BQE Water

BQE WATER INC.

(formerly BioteQ Environmental Technologies Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2017 and 2016

Management’s Discussion and Analysis

April 17, 2018

The following Management’s Discussion and Analysis provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. We have prepared this document in conjunction with our broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

This 2017 Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2017, under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Users should consider the disclosures in note 2(b) titled “Going concern assumption” of the audited consolidated financial statements for the year ended December 31, 2017 and the sections “2017 Commentary and 2018 Outlook” and “Liquidity and Capital Resources” in this MD&A.

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

OUR BUSINESS

BQE Water Inc. (or the “Company”) (formally BioteQ Environmental Technologies Inc.) 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.

OUR STRATEGY

The Company is focusing on monetizing the value of its IP and expertise primarily through the service of long-term operation and maintenance of water treatment plants (“WTP”) which generate recurring revenue that is directly linked to plant performance. As the period between the identification of new projects and treatment plants entering their operation phase can be lengthy, BQE Water also generates revenue from technical services that are project specific and generally non-recurring in nature. These services include process consulting, laboratory treatability assessments, field pilot demonstrations, and feasibility engineering studies. All these activities allow BQE Water to follow projects through the entirety of their development phases and enable the identification of new opportunities.

Historically, the Company monetized the value of its IP by sharing the value of metals recovered from wastewater. Although this no longer represents the focus of our business and is expected to diminish in importance, the sale of recovered metals still represents a significant portion of BQE Water’s recurring revenues.

We recognize that in order to stay competitive and create value for our shareholders in the long-term, the Company must remain actively engaged in innovation, improvement, and development of new water treatment technologies. While many of these activities are funded directly by our clients, BQE Water also contributes its own resources towards research and development which enable BQE Water to apply for government programs that are based on matching contributions.

Headquartered in Vancouver, British Columbia, Canada, BQE Water also has regional offices in Chile and China, which are the two key geographical markets in our industry. Over the last two years we have strengthened the capabilities of our regional offices which now include small mobile pilot plants and laboratory scale testing facilities.

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 results had been proportionately integrated into our results and 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's shares of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the twelve-month periods ended December 31, 2017 and 2016 are as follows:

(in $'000s)	**2017**	2016
	$	$
Reported revenues under GAAP	**4,057**	3,961
Share of reported revenues from joint ventures	**5,219**	4,401
Proportional Revenue for the year	**9,276**	8,362

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is derived as follows:

(in $'000s, all amounts include BQE Water's proportionate share of joint venture results)	**2017**	2016
	$	$
GAAP: Net loss	**(362)**	(2,325)
add: interest expense	**212**	100
add: income taxes	**99**	(26)
add: depreciation and amortization	**724**	747
EBITDA	**673**	(1,504)
add: stock-based compensation (recovery)	**68**	76
add: net foreign exchange loss (gain)	**35**	1,436
Adjusted EBITDA	**776**	8

2017 OVERVIEW

Financial Highlights

- Revenues for the year as reported under GAAP were $4.1 million compared to $4.0 million in 2016;
- Proportional revenues for the year were $9.3 million compared to $8.4 million in 2016, an 11% increase over the prior year;
- Net loss as reported under GAAP was $362,000 compared to $2.3 million in 2016;
- Adjusted EBITDA for the year was $776,000 compared to $8,000 in 2016;
- Cash reported under GAAP, as of December 31, 2017 was $1 million compared to $2.2 million at the end of 2016; and
- Proportional Cash, which includes our share held in joint ventures, as of December 31, 2017 was $2.5 million compared to $3.0 million at the end of 2016.

Financing

On July 6, 2016, we issued convertible loans (“Loan”) with an aggregate principle of $1.5 million. The Loan is with multiple lenders which include certain directors, management, and employees of BQE Water, individual investors, and non-management insiders of the company. The Loan bears interest at a rate of 8% per annum with interest being payable semi-annually from the issuance date. During the term of the Loan, the lenders will hold a first charge security interest over the assets of the company. Upon prepayment or maturity of the Loan, each lender may elect to convert all or any portion of the unpaid principal into common shares of BQE Water at a conversion price of $0.06 cents per share. Under the original agreement, the Loan is due for repayment 18 months from the issuance date of January 6, 2018.

On January 5, 2018, the Company replaced the original Loan with a replacement Loan which extends the maturity date for an additional 12 months, from January 6, 2018 to January 6, 2019. The replacement Loan carries the same terms and conditions as the original Loan. The extension with the replacement Loan will continue to be used to fund general operating expenses and ensure we have the financial resources to continue executing on our longer term growth strategy.

Operation of Water Treatment Plants

Raglan Mine operation for Glencore Canada Corporation, Quebec

During the year, we completed our 14th operating season at the Raglan Mine owned by Glencore Canada Corporation, where BQE Water is responsible for the ongoing operation of three WTP. Our contract is performance based and our revenue is linked directly to the volume of water treated to the client’s specification for discharge into the environment. The operating results for the 12 months ended December 31, 2017 are as follows:

(in ’000s)	2017	2016
Water discharged (cubic metres)	1,168	1,382

Joint venture operation with Jiangxi Copper Company, China

Our joint venture in China with partner Jiangxi Copper Company (“JCC”) operated three WTP during 2017. 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 wastewater. The operating results for the 12 months ended December 31, 2017 are as follows:

(in ’000s)	2017	2016
Water treated (cubic metres)	17,160	18,180
Copper produced (pounds)	3,449	3,609

Water Treatment Technical Services

BQE Water’s technical expertise and IP are applicable across broad areas of water management. The highlights of the technical services provided to clients for projects globally during 2017 are summarized below.

Optimization of existing WTP operated by third-party

- Wastewater treatment at metal smelting and refining operations in Mexico
- Mine drainage treatment at a former US EPA Superfund site in Colorado

Water management and permitting assistance

- Environmental Assessment of new mining projects in Canada
- Water management at a proposed new metallurgical coal mine in Canada
- Waste brine management at a mine in the US

Metal recovery from smelter waste

- Copper and zinc recovery from wastewater at Shandong, China
- Germanium recovery from smelter waste in Chile

Selenium removal from mine impacted waters - development and deployment of BQE Water's proprietary technology

- Selenium removal from tailings pond using BQE Water's electro-reduction process in the Yukon, Canada
- Industrial scale demonstration of electro-reduction co-sponsored by three mining companies, Canada
- Initial detailed engineering of BQE Water's Selen-IX™ process for the Kemess underground project, Canada

Sulphate removal from smelter and mine wastewater

- Pilot demonstration of BQE Water's Sulf-IX™ process in Peru
- Pilot demonstration of BQE Water's Sulf-IX™ process at Dexing Mine in China

Cyanide recovery and recycle for gold recovery using the SART process

- Expansion and re-start of a SART plant built by BQE Water in 2008 at Lluvia de Oro, Mexico

Treatability assessments using laboratory scale testing

- Selenium control at an oil refinery in Alberta, Canada
- Reverse osmosis performance on mine impacted waters, Canada
- Cyanide destruction, Canada
- Cyanide recovery from thiocyanate, Canada

2017 COMMENTARY AND OUTLOOK FOR 2018

Overall, 2017 was very successful and the key achievements of the Company can be summarized as follows:

- Maintained a strong safety and environmental record at its operations with no accidents and environmental incidents;
- Achieved the best financial performance in its history with annual adjusted EBIDTA of $776,000, an increase of $768,000 over 2016;
- Increased Proportional Revenue over 2016, as non-recurring component of the Proportional Revenue stagnated for several years;
- For the first time since 2009, the Company has solid prospects for new plants to be built that includes operation services in North America
- Successful industrial scale demonstration of BQE Water's Selen-IX™ electro-reduction technology has supported its advancement to a commercially ready status;
- Completion of mobile pilot plants in Latin America and in China, to aid business development in these key strategic markets; and
- Successful expansion and re-start of a SART plant designed by BQE Water at the LLuvia de Oro Mine in Mexico demonstrates to the industry that BQE Water can deliver SART safely, cost-effectively, and on a tight schedule.

Despite significant short term/quarterly fluctuations in our financial performance, the year ended 2017 marked the third consecutive year we achieved year-over-year improvement in our adjusted EBIDTA. We are proud of this achievement especially due to the challenges faced by the mining sector from 2015 to 2017.

The improved financial performance in 2017 is a reflection of several factors. First, the 27% increase in the average copper price compared to 2016 increased our share of revenues from our Dexing joint venture. The remainder of the increase was due to increased revenue generated by technical service engagements. In this context, the results in 2017 reflect the long sales cycle in our industry where efforts over the past three years are finally having a positive impact on revenues. Furthermore, the reduction in Company expenses and ongoing fiscal discipline applied in recent years resulted in a dramatic improvement in the Adjusted EBIDTA from $8,000 in 2016 to $776,000 in 2017. Our overall gross margin decreased in 2017 compared to 2016 primarily due to the lowering of our project margin on a specific project to build a new mobile pilot plant. While this reduced our gross margin in 2017, this is unlikely to occur again in the near future. More importantly, we believe that the new pilot plant assets will help us grow our business in these strategic markets in the future.

Despite the positive trend in the Company's financial performance over the last three years, it is important to understand that fluctuations in profitability are unlikely to disappear in the near future. This is primarily due to the following:

- Recurring revenue from plant operations and sales of recovered metals, which accounts for approximately 55% of our total Proportional revenue, fluctuates intrinsically as it is dependent on climatic conditions that affect total water volume and mass of recoverable metals reporting for treatment;
- Amortization, interest charges, and income taxes in our China joint ventures are all significant relative to our Proportional results and this is unlikely to change in the near future; and
- General and administration expenses relating to public company expenses represent a significant component of our total expense and the timing of these expenses contributes to quarterly fluctuations in financial performance.

As we look forward to 2018, we expect the trend of year-over-year improvement to continue. We have better visibility about certain projects that have been in our pipeline for several years. We also have a number of projects in much earlier stages of development and while these projects provide significant opportunities for future revenues, they are conducted in stages, hence, timing of these stages and associated revenues and cash-flows to BQE Water are uncertain. As a result, the primary areas of focus for the Company in 2018 are to continue to grow the project pipeline and identify avenues that would contribute to shortening the sales cycle and assist in generating revenues in the short-term.

Overall, we expect to generate sufficient cash-flow throughout 2018 to enable us to repay the principle amount of the convertible loan due on January 6, 2019 and have sufficient cash reserves to ensure ongoing Company operations. However, we recognize that short-term fluctuations in our revenue combined with the timing of the dividend payout from our China joint venture represents a risk of a temporary shortfall in working capital. Management and our Board of Directors are actively exploring options to mitigate this risk. Although the Company has been successful in securing financing in the past, there is uncertainty whether any financing will be available in the future on terms acceptable to the Company.

