

BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars unless stated otherwise)

(Unaudited)

For the three and nine months ended September 30, 2019 and 2018

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying condensed consolidated interim financial statements of the Company have been prepared by the Company's management and reviewed by the Audit Committee and Board of Directors of the Company. 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 – expressed in Canadian dollars)

		September 30 2019	December 31 2018
	Note	\$	\$
Assets			
Current assets			
Cash		1,091,981	1,425,312
Trade and other receivables	5	1,776,393	1,304,821
Prepaid and other deposits		116,322	86,931
Total current assets		2,984,696	2,817,064
Non-current assets			
Plant and equipment	7	420,815	98,439
Investment in joint ventures	8	5,717,912	4,962,449
Deposits		29,576	34,699
Total non-current assets		6,168,303	5,095,587
Total assets		9,152,999	7,912,651
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	1,447,355	1,352,280
Deferred revenues		74,727	92,556
Current portion of lease obligations	11	179,138	-
Deferred benefits	12	183,867	86,171
Total current liabilities		1,885,087	1,531,007
Non-current liabilities			
Loans	10	146,680	-
Lease obligations	11	178,782	-
Total non-current liabilities		325,462	-
Total liabilities		2,210,549	1,531,007
Shareholders' Equity			
Share capital	13	56,336,409	56,332,413
Contributed surplus	12	10,308,529	10,265,959
Accumulated other comprehensive income		1,146,581	1,500,791
Accumulated deficit		(60,849,069)	(61,717,519)
Total shareholders' equity		6,942,450	6,381,644
Total liabilities and shareholders' equity		9,152,999	7,912,651
Going concern (note 2(b))			
Commitments (note 16)			

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

BQE WATER INC.

Condensed Consolidated Interim Statements of Income and Other Comprehensive Income
For the three and nine months ended September 30, 2019 and 2018
(Unaudited – expressed in Canadian dollars)

	Note	3 months ended September 30		9 months ended September 30	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenues	17	2,326,324	1,893,177	4,258,324	2,960,418
Operating expenses (excluding depreciation)		856,921	573,098	1,907,486	1,471,836
Operating margin before depreciation		1,469,403	1,320,079	2,350,838	1,488,582
General and administration		405,475	368,638	1,150,594	1,081,983
Sales and development		240,502	211,319	833,322	863,685
Share-based payment expenses	12	54,594	36,923	140,266	101,031
Depreciation of plant and equipment	7	54,281	4,122	154,040	11,886
Share of results of equity accounted joint ventures	8	(402,392)	(301,785)	(1,111,285)	(1,095,641)
Income from operations and joint ventures		1,116,943	1,000,862	1,183,901	525,638
Finance costs, net		(7,920)	(38,404)	(27,303)	(102,310)
Foreign exchange losses		(20,626)	(18,653)	(46,105)	(18,378)
Bad debt expenses		(287,420)	-	(288,405)	-
Non-operating income		66,430	-	66,430	-
Income before income taxes		867,407	943,805	888,518	404,950
Income tax expense		(16,797)	-	(20,068)	-
Net income for the period		850,610	943,805	868,450	404,950
Other comprehensive income					
<i>Items that will be reclassified subsequently to income</i>					
Translation loss on foreign operations		(140,231)	(318,427)	(354,210)	(155,340)
Comprehensive income for the period		710,379	625,378	514,240	249,610
Net income per share					
Basic and diluted		0.70	1.00	0.72	0.43
Weighted average number of shares outstanding					
Basic and diluted		1,208,616	939,667	1,208,496	939,667

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, 2019 and 2018

(Unaudited – expressed in Canadian dollars)

	Note	Number of Shares	9 months ended Sept. 30, 2019 \$	Number of Shares	9 months ended Sept. 30, 2018 \$
Share Capital					
Balance, beginning of the period	13	1,208,435	56,332,413	939,667	54,719,814
Exercise of options	12	666	3,996	-	-
Balance, end of the period		1,209,101	56,336,409	939,667	54,719,814
Contributed surplus					
Balance, beginning of the period			10,265,959		10,058,149
Equity settled share-based payments	12		42,570		94,051
Balance, end of the period			10,308,529		10,152,200
Equity component of convertible loan					
Balance, beginning of the period			-		86,575
Balance, end of the period			-		86,575
Accumulated other comprehensive income					
Balance, beginning of the period			1,500,791		1,398,709
Other comprehensive loss for the period			(354,210)		(155,340)
Balance, end of the period			1,146,581		1,243,369
Accumulated deficit					
Balance, beginning of the period			(61,717,519)		(61,867,916)
Net income for the period			868,450		404,950
Balance, end of the period			(60,849,069)		(61,462,966)
Total shareholders' equity					
Balance, beginning of the period			6,381,644		4,395,331
Exercise of options	12		3,996		-
Equity settled share-based payments	12		42,570		94,051
Net income for the period			868,450		404,950
Other comprehensive loss for the period			(354,210)		(155,340)
Balance, end of the period			6,942,450		4,738,992

