BQE Water

BQE WATER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

MNP LLP

Independent Auditor's Report

To the Shareholders of BQE Water Inc.:

Opinion

We have audited the consolidated financial statements of BQE Water Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates that the Company incurred net income of $150,397 and used net cash in operating activities of $579,025 during the year ended December 31, 2018 and, as of that date, the Company had a cumulative deficit of $61,717,519. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jian-Kun Xu.

Vancouver, British Columbia

MNP LLP

April 16, 2019

Chartered Professional Accountants

MNP LLP

BQE WATER INC.
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017

	note	**December 31 2018 $**	December 31 2017 $
Assets			
Current assets			
Cash		**1,425,312**	984,298
Trade and other receivables	6	**1,304,821**	680,530
Prepaid and deposits		**86,931**	42,956
Total current assets		**2,817,064**	1,707,784
Non-current assets			
Plant and equipment	8	**98,439**	42,463
Investment in joint ventures	9	**4,962,449**	5,095,256
Deposits		**34,699**	20,386
Total non-current assets		**5,095,587**	5,158,105
Total assets		**7,912,651**	6,865,889
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 10	**1,352,280**	783,799
Deferred revenues	20	**92,556**	29,198
Deferred benefits	11	**86,171**	159,835
Total current liabilities		**1,531,007**	972,832
Non-current liabilities			
Loans	12	-	1,497,726
Total liabilities		**1,531,007**	2,470,558
Shareholders' Equity			
Share capital	13	**56,332,413**	54,719,814
Contributed surplus	11	**10,265,959**	10,058,149
Equity component of convertible loan	12	-	86,575
Accumulated other comprehensive income		**1,500,791**	1,398,709
Accumulated deficit		**(61,717,519)**	(61,867,916)
Total shareholders' equity		**6,381,644**	4,395,331
Total liabilities and shareholders' equity		**7,912,651**	6,865,889

Going concern (note 2(b))
Commitments (note 19)
Subsequent event (note 25)

Approved and authorized by the Board of Directors

Signed "Peter Gleeson"	*Signed "Rob Henderson"*
Peter Gleeson, Executive Chairman	Rob Henderson, Director

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

BQE WATER INC.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31, 2018 and 2017

	note	Year ended December 31 **2018** **$**	2017 $
Revenues	20	**4,270,294**	4,056,752
Operating expenses (excluding depreciation)	15	**2,029,198**	2,314,577
Operating margin before depreciation		**2,241,096**	1,742,175
General and administration	15	**1,509,216**	1,664,779
Sales and development	15	**1,120,272**	1,218,515
Stock-based compensation	7, 11	**110,605**	68,359
Depreciation of plant and equipment	8	**18,716**	214,092
Share of results of equity accounted joint ventures	9	**(898,133)**	(1,149,317)
Income (loss) from operations and joint ventures		**380,420**	(274,253)
Finance costs, net	16	**(124,244)**	(215,108)
Foreign exchange gain (loss)		**18,763**	(34,968)
Other income, net		**-**	62,978
Income (loss) before income taxes		**274,939**	(461,351)
Income tax (expense) recovery, net	17	**(124,542)**	100,300
Net income (loss) for the year		**150,397**	(361,051)
Other comprehensive income (loss)			
Items that will be reclassified subsequently to income (loss)			
Translation gain (loss) on foreign operations		**102,082**	(12,273)
Comprehensive income (loss) for the year		**252,479**	(373,324)
Earnings (loss) per share			
Basic and diluted	14	**0.16**	(0.38)
Weighted average number of shares outstanding			
Basic and diluted		**95,292,095**	93,966,672
Basic and diluted after subsequent consolidation of shares	14, 25	**952,921**	939,667

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, 2018 and 2017

	note	Year ended December 31 Number of Shares	2018 $	Year ended December 31 Number of Shares	2017 $
Share Capital					
Balance, beginning of the year	13	**93,966,672**	**54,719,814**	93,966,672	54,719,814
Conversion of convertible loan	12	**26,876,644**	**1,612,599**	-	-
Balance, end of the year		**120,843,316**	**56,332,413**	93,966,672	54,719,814
Contributed surplus					
Balance, beginning of the year			**10,058,149**		10,047,271
Share-based payments	11		**121,235**		10,878
Settlement of convertible loan	12		**86,575**		-
Balance, end of the year			**10,265,959**		10,058,149
Equity component of convertible loan					
Balance, beginning of the year			**86,575**		84,614
Issuance of convertible loan	12		**-**		1,961
Settlement of convertible loan	12		**(86,575)**		-
Balance, end of the year			**-**		86,575
Accumulated other comprehensive income					
Balance, beginning of the year			**1,398,709**		1,410,982
Other comprehensive income (loss) for the year			**102,082**		(12,273)
Balance, end of the year			**1,500,791**		1,398,709
Accumulated deficit					
Balance, beginning of the year			**(61,867,916)**		(61,506,865)
Net income (loss) for the year			**150,397**		(361,051)
Balance, end of the year			**(61,717,519)**		(61,867,916)
Total shareholders' equity					
Balance, beginning of the year			**4,395,331**		4,755,816
Share-based payments	11		**121,235**		10,878
Issuance of convertible loan	12		**-**		1,961
Conversion of convertible loan	12		**1,612,599**		-
Other comprehensive income (loss) for the year			**102,082**		(12,273)
Net income (loss) for the year			**150,397**		(361,051)
Balance, end of the year			**6,381,644**		4,395,331

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, 2018 and 2017

	note	Year ended December 31 2018 $	2017 $
Operating activities			
Net income (loss) for the year		**150,397**	(361,051)
Items not affecting cash			
Income tax expense (recovery)	17	**124,542**	(100,300)
Bad debt recovery		**-**	(60,978)
Share of results of equity accounted joint ventures	9	**(898,133)**	(1,149,317)
Interest expense	16	**124,244**	215,108
Gain from disposal of equipment		**-**	(2,000)
Depreciation of plant and equipment	8	**18,716**	214,092
Amortization of deferred lease inducement		**-**	(23,083)
Net foreign exchange (gain) loss		**(42,237)**	26,128
Expense recognized in stock-based compensation	11	**110,605**	68,359
		(411,866)	(1,173,042)
Change in non-cash operating working capital items	18	**(42,618)**	(247,971)
Cash used in operations		**(454,484)**	(1,421,013)
Income taxes paid	17	**(124,542)**	(52,440)
Net cash used in operating activities		**(579,026)**	(1,473,453)
Investing activities			
Purchase of plant and equipment	8	**(74,692)**	(39,544)
Proceeds from disposal of equipment		**-**	2,000
Net distribution received from joint venture	9	**1,113,468**	376,021
Interest received	16	**12,988**	11,260
Net cash provided by investing activities		**1,051,764**	349,737
Financing activities			
Interest paid	12	**(81,503)**	(117,552)
Proceeds from convertible loan	12	**-**	19,666
Net cash used in financing activities		**(81,503)**	(97,886)
Effect of exchange rate changes on cash		**49,779**	(25,898)
Net change in cash		**441,014**	(1,247,500)
Cash, beginning of the year		**984,298**	2,231,798
Cash, end of the year		**1,425,312**	984,298

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

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

2. BASIS OF PREPARATION AND GOING CONCERN

a. Statement of Compliance

These 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, 2018.

The Company’s Board of Directors have approved these consolidated financial statements on April 16, 2019.

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, 2018, the Company earned net income of $150,397 (incurred net loss of $361,051 in 2017) and used net cash in operating activities of $579,026 ($1,473,453 in 2017). At December 31, 2018, the Company had a net working capital of $1,286,057 ($734,952 at December 31, 2017) and a cumulative deficit of $61,717,519 ($61,867,916 at December 31, 2017).

The full conversion of the convertible loan eliminated the Company’s debt and allowed BQE Water to have sufficient levels of working capital moving into 2019. The Company expects to have sufficient working capital resources to meet ongoing operating requirements over the next 12 months. This assumes BQE Water is able to continue successful plant operations at Raglan Mine and its Chinese joint ventures, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, the Company will need to secure new sources of working capital to continue operations.

Historically, the Company has not yet generated positive cash flow from operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can sustain profitability and attain positive cash flow from operations is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is material uncertainty that may cast 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. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

c. Basis of Measurement

These 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 the consolidated financial statements and are prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2017, with the exception of the adoption of IFRS 15 and IFRS 9 as described below. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

a) Adoption of New Accounting Standards and Amendments

i) IFRS 15 - Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. 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 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 Company has adopted IFRS 15 on the required effective date of January 1, 2018, using the modified retrospective approach. The Company is providing expanded disclosures related to the nature, amount and timing of the revenue (see Note 20). In addition, the Company has elected to make use of the following practical expedient of IFRS 15 which is the application only to revenue contracts that are not completed as the date of applying the standard of January 1, 2018.

The Company has evaluated the impact of applying IFRS 15 by performing a comprehensive review of existing sale contracts, control processes and revenue recognition methodology. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there is no 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 with the fulfillment of performance obligations occurs at the same time. 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 the Company's technical services contracts have the clause which allows the Company to have an enforceable right to payment for performance completed to date, the Company concluded there is no change in the amount of revenue recognized as the Company recognizes revenue over time based on the project stage of completion for labour hours expended or costs incurred.