FINANCIAL RESULTS

(in $'000 except for per share amounts)

	2017	2016
	$	$
Revenues	**4,057**	3,961
less: Plant and other operating costs (*excluding depreciation*)	**2,315**	1,758
	1,742	2,203
General and administration	**1,665**	1,705
Sales and development	**1,219**	1,154
Stock-based compensation	**68**	76
Depreciation and amortization	**214**	234
Share of results of equity accounted joint ventures	**(1,149)**	(156)
Loss from operations and joint ventures	**(275)**	(810)
Finance costs, net	**(215)**	(98)
Foreign exchange loss	**(35)**	(1,427)
Bad debt recovery	**61**	11
Other income	**2**	-
Loss before income taxes	**(462)**	(2,324)
Income tax recovery (expense)	**100**	(1)
Net loss for the year	**(362)**	(2,325)
Translation (loss) gain on foreign operations	**(12)**	954
Comprehensive loss for the year	**(374)**	(1,371)
Net loss per share (basic and diluted)	**(0.0)**	(0.02)
Proportional Revenues[1]	**9,276**	8,362
Adjusted EBITDA[1]	**776**	8

	at December 31 2017	at December 31 2016
	$	$
Working capital	**735**	1,660
Total assets	**6,866**	7,459
Total long term liabilities	**1,498**	1,378
Shareholders' equity	**4,395**	4,756

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in $'000s)

Quarters ended	**Dec-17**	Sep-17	Jun-17	Mar-17	Dec-16	Sep-16	Jun-16	Mar-16
	$	$	$	$	$	$	$	$
Total revenues	**858**	1,578	953	668	1,570	1,356	644	391
Plant and other operating costs (excluding depreciation)	**599**	642	656	418	680	494	365	219
	259	936	297	250	890	862	279	172
General and administration	**410**	383	376	495	404	410	465	426
Sales and development	**364**	263	303	288	181	356	268	349
Stock-based compensation	**25**	34	15	(7)	-	30	16	30
Depreciation and amortization	**116**	31	33	33	58	60	59	57
Share of results of equity accounted joint ventures	**119**	(470)	(764)	(34)	195	(160)	(291)	100
Income (loss) from operations and joint ventures	**(775)**	695	334	(525)	52	166	(238)	(790)
Other expenses	**(53)**	(78)	(69)	(48)	(36)	(49)	(1,415)	(26)
Bad debt recovery	**-**	61	-	-	4	-	7	-
Income tax expense	**(53)**	153	-	-	(1)	-	-	-
Net (loss) income	**(881)**	831	265	(573)	19	117	(1,646)	(816)
Translation gain (loss)	**128**	(97)	(51)	9	(94)	22	1,290	(263)
Comprehensive (loss) income	**(753)**	734	214	(564)	(75)	139	(356)	(1,079)
Non-GAAP Measures:								
Proportional Revenue	**1,839**	3,147	3,182	1,108	2,295	2,411	2,137	1,519
Adjusted EBITDA	**(559)**	1,088	744	(497)	107	414	71	(584)

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 from the operation at Dexing increases between April and September of each year and declines during the winter months due to variations in precipitation and the annual maintenance schedule. Revenue from technical services relating to water management occur based on the timing of customer requirements.

SUMMARY OF Q4 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended December 31, 2017 and 2016.

Revenue

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

(in $'000s)

Revenue source	**Q4 2017** **$**	**% of total**	Q4 2016 $	% of total	Total Revenue % Change
Water treatment plant operations	**35**	**2%**	399	17%	(91%)
Technical services	**823**	**45%**	1,171	51%	(30%)
Total revenue	**858**	**47%**	1,570	68%	(45%)
Share of joint venture revenue	**981**	**53%**	725	32%	35%
Total Proportional Revenue	**1,839**	**100%**	2,295	100%	(20%)

Revenue from water treatment operations is generated from the Company's seasonal operation of the WTP at the Raglan Mine. During 2017, BQE Water extended the operating contract until the end of 2020. Revenues in Q4 2017 were significantly less than Q4 2016 due to significantly lower volumes of water requiring treatment at the mine site. We ended the season in mid-October 2017 compared to the end of November in the prior year.

Technical services revenue includes engineering and plant design, construction and commissioning of WTP, laboratory and pilot demonstrations, consulting, and operation support, which represents a sum of multiple contracts of varying contract values. Revenue from technical services decreased $348,000 from the same period in 2016. The timing of revenues from technical services fluctuates depending on client needs.

Our share of revenue from our joint venture in China is generated from metals recovered during the operation of WTP, which is impacted by the amount and price of copper sold. During Q4 2017, the total pounds of copper recovered increased by 12% over the comparable period in 2016. Our share of revenue increased by 35% from Q4 2016 which was due to the increase in copper recovered and the 21% increase in average copper prices during the period.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q4 2017 were $599,000 compared to $680,000 in Q4 2016, a decrease of $81,000. The decrease is mainly due to a one-time pilot demonstration contract during Q4 2016, which required additional engineering and laboratory labour.

Expenses

In Q4 2017, general and administration expenses were $410,000 compared to $404,000 in Q4 2016. The change in general and administration costs were mainly due to an increase in professional fees which were offset by a decrease in rental expenses.

Sales and development costs in Q4 2017 were $364,000 compared to $181,000 in Q4 2016, representing an increase of $183,000. This increase reflects a decrease of engineering and laboratory labour allocated to support technical services projects compared to the prior year's quarter.

Depreciation and amortization expenses were $116,000 in Q4 2017 compared to $58,000 in Q4 2016. The increase of $58,000 was due to the additional depreciation expense recorded in order to write down the net book value of the selenium pilot plant asset to $nil.

Stock-based compensation expense in Q4 2017 was $25,000 compared to $nil in Q4 2016. Stock-based compensation costs reflect fair value adjustments of deferred and restricted share units between each reporting period.

Overall net loss for the quarter was $881,000 compared to a net income of $20,000 in Q4 2016.

SUMMARY OF 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2017.

Revenue

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

(in $'000s) Revenue source	**2017** **$**	**% of total**	2016 $	% of total	Total Revenue % Change
Water treatment plant operations	**1,188**	**13%**	1,655	20%	(28%)
Technical services	**2,869**	**31%**	2,306	28%	24%
Total revenue	**4,057**	**44%**	3,961	48%	2%
Share of joint venture revenue	**5,219**	**56%**	4,401	52%	19%
Total Proportional Revenue	**9,276**	**100%**	8,362	100%	11%

The revenue from WTP operations at the Raglan site in 2017 decreased by $467,000 compared to 2016. Such revenue is mainly comprised of fees earned from the cubic metre of water discharged. The total volume of water treated during 2017 decreased by 15% compared to 2016 due to the significantly lower volume of water requiring treatment at the mine site.

The revenue from technical services includes engineering and plant design, construction and commissioning of WTP, laboratory and pilot demonstrations, consulting, and operation support, which represents a sum of multiple contracts of varying contract values. Revenue from technical services increased by $563,000 when compared to 2016. The increase was attributable to a greater number of projects; particularly from customers in Latin America.

Our share of revenue from our joint venture in China is generated from the metals recovered in the operation of WTP, which is impacted by the amount and price of copper sold. Our share of total pounds of copper recovered decreased by 81,000 pounds over the prior year due to a lower amount of water treated. The average LME annual price of copper was USD $2.80/LB and USD $2.21/LB in 2017 and 2016 respectively, representing a 27% increase. Our share of revenue from the joint venture increased by 19% due to the increase in average annual copper prices and slightly offset by the 5% decrease in copper recovered.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) were $2.3 million compared to $1.7 million in 2016, an increase of $557,000. The 35% increase is mainly due to the increase in projects from technical services and the cost to complete the scope of projects required during 2017. 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 2017 was $3.0 million compared to $3.5 million in 2016. The decrease is due to the improvement in reagent usage and lower water treated in 2017.

Expenses

In 2017, general and administration expenses were consistent with prior year expenses of $1.7 million, with a slight decrease of $40,000. The decrease in general and administration expenses were due to savings from reduced rental expenses in 2017.

Sales and development costs in 2017 were $1.2 million, which represent an increase of $65,000 from 2016. The variance is due to an increase of assay costs and contractor expenses to further advance the Company's technology development.

Total depreciation and amortization expenses were $214,000 in 2017 compared to $234,000 in 2016. The change of $20,000 was mainly due to the acceleration of depreciation of the water treatment plant and pilot plant due to the shortening of the asset's life to produce economic benefits for the Company.

Stock-based compensation was $68,000 in 2017 as compared to $76,000 in 2016. Included in the 2017 expense are $8,000 of stock-based compensation expenses relating to the stock option grant on December 7, 2017. Other stock-based compensation expenses were lower in 2017 mainly due to a lower fair value adjustment of deferred and restricted share units resulting from the movement of the Company share price.

Other expenses and other income

Net finance costs were $215,000 in 2017 as compared to $98,000 in 2016. During 2017, we recorded 12 months of finance cost accretion and interest expense related to the Loan, and recorded approximately six months of interest expense during 2016 as the Loan started on July 6, 2016.

Foreign exchange loss was $35,000 in 2017 as compared to $1.4 million in 2016. 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 Company's reporting currency in Canadian dollars. In 2016, the Company recognized a foreign exchange loss due to the cumulative foreign translation differences of $1.4 million upon the dissolution our Australian subsidiary. It does not reflect results from our previous or current operating activities.

In 2017, net income tax recovery was $100,000 as compared to a net income tax expense of $1,000 in the prior year. The income tax charges in both years contained a 10% withholding tax in China for the distributions made by the Dexing joint venture which were $52,000 in 2017 and $39,000 in 2016. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions. Also during 2017, we reversed a withholding tax payable of $152,000 relating to withholding taxes in Chile not realized.

Overall net loss for the year was $362,000 compared to $2.3 million in 2016.

OPERATION SUMMARY

Joint venture operation with Jiangxi Copper Company, China

In 2007, BQE Water entered into a 50/50 joint venture arrangement with JCC, China's largest copper producer and in April 2008, the joint venture completed the construction and commissioning of its first water treatment plant at JCC's Dexing Mine site, an active copper mine in China. The plant utilizes BQE Water's ChemSulphide® process to remove dissolved copper from acid mine drainage generated by waste dumps and low-grade stockpiles. The high-grade copper concentrate recovered from the water is shipped to JCC's refinery. In 2014, the joint venture completed the construction and commissioning of two new water treatment plants at JCC's Yinshan Mine and Dexing Mine sites. Both plants also utilize BQE Water's ChemSulphide® process.

All three WTP were designed by BQE Water and are operated by the joint venture. The plants are managed jointly whereby BQE Water is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share 50/50 in the revenues and costs. Revenues are generated through the sale of recovered copper from the plants based on the metal price during the day when the concentrate is shipped, less refining costs.

Operating results for all three plants during the year were as follows:

Dexing 1

(in '000s)	2017	2016
Water treated (cubic metres)	6,368	6,637
Copper produced (pounds)	1,585	1,577

Dexing 2

(in '000s)	2017	2016
Water treated (cubic metres)	8,031	8,547
Copper produced (pounds)	1,120	1,190

Yinshan

(in '000s)	2017	2016
Water treated (cubic metres)	2,762	2,996
Copper produced (pounds)	744	842

Total Joint Venture

(in '000s)	2017	2016
Water treated (cubic metres)	17,160	18,180
Copper produced (pounds)	3,449	3,609

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 both sites. The two plants Dexing 1 and Dexing 2 treat water from the same source and water may be diverted from one plant to the other to optimize operations.

