

# BQE Water

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## **BQE WATER INC.**

### **Condensed Consolidated Interim Financial Statements (Unaudited)**

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

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**NOTICE TO READER**

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BQE WATER INC.**Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

		September 30 2017 \$	December 31 2016 \$
	note		
<b>Assets</b>			
Current assets			
Cash and cash equivalents		1,225,750	2,231,798
Trade and other receivables	5	780,790	527,054
Receivable from joint venture	6	-	86,255
Inventory and work in progress		-	20,018
Prepaid and deposits		127,177	121,028
<b>Total current assets</b>		<b>2,133,717</b>	<b>2,986,153</b>
Non-current assets			
Plant and equipment	7	158,866	217,010
Investment in joint venture	8	5,430,911	4,231,567
Deposits		4,751	24,601
<b>Total non-current assets</b>		<b>5,594,528</b>	<b>4,473,178</b>
<b>Total assets</b>		<b>7,728,245</b>	<b>7,459,331</b>
<b>Liabilities</b>			
Current liabilities			
Trade payable and accrued liabilities	6, 9	793,972	878,891
Income taxes payable		-	152,195
Deferred revenue		154,209	157,415
Deferred benefits	10	169,382	128,910
Convertible loan	11	1,469,833	-
Current portion deferred lease inducement		-	8,572
<b>Total current liabilities</b>		<b>2,587,396</b>	<b>1,325,983</b>
Non-current liabilities			
Convertible loan	11	-	1,377,532
<b>Total non-current liabilities</b>		<b>-</b>	<b>1,377,532</b>
<b>Total liabilities</b>		<b>2,587,396</b>	<b>2,703,515</b>
<b>Shareholders' Equity</b>			
Share capital	10, 12	54,719,814	54,719,814
Contributed surplus	12	10,049,881	10,047,271
Equity component of convertible loan	11	86,575	84,614
Accumulated other comprehensive income		1,271,012	1,410,982
Accumulated deficit		(60,986,433)	(61,506,865)
<b>Total shareholders' equity</b>		<b>5,140,849</b>	<b>4,755,816</b>
<b>Total liabilities and shareholders' equity</b>		<b>7,728,245</b>	<b>7,459,331</b>
Going concern (note 2(b))			
Commitments (note 15)			

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss

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

(Unaudited)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
	note			
Revenue	<b>1,578,327</b>	1,356,345	<b>3,199,204</b>	2,390,431
Plant and other operating costs (excluding depreciation)	<b>641,556</b>	494,389	<b>1,715,690</b>	1,078,392
Operating margin before depreciation	<b>936,771</b>	861,956	<b>1,483,514</b>	1,312,039
General and administration	<b>383,120</b>	409,550	<b>1,254,484</b>	1,300,805
Sales and development	<b>263,115</b>	355,766	<b>854,636</b>	972,811
Stock-based compensation (recovery) expense	10 <b>34,476</b>	29,982	<b>43,082</b>	76,157
Depreciation of plant and equipment	7 <b>31,472</b>	60,332	<b>97,689</b>	175,801
Share of results of equity accounted joint venture	8 <b>(469,792)</b>	(160,283)	<b>(1,267,958)</b>	(351,250)
Income (loss) from operations and joint venture	<b>694,380</b>	166,609	<b>501,581</b>	(862,285)
Finance costs, net	<b>(55,425)</b>	(55,964)	<b>(159,306)</b>	(53,926)
Foreign exchange (loss) gain	<b>(23,074)</b>	7,156	<b>(37,561)</b>	(1,435,273)
Other income	<b>60,978</b>	-	<b>62,978</b>	6,600
Income (loss) before income taxes	<b>676,859</b>	117,801	<b>367,692</b>	(2,344,884)
Income tax recovery (expense)	<b>152,740</b>	-	<b>152,740</b>	(131)
<b>Net income (loss) for the period</b>	<b>829,599</b>	117,801	<b>520,432</b>	(2,345,015)
<b>Other comprehensive (loss) income</b>				
<i>Items that will be reclassified subsequently to loss</i>				
Translation (loss) gain on foreign operations	<b>(97,467)</b>	21,594	<b>(139,970)</b>	1,048,148
<b>Comprehensive income (loss) for the period</b>	<b>732,132</b>	139,395	<b>380,462</b>	(1,296,867)
<b>Net income (loss) per share</b>				
Basic and diluted	<b>0.01</b>	0.00	<b>0.01</b>	(0.02)
<b>Weighted average number of shares outstanding</b>				
Basic and diluted	<b>93,966,672</b>	93,966,672	<b>93,966,672</b>	93,966,672

