

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, 2020 and 2019

NOTICE TO READER

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 2020 \$	December 31 2019 \$
	note		
Assets			
Current assets			
Cash		1,989,464	2,060,060
Trade and other receivables	5	2,784,858	1,237,261
Prepaid and other deposits		148,052	171,023
Total current assets		4,922,374	3,468,344
Non-current assets			
Plant and equipment	7	315,800	249,444
Investment in joint ventures	8	5,937,606	4,641,460
Deposits		24,881	16,822
Total non-current assets		6,278,287	4,907,726
Total assets		11,200,661	8,376,070
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	6, 9	1,519,717	1,381,840
Deferred revenues		161,063	5,135
Loans	10	41,250	-
Lease obligations	11	93,366	104,517
Deferred benefits	12	224,652	148,220
Total current liabilities		2,040,048	1,639,712
Non-current liabilities			
Loans	10	371,250	254,511
Deferred revenues		283,740	-
Lease obligations	11	212,944	76,516
Total non-current liabilities		867,934	331,027
Total liabilities		2,907,982	1,970,739
Shareholders' Equity			
Share capital	13	56,386,413	56,344,407
Contributed surplus		10,503,579	10,320,533
Accumulated other comprehensive income		1,508,415	1,216,730
Accumulated deficit		(60,105,728)	(61,476,339)
Total shareholders' equity		8,292,679	6,405,331
Total liabilities and shareholders' equity		11,200,661	8,376,070
Commitments (note 16)			
Subsequent event (note 19)			

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, 2020 and 2019
 (Unaudited – expressed in Canadian dollars)

	note	3 months ended September 30		9 months ended September 30	
		2020	2019	2020	2019
		\$	\$	\$	\$
Revenues	17	2,737,571	2,326,324	6,087,579	4,258,324
Operating expenses (excluding depreciation)		1,380,929	856,921	3,496,752	1,907,486
Operating margin before depreciation		1,356,642	1,469,403	2,590,827	2,350,838
General and administration		341,708	405,475	1,209,039	1,150,594
Sales and development		153,497	240,502	621,545	833,322
Share-based payment expenses	12	112,947	54,594	279,798	140,266
Depreciation of plant and equipment	7	33,154	54,281	105,400	154,040
Share of earnings from joint ventures	8	(784,840)	(402,392)	(1,038,130)	(1,111,285)
Income from operations and joint ventures		1,500,176	1,116,943	1,413,175	1,183,901
Finance costs, net		(40,496)	(7,920)	(45,821)	(27,303)
Foreign exchange (loss) gain		(17,697)	(20,626)	8,324	(46,105)
Other losses		-	(220,990)	-	(221,975)
Income before income taxes		1,441,983	867,407	1,375,678	888,518
Income tax expenses		-	(16,797)	(5,067)	(20,068)
Net income for the period		1,441,983	850,610	1,370,611	868,450
Other comprehensive income (loss)					
<i>Items that will be reclassified subsequently to income</i>					
Translation gain (loss) on foreign operations		96,544	(140,231)	291,685	(354,210)
Comprehensive income for the period		1,538,527	710,379	1,662,296	514,240
Net earnings per share					
Basic	13(c)	1.18	0.70	1.13	0.72
Diluted	13(c)	1.17	0.70	1.12	0.72
Weighted average number of shares outstanding					
Basic	13(c)	1,216,870	1,208,616	1,215,363	1,208,496
Diluted	13(c)	1,228,192	1,210,795	1,224,241	1,210,239

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, 2020 and 2019
 (Unaudited – expressed in Canadian dollars)