During 2017, 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.

Raglan Mine operation for Glencore Canada Corporation, Quebec

BQE Water operates three WTP at the Raglan Mine, an active nickel mine in Northern Quebec which is owned by Glencore Canada Corporation ("Glencore"). The three plants include: BQE Water's ChemSulphide® processes plant, BQE Water's Met-IX™ process plant, and one conventional lime neutralization plant. All plants discharge treated water into the environment. The ChemSulphide® and Met-IX™ plants also recover nickel from wastewater which is blended into the nickel concentrate produced by the mine. Because of the harsh winter conditions in Northern Quebec, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. BQE Water is responsible for all aspects of the plant operation and charges a treatment fee per cubic metre of water discharged.

Operating results for the three plants during the year were as follows:

(in '000s cubic metres)	2017	2016
Water treated - ChemSulphide® plant and Met-IX™ plant	748,000	982,000
Water treated - lime neutralization plant	420,000	400,000
Total	1,168,000	1,382,000

In 2017, we successfully completed our 14th operating season at the site. Due to the lack of precipitation at the mine site resulting in lower than usual volume of water requiring treatment, BQE Water started up and operated only two of the three plants in 2017 including the ChemSulphide® plant and the lime neutralization plant. As a result, during 2017, we treated and discharged 24% less water from our ChemSulphide® plant as compared to 2016 when both the ChemSulphide® and Met-IX™ plants were operating. Despite the low precipitation at site, the lime neutralization plant treated and discharged 5% more water compared to 2016. This is due to surplus water that had accumulated at the mine over the previous five years and was stored untreated. Nevertheless the water treatment operating season in 2017 ended in early October and was 27 days shorter than the 2016 season.

PROJECTS SUMMARY

Plant Optimization Projects

Wastewater Treatment in Mexico

In 2017, BQE Water was hired to complete an on-site mini pilot testing to demonstrate improvements to the existing water treatment plant. The mini pilot was completed in Q2 and the customer advanced the project to the next phase which involves BQE Water carrying out engineering design for retrofits and design changes to the existing treatment plant. The engineering work commenced in Q4 2017 and continued to 2018. The on-site mini pilot test results show that plant improvements would contribute to savings in reagent cost, improve effluent water quality, and reduce the amount of residue produced by the existing treatment, creating a return on investment.

Mine Drainage Treatment at Former US EPA Superfund Site

The year 2017 marked a third consecutive year where BQE Water was retained by the City of Breckenridge to provide ongoing operations support for an existing water treatment plant operated by municipal operators. The plant treats a very small flow of water and does not require dedicated operating staff. The work carried out by BQE Water in 2017 was a continuation of work completed the previous two years. The work completed in 2018 enabled a notable increase in plant availability, installation of a new control system, and a reduction in reagent consumption achieved through the combination of small plant modifications, new controls, and operator training. This ongoing project is significant to BQE Water as it:

- Establishes the viability of BQE Water's business model of ongoing technical support when plants treat small flows of wastewater and do not require dedicated full-time operators; and
- Elevates BQE Water's profile in the US market through the continued successful operations at a former US EPA Superfund site.

Water Management and Permitting Assistance

Environmental Assessment of New Mining Projects

In 2017, BQE Water was hired by two Canadian mining companies to lead water related aspects through the early stages of environmental assessment permitting mandated by federal and provincial authorities. While the contract values for these projects are relatively small, the importance for BQE Water is that it represents a recognition by the industry of the Company's expertise, understanding of regulatory requirements, and the value we can bring to the early stages of new mining projects when critical decisions and commitments about water are made by project proponents.

Water Management at Proposed New Metallurgical Coal Mine
In Q3, BQE Water completed a comprehensive review of water management at a proposed new metallurgical coal operation in Canada. The review focused on reducing costs and risks associated with water as part of a Prefeasibility Study.

Waste Brine Management at a Mine in the US
BQE Water was retained by a major world gold producer to assess options for minimizing brine production from an existing water treatment plant using Reverse Osmosis ("RO"). Following the initial study, BQE Water completed a field trial of a process that can be used to reduce brine generation by 60 to 80% depending on feed water quality. The results of the field trial confirmed initial predictions but due to the short-term nature of RO deployment at the site, the process could not be implemented in time on the full scale. Nevertheless, the results form the basis for potential future work across the client's portfolio of operations where RO systems are used. Moreover, since RO is used at many mine sites globally, there is a potential that our approach to brine minimization can be applied elsewhere.

Metal Recovery from Smelter Waste

Copper and Zinc Recovery from Smelter Effluent
In 2016, BQE Water entered into a joint venture agreement with a Chinese partner Beijing MWT Water Treatment Project Limited Company ("MWT"), to design, construct, and operate a treatment plant that would recover copper and zinc from wastewater generated by Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). MWT provides the majority of the project financing in exchange for 80% of the profit from the sale of recovered metals until the project capital is paid back after which point MWT's share is reduced to 60% with the other 20% being transferred to 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. BQE Water is entitled to 20% of the ongoing profit from the sale of recovered metals. The plant construction started in Q3 2017 and is expected to be completed in late Q2 2018.

Germanium Recovery from Smelter Waste
During 2018, BQE Water was retained by Ecometales (wholly owned subsidiary of Codelco) to assist in the preliminary technical assessment of germanium recovery from smelter waste. The assessment involved proof of concept/fatal flaw laboratory testing conducted in the BQE Water laboratory in Chile and scoping level engineering to support preliminary economic assessment.

Selenium Removal from Mine Water

Selenium Removal from Tailings Pond in Yukon
In 2017, BQE Water completed treatability assessment and initiated engineering design for water treatment at an existing mine in the Yukon. One of the key components of the treatment involves BQE Water's electro-reduction process for selenium with concurrent stabilization in refractory residue suitable for long-term disposal mixed with tailings. The mine's water chemistry is very complex with selenium present in five different forms. This has historically been the main hurdle for implementation of other treatment systems. The work completed for this project:

- Demonstrated the proficiency for BQE Water's electro-reduction process to successfully remove all forms of selenium present in tailings water. This may give a niche technical advantage to BQE Water's selenium technology compared to other technologies in future projects depending on feed water chemistry; and
- Garnered the client's approval with BQE Water being tasked with implementing selenium removal treatment at the mine site in 2018.

Initial Detailed Engineering of Water Treatment Involving Selen-IX™ for Kemess Underground Project
During the year, BQE Water completed initial detailed engineering of a water treatment plant for the Kemess underground project. The plant includes two sequential stages of treatment including heavy metals removal followed by the Selen-IX™ process for selenium removal. BQE Water's design was then submitted to Canadian regulatory agencies for review and approval as part of the Environmental Assessment and Permitting processes for the Kemess project. In Q3, AuRico Metals, the owner of the project hired Golder Associates to provide a third party review of BQE Water's design. Overall, the review was positive and supported BQE Water's proposal for the industrial scale demonstration of the electro-reduction step of Selen-IX™ to mitigate the technical risk associated with the engineering scale-up from pilot to full scale. The significance of the work completed in 2017 is summarized as follows:

- BQE Water's treatment plant design forms the basis of environmental permitting of the Kemess Mine;
- Canadian regulatory agencies reviewed Selen-IX™ favourably and the process is gaining regulatory acceptance; and
- Independent review of Selen-IX™ by Golder was positive and supported BQE Water's proposal for the industrial demonstration of the electro-reduction step in Selen-IX™.

Selen-IX™ - Industrial Scale Demonstration of Electro-reduction Circuit
In Q4 2017, under contract with three Canadian companies interested in Selen-IX™ technology, BQE Water designed and constructed an industrial scale demonstration unit of the electro-reduction circuit. This unit uses one industrial electrocell of the exact size and style as planned for full-scale Selen-IX™ plants. The unit was commissioned in November and testing on different waters began in December. The preliminary results indicate that performance of the demonstration unit meets expectations generated the following insights:

- Industrial scale demonstration mitigates the main technical risk of Selen-IX™ scale-up identified by independent reviewers;
- Three mining companies grouped together to co-fund the demonstration which indicates the interest and potential of Selen-IX™ in the market place; and
- Operating experience from the demonstration unit will help improve design and shorten the commissioning schedule of full-scale plants.

Sulphate Removal from Smelter and Mine Wastewater

Pilot Demonstration of Sulf-IX™ Technology in Peru
Under contract to a base metal producer in Peru, BQE Water constructed a mobile pilot plant to demonstrate sulphate removal from wastewater using BQE Water's Sulf-IX™ process. The objective of the demonstration was to enable the client to complete an internal assessment of the feasibility of eliminating water discharge into the environment and increasing water re-use. The role of Sulf-IX™ in the operation is to produce treated water quality that permits water reuse in multiple applications sensitive to calcium and sulphate. The demonstration was successful and the client is currently assessing if and when to proceed into the engineering design phase to support the company's long-term operational goal of reducing water consumption. While the project may not proceed to implementation in the near future, the following achievements were realized with this project:

- The first demonstration of Sulf-IX™ in Peru where enforcement of existing sulphate regulations is expected to ramp up;
- A report describing Sulf-IX™ and summarizing the results from the pilot testing was submitted to Peruvian regulators, increasing their awareness of BQE Water's technology; and
- BQE Water now has a Sulf-IX™ mobile pilot plant asset available for pilot demonstrations in South America.

Pilot Demonstration of Sulf-IX™ Technology at Dexing in China
As part of a long-term plan to mitigate risks associated with tailings water quality and reuse at the Dexing Mine, JCC engaged the BQE-JCC joint venture to demonstrate BQE Water's Sulf-IX™ technology with the goal of reducing calcium and sulphate concentrations in the tailings supernatant. In Q2 2017, the joint venture constructed a mobile Sulf-IX™ pilot plant that BQE Water subsequently operated in Q3. The pilot plant reached the target water quality and a final report was prepared for JCC to support their internal evaluation. Although JCC may not proceed with the construction of full-scale Sulf-IX™ plant in Dexing in the near future, the project enabled BQE Water to:

- Demonstrate Sulf-IX™ technology in China for the first time; and
- Provided BQE Water with a Sulf-IX™ mobile pilot plant asset for future pilot demonstrations in China.

Cyanide Recovery and Recycle with SART

LLuvia de Oro Gold Mine, Mexico
Under new ownership since 2016, the LLuvia de Oro gold mine has undergone a major expansion involving the development of the copper rich part of the ore body for which a SART (cyanide recycle) plant was initially designed and built for by BQE Water in 2008. Following the completion of engineering to support the plant refurbishment and expansion, plant upgrades were completed in Q3 2017. Subsequently, BQE Water successfully commissioned the plant and provided operator training during Q4 2017. The plant currently treats up to 450 m3/hr of gold leach solution and recovers

approximately 100 metric tonnes of sodium cyanide and 60 metric tonnes of copper per month. This project has enabled BQE Water to:

- Demonstrates its ability to deliver SART safely and cost effectively; and
- Gain the site owner's support to showcase the success of SART and allow BQE Water to organize plant tours to support business development activities.