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, 2019 and 2018
 (Unaudited – expressed in Canadian dollars)

	Note	9 months ended September 30	
		2019	2018
		\$	\$
Operating activities			
Net income for the period		868,450	404,950
Adjustments for items not affecting cash:			
Income tax expense		20,068	-
Bad debt expenses		288,405	-
Share of results of equity accounted joint ventures	8	(1,111,285)	(1,095,641)
Interest expense, net		27,303	102,310
Depreciation of plant and equipment	7	154,040	11,886
Net foreign exchange loss (gain)		39,654	2,239
Shared-based payment expenses	12	140,266	101,031
		426,901	(473,225)
Change in non-cash operating working capital items	15	(700,237)	(602,449)
Cash used in operations		(273,336)	(1,075,674)
Income tax paid		(13,081)	-
Net cash used in operating activities		(286,417)	(1,075,674)
Investing activities			
Purchase of equipment	7	(2,792)	(19,996)
Contributions made to joint ventures	8	(40,457)	(70,500)
Interest received		7,455	4,514
Net cash used in investing activities		(35,794)	(85,982)
Financing activities			
Lease payments	11	(115,766)	-
Proceeds from exercise of stock options	12	3,996	-
Proceeds from loans	10	146,680	325,930
Interest paid		(34,759)	(73,417)
Net cash generated from financing activities		151	252,513
Effect of exchange rate changes on cash		(11,271)	13,454
Change in cash		(333,331)	(895,689)
Cash, beginning of the period		1,425,312	984,298
Cash, end of the period		1,091,981	88,609

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, 2019
(Unaudited)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

2. BASIS OF PREPARATION AND GOING CONCERN

a. Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of September 30, 2019.

The Board of Directors of the Company has approved these unaudited condensed consolidated interim financial statements on November 19, 2019.

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, 2019, the Company reported net income of \$868,450 (\$404,950 in 2018) and used net cash in operating activities of \$286,417 (\$1,075,674 in 2018). At September 30, 2019, the Company had a net working capital of \$1,099,609 (\$1,286,057 at December 31, 2018) and a cumulative deficit of \$60,849,069 (\$61,717,519 at December 31, 2018).

The Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months. Nevertheless, there are risks related to the Company's ability to continue as a going concern. Such risks include the suspension or major delays in existing projects, working capital fluctuations caused by the seasonality of the Company's plant operations, uncertainty of timing of non-recurring revenue from new projects, delays in the repatriation of funds from the Company's joint venture investments in China, and the possibility of devaluation of the annual dividend due to unfavourable fluctuations in exchange rates between the Chinese renminbi and the Canadian dollar. Although Management of the Company has partial influence on the Company's ability to maintain profitable operations, the majority of the remaining risks are outside of Management's control.

Accordingly, such uncertainties may cast doubt upon the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustments to the recoverability and classification on recorded assets and liabilities. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

c. Basis of measurement

These 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.

d. Basis of consolidation

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 losses in entities which the Company is a

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

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 Sept. 30, 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%
BioteQ (Hangzhou) Water Treatment Technologies 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 Sept. 30, 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%

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 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 as described below. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

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 is 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 were measured at the amount equal to the lease liability at the date of initial application, no adjustment to equity has been recognized upon IFRS 16 adoption on January 1, 2019.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

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 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, 2018, other than those additional areas which have arisen as a result of the implementation effective January 1, 2019 of IFRS 16 as discussed earlier.

5. TRADE AND OTHER RECEIVABLES

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Trade receivables	1,476,789	786,445
Contract assets	299,515	199,719
Other	89	318,657
	<u>1,776,393</u>	<u>1,304,821</u>

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three and nine months ended September 30, 2019 and 2018, 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	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries, fees and short-term benefits	154,714	139,454	476,838	399,076
Share-based payments	6,269	13,961	37,997	40,685
	<u>160,983</u>	<u>153,415</u>	<u>514,835</u>	<u>439,761</u>

Included in the trade payables and accrued liabilities as of September 30, 2019 is \$136,756 (\$131,723 at December 31, 2018) of salaries, management consulting service fees with companies owned by the Company's management, director fees and termination benefits. For the three and nine months ended September 30, 2019, the consulting services received from companies owned by the Company's management amounted to \$30,000 and \$90,000 respectively (\$35,000 and \$112,000 in 2018).

