning and operations support.

Industrial Scale Demonstration of Selenium Electro-reduction

In Q1 2018, we successfully completed an industrial demonstration of the Selen-IX™ electro-reduction circuit ("ERC") using an electrocell of the same size as planned for full-scale Selen-IX™ deployment. Co-funded by three different Canadian mining companies, the project involved the operation of the ERC for two months on four different water streams under conditions expected in full-scale plants. Demonstration results confirmed the engineering design and process performance from pilot campaigns conducted previously. The demonstration also enabled us to identify various process improvements that can be incorporated into the design of the first Selen-IX™ plant and provided us with valuable operating experience to help shorten the commissioning schedule.

Water Treatment Plant at Kemess Mine – First Commerical Selen-IX™ Plant

In March 2018, BQE Water signed an agreement with AuRico Metals for the engineering, procurement, assistance with installation, and commissioning of a new water treatment plant at the Kemess Mine in Northern BC. The plant combines BQE Water's ChemSulphide® process adapted for the Kemess water and Selen-IX™ technology for selenium control. The project will move through detailed engineering in Q2 to initial construction in Q3. Equipment fabricated and procured over the winter will be installed in Q2 2019 with commissioning of the water treatment plant expected to begin in Q3 2019. The value of the contract is consistent with other engineering contracts for new water treatment plants in the past.

Tailings Pond Water Treatment in the Yukon

In Q1 2018, BQE Water initiated the engineering design for a new water treatment plant to remove metals and selenium from an existing tailings pond supernatant at a site in the Yukon. A key component of the treatment plant involves BQE Water's electro-reduction process for selenium control with concurrent stabilization in refractory residue suitable for long-term disposal with mine tailings. The design was approximately 80% complete when project work was suspended in March due to delays in the client's financing, resulting in an outstanding receivable. This creates uncertainty about the timing of when project activities will resume. Management remains optimistic about the prospect of completing the design and implementation of a water treatment plant at this site in the future. Both active regulatory oversight and the client's commitment to address water issues at the site are driving factors.

Supporting the Re-Starting a SART Plant in Mexico

This project involved the concurrent refurbishment and expansion of the SART plant we originally built and commissioned in 2008. The plant had sat idle for a good part of the past decade but development of the mine zone rich in cyanide soluble copper triggered the need for the SART plant re-start. BQE Water was contracted for process design improvements, plant automation, commissioning and operator training. By utilizing our SART experience gained over the last decade, none of the main process vessels had to be replaced despite the hydraulic capacity increase from 340 to 525 m3/hr. The SART plant has been up and running since Q4 2017 and currently recovers about 100 metric tonnes of cyanide for recycle and 60 metric tonnes of copper each month.

Construction of Copper and Zinc Recovery Plant at Smelter Site in China

In 2016, BQE Water entered into a joint venture agreement with a Chinese partner, Beijing MWT Water Treatment Project Limited Company ("MWT"), for the design, construction and operation of a treatment plant that would recover copper and zinc from wastewater generated by Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). BQE Water provides its technology and plant operating experience in exchange for treatment fees which are built into the operating cost during the first three years of operation. The plant construction started in Q3 2017 and is progressing on schedule for the start of commissioning in early Q3 2018.

FINANCIAL RESULTS

(in $'000 except for per share amounts)

	Q1 2018	Q1 2017
	$	$
Revenues	**527**	668
less: Plant and other operating costs (*excluding depreciation*)	**460**	418
	67	250
General and administration	**369**	495
Sales and development	**324**	288
Stock-based compensation	**55**	(7)
Depreciation and amortization	**4**	33
Share of results of equity accounted joint ventures	**(97)**	(34)
Loss from operations and joint ventures	**(588)**	(525)
Other expenses – net	**(13)**	(48)
Net loss for the period	**(601)**	(573)
Translation gain on foreign operations	**320**	9
Comprehensive loss for the period	**(281)**	(564)
Net loss per share (basic and diluted)	(0.01)	(0.01)
Proportional Revenues[1]	**1,282**	1,108
Adjusted EBITDA[1]	**(418)**	(497)

	at Mar. 31, 2018	at Dec. 31, 2017
Working capital	**(7)**	735
Total assets	**6,631**	6,866
Total long term liabilities	**1,500**	1,498
Shareholders' equity	**4,147**	4,395