Laboratory Scale Testing Projects

Over the course of 2017, BQE Water completed multiple laboratory scale testing projects either as stand-alone investigations or as part of the scope of work for other projects. The main highlight of 2017 is the capability of BQE Water's laboratory has expanded to include cyanide destruction, reverse osmosis and electro-oxidation. This will position BQE Water to better serve its clients and broaden the areas of expertise for future business growth.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2017, BQE Water had 93,966,672 common shares issued (93,966,672 at December 31, 2016) and 7,133,333 stock options outstanding (4,333,333 at December 31, 2016).

As of April 17, 2018, the number of common shares issued and outstanding remain unchanged from December 31, 2017; and 6,200,000 stock options were issued and outstanding.

At December 31, 2017, the Company had Cash of $984,000, which is a decrease of approximately $1.2 million in Cash from December 31, 2016. For the 12 months ended Dec 31, 2017, the Company's Cash funded operating activities of $1.5 million and financing activities of $98,000.

The Company had a working capital position at the end of the year of $734,952, a decrease of $925,218 from December 31, 2016. At December 31, 2017, BQE Water's significant working capital items include trade and other receivables of $680,530 ($613,309 at December 31, 2016) and trade payable and accrued liabilities of $783,799 ($878,891 at December 31, 2016).

The Company has commitments of $796,649 until 2022 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2017 and in the "2017 COMMENTARY AND 2018 OUTLOOK" section of this MD&A, the Company believes 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 raise additional financing and ultimately attain and 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 funds from its Dexing joint venture, and secure and complete new sales contracts.

On July 6, 2016, we completed an 18-month secured convertible Loan with an aggregate principle of $1.5 million. The proceeds of the Loan are used to fund general operating expenses and to ensure we have the financial resources to continue executing on our long-term growth strategy. On January 5, 2018, the Company replaced the original Loan with a replacement Loan which extended the maturity date for an additional 12 months, from January 6, 2018 to January 6, 2019. The replacement Loan has the same terms and conditions as the original Loan.

Historically, we have not yet realized profitable operations and relied on non-operational sources of financing to fund our operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is 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) As at December 31, 2017, the Company had trade and other receivables balance of $nil (2016 - $86,255) from their China joint venture, arising mainly from JCC-BQE joint venture costs incurred on behalf of the joint venture. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the year ended December 31, 2017 and 2016.

b) For the year ended December 31, 2017 and 2016, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2017	2016
	$	$
Salaries, fees and short-term benefits	658,480	645,826
Share-based payments (note 11(a))	6,153	13,502
	664,633	659,328

Included in the trade payables and accrued liabilities as of December 31, 2017 is $12,231 ($59,200 at December 31, 2016) of salaries, director fees, management consulting service fees with companies owned by the Company's management, and termination benefits. Included in the salaries, fees and short-term benefits, are consulting services received from companies owned by the Company's management, which amounted to $69,000 for the year ended December 31, 2017 (2016 - $120,000).

c) On July 6, 2016, the Company entered into an 18-month, secured, 8% per annum interest bearing convertible loan agreements 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 12 of our audited consolidated financial statements.

d) Included in the trade payables and accrued liabilities as of December 31, 2017 is $96,400 ($nil as of December 31, 2016) of contribution of registered capital payable to the Company's joint venture as described in note 9(b) of our audited consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's consolidated 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 consolidated 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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Critical judgements

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are limited to management's assessment of the Company's ability to continue as a going concern (see note 2(b) of the Company's consolidated financial statements).

Key sources of estimation uncertainty and assumptions

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

Revenue recognition

Revenue from technical services relating to water management are recognized using a percentage-of-completion method, which requires judgment relative to assessing risks, estimating project costs for completion, and making assumptions for technical issues. Depending on the services provided and on the contract terms, many variables are used in assessing the revenue from the percentage completed at the reporting date.

Asset impairment

Determining the amount of asset impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In assessing fair value less costs to sell, the price that would be received on the sale of an asset in an orderly transaction between market participants at the measurement date is estimated. Many factors used to assess recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company' long-term assets such as plant and equipment or investment in joint ventures. For example, the copper price could be lower than projected due to economic, industry or competitive factors, or the discount rate used in the value in use model could increase due to changes in market interest rate.

GENERAL

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected.

The Company's management has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management has also evaluated the design and operating effectiveness of the Company's internal control over financial reporting as of the end of the period covered by this report. The risk of a significant error is mitigated by the active involvement of senior management and the board of directors in all the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; and the thorough review of the Company's financial statements by management and the Board of Directors. Based on the result of the assessment, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting have been adequately designed. During the current year, the Company's management implemented a formal testing program on the operating effectiveness of its controls and concluded that they are also effective.

There has been no change in BQE Water's internal controls over financial reporting during the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Recent Accounting Pronouncement

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Changes in accounting standards not yet effective:

IFRS 9 Financial instruments

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 introduces new requirements for the classification and measurements of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. It also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company currently does not practice hedge accounting, but will continue to evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption of IFRS 9.

IFRS 15 Revenues from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time or over time. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price, and recognize revenue when the performance obligation is satisfied. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers, and improve the comparability of revenue from contracts with customers. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

The Company will adopt IFRS 15 effective January 1, 2018 applying the retrospective method of transition. The Company has evaluated the potential impact of applying IFRS 15, analyzing its sale agreements. The standard requires entities to recognize revenue when the control of the goods or services passes to the customer. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occur at the same time. In addition, the standard requires entities to apportion revenue earned from contracts to individual performance obligations, on a relative standalone selling price basis. The Company also earns revenue from technical services relating to water management, including engineering, laboratory and pilot demonstrations. For technical services contracts, the Company may defer and recognize the revenue over time as each obligation within the contracts are fulfilled. Given that the majority of our technical services contracts have the clause that allow the Company to have an enforceable right to payment for performance completed to date, the Company concluded there is no material change in the amount of revenue recognized as the Company will continue to recognize revenue over time based on percentage of completion.

Based on the Company’s assessment, the impact of this change on the amount of revenue recognized in a year is not expected to be significant. As a result, the Company does not anticipate any significant changes in the amounts of the revenue recognized or a significant change in the timing of revenue recognition under the new standard.

IFRS 16 Leases
On January 6, 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 *Leases*. The effective date is for reporting periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

RISKS AND UNCERTAINTIES

Companies operating in the process technology sector face many and varied risks. While the company strives to manage such risks to the extent possible and practical, risk management cannot eliminate risk totally. Following are the risk factors which the Company’s management believes are most important in the context of the Company’s business. It should be noted that this list may not be exhaustive and other risks may apply. An investment in the Company may not be suitable for all investors.

Uncertain Profitability, Funding Needs, Financing Risks and Dilution

The Company believes there are many sites which can benefit from the Company’s processes. The Company has designed and/or built 17 plants to date deploying proprietary technologies developed by BQE Water and applying them to meet site specific conditions. However, the Company has been unable to consistently generate sufficient cash flows from these projects to cover ongoing development and administration costs to date.

BQE Water's ability to continue future operations is dependent on the Company's ability to generate positive cash flows from existing water treatment operations and projects currently under construction, securing additional design, engineering, construction and operating contracts, and if required, additional internal cost restructuring and financing in the future. Sources of potential financing include, but are not limited to, a combination of strategic partnerships, joint venture arrangements, project debt finance, issuance of equity and other capital markets alternatives. Management will pursue such additional sources of financing when required and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company and that they will be available on terms which are acceptable to the Company.

The issuance of common shares in the capital of the Company in the future could also result in further dilution to the Company’s shareholders. There are also outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future which will result in dilution to the Company’s shareholders.

Going Concern

There can be no assurance of the Company’s success and, therefore, any investor in securities of the Company could potentially lose their entire investment. Please refer to the disclosure in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2017 and in the “2017 COMMENTARY AND 2018 OUTLOOK” section of this MD&A.

Dependence on Key Personnel

The Company is substantially dependent upon a number of key employees and consultants. The loss of any one or more of the Company’s key employees or consultants could have a material adverse effect on its business. Additionally, the Company’s ability to develop, manufacture and market its products and compete with current and future competitors depends, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel in the Company’s industry may prove to be intense and it may have to compete for personnel with companies that have substantially greater financial and other resources than it does. Failure to attract and retain qualified personnel could have a material adverse effect on the Company’s business operating results and financial condition.

Economic and Project Site Dependence

The Company currently derives its revenue from a limited number of sources (contracts). For certain contracts, the Company has made significant investments in fixed plants that are dependent on conditions at the project site that may be beyond the control of the Company. Changes in site conditions and/or the loss of any one contract could result in a materially adverse effect on the Company's financial condition.

Commodity Prices

For the Company's joint venture operations, it generates revenue by selling recovered copper obtained from treated water. These recovered metals face commodity price risks and thus their prices may vary based on world supply and demand. There can be no assurance that the price of copper will maintain at current buying rates.

Currency Risk

The Company conducts business in Canada, the United States, Mexico, Chile, and China. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The Company's joint venture operations sell and incur costs mainly in Chinese RMB. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations. The Company is also exposed to currency risk through assets and liabilities denominated in currencies other than Canadian dollar.

Technology Risk

The Company has completed the construction and commissioning of a number of plants. The operating and engineering data from these plants is used in estimates for new projects under evaluation and/or in the design engineering stage. Notwithstanding the foregoing, each new commercial venture undertaken by the Company has the inherent technical risk of any continuous biological and/or chemical process, which could include the loss of the biological feedstock.

Intellectual Property Protection

The Company cannot provide any assurance that any further intellectual property applications will be approved. Even if they are approved, such patents, trademarks or other intellectual property registrations may be successfully challenged by others or invalidated. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies and processes which the Company will need to protect through a combination of patent, copyright, trade secret and trademark law.

The trademark, copyright and trade secret positions of the Company's business are uncertain and involve complex and evolving legal and factual questions. In addition, there can be no assurance that competitors will not seek to apply for and obtain trademarks and trade names that will prevent, limit or interfere with the Company's BioSulphide®, ChemSulphide®, Met-IX™, Sulf-IX™ and Selen-IX™ processes. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may also be necessary to enforce the intellectual property rights of the Company or to determine the scope and validity of other parties' proprietary rights. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks and copyrights from infringement or claims of invalidity.

The patent positions of emerging companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede the ability of the Company to do business or that third parties will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented product developed for the benefit of the Company.

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the investors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

The Company is not currently aware of any claims asserted by third parties that the Company's intellectual property infringes on their intellectual property. However, in the future, a third party may assert a claim that the Company infringes on their intellectual property. If the Company is forced to defend against these claims, which may be with or without any merit or whether they are resolved in favour or against the Company, the Company may face costly litigation and diversion of management's attention and resources. As a result of such a dispute, the Company may have to develop costly non-infringement technology or enter into license agreements which may not be available at favourable terms.

