

BQE Water

BQE WATER INC.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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 2018 \$	December 31 2017 \$
	note		
Assets			
Current assets			
Cash		88,609	984,298
Trade and other receivables	5	2,212,107	680,530
Prepaid and other deposits		39,842	42,956
Total current assets		2,340,558	1,707,784
Non-current assets			
Plant and equipment	7	50,573	42,463
Investment in joint ventures	8	6,074,948	5,095,256
Deposits		34,699	20,386
Total non-current assets		6,160,220	5,158,105
Total assets		8,500,778	6,865,889
Liabilities			
Current liabilities			
Loans	11	1,822,625	-
Trade payable and accrued liabilities	6, 9	1,709,993	783,799
Deferred revenues		123,641	29,198
Deferred benefits	10	105,527	159,835
Total current liabilities		3,761,786	972,832
Non-current liabilities			
Convertible loan	11	-	1,497,726
Total liabilities		3,761,786	2,470,558
Shareholders' Equity			
Share capital	10, 12	54,719,814	54,719,814
Contributed surplus	12	10,152,200	10,058,149
Equity component of convertible loan	11	86,575	86,575
Accumulated other comprehensive income		1,243,369	1,398,709
Accumulated deficit		(61,462,966)	(61,867,916)
Total shareholders' equity		4,738,992	4,395,331
Total liabilities and shareholders' equity		8,500,778	6,865,889
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 Income and Other Comprehensive Loss
 For the three and nine months ended September 30, 2018 and 2017
 (Unaudited)

	note	3 months ended September 30		9 months ended September 30	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenue		1,893,177	1,578,327	2,960,418	3,199,204
Operating costs (excluding depreciation)		573,098	641,556	1,471,836	1,715,690
Operating margin before depreciation		1,320,079	936,771	1,488,582	1,483,514
General and administration		368,638	383,120	1,081,983	1,254,484
Sales and development		211,319	263,115	863,685	854,636
Stock-based compensation	10	36,923	34,476	101,031	43,082
Depreciation of plant and equipment	7	4,122	31,472	11,886	97,689
Share of results of equity accounted joint ventures	8	(301,785)	(469,792)	(1,095,641)	(1,267,958)
Income from operations and joint ventures		1,000,862	694,380	525,638	501,581
Finance costs, net		(38,404)	(55,425)	(102,310)	(159,306)
Foreign exchange loss		(18,653)	(23,074)	(18,378)	(37,561)
Other income		-	60,978	-	62,978
Income before income taxes		943,805	676,859	404,950	367,692
Income tax recovery		-	152,740	-	152,740
Net income for the period		943,805	829,599	404,950	520,432
Other comprehensive loss					
<i>Items that will be reclassified subsequently to loss</i>					
Translation loss on foreign operations		(318,427)	(97,467)	(155,340)	(139,970)
Comprehensive income for the period		625,378	732,132	249,610	380,462
Net income per share					
Basic and diluted		0.01	0.01	0.00	0.01
Weighted average number of shares outstanding					
Basic and diluted		93,966,672	93,966,672	93,966,672	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, 2018 and 2017
 (Unaudited)

		Number of Shares	9 months ended Sept. 30, 2018 \$	Number of Shares	9 months ended Sept. 30, 2017 \$
	note				
Share Capital					
Balance, beginning of the period	12	93,966,672	54,719,814	93,966,672	54,719,814
			-		-
Balance, end of the period		93,966,672	54,719,814	93,966,672	54,719,814
Contributed surplus					
Balance, beginning of the period			10,058,149		10,047,271
Share-based payments	10		94,051		2,610
Balance, end of the period			10,152,200		10,049,881
Equity component of convertible loan					
Balance, beginning of the period			86,575		84,614
Issuance of convertible loan	11		-		1,961
Balance, end of the period			86,575		86,575
Accumulated other comprehensive income					
Balance, beginning of the period			1,398,709		1,410,982
Other comprehensive loss for the period			(155,340)		(139,970)
Balance, end of the period			1,243,369		1,271,012
Accumulated deficit					
Balance, beginning of the period			(61,867,916)		(61,506,865)
Net income for the period			404,950		520,432
Balance, end of the period			(61,462,966)		(60,986,433)
Total shareholders' equity					
Balance, beginning of the period			4,395,331		4,755,816
Share-based payments	10		94,051		2,610
Issuance of convertible loan	11		-		1,961
Net income for the period			404,950		520,432
Other comprehensive loss for the period			(155,340)		(139,970)
Balance, end of the period			4,738,992		5,140,849

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, 2018 and 2017
(Unaudited)

		9 months ended September 30	
		2018	2017
		\$	\$
	note		
Operating activities			
Net income for the period		404,950	520,432
Items not affecting cash			
Income tax recovery		-	(152,740)
Bad debt recovery		-	(60,978)
Share of results of equity accounted joint ventures	8	(1,095,641)	(1,267,958)
Interest expense		102,310	159,306
Gain on disposal of equipment		-	(2,000)
Depreciation of plant and equipment	7	11,886	97,689
Amortization of deferred lease inducement		-	(23,083)
Net foreign exchange loss		2,239	36,023
Stock-based compensation	10	101,031	43,082
		(473,225)	(650,227)
Change in non-cash working capital items	14	(602,449)	(118,857)
Cash used in operations		(1,075,674)	(769,084)
Income taxes paid		-	-
Net cash used in operating activities		(1,075,674)	(769,084)
Investing activities			
Purchase of equipment	7	(19,996)	(35,592)
Proceeds from disposal of equipment		-	2,000
Contributions made to joint ventures	8	(70,500)	(85,815)
Interest received		4,514	6,619
Net cash used in investing activities		(85,982)	(116,740)
Financing activities			
Proceeds from loans	11	325,930	19,666
Interest paid	11	(73,417)	(117,552)
Net cash received (used) in financing activities		252,513	(97,886)
Effect of exchange rate changes on cash		13,454	(22,338)
Change in cash		(895,689)	(1,006,048)
Cash, beginning of the period		984,298	2,231,798
Cash, end of the period		88,609	1,225,750

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, 2018
(Unaudited)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

BQE Water Inc. is the ultimate parent company of its consolidated group ("the "Company"). The Company 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 focused 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

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"), and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of September 30, 2018.

