BQE Water

BQE WATER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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, 2019 and December 31, 2018, and the consolidated statements of income and comprehensive income, 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, 2019 and December 31, 2018, 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.

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.

MNP LLP

Vancouver, British Columbia

June 3, 2020

Chartered Professional Accountants

MNP

BQE WATER INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian dollars)

	note	**December 31 2019 $**	December 31 2018 $
Assets			
Current assets			
Cash		**2,060,060**	1,425,312
Trade and other receivables	5	**1,237,261**	1,304,821
Prepaid and deposits		**171,023**	86,931
Total current assets		**3,468,344**	2,817,064
Non-current assets			
Plant and equipment	7	**249,444**	98,439
Investment in joint ventures	8	**4,641,460**	4,962,449
Deposits		**16,822**	34,699
Total non-current assets		**4,907,726**	5,095,587
Total assets		**8,376,070**	7,912,651
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	**1,381,840**	1,352,280
Deferred revenue	20	**5,135**	92,556
Lease obligations	11	**104,517**	-
Deferred benefits	12	**148,220**	86,171
Total current liabilities		**1,639,712**	1,531,007
Non-current liabilities			
Loans	10	**254,511**	-
Lease obligations	11	**76,516**	-
Total non-current liabilities		**331,027**	-
Total liabilities		**1,970,739**	1,531,007
Shareholders' Equity			
Share capital	13	**56,344,407**	56,332,413
Contributed surplus		**10,320,533**	10,265,959
Accumulated other comprehensive income		**1,216,730**	1,500,791
Accumulated deficit		**(61,476,339)**	(61,717,519)
Total shareholders' equity		**6,405,331**	6,381,644
Total liabilities and shareholders' equity		**8,376,070**	7,912,651

Commitments (note 19)
Subsequent event (note 25)

Approved and authorized by the Board of Directors

Signed "Peter Gleeson"	*Signed "Sara Elford"*
Peter Gleeson, Executive Chairman	Sara Elford, Director

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

BQE WATER INC.
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

	note	Year ended December 31 2019 $	2018 $
Revenues	20	**5,639,834**	4,270,294
Operating expenses (excluding depreciation)	14	**2,789,136**	2,029,198
Operating margin before depreciation		**2,850,698**	2,241,096
General and administration	14	**1,630,839**	1,509,216
Sales and development	14	**1,063,115**	1,120,272
Share-based payment expenses	6, 12	**153,125**	110,605
Depreciation	7	**131,262**	18,716
Share of income from equity accounted joint ventures	8	**(848,555)**	(898,133)
Income from operations and joint ventures		**720,912**	380,420
Finance costs, net	15	**(15,335)**	(124,244)
Foreign exchange (loss) gain		**(36,939)**	18,763
Other losses, net	16	**(316,605)**	-
Income before income taxes		**352,033**	274,939
Income tax expense	17	**(110,853)**	(124,542)
Net income for the year		**241,180**	150,397
Other comprehensive (loss) income			
Items that will be reclassified subsequently to (loss) income			
Translation (loss) gain on foreign operations		**(284,061)**	102,082
Comprehensive (loss) income for the year		**(42,881)**	252,479
Earnings per share			
Basic	13(c)	**0.20**	0.16
Diluted	13(c)	**0.20**	0.16
Weighted average number of shares outstanding			
Basic	13(c)	**1,208,681**	952,921
Diluted	13(c)	**1,213,236**	952,921

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, 2019 and 2018
(Expressed in Canadian dollars)

	note	**Year ended December 31** **Number of Shares**	**2019 $**	Year ended December 31 Number of Shares	2018 $
Share Capital					
Balance, beginning of the year	13(b)	**1,208,435**	**56,332,413**	939,667	54,719,814
Conversion of convertible loan		**-**	**-**	268,768	1,612,599
Exercise of options	12	**1,999**	**11,994**	-	-
Balance, end of the year		**1,210,434**	**56,344,407**	1,208,435	56,332,413
Contributed surplus					
Balance, beginning of the year			**10,265,959**		10,058,149
Equity settled share-based payments	12		**54,574**		121,235
Settlement of convertible loan			**-**		86,575
Balance, end of the year			**10,320,533**		10,265,959
Equity component of convertible loan					
Balance, beginning of the year			**-**		86,575
Settlement of convertible loan			**-**		(86,575)
Balance, end of the year			**-**		-
Accumulated other comprehensive income					
Balance, beginning of the year			**1,500,791**		1,398,709
Other comprehensive (loss) income for the year			**(284,061)**		102,082
Balance, end of the year			**1,216,730**		1,500,791
Accumulated deficit					
Balance, beginning of the year			**(61,717,519)**		(61,867,916)
Net income for the year			**241,180**		150,397
Balance, end of the year			**(61,476,339)**		(61,717,519)
Total shareholders' equity					
Balance, beginning of the year			**6,381,644**		4,395,331
Conversion of convertible loan			**-**		1,612,599
Exercise of options	12		**11,994**		-
Equity settled share-based payments	12		**54,574**		121,235
Other comprehensive (loss) income for the year			**(284,061)**		102,082
Net income for the year			**241,180**		150,397
Balance, end of the year			**6,405,331**		6,381,644

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, 2019 and 2018
(Expressed in Canadian dollars)

	note	Year ended December 31 2019 $	2018 $
Operating activities			
Net income for the year		**241,180**	150,397
Items not affecting cash			
Income tax expense	17	**110,853**	124,542
Bad debt expense	16	**383,035**	-
Share of income of equity accounted joint ventures	8	**(848,555)**	(898,133)
Finance costs, net	15	**15,335**	124,244
Depreciation	7	**131,262**	18,716
Net foreign exchange loss (gain)		**57,561**	(42,237)
Shared-based payment expenses	12	**153,125**	110,605
		243,796	(411,866)
Change in non-cash operating working capital items	18	**(449,892)**	(42,618)
Cash used in operations		**(206,096)**	(454,484)
Income taxes paid	17	**(112,257)**	(124,542)
Net cash used in operating activities		**(318,353)**	(579,026)
Investing activities			
Purchase of plant and equipment	7	**(9,864)**	(74,692)
Net distribution received from joint venture	8	**825,867**	1,113,468
Interest received	15	**9,905**	12,988
Net cash provided by investing activities		**825,908**	1,051,764
Financing activities			
Lease payments on principal portion	11	**(91,423)**	-
Lease payments on interest portion	11, 15	**(25,216)**	-
Proceeds from exercise of stock options	12	**11,994**	-
Proceeds from loans	10	**254,511**	-
Interest paid	15	**(24)**	(81,503)
Net cash provided (used) in financing activities		**149,842**	(81,503)
Effect of exchange rate changes on cash		**(22,649)**	49,779
Net change in cash		**634,748**	441,014
Cash, beginning of the year		**1,425,312**	984,298
Cash, end of the year		**2,060,060**	1,425,312

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 management services and treatment solutions provider with unique expertise and intellectual property to support the mining and metallurgical industry in reducing Life Cycle Costs and risks associated with water.

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's Board of Directors approved these consolidated financial statements on June 3, 2020.

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, 2018, with the exception of the adoption of IFRS 16 and IFRIC 23 as described below.

IFRS 16 – Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 replaces IAS 17 Leases ("IAS 17") and the effective date for reporting periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, as permitted under the specific transitional provisions in the standard. Additionally, the Company has adopted the exemption by election of not recognizing right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net income on a straight-line basis over the term of the lease.

On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as an operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's applicable incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 12%. The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. Given that the Company's recognition of right-of-use assets was measured at the amount equal to the lease obligation at the date of initial application, no adjustment to equity was recognized upon IFRS 16 adoption on January 1, 2019. The Company has implemented the following accounting policies permitted under the new standard:

Right-of-Use Assets & Lease Obligations

At inception of a contract, the Company assesses whether a contract is, or contains, a lease contract. A lease contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease obligation at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The lease term may consider the option to renew or any extension to the original lease contract. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease obligation.

A lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease obligation are comprised of:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- Exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease obligation is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments, such as operating costs and property taxes, not included in the initial measurement of the lease obligation are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

IFRIC 23 – Uncertainty Over Income Tax Treatments

The Company adopted IFRIC 23 on January 1, 2019 with retrospective application. IFRIC 23 clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. The effect of uncertain tax treatments is recognized at the most likely amount or expected value. The adoption of IFRIC 23 did not have any impact on the Company's financial results or disclosures.

a) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company, and the entities controlled by the Company, and the share of net assets and net earnings or losses in entities which the Company is a joint venture partner.

The principal subsidiaries of the Company, which are accounted for under the consolidation method, are as follows:

Entity	Country of incorporation and operation	Ownership interest as at Dec. 31, 2019	Ownership interest as at Dec. 31, 2018
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%
BQE Water (Hangzhou) Co. Ltd.	China	100%	0%

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, 2019	Ownership interest as at Dec. 31, 2018
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.

b) Foreign Currency Translation

i) Functional and Presentation Currency

Items included in the financial statements of each consolidated entity in BQE Water Inc.'s group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries and its joint ventures are respective of their functional currency, such as the Chilean peso (“CLP”) 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.

c) Cash

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

d) Inventory and Work in Progress

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

e) Plant and Equipment

i) Recognition and Measurement

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

ii) Subsequent Measurement

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

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
Furniture, office and lab equipment	5 years
Right-of-use assets & leasehold improvements	Remaining lease term
Pilot plants	3 to 5 years
Water treatment plants	Shorter of contract life or 10 to 20 years

f) Financial Instruments

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, 2019, 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 neither derivatives nor 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 shall exclude all tax receivable, such as value added tax ("VAT") and 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, 2019 and 2018.

iii) Financial Liabilities

The Company classifies its financial liabilities into one of the following categories:

Financial Liabilities at Fair Value Through Profit or Loss

This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. 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.

Other Financial Liabilities

This category consists of liabilities carried at amortized cost using the effective interest method. The Company has classified trade payable and accrued liabilities, which exclude all tax payable such as VAT and GST/PST/QST/HST/IVA, lease obligations and loans as financial liabilities at amortized cost.

The Company initially recognizes financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument. 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.

g) Impairment

i) Plant and equipment

The Company's plant and equipment are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated 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 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.

h) 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, 2019 and 2018, the Company did not have any liability for provisions.

i) 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.

j) 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.

k) Employee Benefits

i) Bonus Plans

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

ii) Defined Contribution Plans

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

iii) Termination Benefits

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

- When the Company can no longer withdraw the offer of those benefits; and
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits; and
- When benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

l) 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.

m) Income Tax

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

i) Current Tax

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

ii) Deferred Tax

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

n) Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings 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 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, as 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;

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 takes into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

iii) Right-of-Use Assets & Lease Obligations
To determine the value of the initial recognition of right-of-use-assets and lease obligations, management is required to exercise judgment in several areas. Management has reviewed its lease agreements to estimate the lease term by evaluating the probability of exercising its option to extend or renew its lease contracts. Further judgement is required to determine the discount rate on lease payments by assessing its incremental borrowing rate at each of the Company's locations.

5. TRADE AND OTHER RECEIVABLES

	Dec. 31, 2019	Dec. 31, 2018
	$	$
Trade receivables	775,931	786,445
Contract assets (note 20 (c))	446,719	199,719
Tax receivables	14,611	-
Other	-	318,657
	1,237,261	1,304,821

The Company's changes in allowance for expected credit loss for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Allowance for expected credit loss, beginning of the year	-	-
Recognition of bad debt expense (note 16)	383,035	-
Write-off of uncollected trade receivables (note 23 (a))	(288,405)	-
Allowance for expected credit loss, end of the year	94,630	-

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

For the year ended December 31, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2019	2018
	$	$
Salaries, fees and short-term benefits	633,354	557,517
Share-based payments (note 12(a))	31,564	52,659
	664,918	610,176

Included in trade payables and accrued liabilities as of December 31, 2019 is $100,768 ($131,723 at December 31, 2018) of director fees, management consulting service fees with companies owned by the Company's management, and termination benefits. Included in salaries, fees and short-term benefits, are consulting services received from companies owned by the Company's management that amount to $120,000 for the year ended December 31, 2019 ($142,000 in 2018).

7. PLANT AND EQUIPMENT

	Right-of-use assets[1]	Pilot plants	Other[2]	Total
	$	$	$	$
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
As at Dec. 31, 2019				
Opening net book value	-	-	98,439	98,439
Additions	272,116	-	9,864	281,980
Depreciation	(95,399)	-	(35,863)	(131,262)
Foreign exchange translation	287	-	-	287
Closing net book value	177,004	-	72,440	249,444
As at Dec. 31, 2019				
Cost	272,116	580,593	652,621	1,505,331
Accumulated depreciation	(95,399)	(580,593)	(580,181)	(1,256,174)
Foreign exchange translation	287	-	-	287
Closing net book value	177,004	-	72,440	249,444

[1]Right-of-use assets comprises lease assets (note 11) such as office building and office equipment.
[2]Other comprises leasehold improvements, furniture, office equipment and lab equipment.

8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on December 31, 2019 was $4,641,460 ($4,962,449 on December 31, 2018), comprised of:

	JCC-BQE $	MWT-BQE $
Balance, January 1, 2018	5,020,343	74,913
Share of net income (loss)	968,749	(70,616)
Share of translation gain on foreign operation	72,173	10,354
Contributions made	131,953	-
Distributions received	(1,245,420)	-
Balance, December 31, 2018	4,947,798	14,651
Share of net income (loss)	864,592	(161,697)
Share of translation loss on foreign operation	(345,063)	(19,247)
Contributions made	97,633	-
Distributions received	(923,500)	-
Unrecognized share of net loss and translations loss	-	166,293
Balance, December 31, 2019	4,641,460	-

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 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 2019, the Company received a gross cash distribution of $923,500 ($5 million RMB) compared to $1,245,420 ($6.6 million RMB) during 2018.

The joint venture derives its revenue from recovered copper sales, which are subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to global commodity price risk. The Company's share of net earnings in the joint venture for the year ended December 31, 2019 was $864,592 ($968,749 in 2018).

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, 2019	Dec. 31, 2018
	$	$
Assets		
Current assets		
Cash and short-term investments	2,183,228	1,806,938
Trade and other receivables	150,070	252,350
Income taxes recoverable	18,649	134,412
Inventory	38,392	37,654
Prepaid expenses	1,047	13,549
	2,391,386	2,244,903
Non-current assets		
Plant and equipment	3,699,322	4,100,733
Deferred tax assets	63,121	67,115
	3,762,443	4,167,848
Total assets	6,153,829	6,412,751
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,512,369	1,464,953
Total liabilities	1,512,369	1,464,953
Partner's Equity		
Joint venture partner equity	3,961,989	3,864,356
Accumulated other comprehensive income	1,171,076	1,516,139
Accumulated deficits	(491,605)	(432,697)
Total partner's equity	4,641,460	4,947,798
Total liabilities and partner's equity	6,153,829	6,412,751

Statement of operations and comprehensive income

	2019	2018
	$	$
Revenue	5,323,088	5,498,338
Plant and other operating costs (excluding depreciation)	3,436,789	3,516,440
	1,886,299	1,981,898
General and administration	388,322	416,885
Depreciation of plant and equipment	481,278	484,109
Income from operations	1,016,699	1,080,904
Finance income	19,055	10,606
Other income	56	54,481
Income before income taxes	1,035,810	1,145,991
Income tax expense	(171,218)	(177,242)
Net income for the year	864,592	968,749
Other comprehensive (loss) income		
Translation (loss) income on foreign operation	(345,063)	72,173
Comprehensive income for the year	519,529	1,040,922

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company ("MWT") for the construction and operation of a water treatment plant located in Shandong Province, China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. ("MWT-BQE"). The joint venture built a water treatment plant at a smelter owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). The joint venture operates the plant using BQE Water's patented technology to recover and sell copper and zinc metals from Zhaoye's industrial wastewater stream to generate 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.

