

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2017 and 2016

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 30, 2017 and 2016

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

This Q3 2017 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 and 2016 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2016 and 2015 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2016.

Our Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Our accounting policies are described in note 2 of our Audited Financial Statements. This MD&A has been prepared as at November 22, 2017.

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.

DESCRIPTION OF BUSINESS

BQE Water Inc. ("BQE" or the "Company") (formally BioteQ Environmental Technologies Inc.) is making the mining and metallurgical industry more sustainable and profitable by revolutionizing water management and treatment in this sector. BQE is an integrated water services provider with unique expertise and intellectual property related to treatment of water at mines and metallurgical facilities focused on reducing Life Cycle Costs and eliminating long term liabilities. The Company generates revenue from two main sources: (1) Operation and maintenance of water treatment plants, which includes sale of metals recovered from operations, and (2) Technical services relating to water management, including engineering, laboratory and pilot demonstration. Headquartered in Vancouver, British Columbia, Canada, our treatment solutions help mine owners to obtain permits, ensure environmental compliance, and attain social license to operate while minimizing risks and costs related to water often encountered during long term mining projects.

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

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

NON-GAAP MEASURES

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

Proportional Results

Under the IFRS, the revenue and operating costs associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item on our consolidated statements of loss and comprehensive loss. Also, our share of assets, liabilities and equity in the joint venture are presented as a net investment on our consolidated statement of financial position.

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

Proportional Revenue

Proportional Revenues for the three and nine month periods ended September 30, 2017 and 2016 are as follows:

(in \$'000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Reported revenues under GAAP	1,578	1,356	3,199	2,390
Share of reported revenues from Dexing Joint Venture	1,569	1,055	4,238	3,676
Proportional Revenue for the period	3,147	2,411	7,437	6,066

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") for the three and nine month periods ended September 30, 2017 and 2016 is derived as follows:

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
GAAP: Net income (loss)	831	117	520	(2,345)
add: interest expense	54	56	157	53
add: income taxes (recovery) expense	(10)	30	95	113
add: depreciation and amortization	156	188	480	558
EBITDA	1,031	391	1,252	(1,621)
add: stock-based compensation	34	30	43	76
add: net foreign exchange loss (gain)	23	(7)	38	1,443
Adjusted EBITDA	1,088	414	1,333	(102)

Q3 2017 COMMENTARY AND OUTLOOK

Our results for Q3 2017 build not only on the results achieved in first and second quarter of 2017 but also on the steady trend of year over year improvements in financial performance since 2014. While the revenues during first half of the year are typically lower due to the seasonal nature of our operations at Raglan Mine and our joint venture operations at Dexing Mine, Q3 is usually our strongest quarter and the results are no exception. However, the financial results in Q3 2017 and year-to-date are notable for the significant improvement including the year-to-date Proportional Revenue increase of 23% and Adjusted EBIDTA increase of \$1.4M when compared to same period in 2016.

The improved financial performance in 2017 is a reflection of several factors. First, the 24% increase in the average copper price compared to 2016 increased our share of revenues from Dexing Joint Venture. However, this accounts for less than 50% of the total increase in Proportional Revenue year over year. The remainder of the increase comes from the increase in project revenue. In this context, the results in 2017 reflect the long sales cycle in our industry where efforts over the past three years are finally having a positive impact on revenues this year. Besides the increase in revenues, the reduction in the Company expenses and ongoing fiscal discipline applied in recent years are responsible for the dramatic improvement in year-to-date Adjusted EBIDTA from negative \$102,000 to positive \$1.3M.

During Q3 2017, we worked on multiple new projects including optimizing a treatment plant removing arsenic and selenium at a smelter in Mexico, re-starting a cyanide recovery plant built by BQE in 2008 using the SART technology to reduce the cost of gold production at the Lluvia de Oro Mine which is now under new ownership, demonstrating a pilot scale of Sulf-IX at a zinc refinery in Peru where BQE's technology can enable the client achieve complete water recycle and Zero Liquid Discharge, and performing several lab scale projects in Canada and Chile for the removal and/or recovery of a wide spectrum of constituents from mine impacted waters.

Although most of these projects provide significant opportunities for future revenues, all of these projects happen in stages, typically over a period of two to three years and the timing of revenues and cash-flows are uncertain. Consequently, the consistency of the Company's profitability through 2017 and 2018 cannot be guaranteed and the continued growth of the projects pipeline, sales bookings, and execution of projects to generate cash-flow are the primary areas of focus for the Company.