The Company's Board of Directors approved these condensed consolidated interim financial statements on November 20, 2018.

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, 2018, the Company incurred a net income of \$404,950 (\$520,432 in 2017) and used net cash in operating activities of \$1,075,674 (\$769,084 in 2017). At September 30, 2018, the Company had a working capital deficit of \$1,421,228 (positive working capital of \$734,952 at December 31, 2017) and a cumulative deficit of \$61,462,966 (\$61,867,916 at December 31, 2017).

Management and the Board of Directors of the Company successfully replaced the original \$1.5 million convertible loan due January 6, 2018 with replacement loan due January 6, 2019. Also, during Q2 of 2018, Management and the Board of Directors successfully signed short-term loans contracts with employees of the Company and the Company's joint venture partner in China. The extension of the convertible loan and the newly established short-term loans will ensure that the Company has sufficient levels of working capital for the rest of 2018. The Company expects to generate sufficient working capital to enable us to repay the principle amount of the short-term loans and have sufficient cash reserves to meet ongoing operating requirements over the next 12 months. This also assumes that the Company 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, the Company 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. These consolidated financial statements do not include adjustments 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 financial statements could be required.

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Notes to Condensed Consolidated Interim Financial Statements
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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 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, 2018	Ownership interest as at Dec. 31, 2017
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:

Entity	Country of incorporation and operation	Ownership interest as at Sept. 30, 2018	Ownership interest as at Dec. 31, 2017
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, 2017, with the exception of the adoption of IFRS 15 and IFRS 9 as described below. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

IFRS 15 – Revenue from Contracts with Customers

The Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") retrospectively on January 1, 2018. IFRS 15 supersedes IAS 11, *Construction Contracts* and IAS 18, *Revenue*, and related interpretations. The Company has detailed below the impact of the transition to IFRS 15 on its accounting policy for revenue recognition.

The Company applied IFRS 15 retrospectively to all contracts that were not completed by January 1, 2018, the date of initial application, in order to determine if a restatement was required for prior periods presented. The Company performed a comprehensive review of existing contracts, control processes and revenue recognition methodology. In evaluating the impact of IFRS 15 on previously reported comparative figures, the Company determined that there was no change required as the existing revenue recognition practices met the requirements of IFRS 15.

Revenue is recognized by applying the five-step model under IFRS 15. The standard requires entities to recognize revenue when the control of the goods or services passes to the customer. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there were no changes to the classification and timing of revenue recognition under the new standard as the point of transfer of risk and reward for goods and services and transfer of control occur at the same time. In addition, the standard requires entities to apportion revenue earned from contracts to

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individual performance obligations, on a relative standalone selling price basis. The Company also earns revenue from technical services relating to water management, including engineering, laboratory and pilot demonstrations. For technical services contracts, the Company may defer and recognize the revenue over time as each obligation within the contracts are fulfilled. Given that the majority of our technical services contracts have the clause that allow the Company to have an enforceable right to payment for performance completed to date, the Company concluded there were no changes to the classification and timing of revenue recognition as the Company will continue to recognize revenue over time using project stage of completion based on costs incurred and labour hours expended.

IFRS 15 requires that variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Recognition requirements surrounding contract modifications have been implemented, where the Company is required to provide stronger evidence of customer acceptance and completion of modified performance obligations. For any change in transaction price as a result of contract modifications, the Company will only recognize revenue to the extent that it is highly probable that the revenue will not reverse in the future.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* (“IFRS 9”) to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 retrospectively on January 1, 2018. The adoption of this standard did not have a material impact on the condensed consolidated interim financial statements. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new “expected credit loss” model for calculating impairment. It also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company’s policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

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, 2017, other than those additional areas which have arisen as a result of the implementation effective January 1, 2018 of IFRS 15 as discussed earlier.

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Notes to Condensed Consolidated Interim Financial Statements
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 (Unaudited)

5. TRADE AND OTHER RECEIVABLES

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Trade receivables	2,124,000	322,198
Unbilled receivables	86,387	246,495
Value added tax receivables	-	12,467
Other	1,720	99,370
	<u>2,212,107</u>	<u>680,530</u>

6. RELATED PARTY TRANSACTIONS

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

- a) For the three and nine months ended September 30, 2018 and 2017, 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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries, fees and short-term benefits	139,454	172,128	309,076	442,519
Share-based payments	13,961	-	40,685	2,610
	<u>153,415</u>	<u>172,128</u>	<u>349,761</u>	<u>445,129</u>

Included in the trade payables and accrued liabilities as of September 30, 2018 is \$147,379 (\$12,231 at December 31, 2017) of management consulting service fees with companies owned by the Company's management, director fees and termination benefits.

