

BQE Water

BQE WATER INC.

(formerly BioteQ Environmental Technologies Inc.)

Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

Independent Auditors' Report



To the Shareholders of BQE Water Inc.:

We have audited the accompanying consolidated financial statements of BQE Water Inc. (formerly BioteQ Environmental Technologies Inc.), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BQE Water Inc. as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(b) in the consolidated financial statements which states that BQE Water Inc. incurred significant loss from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 2(b), indicates the existence of a material uncertainty that may cast significant doubt about the ability of BQE Water Inc. to continue as a going concern.

Vancouver, British Columbia
April 19, 2017

MNP LLP
Chartered Professional Accountants



BQE Water Inc.

Consolidated Statements of Financial Position
As at December 31, 2016 and 2015

		December 31 2016 \$	December 31 2015 \$
	note		
Assets			
Current assets			
Cash and cash equivalents		2,231,798	1,408,890
Trade and other receivables	6	527,054	568,204
Receivable from joint venture	7	86,255	116,165
Inventory and work in progress	8	20,018	61,455
Prepaid and other deposits		121,028	130,122
Total current assets		2,986,153	2,284,836
Non-current assets			
Plant and equipment	9	217,010	432,526
Investment in joint venture	10	4,231,567	4,708,976
Deposits		24,601	24,601
Total non-current assets		4,473,178	5,166,103
Total assets		7,459,331	7,450,939
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 11	878,891	929,579
Income taxes payable	18	152,195	152,550
Deferred revenues		157,415	254,100
Deferred benefits	12	128,910	65,954
Current portion deferred lease inducement		8,572	11,430
Total current liabilities		1,325,983	1,413,613
Non-current liabilities			
Convertible loan	13	1,377,532	-
Deferred lease inducement		-	8,572
Total liabilities		2,703,515	1,422,185
Shareholders' Equity			
Share capital	12, 14	54,719,814	54,719,814
Contributed surplus	12	10,047,271	10,033,768
Equity component of convertible loan	13	84,614	-
Accumulated other comprehensive income		1,410,982	456,982
Accumulated deficit		(61,506,865)	(59,181,810)
Total shareholders' equity		4,755,816	6,028,754
Total liabilities and shareholders' equity		7,459,331	7,450,939
Going concern (note 2(b))			
Commitments (note 20)			
Subsequent event (note 25)			

Approved and authorized by the Board of Directors

Signed "George Poling"

George Poling, Director

Signed "Peter Gleeson"

Peter Gleeson, Director

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

BQE Water Inc.Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2016 and 2015

		Year ended December 31	
		2016	2015
		\$	\$
	note		
Revenue		3,960,713	3,647,029
Plant and other operating costs (excluding depreciation)	15	1,757,982	2,333,308
Operating margin before depreciation		2,202,731	1,313,721
General and administration	15	1,705,104	2,031,307
Sales and development	15	1,154,214	1,176,928
Stock-based compensation expense (recovery)	12	76,459	(19,218)
Depreciation of plant and equipment	9	233,551	220,723
Share of results of equity accounted joint venture	10	(156,289)	(189,378)
Loss from operations and joint venture		(810,308)	(1,906,641)
Finance (costs) income, net	16	(97,973)	13,479
Foreign exchange (loss) gain		(1,427,094)	258,659
Other income, net	17	11,205	344,868
Loss before income taxes		(2,324,170)	(1,289,635)
Income tax expense, net	18	(885)	(142,645)
Net loss for the year		(2,325,055)	(1,432,280)
Other comprehensive income			
<i>Items that will be reclassified subsequently to loss</i>			
Translation gain on foreign operations		954,000	516,912
Comprehensive loss for the year		(1,371,055)	(915,368)
Net loss per share			
Basic and diluted		(0.02)	(0.02)
Weighted average number of shares outstanding			
Basic and diluted		93,966,672	93,966,672

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

BQE Water Inc.

Consolidated Statements of Changes in Equity
 For the years ended December 31, 2016 and 2015

		Year ended December 31		Year ended December 31	
		Number of	2016	Number of	2015
		Shares	\$	Shares	\$
	note				
Share Capital					
Balance, beginning of the year	14	93,966,672	54,719,814	93,966,672	56,253,254
Expired warrants			-		(1,533,440)
Balance, end of the year		93,966,672	54,719,817	93,966,672	54,719,814
Contributed surplus					
Balance, beginning of the year			10,033,768		8,446,809
Share-based payments	12		13,503		42,524
Expired warrants			-		1,533,440
Settlement of convertible loan			-		10,995
Balance, end of the year			10,047,271		10,033,768
Equity component of convertible loan					
Balance, beginning of the year			-		-
Issuance of convertible loan	13		84,614		-
Balance, end of the year			84,614		-
Accumulated other comprehensive income (loss)					
Balance, beginning of the year			456,982		(59,930)
Other comprehensive income for the year			954,000		516,912
Balance, end of the year			1,410,982		456,982
Accumulated deficit					
Balance, beginning of the year			(59,181,810)		(57,749,530)
Net loss for the year			(2,325,055)		(1,432,280)
Balance, end of the year			(61,506,865)		(59,181,810)
Total shareholders' equity					
Balance, beginning of the year			6,028,754		6,890,603
Share-based payments	12		13,503		42,524
Settlement of convertible loan			-		10,995
Issuance of convertible loan	13		84,614		-
Net loss for the year			(2,325,055)		(1,432,280)
Other comprehensive income for the year			954,000		516,912
Balance, end of the year			4,755,816		6,028,754

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

BQE Water Inc.

Consolidated Statements of Cash Flow

For the years ended December 31, 2016 and 2015

		Year ended December 31	
		2015	2015
		\$	\$
	note		
Operating activities			
Net loss for the year		(2,325,055)	(1,432,280)
Items not affecting cash			
Income tax expense	18	38,571	142,645
Deferred Income tax recovery	18	(37,686)	-
Bad debt expense (recovery)	17	5,212	(67,848)
Share of results of equity accounted joint venture	10	(156,289)	(189,378)
Gain on settlement of convertible loan	17	-	(8,911)
Interest costs (income)	16	97,973	(13,479)
Depreciation of plant and equipment	9	233,551	220,723
Amortization of deferred lease inducement		(11,430)	(11,430)
Net foreign exchange loss		1,421,030	(215,849)
Expense (recovery) recognized in respect of stock-based compensation	12	76,459	(19,218)
		(657,664)	(1,595,025)
Change in non-cash working capital items	19	(108,138)	655,909
Cash used in operations		(765,802)	(939,116)
Income taxes paid	18	(38,571)	(142,645)
Net cash used in operating activities		(804,373)	(1,081,761)
Investing activities			
Purchase of plant and equipment	9	(18,040)	(50,804)
Proceeds from disposal of equipment	9	-	800
Net distribution received from joint venture	10	181,480	1,195,917
Proceeds from sale of short-term investments		-	373,991
Interest received	16	6,696	89,180
Net cash provided by investing activities		170,136	1,609,084
Financing activities			
Financing initiation costs paid	13	(23,652)	(7,302)
Interest paid		-	(46,500)
Proceeds from convertible loan	13	1,480,334	-
Net cash provided by (used in) financing activities		1,456,682	(53,802)
Effect of exchange rate changes on cash and cash equivalents		463	19,688
Increase in cash and cash equivalents		822,908	493,209
Cash and cash equivalents, beginning of the year		1,408,890	915,681
Cash and cash equivalents, end of the year		2,231,798	1,408,890

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

BQE Water Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

The Company is a service provider specializing in water treatment and management for the mining and metallurgical industry. The Company generates its revenues from three main sources: metal recovery, water treatment fees, and engineering services.

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

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective as of December 31, 2016.

The Company's Board of Directors approved these consolidated financial statements on April 19, 2017.

b. Going concern assumption

The consolidated 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 year-ended December 31, 2016, the Company incurred a net loss of \$2,325,055 (2015 – \$1,432,280) and used net cash in operating activities of \$804,373 (2015 – \$1,081,761). At December 31, 2016, the Company had a working capital position of \$1,660,170 (2015 – \$871,223) and a cumulative deficit of \$61,506,865 (2015 – \$59,181,810).

In July 2016, the Company completed financing through a convertible loan for gross proceeds of \$1,500,000 (note 13), and the Company currently believes that it has sufficient working capital resources to meet operating requirements over the next 12 months. This assumes that BQE is able to continue successful operations at Raglan and our Chinese joint venture, 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.

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The 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 the financial statements could be required.

c. Basis of measurement

These consolidated 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise stated. The Company did not adopt any new accounting standard changes or amendments effective January 1, 2016 that had a material impact on these consolidated financial statements. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

a) Basis of consolidation

These consolidated 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 and joint ventures of the Company are as follows:

Entity	Ownership type	Method of accounting	Country of incorporation and operation	Ownership interest as at Dec. 31, 2016	Ownership interest as at Dec. 31, 2015
Biomet Mining Corporation	Subsidiary	Consolidated	Canada	100%	100%
BioteQ Water (Chile) SpA	Subsidiary	Consolidated	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Subsidiary	Consolidated	Mexico	100%	100%
BioteQ Water (Australia) Pty Ltd. (disolved in 2016)	Subsidiary	Consolidated	Australia	-	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	Subsidiary	Consolidated	China	100%	100%
JCC-BioteQ Environmental Technologies Co. Ltd.	Joint venture	Equity	China	50%	50%
Shangdong MWT BioteQ Environmental Technologies Co. Ltd. (\$nil transaction in 2016)	Joint venture	Equity	China	20%	0%

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

ii) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses in the joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profit, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

When the Company transacts with a joint venture, profits or losses resulting from the transactions with the joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the joint venture that are not

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related to the Company.

b) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in BQE Water Inc.'s group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's presentation currency.