		Number of Shares	9 months ended Sept. 30, 2020 \$	Number of Shares	9 months ended Sept. 30, 2019 \$
	note				
Share Capital					
Balance, beginning of the period	13(b)	1,210,434	56,344,407	1,208,435	56,332,413
Exercise of stock options	12(a)	7,001	42,006	666	3,996
Balance, end of the period		1,217,435	56,386,413	1,209,101	56,336,409
Contributed surplus					
Balance, beginning of the period			10,320,533		10,265,959
Equity settled share-based payments	12		183,046		42,570
Balance, end of the period			10,503,579		10,308,529
Accumulated other comprehensive income					
Balance, beginning of the period			1,216,730		1,500,791
Other comprehensive income (loss) for the period			291,685		(354,210)
Balance, end of the period			1,508,415		1,146,581
Accumulated deficit					
Balance, beginning of the period			(61,476,339)		(61,717,519)
Net income for the period			1,370,611		868,450
Balance, end of the period			(60,105,728)		(60,849,069)
Total shareholders' equity					
Balance, beginning of the period			6,405,331		6,381,644
Exercise of stock options	12(a)		42,006		3,996
Equity settled share-based payments	12		183,046		42,570
Net income for the period			1,370,611		868,450
Other comprehensive income (loss) for the period			291,685		(354,210)
Balance, end of the period			8,292,679		6,942,450

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, 2020 and 2019
(Unaudited – expressed in Canadian dollars)

		9 months ended September 30	
		2020	2019
		\$	\$
	note		
Operating activities			
Net income for the period		1,370,611	868,450
Items not affecting cash			
Income tax expense		5,067	20,068
Other losses		-	288,405
Share of earnings from joint ventures	8	(1,038,130)	(1,111,285)
Finance costs, net		45,821	27,303
Depreciation of plant and equipment	7	105,400	154,040
Net foreign exchange (gain) loss		(25,088)	39,654
Share-based payment expenses	12	279,798	140,266
		743,479	426,901
Change in non-cash operating working capital items	15	(948,352)	(700,237)
Cash used in operations		(204,873)	(273,336)
Income taxes paid		(3,458)	(13,081)
Net cash used in operating activities		(208,331)	(286,417)
Investing activities			
Purchase of plant and equipment	7	(11,111)	(2,792)
Net distribution paid to joint ventures	8	-	(40,457)
Interest received		4,257	7,455
Net cash used in investing activities		(6,854)	(35,794)
Financing activities			
Lease payments on principal portion	11	(66,673)	(115,766)
Lease payments on interest portion	11	(18,305)	(34,759)
Proceeds from exercise of stock options	12(a)	42,006	3,996
Proceeds from loans	10	157,989	146,680
Interest paid		(216)	-
Net cash provided in financing activities		114,801	151
Effect of exchange rate changes on cash		29,788	(11,271)
Change in cash		(70,596)	(333,331)
Cash, beginning of the period		2,060,060	1,425,312
Cash, end of the period		1,989,464	1,091,981

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, 2020
(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 management services and treatment solutions provider with unique expertise and intellectual property to support the mining and metallurgical industry in reducing life cycle costs and risks associated with water.

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

2. BASIS OF PREPARATION

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") on a basis consistent with the accounting policies disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2019.

The Board of Directors of the Company approved these unaudited condensed consolidated interim financial statements on November 25, 2020.

b) 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.

c) 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 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, 2020	Ownership interest as at Dec. 31, 2019
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	China	100%	100%
BQE Water (Hangzhou) Co. Ltd.	China	100%	100%

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

Entity	Country of incorporation and operation	Ownership interest as at Sept. 30, 2020	Ownership interest as at Dec. 31, 2019
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020
(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 which includes information necessary or useful to understand the Company's business and financial statement presentation. In particular, the Company's significant accounting policies are presented as Note 3 in the audited consolidated financial statements for the year ended December 31, 2019 and have been consistently applied to all periods presented in the preparation of these unaudited condensed consolidated interim financial statements.