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2019
 (Unaudited)

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 Sept. 30, 2019				
Opening net book value	-	-	98,439	98,439
Additions	473,557	-	2,792	476,349
Depreciation	(127,394)	-	(26,646)	(154,040)
Foreign exchange translation	67	-	-	67
Closing net book value	346,230	-	74,585	420,815
As at Sept. 30, 2019				
Cost	473,557	580,593	643,233	1,697,383
Accumulated depreciation	(127,394)	(580,593)	(568,648)	(1,276,635)
Foreign exchange translation	67	-	-	67
Closing net book value	346,230	-	74,585	420,815

¹Right-of-use assets comprises of lease assets such as office building and office equipment.

²Other comprises of leasehold improvements, furniture, lab equipment and computer equipment.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2019 is \$5,717,912 (\$4,962,449 on December 31, 2018), and they are 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)	1,181,975	(70,690)
Share of translation loss on foreign operation	(374,848)	(21,431)
Contributions made	40,457	-
Balance, September 30, 2019	5,795,382	(77,470)

a. JCC-BioteQ Environmental Technologies Co. Ltd.

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

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

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year.

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

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

Statement of financial position

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Assets		
Current assets		
Cash and short-term investments	2,990,389	1,806,938
Trade and other receivables	330,885	252,350
Income taxes recoverable	-	134,412
Inventory	34,371	37,654
Prepaid expenses	1,711	13,549
	<u>3,357,356</u>	<u>2,244,903</u>
Non-current assets		
Plant and equipment	3,542,041	4,100,733
Deferred tax assets	62,715	67,115
	<u>3,604,756</u>	<u>4,167,848</u>
Total assets	<u>6,962,112</u>	<u>6,412,751</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,073,480	1,464,953
Income taxes payable	93,250	-
Total liabilities	<u>1,166,730</u>	<u>1,464,953</u>
Partner's Equity		
Joint venture partner equity	3,904,812	3,864,356
Accumulated other comprehensive income	1,141,292	1,516,139
Accumulated earnings (deficits)	749,278	(432,697)
Total partner's equity	<u>5,795,382</u>	<u>4,947,798</u>
Total liabilities and partner's equity	<u>6,962,112</u>	<u>6,412,751</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2019
 (Unaudited)

Statements of operations and comprehensive income

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	1,637,816	1,594,856	4,743,180	4,641,345
Operating costs (excluding depreciation)	853,509	1,039,926	2,698,295	2,651,975
Operating margin before depreciation	784,307	554,930	2,044,885	1,989,370
General and administration	91,105	14,408	230,305	223,325
Depreciation of plant and equipment	122,050	115,109	360,856	369,737
Income from operations	571,152	425,413	1,453,724	1,396,308
Finance income	4,120	8,479	12,459	10,052
Other income	56	1,296	56	46
Income before income taxes	575,328	435,188	1,466,239	1,406,406
Current income tax expense	(131,579)	(123,169)	(284,264)	(282,019)
Net income for the period	443,749	312,019	1,181,975	1,124,387
Other comprehensive income (loss)				
Translation loss on foreign operation	(162,918)	(324,371)	(374,848)	(178,155)
Comprehensive income (loss) for the period	280,831	(12,352)	807,127	946,232

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company (“MWT”) for the construction and operation of a water treatment plant located in Shandong Province of China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). Under the agreement, the joint venture built a water treatment plant located on a vacant lot owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”).

The water treatment plant was commissioned and has been operating since September 2018. The joint venture operates the water treatment plant using BQE Water’s patented technology to recover copper and zinc metals from Zhaoye’s industrial wastewater stream. To generate profits, the joint venture sells the recovered copper back to Zhaoye and sells the recovered zinc to other local metal smelters. 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.

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2019
 (Unaudited)

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

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Current assets	41,328	54,641
Plant and equipment	63,522	81,926
Current liabilities	46,218	57,899
Partner's equity	(77,470)	14,651

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	27,019	-	184,314	-
Operating costs (excluding depreciation)	21,024	-	110,637	-
Operating margin before depreciation	5,995	-	73,677	-
General and administration	27,323	10,401	82,587	28,918
Depreciation of plant and equipment	20,004	31	61,711	95
Loss from operations	(41,332)	(10,432)	(70,621)	(29,013)
Net finance (costs) income, net	(25)	198	(69)	267
Net loss for the period	(41,357)	(10,234)	(70,690)	(28,746)
Other comprehensive loss				
Translation loss on foreign operation	(8,405)	(21,820)	(21,431)	(8,294)
Comprehensive loss for the period	(49,762)	(32,054)	(92,121)	(37,040)

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Trade payable and accruals	704,264	824,720
Payroll liabilities	539,477	464,650
VAT and taxes payable	203,614	62,910
	1,447,355	1,352,280

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

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 loan 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 the Company in its 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 September 30, 2019, the Company has received a total of \$146,680 under this loan agreement.