Despite the positive results reported throughout 2017, we no longer expect to generate sufficient cash-flow through the rest of 2017 to enable us to repay the principle amount of the convertible loan due on January 6, 2018 and have sufficient cash reserves to ensure ongoing Company operations. This is partly due to the change in timing of revenues from existing and upcoming projects. Although this represents a change in our narrative, we have commented on our inability to control timing of revenues and the risk of temporary shortage in working capital. Management and our Board of Directors are currently in discussions with the lenders to restructure the existing loan to ensure sufficient levels of working capital moving into 2018. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company.

Q3 2017 OVERVIEW

Financial Highlights:

- Revenues as reported under GAAP were \$1.6 million compared to \$1.4 million in Q3 2016;
- Proportional revenues were \$3.1 million compared to \$2.4 million in Q3 2016;
- Net income as reported under GAAP was \$831,000 compared to \$117,000 in Q3 2016;
- Adjusted EBITDA was \$1.1 million compared to \$414,000 in Q3 2016;
- Cash and cash equivalents reported under GAAP as of September 30, 2017 was \$1.2 million compared to \$2.2 million at December 31, 2016; and
- Proportional cash and cash equivalents, which includes our share held in joint ventures, as of September 30, 2017 was \$3.6 million compared to \$3.0 million at the end of 2016.

Operating Highlights:

The Raglan Project, Quebec

The Company operates three Water Treatment Plants (“WTP”) at the Raglan Mine, an active nickel mine in northern Quebec which is owned by Glencore Canada Corporation (“Glencore”). The three plants are: WTP using BQE’s ChemSulphide® processes, WTP using BQE’s Met-IX processes, and WTP using conventional lime neutralization. Both WTP using ChemSulphide® and Met-IX not only treat water for environmental discharge but also recover nickel that is blended into the nickel concentrate produced by the mine.

During Q2 2017, we commenced our 14th operating season at the site, under a newly extended contract which extends to the end of 2020. Due to the lack of precipitation at the mine site resulting in lower than usual inventory of water requiring treatment, BQE started up and operated only two of the three plants at site in 2017. Based on the volume of water requiring treatment at site in 2017, we anticipate that the total treated volume at the end of the year to be lower than 2016. Operating results of all three plants for the current quarter and the current year were as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	1,002	1,115	1,142	1,157

Joint venture with Jiangxi Copper Company, China

Our joint venture in China, with partner Jiangxi Copper Company (“JCC”), operated three WTP during Q3 2017. Two of the plants are located at the Dexing Mine site as well as a plant at the Yinshan Mine site. Both mine sites are owned by JCC. The following is summary of operating results for all three plants during Q3 2017.

Dexing 1

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,505	1,970	5,106	6,211
Copper produced (pounds)	492	459	1,237	1,456

Dexing 2

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,993	2,229	6,894	7,429
Copper produced (pounds)	368	268	904	926

Yinshan

(in '000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	946	610	2,502	2,538
Copper produced (pounds)	196	164	719	701

Total Joint Venture

(in '000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	6,444	4,809	14,502	16,178
Copper produced (pounds)	1,056	891	2,860	3,083

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and the prevailing environmental conditions at both sites. The two plants Dexing 1 and Dexing 2 treat water from the same sources at the Dexing Mine and water may be diverted from one plant to the other to optimize operations. The Yinshan plant treats water from a separate source at the neighboring Yinshan Mine. JCC is continuing to complete water management changes at the Yinshan Mine that are expected to increase the efficiency on capturing the mine impacted water which will increase the throughput of the Yinshan plant in the future. The impact of these changes are expected to positively influence the JCC operating results in 2018.

During Q3 2017, all three plants met or exceeded mechanical availability and process performance.

Sales and Project Highlights:

Selen-IX™ Technology Demonstration

In Q3 2017, BQE initiated work on the design and construction of an industrial scale demonstration unit specifically for the Kemess Underground project in BC. The industrial scale unit encompasses the critical unit processes of Selen-IX™ that achieve electro-reduction of selenium with concurrent stabilization of selenium in a stable solid residue with a potential for off-take by steel manufacturers. The objectives of the demonstration includes the confirmation of performance, engineering design for scaled-up Selen-IX™ plant to treat 60 liters of water per second, reduction of risks related to scale-up and operability of full-scale commercial plants which uses multiples of the same size units as tested in 2017. Following the completion of the demonstration for Kemess, two other mining companies expressed interest in using the demonstration unit for evaluating the potential deployment of Selen-IX™ in their projects.