The Company will continue to recognize revenue by applying the five-step model under IFRS 15. The Company continues to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion or as performance obligations are satisfied at a point in time as the control of goods or services are transferred to the customer.

ii) IFRS 9 - Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 retrospectively on January 1, 2018. 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 adoption of this standard did not have material impact to the Company's consolidated financial statements. The Company's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

b) 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, 2018	Ownership interest as at Dec. 31, 2017
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, 2018	Ownership interest as at Dec. 31, 2017
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 financial results, 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 a 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.

c) 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 functional currency, such as the Chilean 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 date 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.

d) Cash

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

e) Inventory and Work In Progress

Inventory of metal concentrates in the Company's joint venture are 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 in the Company's joint venture 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.

f) 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.

Plant and equipment items are 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

g) Financial Instruments

Financial assets and liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

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. These levels 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.

ii) Financial assets

Based on their nature, the Company classifies its non-derivative financial assets as subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss ("FVTPL"). The classification of financial assets is based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. Financial assets are recognized when the Company becomes party to the contractual provisions of the instrument. On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or fair value through other comprehensive income criteria as measured at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. This designation will be recorded until the financial asset is derecognized.

Derivative instruments are recorded in the consolidated statements of financial position at fair value with both realized and unrealized changes in fair value recognized immediately in other income in the consolidated statements of earnings. As at December 31, 2018, the Company did not have any outstanding financial derivatives.

Financial assets are derecognized when the contractual cash flows from the asset expire or when the Company transfers the right to receive the contractual cash flows of the asset in a transaction whereby all risks and rewards of the financial asset are transferred. Any retained interest in the financial asset transferred is recognized as a separate financial asset or liability.

Financial assets and liabilities are offset and presented net in the consolidated statements of financial position only when a legal right of offset exists and the Company intends to settle the transaction on a net basis or realize the asset and the liability simultaneously.

Financial assets at amortized cost

Financial assets with fixed or determinable payments that are not both derivatives and quoted in an active market are classified as financial assets at amortized cost. The objective is to hold such assets to collect contractual cash flows and contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. These financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. These assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through other comprehensive income ("FVTOCI")

Financial assets at FVTOCI represent those non-derivative financial assets that are held to achieve an objective by both collecting contractual cash flows and selling the financial assets, where contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial assets at FVTOCI are initially measured at fair value plus any transaction costs directly attributable to the asset. Subsequent fair value gains or losses are recognized in other comprehensive earnings, except for impairment. For interest-bearing financial assets, interest calculated using the effective interest method and any foreign exchange gains and losses on monetary financial assets are recognized in profit or loss.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is measured at FVTPL if it does not meet the criteria for assets measured at amortized cost or fair value through other comprehensive income. Financial assets at FVTPL include held for trading assets and derivative instruments. Financial assets are classified as held for trading if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy and have been acquired principally for the purpose of selling in the near term. A financial asset is measured at FVTPL if it is a derivative that is not designated as effective as a hedging instrument. Financial assets at FVTPL are measured at fair value with changes recognized in profit or loss. Transaction costs associated with assets classified as FVTPL are recognized as incurred through profit or loss.

Cash and trade and other receivables (exclude value added tax (“VAT”) receivable such as GST/PST/QST/HST/IVA) are classified as financial assets at amortized cost. No financial asset was designated as FVTPL or FVTOCI as at December 31, 2018 and 2017.

iii) Financial liabilities

The Company has the following non-derivative financial liabilities that are classified as financial liabilities at amortized cost using the effective interest method: trade payable and accrued liabilities (exclude VAT payable such as GST/PST/QST/HST/IVA), and Loans. The Company initially recognizes financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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. Financial liabilities that are initially recognized at FVTPL originally include any transaction costs directly attributable to the liability. Financial liabilities are derecognized when their contractual obligations are discharged, cancelled or have expired. Any adjustment to the amortized cost of the financial liability arising from a modification or exchange is recognized in profit or loss at the date of the modification or exchange.

iv) 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.

h) 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) Receivables

Receivables measured at amortized cost or at FVTOCI are assessed at each reporting date to determine whether there is an objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash shortfalls over the expected life of the receivable. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the receivable, and that the loss event will have a negative effect on the estimated future cash flows of that receivable that can be estimated reliably.

An impairment loss in respect of receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the receivable’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired receivables continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in 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 include 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.

i) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when: (i) the Company 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, 2018 and 2017, the Company did not have any liability for provisions.

j) Revenue Recognition

Revenue is recognized by applying the five-step model under IFRS 15. The Company recognizes revenue when, or as the goods or services are transferred to the control of the customer and performance obligations are satisfied.

i) Operation of water treatment plants

For revenue based on water treatment fees, the above criteria are generally met as water treatment services are provided and performance obligations are satisfied when the customer receives the control of discharged clean water and as operational targets are achieved. The Company has an agreement with a customer for the operation of water treatment plants, and revenue from water treatment fees are earned based on the volume of water treated and discharged into the environment. The Company also has an agreement with the Company's joint venture for the operations support of a water treatment plant, and revenues are earned based on ongoing operations support and supervision services.

Revenue earned by the Company's joint ventures are based on the sale of metal concentrates recovered from the operation of water treatment plants. For the sale of metal concentrate, the performance obligations are satisfied when the control over the metal concentrate are passed from the Company to the customer. Revenue is recognized based on the final settlement of weights and assays and is recorded at the fair value, based on prevailing market prices adjusted in accordance with agreed upon terms. Smelting and transportation charges are netted against revenue for sales of metal concentrate.

ii) Technical services relating to water management

Technical services include both water management consulting and technical innovation services. Water management consulting services include feasibility & assessment studies, toxicity investigations, process engineering design, plant commissioning and plant optimization. Technical innovation services include field pilot demonstrations, laboratory treatability assessments, designing and conducting experiments, and delivery of final reports on the results. Technical services contracts can be remunerated on agreed upon time-based rates or a fixed price commitment for the scope of the contract. The services are passed onto the customer upon the delivery of the work product or as hours of services are performed for the customer. As control of the services passes from the Company to the customer over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Depending on the specific circumstances of the individual contracts, the Company recognizes revenue from technical services by either the project stage of completion method or the completed contract methods.

k) Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company 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 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.

l) 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.

m) Share-based Payments

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 DSUs, 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 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.

n) 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 those deductible temporary differences which 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 or the 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.

o) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period attributable to the 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:

- i) Management's assessment of the Company's ability to continue as a going concern (note 2(b));
- ii) Management's judgement on determining the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time; and
- iii) Management' assessment of impairment indicators for asset impairment on long-term assets such as plant and equipment or investment in joint ventures.

b) Key Sources of Estimation Uncertainty and Assumptions

The following are 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 for technical services relating to water management are recognized using the project stage of completion method, which requires judgment for estimating project inputs and costs for completion, and making assumptions for scope changes. Depending on the services provided and on the contract terms, many variables are used in assessing the revenues earned based on the project stage of completion at the reporting date.

ii) Expected credit loss

Trade and other receivables are assessed for impairment at each reporting date by applying the expected credit loss impairment model. Expected credit loss represents management's best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

5. FUTURE CHANGES IN ACCOUNTING POLICIES NOT YET ADOPTED

The Company reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

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. IFRS 16 replaces IAS 17 *Leases* and the effective date for reporting periods beginning on or after January 1, 2019 with early adoption permitted. For lessees, IFRS 16 will bring most leases onto the consolidated statements of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company will be adopting the exemption for leases with a lease term of 12 months or less and for leases that are low value. While the assessment of the impact is still being determined, and the Company is not currently in a position to reliably quantify the full impact of IFRS 16 on its consolidated financial statements, the Company expects the adoption of this standard to increase assets by recording a right-of-use asset upon adoption. There will also be an increase to liabilities as a corresponding liability will also be recorded in the consolidated financial statements. The Company also expects an impact from the reclassification of lease expense from operating expense and general and administration expense to depreciation expense and interest expense. There will be no impact on the statement of cash flows as cash flows from operating activities will increase as payments will be reclassified to cash flows from investing activities.

6. TRADE AND OTHER RECEIVABLES

	Dec. 31, 2018	Dec. 31, 2017
	$	$
Trade receivables	786,445	322,198
Contract assets (note 20 (c))	199,719	246,495
VAT receivables	-	12,467
Other	318,657	99,370
	1,304,821	680,530

7. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2018	2017
	$	$
Salaries, fees and short-term benefits	557,517	658,480
Share-based payments (note 11(a))	52,659	6,153
	610,176	664,633

Included in the trade payables and accrued liabilities as of December 31, 2018 is $131,723 ($12,231 at December 31,

2017) of 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 $142,000 for the year ended December 31, 2018 (2017 - $69,000).

b) The Company had multiple loan transactions with multiple related parties during 2018. These lenders include the Company's joint venture, certain directors, shareholders, management and employees of the Company. Details of the loans with various related parties are described in note 12.

c) Included in the trade payables and accrued liabilities as of December 31, 2018 is $nil ($96,400 as of December 31, 2017) of contribution of registered capital payable to the Company's joint venture as described in note 9(b).