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 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, 2019, with the exception of:

COVID-19 Economic Uncertainty

The Company has assessed the economic impacts of the COVID-19 pandemic on its condensed consolidated interim financial statements. As at September 30, 2020, management has determined that the Company's ability to execute its medium- and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact that the COVID-19 outbreak may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

5. TRADE AND OTHER RECEIVABLES

	Sept. 30, 2020	Dec. 31, 2019
	\$	\$
Trade receivables	2,271,484	775,931
Contract assets	513,167	446,719
Tax receivables	-	14,611
Other	207	-
	<u>2,784,858</u>	<u>1,237,261</u>

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three and nine months ended September 30, 2020 and 2019, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, is as follows:

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2020
 (Unaudited)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries, fees and short-term benefits	166,223	154,714	504,472	476,838
Share-based payments (note 12)	39,343	6,269	119,005	37,997
	<u>205,566</u>	<u>160,983</u>	<u>623,477</u>	<u>514,835</u>

Included in the trade payables and accrued liabilities as of September 30, 2020 is \$102,002 (\$100,768 at December 31, 2019) 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, 2020, the consulting services received from companies owned by the Company's management amounted to \$33,750 and \$101,250 (\$30,000 and \$90,000 in 2019).

7. PLANT AND EQUIPMENT

	Right-of-use assets ¹	Pilot plants	Other ²	Total
	\$	\$	\$	\$
Cost				
As at December 31, 2018	-	580,593	642,757	1,223,350
Additions	272,116	-	9,864	281,980
Foreign exchange translation	224	-	-	224
As at December 31, 2019	<u>272,340</u>	<u>580,593</u>	<u>652,621</u>	<u>1,505,554</u>
Additions	159,474	-	11,111	170,585
Foreign exchange translation	1,821	-	-	1,821
As at September 30, 2020	<u>433,635</u>	<u>580,593</u>	<u>663,732</u>	<u>1,677,960</u>
Accumulated Depreciation				
As at December 31, 2018	-	(580,593)	(544,318)	(1,124,911)
Depreciation for the year	(95,399)	-	(35,863)	(131,262)
Foreign exchange translation	63	-	-	63
As at December 31, 2019	<u>(95,336)</u>	<u>(580,593)</u>	<u>(580,181)</u>	<u>(1,256,110)</u>
Depreciation for the period	(75,261)	-	(30,139)	(105,400)
Foreign exchange translation	(650)	-	-	(650)
As at September 30, 2020	<u>(171,247)</u>	<u>(580,593)</u>	<u>(610,320)</u>	<u>(1,362,160)</u>
Carrying Amount				
As at December 31, 2019	177,004	-	72,440	249,444
As at September 30, 2020	<u>262,388</u>	<u>-</u>	<u>53,412</u>	<u>315,800</u>

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

²Other comprises leasehold improvements, furniture, office equipment and lab equipment.

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Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020
(Unaudited)

8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on September 30, 2020 is \$5,937,606 (\$4,641,460 on December 31, 2019), and is comprised of:

	JCC-BQE	MWT-BQE
	\$	\$
Balance, January 1, 2019	4,947,798	14,651
Share of net income (loss)	864,592	(161,697)
Share of translation loss on foreign operation	(345,063)	(19,247)
Contributions made	97,633	-
Distributions received	(923,500)	-
Unrecognized share of net loss and translation loss	-	166,293
	<hr/>	<hr/>
Balance, December 31, 2019	4,641,460	-
	<hr/>	<hr/>
Share of net income (loss)	1,038,130	(102,273)
Share of translation gain on foreign operation	258,016	8,020
Unrecognized share of net loss and translation loss	-	94,253
	<hr/>	<hr/>
Balance, September 30, 2020	5,937,606	-
	<hr/>	<hr/>

a) JCC-BioteQ Environmental Technologies Co. Ltd.