For the purpose of presenting these consolidated financial statements, entities including joint ventures that have a functional currency different from that of BQE Water Inc. ("foreign operations") are translated into CAD as follows:

- Assets and liabilities: at the closing rate at the date of the statement of financial position; and
- Income and expenses: at the average rate for the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates).

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

ii) Transactions and balances

In preparing the financial statements of each individual BQE entity, transactions in currencies other than the entity's functional currency ("foreign currency") are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for the exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

c) Cash and cash equivalents

Cash consists of unrestricted bank deposits, some of which are interest-bearing. Cash equivalents consist of term deposits with original maturities of less than 91 days and unrestricted security deposits held at the Company's banks which can readily be converted to cash.

d) Inventory and work in progress

Inventory of metal concentrate is valued at the lower of average production cost and net realizable value. Production costs that are inventoried include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour and other direct costs (including external services) and related production overheads, but exclude administrative and finance costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Chemicals and spare parts inventories are valued at the lower of cost and net replacement cost, which approximates net realizable value. Work in progress represents the costs that the Company incurred for projects that are not completed at the statement of financial position date. This amount includes both direct materials and direct labour costs.

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e) Plant and equipment

i) Recognition and measurement

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. The cost of self-constructed plant and equipment includes the costs of materials, costs directly attributable to bringing the assets to a working condition for their intended use such as labour, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Self-constructed assets are classified to the appropriate categories of plant and equipment and subject to depreciation when ready for their intended use. If significant components of a plant or equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment.

ii) Subsequent measurement

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss in the financial period in which they are incurred.

A plant and equipment item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of a plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

iii) Depreciation

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost net of their residual values, over the shorter of their estimated useful lives and the contract life. Depreciation commences when the asset is fully constructed and available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Depreciation categories and useful lives for items included in plant and equipment are as follows:

Asset	Estimated useful life
Computer equipment	3 years
Office and lab equipment	5 years
Pilot plants	3 to 5 years
Water treatment plants	Shorter of contract life or 10 to 20 years

f) Financial Instruments

i) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

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- Level 3 inputs are unobservable inputs for the asset or liability.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss (“FVTPL”), held-to maturity financial assets, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

The Company classifies non-derivative financial liabilities as either financial liabilities at FVTPL or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

ii) Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Company initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

iii) Non-derivative financial assets – measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received plus any directly attributable transaction costs, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at an amortized cost using the effective interest method less impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

The Company’s loans and receivables comprise of cash and cash equivalents, trade and other receivables, and receivables from joint ventures. No financial asset was designated as FVTPL, available for sale or held for maturity as at December 31, 2016 and 2015.

iv) Non-derivative financial liabilities – measurement

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in stock-based compensation expense or recovery.

The Company has classified the provisions related to the Company’s Deferred Share Units (“DSU”) and Restricted Share Units (“RSU”) as FVTPL.

Other financial liabilities are initially recognized at the fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at an amortized cost using the effective interest method.

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The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial liability or a shorter period where appropriate, to the net carrying amount on initial recognition. The Company classifies its trade and other payables and convertible loan as other financial liabilities.

v) Share capital

The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, warrants and stock options, net of any tax effects, are recognized as a deduction from equity.

g) Impairment

i) Plant and equipment

The Company's plant and equipment are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

An asset's recoverable amount is the higher of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recognized in profit and loss for the period. Impairment losses recorded may be subsequently reversed if the recoverable amount of the assets is once again higher than their carrying value. Where impairment is subsequently reversed, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that it does not exceed the carrying value that would have been determined (net of depreciation) had no impairment loss been recognized in prior periods.

ii) Loans and Receivables

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

iii) Equity-accounted investment in joint venture

An equity accounted investment in joint venture is reviewed for indication of impairment at each financial position date.

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Indications includes observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its FVLCD and VIU. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings or loss in the period in which the reversal occurs.

h) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when: (i) the Corporation has present legal or constructive obligations as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligations; and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligations. The increase in the provision due to passage of time is recognized as interest expense. As at December 31, 2016 and 2015, the Company did not have any liability for provisions.

i) Revenue Recognition

Revenue is recognized when the amount of revenue can be measured reliably, and is probable that the economic benefits will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In addition, for the sale of metal concentrates, revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither managerial involvement nor control over the goods. For the sale of services, a further recognition requirement is that the stage of completion of the transaction at the end of the reporting period can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

i) Water Treatment fees revenue

The above criteria are generally met as services are performed. The Company has an agreement with a customer for the operation of a water treatment plant. Water treatment fees revenue are earned based on the volume of water treated and on labour hours incurred.

ii) Engineering and lab services

The above criteria are generally met as services are performed. Engineering services include plant design, construction, piloting, commissioning and operation support. Lab services include experiment design, experimental equipment and reagent procurement, test apparatus setup, conducting of experiments, disposals of samples and delivery of final lab reports on the results. The Company recognizes revenue from engineering and lab services by either the percentage of completion or completed contract method depending on the specific circumstances of the individual contracts.

iii) Metal recovery revenue

The above criteria are generally met when the title of the metal concentrate passes to the customer. Revenue from metal recovery is recorded at the fair value, based on prevailing market prices adjusted in accordance with agreed upon terms.

j) Government grant

Grants from the governments are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in the statement of profit

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or loss on a systematic basis in the periods in which the intended expenses are recognized.

k) Employee benefits

i) Bonus plans

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the key performance indicators of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

ii) Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which the related service is provided by the employees.

iii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates:

- When the Company can no longer withdraw the offer of those benefits; and
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

l) Share-based payment

The Company maintains a RSU plan, a DSU plan, and a stock option plan for employees and directors of the Company.

Cash-settled share-based payments, which include RSUs and DSU, are measured initially at the fair value and such liabilities are recognized as an obligation at the grant date. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in profit or loss for in the period.

Equity-settled share-based payments, which include the stock option plan, are measured at the fair value of the equity instruments at the grant date. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus.

Equity-settled share-based payment with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

m) Income tax

The Company follows the asset and liability method of accounting for income taxes. Income tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. Income tax comprises of two components: current and deferred.

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i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxes as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred tax

Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements, and interests in joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

n) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise warrants and stock options granted to employees and officers.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's consolidated 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 consolidated 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.

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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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

a) Critical judgements

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are limited to management's assessment of the Company's ability to continue as a going concern (note 2(b)).

b) Key sources of estimation uncertainty and assumptions

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

i) Revenue recognition

Revenue from engineering and lab services are recognized using a percentage-of-completion method, which requires judgment relative to assessing risks, estimating project costs for completion, and making assumptions for technical issues. Depending on the services provided and on the contract terms, many variables are used in assessing the revenue from the percentage completed at the reporting date.

ii) Asset impairment

Determining the amount of asset impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In assessing fair value less costs to sell, the price that would be received on the sale of an asset in an orderly transaction between market participants at the measurement date is estimated. Many factors used to assess recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company's long-term assets such as plant and equipment or investment in joint ventures. For example, the copper price could be lower than projected due to economic, industry or competitive factors, or the discount rate used in the value in use model could increase due to changes in market interest rate.

iii) Convertible loan

The calculation of the fair value of the debt component of the convertible loan issued during the year requires using an interest rate that the Company would have had to pay had the loan been obtained without a conversion feature. As the Company has not entered into a conventional loan in the past, such an interest rate requires management's estimate in reference to loan interest paid by comparable companies in a similar sector. Management estimates 15% being the reasonable interest rate a comparable company in the technology sector would likely pay in obtaining loans. As the convertible loan with a conversion feature has an interest rate of 8%, a higher estimate would lead to a higher equity component of the convertible loan.

5. RECENT ACCOUNTING PRONOUNCEMENT

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Changes in accounting standards not yet effective:

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IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 introduces new requirements for the classification and measurements 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 mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption of IFRS 9.