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 Company’s lease assets such as buildings and office equipment. These assets 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.

For the three and nine months ended September 30, 2019, the Company expensed \$14,110 and \$32,621 related to leases that are classified as short term and as low value assets.

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

	\$
Balance, December 31, 2018	-
Addition due to adoption of IFRS 16	473,557
Interest accretion	34,758
Interest paid	(34,758)
Foreign exchange translation	860
Lease payments	(116,497)
	<hr/>
Balance, September 30, 2019	357,920
	<hr/>
Less: current portion of lease obligations	179,138
	<hr/>
Non-current portion of lease obligations	178,782
	<hr/>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2019
 (Unaudited)

12. SHARE-BASED PAYMENT EXPENSES

The Company's share-based payment expenses for the three and nine months ended are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Stock options (a)	14,232	31,695	42,570	94,051
Deferred share units (b)	28,050	5,165	41,610	6,779
Restricted share units (c)	12,312	63	56,086	201
	<u>54,594</u>	<u>36,923</u>	<u>140,266</u>	<u>101,031</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 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	(666)	-	-
Outstanding at September 30	<u>6</u>	<u>40,834</u>	<u>6</u>	<u>62,000</u>
Exercisable at September 30	<u>6</u>	<u>13,167</u>	<u>7</u>	<u>20,000</u>

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three and nine months ended September 30, 2019, the Company recognized \$14,232 and \$42,570 (\$31,695 and \$94,051 in 2018) of non-cash compensation expense related to stock options. The expiry date by exercise price at September 30, 2019 are as follows:

Exercise price \$	Expiry Date	number of outstanding share options
6.00	December 7, 2022	40,834

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

b. Deferred share unit

The Company implemented a deferred share units (“DSU”) plan, effective July 1, 2010, pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. Effective from October 1, 2013, the DSU Plan was amended to include certain senior managers of the Company. The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant’s compensation amount paid in DSU in lieu of cash, and by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan with payment made no later than the end of day 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 share-based payment expenses. 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	(610)	(3,660)
Fair value adjustment	-	45,270
Balance, September 30, 2019	14,775	127,781

c. Restricted share units

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

The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 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	-	13,609
Balance, September 30, 2019	6,485	56,086

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

13. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at September 30, 2019, the Company had 1,209,101 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 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.

14. 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 and six month period ended September 30, 2019 was 27% (27% at December 31, 2018).

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2019	2018
	\$	\$
Change in non-cash operating working capital items		
Increase in trade receivables	(778,495)	(1,531,826)
Increase in other assets	(24,714)	(11,140)
Increase in accounts payable and accrued liabilities	117,347	846,038
(Decrease) increase in deferred revenue	(14,375)	94,479
Change in non-cash working capital items	(700,237)	(602,449)

16. COMMITMENTS

The Company has commitments of \$642,607 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2019	87,371
2020	314,079
2021	165,882
2022	60,560
2023	14,715
	642,607

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2019
(Unaudited)

17. REVENUES

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

a) Disaggregation of Revenue

The Company functions as operators of water treatment plants and as providers of technical services relating to mine 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 revenues 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 customers. 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:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Operations contracts	1,211,988	912,367	1,532,573	986,696
Technical services contracts	1,114,336	980,810	2,725,751	1,973,722
	<u>2,326,324</u>	<u>1,893,177</u>	<u>4,258,324</u>	<u>2,960,418</u>

b) Remaining Performance Obligations

As at September 30, 2019, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,676,323, 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.

18. SEGMENTED INFORMATION

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2019
 (Unaudited)

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:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Canada	1,715,400	1,548,549	2,466,806	2,290,118
Latin America	222,358	235,818	929,942	466,666
China	332,699	-	728,277	-
Other	55,867	108,810	133,299	203,634
	<u>2,326,324</u>	<u>1,893,177</u>	<u>4,258,324</u>	<u>2,960,418</u>

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

	Sept. 30, 2019	Dec. 31, 2018
	\$	\$
Canada	390,675	98,439
China	5,748,052	4,962,449
	<u>6,138,727</u>	<u>5,060,888</u>

b) 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, 2019 and 2018.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Customer A	1,212,640	912,367	1,479,639	986,696
Customer B	29,891	-	464,053	-
Customer G	84,066	132,326	259,534	352,951
	<u>1,326,597</u>	<u>1,044,693</u>	<u>2,203,226</u>	<u>1,339,647</u>
Represents percentage of total revenue for the period	57%	55%	52%	45%