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

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

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

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

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
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(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, 2020	Dec. 31, 2019
	\$	\$
Assets		
Current assets		
Cash and short-term investments	2,603,563	2,183,228
Trade and other receivables	1,075,821	150,070
Income taxes recoverable	-	18,649
Inventory	58,199	38,392
Prepaid expenses	3,045	1,047
	<u>3,740,628</u>	<u>2,391,386</u>
Non-current assets		
Plant and equipment	3,516,314	3,699,322
Deferred tax assets	66,438	63,121
	<u>3,582,752</u>	<u>3,762,443</u>
Total assets	<u>7,323,380</u>	<u>6,153,829</u>
Liabilities		
Current liabilities		
Accounts payable and other payables	1,385,774	1,512,369
Total liabilities	<u>1,385,774</u>	<u>1,512,369</u>
Partner's Equity		
Joint venture partner equity	3,961,989	3,961,989
Accumulated other comprehensive income	1,429,092	1,171,076
Accumulated earnings (deficit)	546,525	(491,605)
Total partner's equity	<u>5,937,606</u>	<u>4,641,460</u>
Total liabilities and partner's equity	<u>7,323,380</u>	<u>6,153,829</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
 For the three and nine months ended September 30, 2020
 (Unaudited)

Statement of operations and comprehensive income

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	2,480,669	1,637,816	4,156,420	4,743,180
Operating costs (excluding depreciation)	1,245,829	853,509	2,251,738	2,698,295
Operating margin before depreciation	1,234,840	784,307	1,904,682	2,044,885
General and administration	68,201	91,105	187,994	230,305
Depreciation of plant and equipment	130,415	122,050	394,270	360,856
Income from operations	1,036,224	571,152	1,322,418	1,453,724
Finance income	5,077	4,120	15,692	12,459
Other income	11,239	56	11,239	56
Income before income taxes	1,052,540	575,328	1,349,349	1,466,239
Current income tax expense	(267,700)	(131,579)	(311,219)	(284,264)
Net income for the period	784,840	443,749	1,038,130	1,181,975
Other comprehensive income				
Translation gain (loss) on foreign operation	106,682	(162,918)	258,016	(374,848)
Comprehensive income for the period	891,522	280,831	1,296,146	807,127

b) Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company (“MWT”) for the construction and operation of a water treatment plant located in Shandong province, China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). The joint venture built a water treatment plant at a smelter owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd. (“Zhaoye”). The joint venture operates the plant using BQE Water’s patented technology to recover and sell copper and zinc metals from Zhaoye’s industrial wastewater stream to generate profits. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of \$96,400 (RMB \$500,000) as registered capital, representing 4.35% of the total registered capital of the joint venture.

The Company’s 20% share of the net loss in the joint venture for the three and nine months ended Sept 30, 2020 was \$2,952 and \$102,273 (\$41,357 and \$70,690 in 2019). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of losses of the joint venture are recognized only to the extent that the net investments on MWT-BQE were reduced to zero. As of September 30, 2020, the balance of the unrecognized share of net losses for MWT-BQE is \$260,547 (\$166,293 on December 31, 2019).

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

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

	Sept. 30, 2020	Dec. 31, 2019
	\$	\$
Current assets	71,438	34,182
Plant and equipment	49,622	60,276
Current liabilities	72,361	55,145
Non-current liabilities	29,887	-
Partner's equity	-	-

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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	67,810	27,019	168,323	184,314
Operating costs (excluding depreciation)	36,438	21,024	133,796	110,637
	31,372	5,995	34,527	73,677
General and administration	24,622	27,323	73,381	82,587
Depreciation of plant and equipment	6,953	20,004	60,614	61,711
Finance costs	2,749	25	2,805	69
Net loss for the period	(2,952)	(41,357)	(102,273)	(70,690)
Other comprehensive income (loss)	1,538	(8,405)	8,020	(21,431)
Comprehensive loss for the period	(1,414)	(49,762)	(94,253)	(92,121)

9. TRADE PAYABLES AND ACCRUED LIABILITIES

	Sept. 30, 2020	Dec. 31, 2019
	\$	\$
Trade payables and accruals	696,218	845,131
Payroll liability	700,897	536,709
Tax payable	122,602	-
	1,519,717	1,381,840

10. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of \$412,500. The WINN loan was granted to the Company to assist in the commercialization and

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Notes to Condensed Consolidated Interim Financial Statements
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 (Unaudited)

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, 2020, the Company has received a total of \$412,500 under this loan agreement (\$254,511 on December 31, 2019).