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30, 2017 and 2016

(Unaudited)

		Number of Shares	9 months ended Sept. 30, 2017 \$	Number of Shares	9 months ended Sept. 30, 2016 \$
	note				
<b>Share capital</b>					
Balance, beginning of the period	12	93,966,672	54,719,814	93,966,672	54,719,814
<b>Balance, end of the period</b>		<b>93,966,672</b>	<b>54,719,814</b>	93,966,672	54,719,814
<b>Contributed surplus</b>					
Balance, beginning of the period			10,047,271		10,033,768
Share-based payments	10		2,610		11,102
<b>Balance, end of the period</b>			<b>10,049,881</b>		10,044,870
<b>Equity component of convertible loan</b>					
Balance, beginning of the period			84,614		-
Issuance of convertible loan	11		1,961		144,947
<b>Balance, end of the period</b>			<b>86,575</b>		144,947
<b>Accumulated other comprehensive income</b>					
Balance, beginning of the period			1,410,982		456,982
Other comprehensive (loss) income for the period			(139,970)		1,048,148
<b>Balance, end of the period</b>			<b>1,271,012</b>		1,505,130
<b>Accumulated deficit</b>					
Balance, beginning of the period			(61,506,865)		(59,181,810)
Net income (loss) for the period			520,432		(2,345,015)
<b>Balance, end of the period</b>			<b>(60,986,433)</b>		(61,526,825)
<b>Total shareholders' equity</b>					
Balance, beginning of the period			4,755,816		6,028,754
Share-based payments	10		2,610		11,102
Issuance of convertible loan	11		1,961		144,947
Net income (lost) for the period			520,432		(2,345,015)
Other comprehensive (loss) income for the period			(139,970)		1,048,148
<b>Balance, end of the period</b>			<b>5,140,849</b>		4,887,936

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

**BQE WATER INC.**

Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Unaudited)

		<b>9 months ended Sept. 30</b>	
		<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
	note		
<b>Operating activities</b>			
Net loss for the period		<b>520,432</b>	(2,345,015)
Items not affecting cash			
Income tax (recovery) expense		<b>(152,740)</b>	131
Bad debt recovery		<b>(60,978)</b>	(6,600)
Share of results of equity accounted joint venture	8	<b>(1,267,958)</b>	(351,250)
Interest expense		<b>159,306</b>	53,926
Gain on disposal of equipment		<b>(2,000)</b>	-
Depreciation of plant and equipment	7	<b>97,689</b>	175,801
Amortization of deferred lease inducement		<b>(23,083)</b>	(8,572)
Net foreign exchange loss		<b>36,023</b>	1,429,542
Expense recognized in respect of stock-based compensation	10	<b>43,082</b>	76,157
		<b>(650,227)</b>	(975,880)
Change in non-cash working capital items	14	<b>(118,857)</b>	132,148
Cash used in operations		<b>(769,084)</b>	(843,732)
Income taxes paid		-	(131)
Net cash used in operating activities		<b>(769,084)</b>	(843,863)
<b>Investing activities</b>			
Purchase of plant and equipment		<b>(39,544)</b>	(10,040)
Proceeds from disposal of equipment		<b>2,000</b>	-
Contributions made to joint venture	8	<b>(85,815)</b>	(152,251)
Interest received		<b>6,619</b>	3,813
Net cash used in investing activities		<b>(116,740)</b>	(158,478)
<b>Financing activities</b>			
Financing initiation costs paid	11	-	(23,652)
Proceeds from convertible loan	11	<b>19,666</b>	1,460,667
Interest paid	11	<b>(117,552)</b>	-
Net cash used in financing activities		<b>(97,886)</b>	1,437,015
Effect of exchange rate changes on cash and cash equivalents		<b>(22,338)</b>	(4,688)
Decrease in cash and cash equivalents		<b>(1,006,048)</b>	429,986
Cash and cash equivalents, beginning of the period		<b>2,231,798</b>	1,408,890
<b>Cash and cash equivalents, end of the period</b>		<b>1,225,750</b>	1,838,876

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

## **BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

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### **1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

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

The Company is an integrated water services provider with unique expertise and intellectual property related to 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, and (2) Technical services relating to water management, including engineering, laboratory and pilot demonstration.

BQE 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**

#### **a. Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective as of September 30, 2017.

The Company's Board of Directors approved these condensed consolidated interim financial statements on November 22, 2017.