- b) The Company has multiple loan agreements with multiple related parties. These lenders include the Company's joint venture, certain directors, shareholders, management and employees of the Company. Details of the loans with various related parties are described in note 11.
- c) Included in the trade payables and accrued liabilities as of September 30, 2018 is \$96,400 (\$96,400 at December 31, 2017) of contribution of registered capital payable to the Company's joint venture as described in note 8(b).

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

7. PLANT AND EQUIPMENT

	Pilot plants \$	Other ¹ \$	Total \$
As at Dec. 31, 2017			
Opening net book value	199,882	17,128	217,010
Additions	-	39,545	39,545
Depreciation	(199,882)	(14,210)	(214,092)
Closing net book value	-	42,463	42,463
As at Dec. 31, 2017			
Cost	580,593	568,065	1,148,658
Accumulated depreciation	(580,593)	(525,602)	(1,106,195)
Closing net book value	-	42,463	42,463
As at Sept. 30, 2018			
Opening net book value	-	42,463	42,463
Additions	-	19,996	19,996
Depreciation	-	(11,886)	(11,886)
Closing net book value	-	50,573	50,573
As at Sept. 30, 2018			
Cost	580,593	588,062	1,167,816
Accumulated depreciation	(580,593)	(537,489)	(1,117,243)
Closing net book value	-	50,573	50,573

¹Other comprises of leasehold improvements, office and lab equipment and computer equipment.

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

8. INVESTMENT IN JOINT VENTURES

Investment in joint ventures is comprised of:

	JCC-BQE \$	MWT-BQE \$
Balance, January 1, 2017	4,231,567	-
Share of net income (loss)	1,170,739	(21,422)
Share of translation loss on foreign operation	(5,942)	(65)
Contributions made	148,379	96,400
Distributions received	(524,400)	-
Balance, December 31, 2017	5,020,343	74,913
Share of net income (loss)	1,124,387	(28,746)
Share of translation gain on foreign operation	(178,155)	(8,294)
Contributions made	70,500	-
Balance, September 30, 2018	6,037,075	37,873

a. JCC-BioteQ Environmental Technologies Co. Ltd.

During 2006, the Company 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 the Company and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd ("JCC-BQE"). The joint venture builds and operates water treatment plants using the Company's technologies. The agreement includes a license contract whereby the Company will provide its patented technology on a royalty-free basis to the joint venture company for use at Dexing Mine and also five potential additional sites owned and operated by JCC.

The joint venture sells 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. Currently, the joint venture operates three water treatment plants.

Any cash distributions from the joint venture to the Company 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, the Company 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.

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Notes to Condensed Consolidated Interim Financial Statements
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(Unaudited)

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

Statement of financial position

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Assets		
Current assets		
Cash	3,067,793	1,562,058
Short-term investments	113,040	-
Trade and other receivables	113,285	28,178
Income taxes recoverable	-	58,940
Inventory	36,716	33,663
Prepaid expenses	12,901	977
	<u>3,343,735</u>	<u>1,683,816</u>
Non-current assets		
Plant and equipment	3,609,151	4,029,345
Deferred tax assets	63,764	65,254
	<u>3,672,915</u>	<u>4,094,599</u>
Total assets	<u>7,016,650</u>	<u>5,778,415</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	883,518	758,072
Income taxes payable	96,057	-
	<u>979,575</u>	<u>758,072</u>
Total liabilities	<u>979,575</u>	<u>758,072</u>
Partner's Equity		
Joint venture partner equity	3,802,903	3,732,403
Accumulated other comprehensive income	1,265,811	1,443,966
Retained earnings (deficit)	968,361	(156,026)
Total partner's equity	<u>6,037,075</u>	<u>5,020,343</u>
Total liabilities and partner's equity	<u>7,016,650</u>	<u>5,778,415</u>

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Notes to Condensed Consolidated Interim Financial Statements
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 (Unaudited)

Statements of operations and comprehensive income

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	1,594,856	1,568,649	4,641,345	4,238,052
Plant operating costs (excluding depreciation)	1,039,926	810,916	2,651,975	2,124,191
	554,930	757,733	1,989,370	2,113,861
General and administration	14,408	44,896	223,325	240,584
Depreciation of plant and equipment	115,109	124,814	369,737	382,209
Income from operations	425,413	588,023	1,396,308	1,491,068
Finance income	8,479	1,097	10,052	1,699
Other income, net	1,296	23,492	46	23,054
Income before income taxes	435,188	612,612	1,406,406	1,515,821
Current income tax expense	(123,169)	(142,820)	(282,019)	(341,859)
Deferred tax recovery	-	-	-	93,996
Net income for the period	312,019	469,792	1,124,387	1,267,958
Other comprehensive loss				
Translation loss on foreign operation	(324,371)	(100,478)	(178,155)	(154,429)
Comprehensive (loss) income for the period	(12,352)	369,314	946,232	1,113,529

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, the Company 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 the Company and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). The joint venture will build a water treatment plant located on a vacant lot owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). The joint venture will then operate the plant using the Company’s patented technology to recover and sell copper and zinc metals from Zhaoye’s industrial waste water stream in order to make profits.

The Company is entitled to 20% of the after-tax profits of the joint venture. Upon establishment of MWT-BQE, the Company is required to pay a cash contribution as registered capital of \$96,400 (RMB \$500,000), which is 4.35% of the total registered capital of the joint venture. The joint venture have completed the construction of the water treatment plant and has fully commissioned the plant to be operational during Q3 2018.