Access to Proprietary Information

The Company generally controls access to and distribution of its technologies, documentation and other proprietary information. Despite efforts by the Company to protect its proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain or use its solutions or technologies. There can be no assurance that the steps the Company has taken or will be taking will prevent misappropriation of its solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in Canada or the United States.

Competition

The Company is aware of and does address existing competitors for metal removal opportunities. There is a possibility that other companies will enter these markets and compete with the Company. Such competitors could possess greater financial resources and technical facilities. Increased competition could result in significant price competition, reduced profit margins or loss of market share. The Company may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results and financial condition.

Environmental Regulation

The Company's business and operations are subject to environmental regulation in various jurisdictions in which it operates. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business and operations.

Management of Growth

The Company could experience growth that could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train and manage its employee base to manage growth. The Company might also establish additional water treatment facilities which would create additional operational and management complexities. In addition, the Company expects that its operational and management systems will face increased strain as a result of the expansion of the Company's technologies and services. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies and services. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition will suffer.

Conflicts of Interest

Certain directors, officers and other members of management of the Company and its subsidiaries serve (and may in the future serve) as directors, officers, promoters and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company or its subsidiaries and their duties as a director, officer, promoter or member of management of such other companies. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (British Columbia) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Possible Volatility of Share Price

The market price of the Company's common shares could be subject to wide fluctuations in response to, and may be adversely affected by, quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Company's common shares.

Lack of Dividends

No dividends have been paid to date on the Company's common shares. The Company anticipates that for the foreseeable future the Company's earnings, if any, will be retained for use in its business and that no cash dividends will be paid on the common shares.

BQE WATER INC.

(formerly BioteQ Environmental Technologies Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

Independent Auditors' Report

To the Shareholders of BQE Water Inc.:

We have audited the accompanying consolidated financial statements of BQE Water Inc. (formerly BioteQ Environmental Technologies Inc.), which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BQE Water Inc. as at December 31, 2017and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2(b) in the consolidated financial statements which states that BQE Water Inc. incurred significant loss from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 2(b), indicates the existence of a material uncertainty that may cast significant doubt about the ability of BQE Water Inc. to continue as a going concern.

Vancouver, British Columbia

MNP LLP

April 17, 2018

Chartered Professional Accountants

BQE WATER INC.
Consolidated Statements of Financial Position
As at December 31, 2017 and 2016

	note	**December 31 2017 $**	December 31 2016 $
Assets			
Current assets			
Cash		**984,298**	2,231,798
Trade and other receivables	6	**680,530**	613,309
Inventory and work in progress		**-**	20,018
Prepaid and deposits		**42,956**	121,028
Total current assets		**1,707,784**	2,986,153
Non-current assets			
Plant and equipment	8	**42,463**	217,010
Investment in joint ventures	9	**5,095,256**	4,231,567
Deposits		**20,386**	24,601
Total non-current assets		**5,158,105**	4,473,178
Total assets		**6,865,889**	7,459,331
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 10	**783,799**	878,891
Income taxes payable	17	**-**	152,195
Deferred revenues		**29,198**	157,415
Deferred benefits	11	**159,835**	128,910
Deferred lease inducement		**-**	8,572
Total current liabilities		**972,832**	1,325,983
Non-current liabilities			
Convertible loan	12	**1,497,726**	1,377,532
Total liabilities		**2,470,558**	2,703,515
Shareholders' Equity			
Share capital	11, 13	**54,719,814**	54,719,814
Contributed surplus	11	**10,058,149**	10,047,271
Equity component of convertible loan	12	**86,575**	84,614
Accumulated other comprehensive income		**1,398,709**	1,410,982
Accumulated deficit		**(61,867,916)**	(61,506,865)
Total shareholders' equity		**4,395,331**	4,755,816
Total liabilities and shareholders' equity		**6,865,889**	7,459,331

Going concern (note 2(b))
Commitments (note 19)

Approved and authorized by the Board of Directors

Signed "George Poling"
George Poling, Director

Signed "Peter Gleeson"
Peter Gleeson, Director

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

BQE WATER INC.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and 2016

	note	Year ended December 31 **2017** **$**	2016 $
Revenues		**4,056,752**	3,960,713
Operating expenses (excluding depreciation)	14	**2,314,577**	1,757,982
Operating margin before depreciation		**1,742,175**	2,202,731
General and administration	14	**1,664,779**	1,705,104
Sales and development	14	**1,218,515**	1,154,214
Stock-based compensation	7, 11	**68,359**	76,459
Depreciation of plant and equipment	8	**214,092**	233,551
Share of results of equity accounted joint ventures	9	**(1,149,317)**	(156,289)
Loss from operations and joint ventures		**(274,253)**	(810,308)
Finance costs, net	15	**(215,108)**	(97,973)
Foreign exchange loss		**(34,968)**	(1,427,094)
Other income, net	16	**62,978**	11,205
Loss before income taxes		**(461,351)**	(2,324,170)
Income tax recovery (expense), net	17	**100,300**	(885)
Net loss for the year		**(361,051)**	(2,325,055)
Other comprehensive (loss) income			
Items that will be reclassified subsequently to loss			
Translation (loss) gain on foreign operations		**(12,273)**	954,000
Comprehensive loss for the year		**(373,324)**	(1,371,055)
Net loss per share			
Basic and diluted		**(0.00)**	(0.02)
Weighted average number of shares outstanding			
Basic and diluted		**93,966,672**	93,966,672

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

BQE WATER INC.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

	note	**Year ended December 31** **Number of Shares**	**2017** **$**	Year ended December 31 Number of Shares	2016 $
Share Capital					
Balance, beginning of the year	13	**93,966,672**	**54,719,814**	93,966,672	54,719,814
Balance, end of the year		**93,966,672**	**54,719,814**	93,966,672	54,719,814
Contributed surplus					
Balance, beginning of the year			**10,047,271**		10,033,768
Share-based payments	11		**10,878**		13,503
Balance, end of the year			**10,058,149**		10,047,271
Equity component of convertible loan					
Balance, beginning of the year			**84,614**		-
Issuance of convertible loan	12		**1,961**		84,614
Balance, end of the year			**86,575**		84,614
Accumulated other comprehensive income					
Balance, beginning of the year			**1,410,982**		456,982
Other comprehensive (loss) income for the year			**(12,273)**		954,000
Balance, end of the year			**1,398,709**		1,410,982
Accumulated deficit					
Balance, beginning of the year			**(61,506,865)**		(59,181,810)
Net loss for the year			**(361,051)**		(2,325,055)
Balance, end of the year			**(61,867,916)**		(61,506,865)
Total shareholders' equity					
Balance, beginning of the year			**4,755,816**		6,028,754
Share-based payments	11		**10,878**		13,503
Issuance of convertible loan	12		**1,961**		84,614
Other comprehensive (loss) income for the year			**(12,273)**		954,000
Net loss for the year			**(361,051)**		(2,325,055)
Balance, end of the year			**4,395,331**		4,755,816

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

BQE WATER INC.
Consolidated Statements of Cash Flow
For the years ended December 31, 2017 and 2016

	note	Year ended December 31 **2017** **$**	2016 $
Operating activities			
Net loss for the year		**(361,051)**	(2,325,055)
Items not affecting cash			
Income tax (recovery) expense	17	**(100,300)**	38,571
Deferred Income tax recovery	17	**-**	(37,686)
Bad debt (recovery) expense	16	**(60,978)**	5,212
Share of results of equity accounted joint ventures	9	**(1,149,317)**	(156,289)
Interest expense	15	**215,108**	97,973
Gain from disposal of equipment	16	**(2,000)**	-
Depreciation of plant and equipment	8	**214,092**	233,551
Amortization of deferred lease inducement		**(23,083)**	(11,430)
Net foreign exchange loss		**26,128**	1,421,030
Expense recognized in stock-based compensation	11	**68,359**	76,459
		(1,173,042)	(657,664)
Change in non-cash operating working capital items	18	**(247,971)**	(108,138)
Cash used in operations		**(1,421,013)**	(765,802)
Income taxes paid	17	**(52,440)**	(38,571)
Net cash used in operating activities		**(1,473,453)**	(804,373)
Investing activities			
Purchase of plant and equipment	8	**(39,544)**	(18,040)
Proceeds from disposal of equipment		**2,000**	-
Net distribution received from joint venture	9	**376,021**	181,480
Interest received	15	**11,260**	6,696
Net cash provided by investing activities		**349,737**	170,136
Financing activities			
Financing initiation costs paid	12	**-**	(23,652)
Interest paid	12	**(117,552)**	-
Proceeds from convertible loan	12	**19,666**	1,480,334
Net cash (used in) provided by financing activities		**(97,886)**	1,456,682
Effect of exchange rate changes on cash and cash equivalents		**(25,898)**	463
Change in cash		**(1,247,500)**	822,908
Cash, beginning of the year		**2,231,798**	1,408,890
Cash, end of the year		**984,298**	2,231,798

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

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

BQE Water Inc. is the ultimate parent company of its consolidated group (or the “Company”). Effective March 1, 2017, the name of the Company was changed from BioteQ Environmental Technologies Inc. to BQE Water Inc.

The Company is an integrated water services provider with unique expertise and intellectual property related to water treatment at mines and metallurgical facilities focused on reducing Life Cycle Costs and eliminating long-term liabilities. The Company generates revenue from two main sources: (1) operation and maintenance of water treatment plants; and (2) technical services relating to water management, including engineering, laboratory and pilot demonstrations.

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

2. BASIS OF PREPARATION AND GOING CONCERN

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee (“IFRIC”), effective as of December 31, 2017.

The Company’s Board of Directors approved these consolidated financial statements on April 17, 2018.

b. Going concern assumption

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

For the year-ended December 31, 2017, the Company incurred a net loss of $361,051 ($2,325,055 in 2016) and used net cash in operating activities of $1,473,453 ($804,373 in 2016). At December 31, 2017, the Company had a working capital position of $734,952 ($1,660,170 at December 31, 2016) and a cumulative deficit of $61,867,916 ($61,506,865 at December 31, 2016).

The Company no longer expects to generate sufficient working capital to enable us to repay the principle amount of the convertible loan due January 6, 2018 and have sufficient cash reserves to meet ongoing operating requirements over the next 12 months. Subsequent to the reporting date of December 31, 2017, Management and the Board of Directors of the Company successfully replaced the original $1.5 million convertible loan due January 6, 2018 with a replacement loan due January 6, 2019. The replacement loan will ensure that BQE Water has sufficient levels of working capital moving into 2018. This also assumes that BQE Water is able to continue successful operations at Raglan and its Chinese joint venture plants, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, the Company will need to secure new sources of working capital to continue operations.