The Company's 20% share of net loss in the joint venture for the year ended December 31, 2019 was $161,697 ($70,616 in 2018). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of losses of the joint venture was recognized only to the extent that the net investments on MWT-BQE were reduced to zero. As of December 31, 2019, the balance of unrecognized share of net losses for MWT-BQE is $166,293 ($nil on December 31, 2018).

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

	Dec. 31, 2019	Dec. 31, 2018
	$	$
Current assets	34,182	54,641
Plant and equipment	60,276	81,926
Current liabilities	55,145	57,899
Partner's equity	-	14,651

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

	2019	2018
	$	$
Revenue	227,215	30,826
Plant and other operating costs (excluding depreciation)	181,575	21,077
	45,640	9,749
Non-operating costs	123,977	59,637
Depreciation of plant and equipment	83,360	20,728
Net loss for the year	(161,697)	(70,616)
Other comprehensive (loss) income	(19,247)	10,354
Comprehensive loss for the year	(180,944)	(60,262)

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2019	Dec. 31, 2018
	$	$
Trade payable and accruals	845,131	824,720
Payroll liability	536,709	464,650
Tax payable	-	62,910
	1,381,840	1,352,280

10. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of $412,500. The WINN loan was granted to the Company to assist in the commercialization and scale-up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments commencing on April 1, 2021 until March 1, 2026. As of December 31, 2019, the Company has received a total of $254,511 under this loan agreement ($nil on December 31, 2018).

11. LEASES

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company adopted the exemption for leases with a lease term of 12 months or less and for leases that are low value. As the Company's recognition of lease liabilities is an equal amount to the initial recognition of the right-of-use assets, no adjustment to equity was recognized upon IFRS 16 adoption on January 1, 2019.

The following table reconciles the Company's operating lease obligations at December 31, 2018 to the lease obligations recognized on initial application of IFRS 16 on January 1, 2019:

	$
Commitments disclosed as at December 31, 2018	846,828
(Less): Non-lease commitments	(17,000)
Operating lease commitments as at December 31, 2018	829,828
(Less): Short-term leases	(21,779)
Variable lease payments not based on an index or rate	(232,951)
Discounted using the lessee's incremental borrowing rate of 12%	(302,982)
Lease obligation recognized as at January 1, 2019	272,116
Of which are:	
Current portion lease obligations	91,083
Non-current portion of lease obligations	181,033

The Company's lease assets, such as office leases and office equipment, are included in the plant and equipment assets on the statement of financial position and are classified as right-of-use assets as per note 7.

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. For the year ended December 31, 2019, the Company expensed $95,361 on leases with variable lease payments and $43,485 related to leases that are classified as short-term and leases for low value assets. These expenses have been included in 'general and administration' and 'sales and development' as per note 14.

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

	Dec. 31, 2019 $
2020	119,965
2021	40,430
2022	37,202
2023	8,846
Total undiscounted lease payments	206,443
Less: imputed interest	(25,410)
Total carrying value of lease obligations	181,033

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

	$
Balance, December 31, 2018	-
Addition due to adoption of IFRS 16	272,116
Interest expense on lease obligations	25,216
Lease payments on interest portion	(25,216)
Lease payments on principal portion	(91,423)
Foreign exchange translation	340
Balance, December 31, 2019	181,033
Less: current portion of lease obligations	104,517
Non-current portion of lease obligations	76,516

12. SHARE-BASED PAYMENT EXPENSES

The Company's share-based payment expenses are comprised as follows:

	Dec. 31, 2019 $	Dec. 31, 2018 $
Stock options (a)	54,574	121,235
Deferred share units (b)	42,205	(9,070)
Restricted share units (c)	56,346	(1,560)
	153,125	110,605

a) Stock Options

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

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

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at January 1	6	62,000	7	71,333
Forfeited	6	(500)	7	(4,000)
Expired	7	(20,000)	15	(5,333)
Exercised	6	(1,999)	-	-
Outstanding at December 31	6	39,501	6	62,000
Exercisable at December 31	6	25,665	7	34,000

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the year ended December 31, 2019, the Company recognized $54,574 ($121,235 in 2018) of non-cash compensation expense related to stock options. The expiry date by exercise price at December 31, 2019 are as follows:

Exercise price $	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	39,501	25,665

b) Deferred Share Units

The Company implemented a deferred share unit ("DSU") plan pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. The number of DSUs granted to a participant is calculated by dividing: (i) a specified dollar amount of the participant's compensation amount paid in DSUs in lieu of cash by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company, if any, are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan, with payment no later than December 31 of the following calendar year.

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

	Number of units	Value $
Balance, January 1, 2018	25,043	156,529
Redeemed	(9,658)	(61,288)
Fair value adjustment	-	(9,070)
Balance, December 31, 2018	15,385	86,171
Redeemed	(4,201)	(36,502)
Fair value adjustment	-	45,865
Other adjustment	(610)	(3,660)
Balance, December 31, 2019	10,574	91,874

c) Restricted Share Units

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

During 2019, the Company granted 6,485 RSUs to management and employees of the Company. Under the arrangement, the Company recorded $42,477 as compensation expense for the year ended December 31, 2019. The RSUs granted remained unvested as at December 31, 2019.

The following table presents the changes to the RSU plan:

	Number of units	Value $
Balance, January 1, 2018	529	3,306
Redeemed	(529)	(1,746)
Fair value adjustment	-	(1,560)
Balance, December 31, 2018	-	-
Granted	6,485	42,477
Fair value adjustment	-	13,869
Balance, December 31, 2019	6,485	56,346

13. SHARE CAPITAL

a) Authorized

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

b) Issued

As at December 31, 2019, the Company had 1,210,434 common shares outstanding (1,208,435 on December 31, 2018).

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

c) Earnings per share

The calculation of earnings per share for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Net income	241,180	150,397
Basic weighted average number of shares outstanding	1,208,681	952,921
Dilution of securities	4,555	-
Diluted weighted average number of shares outstanding	1,213,236	952,921
Earnings per share:		
Basic	0.20	0.16
Diluted	0.20	0.16

14. EXPENSES BY NATURE

	2019	2018
	$	$
Operating expenses (excluding depreciation)		
Employee benefits	2,183,043	1,558,014
Consulting and contractor expenses	311,097	371,895
Raw materials and consumables used	169,011	42,790
Travel expenses	101,869	16,416
Equipment rental expenses	9,265	11,520
Other expenses	14,851	28,563
	2,789,136	2,029,198
General and administration		
Employee benefits	689,534	554,967
Director fees	93,700	87,100
Consulting and contractor expenses	414,571	415,572
Rental expenses	99,867	153,738
Insurance expenses	170,968	170,060
Other expenses	162,199	127,779
	1,630,839	1,509,216
Sales and development		
Employee benefits	799,150	797,980
Travel expenses	100,260	105,475
Consulting and contractor expenses	68,141	100,658
Rental expenses	38,979	74,165
Other expenses	56,585	41,994
	1,063,115	1,120,272

15. FINANCE COSTS

The net of finance costs is comprised as follows:

	2019	2018
	$	$
Finance income	9,905	12,988
Interest expense	(25,240)	(137,232)
	(15,335)	(124,244)

16. OTHER LOSSES

The net of other losses is comprised as follows:

	2019	2018
	$	$
Non-operating income[1]	66,430	-
Bad debt expense (note 5, 23 (a))	(383,035)	-
	(316,605)	-

[1]During the year ended December 31, 2019, the Company earned a referral fee on reagents being selected at one of the water treatment plants designed by the Company.