Consulting Services

Also during the quarter, BQE continued to provide consulting services for several water treatment projects in Canada, United States, Asia, Europe and Mexico. These services covered a broad spectrum of activities including preparation of water and contaminant management plans at mine sites, optimization of existing water treatment plants, technical support to ongoing treatment plants operations, engineering assessments of different treatment options, assistance with permitting, and finally, expansion of and subsequent commissioning of cyanide recovery plant using the SART process at a gold mine.

Lab Testing Services

During Q3 2017, BQE continued to perform lab scale testing of its technologies at various mine sites with customers in Northern Canada, United States and Latin America. These tests will allow mine sites to assess BQE's technologies and provide high level cost estimates for possible full-scale plants. If results prove favorable, they could lead to additional services including pilot scale testing, design, construction, and operation of full-scale plants in the future.

Zinc and Copper Recovery – Joint Venture

In late 2015, we announced the formation of a new joint venture in China with Shandong MWT. The immediate goal of the joint venture was to build, own and operate a zinc and copper recovery plant at a smelter in China. Following initial stages of engineering and project permitting, the construction phase began in Q3 2017 with the expectation to start the commissioning of the plant by the beginning of the third quarter in 2018. Under the terms of the joint venture contract, we will receive an

operating fee for the first 3 years of the plant operation and an ongoing 20% share of the profits which is expected to recover up to 6 million pounds of zinc per year and 160,000 pounds of copper per year based on the current flow and metal loading in the smelter wastewater.

FINANCIAL RESULTS

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenues	1,578	1,356	3,199	2,390
less: Plant and other operating costs (excluding depreciation)	642	494	1,716	1,078
	936	862	1,483	1,312
General and administration	383	410	1,254	1,301
Sales and development	263	356	855	973
Stock-based compensation	34	30	43	76
Depreciation and amortization	31	60	98	176
Share of results of equity accounted joint ventures	(470)	(160)	(1,268)	(351)
Income (loss) from operations and joint ventures	695	166	501	(863)
Other expense, net	17	49	134	1,482
Income taxes recovery	(153)	-	(153)	-
Net income (loss) for the period	831	117	520	(2,345)
Translation (loss) gain on foreign operations	(97)	22	(140)	1,048
Comprehensive income (loss) for the period	734	139	380	(1,297)
Net loss per share (basic and diluted)	0.01	0.00	0.01	(0.02)
Proportional Revenues ¹	3,147	2,411	7,437	6,066
Adjusted EBITDA ¹	1,088	414	1,333	(102)

	at Sept. 30,	at Dec. 31,
	2017	2016
Working capital	(454)	1,660
Total assets	7,728	7,459
Total long term liabilities	-	1,378
Shareholders' equity	5,141	4,756

Notes:

1. See Non-GAAP measures

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	Sept-17	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	1,578	953	668	1,570	1,356	644	391	1,229
Plant and other operating costs (excluding depreciation)	642	656	418	680	494	365	219	813
	936	297	250	890	862	279	172	416
General and administration	383	376	495	404	410	465	426	577
Sales and development	263	303	288	181	356	268	349	278
Stock-based compensation	34	15	(7)	-	30	16	30	(1)
Depreciation and amortization	31	33	33	58	60	59	57	57
Share of results of equity accounted joint ventures	(470)	(764)	(34)	195	(160)	(291)	100	392
Income (loss) from operations and joint ventures	695	334	(525)	52	166	(238)	(790)	(887)
Other (expenses) income	(78)	(69)	(48)	(36)	(49)	(1,415)	(26)	206
Bad debt recovery	61	-	-	4	-	7	-	68
Income tax recovery (expense)	153	-	-	(1)	-	-	-	(143)
Net income (loss)	831	265	(573)	19	117	(1,646)	(816)	(756)
Translation (loss) gain	(97)	(51)	9	(94)	22	1,290	(263)	(174)
Comprehensive income (loss)	734	214	(564)	(75)	139	(356)	(1,079)	(930)
Non-GAAP Measures:								
Proportional Revenue	3,147	3,182	1,108	2,295	2,411	2,137	1,519	1,723
Adjusted EBITDA	1,088	744	(497)	107	414	71	(584)	(777)

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated and variation in commodity prices. Seasonality at each operation also impacts the timing of revenue. Operations at Raglan typically run from May to November of each year. Copper production at Dexing increases between April and September of each year and declines during winter months due to variations in precipitation and annual maintenance needs. Revenue from engineering, design and construction services occur based on the timing of customer requirements.