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities 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 the financial statements could be required.

c. Basis of measurement

These consolidated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise stated. The Company did not adopt any new accounting standard changes or amendments effective January 1, 2017 that had a material impact on these consolidated financial statements. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

a) Basis of consolidation

These consolidated 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 Dec. 31, 2017	Ownership interest as at Dec. 31, 2016
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	China	100%	100%

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

Entity	Country of incorporation and operation	Ownership interest as at Dec. 31, 2017	Ownership interest as at Dec. 31, 2016
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

ii) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses in the joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profit, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

When the Company transacts with a joint venture, profits or losses resulting from the transactions with the joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Company.

b) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in BQE Water Inc.'s group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries and its joint ventures are respective of their country's local currency, such as Chilean peso, Mexican peso, and Chinese renminbi ("RMB"). The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's presentation currency.

For the purpose of presenting these consolidated financial statements, entities including joint ventures that have a functional currency different from the presentation currency ("foreign operations") are translated into CAD as follows:

- Assets and liabilities: at the closing rate at the date of the statement of financial position; and
- Income and expenses: at the average rate for the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates).

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

ii) Transactions and balances

In preparing the financial statements of each individual BQE Water entity, transactions in currencies other than the entity's functional currency ("foreign currency") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for the exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

c) Cash

Cash consists of unrestricted bank deposits, some of which are interest-bearing.

d) Inventory and work in progress

Inventory of metal concentrate is valued at the lower of average production cost and net realizable value. Production costs that are inventoried include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour and other direct costs (including external services) and related production overheads, but exclude administrative and finance costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Chemical and spare part inventories are valued at the lower of cost and net replacement cost, which approximates net realizable value. Work in progress represents the costs that the Company incurred for projects that are not completed at the statement of financial position date. This amount includes both direct materials and direct labour costs.

e) Plant and equipment

i) Recognition and measurement

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. The cost of self-constructed plant and equipment includes the costs of materials, costs directly attributable to bringing the assets to a working condition for their intended use such as labour, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Self-constructed assets are classified to the appropriate categories of plant and equipment and subject to depreciation when ready for their intended use. If significant components of a plant or equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment.

ii) Subsequent measurement

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss in the financial period in which they are incurred.

A plant and equipment item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of a plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

iii) Depreciation

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost net of their residual values, over the shorter of their estimated useful lives and the contract life. Depreciation commences when the asset is fully constructed and available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Depreciation categories and useful lives for items included in plant and equipment are as follows:

Asset	**Estimated useful life**
Computer equipment	3 years
Office and lab equipment	5 years
Leasehold improvements	Remaining lease term
Pilot plants	3 to 5 years
Water treatment plants	Shorter of contract life or 10 to 20 years

f) Financial Instruments

i) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss (“FVTPL”), held-to maturity financial assets, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

The Company classifies non-derivative financial liabilities as either financial liabilities at FVTPL or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

ii) Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Company initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

iii) Non-derivative financial assets – measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received plus any directly attributable transaction costs, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at an amortized cost using the effective interest method less impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

The Company’s loans and receivables comprise of Cash and trade and other receivables (exclude value added tax receivable such as GST/PST/QST/HST/IVA). No financial asset was designated as FVTPL, available for sale or held for maturity as at December 31, 2017 and 2016.

iv) Non-derivative financial liabilities – measurement

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in stock-based compensation expense or recovery.

The Company has classified deferred benefits which are the provisions related to the Company's Deferred Share Units ("DSU") and Restricted Share Units ("RSU") as FVTPL.

Other financial liabilities are initially recognized at the fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at an amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial liability or a shorter period where appropriate, to the net carrying amount on initial recognition. The Company classifies its trade payable and accrued liabilities (exclude value added tax payable such as GST/PST/QST/HST/IVA), and convertible loan as other financial liabilities.

v) Share capital

The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, warrants and stock options, net of any tax effects, are recognized as a deduction from equity.

g) Impairment

i) Plant and equipment

The Company's plant and equipment are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

An asset's recoverable amount is the higher of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recognized in profit and loss for the period. Impairment losses recorded may be subsequently reversed if the recoverable amount of the assets is once again higher than their carrying value. Where impairment is subsequently reversed, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that it does not exceed the carrying value that would have been determined (net of depreciation) had no impairment loss been recognized in prior periods.

ii) Loans and Receivables

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

iii) Equity-accounted investment in joint venture

An equity accounted investment in joint venture is reviewed for indication of impairment at each financial position date. Indications includes observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its FVLCD and VIU. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings or loss in the period in which the reversal occurs.

h) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when: (i) the Corporation has present legal or constructive obligations as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligations; and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligations. The increase in the provision due to passage of time is recognized as interest expense. As at December 31, 2017 and 2016, the Company did not have any liability for provisions.

i) Revenue Recognition

Revenue is recognized when the amount of revenue can be measured reliably, and is probable that the economic benefits will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In addition, for the sale of metal concentrates, revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither managerial involvement nor control over the goods. For the sale of services, a further recognition requirement is that the stage of completion of the transaction at the end of the reporting period can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

i) Operation and maintenance of water treatment plants

For revenue based on water treatment fees, the above criteria are generally met as water treatment services are performed. The Company has an agreement with a customer for the operation of a water treatment plant. Water treatment fees revenue are earned based on the volume of water treated and on labour hours incurred. For revenue based on metal recovery, the above criteria are also generally met when the title of the metal concentrate passes to the customer. Revenue from metal recovery is recorded at the fair value, based on prevailing market prices adjusted in accordance with agreed upon terms.

ii) Technical services relating to water management

The above criteria are generally met as services are performed. Engineering services include plant design, construction, piloting, commissioning and operation support. Laboratory and pilot demonstration services include experiment design, experimental equipment and reagent procurement, test apparatus setup, conducting of experiments, disposal of samples and delivery of final reports on the results. The Company recognizes revenue from technical services by either the percentage of completion or completed contract method depending on the specific circumstances of the individual contracts.

j) Government grant

Grants from the governments are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in the statement of profit or loss on a systematic basis in the periods in which the intended expenses are recognized.

k) Employee benefits

i) Bonus plans

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the key performance indicators of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which the related service is provided by the employees.

iii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates:

- When the Company can no longer withdraw the offer of those benefits; and
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

l) Share-based payment

The Company maintains a RSU plan, a DSU plan, and a stock option plan for employees and directors of the Company.

Cash-settled share-based payments, which include RSUs and DSU, are measured initially at the fair value and such liabilities are recognized as an obligation at the grant date. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in profit or loss for in the period.

Equity-settled share-based payments, which include the stock option plan, are measured at the fair value of the equity instruments at the grant date. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus.

Equity-settled share-based payment with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

m) Income tax

The Company follows the asset and liability method of accounting for income taxes. Income tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. Income tax comprises of two components: current and deferred.

i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxes as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred tax

Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements, and interests in joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

n) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments. If the Company incurs net losses in a fiscal year, basic and diluted losses per share are the same.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's consolidated 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 consolidated 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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

a) Critical judgements

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are limited to management's assessment of the Company's ability to continue as a going concern (note 2(b)).

b) Key sources of estimation uncertainty and assumptions

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

i) Revenue recognition

Revenue from technical services relating to water management are recognized using a percentage-of-completion method, which requires judgment relative to assessing risks, estimating project costs for completion, and making assumptions for technical issues. Depending on the services provided and on the contract terms, many variables are used in assessing the revenue from the percentage completed at the reporting date.

ii) Asset impairment

Determining the amount of asset impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In assessing fair value less costs to sell, the price that would be received on the sale of an asset in an orderly transaction between market participants at the measurement date is estimated. Many factors used to assess recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company' long-term assets such as plant and equipment or investment in joint ventures. For example, the copper price could be lower than projected due to economic, industry or competitive factors, or the discount rate used in the value in use model could increase due to changes in market interest rate.

5. RECENT ACCOUNTING PRONOUNCEMENT

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Changes in accounting standards not yet effective:

IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 introduces new requirements for the classification and measurements of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. It also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company currently does not practice hedge accounting, but will continue to evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption of IFRS 9.

IFRS 15 Revenues from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time or over time. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price, and recognize revenue when the performance obligation is satisfied. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers, and improve the comparability of revenue from contracts with customers. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

The Company will adopt IFRS 15 effective January 1, 2018 applying the retrospective method of transition. The Company has evaluated the potential impact of applying IFRS 15, analyzing its sale agreements. The standard requires entities to recognize revenue when the control of the goods or services passes to the customer. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there is no material change in the timing of revenue recognized under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occur at the same time. In addition, the standard requires entities to apportion revenue earned from contracts to individual performance obligations, on a relative standalone selling price basis. The Company also earns revenue from technical services relating to water management, including engineering, laboratory and pilot demonstrations. For technical services contracts, the Company may defer and recognize the revenue over time as each obligation within the contracts are fulfilled. Given that the majority of our technical services contracts have the clause that allow the Company to have an enforceable right to payment for performance completed to date, the Company concluded there is no material change in the amount of revenue recognized as the Company will continue to recognize revenue over time based on percentage of completion.

Based on the Company's assessment, the impact of this change on the amount of revenue recognized in a year is not expected to be significant. As a result, the Company does not anticipate any significant changes in the amounts of the revenue recognized or a significant change in the timing of revenue recognition under the new standard.

IFRS 16 Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 *Leases*. The effective date is for reporting periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

6. TRADE AND OTHER RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Trade receivables	322,198	439,573
Unbilled receivables	246,495	74,096
Value added tax receivables	12,467	-
Receivable from joint venture (note 7(a))	-	86,255
Other	99,370	13,385
	680,530	613,309

7. RELATED PARTY TRANSACTIONS AND BALANCES

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

a) As at December 31, 2017, the Company had trade and other receivables balance of $nil (2016 - $86,255) from their China joint venture, arising mainly from JCC-BQE joint venture costs incurred on behalf of the joint venture. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the year ended December 31, 2017 and 2016.

b) For the year ended December 31, 2017 and 2016, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2017	2016
	$	$
Salaries, fees and short-term benefits	658,480	645,826
Share-based payments (note 11(a))	6,153	13,502
	664,633	659,328

Included in the trade payables and accrued liabilities as of December 31, 2017 is $12,231 ($59,200 at December 31, 2016) of salaries, director fees, management consulting service fees with companies owned by the Company's management, and termination benefits. Included in the salaries, fees and short-term benefits, are consulting services received from companies owned by the Company's management, which amounted to $69,000 for the year ended December 31, 2017 (2016 - $120,000).

c) On July 6, 2016, the Company entered into an 18-month, secured, 8% per annum interest bearing convertible loan agreements 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 12.

d) Included in the trade payables and accrued liabilities as of December 31, 2017 is $96,400 ($nil as of December 31, 2016) of contribution of registered capital payable to the Company's joint venture as described in note 9(b).