8. PLANT AND EQUIPMENT

	Pilot plants $	Other[1] $	Total $
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
As at Dec. 31, 2018			
Opening net book value	-	42,463	42,463
Additions	-	74,692	74,692
Depreciation	-	(18,716)	(18,716)
Closing net book value	-	98,439	98,439
As at Dec. 31, 2018			
Cost	580,593	642,757	1,223,350
Accumulated depreciation	(580,593)	(544,318)	(1,124,911)
Closing net book value	-	98,439	98,439

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

9. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on December 31, 2018 is $4,962,449 ($5,095,256 on December 31, 2017), and they are comprised of:

	JCC-BQE $	MWT-BQE $
Balance, January 1, 2017	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
Share of net income (loss)	968,749	(70,616)
Share of translation gain on foreign operation	72,173	10,354
Contributions made	131,953	-
Distributions received	(1,245,420)	-
Balance, December 31, 2018	4,947,798	14,651

a. JCC-BioteQ Environmental Technologies Co. Ltd.

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

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

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. During 2018, the Company received a gross cash distribution of $1,245,420 ($6.6 million RMB) compared to $524,400 ($2.7 million RMB) during 2017.

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, 2018 were $968,749 ($1,170,739 in 2017).

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, 2018 $	Dec. 31, 2017 $
Assets		
Current assets		
Cash and short-term investments	1,806,938	1,562,058
Trade and other receivables	252,350	28,178
Income taxes recoverable	134,412	58,940
Inventory	37,654	33,663
Prepaid expenses	13,549	977
	2,244,903	1,683,816
Non-current assets		
Plant and equipment	4,100,733	4,029,345
Deferred tax assets	67,115	65,254
	4,167,848	4,094,599
Total assets	6,412,751	5,778,415
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,464,953	758,072
Total liabilities	1,464,953	758,072
Partner's Equity		
Joint venture partner equity	3,864,356	3,732,403
Accumulated other comprehensive income	1,516,139	1,443,966
Accumulated deficit	(432,697)	(156,026)
Total partner's equity	4,947,798	5,020,343
Total liabilities and partner's equity	6,412,751	5,778,415

Statements of income and comprehensive income

	2018	2017
	$	$
Revenue	5,498,338	5,218,607
Plant and other operating costs (excluding depreciation)	3,516,440	2,990,909
	1,981,898	2,227,698
General and administration	416,885	366,625
Depreciation of plant and equipment	484,109	509,776
Income from operations	1,080,904	1,351,297
Finance income	10,606	2,989
Foreign exchange loss	-	(438)
Other income	54,481	15,705
Income before income taxes	1,145,991	1,369,553
Current income tax expense	(177,242)	(292,810)
Deferred tax recovery	-	93,996
Net income for the year	968,749	1,170,739
Other comprehensive income (loss)		
Translation income (loss) on foreign operation	72,173	(5,942)
Comprehensive income for the year	1,040,922	1,164,797

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 to generate profits. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of $96,400 (RMB $500,000) as registered capital, which is 4.35% of the total registered capital of the joint venture.

As of August 2018, the joint venture has completed the construction of the water treatment plant. The plant was fully commissioned and began operation and recovering metals since September 4, 2018. The Company’s 20% share of net loss in the joint venture for the year ended December 31, 2018 were $70,616 ($21,422 in 2017).

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, 2018 $	Dec. 31, 2017 $
Current assets	54,641	78,429
Plant and equipment	81,926	19,297
Current liabilities	57,899	5,951
Partner's equity	14,651	74,913

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

	2018 $	2017 $
Revenue	30,826	-
Plant and other operating costs (excluding depreciation)	21,077	
	9,749	
Non-operating costs	59,637	21,391
Depreciation of plant and equipment	20,728	31
Net loss for the year	(70,616)	(21,422)
Other comprehensive income (loss)	10,354	(65)
Comprehensive loss for the year	(60,262)	(21,487)

10. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2018 $	Dec. 31, 2017 $
Trade payable and accruals	824,720	319,721
Payroll liability	464,650	305,859
VAT payable	62,910	2,639
Payable to joint ventures	-	96,400
Interest payable under convertible loan (note 12)	-	59,180
	1,352,280	783,799

11. SHARE-BASED PAYMENTS

The Company's recorded stock-based compensation comprised as follows:

	Dec. 31, 2018 $	Dec. 31, 2017 $
Stock options (a)	121,235	10,878
Deferred share units (b)	(9,070)	55,932
Restricted share units (c)	(1,560)	1,549
	110,605	68,359

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:

	2018		2017	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at January 1	0.07	7,133,333	0.11	4,333,333
Granted	-	-	0.06	4,200,000
Forfeited	0.07	(400,000)	0.11	(300,000)
Expired	0.15	(533,333)	0.18	(1,100,000)
Outstanding at December 31	0.06	6,200,000	0.07	7,133,333
Exercisable at December 31	0.07	3,400,000	0.08	2,933,333

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%.

During the year ended December 31, 2018, the Company recognized $121,235 ($10,878 in 2017) of non-cash compensation expense related to stock options.

Exercise price $	Expiry Date	2018 number of outstanding share options
0.06	December 7, 2022	4,200,000
0.07	April 10, 2019	2,000,000

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 on the date a holder ceases to be a participant under the plan and payment no later than the 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, 2017	2,915,075	125,348
Redeemed	(410,614)	(24,751)
Fair value adjustment	-	55,932
Balance, December 31, 2017	2,504,461	156,529
Redeemed	(965,699)	(61,288)
Fair value adjustment	-	(9,070)
Balance, December 31, 2018	1,538,762	86,171

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, 2017	82,841	3,562
Redeemed	(29,948)	(1,805)
Fair value adjustment	-	1,549
Balance, December 31, 2017	52,893	3,306
Redeemed	(52,893)	(1,746)
Fair value adjustment	-	(1,560)
Balance, December 31, 2018	-	-

12. LOANS

	Dec. 31, 2018 $	Dec. 31, 2017 $
Employee loans (a)	-	-
Related party loan (b)	-	-
Convertible loans (c)	-	1,497,726
	-	1,497,726

a. Employee Loans

On May 16, 2018, the Company entered into loan agreements with multiple lenders that included management and employees of the Company. The lenders agreed to advance from various currencies an aggregate principal amount of $276,205. Under the agreement, the Company would repay the principal amount within 30 days following receipt of the dividend from JCC-BQE. The loans bear interest at a rate of 12% per annum with interest payable monthly until maturity. On November 30, 2018, the Company fully paid back the principal and all accrued interest relating to the employee loans.

b. Related Party Loan

On June 16, 2018, the Company entered into a 6-month interest-free loan agreement with the Company's joint venture MWT-BQE. Under the agreement, MWT-BQE agreed to advance an aggregate principal amount of $250,000 RMB with maturity on December 15, 2018. On December 15, 2018, the Company fully paid back the principal of the related party loan.

c. Convertible Loans

On July 6, 2016, the Company entered into an 18-month convertible loan agreement ("Loan") with multiple lenders, which included 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 principal amount of $1,500,000. The Company granted the lenders a security interest of all the personal property in which the Company had or hereafter acquired.

Under the agreement, the convertible loan bore interest at a rate of 8% per annum with interest payable semi-annually. The convertible loans were 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 were 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 principal and unpaid accrued interest prior to the maturity date.

The fair value of the liability component was 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, was included in shareholders' equity as an equity component of the convertible loan. Transaction costs associated with the issuance of the convertible loan were allocated to the liability and equity components in its allocated proportion.

On January 5, 2018, the Company replaced the original Loan with a replacement Loan which extended the maturity date for another 12 months, from January 6, 2018 to January 6, 2019. The replacement Loan carried the same terms and conditions as the original Loan.

On November 28, 2018, the Company notified holders of the Loans that it intended to prepay an aggregate of $1,612,599, which included $1.5 million of outstanding principal and $112,599 of accrued and unpaid interest. On December 14, 2018, all holders of the Loans have elected to convert the outstanding principal and interest into an aggregate of 26,876,644 common shares of BQE Water at a conversion price of $0.06 per common share.

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

	Dec. 31, 2018 $	Dec. 31, 2017 $
Face value of convertible loan issued	1,500,000	1,500,000
Less:		
Transaction costs	(23,652)	(23,652)
Equity conversion component on initial recognition	(124,261)	(124,261)
Liability component on initial recognition	1,352,087	1,352,087
Accumulated interest and accretion expense	438,630	322,371
Repayment of interest	(178,118)	(117,552)
Total liability component	1,612,599	1,556,906
Current interest payable included in accrued liabilities (note 10)	-	(59,180)
Conversion into Common Shares (note 13)	(1,612,599)	-
Loan balance as at year end	-	1,497,726

13. SHARE CAPITAL

Authorized: unlimited common shares without par value.

On December 14, 2018, the holders of the convertible loan (note 12(c)) converted $1,612,599 of outstanding principal and interest into an aggregate of 26,876,644 common shares of BQE Water at a conversion price of $0.06 per common share. Following the conversion of the loans, the Company had 120,843,316 common shares outstanding on December 31, 2018 (93,966,672 on December 31, 2017).