17. INCOME TAXES

Income tax expense differs from that computed by applying the applicable Canadian federal and provincial statutory rate of 27% (2018 – 27%) before taxes as follows:

	2019	2018
	$	$
Expected income tax expense at statutory rates	95,049	74,234
Non-taxable income	(163,200)	(205,372)
Withholding tax	102,292	124,542
Functional currency adjustments	26,912	58,716
Different statutory tax rates on foreign subsidiaries	(19,913)	9,291
Change in unrecognized deferred tax assets	69,713	63,131
Income tax expense	110,853	124,542

	2019	2018
	$	$
Current tax expense	110,853	124,542
Deferred tax expense	-	-
Income tax expense	110,853	124,542

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2019 and 2018 are as follows:

	2019 $	2018 $
Canada		
Plant and equipment	1,336,726	1,447,943
Net capital losses	8,056,712	8,056,712
Non-capital losses	27,894,047	27,415, 827
Investment tax credits	52,688	63,328
Deferred benefits and others	311,342	87,916
	37,651,515	37,071,726
Foreign Jurisdictions		
Plant and equipment	76,068	93,455
Unrealized foreign exchange loss	1,086,152	925,017
Non-capital losses	3,207,806	3,828,705
	4,370,026	4,847,177
Total unrecognized deductible temporary differences	42,021,541	41,918,903

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, 2019, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately $27,894,047 ($27,415,829 in 2018) 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	312,657
2039	478,218
	27,894,047

In addition, the Company has available tax losses in other jurisdictions that total $3,207,806 ($3,828,705 in 2018). These losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 5 years to indefinitely, with losses of $1,317,741 beginning to expire in 2022.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2019	2018
Change in non-cash working capital items	$	$
Increase in trade and other receivables	(318,568)	(622,513)
Increase in prepaid and deposits	(66,631)	(58,211)
Increase in trade payable and accrued liabilities	55,857	639,130
(Decrease) increase in deferred revenue	(84,048)	62,011
Decrease in deferred benefits	(36,502)	(63,035)
Change in non-cash working capital items	(449,892)	(42,618)

19. COMMITMENTS

The Company has commitments of $370,433 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2020	209,434
2021	129,083
2022	25,533
2023	6,383
	370,433

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 linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, the Company also generates revenues from technical services relating to water management that are project specific and generally non-recurring in nature.

a) Disaggregation of Revenue

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

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

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

The disaggregated revenue of the Company are as follows:

	2019	2018
	$	$
Operation contracts	1,663,639	1,430,090
Technical services contracts	3,976,195	2,840,204
	5,639,834	4,270,294

b) Remaining Performance Obligations

As at December 31, 2019, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $916,191, compared to $1,129,533 as at December 31, 2018. The remaining performance obligations of the Company are expected to be fully completed in the next 12 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

c) Changes in Contract Assets

The Company's changes in contract assets for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Contract assets, beginning of the year	199,719	246,495
Amounts invoiced included in the beginning balance	(178,699)	(225,475)
Net increase in contract assets recognized during the year	425,699	178,699
Contract assets, end of the year	446,719	199,719

d) Changes in Deferred Revenue

The Company's changes in deferred revenue for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Deferred revenue, beginning of the year	92,556	29,198
Recognition of deferred revenue included in the beginning balance	(92,556)	(29,198)
Net increase in deferred revenue recognized during the year	5,135	92,556
Deferred revenue, end of the year	5,135	92,556

21. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build and operate water treatment plants. The Company functions as providers of operational services of water treatment plants and as providers of technical services relating to water management.

a) Geographic Information

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

	2019	2018
	$	$
Revenue		
Canada	3,360,685	3,008,249
Latin America	1,129,871	864,550
China	920,579	47,775
Other	228,699	349,720
	5,639,834	4,270,294

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

	Dec. 31, 2019	Dec. 31, 2018
	$	$
Canada	223,441	98,439
China	4,667,463	4,962,449
	4,890,904	5,060,888

b) Information about Major Customers

The following table presents revenue for individual customers exceeding 10% of annual revenue for the year ended December 31, 2019 and 2018:

	2019	2018
	$	$
Customer A	1,565,220	1,408,907
Customer B	307,689	472,812
Customer C	942,444	62,417
Customer D	735,436	-
Total	3,550,789	1,944,136
Represents percentage of total revenue for the year	63%	46%

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 liabilities and net of Cash.

	2019	2018
	$	$
Capital (as defined above) is summarized as follows		
Shareholders' equity	6,405,331	6,381,644
Non-current liabilities	331,027	-
	6,736,358	6,381,644
Less:		
Cash	(2,060,060)	(1,425,312)
	4,676,298	4,956,332

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 expose 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 Company's finance and accounting department, with oversight from the Board of Directors. The Company's risk management policies and procedures have not changed from 2018.

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 tax 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, 2019	Dec. 31, 2018
	$	$
Cash	2,060,060	1,425,312
Trade and other receivables (excludes tax receivable)	1,222,784	1,304,821
	3,282,844	2,730,133

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 this cash to fail to meet their obligations.

Under IFRS 9, the Company is required to review the impairment of its trade and other receivables at each reporting period and to review its allowance for expected future credit losses. The Company transacts with customers with strong credit ratings and strives to minimize credit risk by performing credit reviews, ongoing credit evaluation and account monitoring procedures.

For the year ended December 31, 2019, the Company wrote off trade receivables of $288,405 due to the default from one of its customers with aging balances over 90 days. The defaulted customer is unable to pay due to their bankruptcy during the year. As a result, the credit risk associated with trade receivables with aging balances over 90 days at December 31, 2019 is considered higher than normal and the Company's allowance for expected credit losses at December 31, 2019 is $94,630 ($nil at December 31, 2018). 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, 2019	Dec. 31, 2018
	0-30 days	31-90 days	Over 90 days	Total	Total
	$	$	$	$	$
Trade and other receivables (excludes tax receivable)	567,237	472,300	183,247	1,222,784	1,304,821

Of the Company's receivables, despite overdue balances of $655,547, 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) Foreign Exchange 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 tax receivable, and trade payable and accrued liabilities excluding tax 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, 2019
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash	332,754	5,847	21,406	815,085
Trade and other receivables (excludes tax)	287,983	-	-	284,533
Trade and other payables (excludes tax)	(255,774)	-	(338,183)	(6,732)
Gross balance sheet exposure	364,963	5,847	(316,777)	1,092,886

	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 (excludes tax)	128,781	-	33,738	49,575
Trade and other payables (excludes tax)	(132,110)	-	(304,473)	(2,788)
Gross balance sheet exposure	299,088	1,203	(249,791)	93,040

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.

	2019	2018
	$	$
U.S. dollar	36,496	29,909
Mexican peso	585	120
Chilean peso	(31,678)	(24,979)
Chinese RMB	109,289	9,304
	114,692	14,354

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 from 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, 2019	Dec. 31, 2018
	< 1 year	1 to 3 years	> 3 years	Total	Total
	$	$	$	$	$
Trade payable and other payables (excludes tax payable)	1,381,840	-	-	1,381,840	1,289,370
Deferred benefits	148,220	-	-	148,220	86,171
Loans	-	139,981	114,530	254,511	-
Lease obligations	119,965	77,632	8,846	206,443	-
	1,650,025	217,613	123,376	1,991,014	1,375,541

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company continues to review expenditures in order to ensure adequate liquidity. A period of extended 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 $532,309 in 2019 ($549,834 in 2018).

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 plans 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 in 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 $14,585 in 2019 ($8,463 in 2018).

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, 2019 $	Dec. 31, 2018 $
Financial assets			
Cash	Financial assets at amortized cost	2,060,060	1,425,312
Trade and other receivables (excludes tax receivable)	Financial assets at amortized cost	1,222,784	1,304,821
Financial liabilities			
Trade payable and other payables (excludes tax payable)	Financial liabilities at amortized cost	1,381,840	1,289,370
Loan	Financial liabilities at amortized cost	254,511	-
Lease obligation	Financial liabilities at amortized cost	181,033	-
Deferred benefits	Financial instruments at FVTPL	148,220	86,171

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, 2019 and 2018. 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

Subsequent to the end of the report period, there was a global outbreak of the COVID-19 virus, which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. On March 18, 2020, the Company initiated a work from home policy and requested all employees to engage in active social distancing. Majority of the Company's ongoing projects, being regulatory driven, are considered essential and continued without any significant disruptions. The Company's operation of water treatment plants continues since treatment of contaminated water is considered an essential service. At this time, the full extent of the impact the COVID-19 outbreak may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

BQE WATER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2019 and 2018

Management's Discussion and Analysis

June 3, 2020

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

This 2019 MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2019, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). All financial information in this MD&A is derived from the Company's Financial Statements prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business operations for the foreseeable future. Our accounting policies are described in note 2 of our audited consolidated financial statements. 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. Central to our business model is that BQE Water produces clean water and stable residues (or saleable by-products) and that we monetize the value of our unique process know-how through recurring revenues generated from plant operations services.