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Notes to Condensed Consolidated Interim Financial Statements
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The sections of the statement of financial position of the Company's portion of interest in the MWT-BQE joint venture is presented as follows:

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Current assets	13,802	78,429
Plant and equipment	80,036	19,297
Current liabilities	10,119	5,951
Partner's equity	37,921	74,961

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	-	-	-	-
General and administration	10,234	-	28,746	-
Net loss for the period	(10,234)	-	(28,746)	-
Other comprehensive loss	(21,820)	-	(8,294)	-
Comprehensive loss for the period	(32,054)	-	(37,040)	-

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Trade payable and accruals	896,668	319,721
Payroll liability	461,212	305,859
Payable to joint venture (note 6(c), note 8(b))	96,400	96,400
Interest payable (note 11)	90,258	59,180
Value added tax payable	165,455	2,639
	1,709,993	783,799

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2018
(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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Stock options (a)	31,695	-	94,051	2,610
Deferred share units (b)	5,165	33,523	6,779	39,354
Restricted share units (c)	63	953	201	1,118
	<u>36,923</u>	<u>34,476</u>	<u>101,031</u>	<u>43,082</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:

	2018		2017	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$		\$	
Outstanding at January 1	0.07	7,133,333	0.11	4,333,333
Granted	-	-	-	-
Forfeited	0.07	(400,000)	-	-
Expired	0.15	(533,333)	0.19	(600,000)
Outstanding at September 30	<u>0.06</u>	<u>6,200,000</u>	<u>0.10</u>	<u>3,733,333</u>
Exercisable at September 30	<u>0.07</u>	<u>2,000,000</u>	<u>0.10</u>	<u>3,733,333</u>

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.

On December 7, 2017, the Company granted 4,200,000 options with an exercise price of \$0.06 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 \$0.05 per option. The significant assumptions in the valuation model were: volatility of approximately 119.19%, an expected option life of five years and an annual risk-free interest rate of 1.65%.

BQE WATER INC.

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Exercise price range \$	Weighted average remaining life (months)	Sept. 30, 2018 number of outstanding share options
0.06	51	4,200,000
0.07	7	2,000,000
0.06 to 0.07	37	6,200,000

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 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	Value \$
Balance, January 1, 2017	2,915,075	125,348
Redeemed	(410,614)	(24,751)
Fair value adjustment	-	55,932
Balance, December 31, 2017	2,504,461	156,529
Redeemed	(965,699)	(61,288)
Fair value adjustment	-	6,779
Balance, September 30, 2018	1,538,762	102,020

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.

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The following table presents the changes to the RSU plan:

	Number of units	Value \$
Balance, January 1, 2017	82,841	3,562
Redeemed	(29,948)	(1,805)
Fair value adjustment	-	1,549
Balance, December 31, 2017	52,893	3,306
Redeemed	-	-
Fair value adjustment	-	201
Balance, September 30, 2018	52,893	3,507

11. LOANS

	Sept. 30, 2018 \$	Dec. 31, 2017 \$
Employee loans (a)	275,525	-
Related party loan (b)	47,100	-
Convertible loans (c)	1,500,000	1,497,726
	1,822,625	1,497,726

a. Employee loans

On May 16, 2018, the Company entered into loan agreements with multiple lenders, which include management and employees of the Company. The lenders have agreed to advance from various currencies with an aggregate principle amount of \$276,205. Under the agreement, the Company should repay the principle amount within 30 days following the receipt of the dividend from JCC-BQE. The loans will continue to bears interest at a rate of 12% per annum, and interest being payable monthly until maturity. The carrying amount of the employee loans on September 30, 2018 is \$275,525.

b. Related party loan

On June 16, 2018, the Company entered into a 6-month loan agreement with the Company's joint venture MWT-BQE. Under the agreement, MWT-BQE agreed to advance an aggregate principle amount of \$250,000 RMB, which bears interest at a rate of 8% per annum, and interest being payable upon maturity on Dec 15, 2018. The carrying amount of the related party loan on September 30, 2018 is \$47,100.

c. Convertible loans

On July 6, 2016, the Company entered into an 18-month convertible loan agreement with multiple lenders, which include certain directors, management, employees of the Company, individual investors and non-management insiders of the Company. The lenders agreed to advance a secured convertible loans 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 agreed to advance the loans on the issuance date. Multi-tranche lenders agreed to advance funds to the Company in nine equal monthly tranches starting July 31, 2016 to March 31, 2017.

Under the agreement, the convertible loans bears interest at a rate of 8% per annum, and interest 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 with 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

BQE WATER INC.

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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, July 6 2017 and January 6, 2018, the Company paid out the semi-annual accrued interest in full to all 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 loans. Transaction costs associated with the issuance of the convertible loans are allocated to the liability and equity components in its allocated proportion.

On January 5, 2018, the Company replaced the original convertible loans with replacement loans which extends the maturity date for another 12 months, from January 6, 2018 to January 6, 2019. The replacement loans have the same terms and conditions as the original convertible loans. 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.

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

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Face value of convertible loan issued	1,500,000	1,500,000
Less: amounts receivable from lenders	-	-
Transaction costs	(23,652)	(23,652)
Equity conversion component on initial recognition	(124,261)	(124,261)
Liability component on initial recognition	1,352,087	1,352,087
Accumulated interest and accretion expense since inception	413,812	322,371
Repayment of interest	(178,118)	(117,552)
Total liability component as at period end	1,587,781	1,556,906
Current interest payable included in accrued liabilities (note 9)	(87,781)	(59,180)
Convertible loans as at period end	1,500,000	1,497,726

12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at September 30, 2018 and December 31, 2017, the Company has 93,966,672 common shares outstanding.

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, 2018 was 26% (26% at December 31, 2017).

BQE WATER INC.