Notes:

1. *See Non-GAAP measures*

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	**Mar-18**	Dec-17	Sep-17	Jun-17	Mar-17	Dec-16	Sep-16	Jun-16
	$	$	$	$	$	$	$	$
Total revenues	**527**	858	1,578	953	668	1,570	1,356	644
Plant and other operating costs (excluding depreciation)	**460**	599	642	656	418	680	494	365
	67	259	936	297	250	890	862	279
General and administration	**369**	410	383	376	495	404	410	465
Sales and development	**324**	364	263	303	288	181	356	268
Stock-based compensation	**55**	25	34	15	(7)	-	30	16
Depreciation and amortization	**4**	116	31	33	33	58	60	59
Share of results of equity accounted joint ventures	**(97)**	119	(470)	(764)	(34)	195	(160)	(291)
Income (loss) from operations and joint ventures	**(588)**	(775)	695	334	(525)	52	166	(238)
Other (expenses) income	**(13)**	(53)	(78)	(69)	(48)	(36)	(49)	(1,415)
Bad debt recovery	**-**	-	61	-	-	4	-	7
Income tax expense	**-**	(53)	153	-	-	(1)	-	-
Net income (loss)	**(601)**	(881)	831	265	(573)	19	117	(1,646)
Translation (loss) gain	**320**	128	(97)	(51)	9	(94)	22	1,290
Comprehensive (loss) income	**(281)**	(753)	734	214	(564)	(75)	139	(356)
Non-GAAP Measures:								
Proportional Revenue	**1,282**	1,839	3,147	3,182	1,108	2,295	2,411	2,137
Adjusted EBITDA	**(418)**	(559)	1,088	744	(497)	107	414	71

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 revenue. Operations at Raglan typically run from May to November of each year. Copper production at Dexing increases between April and September of each year and declines during winter months due to variations in precipitation and annual maintenance needs. Revenue from engineering, design and construction services occur based on the timing of customer requirements.

SUMMARY OF Q1 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month period ended March 31, 2018 and 2017.

Revenue

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

(unaudited, in $'000s)

Revenue Source	**Q1 2018** **$**	**% of total**	Q1 2017 $	% of total	Total Revenue % Change
Water treatment plant operations	**-**	**0%**	-	0%	0%
Technical services	**527**	**41%**	668	60%	(21%)
Total revenue	**527**	**41%**	668	60%	(21%)
Share of joint venture revenue	**755**	**59%**	440	40%	72%
Total Proportional Revenue	**1,282**	**100%**	1,108	100%	16%

Water treatment fee revenue is generated from the Company's seasonal operation of the water treatment plant at the Raglan Mine. The plant is not in operation during the first quarter of the year. We expect to commence operation in late May 2018.

The revenue from technical services include plant design, construction, consulting, commissioning and pilot demonstrations, which are generally one-time in nature and have varying contract values. Revenue from technical services decreased $141,000 from the same period in 2017.

Our share of revenue from our joint venture in China is generated from the metals recovered in the operation of water treatment plants, which is impacted by the amount and price of copper sold. Our share of the total pounds of copper recovered increased by 46% over the same period in 2017. The average price of copper during Q1 2018 was 18% higher than Q1 2017. Our share of revenue from the joint venture increased 72% due to increases in amount of copper sold and average price of copper.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q1 2018 were $460,000 compared to $418,000 in Q1 2017, an increase of $42,000. The increase is mainly due to the cost to complete the scope of projects required during 2018. Each individual project will require different levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

Our share of total plant and other operating costs (excluding depreciation) in the joint venture in China for Q1 2018 was $481,000 compared to $377,000 in Q1 2017. The 27% increase is due to the 46% increase in copper recovered during the quarter and offset by cost reduction for reagents.