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

OUR STRATEGY

The Company's main strategy is to apply our unique expertise and intellectual property ("IP") related to the treatment of mine water and metallurgical bleed streams to help our clients minimize the Life Cycle Costs and risks associated with water. Additionally, we recognize that sustained growth and the financial success of our business are linked to ongoing innovation and the expansion of our IP portfolio which we are actively engaged in through our own operations and through inquiries from clients evaluating new projects.

The Company monetizes the value of its IP and expertise through services that span the full life cycle of mining projects from permitting to closure. The Company's primary service is the long-term operation of water treatment plants we have designed to generate recurring revenue that is 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 recovered base metals. 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. These services allow BQE Water to follow projects through the entirety of their development and implementation phases, and to provide 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 operational results as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are likely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our operational results in conjunction with the corresponding GAAP measures.

Proportional Results

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

Proportional Revenue

This non-GAAP financial measures of Proportional Revenue adds BQE Water's shares of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the year ended December 31, 2019 and 2018 are as follows:

(in $'000s)	**2019**	2018
	$	$
Reported revenues under GAAP	**5,640**	4,270
Share of reported revenues from joint ventures	**5,550**	5,529
Proportional Revenue for the year	**11,190**	9,799

Adjusted EBITDA

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

(in $'000s)	**2019**	2018
	$	$
GAAP: Net income	**242**	150
add: interest (income) expense	**(4)**	113
add: income tax expense	**282**	302
add: depreciation and amortization	**695**	524
EBITDA	**1,215**	1,089
add: share-based payment expense	**153**	111
add: bad debt expense	**383**	-
deduct: non-operating income	**(66)**	-
add: net foreign exchange loss (gain)	**37**	(19)
Adjusted EBITDA	**1,722**	1,181

2019 FINANCIAL HIGHLIGHTS

- Consecutive reporting of annual net earnings in the Company's history with net income of $242,000 growing from $150,000 in 2018;
- Adjusted EBITDA increase of 46%, from $1.2 million in 2018 to $1.7 million in 2019;
- Setting annual record highs in both Proportional Revenues and in revenues under GAAP, with Proportional Revenues of $11.2 million ($9.8 million in 2018) and revenues under GAAP of $5.6 million ($4.3 million in 2018);
- Working capital increase of 42% year-over-year, from $1.3 million to $1.8 million as of December 31, 2019; and
- Net increase in cash of $635,000 over the 12-month period, from $1.4 million to $2.1 million at the end of 2019.

2019 OPERATIONAL SERVICES HIGHLIGHTS

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

Revenues from Sales of Recovered Metals

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

JCC-BQE Joint Venture

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates water treatment plants at Dexing Mine and at Yinshan Mine in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for the 12 months ended December 31, 2019 are as follows:

(in '000s)	2019	2018
Water treated (cubic metres)	22,052	19,814
Copper recovered (pounds)	3,449	3,367

During 2019, all three plants met mechanical availability and process performance set by the Company. The volume of water treated increased by approximately 11% and the mass of copper recovered increased by 2% year-over-year. Changes in water volume and feed grade are largely the result of environmental conditions which are beyond the control of the joint venture. The minimal variances between 2018 and 2019 indicate very stable operations.

MWT-BQE Joint Venture

Our 20% share of MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company ("MWT") and together we operate a water treatment plant at a smelter in Shandong province. MWT-BQE generates the majority of its revenues from the sale of zinc recovered from smelter wastewater, along with small traces of copper found in the stream. The operating results for the 12 months ended December 31, 2019 are as follows:

(in '000s)	2019	2018
Zinc recovered (pounds)	1,023	525
Copper recovered (pounds)	142	34

The increase in the mass of zinc and copper recovered is due to the plant operating for most of 2019 compared to just one quarter in 2018. The water treatment plant's capacity never reached its design target due to changes in the smelter feed composition and production schedule which deviated significantly from historic averages. These changes are believed to be temporary and the smelter is expected to notify MWT-BQE of future production plans in the first half of 2020.

As of December 31, 2019, there was unsold inventory of approximately 391,000 pounds of zinc, compared to 431,000 pounds of zinc at the end of 2018. The unsold inventory at December 31, 2019 is expected to be sold in the first half of 2020.

Revenues from Water Treatment Fees

The Company is contracted to operate and provide technical support for water treatment plants that generate recurring revenues in the form of water treatment and operations support fees. Compared to 2018, the number of water treatment plants generating recurring revenues from water treatment fees has increased by one to a total of five water treatment plants. They include four plants operated by BQE Water for Glencore at Raglan Mine and one plant operated by the MWT-BQE joint venture but supported and supervised by BQE Water in China. Operating fees from the Glencore operations are primarily based on the volume of water treated and discharged in accordance with strict regulatory requirements. The MWT-BQE plant generates fixed operations support fees for the achievement of operational targets that rely on the Company's technical expertise.

The volume of water treated for the 12 months ended December 31, 2019 are as follows:

(in '000s of cubic metres)	2019	2018
3 Glencore water treatment plants operated historically	1,260	1,221
1 new Glencore water treatment plant added in 2019	722	-
1 MWT-BQE joint venture water treatment plant	588	283

In 2019, we completed our 16th operating season at Raglan Mine and all Glencore plants met mechanical availability and process performance targets set for the year jointly by Glencore and the Company. The MWT-BQE plant operation was negatively impacted by lower volumes of water available to treat due to production changes in the smelter facility.

2019 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 2019 are summarized below.

Commercial Deployment of Selen-IX™ Technology

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

Cyanide Management/Recovery for Precious Metals Extraction Projects using SART

- Engineering design for the construction of two new SART plants that will be integrated into the respective gold metallurgical processing facilities for Shandong Zhongkuang Group and Zhaojin Group in China.
- Engineering design and procurement assistance for a new SART plant at the Parral operation in Mexico.
- Review of metallurgical test work and SART integration into a heap leach project to support the feasibility study and permitting for a new mine in Mexico.
- Engineering design for the feasibility study assessment of tailings re-processing using carbon-in-pulp at an existing mine in Mexico.
- Engineering design and cost estimate for a SART plant to be integrated into a heap leach operation at an existing gold mine in South America.

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

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

Optimization of Existing Water Treatment Plant

- Assessment of options to upgrade and expand the Spoon water treatment facility at Raglan Mine in response to mine expansion plans.
- Maximizing plant capacity and improving the reliability of water treatment at a base metal mine in BC including the temporary take-over of plant operations.

Engineering Design & Supply of Modular Treatment Systems

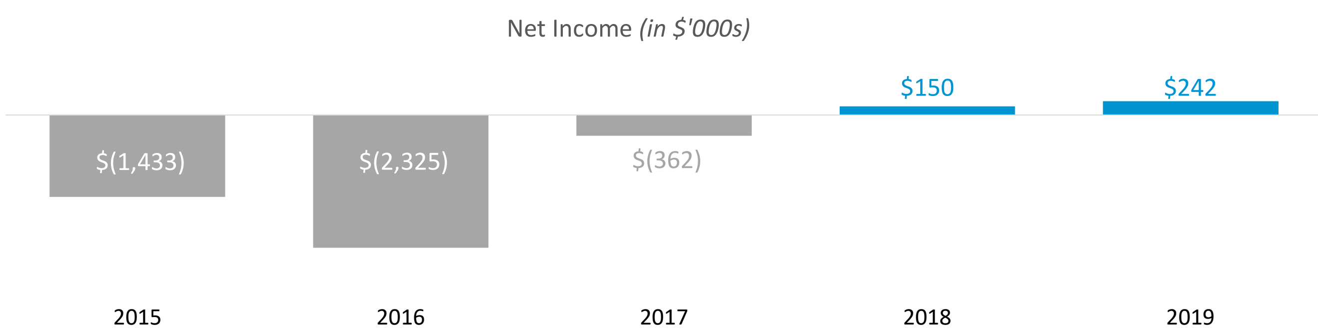
- Engineering design of a containerized modular water treatment plant for the Hope Bay project in Western Nunavut.