8. PLANT AND EQUIPMENT

	Water treatment plant $	Pilot plants $	Other[1] $	Total $
As at Dec. 31, 2016				
Opening net book value	86,356	317,169	29,001	432,526
Additions	8,256	-	9,784	18,040
Depreciation	(94,612)	(117,287)	(21,652)	(233,551)
Foreign exchange translation	-	-	(5)	(5)
Closing net book value	-	199,882	17,128	217,010
As at Dec. 31, 2016				
Cost	2,113,388	580,593	528,224	3,222,205
Accumulated depreciation	(2,113,388)	(380,711)	(511,096)	(3,005,195)
Closing net book value	-	199,882	17,128	217,010
As at Dec. 31, 2017				
Opening net book value	-	199,882	17,128	217,010
Additions	-	-	39,545	39,545
Depreciation	-	(199,882)	(14,210)	(214,092)
Closing net book value	-	-	42,463	42,463
As at Dec. 31, 2017				
Cost	-	580,593	568,065	1,148,658
Accumulated depreciation	-	(580,593)	(525,602)	(1,106,195)
Closing net book value	-	-	42,463	42,463

[1]Other comprises of lease improvements, office and lab equipment and computer equipment.

9. INVESTMENT IN JOINT VENTURES

Investment in joint ventures are comprised of:

	JCC-BQE $	MWT-BQE $
Balance, January 1, 2016	4,708,976	-
Share of net income	156,289	-
Share of translation loss on foreign operation	(452,218)	
Contributions made	202,920	-
Distributions received	(384,400)	-
Balance, December 31, 2016	4,231,567	-
Share of net income (loss)	1,170,739	(21,422)
Share of translation loss on foreign operation	(5,942)	(65)
Contributions made	148,379	96,400
Distributions received	(524,400)	-
Balance, December 31, 2017	5,020,343	74,913

a. JCC-BioteQ Environmental Technologies Co. Ltd.

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

The joint venture sells all of 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 terms. Currently, the joint venture operates three water treatment plants.

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. The Company received a gross cash distribution of $524,400 (RMB $2,730,000) during 2017, and $384,400 (RMB $2,000,000) during 2016.

The joint venture derives its revenue from recovered copper sales, which is subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to the world commodity price risk. The Company's share of net earnings in the joint venture for the year ended December 31, 2017 were $1,170,739 ($156,289 in 2016).

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

Statement of financial position

	Dec. 31, 2017 $	Dec. 31, 2016 $
Assets		
Current assets		
Cash	1,562,058	783,474
Trade and other receivables	28,178	87,979
Income taxes recoverable	58,940	55,134
Inventory	33,663	100,272
Prepaid expenses	977	857
	1,683,816	1,027,716
Non-current assets		
Plant and equipment	4,029,345	4,481,601
Deferred tax assets	65,254	65,321
	4,094,599	4,546,922
Total assets	5,778,415	5,574,638
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	758,072	1,343,071
Total liabilities	758,072	1,343,071
Partner's Equity		
Joint venture partner equity	3,732,403	3,584,024
Accumulated other comprehensive income	1,443,966	1,449,908
Accumulated deficit	(156,026)	(802,365)
Total partner's equity	5,020,343	4,231,567
Total liabilities and partner's equity	5,778,415	5,574,638

Statements of income and comprehensive income

	2017	2016
	$	$
Revenue	5,218,607	4,401,089
Plant and other operating costs (excluding depreciation)	2,990,909	3,493,374
	2,227,698	907,715
General and administration	366,625	255,003
Depreciation of plant and equipment	509,776	512,545
Income from operations	1,351,297	140,167
Finance income (expense)	2,989	(1,623)
Foreign exchange (loss)	(438)	(9,383)
Other income	15,705	-
Income before income taxes	1,369,553	129,161
Current income tax expense	(292,810)	(38,938)
Deferred tax recovery	93,996	66,066
Net income for the year	1,170,739	156,289
Other comprehensive loss		
Translation loss on foreign operation	(5,942)	(452,218)
Comprehensive income (loss) for the year	1,164,797	(295,929)

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

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

As of December 31, 2017, the joint venture has begun the construction of the water treatment plant and the Company's share of net loss in the joint venture for the year ended December 31, 2017 were $21,487.

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

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Current assets	78,429	-
Plant and equipment	19,297	-
Current liabilities	5,951	-
Partner's equity	74,913	-

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

	2017	2016
	$	$
Revenue	-	-
General and administration	21,422	-
Net loss for the year	(21,422)	-
Other comprehensive loss	(65)	-
Comprehensive loss for the year	(21,487)	-

10. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Trade payable and accruals	319,721	489,051
Payroll liability	305,859	267,462
Payable to joint ventures (note 7(d), note 9)	96,400	-
Interest payable under convertible loan (note 12)	59,180	56,986
Value added tax payable	2,639	65,392
	783,799	878,891

11. SHARE-BASED PAYMENTS

The Company's recorded stock-based compensation (recovery) expense comprised as follows:

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Stock options (a)	10,878	13,503
Deferred share units (b)	55,932	61,216
Restricted share units (c)	1,549	1,740
	68,359	76,459

a) Stock options

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

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

	2017		2016	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at January 1	0.11	4,333,333	0.14	5,233,333
Granted	0.06	4,200,000	-	-
Forfeited	0.11	(300,000)	-	-
Expired	0.18	(1,100,000)	0.29	(900,000)
Outstanding at December 31	0.07	7,133,333	0.11	4,333,333
Exercisable at end of year	0.08	2,933,333	0.12	3,466,666

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. The following summary provides information on the grants and inputs to the Black-Scholes model.

On December 7, 2017, the Company granted 4,200,000 options with an exercise price of $0.06 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date. The fair value of these options determined using the Black-Scholes valuation model was $0.05 per option. The significant assumptions in the valuation model were: volatility of approximately 119.19%, an expected option life of five years and an annual risk-free interest rate of 1.65%.

Exercise price $	Weighted average remaining life (months)	2017 number of outstanding share options
0.06	60	4,200,000
0.07	16	2,400,000
0.15	1	533,333
0.06 to 0.15	41	7,133,333

b) Deferred share units

The Company implemented a deferred share units ("DSU") plan, effective July 1, 2010, pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. Effective from October 1, 2013, the DSU Plan was amended to include certain senior managers of the Company.
The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant's

compensation amount paid in DSU in lieu of cash, and by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed within the period beginning on the date a holder ceases to be a participant under the plan and ending on December 31 of the following calendar year.

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

The following table presents the changes to the DSU plan:

	Number of units	Value $
Balance, January 1, 2016	2,915,075	64,132
Fair value adjustment	-	61,216
Balance, December 31, 2016	2,915,075	125,348
Redeemed	(410,614)	(24,751)
Fair value adjustment	-	55,932
Balance, December 31, 2017	2,504,461	156,529

c) Restricted share units

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

The following table presents the changes to the RSU plan:

	Number of units	Value $
Balance, January 1, 2016	82,841	1,822
Fair value adjustment	-	1,740
Balance, December 31, 2016	82,841	3,562
Redeemed	(29,948)	(1,805)
Fair value adjustment	-	1,549
Balance, December 31, 2017	52,893	3,306

12. CONVERTIBLE LOAN

On July 6, 2016, the Company entered into an 18-month convertible loan agreement ("Loan") with multiple lenders, which include certain directors, management, and employees of the Company, individual investors, and non-management insiders of the Company. The lenders agreed to advance a secured convertible loan with an aggregate principle amount of $1,500,000. The Company grants to the lenders a security interest of all the personal property in which the Company now has or hereafter acquires. Out of the aggregate principle, $1,441,000 are from single tranche lenders and the remaining $59,000 are from multi-tranche lenders. Single tranche lenders agreed to advance the loan on the issuance date. Multi-tranche lenders agreed to advance funds to the Company in nine monthly equal tranches starting July 31, 2016 to March 31, 2017.

Under the agreement, the convertible loan bears interest at a rate of 8% per annum with interest payable semi-annually. The convertible loans are due for repayment 18 months from the effective date at their nominal value of $1,500,000 or conversion into common shares of the Company at the holder's option with the conversion price of $0.06 per share. Any unpaid and accrued interest that is to be converted into common shares shall be equal to the greater of $0.06 or the market price on the date such interest becomes due and payable. At any time, the Company may elect to repay all or any portion of the principle and unpaid accrued interest prior to the maturity date.

On January 6, 2017, the Company made the first semi-annual payment of accrued interest in full to the lenders. Then on July 6, 2017, the Company made the second semi-annual payment of accrued interest in full to the lenders.

The fair value of the liability component is calculated using a market interest rate for comparable companies of 15% for an equivalent, non-convertible secured loan at the date of issue. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity as an equity component of the convertible loan. Transaction costs associated with the issuance of the convertible loan are allocated to the liability and equity components in its allocated proportion.

Subsequent to the end of the reporting date on January 5, 2018, the Company replaced the original Loan with a replacement Loan which extends the maturity date for another 12 months, from January 6, 2018 to January 6, 2019. The replacement Loan carries the same terms and conditions as the original Loan. This transaction has no financial effect except the classification of the convertible loan from current liabilities to non-current liabilities on the Consolidated Statements of Financial Position as at December 31, 2017.

The carrying amount of the liability component of the convertible loan and the interest payable are derived as follows:

	Dec. 31, 2017 $	Dec. 31, 2016 $
Face value of convertible loan issued	1,500,000	1,500,000
Less: amounts receivable from lenders	-	(19,667)
Transaction costs	(23,652)	(23,652)
Equity conversion component on initial recognition	(124,261)	(122,300)
Liability component on initial recognition	1,352,087	1,334,381
Accumulated interest and accretion expense	322,371	100,137
Repayment of interest	(117,552)	-
Total liability component as at year end	1,556,906	1,434,518
Current interest payable included in accrued liabilities (note 10)	(59,180)	(56,986)
Non-current liability component balance as at year end	1,497,726	1,377,532

13. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at December 31, 2017 and 2016, the Company has 93,966,672 common shares outstanding.

14. EXPENSES BY NATURE

	2017	2016
	$	$
Plant and other operating costs		
Employee benefits	1,277,671	1,210,614
Consulting and contractor expenses	591,315	222,720
Travel expenses	254,167	93,029
Raw materials and consumables used	133,222	109,848
Equipment rental expenses	26,094	61,036
Other expenses	32,108	60,735
	2,314,577	1,757,982
General and administration		
Employee benefits	664,790	689,203
Director fees	152,700	103,400
Consulting and contractor expenses	360,420	376,863
Rental expenses	179,346	302,748
Insurance expenses	165,504	134,749
Other expenses	142,019	98,141
	1,664,779	1,705,104
Sales and development		
Employee benefits	909,565	789,343
Travel expenses	117,740	84,980
Rental expenses	78,317	86,425
Consulting and contractor expenses	60,593	119,046
Other expenses	52,300	74,420
	1,218,515	1,154,214

15. FINANCE COSTS

The finance costs and income are comprised as follows:

	2017	2016
	$	$
Finance income	11,260	6,696
Interest expense	(226,368)	(104,669)
	(215,108)	(97,973)

16. OTHER INCOME

The other income are comprised as follows:

	2017	2016
	$	$
Recovery of value added tax receivable	49,166	16,417
Recovery (write-off) of trade receivables	11,812	(5,212)
Gain on disposal of capital assets	2,000	-
	62,978	11,205

Recovery of value added tax receivable

In 2017, the Company recovered $49,166 ($16,417 in 2016) in VAT receivable from the Mexican government which was written off in 2014.