Expenses

In Q1 2018, general and administration expenses were $369,000 compared to $495,000 in Q1 2017. The decrease of $126,000 in general and administration costs were mainly due to lower headcount and reduced rental expenses.

Sales and development costs in Q1 2018 were $324,000, which is an increase of $36,000 from Q1 2017. The variance is due to an increase of assay costs and contractor expenses to further advance the Company's technology development.

Depreciation and amortization expenses were $4,000 in Q1 2018 compared to $33,000 in Q1 2017. The decrease was due to our mobile pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation in Q1 2018 was of $55,000 compared to a recovery of $7,000 in Q1 2018. In 2018, stock-based compensation costs were higher due to stock options granted to directors and employees during Q4 2017 and a higher fair value adjustment of deferred and restricted share units resulting from a higher Company share price.

Other expenses
Net finance costs were $31,000 during Q1 2018 compared to $50,000 in Q1 2017. The variance is due to the loan accretion of the convertible loan, as the face value of the loan was accreted until January 6, 2018. The 8% interest bearing loan of $1.5 million contributes to an accrued interest expense of $30,000 per quarter.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2018, BQE Water had 93,966,672 common shares issued and outstanding (93,966,672 at December 31, 2017), and 6,200,000 stock options outstanding (7,133,333 at December 31, 2017).

As of May 15, 2018, the number of common shares issued and outstanding remain unchanged from March 31, 2018 and the Company has 6,200,000 stock options outstanding.

For the three months ended March 31, 2018, the Company incurred a net loss of $599,368 ($574,453 in 2017) and used net cash in operating activities of $553,301 ($730,369 in 2017). At March 31, 2018, the Company had a working capital deficit of $7,395 (positive working capital of $734,952 at December 31, 2017).

The Company has commitments of $719,554 until 2022 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended March 31, 2018 and in the “Q1 2018 COMMENTARY AND 2018 OUTLOOK” section of this MD&A, the Company believes that it has sufficient working capital resources to continue current operations for the next 12 months. Beyond this point, we will need to secure new sources of working capital to continue operations. Potential sources of new working capital include new sales projects or non-operational sources such as debt or equity investments.

The continuation of the Company as a going concern is dependent upon its ability to maintain profitable operations. This assumes that the Company is able to successfully obtain financing to fund its working capital needs, continue successful operations at its Raglan and Dexing joint venture operations, maintain or further decrease operating expenses, successfully repatriate annual dividends from its Dexing joint venture, and secure and complete new sales contracts.

Management’s current plan is to actively work with the Company’s Board to secure sources of funds, including possible equity and debt financing options, while at the same time focus on increasing revenue and exercise careful cost control to sustain operations. If necessary, the Company will further curtail discretionary spending. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. Our consolidated financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities and related expenses that 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 our consolidated financial statements could be required.

RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties of the Company:

a) For the three months ended March 31, 2018 and 2017, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	Mar. 31, 2018	Mar. 31, 2017
	$	$
Salaries, fees and short-term benefits	126,211	167,445
Share-based payments	13,288	2,349
	139,499	169,794

Included in the trade payables and accrued liabilities as of March 31, 2018 is $66,382 ($12,231 at December 31, 2017) of salaries, management consulting service fees with companies owned by the Company's management, director fees and termination benefits. For the three months ended March 31, 2018, the consulting services received from companies owned by the Company's management amounted to $39,000 ($15,000 in 2017).

b) On July 6, 2016, the Company entered into a secured, 8% per annum interest bearing convertible loan agreement with multiple lenders totaling $1,500,000. These lenders include certain directors, shareholders, management, and employees of the Company. Details of the convertible loan are described in note 11.

c) Included in the trade payables and accrued liabilities as of March 31, 2018 is $96,400 ($96,400 at December 31, 2017) of contribution of registered capital payable to the Company's joint venture as described in note 8(b).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2017.