IFRS 15 Revenues from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time or over time. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price, and recognize revenue when the performance obligation is satisfied. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers, and improve the comparability of revenue from contracts with customers. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

The Company intends to adopt IFRS 15 in its consolidated financial at the date it becomes effective. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 *Leases*. The effective date is for reporting periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

6. TRADE AND OTHER RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Trade receivables	439,573	390,216
Unbilled receivables	74,096	173,693
Other	13,385	4,295
	<u>527,054</u>	<u>568,204</u>

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7. RELATED PARTY TRANSACTIONS

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

- a) As at December 31, 2016, the Company had a receivables balance of \$86,255 (2015 - \$116,165) from the Dexing joint venture, arising mainly from joint venture costs incurred on behalf of the joint venture. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the year ended December 31, 2016 and 2015.
- b) As of December 31, 2016, the Company has \$10,000 included in trade payables and accrued liabilities (December 31, 2015 – \$160,000) with a company, owned by a director, for management consulting services. For the year ended December 31, 2016 and for 2015, the services received amounted to \$120,000.
- c) For the year ended December, 2016 and 2015, the compensation awarded to key management, which includes the Company's directors and members of the executive, are as follows:

	2016	2015
	\$	\$
Salaries, fees and short-term benefits	525,826	787,889
Termination benefits	-	84,525
Share-based payments	13,502	50,899
	<u>539,328</u>	<u>923,313</u>

Included in the trade payables and accrued liabilities as of December 31, 2016 is \$49,200 (2015 – \$230,043) of salaries, director fees, and termination benefits, with payment commitments in 2017.

- d) On July 6, 2016, the Company entered into an 18-month, secured, 8% per annum interest bearing convertible loan agreements with multiple lenders totalling to \$1,500,000 (note 13). These lenders include certain directors, shareholders, management, and employees of the Company. In 2015, the Company entered into a six-month 12% interest bearing convertible loan with six lenders with total proceeds of \$775,000 (note 13). These lenders include directors, management and shareholders of the Company.

8. INVENTORY AND WORK IN PROGRESS

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Work in progress	20,018	40,248
Inventory of spare parts	-	21,207
	<u>20,018</u>	<u>61,455</u>

During the year ended December 31, 2016, the Company wrote down \$19,931 of inventory, all of which was included in operating costs (2015 – no write down of inventories) as a result of recoverability analysis performed at the reporting date, which are related to spare parts.

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9. PLANT AND EQUIPMENT

	Water treatment plant \$	Pilot plants \$	Other ¹ \$	Total \$
As at Dec. 31, 2015				
Opening net book value	100,509	434,456	68,203	603,168
Additions	50,254	-	550	50,804
Disposals	-	(800)	-	(800)
Depreciation	(64,407)	(116,487)	(39,829)	(220,723)
Foreign exchange translation	-	-	77	77
Closing net book value	86,356	317,169	29,001	432,526
As at Dec. 31, 2015				
Cost	2,105,132	580,593	517,833	3,203,558
Accumulated depreciation	(2,018,776)	(263,424)	(488,832)	(2,771,032)
Closing net book value	86,356	317,169	29,001	432,526
As at Dec. 31, 2016				
Opening net book value	86,356	317,169	29,001	432,526
Additions	8,256	-	9,784	18,040
Depreciation	(94,612)	(117,287)	(21,652)	(233,551)
Foreign exchange translation	-	-	(5)	(5)
Closing net book value	-	199,882	17,128	217,010
As at Dec. 31, 2016				
Cost	2,113,388	580,593	528,224	3,222,205
Accumulated depreciation	(2,113,388)	(380,711)	(511,096)	(3,005,195)
Closing net book value	-	199,882	17,128	217,010

¹Other comprises of office and lab equipment and computer equipment.

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10. INVESTMENT IN JOINT VENTURE

Investment in joint venture is comprised of:

	Dexing joint venture \$
Balance, January 1, 2015	5,033,483
Share of comprehensive income	871,409
Contributions made	229,284
Distributions received	(1,425,200)
Balance, December 31, 2015	4,708,976
Share of comprehensive loss	(295,929)
Contributions made	202,920
Distributions received	(384,400)
Balance, December 31, 2016	4,231,567

The Company's share of net earnings in the Dexing joint venture for the year ended December 31, 2016 were \$156,289 (2015 – \$189,377)

During 2006, BQE signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing mine in Jiangxi Province, China. The joint venture agreement, which forms an equal share joint venture company between BQE and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd. The joint venture builds and operates water treatment plants using BQE's technologies. The agreement includes a license contract whereby BQE will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project as well as five potential additional sites owned and operated by JCC. The first plant commenced operations on April 1, 2008.

The Dexing joint venture 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.

Any cash distributions from the joint venture to BQE must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE and its partner have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. During 2016, the Company received a gross cash distribution of \$384,400 (RMB \$2,000,000) (2015 -\$1,425,200 (RMB \$7,000,000)).

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

Statement of financial position

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	783,474	588,406
Short-term investments	-	92,699
Trade and other receivables	87,979	112,817
Taxes recoverable	55,134	80,147
Inventory	100,272	438,052
Prepaid expenses	857	522
	<u>1,027,716</u>	<u>1,312,643</u>
Non-current assets		
Plant and equipment	4,481,601	5,351,657
Deferred income tax assets	65,321	-
	<u>4,546,922</u>	<u>5,351,657</u>
Total assets	<u>5,574,638</u>	<u>6,664,300</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,343,071	1,955,324
Total liabilities	<u>1,343,071</u>	<u>1,955,324</u>
Partner's Equity		
Joint venture partner equity	3,584,024	3,381,104
Accumulated other comprehensive income	1,449,908	1,902,126
Accumulated deficit	(802,365)	(574,254)
Total partner's equity	<u>4,231,567</u>	<u>4,708,976</u>
Total liabilities and partner's equity	<u>5,574,638</u>	<u>6,664,300</u>

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Statements of operations and comprehensive income

	2016	2015
	\$	\$
Revenue	4,401,089	4,301,770
Plant and other operating costs (excluding depreciation)	3,493,374	3,462,898
	907,715	838,872
General and administration	255,003	184,339
Depreciation of plant and equipment	512,545	482,547
Income from operations	140,167	171,986
Finance expense	(1,623)	(840)
Foreign exchange (loss) income	(9,383)	12,542
Income before income taxes	129,161	183,688
Current income tax (expense) recovery	(38,938)	5,689
Deferred income tax recovery	66,066	-
Net income for the year	156,289	189,377
Other comprehensive income		
Translation (loss) gain on foreign operation	(452,218)	682,032
Comprehensive (loss) income for the year	(295,929)	871,409

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

11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Trade payable and accruals	489,051	446,660
Payroll liability	267,462	413,605
Value added tax payable	65,392	69,314
Interest payable under convertible loan (note 13)	56,986	-
	878,891	929,579

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12. SHARE-BASED PAYMENTS

The Company's recorded stock-based compensation (recovery) expense comprised as follows:

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Stock options (i)	13,503	42,524
Deferred share units (ii)	61,216	(60,193)
Restricted share units (iii)	1,740	(1,549)
	<u>76,459</u>	<u>(19,218)</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:

	2016		2015	
	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options
Outstanding at January 1	0.14	5,233,333	0.21	6,058,333
Forfeited	-	-	0.11	(108,334)
Expired	0.29	(900,000)	0.75	(716,666)
Outstanding at December 31	<u>0.11</u>	<u>4,333,333</u>	<u>0.14</u>	<u>5,233,333</u>
Exercisable at end of year	<u>0.12</u>	<u>3,466,666</u>	<u>0.18</u>	<u>3,332,222</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 April 10, 2014, the Company granted 2,800,000 options with an exercise price of \$0.07 to the directors and employees of the Company. These options have a term of 5 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 \$0.03 per option. The significant assumptions in the valuation model were: weighted average share price of \$0.07 on the grant date, exercise price as described above, volatility of approximately 82.10%, an expected option life of 3 years and an annual risk-free interest rate of 1.20%.

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Exercise price range \$	Weighted average remaining life (months)	2016 number of outstanding share options
0.07 to 0.15	25	3,133,333
0.17 to 0.19	8	1,200,000
0.07 to 0.19	20	4,333,333

b) Deferred share unit

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

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

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

The following table presents the changes to the DSU plan:

	<u>Number of units</u>
Balance, January 1, 2015	3,187,160
Granted	93,958
Redeemed	<u>(366,043)</u>
Balance, December 31, 2015	2,915,075
Redeemed	<u>-</u>
Balance, December 31, 2016	<u>2,915,075</u>

During 2016, the Company recorded fair value adjustment as expense of \$61,216 (2015 – recovery of \$60,193) as stock-based compensation expense related to the DSUs.

c) Restricted share units

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

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The following table presents the changes to the RSU plan:

	Number of units
Balance, January 1, 2015	82,841
Redeemed	-
Balance, December 31, 2015	82,841
Redeemed	-
Balance, December 31, 2016	82,841

The RSUs outstanding at the end of 2016 are all vested as at December 31, 2016 (December 31, 2015 – 41,421). During 2016, the Company recorded fair value adjustment as expense of \$1,740 (2015 – recovery of \$1,549) as stock-based compensation expense related to the RSUs.

13. CONVERTIBLE LOAN

On July 6, 2016, the Company entered into an 18-month convertible loan agreement with multiple lenders, which include certain directors, management, and employees of the Company, individual investors, and non-management insiders of the Company. The lenders agreed to advance a secured convertible loan with an aggregate principle amount of \$1,500,000. The Company grants to the lenders a security interest of all the personal property in which the Company now has or hereafter acquires. Out of the aggregate principle, \$1,441,000 are from single tranche lenders and the remaining \$59,000 are from multi-tranche lenders. Single tranche lenders agreed to advance the loan on the issuance date. Multi-tranche lenders agreed to advance funds to the Company in 9 monthly equal tranches starting July 31, 2016 to March 31, 2017.