2019 COMMENTARY AND OUTLOOK FOR 2020

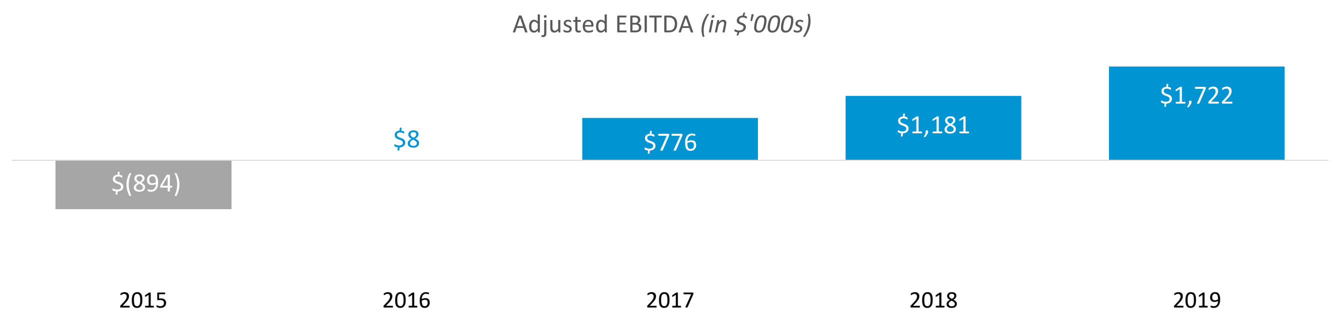
Overall, 2019 was another very successful year for the Company. The highlights can be summarized as follows:

- Achieved the best financial performance in Company history with net income of $240,000 and Adjusted EBITDA of $1.7 million, representing year-over-year increases of 60% and 40% respectively;
- Maintained excellent safety and environmental records throughout the Company's operations with no accidents and environmental incidents despite significant increases in the scope and volume of services delivered in the field;
- Reached a major milestone in the commercialization of Selen-IX™ by completing the pre-commissioning of the first industrial scale plant, which is now ready to be commissioned in 2020;
- Strengthened our leadership position in selenium treatment as the Company was sought out for its expertise by major players in the power generation sector in the US;
- Contracted to provide technical services for three new SART projects globally, reflecting the recognition of BQE Water as the leader in the cyanide recovery and recycle technology;
- Secured a significant backlog of project work by the end of the fiscal year, providing better visibility for cash flows during the first half of 2020; and
- Improved the Company's working capital year-over-year, increasing the Company's ability to manage cash through 2020.

The volume of project work throughout 2019 was higher and the workflow was steadier compared to the year prior. This was reflected directly by better financial performance recorded in each of the four quarters in 2019 compared to 2018. The improvement can be attributed to the growth in the Company's project pipeline over the years, which can be partially credited to enhancements in business development and marketing.



The financial results in 2019 extend the steady positive trend of improving Company financial performance for the past five years. While this long-term trend is very positive, the uncertainty about the impact of COVID-19 on the resource industry will make it difficult to project this positive momentum into the future with any high degree of certainty. However, water treatment has been declared an essential service at mine sites where we operate and most of our active projects are driven by regulatory needs that are unlikely to change. While the Company is not immune to disruptions in global economic activity caused by COVID-19, management expects the impacts to be mitigated by our commercial business model, the nature of our business, and the new contracts recently signed. Specifically, subject to the successful completion of commissioning the first Selen-IX™ plant, we expect annual recurring revenues from water treatment fees to increase meaningfully in 2020 and to further increase in 2021 when the SART and Selen-IX™ plants being built in 2020 become operational in China and in the US.



Despite recent financial improvements, the Company's working capital of $1.8 million as of December 31, 2019 is approximately 68% of annual business expenses, which are comprised of general & administration and sale & development costs. Although the Company has achieved positive Adjusted EBITDA since 2017, shareholders should realize that short-term fluctuations in our revenues combined with the timing of the dividend payout from China represents a risk of a temporary shortfall in working capital. Management continues to actively explore options to mitigate this risk.

In summary, the Company expects to achieve the following in 2020:

- Complete the commissioning of the first commercial Selen-IX™ plant and initiate our five-year operating term at Kemess Mine in BC;
- Complete our 17th operating season at Raglan Mine;
- Complete the construction and commissioning of two new SART plants in China;
- Complete the engineering design and supply of equipment for the first Company project outside of the mining sector, involving a commercial scale selenium removal plant; and
- Secure a grant from the Canadian government to accelerate the technical development of a new arsenic stabilization process, expanding the capabilities of our existing ChemSulphide® and BioSulphide® processes.

SELECTED FINANCIAL INFORMATION

(in $'000 except for per share amounts)

	2019	2018
	$	$
Revenues	**5,640**	4,270
Operating expenses	**2,789**	2,029
	2,851	2,241
General and administration expenses	**1,631**	1,509
Sales and development expenses	**1,063**	1,120
Share-based payment expenses	**153**	111
Depreciation	**131**	19
Share of income from equity accounted joint ventures	**(849)**	(898)
Income from operations and joint ventures	**722**	380
Other income (expense), net	**14**	(105)
Bad debt expense	**(383)**	-
Income tax expense	**(111)**	(125)
Net income for the year	**242**	150
Other comprehensive (loss) income		
Translation (loss) gain on foreign operations	**(284)**	102
Comprehensive (loss) income for the year	**(42)**	252
Earnings per share (basic and diluted)	**0.20**	0.16
Non-GAAP Measures:		
Proportional Revenues	**11,190**	9,799
Adjusted EBITDA	**1,722**	1,181

	at December 31	at December 31
	2019	2018
	$	$
Working capital	**1,829**	1,286
Total assets	**8,376**	7,913
Total non-current liabilities	**331**	-
Shareholders' equity	**6,405**	6,382

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in $'000s) Quarters ended	**Dec-19**	Sept-19	Jun-19	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18
	$	$	$	$	$	$	$	$
Revenues	**1,382**	2,326	1,216	716	1,310	1,893	540	527
Operating expenses	**882**	857	607	444	557	573	439	460
	500	1,469	609	272	753	1,320	101	67
General and administration	**480**	405	362	383	427	369	344	369
Sales and development	**230**	241	274	319	257	211	328	324
Shared-based payment expenses	**13**	55	64	22	10	37	10	55
Depreciation	**(23)**	54	50	50	7	4	4	4
Share of results of equity accounted joint ventures	**263**	(402)	(507)	(202)	198	(302)	(697)	(97)
(Loss) income from operations and joint ventures	**(463)**	1,116	366	(300)	(146)	1,001	112	(588)
Other income (expenses), net	**21**	37	(17)	(27)	15	(57)	(51)	(13)
Bad debt expense	**(95)**	(287)	(1)	-	-	-	-	-
Income tax expense	**(91)**	(17)	(3)	-	(125)	-	-	-
Net (loss) income	**(628)**	849	345	(327)	(256)	944	61	(601)
Translation gain (loss)	**70**	(140)	(241)	27	257	(318)	(157)	320
Comprehensive (loss) income	**(558)**	709	104	(300)	(1)	626	(96)	(281)
Non-GAAP Measures:								
Proportional Revenues	**2,005**	3,991	3,138	2,057	2,198	3,488	2,832	1,282
Adjusted EBITDA	**(451)**	1,495	756	(80)	(100)	1,272	427	(418)

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

SUMMARY OF Q4 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended December 31, 2019 and 2018.

Proportional Revenue

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

(in $'000s)	**Q4 2019**		Q4 2018		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**623**	**31%**	888	40%	(30%)
Water treatment fee from operations	**131**	**7%**	444	20%	(70%)
Technical services	**1,251**	**62%**	866	40%	44%
Total Proportional Revenue	**2,005**	**100%**	2,198	100%	(9%)

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 2019, the Company's share of revenues from the JCC-BQE joint venture decreased 32% from the comparable period in 2018 due to an approximate 30% decrease in the quantity of copper recovered for the period. During Q4 2019, the MWT-BQE joint venture contributed $43,000 to the Company's share of Proportional Revenue compared to $31,000 in Q4 2018.