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14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	6 months ended Sept. 30	
	2018	2017
	\$	\$
Change in non-cash working capital items		
Increase in trade receivables	(1,531,826)	(173,363)
Decrease in inventory and work in progress	-	20,137
(Increase) decrease in other assets	(11,140)	8,173
Increase in accounts payable and accrued liabilities	846,038	17,957
Increase in deferred revenue	94,479	8,239
Change in non-cash working capital items	(602,449)	(118,857)

15. COMMITMENTS

The Company has commitments of \$568,449 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2018	67,552
2019	187,738
2020	189,269
2021	63,606
2022	60,284
	568,449

16. REVENUE

The Company adopted IFRS 15 effective January 1, 2018.

The Company is focusing on monetizing the value of its IP and expertise primarily through the service of long-term operation and maintenance of water treatment plants which generate recurring revenue that is directly linked to plant performance. As the period between the identification of new projects and treatment plants entering their operation phase can be lengthy, the Company also generates revenue from technical services relating to water management that are project specific and generally non-recurring in nature. The two main streams of revenue of the Company are: (1) Operation and maintenance of water treatment plants, and (2) Technical services relating to water management, which include process consulting, laboratory treatability assessments, field pilot demonstrations and feasibility engineering studies. 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
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The Company's revenue streams are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Water treatment plant operations	912,367	1,000,049	986,696	1,153,150
Technical services	980,810	578,278	1,973,722	2,046,054
	<u>1,893,177</u>	<u>1,578,327</u>	<u>2,960,418</u>	<u>3,199,204</u>

17. SEGMENTED INFORMATION**a) Geographic information**

The Company mainly generates revenue from Canada (country of domicile) and occasionally from foreign regions. 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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	1,548,549	1,159,108	2,290,118	2,031,862
Latin America	235,818	348,122	466,666	937,933
USA	71,024	45,816	158,068	167,224
Other	37,786	25,281	45,566	62,185
	<u>1,893,177</u>	<u>1,578,327</u>	<u>2,960,418</u>	<u>3,199,204</u>

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

	Sept. 30, 2018	Dec. 31, 2017
	\$	\$
Canada	50,573	42,463
China	6,074,948	5,095,256
	<u>6,125,521</u>	<u>5,137,719</u>

BQE WATER INC.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2018
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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, 2018 and 2017.

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Customer A	912,367	1,000,049	986,696	1,153,148
Customer B	-	236,251	-	292,751
Customer E	-	56,218	-	293,317
Customer F	-	-	277,407	-
Customer G	132,326	63,549	352,951	489,239
Customer H	194,850	-	256,950	-
	<u>1,239,543</u>	<u>1,356,067</u>	<u>1,874,004</u>	<u>2,228,455</u>
Percentage from total revenue	65%	86%	63%	70%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2018 and 2017

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 30, 2018 and 2017

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

This Q3 2018 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 and 2017 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2017 and 2016 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2017.

Our Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Our accounting policies are described in note 2 of our Audited Financial Statements. This MD&A has been prepared as at November 20, 2018.

Certain statements contained in the MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is making the mining and metallurgical industry more sustainable and profitable by implementing innovative water management and treatment in this sector. We have unique expertise and intellectual property related to the treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water.

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

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

NON-GAAP MEASURES

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

Proportional Results

Due to changes to IFRS in 2012, the revenue and expenses associated with our Chinese joint ventures can no longer be proportionally consolidated into the Company's revenue and expenses as defined by GAAP. Currently, the revenue and

expenses associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item as 'Share of results of equity accounted joint ventures' on our consolidated statements of loss.

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

Proportional Revenue

The non-GAAP financial measures of Proportional Revenue adds BQE Water's shares of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the three and nine month periods ended September 30, 2018 and 2017 are as follows:

(in \$'000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Reported revenues under GAAP	1,893	1,578	2,960	3,199
Share of reported revenues from joint ventures	1,595	1,569	4,642	4,238
Proportional Revenue for the period	3,488	3,147	7,602	7,437

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") for the three and nine month periods ended September 30, 2018 and 2017 is derived as follows:

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
GAAP: Net income	944	831	405	520
add: interest expense	30	54	92	157
add: income taxes (recovery)	123	(10)	282	95
add: depreciation and amortization	119	156	382	480
EBITDA	1,216	1,031	1,161	1,252
add: stock-based compensation	37	34	101	43
add: net foreign exchange loss	19	23	18	38
Adjusted EBITDA	1,272	1,088	1,280	1,333

Q3 2018 COMMENTARY AND OUTLOOK

The positive Adjusted EBITDA figures of over \$1.2M for both Q3 and year to date, reflect the improvements in the Company's performance achieved over the last four years. Q3 has historically been our strongest financial quarter each year due to the seasonal operations at Raglan Mine and our typically strong operating results from our China joint venture plants. However, the results achieved in Q3 2018 exceeded all previous Q3 results recorded by the Company historically despite lower recurring revenue from water treatment plant operations. This is due to the strong contributions from engineering, pilot testing, and consulting services to the overall revenue in the quarter.

In context of the year-to-date results, this exceptional performance in Q3 2018 largely offsets the relative short fall in revenue recorded during the first half of 2018 compared to 2017, bringing the Company to a strong starting position going into Q4 of 2018. Based on the status of projects we worked on in Q3, we expect the strength in non-recurring revenue from technical services to continue through Q4 2018 and into the first half of 2019. This should help stabilize our revenues during the winter months when recurring revenue from operations is at its minimum. With the strong performance in Q3 2018, we expect to repay both the short-term loan agreements with employees of the Company and with our MWT-BQE joint venture during Q4, while at the same time improving our working capital position prior to the start of 2019. We also expect the Company will have sufficient funds to repay all lenders of the convertible loan due in January 2019 who opted not to convert all or any portion of the loan into common shares of the Company.