Under the agreement, the convertible loan 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 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 June 9, 2015, the Company entered into a six-month, unsecured, convertible loan agreements with six lenders. Under the loan agreements, the loans bear interest at a rate of 12% per annum, with a principle of \$775,000. The Loans are due for repayment 6 months from the issuance date at their nominal value of \$775,000 plus interest or conversion into common shares of the Company at the holder's option with the conversion price of \$0.03 per share. The Company may elect to repay any portion of the principle prior to the maturity date subject to a minimum interest payment of 6%.

For the \$1.5 million convertible loan entered in 2016, 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 (2015 – 20% equivalent of non-convertible unsecured loan). The residual amount, representing the value of the equity conversion component, is included in shareholders' equity as an equity component of the convertible loan. Transaction costs associated with the issuance of the convertible loan are allocated to the liability and equity components in its allocated proportion.

BQE Water Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Face value of convertible loan issued	1,500,000	775,000
Less: amounts receivable from lenders	(19,667)	-
Transaction costs	(23,652)	(7,303)
Equity conversion component on initial recognition	(122,300)	(30,712)
Liability component on initial recognition	1,334,381	736,985
Accumulated amortization of interest expense	100,137	73,708
Equity conversion component on settlement	-	30,712
Gain on early settlement	-	(8,911)
Equity settlement to contributed surplus	-	(10,994)
Repayment of interest	-	(46,500)
Repayment of loan	-	(775,000)
Total liability component as at period end	1,434,518	-
Current interest payable included in accrued liabilities (note 11)	(56,986)	-
Non-current liability component balance as at period end	1,377,532	-

14. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at December 31, 2016, the Company has 93,966,672 (December 31, 2015 – 93,966,672) common shares outstanding and no warrants outstanding (December 31, 2015 – nil).

15. EXPENSES BY NATURE

	2016	2015
	\$	\$
Plant and other operating costs		
Employee benefits	1,210,614	1,416,021
Raw materials and consumables used	109,848	156,544
Consulting and contractor expenses	222,720	469,624
Equipment rental expenses	61,036	129,603
Travel expenses	93,029	77,739
Other expenses	60,735	83,777
	1,757,982	2,333,308

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General and administration

Employee benefits	689,203	758,716
Director fees	103,400	185,600
Consulting and contractor expenses	376,863	476,660
Rental expenses	302,748	294,927
Insurance expenses	134,749	164,120
Other expenses	98,141	151,284
	<u>1,705,104</u>	<u>2,031,307</u>

Sales and development

Employee benefits	789,343	908,925
Consulting and contractor expenses	119,046	66,705
Rental expenses	86,425	79,897
Travel expenses	84,980	84,304
Other expenses	74,420	37,097
	<u>1,154,214</u>	<u>1,176,928</u>

16. FINANCE COSTS AND INCOME

The finance costs and income are comprised as follows:

	2016	2015
	\$	\$
Finance income	6,696	88,280
Finance costs	(104,669)	(74,801)
	<u>(97,973)</u>	<u>13,479</u>

17. OTHER INCOME, NET

The other income is comprised as follows:

	2016	2015
	\$	\$
Recovery of value added tax receivable	16,417	268,109
(Write-off) recovery of trade receivable	(5,212)	67,848
Gain on settlement of convertible loan (note 13)	-	8,911
	<u>11,205</u>	<u>344,868</u>

Recovery of value added tax receivable

In 2016, the Company recovered \$16,417 (2015 - \$268,109) in VAT receivable from the Mexican government of which \$478,278 was written off in 2014. During 2016, the Company paid professional fees of \$4,238 (2015 - \$140,623) to assist in the recovery of this balance.

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18. INCOME TAXES

	2016 \$	2015 \$
Current tax expense on profits for the year	38,571	142,645
Deferred tax recovery	(37,686)	-
Income tax expense	<u>885</u>	<u>142,645</u>

The statutory tax rate to income tax expense was 26% (2015 – 26%) for the year-ended December 31, 2016. The tax on the Company's losses before tax differs from the amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2016 \$	2015 \$
Expected income tax recovery at statutory rates	(604,284)	(335,305)
Non-deductible expenses and (non-taxable income)	(39,489)	207,449
Withholding tax	38,571	142,645
Change in tax rates	(125,871)	22,092
Functional currency adjustments	531,545	(184,117)
Different statutory tax rates on foreign subsidiaries	(78,181)	(9,597)
Change in unrecognized deferred tax assets	278,594	299,478
Income tax expense	<u>885</u>	<u>142,645</u>

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Details of deferred tax assets (liabilities) as at December 31, 2016 and 2015 are as follows:

	2016 \$	2015 \$
Non-capital losses carry-forwards	29,623	179,376
Convertible loan	(29,623)	-
Unrealized foreign exchange gain	-	(59,194)
Investment in joint venture	-	(120,182)
Deferred tax assets (liabilities)	<u>-</u>	<u>-</u>

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2016 and 2015 are as follows:

BQE Water Inc.

Notes to the Consolidated Financial Statements
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	2016	2015
	\$	\$
Canada		
Plant and equipment	3,082,381	2,975,957
Investment in joint venture	-	3,158,087
Net capital losses	9,635,754	7,438,030
Non-capital losses	23,732,528	21,558,720
Investment tax credits	86,834	86,834
Deferred benefits and others	228,302	203,929
	<u>36,765,799</u>	<u>35,421,557</u>
Foreign Jurisdictions		
Plant and equipment	3,387	7,306,628
Unrealized foreign exchange loss	1,278,723	-
Non-capital losses	3,311,870	4,724,310
	<u>4,593,980</u>	<u>12,030,938</u>
Total unrecognized deductible temporary differences	<u>41,359,779</u>	<u>47,452,495</u>

The Company's investment tax credits, expiring between 2018 and 2020, all of which may be used to reduce future Canadian income taxes that are otherwise payable. As at December 31, 2016, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately \$23,732,528 (2015 - \$21,558,720) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	\$
2026	2,273,406
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	3,007,451
2032	3,735,949
2033	3,403,636
2034	2,414,568
2035	1,458,931
2036	519,076
	<u>23,732,528</u>

In addition, the Company has available tax losses in other jurisdictions that total \$3,311,870 (2015 - \$4,724,310). The remaining losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 10 years to indefinitely.

As at December 31, 2016, the Company has income taxes payable of \$152,195 (2015 - \$152,550), due to an estimated withholding tax with the Chilean government as the Company's Canadian entity earned income while operating at a Chilean water treatment plant during 2012.

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Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2016	2015
	\$	\$
Change in non-cash working capital items		
Decrease in trade and other receivables	62,367	484,997
Decrease (increase) in inventory	35,001	(32,060)
Decrease in other assets	9,171	13,374
Decrease in trade payable and accrued liabilities	(117,459)	(4,378)
(Decrease) increase in deferred revenue	(97,218)	203,320
Decrease in other liabilities	-	(9,344)
Change in non-cash working capital items	<u>(108,138)</u>	<u>655,909</u>

20. COMMITMENTS

The Company has commitments of \$818,167 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	\$
2017	339,831
2018	228,256
2019	122,490
2020	122,490
2021	5,100
	<u>818,167</u>

21. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build process plants and earn revenues from metal recovery, water treatment fees, and engineering & lab services.

a) Segment revenue

The Company's sources of revenue are as follows:

	2016	2015
	\$	\$
Water treatment fees	1,655,042	1,677,503
Engineering & lab services	2,305,671	1,969,526
	<u>3,960,713</u>	<u>3,647,029</u>

b) Geographic information

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

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	2016	2015
	\$	\$
Revenue		
Canada	3,201,281	3,416,180
Mongolia	391,299	-
Chile	61,748	223,922
Other	306,385	6,927
	<u>3,960,713</u>	<u>3,647,029</u>

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

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Non-current assets		
Canada	217,010	431,267
Chile	-	1,259
China	4,231,567	4,708,976
	<u>4,448,577</u>	<u>5,141,502</u>

c) Information about major customers

The following table presents revenue to individual customers exceeding 10% of annual revenue for the following periods. The following customers represent 86% (2015 – 93%) of the Company's total revenue for the year ended December 31, 2016.

	2016	2015
	\$	\$
Customer A	1,655,042	1,677,502
Customer B	391,299	-
Customer C	472,365	-
Customer D	844,438	-
Customer G	12,262	1,074,671
Customer K	23,765	630,097
	<u>3,399,171</u>	<u>3,382,270</u>

22. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise additional debt financing or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the year.

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23. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various risks, including credit risk, market risks such as foreign currency risk, liquidity risk, and commodity price risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on preservation of capital. Risk management activities are managed by the board of directors and its finance and accounting department. The Company's risk management policies and procedures have not changed from 2015.

a) Credit risk

Credit risk is the risk of an unexpected loss if a party to the Company's financial instruments fails to meet their contractual obligations. The Company's financial assets are primarily comprised of cash and cash equivalents, trade and other receivables and receivable from joint venture. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash and cash equivalent, and receivable from joint venture.