Subsequent to the end of the reporting period, on March 5, 2019, the Company completed a 100:1 consolidation (note 25) on all issued and outstanding commons shares of the Company.

14. EARNINGS PER SHARE

The Company completed the 100:1 share consolidation (note 25) subsequent to the reporting period. For the purpose of historical comparison, the historical and current figure for the weighted average number of common shares outstanding in each fiscal year ending prior to the consolidation date are adjusted by a ratio of 100 when calculating the earnings (loss) per share. The following table sets out the calculation of earnings (loss) per share:

	Dec. 31, 2018	Dec. 31, 2017
	$	$
Net income	150,397	(361,051)
(basic and diluted)		
Weighted average number of shares outstanding after consolidation	952,921	939,667
(basic and diluted)		
Earnings (loss) per share	0.16	(0.38)

15. EXPENSES BY NATURE

	2018	2017
	$	$
Operating expenses (excluding depreciation)		
Employee benefits	1,558,014	1,462,180
Consulting and contractor expenses	371,895	591,315
Travel expenses	16,416	102,592
Raw materials and consumables used	42,790	100,288
Equipment rental expenses	11,520	26,094
Other expenses	28,563	32,108
	2,029,198	2,314,577
General and administration		
Employee benefits	554,967	664,790
Director fees	87,100	152,700
Consulting and contractor expenses	415,572	360,420
Rental expenses	153,738	179,346
Insurance expenses	170,060	165,504
Other expenses	127,779	142,019
	1,509,216	1,664,779
Sales and development		
Employee benefits	797,980	909,565
Travel expenses	105,475	117,740
Consulting and contractor expenses	100,658	60,593
Rental expenses	74,165	78,317
Other expenses	41,994	52,300
	1,120,272	1,218,515

16. FINANCE COSTS

The net of finance costs is comprised as follows:

	2018	2017
	$	$
Finance income	12,988	11,260
Interest expense	(137,232)	(226,368)
	(124,244)	(215,108)

17. INCOME TAXES

Income tax expense (recovery) differs from that computed by applying the applicable Canadian federal and provincial statutory rate of 27% (2017 – 26%) before taxes as follows:

	2018	2017
	$	$
Expected income tax expense (recovery) at statutory rates	74,234	(119,951)
Non-deductible expenses and (non-taxable income)	(205,372)	(306,312)
Withholding tax	124,542	(100,300)
Change in tax rates	-	(5,132)
Functional currency adjustments	58,716	(7,757)
Different statutory tax rates on foreign subsidiaries	9,291	(5,790)
Change in unrecognized deferred tax assets	63,131	444,942
Income tax expense (recovery)	124,542	(100,300)

	2018	2017
	$	$
Current tax expense (recovery)	124,542	(100,300)
Deferred tax expense	-	-
Income tax expense (recovery)	124,542	(100,300)

The statutory tax rate increased from 26% to 27% due to an increase in the British Columbia corporate tax rate on January 1, 2018.

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, 2018 and 2017 are as follows:

	2018	2017
	$	$
Non-capital losses carry-forwards	-	614
Convertible loan	-	(614)
Deferred tax assets (liabilities)	-	-

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2018 and 2017 are as follows:

	2018	2017
	$	$
Canada		
Plant and equipment	1,447,943	1,404,028
Net capital losses	8,056,712	8,056,712
Non-capital losses	27,415, 827	27,100,912
Investment tax credits	63,328	86,834
Deferred benefits and others	87,916	183,803
	37,071,726	36,832,289
Foreign Jurisdictions		
Plant and equipment	93,455	456
Unrealized foreign exchange loss	925,017	1,386,720
Non-capital losses	3,828,705	3,624,763
	4,847,177	5,011,939
Total unrecognized deductible temporary differences	41,918,903	41,844,228

The Company's investment tax credits, expiring between 2019 and 2020, may be used to reduce future Canadian income taxes that are otherwise payable. As at December 31, 2018, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately $27,415,827 ($27,100,912 in 2017) 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	2,387,340
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	3,191,545
2038	312,655
	27,415,827

In addition, the Company has available tax losses in other jurisdictions that total $3,828,705 ($3,624,763 in 2017). The remaining losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 10 years to indefinitely.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2018	2017
Change in non-cash working capital items	$	$
Increase in trade and other receivables	(622,513)	(66,412)
Decrease in inventory	-	20,137
Increase in prepaid and deposits	(58,211)	(9,314)
Increase (decrease) in trade payable and accrued liabilities	639,130	(49,054)
Increase (decrease) in deferred revenue	62,011	(116,772)
Decrease in deferred benefits	(63,035)	(26,556)
Change in non-cash working capital items	(42,618)	(247,971)

19. COMMITMENTS

The Company has commitments of $846,828 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2019	310,846
2020	294,825
2021	165,882
2022	60,560
2023	14,715
	846,828

20. REVENUE

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

a) Disaggregation of Revenue

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

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

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

The disaggregated revenue of the Company are as follows:

	2018	2017
	$	$
Operation contracts	1,430,090	1,187,686
Technical services contracts	2,840,204	2,869,066
	4,270,294	4,056,752

b) Remaining Performance Obligations

As at December 31, 2018, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $1,129,533, compared to $808,649 as at December 31, 2017. The remaining performance obligations of the Company are expected to be fully completed in the next 12 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

c) Changes in Contract Assets

The Company's changes in contract assets for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
	$	$
Contract assets, beginning of the year	246,495	74,096
Amounts invoiced included in the beginning balance	(225,475)	(74,096)
Net increase in contract assets recognized during the year	178,699	246,495
Contract assets, end of the year	199,719	246,495

d) Changes in Deferred Revenue

The Company's changes in deferred revenue for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
	$	$
Deferred revenue, beginning of the year	29,198	157,415
Recognition of deferred revenue included in the beginning balance	(29,198)	(157,415)
Net increase in deferred revenue recognized during the year	92,556	29,198
Deferred revenue, end of the year	92,556	29,198

21. SEGMENTED INFORMATION

a) Geographic Information

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

	2018	2017
	$	$
Revenue		
Canada	3,008,249	2,534,511
Latin America	864,550	1,181,146
USA	283,032	252,012
Other	114,463	89,083
	4,270,294	4,056,752

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

	Dec. 31, 2018	Dec. 31, 2017
	$	$
Canada	98,439	42,463
China	4,962,449	5,095,256
	5,060,888	5,137,719

b) Information about Major Customers

The following table presents revenue for individual customers exceeding 10% of annual revenue for the year ended December 31, 2018 and 2017.

	2018	2017
	$	$
Customer A	1,408,907	1,187,686
Customer B	472,812	730,472
Total	1,881,719	1,918,158
Represents percentage of total revenue for the year	44%	47%

22. 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.

	2018	2017
	$	$
Capital (as defined above) is summarized as follows		
Shareholders' equity	6,381,644	4,395,331
Non-current convertible loan	-	1,497,726
	6,381,644	5,893,057
Less:		
Cash	(1,425,312)	(984,298)
	4,956,332	4,908,759

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.

23. 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 the 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 2017.

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 VAT receivable. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash.

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

	Dec. 31, 2018	Dec. 31, 2017
	$	$
Cash	1,425,312	984,298
Trade and other receivables (excludes VAT receivable)	1,304,821	668,063
	2,730,133	1,652,361

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Company does not expect any counterparties holding these cash to fail to meet their obligations.

With the adoption of IFRS 9 – *Financial Instruments*, the Company now uses the new expected credit loss impairment model, as opposed to the incurred loss model under the previous standard, IAS 39 – *Financial Instruments: Recognition and Measurement*. The change to the new model did not have an impact on the carrying amounts of the Company's financial assets on the date of adoption, given the Company transacts with customers with strong credit ratings and has had a negligible historical level of customer default. Under IFRS 9, the Company is required to review impairment of its trade and other receivables at each reporting period and to review its allowance for doubtful accounts for expected future credit losses.

The Company continues to minimize credit risk 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, 2018 and on December 31, 2017 are 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, 2018	Dec. 31, 2017
	0-30 days	31-90 days	Over 90 days	Total	Total
	$	$	$	$	$
Trade and other receivables (exclude VAT receivable)	790,795	232,509	281,517	1,304,821	668,063

Of the Company's receivables, despite several overdue balances, 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, 2018
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash	302,417	1,203	20,944	46,253
Trade and other receivables (exclude VAT)	128,781	-	33,738	49,575
Trade and other payables (exclude VAT)	(132,110)	-	(304,473)	(2,788)
Gross balance sheet exposure	299,088	1,203	(249,791)	93,040

	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)

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.

	2018	2017
	$	$
U.S. dollar	29,909	52,152
Mexican peso	120	16,596
Chilean peso	(24,979)	(16,512)
Chinese RMB	9,304	(5,785)
	14,354	46,451

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, 2018	Dec. 31, 2017
	< 1 year	> 1 year	Total	Total
	$	$	$	$
Trade payable and other payables (exclude VAT)	1,289,370	-	1,289,370	721,980
Deferred benefits	86,171	-	86,171	159,835
Convertible loan	-	-	-	1,500,000
Interest Payable on convertible loan	-	-	-	180,000
	1,375,541	-	1,375,541	2,561,815

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 the 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 22).