17. INCOME TAXES

	2017	2016
	$	$
Current tax (recovery) expense for the year	(100,300)	38,571
Deferred tax recovery	-	(37,686)
Income tax (recovery) expense	(100,300)	885

The statutory tax rate to income tax expense was 26% (2016 – 26%) for the year-ended December 31, 2017. The tax on the Company's losses before tax differs from the amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2017	2016
	$	$
Expected income tax recovery at statutory rates	(119,951)	(604,284)
Non-deductible expenses and (non-taxable income)	(306,312)	(39,489)
Withholding tax	(100,300)	38,571
Change in tax rates	(5,132)	(125,871)
Functional currency adjustments	(7,757)	531,545
Different statutory tax rates on foreign subsidiaries	(5,790)	(78,181)
Change in unrecognized deferred tax assets	444,942	278,594
Income tax expense	(100,300)	885

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Details of deferred tax assets (liabilities) as at December 31, 2017 and 2016 are as follows:

	2017	2016
	$	$
Non-capital losses carry-forwards	614	29,623
Convertible loan	(614)	(29,623)
Unrealized foreign exchange gain	-	-
Investment in joint venture	-	-
Deferred tax assets (liabilities)	-	-

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2017 and 2016 are as follows:

	2017	2016
	$	$
Canada		
Plant and equipment	1,404,028	3,082,381
Investment in joint venture	-	-
Net capital losses	8,056,712	9,635,754
Non-capital losses	27,100,912	23,732,527
Investment tax credits	86,834	86,834
Deferred benefits and others	183,803	228,302
	36,832,289	36,765,798
Foreign Jurisdictions		
Plant and equipment	456	3,387
Unrealized foreign exchange loss	1,386,720	1,278,723
Non-capital losses	3,624,763	3,311,870
	5,011,939	4,593,980
Total unrecognized deductible temporary differences	41,844,228	41,359,778

The Company's investment tax credits, expiring between 2018 and 2020, all of which may be used to reduce future Canadian income taxes that are otherwise payable. As at December 31, 2017, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately $27,100,912 (2016 - $23,732,528) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	$
2026	2,385,066
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	3,007,451
2032	3,735,949
2033	3,403,636
2034	2,414,568
2035	1,458,931
2036	584,241
2037	3,191,559
	27,100,912

In addition, the Company has available tax losses in other jurisdictions that total $3,624,763 (2016 - $3,311,870). The remaining losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 10 years to indefinitely.

As at December 31, 2017, the Company has $nil of income taxes payable (2016 - $152,195), as the Company reversed an estimated withholding tax with the Chilean government. During 2017, the Company received confirmation with local accountants that the Company's Canadian entity is not liable for withholding tax for earned income while operating a Chilean water treatment plant during 2012.

During the year ended December 31, 2017, the Company has paid off $52,440 (2016 - $38,571) for the dividend received from JCC-BioteQ Environmental Technologies Co. Ltd. As at December 31, 2017 and 2016, the company has $nil withholding tax payable.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Change in non-cash working capital items	$	$
(Increase) decrease in trade and other receivables	(66,412)	62,367
Decrease in inventory	20,137	35,001
(Increase) decrease in prepaid and deposits	(9,314)	9,171
Decrease in trade payable and accrued liabilities	(49,054)	(117,459)
Decrease in deferred revenue	(116,772)	(97,218)
Decrease in deferred revenues and deferred benefits	(26,556)	-
Change in non-cash working capital items	(247,971)	(108,138)

19. COMMITMENTS

The Company has commitments of $796,649 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2018	295,752
2019	187,738
2020	189,269
2021	63,606
2022	60,284
	796,649

20. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build and operate water treatment plants. The Company earns revenue from the operation of water treatment plants and technical services relating to water management.

a) Segment revenue

The Company's sources of revenue are as follows:

	2017	2016
	$	$
Water treatment plant operations	1,187,686	1,655,042
Technical services	2,869,066	2,305,671
	4,056,752	3,960,713

b) 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:

	2017	2016
	$	$
Revenue		
Canada	2,534,511	3,165,338
Latin America	1,181,146	224,991
USA	252,012	69,860
Other	89,083	500,524
	4,056,752	3,960,713

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

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Canada	42,463	217,010
China	5,095,256	4,231,567
	5,137,719	4,448,577

c) Information about major customers

The following table presents revenue to individual customers exceeding 10% of annual revenue for the year ended December 31, 2017 and 2016.

	2017	2016
	$	$
Customer A	1,187,686	1,655,042
Customer B	37,133	391,299
Customer C	156,996	472,365
Customer D	84,900	844,438
Customer G	730,472	12,262
Total	2,197,187	3,375,406
Represents percentage of total revenue for the year	54%	85%

21. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In the management of capital, the Company includes the components of shareholder's equity, non-current debt, and net of Cash.

	2017	2016
	$	$
Capital (as defined above) is summarized as follows		
Shareholders' equity	4,395,331	4,755,816
Non-current convertible loan	1,497,726	1,377,532
	5,893,057	6,133,348
Less:		
Cash	(984,298)	(2,231,798)
	4,908,759	3,901,550

In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise additional debt financing or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the year.

22. FINANCIAL RISK MANAGEMENT

The Company's activities exposes it to various risks, including credit risk, market risks such as foreign currency risk, liquidity risk, and commodity price risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on preservation of capital. Risk management activities are managed by the Board of Directors and its finance and accounting department. The Company's risk management policies and procedures have not changed from 2016.

a) Credit risk

Credit risk is the risk of an unexpected loss if a party to the Company's financial instruments fails to meet their contractual obligations. The Company's financial assets are primarily comprised of Cash, and trade and other receivables excluding value added tax ("VAT") receivable. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash and cash equivalent.

The Company's maximum exposure to credit risk is as follows:

	Dec. 31, 2017	Dec. 31, 2016
	$	$
Cash	984,298	2,231,798
Trade and other receivables (exclude VAT receivable)	668,063	613,309
	1,652,361	2,845,107

The Company minimizes the credit risk on Cash by depositing only with reputable and highly-rated financial institutions.

Credit risk on trade and other receivables is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. The historical level of customer defaults is negligible and, as a result, the credit risk associated with trade receivables at December 31, 2017 is considered to be negligible. All of the Company's receivables have been reviewed for indicators of impairment. The aging of trade and other receivables is as follows:

				Dec. 31, 2017	Dec. 31, 2016
	0-30 days	31-90 days	Over 90 days	Total	Total
	$	$	$	$	$
Trade and other receivables (exclude VAT receivable)	523,278	118,545	26,240	668,063	613,309

Of the Company's receivables, there are no overdue balances and collection is reasonably assured. The definition of items that are past due is determined by reference to terms agreed upon with individual customers. No trade receivables have been challenged by the respective customers and the Company continues to conduct business with them on an ongoing basis.

b) Currency risk

The Company conducts business in Canada, United States, Mexico, Chile, and China. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The three main types of foreign exchange risk for the Company can be categorized as follows:

i) Transaction exposure

The Company's operations sell mainly services and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

ii) Currency risk exposure

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the Canadian dollar: Cash, trade and other receivable excluding VAT receivable, and trade payable and accrued liabilities excluding VAT payable. The currencies of the Company's financial instruments and other foreign currency denominated liabilities exposed to currency risk, based on notional amounts, were as follows:

				December 31, 2017
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash	430,544	152,857	18,991	41,253
Trade and other receivables (exclude VAT)	96,141	14,181	88,444	-
Trade and other payables (exclude VAT)	(5,161)	(1,077)	(272,557)	(99,099)
Gross balance sheet exposure	521,524	165,961	(165,122)	(57,846)

	December 31, 2016			
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash	407,812	14,570	10,851	1,657
Trade and other receivables (exclude VAT)	109,925	-	69,414	-
Trade and other payables (exclude VAT)	(72,860)	(1,845)	(176,605)	(1,130)
Gross balance sheet exposure	444,877	12,725	(96,340)	527

iii) Translation exposure

The Company's functional and reporting currency is Canadian dollars. The Company's foreign operations translate their operating results from their respective functional currency to Canadian dollars. Therefore, exchange rate movements in the U.S. dollar, Mexican peso, Chilean peso and Chinese RMB can have a significant impact on the Company's consolidated operating results. A 10% strengthening (weakening) of the Canadian dollar against the following currencies would have decreased (increased) the Company's net loss from its financial instruments presented by the amounts shown below.

	2017 $	2016 $
U.S. dollar	52,152	44,488
Mexican peso	16,596	1,273
Chilean peso	(16,512)	(9,634)
Chinese RMB	(5,785)	53
	46,451	36,180

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of Cash. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash in excess of anticipated needs.

The following table shows the contractual maturities of debt commitments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amounts on the consolidated statements of financial position.

			Dec. 31, 2017	Dec. 31, 2016
	< 1 year $	1-2 years $	Total $	Total $
Trade payable and other payables (exclude VAT)	721,980	-	721,980	756,513
Deferred benefits	159,835	-	159,835	128,910
Convertible loan	-	1,500,000	1,500,000	1,500,000
Interest Payable on convertible loan	120,000	60,000	180,000	180,493
	1,001,815	1,560,000	2,561,815	2,565,916

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity. A period of continuous depression in mining industry, which is the Company's main customer base, may necessitate the Company to seek financing opportunities in accordance to its capital risk management strategy (note 21).

d) Price risk

The Company's net income or loss, and financial condition are subject to price risk due to fluctuations of the following:

i) Commodity price risk

The profitability of the Company's investment in joint ventures will be significantly affected by changes in the commodity price of copper being sold in joint venture of JCC-BQE. Copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for copper, the level of interest rates, the rate of inflation, investment decisions by large holders of copper, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in copper prices. A 10% change in copper prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by $521,861 in 2017 ($440,109 in 2016).

ii) Common stock price risk

The Company is subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, the DSU and RSU plan that the Company is required to satisfy in cash upon vesting. The Company considers the plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in stock-based compensation expense each period: an increase in share unit award prices would decrease the Company's net income or loss. A 10% change in common stock prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by $15,983 in 2017 ($12,535 in 2016).

23. FAIR VALUE MEASUREMENT

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

The Company's financial assets and financial liabilities are classified and measured as follows:

	Category	Dec. 31, 2017 $	Dec. 31, 2016 $
Financial assets			
Cash	Loan and receivables at amortized cost	984,298	2,231,798
Trade and other receivables (exclude VAT)	Loan and receivables at amortized cost	668,063	613,309
Financial liabilities			
Trade payable and other payables (exclude VAT)	Financial liabilities at amortized cost	781,160	813,499
Convertible loan	Financial liabilities at amortized cost	1,497,726	1,377,532
Deferred benefits	Financial instruments at FVTPL	159,835	128,910

The carrying values of the financial assets and liabilities presented above approximate their fair values. The Company has not offset financial assets with financial liabilities.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described in note 3(f). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's DSUs and RSUs are held at fair value, measured by Level 1 inputs. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2017 and 2016. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.