The Company's maximum exposure to credit risk is as follows:

	Dec. 31, 2016	Dec. 31, 2015
	\$	\$
Cash and cash equivalents	2,231,798	1,408,890
Trade and other receivables	527,054	568,204
Receivable from joint venture	86,255	116,165
	<u>2,845,107</u>	<u>2,093,259</u>

The Company minimizes the credit risk on cash and cash equivalents by depositing only with reputable and highly-rated financial institutions.

Credit risk on trade and other receivables is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. The historical level of customer defaults is negligible and, as a result, the credit risk associated with trade receivables at December 31, 2016 is considered to be negligible. All of the Company's receivables have been reviewed for indicators of impairment. The allowance for doubtful accounts balance was \$11,812 at December 31, 2016 (December 31, 2015 - \$12,600). The aging of accounts receivable is as follows:

	Dec. 31, 2016			Dec. 31, 2015	
	0-30 days	31-60 days	Over 60 days	Total	Total
	\$	\$	\$	\$	\$
Trade and other receivables	259,802	245,576	21,676	527,054	568,204
Receivable from joint venture	-	-	86,255	86,255	116,165
	<u>259,802</u>	<u>245,576</u>	<u>107,931</u>	<u>613,309</u>	<u>684,369</u>

The Company recorded bad debt recovery of \$11,205 during the year ended December 31, 2016 (2015 – recovery of \$335,957), of which recovery of \$16,417 is related to the VAT recovery in Mexico and expenses of \$5,212 are related to the allowance of the Company's doubtful receivable accounts. Of the Company's receivables, there are no overdue balances and collection is reasonably assured. The definition of items that are past due is determined by reference to terms agreed upon with individual customers. No trade receivables have been challenged by the respective customers and the Company continues to conduct business with them on an ongoing basis.

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b) Currency risk

The Company conducts business in Canada, the United States, Mexico, Chile, China and Australia. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The three main types of foreign exchange risk for the Company can be categorized as follows:

i) Transaction exposure

The Company's operations sell mainly services and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

ii) Currency risk exposure

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the Canadian dollar: cash and cash equivalents, trade and other receivable, receivable from joint venture, and trade payable and accrued liabilities. The currencies of the Company's financial instruments and other foreign currency denominated liabilities exposed to currency risk, based on notional amounts, were as follows:

	December 31, 2016				
	US dollar	Mexican pesos	Australian dollar	Chilean peso	Chinese renminbi
Cash and cash equivalents	407,812	14,570	1,172	10,851	1,657
Trade and other receivables and Receivables from joint venture	109,925	-	-	69,414	-
Trade and other payables	(72,860)	(1,845)	-	(176,605)	(1,130)
Gross balance sheet exposure	444,877	12,725	1,172	(96,340)	527

	December 31, 2015				
	US dollar	Mexican pesos	Australian dollar	Chilean peso	Chinese renminbi
Cash and cash equivalents	149,986	7,339	1,217	17,031	-
Trade and other receivables and Receivables from joint venture	116,985	-	-	39,100	27,257
Trade and other payables	(5,687)	(4,412)	-	(149,858)	-
Gross balance sheet exposure	261,284	2,927	1,217	(93,727)	27,257

iii) Translation exposure

The Company's functional and reporting currency is Canadian dollars. The Company's foreign operations translate their operating results from their respective functional currency to Canadian dollars. Therefore, exchange rate movements in the U.S. dollar, Mexican peso, Australian dollar, Chilean peso and Chinese renminbi can have a significant impact on the Company's consolidated operating results. A 10% strengthening (weakening) of the Canadian dollar against the following currencies would have decreased (increased) the Company's net loss from its financial instruments presented by the amounts shown below.

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	2016	2015
	\$	\$
US dollar	44,488	26,128
Mexican peso	1,273	293
Australian dollar	117	122
Chilean peso	(9,634)	(9,373)
Chinese renminbi	53	2,726
	<u>36,297</u>	<u>19,896</u>

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash in excess of anticipated needs.

The following table shows the contractual maturities of debt commitments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amounts on the consolidated statements of financial position.

			Dec. 31, 2016	Dec. 31, 2015
	< 1 year	1-2 years	Total	Total
	\$	\$	\$	\$
Trade payable and other payables	821,905	-	821,905	929,579
Deferred benefits	128,910	-	128,910	65,954
Convertible loan	-	1,500,000	1,500,000	-
Interest Payable on convertible loan	178,520	1,973	180,493	-
	<u>1,129,335</u>	<u>1,501,973</u>	<u>2,631,308</u>	<u>995,533</u>

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity. A period of continuous depression in mining industry, which is the Company's main customer base, may necessitate the Company to seek financing opportunities in accordance to its capital risk management strategy (note 22).

d) Price risk

The Company's net income or loss, and financial condition are subject to price risk due to fluctuations of the following:

i) Commodity price risk

The profitability of the Company's investment in joint venture will be significantly affected by changes in the commodity price of copper. Copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for copper, the level of interest rates, the rate of inflation, investment decisions by large holders of copper, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in copper prices. A 10% change in copper prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by \$440,109 in 2016 (2015 - \$430,177).

ii) Common stock price risk

The Company is subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, the DSU and RSU plan that the Company is required to satisfy in cash

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upon vesting. The Company considers the plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in stock-based compensation expense each period: an increase in share unit award prices would decrease the Company's net income or loss. A 10% change in prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by \$12,535 in 2016 (2015 - \$7,288).

24. FAIR VALUE MEASUREMENT

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

The Company's financial assets and financial liabilities are classified and measured as follows:

		Dec. 31, 2016	Dec. 31, 2015
	Category	\$	\$
Financial assets			
Cash and cash equivalents	Loan and receivables at amortized cost	2,231,798	1,408,890
Trade and other receivables	Loan and receivables at amortized cost	527,054	568,204
Receivable from joint venture	Loan and receivables at amortized cost	86,255	116,165
Financial liabilities			
Trade payable and other payables	Financial liabilities at amortized cost	878,891	929,579
Convertible loan	Financial liabilities at amortized cost	1,377,532	-
Deferred benefits	Financial instruments at FVTPL	128,910	65,954

The carrying values of the financial assets and liabilities presented above approximate their fair values. The Company has not offset financial assets with financial liabilities.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described in note 3(f). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's DSUs and RSUs are held at fair value, measured by Level 1 inputs. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2016 and 2015. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

25. SUBSEQUENT EVENT

In December 2016, the Company renewed an extension of the Raglan operation contract until 2020 with the mine site owner. Pursuant to the terms of the contract, the Company effectively transferred the ownership of the Raglan water treatment plant to the mine site owner on January 1, 2017. This transaction has no financial effect as the net book value of the water treatment plant asset was \$nil on December 31, 2016.

Management's Discussion and Analysis

April 19, 2017

The following Management's Discussion and Analysis provides information that management believes is relevant to an assessment and understanding of our consolidated results of operations and 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 2016 Management's Discussion and Analysis ("MD&A") should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2016, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Users should consider the disclosures in note 2(b) titled "Going concern assumption" of the audited consolidated financial statements for the year ended December 31, 2016 and the sections "2016 Commentary and 2017 Outlook" and "Liquidity and Capital Resources" in this MD&A.

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

DESCRIPTION OF BUSINESS

BQE Water Inc. ("BQE" or the "Company") (formerly BioteQ Environmental Technologies Inc.) is a service provider specializing in water treatment and management for the mining and metallurgical industry. We are focused on reducing Life Cycle Costs through customized solutions that reduce risk and long-term environmental liabilities while introducing sustainability into the overall water management plan. Headquartered in Vancouver, British Columbia, Canada, our treatment solutions help mine owners to comply with environmental regulations and in the process, minimize waste generation, recover value from waste where possible and maximize water recovery. We have extensive technical expertise and treatment plant operations experience that enables us to provide our clients with comprehensive water treatment and management services from permitting through to operations.

BQE 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 therefore likely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

Proportional Results

Under the IFRS, the revenue and operating costs associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item on our consolidated statements of loss and comprehensive loss. Also, our share of

assets, liabilities and equity in the joint venture are presented as a net investment on our consolidated statement of financial position.

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

Proportional Revenue

Proportional Revenues for the twelve-month periods ended December 31, 2016 and 2015 are as follows:

(in \$'000s)

	2016	2015
	\$	\$
Reported revenues under GAAP	<u>3,961</u>	3,647
Share of reported revenues from Dexing Joint Venture	<u>4,401</u>	4,302
Proportional Revenue for the year	<u>8,362</u>	7,949

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is derived as follows:

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

	2016	2015
	\$	\$
GAAP: Net loss	<u>(2,325)</u>	(1,433)
add: interest expense (income)	100	(12)
add: income taxes	(26)	138
add: depreciation and amortization	<u>747</u>	704
EBITDA	<u>(1,504)</u>	(603)
add: stock-based compensation (recovery)	76	(19)
add: net foreign exchange loss (gain)	<u>1,436</u>	(272)
Adjusted EBITDA	<u>8</u>	(894)

2016 OVERVIEW

Financial Highlights

- Revenues for the year as reported under GAAP were \$4 million compared \$3.6 million in 2015, an 11% increase over the prior year;
- Proportional revenues for the year were \$8.4 million compared to \$7.9 million in 2015, a 6% increase over the prior year;
- Net loss as reported under GAAP was \$2.3 million compared to \$1.4 million in 2015;
- Adjusted income before interest, tax, depreciation and amortization (“adjusted EBITDA”) for the year was \$8,000 compared to a loss of \$894,000 in 2015. Since we began measuring adjusted EBITDA, this marks the first time which the Company achieved a positive adjusted EBITDA over one fiscal year and a positive adjusted EBITDA for the last three consecutive quarters;
- Cash and cash equivalents reported under GAAP was \$2.2 million compared to \$1.4 million at the end of 2015; and
- Proportional cash and cash equivalents and short term investments, which includes our share held in joint ventures, as of December 31, 2016 was \$3 million compared to \$2.1 million at the end of 2015.