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 by the joint ventures of the Company. 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 $549,834 in 2018 ($521,861 in 2017).

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 $8,463 in 2018 ($15,983 in 2017).

24. 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 liabilities by category and information about financial assets and liabilities measured at fair value on a recurring basis in the statement of financial position are classified and measured as follows:

	Category	Dec. 31, 2018 $	Dec. 31, 2017 $
Financial assets			
Cash	Financial assets at amortized cost	1,425,312	984,298
Trade and other receivables (exclude VAT)	Financial assets at amortized cost	1,304,821	668,063
Financial liabilities			
Trade payable and other payables (exclude VAT)	Financial liabilities at amortized cost	1,289,370	781,160
Convertible loan	Financial liabilities at amortized cost	-	1,497,726
Deferred benefits	Financial instruments at FVTPL	86,171	159,835

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 deferred benefits, which consist of 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, 2018 and 2017. 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.

25. SUBSEQUENT EVENT

In November 2018, the Company obtained shareholder approval at its Annual Meeting to grant the Board of Directors the authority to consolidate the Company's common shares on a 100:1 basis. Subsequent to the end of the reporting period, on March 5, 2019, the Company completed a 100:1 share consolidation on all issued and outstanding commons shares of the Company. The Company had 120,843,316 common shares outstanding prior to the consolidation and had 1,208,435 common shares after the consolidation.

BQE Water

BQE WATER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2018 and 2017

Management’s Discussion and Analysis

April 16, 2019

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 2018 Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2018, 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, 2018 and the sections “2018 Commentary and 2019 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. (“BQE Water” or the “Company”) is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing innovative water management and treatment solutions that support and improve operations in this sector. We have unique expertise and intellectual property related to the treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water. BQE Water provides value for their clients in the areas of technical innovation, water management consulting and operations of water treatment plants.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets in our business. BQE Water is listed on the TSX Venture Exchange under the symbol BQE.

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

OUR STRATEGY

The Company monetizes the value of its intellectual property (“IP”) and expertise through services that span the full life cycle of mining projects from permitting to closure and which often extends more than 50 years. The Company’s primary service is the long-term operation of water treatment plants we have designed to generate recurring revenue that is directly linked to the plant’s performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, BQE Water also generates revenues from technical services that are project specific and are generally non-recurring in nature. The services provided by BQE Water are grouped into two key areas:

Operational Services
Revenues from operational services provided by the Company are earned through water treatment fees or through the sale of base metals recovered. Water treatment fees are either tolling fees charged per cubic metre of clean water treated and discharged subject to specific water quality criteria or fees for the Company's expertise linked to the achievement of operational targets and delivered through supervision and ongoing operational support services. The Company also monetizes the value of its IP through joint ventures by sharing in the value of metals recovered from treating wastewater.

Technical Services
Technical services provided by the Company can be grouped into consulting services and technical innovation services. Consulting services help mining companies define water problems, identify opportunities for improving project performance and present solutions to address specific water management issues. Such services include feasibility & assessment studies, toxicity investigations, process engineering design, plant commissioning and plant optimization. Technical innovation services provide our clients with beneficial design and technological improvements drawn from our unique knowledge and expertise acquired from ongoing plant operations services. This also provides the Company with opportunities to develop new technologies, through either laboratory treatability assessments or field pilot demonstrations, as triggered by industry needs. All these services allow BQE Water to follow projects through the entirety of their development and implementation phases, to providing recurring operational services for our clients.

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

Proportional Results
Due to 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 income (loss) and comprehensive income (loss).

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

Proportional Revenue
This non-GAAP financial measures of Proportional Revenue adds BQE's shares of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the year ended December 31, 2018 and 2017 are as follows:

(in $'000s)	**2018**	2017
	$	$
Reported revenues under GAAP	**4,270**	4,057
Share of reported revenues from joint ventures	**5,529**	5,219
Proportional Revenue for the year	**9,799**	9,276

Adjusted EBITDA

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

(in $'000s)	**2018**	2017
	$	$
GAAP: Net income (loss)	**150**	(362)
add: interest expense	**113**	212
add: income tax expense	**302**	99
add: depreciation and amortization	**524**	724
EBITDA	**1,089**	673
add: stock-based compensation	**111**	68
add: net foreign exchange (gain) loss	**(19)**	35
Adjusted EBITDA	**1,181**	776

2018 OVERVIEW

Financial Highlights

- First annual net earnings reported in the Company's financial history, net income of $150,000 compared to loss of $362,000 in 2017;
- Adjusted EBITDA for the year was $1.2 million compared to $776,000 in 2017, a 51% increase over the prior year;
- Cash reported under GAAP as of December 31, 2018 was $1.4 million compared to $1 million at the end of 2017;
- Proportional Cash which includes our share held in joint ventures as of December 31, 2018 was $3.2 million compared to $2.5 million at the end of 2017; and
- Debt-free after the full conversion of $1.6 million convertible loan principal and unpaid accrued interest into an approximate aggregate of 27 million common shares of the Company on December 14, 2018.

Operational Services Highlights

Operations generating revenue from sales of recovered metals

Our joint venture in the Jiangxi province of China operated three water treatment plants during 2018. Revenue is derived from the continuous sale of copper recovered from mining wastewater. The operating results for the 12 months ended December 31, 2018 for our joint venture ("JCC-BQE") with partner Jiangxi Copper Company ("JCC") are as follows:

(in '000s)	2018	2017
Water treated (cubic metres)	19,814	17,160
Copper recovered (pounds)	3,367	3,449

During 2018, our joint venture in the Shandong province commissioned its first water treatment plant and operated the plant continuously for four months. The joint venture generates revenue from the sale of copper and zinc recovered from wastewater. As of December 31, 2018, there was unsold inventory of approximately 431 thousand pounds of zinc and five thousand pounds of copper. This unsold inventory of is expected to be sold in 2019. The operating results for the 12 months ended December 31, 2018 for our joint venture ("MWT-BQE") with partner Beijing MWT Water Treatment Project Limited Company ("MWT") are as follows:

(in '000s)	2018	2017
Zinc recovered (pounds)	525	-
Copper recovered (pounds)	34	-

Operations generating revenue from water treatment fees
During the year, we completed our 15th operating season at Raglan Mine where BQE Water is responsible for the ongoing operation of three water treatment plants. Our revenue is linked directly to the volume of water treated and discharged to the environment as per the client's specification. In addition to tolling fees at Raglan Mine, the Company generates an operation support fee from the MWT-BQE joint venture. The fee is not linked to the volume of water treated but rather to the achievement of operational targets which rely on the Company's expertise delivered through ongoing operations supervision and support services. The operating results for the 12 months ended December 31, 2018 are as follows:

(in '000s)	2018	2017
Water treated at Raglan Mine (cubic metres)	1,221	1,168
Water treated at MWT-BQE joint venture (cubic metres)	283	-

Technical Services Highlights

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

Optimization of existing water treatment plants operated by third-parties

- Improving effluent quality to enable increase in water re-use at a zinc smelter in Mexico
- Improving plant availability and reducing mine drainage treatment costs at a former US EPA Superfund site in the USA
- Auditing the use of ultrafiltration and reverse osmosis for mine water treatment in Peru

Water management and permitting assistance

- Lead water treatment consultant during the environmental assessment stage of two new mining projects in Canada
- Water treatment guidance during the permit amendment process for an existing mine undergoing expansion in Canada
- Developing a water management plan for a newly proposed metallurgical coal mine in Canada
- Waste brine management at a gold mine in the US
- Feasibility study for water treatment to support the permitting of a new mine in Ecuador
- Engineering design for a temporary modular water treatment system during the exploration phase of a mining project in Canada

Cyanide recovery and recycle for gold extraction using the SART process

- Expansion of a SART plant built by BQE Water in 2008 at Lluvia de Oro, Mexico
- Starting-up, commissioning and ongoing technical support for a SART plant operation at Minera Media Luna, Mexico
- Scoping level engineering assessments for SART plants to be integrated into existing gold mining operations in Mexico and Bolivia
- Scoping level assessment of SART for a new mine in permitting in the US
- Bench scale SART process testing on cyanide leach solutions generated from locked cycle metallurgical testing

Engineering of selenium removal plants – commercial deployment of Selen-IX™ technology

- Detailed engineering for existing tailings pond water treatment in the Yukon
- Detailed engineering of a modular selenium removal system for groundwater treatment in the US
- Detailed engineering for waste-rock seepage and tailings supernatant treatment at the Kemess underground project in Northern BC

Treatability assessments using laboratory scale testing

- On-site bench scale testing of antimony removal from excess mine water at an existing operation in Canada
- Cyanide destruction bench scale testing to inform water quality predictions for a new project in Canada

Selenium removal – improvements and demonstration of scale-up of Selen-IX™ technology