SUMMARY OF Q3 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended September 30, 2017 and 2016.

Revenue

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

(unaudited, in \$'000s)

Revenue source	Q3 2017		Q3 2016		Total Revenue
	\$	% of total	\$	% of total	% Change
Water treatment plant operations	1,000	32%	1,061	44%	(6%)
Technical services	578	18%	295	12%	96%
Total revenue	1,578	50%	1,356	56%	16%
Share of joint venture revenue	1,569	50%	1,055	44%	49%
Total Proportional Revenue	3,147	100%	2,411	100%	31%

Revenue from water treatment operations is generated from the Company's seasonal operation of the WTP at the Raglan Mine. Starting in 2017, BQE has extended the operating contract until the end of 2020. Although the revenues in Q3 2017 were comparable to those in Q3 2016, we expect that the total revenue for 2017 will be lower than in 2017 due to the significantly lower inventory of water requiring treatment at the mine site.

The revenue from technical services include engineering and plant design, construction and commissioning of WTP, laboratory and pilot demonstrations, consulting, and operation support, which represents a sum of multiple contracts of varying contract values. Revenue from technical services increased \$283,000 from the same period in 2016. The increase was attributable to a greater number of projects; particularly from customers in Latin America.

Our share of revenue from our joint venture in China is generated from the metals recovered from the operations of WTP, which is impacted by the amount and price of copper sold. During Q3 2017, the total pounds of copper recovered increased by 18% over the same period in 2016. Our share of revenue increased by 49% from Q3 2016 which was due to the increase in copper recovered and the 26% increase in average copper prices during the period.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q3 2017 were \$642,000 compared to \$494,000 in Q3 2016, an increase of \$148,000. The increase is mainly due to the increase in projects from technical services, which required additional engineering and laboratory labor.

Expenses

In Q3 2017, general and administration expenses were \$383,000 compared to \$410,000 in Q3 2016. The decrease of \$27,000 in general and administration costs were mainly due to the reduction of consulting fees and rental expenses.

Sales and development costs in Q3 2017 were \$263,000 compared to \$356,000 in Q3 2016, which is a decrease of \$93,000. This decrease reflects an increase of engineering and lab labor allocated to projects in order to support the increase of project activity compared to the prior year's quarter.

Depreciation and amortization expenses were \$31,000 in Q3 2017 compared to \$60,000 in Q3 2016. The decrease of \$29,000 was because the ChemSulphide® plant asset was fully depreciated as at December 31, 2016.

Stock-based compensation expense in Q3 2017 was \$34,000 compared to \$30,000 in Q3 2016. Stock-based compensation costs will reflect fair value adjustments of deferred and restricted share units between each reporting period.

Other expenses

Net financing and interest expense was \$55,000 in Q3 2017 compared to \$56,000 in Q3 2016. The recorded interest expense reflects the loan accretion and accrued interest of the \$1.5 million, 18-month convertible loan which was issued in July 2016.

During Q3 2017, we recognized a foreign exchange loss of \$23,000 compared to a gain of \$7,000 in Q3 2016. These losses and gains arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar.

The Company recorded a bad debt recovery of \$50,000 during Q3 2017 of Value Added Tax ("VAT") receivable from the Mexican government, which were written off in 2014. Our Mexican entity was able to apply the recovered VAT towards the VAT payable from revenue earned during 2017. Also included in the bad debt recovery during Q3 2017, the Company recovered from its customers a net receivable of \$11,000.

Also during Q3 2017, BQE recorded an income tax recovery of \$153,000. In 2012, the Company accrued income tax expenses of \$153,000, which was a 15% withholding tax on profits generated from an engineering contract with a client based in Chile. During the quarter, we received confirmation from Chile that BQE is not liable for paying the 15% withholding tax. These taxes and recoveries are not able to be offset against accumulated tax benefits in other jurisdictions.