Q3 2018 OVERVIEW

Financial Highlights

- Revenues reported under GAAP were \$1.9 compared to \$1.6 million in Q3 2017;
- Proportional revenues were \$3.5 million compared to \$3.1 million in Q3 2017;
- Net income reported under GAAP was \$944,000 compared to \$831,000 in Q3 2017;
- Adjusted EBITDA was \$1.3 million compared to \$1.1 million in Q3 2017;
- Cash reported under GAAP as of September 30, 2018 was \$89,000 compared to \$984,000 at December 31, 2017; and
- Proportional Cash, which includes our share held in joint ventures, as of September 30, 2018 was \$3.2 million compared to \$2.5 million at the end of 2017.

Operating Highlights

Raglan Water Treatment, Quebec

The Company operates three water treatment plants at Raglan Mine, an active nickel mine in northern Quebec owned by Glencore Canada Corporation ("Glencore"). The three plants utilize BQE Waters's ChemSulphide® and Met-IX™ processes, and conventional lime neutralization. The two plants using ChemSulphide® and Met-IX™ not only treat water for environmental discharge but also recover nickel that is blended into the nickel concentrate produced by the mine.

During Q2, we mobilized our operations team to site to commence our 15th operating season at Raglan. However, due to unusually cold weather in May and June, the spring thaw has been delayed and we started treating water approximately one month later compared to previous seasons. Based on the availability of water at the site, we expect that over 1.1 million cubic metres of water will be available for treatment for the 2018 season and preparations are being made to extend the treatment season by one month. Operating results for three plants for the current quarter and the current year are as follows:

<i>(in '000s)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
Water treated (cubic metres)	862	1,002	862	1,142

Joint venture with Jiangxi Copper Company, China

Our joint venture in China with partner Jiangxi Copper Company ("JCC") continued to operate three plants during Q3 2018. Although most of the treated water is discharged into the environment, some treated water is occasionally recycled. Revenue

is derived from the sale of copper recovered from the wastewater, which is a combination of acid rock drainage and seepage from low-grade stockpiles. The following is summary of operating results for all three plants during Q3 2018.

(in '000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
Dexing 1				
Water treated (cubic metres)	2,416	2,505	5,983	5,106
Copper produced (pounds)	536	492	1,187	1,237
Dexing 2				
Water treated (cubic metres)	2,766	2,993	7,881	6,894
Copper produced (pounds)	373	368	1,002	904
Yinshan				
Water treated (cubic metres)	1,091	946	3,635	2,502
Copper produced (pounds)	131	196	632	719
Total Joint Venture				
Water treated (cubic metres)	6,273	6,444	17,499	14,502
Copper produced (pounds)	1,040	1,056	2,821	2,860

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and climate conditions at each site. The two plants Dexing 1 and Dexing 2 treat water from the same sources and water may be diverted from one plant to the other to optimize operations. During 2018, all three plants met or exceeded mechanical availability and process performance.

Project Highlights

BQE Water's technical expertise and intellectual property are applicable across broad areas of water management. The highlights of the technical services provided to clients for projects globally during Q3 2018 are summarized below.

Water Treatment Plant at Kemess Mine – First Commercial Selen-IX™ Plant

BQE Water signed an agreement with AuRico Metals in March 2018 for the engineering, procurement, installation assistance and commissioning of a new water treatment plant at the Kemess Mine in Northern BC. The plant combines BQE Water's ChemSulphide® process adapted for the Kemess water and Selen-IX™ technology for selenium control. Issued for construction engineering has been completed and the project is currently in the initial stages of procurement, equipment fabrication and site preparation. Equipment fabricated and procured over the winter will be installed in Q2 2019 with commissioning of the water treatment plant scheduled for the second half of 2019. We have also signed a five year operating services agreement to operate the new water treatment plant, which is expected to treat up to 6,400 m³/day of mine impacted water. The operation of the water treatment plant is expected to start on January 1, 2020.

SART Implementation at Media Luna in Mexico

In May 2018, BQE Water was brought in as the lead technical expert in SART to help with the implementation of this process at Torex's Media Luna project in Mexico. BQE Water was contracted to take charge of all aspects of the SART process commissioning including safety, environmental, automation, operator and supervisor training, and reporting. Commissioning of the plant was completed safely without any incidents and the plant entered stable continuous operation less than 60 days from the beginning of the process start-up. The plant is currently operating around the clock and we continue to provide ongoing technical support to the operation including ongoing plant optimization.

Commissioning of Copper and Zinc Recovery Plant at Shandong Smelter in China

In 2016, BQE Water entered into a joint venture agreement with a Chinese partner, Beijing MWT Water Treatment Project Limited Company (“MWT”), for the design, construction and operation of a treatment plant that would recover copper and zinc from wastewater generated by Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). BQE Water provides its technology and plant operating experience in exchange for an ongoing 20% participation of the profit from metals recovered and technical support fees which are built into the operating cost during the first three years of operation. Plant construction began in Q4 2017 and was completed and commissioned in Q3 2018. The plant is now operating around the clock recovering approximately 180,000 pounds of zinc and 8,000 pounds of copper per month. Copper concentrate produced by the plant is sold back to Zhaoye and the zinc concentrate is sold to local metal traders.