- Industrial scale demonstration of electro-reduction co-sponsored by three mining companies in Canada
- Laboratory scale testing of direct electro-reduction of selenium from excess mine water at an existing operation in US

Sulphate removal from smelter and mine wastewater

- Pilot demonstration of a membrane system with brine de-saturation at an existing mine in Canada
- Laboratory scale testing and scoping levels engineering for the Sulf-IX™ process at a mine in Chile

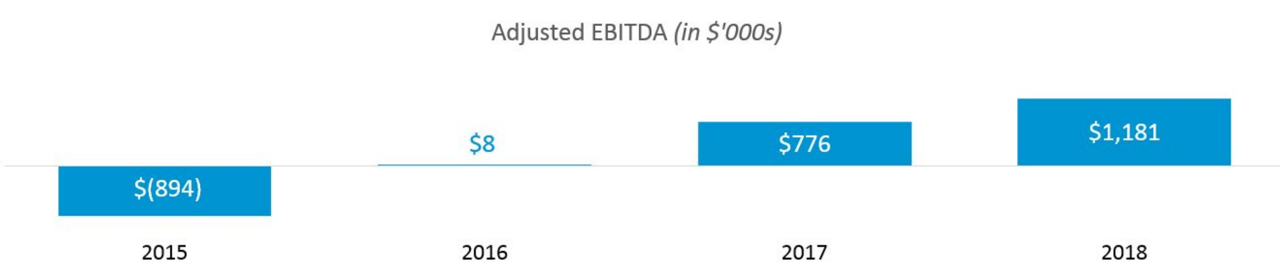
Nitrogen species management

- Pilot demonstration of ammonia removal using electro-oxidation applied to mine impacted water in Canada
- Recovery of cyanide from thiocyanate using electro-oxidation applied to wastewater from a gold leaching operation in China

2018 COMMENTARY AND OUTLOOK FOR 2019

Overall, 2018 was very successful and the key achievements of the Company can be summarized as follows:

- Achieved the best financial performance in Company history with net income of $150,000 and Adjusted EBITDA of $1.2 million compared to a net loss of $362,000 and Adjusted EBITDA of $776,000 in 2017;
- Produced earnings per share of $0.16, calculated based on adjusted weighted average number of shares outstanding after the 100:1 share consolidation completed on March 5, 2019;
- Maintained a strong safety and environmental record at operations with no accidents and environmental incidents;
- Executed an industrial scale demonstration of the Selen-IX™ electro-reduction circuit and advanced Selen-IX™ to a commercial ready status;
- Signed an engineering services agreement and an operating services agreement with Centerra Gold for the first commercial scale Selen-IX™ water treatment plant;
- Commissioned and started the operation of a new water treatment plant at the Guoda gold smelter;
- Completed a successful pilot demonstration of membrane treatment with brine desaturation at an existing mine in Canada, demonstrating the Company's capabilities and impartiality to select treatment based on project specific requirements; and
- Contracted to provide technical services for six new SART projects globally, reflecting the recognition of BQE Water as the leader in the cyanide recovery and recycle technology.



The first half of 2018 was slower than expected with several projects either delayed or suspended. This changed in the second half of the year when a number of new projects started, resulting in the best Q3 performance in the Company's history. Followed by strong Q4, the Company yielded a positive net income for the first year in history. Part of the catch-up in the second half of the year can be attributed to the growth of the Company's project pipeline in the last three years where a short term loss in revenue from cancelled or delayed projects can be replaced by revenue from new and different projects.

The financial results in 2018 extended the steady positive trend in the Company's financial performance improvements of the past few years. Since our 2015 annual results, the net increase of our Adjusted EBITDA was over $2 million. While this long-term trend is very positive, it is important for shareholders to realize the significant fluctuations of our quarterly results and annual financial performance. Recurring revenue from water treatment fees and sales of recovered metals, which accounts for approximately 55% of our total Proportional Revenue, fluctuates intrinsically as it is dependent on temperature and climatic conditions that affect total water volume and recoverable metals available for treatment.

Although the Company has been cash-flow positive since 2017, shareholders should realize that a significant portion of the Company's working capital are on the balance sheet of our joint ventures in China. Cash earned from operation is accumulating in our joint ventures throughout the year and it cannot be accessed by the Company until the annual declaration of dividends. The Company recognize that short-term fluctuations in our revenue combined with the timing of the dividend payout represents a risk of a temporary shortfall in working capital. Management and our Board of Directors are actively exploring options to mitigate this risk.

Looking ahead towards 2019, the Company has several catalysts to grow recurring revenue over the long-term that is built into the current project pipeline. First and foremost, we expect the first commercial Selen-IX™ plant to be successfully commissioned at the Kemess Mine before the end of 2019. The success of this project will not only initiate our five-year operating agreement for this water treatment plant but will likely trigger new projects due to the growing demand for selenium removal solutions in the North American mining market. The key features of the Selen-IX™ process are its ability to reduce selenium in effluent to less than one part per billion and to produce a small amount of very stable residue that can be reused in steel making. Current competitors of Selen-IX™ do not achieve either. The second catalyst is our global leadership in the deployment of SART technology on a large industrial scale. Our current pipeline includes several SART projects at gold mines in Latin America and China that may proceed to construction in 2019 and begin operation in 2020.

Aside from Selen-IX™ and SART related projects, there are several projects in our pipeline that may lead to larger projects and we expect it to give the Company an opportunity to generate new IP in the mine water market that we believe may become strategic in the next five years.

FINANCIAL RESULTS

(in $'000 except for per share amounts)

	2018	2017
	$	$
Revenues	**4,270**	4,057
less: Operating expenses (*excluding depreciation*)	**2,029**	2,315
	2,241	1,742
General and administration	**1,509**	1,665
Sales and development	**1,120**	1,219
Stock-based compensation	**111**	68
Depreciation of plant and equipment	**19**	214
Share of results of equity accounted joint ventures	**(898)**	(1,149)
Income (loss) from operations and joint ventures	**380**	(275)
Finance costs, net	**(124)**	(215)
Foreign exchange gain (loss)	**19**	(35)
Other income	**-**	63
Income (loss) before income taxes	**275**	(462)
Income tax (expense) recovery	**(125)**	100
Net income (loss) for the year	**150**	(362)
Translation gain (loss) on foreign operations	**102**	(12)
Comprehensive income (loss) for the year	**252**	(374)
Net income (loss) per share (basic and diluted)	**0.16**	(0.38)
Proportional Revenues[1]	**9,799**	9,276
Adjusted EBITDA[1]	**1,181**	776

	at December 31	at December 31
	2018	2017
	$	$
Working capital	**1,286**	735
Total assets	**7,913**	6,866
Total non-current liabilities	**-**	1,498
Shareholders' equity	**6,382**	4,395

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in $'000s) Quarters ended	**Dec-18**	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17	Mar-17
	$	$	$	$	$	$	$	$
Revenues	**1,310**	1,893	540	527	858	1,578	953	668
Operating expenses (*excluding depreciation*)	**557**	573	439	460	599	642	656	418
	753	1,320	101	67	259	936	297	250
General and administration	**427**	369	344	369	410	383	376	495
Sales and development	**257**	211	328	324	364	263	303	288
Stock-based compensation	**10**	37	10	55	25	34	15	(7)
Depreciation and amortization	**7**	4	4	4	116	31	33	33
Share of results of equity accounted joint ventures	**198**	(302)	(697)	(97)	119	(470)	(764)	(34)
Income (loss) from operations and joint ventures	**(146)**	1,001	112	(588)	(775)	695	334	(525)
Other expenses	**15**	(57)	(51)	(13)	(53)	(78)	(69)	(48)
Bad debt recovery	**-**	-	-	-	-	61	-	-
Income tax expense	**(125)**	-	-	-	(53)	153	-	-
Net (loss) income	**(256)**	944	61	(601)	(881)	831	265	(573)
Translation gain (loss)	**257**	(318)	(157)	320	128	(97)	(51)	9
Comprehensive (loss) income	**(1)**	626	(96)	(281)	(753)	734	214	(564)
Non-GAAP Measures:								
Proportional Revenue	**2,198**	3,488	2,832	1,282	1,839	3,147	3,182	1,108
Adjusted EBITDA	**(100)**	1,272	427	(418)	(559)	1,088	744	(497)

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated and variation in commodity prices. Seasonality at each operation also impacts the timing of revenues. Operations at Raglan typically run from May to November of each year. Copper production from the Dexing operations increases between April and September of each year and declines during the winter months due to variations in precipitation and the annual maintenance schedule. Revenues from sales contracts of water management consulting services and technology development services occur based on the timing of client requirements.