#### **b. Going concern assumption**

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

For the 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).

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. This also assumes that BQE is able to continue successful operations at its Raglan and Chinese joint venture plants, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, we will need to secure new sources of working capital to continue operations.

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

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

### c. Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis except for deferred share units and restricted share units, which are measured at fair value through profit or loss.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these condensed consolidated interim financial statements, unless otherwise stated. The Company did not adopt any new accounting standard changes or amendments effective January 1, 2017 that had a material impact on these condensed consolidated interim financial statements.

These condensed consolidated interim 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 loss in entities which the Company is a joint venture partner. The principal subsidiaries of the Company, which are accounted for under the consolidated method, are as follows:

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Sept. 30, 2017</b>	<b>Ownership interest as at Dec. 31, 2016</b>
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	China	100%	100%

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

<b>Entity</b>	<b>Country of incorporation and operation</b>	<b>Ownership interest as at Sept. 30, 2017</b>	<b>Ownership interest as at Dec. 31, 2016</b>
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shangdong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

**5. TRADE AND OTHER RECEIVABLES**

	Sept. 30, 2017	Dec. 31, 2016
	\$	\$
Trade receivables	457,522	439,573
Unbilled receivables	318,465	74,096
Other	4,803	13,385
	<u>780,790</u>	<u>527,054</u>

**6. 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 the Company's key management, which includes the 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>

Included in the trade payable and accrued liabilities as at September 30, 2017 is \$34,900 (December 31, 2016 - \$49,200) of director fees.

- c) On July 6, 2016, the Company entered into an 18-month, secured, 8% per annum interest bearing convertible loan agreements with multiple lenders totaling \$1,500,000. These lenders include certain directors, shareholders, management, and employees of the Company. Details of the convertible loan are described in note 11.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

**7. PLANT AND EQUIPMENT**

	Water treatment plants \$	Pilot plants \$	Other <sup>1</sup> \$	Total \$
<b>As at Dec. 31, 2016</b>				
Opening net book value	86,356	317,169	29,001	432,526
Additions	8,256	-	9,784	18,040
Depreciation	(94,612)	(117,287)	(21,652)	(233,551)
Foreign exchange translation	-	-	(5)	(5)
<b>Closing net book value</b>	-	199,882	17,128	217,010
<b>As at Dec. 31, 2016</b>				
Cost	2,113,388	580,593	528,224	3,222,205
Accumulated depreciation	(2,113,388)	(380,711)	(511,096)	(3,005,195)
<b>Closing net book value</b>	-	199,882	17,128	217,010
<b>As at Sept. 30, 2017</b>				
Opening net book value	-	199,882	17,128	217,010
Additions	-	-	39,545	39,545
Depreciation	-	(86,884)	(10,805)	(97,689)
<b>Closing net book value</b>	-	112,998	45,868	158,866
<b>As at Sept. 30, 2017</b>				
Cost	-	580,593	567,087	1,147,680
Accumulated depreciation	-	(467,595)	(521,219)	(988,814)
<b>Closing net book value</b>	-	112,998	45,868	158,866

<sup>1</sup>Other comprises of lease improvements, office and lab equipment, and computer equipment.

## BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2017  
(Unaudited)

### 8. INVESTMENT IN JOINT VENTURES

#### a. Shangdong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE signed a joint venture agreement with Shandong MWT (“MWT”) to build and operate a water treatment plant to recover copper and zinc from wastewater discharged by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd. The MWT joint venture had no transactions during the three and nine months ended September 30, 2017 and 2016.

#### b. JCC-BioteQ Environmental Technologies Co. Ltd.

	Investment \$
Balance, January 1, 2016	4,708,976
Share of comprehensive income	(295,929)
Contributions made	202,920
Distributions received	(384,400)
Balance, December 31, 2016	4,231,567
Share of comprehensive income	1,113,529
Contributions made	85,815
Balance, September 30, 2017	5,430,911

During the three and nine months ended September 30, 2017, the Company’s share of net income in the Dexing joint venture was \$469,792 and \$1,267,958 (2016 – \$160,283 and \$351,250).

In 2006, BQE 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 agreement, which forms an equal share joint venture company between BQE and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd. The joint venture builds and operates water treatment plants using BQE’s technologies. The agreement includes a license contract whereby BQE will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project as well as five potential additional sites owned and operated by JCC. The first plant commenced operations on April 1, 2008.

The Dexing joint venture earned revenue by selling all of the metal concentrate recovered in its operations to the joint venture partner, JCC. All related party sales are recorded on the date of sale at the fair market price of the metal with adjustments in accordance with the agreed terms.