Membrane Water Treatment Pilot at BC mine

During Q2 2018, BQE Water was contracted to assess water treatment options at a producing mine in Central BC. The mine owner is concerned about the inventory of impacted water stored at site and wants to reduce this inventory to create room for future operations while at the same time reducing environmental risks. Following our initial assessment of water treatment options, we identified membrane treatment as the most suitable method to achieve the site objectives. Starting in Q3 2018, we carried out a pilot demonstration of the proposed membrane treatment. The on-site pilot was completed over a period of seven weeks and involved the treatment of 1,200 cubic metres of mine water. The final report summarizing the pilot operating results and recommendations for possible implementation of the full-scale treatment system will be submitted in Q4 2018.

Mine Water Management & Treatment Studies

Over the course of Q3, BQE Water’s engineering team completed preliminary engineering designs, laboratory test campaigns and water management reports for various mine sites and smelters around the world. The projects are not only spread geographically but also across commodity sectors including gold, base metals and coal.

FINANCIAL RESULTS

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenues	1,893	1,578	2,960	3,199
less: Operating costs (excluding depreciation)	573	642	1,472	1,716
	1,320	936	1,488	1,483
General and administration	369	383	1,082	1,254
Sales and development	211	263	864	855
Stock-based compensation	37	34	101	43
Depreciation and amortization	4	31	12	98
Share of results of equity accounted joint ventures	(302)	(470)	(1,096)	(1,268)
Income from operations and joint ventures	1,001	695	525	501
Other expenses – net	(57)	(17)	(120)	(134)
Income taxes recovery	-	153	-	153
Net income for the period	944	831	405	520
Translation loss on foreign operations	(318)	(97)	(155)	(140)
Comprehensive income for the period	626	734	250	380
Net income per share (basic and diluted)	0.01	0.01	0.00	0.01
Proportional Revenues ¹	3,488	3,147	7,602	7,437
Adjusted EBITDA ¹	1,272	1,088	1,280	1,333

	at Sept. 30, 2018	at Dec. 31, 2017
Working capital	(1,421)	735
Total assets	8,501	6,866
Total long term liabilities	-	1,498
Shareholders' equity	4,739	4,395

Notes:

1. See Non-GAAP measures

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17	Mar-17	Dec-16
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	1,893	540	527	858	1,578	953	668	1,570
Plant and other operating costs (excluding depreciation)	573	439	460	599	642	656	418	680
	1,320	101	67	259	936	297	250	890
General and administration	369	344	369	410	383	376	495	404
Sales and development	211	328	324	364	263	303	288	181
Stock-based compensation	37	10	55	25	34	15	(7)	-
Depreciation and amortization	4	4	4	116	31	33	33	58
Share of results of equity accounted joint ventures	(302)	(697)	(97)	119	(470)	(764)	(34)	195
Income (loss) from operations and joint ventures	1,001	112	(588)	(775)	695	334	(525)	52
Other expenses	(57)	(51)	(13)	(53)	(78)	(69)	(48)	(36)
Bad debt recovery	-	-	-	-	61	-	-	4
Income tax (expense) recovery	-	-	-	(53)	153	-	-	(1)
Net income (loss)	944	61	(601)	(881)	831	265	(573)	19
Translation (loss) gain	(318)	(157)	320	128	(97)	(51)	9	(94)
Comprehensive income (loss)	626	(96)	(281)	(753)	734	214	(564)	(75)
Non-GAAP Measures:								
Proportional Revenue	3,488	2,832	1,282	1,839	3,147	3,182	1,108	2,295
Adjusted EBITDA	1,272	427	(418)	(559)	1,088	744	(497)	107

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

SUMMARY OF Q3 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month period ended September 30, 2018 and 2017.

Revenue

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

(unaudited, in \$'000s)

Revenue Source	Q3 2018		Q3 2017		Total Revenue
	\$	% of total	\$	% of total	% Change
Water treatment plant operations	912	26%	1,000	32%	(9%)
Technical services	981	28%	578	18%	70%
Total revenue	1,893	54%	1,578	50%	20%
Share of joint venture revenue	1,595	46%	1,569	50%	2%
Total Proportional Revenue	3,488	100%	3,147	100%	11%

Water treatment fee revenues are generated from the Company's seasonal operation of the water treatment plant at the Raglan Mine. During Q3 of 2018, our revenue from water treatment plant operations decreased by \$88,000 compared to Q3 2017. This decrease is attributed to the conventional lime neutralization plant having had one month less of operation due to a late spring thaw which limited the amount of water available for treatment.

The revenue from technical services includes plant design, construction, consulting, commissioning and pilot demonstrations, which are generally one-time in nature and have varying contract values. Revenue from technical services increased \$403,000 from the same period in 2017. The increase is attributable to a greater number of projects carried out during the quarter, particularly from projects relating to our membrane treatment pilot and to the SART plant start-up.

Our share of joint venture revenue is generated from the metals recovered in the operation of water treatment plants from our China joint venture with JCC, which is affected by the amount and price of copper sold. Our share of the total pounds of copper recovered remained the same over the same period in 2017. Our share of revenue from the joint venture increased 2% due to small increases in the average price of copper compared to Q3 2017.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q3 2018 were \$573,000 compared to \$642,000 in Q3 2017, a decrease of \$69,000. Each individual project will require varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

Our share of total plant and other operating costs (excluding depreciation) in the joint venture in China for Q3 2018 was \$1,040,000 compared to \$811,000 in Q3 2017. The 28% increase is mainly due to the increase of market prices to acquire reagents during Q3 of 2018.

Expenses

In Q3 2018, general and administration expenses were \$369,000 compared to \$383,000 in Q3 2017. The variance in general and administration costs were mainly due to decreases in professional services required during Q3 of 2018.