Revenues from water treatment fees are generated from the Company's seasonal operation of water treatment plants at Raglan Mine and from operations support at the MWT-BQE plant. The decrease of $313,000 from the same period in 2018 is attributed mainly to the operations at Raglan Mine. The treatment plants at Raglan Mine treated 88% less water than the same period in 2018 due to the unusual late spring thaw during the 2018 season, which extended the previous year's season into November. Apart from Q4 2018, the current Q4 season at Raglan Mine is similar to previous seasons. The Company continued to provide ongoing operations support at the MWT-BQE water treatment plant during Q4, earning $46,000 in revenues compared to $48,000 in Q4 2018.

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. The amount represents the sum of multiple contracts from various clients of varying contract values. The increase of $385,000 from the same period in 2018 is attributable to higher project activity for the engineering and design of SART treatment plants, pilot demonstration services, and operations support services at a mine in Northern BC during Q4 2019.

Expenses

Total operating expenses in Q4 2019 were $882,000 compared to $557,000 in Q4 2018, an increase of $325,000, which is due to increases in project activity during the quarter. In addition, each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and water treatment solutions.

In Q4 2019, general and administration costs were $480,000 compared to $427,000 in Q4 2018. The increase in general and administration costs were mainly due to increases in fees for professional services during Q4 of 2019.

Sales and development costs in Q4 2019 were $230,000 compared to $257,000 in Q4 2018, representing a decrease of $27,000. As labour resources were allocated to the increase of project activity during the quarter, less labour resources were designated for business and technology development initiatives during the quarter when compared to Q4 2018.

SUMMARY OF 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2019 and 2018.

Proportional Revenue

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

(in $'000s)	**2019**		2018		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**5,550**	**50%**	5,529	57%	0%
Water treatment fee from operations	**1,663**	**14%**	1,430	14%	16%
Technical services	**3,977**	**36%**	2,840	29%	40%
Total Proportional Revenue	**11,190**	**100%**	9,799	100%	14%

Revenues from the sale of base metals recovered comprises the Company's share of revenues from its joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is impacted by the amount and market price of metal concentrate sold. During 2019 the Company's share of revenues from the JCC-BQE joint venture decreased 3% from 2018. While the total pounds of copper recovered increased by 2% over the prior year, the average price of copper was USD $2.72/LB in 2019 and USD $2.96/LB in 2018, representing an 8% decrease. The remaining variance was from the MWT-BQE joint venture which contributed copper and zinc recovery sales of $227,000 to the Company's Proportional Revenue in 2019. In comparison, the newly built water treatment plant operated for only four months in 2018 where it contributed $31,000 in recovery sales.

Water treatment fee revenues include the tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees from the new MWT-BQE plant in Shandong, China. The $233,000 annual increase was due to increases from both operations. During the 2019 operating season at Raglan Mine, revenues increased by $96,000 due to the Company taking on additional responsibility for a fourth treatment plant, earning revenues based on a fixed monthly operation fee. Also in 2019, the Company supported the operation for four quarters at the MWT-BQE water treatment plant, earning $185,000 in revenues compared to $48,000 in 2018 from one quarter of operation.

The revenues from technical services had the largest increase of $1.1 million year-over-year. Revenues from technical services are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. In 2019, there was an increase in project activity across the full spectrum of services provided by the Company, most notably in the areas of engineering and commissioning of SART plants in Mexico and China.

Operating Expenses

Total operating expenses in 2019 were $2.8 million compared to $2 million in 2018, an increase of $760,000. The 37% increase in operating expenses is directly attributed to the 40% increase in project activity related to technical services completed in the year. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. In 2019, the total employee benefits contained within operating expenses were $2.2 million compared to $1.6 million in 2018.

Expenses

In 2019, general and administration expenses were $1.6 million compared to $1.5 million, an increase of $122,000. This increase is mainly due to increases in professional services fees and other overhead expenses during the year.

Sales and development costs in 2019 were $1.1 million, a decrease of $57,000 from 2018. The variance is due to internal labour resources being re-allocated from technology development to fulfill technical services contracts.

Depreciation expenses were $131,000 in 2019 compared to $19,000 in 2018. As described in note 3 and note 11 of our Consolidated Financial Statements, the increase is due to the adoption of IFRS 16 on January 1, 2019. Upon adoption, operating leases, which previously was expensed as general and administration expenses, are now included in the statement of financial position as right-of-use assets. Depreciation expenses relating to such newly added right-of-use assets was $95,000 in 2019.

Share-based payment expenses were $153,000 in 2019 compared to $111,000 in 2018. Share-based payment expenses consist of non-cash compensation expenses relating to stock options and grants of deferred and restricted share units. During 2019, the Company granted 6,485 restricted share units, which accounted for $42,000 of share-based payment expenses in the year. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from the movement of the Company share price.

Other Incomes and Expenses

The net of other income and expenses was an income of $14,000 in 2019 compared to an expense of $105,000 in 2018. Other income and expenses consist of finance costs, foreign exchange and non-operating income.

Net finance costs were $15,000 in 2019 compared to $124,000 in 2018. As the convertible loan was fully converted at the end of 2018, the Company no longer accrued interest expense related to the loan during 2019.

Foreign exchange loss was $37,000 in 2019 compared to a gain of $19,000 during 2018. These exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Company's reporting currency in Canadian dollars.

Non-operating income was $66,000 during the year as the Company earned a referral fee for the reagent required at the nearly commissioned Selen-IX™ water treatment plant for Kemess Mine.

Bad Debt Expense

During 2019, the Company incurred a bad debt expense of $383,000 relating to two customers. One of the Company's customers from 2017 declared bankruptcy during the year and had no further assets to pay its unsecured creditors. As there is no expectation of recovery for this $288,000 debt, the Company has fully written off the accounts receivable balance of this customer. At the end of the year, another customer had an aging balance in accounts receivable of over 180 days. The Company recorded an estimate of $95,000 as allowance of doubtful accounts relating to this customer.

Income Tax

In 2019, net income tax expense was $111,000 compared to $125,000 in the prior year. The income tax charges in both years consist of a 10% withholding tax in China for the distributions made by the JCC-BQE joint venture. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions.

Net Income and Comprehensive Loss

Overall net income for the year was $242,000 compared to $150,000 in 2018. As the Company operates through subsidiaries and joint ventures with functional currencies which differs from the Company's reporting currency of the Canadian dollar, any exchange differences on the translation of the net assets of such entities are recognized in a separate component of equity, which is through other comprehensive income or loss. Total comprehensive loss for the year was $42,000 compared to a comprehensive income of $252,000 in 2018.

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, 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:

(in '000s)		
Dexing 1	2019	2018
Water treated (cubic metres)	8,728	6,905
Copper produced (pounds)	1,452	1,365
Dexing 2	2019	2018
Water treated (cubic metres)	9,360	8,915
Copper produced (pounds)	1,215	1,213
Yinshan	2019	2018
Water treated (cubic metres)	3,964	3,994
Copper produced (pounds)	782	789
Total Joint Venture	2019	2018
Water treated (cubic metres)	22,052	19,814
Copper produced (pounds)	3,449	3,367

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 2019, 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 recovers 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. The water treatment plant was completed and commissioned during Q3 2018. 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)	2019	2018
Water treated (cubic metres)	588	283
Zinc recovered (pounds)	1,023	525
Copper recovered (pounds)	142	34

Raglan Mine Operation for Glencore Canada Corporation, Quebec, Canada

BQE Water operates four water treatment plants at Raglan Mine, an active nickel mine in Northern Québec which is owned by Glencore Canada Corporation ("Glencore"). The four plants include: BQE Water's ChemSulphide® process plant, BQE Water's Met-IX™ process plant, a lime neutralization plant at Spoon and the newly added lime plant at Katinniq. 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 Québec, 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 depending on the plant, the Company charges a treatment fee per cubic metre of water discharged or a monthly operation fee.