Financing

On July 6, 2016, we issued convertible loans (“Loan”) with an aggregate principle of \$1.5 million. The Loan is with multiple lenders which include certain directors, management, and employees of BQE, individual investors, and non-management insiders of the company. The Loan bears interest at a rate of 8% per annum with interest being payable semi-annually from the issuance date. Under the agreement, the Loan is due for repayment in 18 months from the issuance date. The Company may elect to prepay all or any portion of the outstanding balance plus unpaid interest accrued at any time during the term of the Loan without penalty. During the term of the Loan, the lenders will hold a first charge security interest over the assets of the company.

Upon prepayment or maturity of the Loan, each lender may elect to convert all or any portion of the unpaid principal into common shares of BQE at a conversion price of \$0.06 cents per share. Any accrued but unpaid interest thereon will be converted into common shares at a conversion price equal to the greater of \$0.06 cents per share or the then-prevailing market price of the common shares.

The proceeds of the Loan will be used to fund general operating expenses and ensure we have the financial resources to continue executing on our longer term growth strategy.

Operating Highlights

Raglan Mine, Quebec

During the year, we completed our 13th operating season at the Raglan Mine site. Operating results for the 12 months ended December 31, 2016 are as follows:

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	982	1,118

Joint venture with Jiangxi Copper Company, China

Our joint venture in China with partner Jiangxi Copper Company (“JCC”) operated three plants during 2016. Operating results during the 12 months ended December 31, 2016 are as follows:

Dexing 1

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	6,637	8,066
Copper produced (pounds)	1,577	1,663

Dexing 2

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	8,547	8,670
Copper produced (pounds)	1,190	869

Yinshan

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	2,996	3,156
Copper produced (pounds)	842	594

Total Joint Venture

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	18,180	19,892
Copper produced (pounds)	3,609	3,126

Sales and Project Highlights

Selen-IX™ Activity

In March 2016, we completed the pilot testing contract with a Canadian mining company which originally commenced in mid-2015. The pilot testing results are being used to demonstrate the capacity of the Selen-IX™ process to meet stringent discharge limits for selenium and provide engineering design data required for evaluating the capital and operating costs of a full-scale plant. Currently, preliminary design and engineering work is in progress with the customer.

In August 2016, BQE secured a contract with a new customer, a Canadian resource company, for a pilot scale demonstration and evaluation of Selen-IX™ technology to remove selenium from mine impacted water. The pilot campaign was completed in December 2016 and the final report was issued in February 2017. The results are being reviewed with the customer to determine the advancement of the project. The total value of the contract is comparable to past pilot campaigns.

BQE has now completed four Selen-IX™ pilot campaigns since 2013. This demonstrates the increasing need for mining companies to manage selenium concentrations in their wastewater and the capabilities of our solution.

Zinc and Copper Recovery – Joint Venture

During the year, we completed a detailed technical and economic assessment of a new treatment plant to be installed at an active smelter in China. We have commenced engineering and construction and expect to begin operations in late 2017. Under terms of the joint venture and operating contracts, we will receive a fixed-fee, technical support contract and an ongoing share of the profits from the operation.

Design, Construction, and Commissioning Services

During the year, we provided design, construction and commissioning services for a water treatment plant at the Silvertip project in Northern BC. The plant has been commissioned and is available for water treatment operations. We continue to provide additional technical services and operational support as required.

2016 COMMENTARY AND OUTLOOK FOR 2017

Our results for the year reflect continuing improvements for BQE despite the challenging environment for the resource industry globally. During the first half of the year, we required working capital to fund general operating expenses and to ensure we had the financial resources to continue executing on our longer term growth strategy. As a result, in July 2016, we issued \$1.5 million in convertible loans. That financing allowed us to achieve significant improvements over the last half of the year and build a solid pipeline of projects into 2017. Specifically, our achievements were:

- increased Proportional Revenue over 2015;
- positive Adjusted EBITDA on an annual basis;
- successful demonstration of our Selen-IX™ capabilities with a new resource sector customer while continuing to raise our profile within the industry;
- successful completion of the design and construction of a new water treatment plant at the Silvertip Mine in BC, Canada;
- securing a contract for pilot demonstration of BQE's Sulf-IX™ process for sulphate control in Peru; and
- finalizing a new joint venture agreement for a water treatment plant in China that will contribute long term, recurring revenue beginning in Q4 2017.

For 2017, we expect to continue building on the improvements made over the past several years. We begin 2017 with a backlog of project sales of approximately \$1.6 million. Included in this backlog are contracts with customers in Latin America which we see as an important market long term. We have also renewed our operating contract at the Raglan Mine site for an additional four years and we expected our new joint venture in China to begin operations later this year.

The current backlog of projects are the results of efforts over the past several years. We have worked on positioning the Company for success by getting the Company involved in early stages of new projects, strengthening our technical team, and advancing the development and commercialization of new products including our Sulf-IX™ and Selen-IX™ processes. We have also restructured our expenditures over this time to preserve working capital while continuing to expand our project pipeline and deliver our services in a strategic and disciplined manner. We expect to build on this throughout the current year.

Although these projects provide significant opportunities for future one-time and recurring revenues, all of these projects happen in stages, typically over the period of 2 to 3 years and the timing of revenue is uncertain. Consequently, the consistency of the Company's profitability through 2017 and 2018 cannot be guaranteed with the existing projects pipeline and the continued growth of the projects pipeline is one of the primary areas of focus for the Company's management. In particular, the lack of control of timing of revenues from existing projects introduces a risk of temporary shortage in working capital. Management and our Board of Directors are actively exploring potential options to ensure continuing operations of our business and avoid shortages in working capital. However, 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.

FINANCIAL RESULTS

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

	2016	2015
	\$	\$
Revenues	3,961	3,647
<i>less: Plant and other operating costs (excluding depreciation)</i>	1,758	2,333
	2,203	1,314
General and administration	1,705	2,031
Sales and development	1,154	1,177
Stock-based compensation	76	(19)
Depreciation and amortization	234	221
Share of results of equity accounted joint ventures	(156)	(189)
Loss from operations and joint ventures	(810)	(1,907)
Finance income, net	(98)	13
Foreign exchange (loss) gain	(1,427)	259
Bad debt recovery	11	336
Other income	-	9
Loss before income taxes	(2,324)	(1,290)
Income tax	(1)	(143)
Net loss for the year	(2,325)	(1,433)
Translation gain on foreign operations	954	517
Comprehensive loss for the year	(1,371)	(916)
Net loss per share (basic and diluted)	(0.02)	(0.02)
Proportional Revenues ¹	8,362	7,949
Adjusted EBITDA ¹	8	(894)

	at December 31	at December 31
	2016	2015
	\$	\$
Working capital	1,660	871
Total assets	7,459	7,451
Total long term liabilities	1,378	9
Shareholders' equity	4,756	6,029

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

Quarters ended	Dec-16	Sep-16	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	1,570	1,356	644	391	1,229	1,620	286	512
Plant and other operating costs (excluding depreciation)	680	494	365	219	813	740	280	500
General and administration	890	862	279	172	416	880	6	12
Sales and development	404	410	465	426	577	472	456	526
Stock-based compensation	181	356	268	349	278	248	358	293
Depreciation and amortization	-	30	16	30	(1)	1	(19)	-
Share of results of equity accounted joint ventures	58	60	59	57	57	57	52	55
Income (loss) from operations and joint ventures	195	(160)	(291)	100	392	(55)	(446)	(80)
Other (expenses) income	52	166	(238)	(790)	(887)	157	(395)	(782)
Bad debt recovery	(36)	(49)	(1,415)	(26)	206	6	6	63
Income tax expense	4	-	7	-	68	116	83	69
Net income (loss)	(1)	-	-	-	(143)	-	-	-
Translation (loss) gain	19	117	(1,646)	(816)	(756)	279	(306)	(650)
Comprehensive (loss) income	(94)	22	1,290	(263)	(174)	287	(90)	494
	(75)	139	(356)	(1,079)	(930)	566	(396)	(156)
Non-GAAP Measures:								
Proportional Revenue	2,295	2,411	2,137	1,519	1,723	3,010	2,008	1,208
Adjusted EBITDA	107	414	71	(584)	(777)	496	(49)	(566)

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 variation in precipitation and annual maintenance needs. Revenue from engineering, design and construction services occur based on the timing of customer requirements.