Any cash distributions from the joint venture to BQE 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 and its partner have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year.

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

The Company's 50% interest in the Dexing joint venture's financial statements is presented as follows:

**Statement of financial position**

	Sept. 30, 2017	Dec. 31, 2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	2,388,233	783,474
Trade and other receivables	11,512	87,979
Income taxes recoverable	-	55,134
Inventory	47,632	100,272
Prepaid expenses	1,635	857
	<u>2,449,012</u>	<u>1,027,716</u>
Non-current assets		
Plant and equipment	4,017,113	4,481,601
Deferred tax assets	63,494	65,321
	<u>4,080,607</u>	<u>4,546,922</u>
Total assets	<u>6,529,619</u>	<u>5,574,638</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	965,516	1,343,071
Income taxes payable	133,192	-
	<u>1,098,708</u>	<u>1,343,071</u>
Total liabilities	<u>1,098,708</u>	<u>1,343,071</u>
<b>Partner's Equity</b>		
Joint venture partner equity	3,669,839	3,584,024
Accumulated other comprehensive income	1,295,479	1,449,908
Retained earnings	465,593	(802,365)
Total partner's equity	<u>5,430,911</u>	<u>4,231,567</u>
Total liabilities and partner's equity	<u>6,529,619</u>	<u>5,574,638</u>

**BQE WATER INC.**

## Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

**Statements of operations and comprehensive income**

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue	1,568,649	1,055,164	4,238,052	3,676,371
Plant and other operating costs (excluding depreciation)	810,916	676,286	2,124,191	2,670,656
	757,733	378,878	2,113,861	1,005,715
General and administration	44,896	61,479	240,584	152,588
Depreciation of plant and equipment	124,814	127,691	382,209	381,887
Income from operations	588,023	189,708	1,491,068	471,240
Finance income	1,097	297	1,699	672
Foreign exchange gain (loss)	-	478	(438)	(7,595)
Other income, net	23,492	-	23,492	-
Income before income taxes	612,612	190,483	1,515,821	464,317
Current income tax expense	(142,820)	(30,200)	(341,859)	(113,067)
Deferred tax recovery	-	-	93,996	-
Net income for the period	469,792	160,283	1,267,958	351,250
Other comprehensive loss				
Translation loss on foreign operation	(100,478)	24,566	(154,429)	(360,984)
Comprehensive income (loss) for the period	369,314	184,849	1,113,529	(9,734)

The Dexing joint venture derives its revenue from recovered copper sales, which is subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to the world commodity price risk.

**9. TRADE PAYABLE AND ACCRUED LIABILITIES**

	Sept. 30, 2017	Dec. 31, 2016
	\$	\$
Trade payable and accruals	283,697	489,051
Payroll liability	323,151	267,462
Interest payable under convertible loan (note 11)	28,933	56,986
Value added tax payable	158,191	65,392
	793,972	878,891

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

**10. SHARE-BASED PAYMENTS**

The Company's recorded stock-based compensation for the three and nine months ended are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Stock options (a)	-	2,401	2,610	11,102
Deferred share units (b)	33,523	26,819	39,354	63,257
Restricted share units (c)	953	762	1,118	1,798
	<u>34,476</u>	<u>29,982</u>	<u>43,082</u>	<u>76,157</u>

**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 thirty-six 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:

	Weighted Average Exercise Price \$	Number of Options
Outstanding at Jan. 1, 2016	0.14	5,233,333
Expired	0.29	(900,000)
Outstanding at Dec. 31, 2016	0.11	4,333,333
Expired	0.19	(600,000)
Outstanding at Sept. 30, 2017	0.10	3,733,333
Exercisable at Dec. 31, 2016	0.12	3,466,666
Exercisable at Sept. 30, 2017	0.10	3,733,333

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

**BQE WATER INC.**

## Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

Exercise price range \$	Weighted average remaining life (months)	Sept. 30, 2017 number of outstanding share options
0.07 to 0.15	16	3,133,333
0.16 to 0.18	2	600,000
0.07 to 0.18	14	3,733,333

**b. Deferred share unit**

The Company implemented a deferred share unit (“DSU”) plan, effective July 1, 2010, pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. During 2013, the DSU Plan was amended to include certain senior managers of the Company, effective from October 1, 2013 to December 31, 2014.