SUMMARY OF YEAR-TO-DATE Q3 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine month periods ended September 30, 2017 and 2016.

Revenue

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

(unaudited, in \$'000s)

Revenue source	Year-to-date Q3 2017		Year-to-date Q3 2016		Total Revenue %
	\$	% of total	\$	% of total	Change
Water treatment plant operations	1,153	16%	1,256	21%	(8%)
Technical services	2,046	27%	1,134	18%	80%
Total revenue	3,199	43%	2,390	39%	34%
Share of joint venture revenue	4,238	57%	3,676	61%	15%
Total Proportional Revenue	7,437	100%	6,066	100%	23%

The current year-to-date revenue from water treatment operations has decreased \$103,000 when compared to 2016. The decrease is due to a significantly lower inventory of water requiring treatment at the mine site for 2017.

Revenue from technical services increased by \$912,000 from the same period in 2016. The increase was attributable to higher project activity in the current year; especially from project activity arising from Latin America, which totaled \$938,000 in 2017.

With our JCC joint venture, our share of year-to-date revenue from metal recovery increased by \$562,000 from 2016. Despite an 8% decrease of copper recovered, total revenue increased due to a 24% increase in average copper prices compared to the prior year.

Plant and other operating costs (excluding depreciation)

The year-to-date plant and other operating costs (excluding depreciation) in 2017 increased by \$638,000 compared to the same period in 2016. The 59% increase is mainly due to the increase in projects from technical services that require additional labor resources to complete the scope of these projects in 2017.

Expenses

The year-to-date general and administration expenses in 2017 slightly decreased by \$47,000 as compared to the same period in 2016. The decrease is a result of the net savings from reduced rental expenses and moving expenses incurred during 2017.

Sales and development costs in year-to-date 2017 decreased by \$118,000 over the same period in 2016, as labor resources were allocated projects in order to support higher project activity in 2017.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2017, BQE had 93,966,672 common shares issued and outstanding (December 31, 2016 – 93,966,672), and 3,733,333 stock options outstanding (December 31, 2016 – 4,333,333).

As of November 22, 2017, the number of common shares issued and outstanding remain unchanged from September 30, 2017 and the number of stock options outstanding is 2,933,333.

For the nine months ended September 30, 2017, the Company generated a net income of \$520,432 (loss of \$2,345,015 in 2016) and used net cash in operating activities of \$769,084 (\$843,863 in 2016). At September 30, 2017, the Company had a negative working capital of \$453,679 (positive \$1,660,170 at December 31, 2016) and a cumulative deficit of \$60,986,433 (\$61,506,865 at December 31, 2016).

Between now till 2021, the Company has commitments of \$784,039 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017 and in the “Q3 2017 COMMENTARY AND OUTLOOK” section of this MD&A, the Company no longer expects to generate sufficient working capital to enable us to repay the principle amount of the convertible loan due January 6, 2018 and have sufficient cash reserves to meet ongoing operating requirements over the next 12 months. Management and the Board of Directors of the Company are currently in discussions with the lenders in restructuring the existing convertible loan to ensure sufficient levels of working capital moving into 2018. There is uncertainty to whether the restructuring will be successful or not. Beyond this point, we will need to secure new sources of working capital to continue operations.

Management’s current plan is to focus on increasing revenue and exercise careful cost control to sustain operations. If necessary, the Company will further curtail discretionary spending. Management will also actively work with the Company’s Board to secure sources of funds, including possible equity and debt financing options, as required to support the Company beyond the next 12 months.

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

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

RELATED PARTY TRANSACTIONS

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

- a) As at September 30, 2017, the Company has \$5,000 included in trade payable and accrued liabilities (December 31, 2016 – \$10,000) with a company, owned by a director, for management consulting services. For the three and nine months ended September 30, 2017, the services received amounted to \$15,000 and \$45,000 (2016 – \$30,000 and \$90,000).
- b) For the three and nine months ended September 30, 2017 and 2016, the compensation awarded to key management, which includes the Company’s Board of Directors and executive management, are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries, fees and short-term benefits	157,128	126,779	442,519	398,522
Share-based payments	-	2,400	2,610	11,102
	<u>157,128</u>	<u>129,179</u>	<u>445,129</u>	<u>409,624</u>

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2016.