SUMMARY OF Q4 2016 FINANCIAL RESULTS

Below is a summary of revenue for Q4 2016 and Q4 2015:

(unaudited, in \$'000 except per share amount)

Revenue Source	Q4 2016 \$	% of total	Q4 2015 \$	% of total	Total Revenue % Change
Water treatment fees	399	17%	462	27%	(14%)
Engineering and lab services	1,171	51%	767	45%	53%
Total revenue	1,570	68%	1,229	72%	28%
Metal recovery – share of joint venture results	725	32%	494	28%	47%
Total Proportional Revenue	2,295	100%	1,723	100%	33%

Total revenues for Q4 2016 increased 28% over the prior year's quarter. During Q4 2016, the treatment fee revenue decreased by 14% due to the decrease in water treated as operations ended 22 days earlier than the prior year's quarter. Engineering and lab services fees increased by 53% from Q4 2016 over last year's quarter. The revenue from engineering and lab services include design, construction, consulting, commissioning and pilot operations, which are generally one-time in nature and have varying contract values.

In Q4 2016, total Proportional Revenue increased 33% over the prior year's quarter. Metal recovery revenue increased by 47% due to the 34% increase in copper recovered and 8% increase in copper price. In the quarter, our share of recovered copper was 263,000 pounds compared to 196,000 pounds in 2015. The fourth quarter is typically our lowest quarter for copper production due to a three-week annual maintenance shutdown at the mine site.

General and administration costs during the quarter decreased by \$173,000 over the prior year. The decrease in general and administration costs are mainly the result of savings in overhead salaries, public company fees, consulting and professional services costs.

Overall net income for the quarter was \$20,000 compared to a net loss of \$756,000 in Q4 2015.

SUMMARY OF 2016 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2016.

Revenue

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

(in \$'000s)

Revenue Source	2016 \$	% of total	2015 \$	% of total	Total Revenue % Change
Water treatment fees	1,655	20%	1,678	21%	(1%)
Engineering and lab services	2,306	28%	1,969	25%	17%
Total revenue	3,961	48%	3,647	46%	9%
Metal recovery – share of joint venture results	4,401	52%	4,302	54%	2%
Total Proportional Revenue	8,362	100%	7,949	100%	5%

Treatment fee revenue for the Raglan site in 2016 was consistent with the 2015 season. The treatment fee revenue comprises of fees earned from cubic metre of water discharged and operation support labour. The total volume of water treated during 2016 decreased by 12% comparing to 2015 as the operation treated water 35 less days in 2016 compared to prior year. The decrease in water treated was offset by the increase of fees earned from operation support.

The \$337,000 increase from last year's engineering and lab services revenue are due to the Company having a higher number of projects in pilot campaigns, consulting, engineering and lab services than 2015.

Revenue from metal recovery operations in our joint venture in China, which are correlated with the amount of copper recovered and the price of copper, increased by \$99,000 from 2015. The total pounds of copper recovered increased 483,000 pounds over the prior year due to a higher concentration and grade of copper in the water treated. The average LME annual price of copper in 2016 was USD \$2.21/lb and USD \$2.50/lb in 2015. The 12% decline in average annual copper prices year over year was offset by the 15% increase in copper recovered.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) were \$1.8 million compared to \$2.3 million in 2015, a decrease of \$575,000. The decrease is mainly due to the decrease in cost to complete the pilot campaigns and other engineering and lab projects in 2016. Each individual project will require different levels of costs depending on specific mine conditions and treatment requirements. Projects in 2016 required lower costs to meet the project's scope and requirements.

Our share of total plant and other operating costs (excluding depreciation) in the China venture for 2016 were consistent with 2015 at \$3.5 million.

Expenses

In 2016, general and administration expenses were \$1.7 million compared to \$2 million in the prior year. The decrease of \$326,000 in general and administration costs were due to lower salaries and benefits for administration, legal and professional fees, and public company expenses in 2016.

Sales and development costs in 2016 were \$1.2 million, which is a decrease of \$23,000 from 2015.

Total depreciation and amortization expenses were \$234,000 in 2016 compared to \$221,000 in 2015. The increase of \$13,000 was mainly due to our acceleration of depreciation on our water treatment plant asset.

Stock-based compensation were \$76,000 compared to a recovery of \$19,000 in the prior year. In 2016, stock-based compensation expenses were higher due to a higher fair value adjustments of deferred and restricted share units from a higher Company share price.

Other expenses and other income

Net finance costs were \$98,000 compared to a finance income of \$13,000 in 2015. During 2016, we recorded interest expense of \$100,000 relating to the \$1.5 million 18-month Loan. Comparing to the prior year, we recorded interest expense from debt financing of \$74,000 and also recorded interest income of \$80,000, which is related to the VAT recovered from the Mexican government.

Foreign exchange loss was \$1,427,000 in 2016 compared to a gain of \$259,000 in 2015. These gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Company's reporting currency in Canadian dollar. In June 2016, we dissolved our Australian subsidiary, BioteQ Water (Australia). Throughout each reporting period since inception in 2007, the Company recognized cumulative foreign translation differences of \$1,417,000 related to the translation of the Australian subsidiary's financial results from the Australian dollar to the Canadian dollar. Such translation differences have been recognized in other comprehensive loss as "foreign currency translation adjustments on foreign subsidiaries". Upon the final dissolution of the subsidiary, the accumulated other comprehensive loss due to translation adjustments on this subsidiary has been reclassified as a foreign exchange loss in the Statement of Operations. It does not reflect results from our current or future operating activities.

In 2016, income tax expense was \$1,000 compared to \$143,000 in the prior year. The income tax charges in both years contained the taxes withheld in China for the distributions made by the Dexing joint venture, which were an expense of \$39,000 in 2016 and \$143,000 in 2015. These taxes cannot offset accumulated tax benefits in other jurisdictions. Also during 2016, we recorded a deferred income tax recovery of \$38,000 relating to the issuance of the Loan.

PROJECT SUMMARY

Joint venture with Jiangxi Copper Company, China

In 2007, BQE entered into a 50/50 joint venture arrangement with JCC, China's largest copper producer and in April 2008, the joint venture completed the construction and commissioning of its first water treatment plant at JCC's Dexing Mine site, an active copper mine in China. The plant utilizes BQE's ChemSulphide® process to remove dissolved copper from acid mine drainage generated by waste dumps and low-grade stockpiles. The high-grade copper concentrate that is recovered from the water is shipped to JCC's refinery.

In 2014, the joint venture completed the construction and commissioning of two new water treatment plants at JCC's Yinshan Mine site and Dexing Mine site. Both plants also utilize BQE's ChemSulphide® process.

All three plants were designed by BQE and are operated by the joint venture. The plants are managed jointly where BQE is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share equally in the revenues and costs. Revenues are generated through the sale of recovered copper from the plants based on the average metal price during the month when the concentrate is shipped, less refining costs.

Operating results for all three plants during the year were as follows:

Dexing 1

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	6,637	8,066
Copper produced (pounds)	1,577	1,663

Dexing 2

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	8,547	8,670
Copper produced (pounds)	1,190	869

Yinshan

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	2,996	3,156
Copper produced (pounds)	842	594

Total Joint Venture

<i>(in '000s)</i>	2016	2015
Water treated (cubic metres)	18,180	19,892
Copper produced (pounds)	3,609	3,126

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and the prevailing environmental conditions at both sites. The two plants Dexing 1 and Dexing 2 treat water from the same sources and water may be diverted from one plant to the other to optimize operations. JCC is continuing to complete water management changes at the Yinshan site that is expected to improve the volume of water treated and copper recovered from the plant in the future. These changes are now expected to be completed in 2018.

During 2016, all three plants met or exceeded mechanical availability and process performance. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period. Even with a decrease of 9% in water treated, copper grade has improved significantly and BQE was able to increase copper recovery by 15% over 2015.

Raglan Operation for Glencore Canada Corporation, Quebec

BQE operates a seasonal water treatment plant at the Raglan Mine, an active nickel mine in northern Quebec, owned by Glencore. Because of the harsh winter conditions in northern Quebec, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. The plant was built by BQE in 2004 and uses the Company's ChemSulphide® process to remove dissolved nickel from wastewater to produce clean water that meets strict water quality criteria for discharge to the environment. BQE is contracted to provide ongoing operating services in return for a water treatment fee per cubic metre of water discharged. The previous operating contract with Glencore expired at the end of 2016. At year-end, we successfully renewed an extension of the contract for both operations until 2020 and have transferred ownership of the Raglan water treatment plant to Glencore on January 1, 2017.

Operating results for the 12 months ended December, 31 2016 are as follows:

	2016	2015
Water treated and discharged (cubic metres)	982,000	1,118,000
Days operated (equivalent days)	146	181
Operating Hours	3469	4325
Discharge Hours	3190	3823
% of discharged hours/operating hours	92%	88%

In 2016, we successfully completed our 13th operating season at the site. During the year, we treated and discharged a total of 982,000 cubic metres of water, which is 12% less compared to 2015. During 2016, we also operated 35 days less than 2015, as operating days are largely determined by the level of precipitation and timing of winter conditions in the region. As we continued to enhance and improve our services in 2016, we improved our ratio of discharged hours over total operating hours from 88% in 2015 to 92% in 2016.