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

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

The following table presents the changes to the DSU plan:

	Number of units
Balance, January 1, 2016	2,915,075
Redeemed	-
Balance, December 31, 2016	2,915,075
Redeemed	-
Balance, September 30, 2017	2,915,075

During the three and nine months ended September 30, 2017, the Company recorded a fair value charge of \$33,523 and \$39,354 (2016 – \$26,819 and \$63,257) as stock-based compensation related to the DSUs.

**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 of the Company. Under this plan, notional RSUs are granted and vested annually over a three-year term in general or otherwise determined by the Board. Upon vesting, the Company will settle the RSU in cash, having payment equal to the five-day volume weighted average trading price of the number of RSUs held preceding the date of redemption. RSU granted are accounted for and fair valued using the same methodology as DSUs.

## BQE WATER INC.

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(Unaudited)

The following table presents the changes to the RSU plan:

	Number of units
Balance, January 1, 2016	82,841
Redeemed	-
Balance, December 31, 2016	82,841
Redeemed	-
Balance, September 30, 2017	82,841

The RSUs outstanding are all vested as at September 30, 2017 and at December 31, 2016.

During the three and nine months ended September 30, 2017, the Company recorded fair value charge of \$953 and \$1,118 (2016 – \$762 and \$1,798) as stock-based compensation related to the RSUs.

### 11. CONVERTIBLE LOAN

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

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

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

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

The liability component has been reclassified from non-current liability to current liability as the convertible loan is due within 12 months of the reporting date.

## BQE WATER INC.

### Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

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

	Sept. 30, 2017	Dec. 31, 2016
	\$	\$
Face value of convertible loan issued	1,500,000	1,500,000
Less: amounts receivable from lenders	-	(19,667)
Transaction costs	(23,652)	(23,652)
Equity conversion component on initial recognition	(124,261)	(122,300)
Liability component on initial recognition	1,352,087	1,334,381
Accumulated amortization of interest expense	264,231	100,137
Repayment of interest	(117,552)	-
Total liability component as at period end	1,498,766	1,434,518
Interest payable included in accrued liabilities (note 9)	(28,933)	(56,986)
Liability component balance as at period end	1,469,833	1,377,532

## 12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at September 30, 2017, the Company has 93,966,672 (December 31, 2016 – 93,966,672) common shares and no warrants outstanding (December 31, 2016 – nil).

## 13. INCOME TAXES

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three month period ended September 30, 2017 was 26% (December 31, 2016 – 26%).

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2017	2016
	\$	\$
<b>Change in non-cash working capital items</b>		
(Increase) decrease in trade receivables	(173,363)	32,617
Decrease in inventory and work in progress	20,137	7,865
Decrease in other assets	8,173	26,489
Increase (decrease) in accounts payable and accrued liabilities	17,957	(177,113)
Decrease in deferred revenue	8,239	242,290
Change in non-cash working capital items	(118,857)	132,148

**BQE WATER INC.**

Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

**15. COMMITMENTS**

The Company has commitments of \$784,039 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2017	76,504
2018	285,605
2019	178,183
2020	181,393
2021	62,354
	<u>784,039</u>

**16. SEGMENTED INFORMATION**

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

**a. Segment revenue**

The Company's sources of revenue are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Water treatment plant operations	1,000,049	1,060,880	1,153,150	1,256,404
Technical services	578,278	295,465	2,046,054	1,134,027
	<u>1,578,327</u>	<u>1,356,345</u>	<u>3,199,204</u>	<u>2,390,431</u>

**b. Geographic information**

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Canada	1,159,108	1,074,705	2,031,862	1,870,037
Latin America	348,122	-	937,933	82,942
Other	71,097	281,640	229,409	437,452
	<u>1,578,327</u>	<u>1,356,345</u>	<u>3,199,204</u>	<u>2,390,431</u>

**BQE WATER INC.**

## Notes to Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

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

	Sept. 30, 2017	Dec. 31, 2016
	\$	\$
Canada	158,866	217,010
China	5,430,911	4,231,567
	<u>5,589,777</u>	<u>4,448,577</u>

**c. Information about major customers**

The following table presents revenue from individual customers exceeding 10% of total revenue for the three and nine months ended September 30, 2017 and 2016:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Customer A	1,000,049	1,060,880	1,153,150	1,256,404
Customer B	236,251	-	292,751	-
Customer E	56,218	-	293,317	-
Customer G	63,549	2,530	489,239	12,262
	<u>1,356,067</u>	<u>1,063,410</u>	<u>2,228,457</u>	<u>1,268,666</u>
Percentage from total revenue	86%	78%	70%	53%