11. LEASES

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

	Sept. 30, 2020	Dec. 31, 2019
	\$	\$
Balance at January 1	181,033	272,116
Addition of lease obligations	190,755	-
Interest expense on lease obligations	18,583	25,216
Lease payments on interest portion	(18,305)	(25,216)
Lease payments on principal portion	(66,673)	(91,423)
Foreign exchange translation	917	340
Ending Balance	<u>306,310</u>	<u>181,033</u>
Less: current portion of lease obligations	<u>93,366</u>	<u>104,517</u>
Non-current portion of lease obligations	<u>212,944</u>	<u>76,516</u>

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. The Company's lease expense, which is not counted under lease obligations, for the three and nine months ended September 30, 2020 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Classified as short-term or as low value	5,151	14,110	16,046	31,745
Leases with variable lease payments	22,827	22,028	52,060	67,709
	<u>27,978</u>	<u>36,138</u>	<u>68,106</u>	<u>99,454</u>

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

	Sept. 30, 2020
	\$
2020	35,459
2021	119,877
2022	116,650
2023	91,236
Total undiscounted lease payments	<u>363,222</u>
Less: imputed interest	<u>(56,912)</u>
Total carrying value of lease obligations	<u>306,310</u>

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12. SHARE-BASED PAYMENTS

The Company's recorded share-based compensation for the three and nine months ended September 30, 2020 are comprised as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Stock options (a)	63,146	14,232	183,046	42,570
Deferred share units (b)	35,043	28,050	66,206	41,610
Restricted share units (c)	14,758	12,312	30,546	56,086
	<u>112,947</u>	<u>54,594</u>	<u>279,798</u>	<u>140,266</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. 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.

On January 8, 2020, the Company granted 51,000 stock options with an exercise price of \$8.75 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date. The fair value of these options determined using the Black-Scholes valuation model was \$7.36 per option. The significant assumptions in the valuation model were: a volatility of 124.2%, an expected option life of five years and an annual risk-free interest rate of 1.62%.

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

	2020		2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$		\$	
Outstanding at January 1	6.00	39,501	6.00	62,000
Granted	8.75	51,000	-	-
Exercised	6.00	(7,001)	6.00	(666)
Forfeited	6.00	(667)	6.00	(500)
Expired	-	-	7.00	(20,000)
Outstanding at Sept 30	<u>7.69</u>	<u>82,833</u>	<u>6.00</u>	<u>40,834</u>
Exercisable at Sept 30	<u>6.00</u>	<u>18,664</u>	<u>6.00</u>	<u>13,167</u>

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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, 2020, the Company recognized \$63,146 and \$183,046 (\$14,232 and \$42,570 in 2019) of non-cash compensation expense related to stock options. The expiry date by exercise price at September 30, 2020 is as follows:

Exercise price \$	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	31,833	18,664
8.75	January 8, 2025	51,000	-

b) Deferred Share Unit

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

As the Company is required to settle this award in cash, it records these awards as a liability and a corresponding charge including changes to the fair value to stock-based compensation expense. The DSU is a financial instrument whose fair value is adjusted 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, 2019	15,385	86,171
Redeemed	(4,201)	(36,502)
Fair value adjustment	-	45,865
Other adjustment	(610)	(3,660)
Balance, December 31, 2019	10,574	91,874
Fair value adjustment	-	66,206
Balance, September 30, 2020	10,574	158,080

c) Restricted Share Units

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

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The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2019	-	-
Granted	6,485	42,477
Fair value adjustment	-	13,869
Balance, December 31, 2019	6,485	56,346
Redeemed	(2,032)	(20,320)
Fair value adjustment	-	30,546
Balance, September 30, 2020	4,453	66,572