Sales and development costs in Q3 2018 were \$211,000 compared to \$263,000 in Q3 2017, which is a decrease of \$52,000. The variance is due to a decrease of labour resources allocated to business and technology development projects.

Depreciation and amortization expenses were \$4,000 in Q3 2018 compared to \$31,000 in Q3 2017. The decrease was due to our mobile pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation in Q3 2018 was \$37,000 compared to \$34,000 in Q3 2017. In Q3 2018, stock-based compensation costs consisted of stock options granted to directors and employees during Q4 2017 and a fair value adjustment of deferred and restricted share units resulting from a higher Company share price.

Other expenses

Net finance costs were \$38,000 during Q3 2018 compared to \$55,000 in Q3 2017. The variance is due to the loan accretion of the convertible loan, as the face value of the loan was accreted until January 6, 2018. The 8% interest bearing convertible loan of \$1.5 million contributes to an accrued interest expense of \$30,000 per quarter.

SUMMARY OF YEAR-TO-DATE Q3 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine month periods ended September 30, 2018 and 2017.

Revenue

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

(unaudited, in \$'000s)

Revenue Source	Year-to-date Q3 2018		Year-to-date Q3 2017		Total Revenue %
	\$	% of total	\$	% of total	Change
Water treatment plant operations	986	13%	1,153	16%	(14%)
Technical services	1,974	26%	2,046	27%	(4%)
Total revenue	2,960	39%	3,199	43%	(7%)
Share of joint venture revenue	4,642	61%	4,238	57%	10%
Total Proportional Revenue	7,602	100%	7,437	100%	2%

The year-to-date revenue from water treatment plant operations decreased slightly compared to 2017. Due to unusually cold weather in May and June, the spring thaw was delayed, resulting in a one month delay in our operations compared to previous seasons. The total volume of water treated in the nine months of 2018 was 25% lower than the same period in 2017.

Revenue from technical services decreased by \$72,000 from the same period in 2017. The variance is attributable to different project activity in 2018 compared to 2017. During 2018, we were engaged in multiple engineering projects, a membrane water treatment pilot project, several extensive laboratory testing projects and SART plant assistance projects.

Total year-to-date revenue from joint venture operations were consistent with a slight increase of \$404,000 from 2017. Despite a slightly lower amount of copper recovered, total revenue increased due to an 11% increase in average copper prices compared to the prior year.

Plant and other operating costs (excluding depreciation)

The year-to-date plant and other operating costs (excluding depreciation) in 2018 saw a decrease of \$244,000 compared to the same period in 2017. The decrease is mainly due to reduced costs to complete project requirements in 2018.

Expenses

The year-to-date general and administration expenses in 2018 decreased by \$172,000 compared to the same period in 2017. This decrease is consistent with Management's strategy to further reduce overhead expenses, such as rental and professional services.

Sales and development costs in year-to-date 2018 were consistent with 2017 with a slight increase of \$9,000.

Stock-based compensation expenses were \$101,000 in the nine months of 2018 compared to \$43,000 in the same period prior year. In 2018, stock-based compensation expenses were higher due to the amortization of stock options granted to directors and employees during Q4 2017.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2018, BQE Water had 93,966,672 common shares issued and outstanding (93,966,672 at December 31, 2017), and 6,200,000 stock options outstanding (7,133,333 at December 31, 2017).

As of November 20, 2018, the number of common shares issued and outstanding remain unchanged from September 30, 2018 and the stock options outstanding also remain unchanged from September 30, 2018.

For the nine months ended September 30, 2018, the Company incurred a net income of \$404,950 (\$520,432 in 2017) and used net cash in operating activities of \$1,075,674 (\$769,084 in 2017). At September 30, 2018, the Company had a working capital deficit of \$1,421,228 (positive working capital of \$734,952 at December 31, 2017).

The Company has commitments of \$568,449 until 2022 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended September 30, 2018 and in the "Q3 2018 COMMENTARY AND OUTLOOK" section of this MD&A, the Company believes that it has sufficient working capital resources to continue current operations for the next 12 months. Beyond this point, we will need to secure new sources of working capital to continue operations. Potential sources of new working capital include new sales projects or non-operational sources such as debt or equity investments.

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

Management's current plan is to actively work with the Company's Board to secure sources of funds, including possible equity and debt financing options, while at the same time focus on increasing revenue and exercise careful cost control to sustain operations. If necessary, the Company will further curtail discretionary spending. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Our consolidated financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to our consolidated financial statements could be required.

RELATED PARTY TRANSACTIONS

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

- a) For the three and nine months ended September 30, 2018 and 2017, 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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries, fees and short-term benefits	139,454	172,128	309,076	442,519
Share-based payments	13,961	-	40,685	2,610
	<u>153,415</u>	<u>172,128</u>	<u>349,761</u>	<u>445,129</u>

Included in the trade payables and accrued liabilities as of September 30, 2018 is \$147,379 (\$12,231 at December 31, 2017) of management consulting service fees with companies owned by the Company's management, director fees and termination benefits.

- b) The Company has multiple loan agreements with multiple related parties. These lenders include the Company's joint venture, certain directors, shareholders, management and employees of the Company. Details of the loans with various related parties are described in note 11 of our condensed consolidated interim financial statements.
- c) Included in the trade payables and accrued liabilities as of September 30, 2018 is \$96,400 (\$96,400 at December 31, 2017) of contribution of registered capital payable to the Company's joint venture as described in note 8(b) of our condensed consolidated interim financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2017.