The volume of water treated for the four plants during the year were as follows:

(in '000s cubic metres)	2019	2018
ChemSulphide® and Met-IX™ plants	879	976
Spoon plant	381	245
Katinniq plant	722	-
Total	1,982	1,221

In 2019, we successfully completed our 16th operating season at the site. The timing and length of the 2019 operating season was comparable with previous seasons in the past, with our operating crew deployed from May to October.

SUMMARY OF TECHNICAL SERVICES

Selen-IX™ Plant at Kemess

The Kemess underground project received permits based on the use of Selen-IX™ as the treatment system to control selenium in mine impacted water collected at site. In 2018, we signed two agreements with Centerra Gold. One for the engineering, procurement, installation and commissioning of a water treatment plant. The other is for a five-year plant operating agreement. Throughout 2019, our projects team was busy supporting equipment procurement, fabrication and installation at the Kemess site. Our operations team prepared operating manuals and standard operating procedures which were subsequently reviewed by regulatory agencies. In Q4, our engineering and operations teams were mobilized to site to complete as many on-site activities before winter as possible. The first commercial scale Selen-IX™ plant is now fully constructed, equipment is pre-commissioned and the plant is ready for process commissioning to start in Q2 2020. The plant combines our unique know-how of heavy metal removal and selenium control using our Selen-IX™ process.

Modular Plant at Hope Bay Mine

In response to the urgent need for the control and removal of suspended solids from underground mine water at this active gold mine, our projects team designed, supplied and commissioned a packaged modular system on a very aggressive schedule constrained by barge shipping timelines to the Northwest Territories.

Three New SART plants in China and Mexico

During the year, our engineering and projects teams designed and supervised the construction of a new SART plant for the Parral heap leach operation in Mexico. These teams also designed and oversaw the procurement for two SART plants to be integrated into each of the metallurgical processes at the Zhongkuang and Zhaojin operations in China.

The Parral plant was on a fast track schedule with construction completed before the end of Q4 2019 and plant commissioning in Q1 2020. The two Chinese plants entered the equipment procurement phase in Q4 2019 and construction expected to commence during the first half of 2020.

Early Stages of SART Engineering Projects

In 2019, we provided consulting engineering and/or laboratory testing services for several new SART projects in the early stages of development. These projects are located in the Americas and in China. Based on the positive economics but subject to permitting and financing, we anticipate some of these projects to advance into detailed engineering design and possibly construction in 2020.

Pilot Demonstration of Sulphate and Selenium Removal for a BC Mine

This active mine in BC has a positive water balance and is contemplating a production expansion, which has triggered concerns around the increase in sulphate and selenium loading in the water discharged into the environment. In 2018, we completed an evaluation of different possible treatment options and identified the combination of nanofiltration and selenium electro-reduction to be most suitable for the project. In 2019, we were contracted to complete a pilot scale demonstration of the proposed treatment process. As part of the pilot project, we retrofitted our existing mobile pilot plant used in 2018 for piloting sulphate removal at a different mine in BC and integrated into the pilot plant a new electro-reduction circuit. The pilot plant was successfully commissioned and the demonstration was completed in Q4 2019. The final report was prepared for the client in Q1 2020 to support permitting of the mine expansion and inform budgeting for future water treatment at the site.

Optimization of Water Treatment Plant at a BC Mine

In Q3 2019, our operations team was contracted to take over responsibility for the operation of an existing water treatment plant with the objective of identifying and implementing improvements that would enable the plant to operate at the maximum possible capacity while meeting water discharge quality requirements.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2019, BQE Water had 1,210,434 common shares issued (1,208,435 at December 31, 2018) and 39,501 stock options outstanding (62,000 at December 31, 2018).

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 June 3, 2020, the Company has 1,215,435 common shares issued and outstanding; and 84,833 stock options outstanding.

At December 31, 2019, the Company had Cash of $2.1 million, an increase of approximately $635,000 from December 31, 2018. For the 12 months ended December 31, 2019, the Company’s Cash used in operating activities was $318,000.

The Company had a working capital position at the end of the year of $1.8 million, an increase of $543,000 from December 31, 2018. At December 31, 2019, BQE Water’s significant working capital items, aside from Cash, include trade and other receivables of $1.2 million ($1.3 million at December 31, 2018) and trade payable and accrued liabilities of $1.4 million ($1.3 million at December 31, 2018).

The Company has commitments of $581,000 until 2023 under operating leases for office and laboratory premises and for office equipment.

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

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2019	2018
	$	$
Salaries, fees and short-term benefits	633,354	557,517
Share-based payments	31,564	52,659
	664,918	610,176

Included in the trade payables and accrued liabilities as of December 31, 2019 is $100,768 ($131,723 at December 31, 2018) 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 $120,000 for the year ended December 31, 2019 ($142,000 in 2018).

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 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 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, as 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;

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 related to 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 takes into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

Right-of-Use Assets & Lease Obligations
To determine the value of the initial recognition of right-of-use-assets and lease obligations, management is required to exercise judgment in several areas. Management has reviewed its lease agreements to estimate the lease term by evaluating the probability of exercising its option to extend or renew its lease contracts. Further judgement is required to determine the discount rate on lease payments by assessing its incremental borrowing rate at each of the Company's locations.

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 the reports it files are 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 controls 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 oversight of the Board of Directors in all 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, 2019 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 has adopted the following new accounting standards during 2019:

<u>*IFRS 16 - Leases*</u>
On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 replaces IAS 17 Leases ("IAS 17") and the effective date for reporting periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, as permitted under the specific transitional provisions in the standard. Additionally, the Company has adopted the exemption by election of not recognizing right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net income on a straight-line basis over the term of the lease.

On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as an operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's applicable incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 12%. The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. Given that the Company's recognition of right-of-use assets was measured at the amount equal to the lease obligation at the date of initial application, no adjustment to equity was recognized upon IFRS 16 adoption on January 1, 2019. The Company has implemented the following accounting policies permitted under the new standard:

Right-of-Use Assets & Lease Obligations
At inception of a contract, the Company assesses whether a contract is, or contains, a lease contract. A lease contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease obligation at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The lease term may consider the option to renew or any extension to the original lease contract. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease obligation.

A lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease obligation are comprised of:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- Exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease obligation is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments, such as operating costs and property taxes, not included in the initial measurement of the lease obligation are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

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 22 plants to date deploying proprietary technologies developed by BQE Water and applying them to meet site specific conditions. The Company has been profitable but there are risks that the Company will be able to continue to generate sufficient cash flow from non-recurring projects and to receive timely annual dividends from the Company's investments in joint ventures to cover ongoing development and administration costs.

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.

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 services 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 revenues 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 revenues by selling recovered metals of value 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 prices of these metals will maintain at current buying rates.

Credit Risk

The Company's credit risk is primarily associated with trade and other receivables, however, it also arises on cash. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. To manage credit risk on trade and other receivables, the Company transacts with customers with strong credit ratings with ongoing credit evaluation and account monitoring procedures. Prior to 2019, the historical level of customer default was negligible. For the year ended December 31, 2019, the Company wrote off trade receivables of $288,405 due to the default from one of its customers with aging balances over 90 days. As a result, the credit risk associated with trade receivables with aging balances over 90 days are considered higher than normal.

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 renminbi. 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 the 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 inventors 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.

COVID-19 Pandemic

Efforts to fight the COVID-19 pandemic have been taken by national and local governments. These efforts have had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. On March 18, 2020, the Company initiated a work from home policy and requested all employees to engage in active social distancing. Majority of the Company's ongoing projects, being regulatory driven, are considered essential and continued without any significant disruptions. The Company's operation of water treatment plants continues since treatment of contaminated water is considered an essential service.

Although there is currently no significant direct COVID-19 impact to the Company, the COVID-19 pandemic could impact our suppliers, customers, local communities and other stakeholders, which could impact the Company's ability to operate in the future. The COVID-19 pandemic and responses to it may also lead to an economic recession or downturn that may materially adversely affect the Company's operations or liquidity position. One or more of the Company's employees could contract COVID-19 or be directly affected by someone who does contract COVID-19 and may be required to self-isolate. At this time, the full extent of the impact the COVID-19 outbreak may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.