SUMMARY OF Q4 2018 FINANCIAL RESULTS

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

Revenue

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

(in $'000s)	**Q4 2018**		Q4 2017		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**888**	**40%**	981	53%	(9%)
Water treatment fee from operations	**444**	**20%**	35	2%	1,169%
Technical services	**866**	**40%**	823	45%	5%
Total Proportional Revenue	**2,198**	**100%**	1,839	100%	20%

Revenues from the sale of recovered metals of value comprises the Company's share of joint venture revenue from the operation of water treatment plants in China. The amount of revenue is impacted by the quantity of metals recovered and the metal prices listed on the Shanghai Futures Exchange. During Q4 2018, the Company's share of revenues from the JCC-BQE joint venture decreased slightly from the comparable period in 2017 due to an approximate 6% decrease in both the quantity of copper recovered and in the average copper prices for the period. The MWT-BQE joint venture began operation in Q4 2018 and contributed $31,000 from the sale of recovered metals to the Company's share of Proportional Revenue. Sale of recovered metals were lower than production amounts due to the amount of unsold inventory at December 31, 2018. The metal concentrate inventory, including our share which represents approximately $80,000 based on year-end market prices, is expected to be sold in 2019.

Revenues from water treatment fees are generated from the Company's seasonal operation of water treatment plants at Raglan Mine and from operations support at the MWT-BQE plant in Shandong. As the operating season in 2018 started later due to late spring thaw, revenues in Q4 2018 were higher than Q4 2017 as the operating season at Raglan Mine was extended to mid-December 2018 to keep with up the water treatment demands at the site. Additionally, the newly operated MWT-BQE water treatment plant contributed $48,000 in revenues from operations support fees.

Revenues from technical services relating to water management includes services such as engineering and plant design, construction and commissioning of water treatment plants, laboratory testing, pilot demonstrations and operations support. It represents the sum of multiple contracts from various clients of varying contract values. The timing of revenues from technical services fluctuates from quarter to quarter based on client needs and the project stage of completion at the reporting date.

Expenses

Total operating expenses (excluding depreciation) in Q4 2018 were $557,000 compared to $599,000 in Q4 2017, a decrease of $42,000. The variance is due to different project requirements as each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and water treatment solutions.

In Q4 2018, general and administration costs were $427,000 compared to $410,000 in Q4 2017. The increase in general and administration costs were mainly due to increase in fees for professional services during Q4 of 2018.

Sales and development costs in Q4 2018 were $257,000 compared to $364,000 in Q4 2017, representing a decrease of $108,000. This is due to a decrease in labour resources allocated to business and technology development projects.

Depreciation expenses were $7,000 in Q4 2018 compared to $116,000 in Q4 2017. The decrease was due to the Selen-IX™ pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation costs in Q4 2018 were $10,000 compared to $25,000 in Q4 2017. Stock-based compensation costs consisted of stock options granted to directors and employees during Q4 2017 and the fair value adjustment of deferred and restricted share units resulting from changes in the Company's share price.

SUMMARY OF 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2018 and 2017

Revenue

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

(in $'000s)	**2018**		2017		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**5,529**	**57%**	5,219	56%	6%
Water treatment fee from operations	**1,430**	**14%**	1,188	13%	20%
Technical services	**2,840**	**29%**	2,869	31%	(1%)
Total Proportional Revenue	**9,799**	**100%**	9,276	100%	6%

Revenues from the sale of based metals recovered comprises the Company's share of revenue from its joint venture in China. The sale of copper and zinc recovered during the operation of water treatment plants are impacted by the amount and market price of metal concentrate sold. During 2018 the Company's share of revenue from the JCC-BQE joint venture increased by 5% from 2017. Our share of total pounds of copper recovered decreased by 2% over the prior year and the average annual price of copper was USD $2.96/LB and USD $2.80/LB in 2018 and 2017 respectively, representing a 6% increase. The remaining variance is due to the newly commissioned water treatment plant from the MWT-BQE joint venture which contributed additional copper and zinc recovery sales of $31,000 to the Company's Proportional Revenue.

Water treatment fee revenues includes the tolling fees earned from each cubic metre of water discharged at Raglan Mine and the operating support fees from the new MWT-BQE plant in Shandong, China. During the 2018 operating season at Raglan Mine, revenue increased by $194,000 primarily due to a six-week extension of the operating season. The total volume of water treated at Raglan Mine during 2018 was 1.2 million cubic metres, which is a 5% increase over 2017. Also in 2018, the newly operated MWT-BQE water treatment plant provided an additional $48,000 from operations support fees.

The non-recurring revenue from technical services were consistent at $2.9 million year over year. In 2018, there was an increase in the value of SART related services which was more or less balanced by a decrease in the value of pilot demonstration projects compared to 2017. The timing of revenues from technical services fluctuates from year to year as it depends on client needs and the project stage of completion at the reporting date.

Operating Expenses (excluding depreciation)

Total operating expenses (excluding depreciation) were $2 million compared to $2.3 million in 2017, a decrease of $286,000. The 12% decline is attributed to decreases in costs to complete the scope of projects in 2018. Each individual project will require varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

Our share of total plant operating expenses (excluding depreciation) in the China joint ventures for 2018 was $3.5 million compared to $3 million in 2017. The 17% increase is due to the increase in reagent market prices during the year.

Expenses

In 2018, general and administration expenses were $1.5 million compared to $1.7 million, a decrease of $156,000. This decrease is consistent with Management's strategy to further reduce overhead expenses such as rental costs and professional services.

Sales and development costs in 2018 were $1.1 million, which is a decrease of $99,000 from 2017. The variance is due to the increase of internal labour resources allocated from technology development to fulfill technical services contracts.

Total depreciation and amortization expenses were $19,000 in 2018 compared to $214,000 in 2017. The decrease was due to our Selen-IX™ mobile pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation was $111,000 in 2018 compared to $68,000 in 2017. The 2018 expense were mainly due to the amortization of stock-based compensation expenses relating to the stock option grant of December 7, 2017. Other stock-based compensation expenses were lower in 2018 due to a lower fair value adjustment of deferred and restricted share units resulting from the movement of the Company share price.

Other Gains and Losses

Net finance costs were $124,000 in 2018 compared to $215,000 in 2017. During 2018, we recorded approximately 12 months of accrued interest expense related to the convertible loan while finance costs in 2017 included accrued interest and also amortization expense due to accretion of the convertible loan.

Foreign exchange gain was $19,000 in 2018 compared to loss of $35,000 during 2017. 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.

Income Tax and Net Income

In 2018, net income tax expense was $125,000 compared to a net income tax recovery of $100,000 in the prior year. The income tax charges in both years contained a 10% withholding tax in China for the distributions made by the JCC-BQE joint venture which were $125,000 in 2018 and $52,000 in 2017. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions.

Overall net income for the year was $150,000 compared to a net loss of $362,000 in 2017. Comprehensive income for the year was $252,000 compared to a comprehensive loss of $374,000 in 2017. As the Company operates through subsidiaries and joint ventures with functional currencies other than the Canadian dollar, any exchange differences on the translation of the net assets of such entities are recognized in a separate component of equity through other comprehensive income or loss.

SUMMARY OF OPERATIONAL SERVICES

JCC-BQE Joint Venture Operation, Jiangxi Province, 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 water treatment plants 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% 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)	2018	2017
Water treated (cubic metres)	6,905	6,368
Copper produced (pounds)	1,365	1,585

Dexing 2

(in '000s)	2018	2017
Water treated (cubic metres)	8,915	8,031
Copper produced (pounds)	1,213	1,120

Yinshan

(in '000s)	2018	2017
Water treated (cubic metres)	3,994	2,762
Copper produced (pounds)	789	744

Total Joint Venture

(in '000s)	2018	2017
Water treated (cubic metres)	19,814	17,160
Copper produced (pounds)	3,367	3,449

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 site. 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 2018, all three plants met or exceeded mechanical availability and process performance. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period.

MWT-BQE Joint Venture Operation, Shandong Province, China

In 2016, BQE Water entered into a joint venture agreement with MWT for the design, construction and operation of a treatment plant that would recover copper and zinc from wastewater generated by the Guoda gold smelter and refinery owned by Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). BQE Water provides its technology and plant operating experience in exchange for an ongoing 20% share of the profit from metals recovered and technical support fees during the first three years of operation. Plant construction began in Q4 2017 and the plant was completed and commissioned during Q3 2018. The plant has been operating daily and is expected to recover approximately 180,000 pounds of zinc and 18,000 pounds of copper per month. Copper concentrate produced by the plant is sold back to Zhaoye and the zinc concentrate is sold to local metal traders.

Operating results for the plant during the year were as follows:

(in '000s)	2018	2017
Water treated (cubic metres)	283	-
Zinc recovered (pounds)	525	-
Copper recovered (pounds)	34	-

Raglan Mine Operation for Glencore Canada Corporation, Quebec, Canada

BQE Water operates three water treatment plants 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® process 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)	2018	2017
Water treated - ChemSulphide® plant and Met-IX™ plant (cubic metres)	976	748
Water treated - lime neutralization plant (cubic metres)	245	420
Total	1,221	1,168

In 2018, we successfully completed our 15th operating season at the site. Due to unusually cold weather in May and June, the spring thaw was delayed by approximately one month compared to previous seasons. As a result, in 2018 we extended the operating season by one month and in the process, treated and discharged 30% more water from our ChemSulphide® plant as compared to 2017, a particular dry season. Due to the shorter treatment season, the lime neutralization plant treated and discharged 175,000 cubic metres less water compared to 2017.