13. SHARE CAPITAL

a) Authorized

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

b) Issued

As at September 30, 2020, the Company had 1,217,435 common shares outstanding (1,210,434 on December 31, 2019).

c) Net Earnings Per Share

The calculation of net earnings per share for the three and nine months ended September 30, 2020 and 2019 are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Net income	1,441,983	850,610	1,370,611	868,450
Basic weighted average number of shares outstanding	1,216,870	1,208,616	1,215,363	1,208,496
Add: Dilution of securities	11,322	2,179	8,878	1,743
Diluted weighted average number of shares outstanding	1,228,192	1,210,795	1,224,241	1,210,239
Net earnings per share:				
Basic	1.18	0.70	1.13	0.72
Diluted	1.17	0.70	1.12	0.72

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-month period ended September 30, 2020 was 27% (27% at December 31, 2019).

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15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2020	2019
	\$	\$
Change in non-cash working capital items		
Increase in trade receivables	(1,542,806)	(778,495)
Decrease (increase) in other assets	15,090	(24,714)
Increase in trade payables and accrued liabilities	162,141	117,347
Increase (decrease) in deferred revenue	437,543	(14,375)
Decrease in other liabilities	(20,320)	-
Change in non-cash working capital items	<u>(948,352)</u>	<u>(700,237)</u>

16. COMMITMENTS

The Company has commitments of \$411,294 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2020	52,976
2021	194,856
2022	91,306
2023	72,156
	<u>411,294</u>

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

a) Disaggregation of Revenue

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

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

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

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The disaggregated revenue of the Company are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Operations contracts	1,060,781	1,211,988	1,251,558	1,532,573
Technical services contracts	1,676,790	1,114,336	4,836,021	2,725,751
	<u>2,737,571</u>	<u>2,326,324</u>	<u>6,087,579</u>	<u>4,258,324</u>

b) Remaining Performance Obligations

As at September 30, 2020, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is \$1,964,080 compared to \$916,191 as at December 31, 2019. The remaining performance obligations of the Company are expected to be fully completed in the next 18 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 providers of operational services of water treatment plants and as providers of technical services relating to water management.

a) Geographic Information

The Company mainly generates revenue from within Canada (country of domicile) for projects from various geographic locations. 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	
	2020	2019	2020	2019
	\$	\$	\$	\$
Canada	1,217,353	1,715,400	1,924,777	2,466,806
USA	1,166,817	55,867	2,976,541	118,499
Latin America	239,942	222,358	865,999	929,942
China	113,459	332,699	320,262	728,277
Other	-	-	-	14,800
	<u>2,737,571</u>	<u>2,326,324</u>	<u>6,087,579</u>	<u>4,258,324</u>

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

	Sept. 30, 2020	Dec. 31, 2019
	\$	\$
Canada	302,116	223,441
China	5,951,290	4,667,463
	<u>6,253,406</u>	<u>4,890,904</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 Sept 30, 2020 and 2019:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Customer A	837,266	1,212,640	933,869	1,479,639
Customer B	318,328	84,066	386,703	259,534
Customer C	-	107,633	253,178	311,337
Customer D	113,459	332,699	320,262	728,277
Customer E	1,080,552	47,025	2,148,687	47,025
Customer F	20,479	-	705,346	-
Customer G	-	29,891	-	464,053
Customer H	-	333,864	384,700	348,215
	<u>2,370,084</u>	<u>2,147,818</u>	<u>5,132,744</u>	<u>3,638,080</u>
Represents percentage of total revenue for the period	87%	92%	84%	85%

19. SUBSEQUENT EVENT

Subsequent to the end of the reporting period, on October 22, 2020, the Company received its share of the annual dividend distribution from JCC joint venture. The value of the dividend is \$4.5 million RMB, which is approximately equal to \$870,000 CAD.