SUMMARY OF TECHNICAL SERVICES

Issued for Construction Engineering for Selen-IX™ Plant

The Kemess underground project received permits to proceed based on the use of Selen-IX™ as the treatment system to control selenium in treated water discharged from the site into the environment. During Q1 of 2018, we signed an agreement with Centerra Gold for the engineering, procurement, installation support and commissioning of a water treatment plant at the Kemess site. The plant will combine our unique know-how of heavy metal removal and selenium control using our Selen-IX™ process.

Issued for construction engineering has been completed and the project is currently in the initial stages of procurement, equipment fabrication and site preparation. Equipment fabricated and procured over the winter will be installed in Q2 2019 with commissioning of the water treatment plant scheduled for the second half of 2019. We have also signed a five-year operating services agreement to operate the new water treatment plant, which is expected to treat up to 6,400 m^3/day of mine impacted water. The operation of the water treatment plant is expected to start on January 1, 2020.

Modular Selen-IX™ Plant for Contaminated Groundwater Site in the US

This urban site in the US experiences ingress of groundwater contaminated with selenium into the underground building structure. Following successful laboratory testing that demonstrated the ability of Selen-IX™ to remove selenium from water down to less than one part per billion, the client requested that detailed engineering of a modular skidded Selen-IX™ system be completed. The design of the plant was completed in Q4 of 2018.

SART Plant Start-up at Minera Media Luna

The Minera Media Luna ("MML") gold property contains elevated levels of cyanide soluble copper which impacts gold extraction. In Q2 2018, we were contracted by MML to commission the SART plant at their site and help stabilize the operation. This involved overcoming and rectifying plant design inadequacies delivered by a third party. Throughout the commissioning phase, we led all aspects of the SART plant operation including safety, environmental, automation, operator and supervisor training, and reporting. The commissioning was completed safely without any incidents and the plant entered stable continuous operation in approximately three months. Our involvement continued in Q4 with ongoing technical support of the SART operation.

SART Engineering Projects in Early Stages of Planning and Development

In 2018, we provided engineering and/or laboratory testing services to five new SART projects in early stages of development. All projects are located in the Americas and are yet to be built. We anticipate that some of these projects may advance into detailed engineering design and construction in 2019.

Membrane Water Treatment Pilot at BC Mine

This active mine in BC has a positive water balance and wishes to reduce the inventory of mine impacted water stored on site. Following our initial assessment of water treatment options, we identified membrane treatment as the most suitable method to achieve the site objectives mostly driven by sulphate levels in the receiving environment. Although we considered the use of our Sulf-IX™ process, the volume of water requiring treatment is finite and the time horizon for active treatment quite short which favored the deployment of a membrane-based system instead of Sulf-IX™.

The mine owner then contracted us in Q2 to carry out a pilot demonstration of the proposed system. The on-site pilot was completed over a period of seven weeks and involved the treatment of 1,200 m^3 of mine water. An important component of the pilot was the demonstration of brine management, which is critical for the success of any membrane application in the mining industry. The pilot was successfully completed and a report issued in Q4 2018.

Water Management and Permitting Assistance

Over the course of 2018, BQE Water engineers acted as the Qualified Persons ("QPs") for water issues on several projects navigating the permitting process. We have also participated in formulating water management plans and identifying possible treatment systems for new mining projects in early stages of development.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2018, BQE Water had 120,843,316 common shares issued (93,966,672 at December 31, 2017) and 6,200,000 stock options outstanding (7,133,333 at December 31, 2017).

On March 5, 2019, the Company completed a 100:1 share consolidation of the common shares, resulting in 1,208,435 common shares issued and outstanding and 71,333 stock options outstanding. As of April 16, 2019, aside from the 100:1 share consolidation, the number of common shares issued and outstanding remain unchanged from December 31, 2018; and the number of stock options issued and outstanding also remain unchanged from December 31, 2018.

At December 31, 2018, the Company had Cash of $1.4 million, which is an increase of approximately $441,000 in Cash from December 31, 2017. For the 12 months ended Dec 31, 2018, the Company's Cash funded operating activities of $579,000 and financing activities of $82,000.

The Company had a working capital position at the end of the year of $1,286,000, an increase of $551,000 from December 31, 2017. At December 31, 2018, BQE Water's significant working capital items include trade and other receivables of $1,304,821 ($680,530 at December 31, 2017) and trade payable and accrued liabilities of $1,352,280 ($783,799 at December 31, 2017).

The Company has commitments of $846,828 until 2023 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, 2018 and in the "2018 COMMENTARY AND 2019 OUTLOOK" section of this MD&A, the Company believes it has sufficient working capital resources to continue current operations for the next 12 months. Aside from working capital received from existing operations, the Company expects potential sources of new working capital from new projects. Beyond this point, we will need to secure new non-operational sources of working capital to continue operations, such as debt or equity investments.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. This assumes BQE Water is able to continue successful plant operations at Raglan Mine and its Chinese joint ventures, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, the Company will need to secure new sources of working capital to continue operations.

Whether and when the Company can sustain profitability and attain positive cash flow from operations is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is material uncertainty that may cast 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. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

RELATED PARTY TRANSACTIONS

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

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

	2018	2017
	$	$
Salaries, fees and short-term benefits	557,517	658,480
Share-based payments	52,659	6,153
	610,176	664,633

Included in the trade payables and accrued liabilities as of December 31, 2018 is $131,723 ($12,231 at December 31, 2017) of 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 $142,000 for the year ended December 31, 2018 (2017 - $69,000).

b) The Company had multiple loan transactions with multiple related parties during 2018. These lenders include the Company's joint venture, certain directors, shareholders, management and employees of the Company. Details of the loans with various related parties are described in note 12 of our audited consolidated financial statements.

c) Included in the trade payables and accrued liabilities as of December 31, 2018 is $nil ($96,400 as of December 31, 2017) 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:

a) Management's assessment of the Company's ability to continue as a going concern (see note 2(b) of our audited consolidated financial statements);
b) Management's judgement on determining the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time; and

c) Management' assessment of impairment indicators for asset impairment on long-term assets such as plant and equipment or investment in joint ventures.

Key Sources of Estimation Uncertainty and Assumptions

The following are 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 for technical services relating to water management are recognized using the project stage of completion method, which requires judgment relative estimating project inputs and costs for completion, and making assumptions for scope changes. Depending on the services provided and on the contract terms, many variables are used in assessing the revenues earned based on the project stage of completion at the reporting date.

Expected credit loss

Trade and other receivables are assessed for impairment at each reporting date by applying the expected credit loss impairment model. Expected credit loss represents management's best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also taking into consideration of forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

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, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Adoption of New Accounting Standards and Amendments

The Company have adopted the following new accounting standards during 2018:

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. 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 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 Company has adopted IFRS 15 on the required effective date of January 1, 2018, using the modified retrospective approach. The Company is providing expanded disclosures related to the nature, amount and timing of the revenue (see Note 20). In addition, the Company has elected to make use of the following practical expedient of IFRS 15 which is the application only to revenue contracts that are not completed as the date of applying the standard of January 1, 2018.

The Company has evaluated the impact of applying IFRS 15 by performing a comprehensive review of existing sale contracts, control processes and revenue recognition methodology. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there is no 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 with the fulfillment of performance obligations occurs at the same time. 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 the Company's technical services contracts have the clause which allows the Company to have an enforceable right to payment for performance completed to date, the Company concluded there is no change in the amount of revenue recognized as the Company recognizes revenue over time based on the project stage of completion for labour hours expended or costs incurred.

The Company will continue to recognize revenue by applying the five-step model under IFRS 15. The Company continues to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion or as performance obligations are satisfied at a point in time as the control of goods or services are transferred to the customer.

IFRS 9 - Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 retrospectively on January 1, 2018. 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 adoption of this standard did not have material impact to the Company's consolidated financial statements. The Company's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

Future Changes in Accounting Standards not yet Adopted

The Company reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

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. IFRS 16 replaces IAS 17 *Leases* and the effective date for reporting periods beginning on or after January 1, 2019 with early adoption permitted. For lessees, IFRS 16 will bring most leases onto the consolidated statements of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company will be adopting the exemption for leases with a lease term of 12 months or less and for leases that are low value. While the assessment of the impact is still being determined, and the Company is not currently in a position to reliably quantify the full impact of IFRS 16 on its consolidated financial statements, the Company expects the adoption of this standard to increase assets by recording a right-of-use asset upon adoption. There will also be an increase to liabilities as a corresponding liability will also be recorded in the consolidated financial statements. The Company also expects an impact from the reclassification of lease expense from operating expense and general and administration expense to depreciation expense and interest expense. There will be no impact on the statement of cash flows as cash flows from operating activities will increase as payments will be reclassified to cash flows from investing activities.

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 completely. 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 19 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 flow from these projects to cover ongoing development and administration costs to date.

BQE Water's ability to continue future operations is dependent on its ability to generate positive cash flow 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 to 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, 2018 and in the "2018 COMMENTARY AND 2019 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 an adverse material 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 an adverse material 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 metals 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 these metals will maintain at current buying rates.

Currency Risk

The Company conducts significant 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 water treatment 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 believes it's technologies for water treatment solutions is far beyond the capability in the market, but the Company may not be able to compete successfully with 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.