BQE also maintains operating responsibility for Glencore's Spoon water treatment plant, based on a cost-plus contract. This plant performs lime treatment and acidification of water that is not treated by BQE's ChemSulphide® plant.

Piloting, Engineering & Lab Projects

Selen-IX™ Pilot Operation

During 2016, BQE secured a contract with a Canadian resource company for a pilot scale demonstration and evaluation of its Selen-IX™ technology to remove selenium from mine impacted water. The pilot followed a successful laboratory campaign completed earlier in the year directly at the client's site and utilized BQE's existing mobile Selen-IX™ pilot plant. The objectives of the pilot campaign were to: demonstrate selenium removal to reach discharge targets on a continuous basis, generate design criteria for a full scale plant, and develop a preliminary capital and operating cost estimate. The pilot campaign was completed in December 2016 and the final report were submitted in February 2017. The total value of the contract is comparable to past pilot campaigns.

Engineering & Consulting Services

During 2016, the Company continued to provide consulting services to several mining projects in Canada, Asia, Europe and Latin America. The services covered a broad spectrum of activities including permitting support, development of site specific water management strategies and various stages of water treatment assessment for the removal of metals, sulphate and selenium. BQE expects that these activities will continue over the next several quarters and may lead to new activities as water management measures proceed to implementation.

Operational Support Services

During 2016, we completed services to provide the design, construction and commissioning for a water treatment plant at the Silvertip project in northern BC. Currently, we continue to provide operational support for their water treatment plant and additional lab testing services relating to arsenic, cyanide and selenium.

Lab Testing Services

Near the closing of 2016, we secured contracts with customers in Canada and Latin America to perform lab scale testing of our technologies at various mine sites. These tests will allow the customers to assess our technologies and provide high level

cost estimates for a possible full-scale plant. If results prove favourable, it may lead to additional services including pilot scale testing, design, construction and operation of a full-scale plant in the future.

Zinc and Copper Recovery – Joint Venture

BQE completed its detailed technical and economic assessment of a new treatment plant to be installed at an active smelter in China. The proposed new treatment plant has completed environmental permitting and BQE has formed a joint venture partnership with MWT to deliver the treatment plant for the smelter. BQE has begun the engineering and construction phase of the project and expects to start commissioning and operations in late 2017. Under the current arrangement of the joint venture, BQE will earn a fixed-fee from technical support and an ongoing share of the profits from the operation.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2016, BQE had 93,966,672 common shares issued (December 31, 2015 – 93,966,672) and 4,333,333 stock options outstanding (December 31, 2015 - 5,233,333).

As of April 19, 2017 the number of common shares issued and outstanding remain unchanged from December 31, 2016; and 3,793,333 stock options are issued and outstanding.

At December 31, 2016, the Company had cash and cash equivalents of \$2,231,798, which is an increase of \$822,908 in cash and cash equivalents from December 31, 2015. The cash and cash equivalents funded operating activities of \$804,373 and capital asset purchases of \$18,040.

Working capital at the end of the year was \$1,660,170, an increase of \$788,947 from December 31, 2015. BQE's significant working capital items include trade and other receivables of \$527,054 (\$568,204 at December 31, 2015) and trade payable and accrued liabilities of \$878,891 (\$929,579 at December 31, 2015).

The Company has \$818,167 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2016 and in the "2016 COMMENTARY AND 2017 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 raise additional financing and ultimately attain and maintain profitable operations. This assumes that the Company is able to successfully obtain financing to fund its working capital needs, continue successful operations at its Raglan and Dexing joint venture operations, maintain or further decrease operating expenses, successfully repatriate funds from its Dexing joint venture, and secure and complete new sales contracts.

On July 6, 2016, we completed an 18-month secured convertible loan with an aggregate principle of \$1.5 million. The Loan was with multiple lenders and bears interest at a rate of 8% per annum with interest being payable semi-annually from the issuance date. Upon prepayment or maturity of the Loan, each lender may elect to convert all or any portion of the unpaid principal into common shares of BQE at a conversion price \$0.06 cents per share. The proceeds of the Loan are used to fund general operating expenses and to ensure we have the financial resources to continue executing on our long-term growth strategy. Subsequent to the end of the year, on January 7, 2017, BQE paid out all accrued interest on the Loan.

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

RELATED PARTY TRANSACTIONS

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

- a) As at December 31, 2016, the Company had a receivables balance of \$86,255 (2015 - \$116,165) from the Dexing joint venture, arising mainly from joint venture investments and sales transactions. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the year ended December 31, 2016 and 2015. Sales and other transactions would have been recorded at the exchange amount agreed upon by both parties.
- b) As of December 31, 2016, the Company has \$10,000 included in trade payables and accrued liabilities (December 31, 2015 – \$160,000) with a company, owned by a director, for management consulting services. For the year ended December 31, 2016 and for 2015, the services received amounted to \$120,000.
- c) For the year ended December, 2016 and 2015, the compensation awarded to key management, which includes the Company's directors and members of the executive, are as follows:

	2016	2015
	\$	\$
Salaries, fees and short-term benefits	525,826	787,889
Termination benefits	-	84,525
Share-based payments	13,502	50,899
	<u>539,328</u>	<u>923,313</u>

Included in the trade payables and accrued liabilities as of December 31, 2016 is \$49,200 (2015 – \$230,043) of salaries, director fees, and termination benefits, with payment commitments in 2017.

- d) On July 6, 2016, the Company entered into an 18-month, secured, 8% per annum interest bearing convertible loan agreements with multiple lenders totalling to \$1.5 million (note 13). These lenders include certain directors, management, and employees of the Company.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's consolidated 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 consolidated 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 areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Critical judgements

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are limited to management's assessment of the Company's ability to continue as a going concern (note 2(b)).

Key sources of estimation uncertainty and assumptions

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities, income and expenses within the next fiscal year.

Revenue recognition

Revenue from engineering and lab services are recognized using a percentage-of-completion method, which requires judgment relative to assessing risks, estimating contract revenue and expenses, and making assumptions for schedule and technical issues. Depending on the services provided and on the contract terms, many variables are used in assessing the revenue from the percentage completed at the reporting date.

Asset impairment

Determining the amount of asset impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. In assessing fair value less costs to sell, the price that would be received on the sale of an asset in an orderly transaction between market participants at the measurement date is estimated. Many factors used to assess recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company's long-term assets such as plant and equipment or investment in joint ventures. For example, the copper price could be lower than projected due to economic, industry or competitive factors, or the discount rate used in the value in use model could increase due to changes in market interest rate.

Convertible loan

The calculation of the fair value of the debt component of the convertible loan issued during the year requires using an interest rate that the Company would have had to pay had the loan been obtained without a conversion feature. As the Company has not entered into a conventional loan in the past, such an interest rate requires management's estimate in reference to loan interest paid by comparable companies in a similar sector. Management estimates 15% being the reasonable interest rate a comparable company in the technology sector would likely pay in obtaining loans.

GENERAL

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected.

The Company's management has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

The Company's management has also evaluated the design and operating effectiveness of the Company's internal control over financial reporting as of the end of the period covered by this report. The risk of a significant error is mitigated by the active involvement of senior management and the board of directors in all the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; and the thorough review of the Company's financial statements by management and the Board of Directors. Based on the result of the assessment, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting have been adequately designed. During the current year, the Company's management implemented a formal testing program on the operating effectiveness of its controls and concluded that they are also effective.

There has been no change in BQE's internal controls over financial reporting during the year ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Recent Accounting Pronouncement

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. Changes in accounting standards not yet effective:

IFRS 9 Financial instruments

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 introduces new requirements for the classification and measurements 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 mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption of IFRS 9.

IFRS 15 Revenues from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time or over time. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price, and recognize revenue when the performance obligation is satisfied. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers, and improve the comparability of revenue from contracts with customers. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

The Company intends to adopt IFRS 15 in its consolidated financial at the date it becomes effective. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard replaces IAS 17 *Leases*. The effective date is for reporting periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has not yet determined the effect of adoption of IFRS 16 on its consolidated financial statements.

RISKS AND UNCERTAINTIES

Companies operating in the process technology sector face many and varied risks. While the company strives to manage such risks to the extent possible and practical, risk management cannot eliminate risk totally. Following are the risk factors which the Company's management believes are most important in the context of the Company's business. It should be noted that this list may not be exhaustive and other risks may apply. An investment in the Company may not be suitable for all investors.

Uncertain Profitability, Funding Needs, Financing Risks and Dilution

The Company believes there are many sites which can benefit from the Company's processes. The Company has designed and/or built 17 plants to date deploying proprietary technologies developed by BQE and applying them to meet site specific

conditions. However, the Company has been unable to consistently generate sufficient cash flows from these projects to cover ongoing development and administration costs to date.

BQE's ability to continue future operations is dependent on the Company's ability to generate positive cash flows from existing water treatment operations and projects currently under construction, securing additional design, engineering, construction and operating contracts, and if required, additional internal cost restructuring and financing in the future. Sources of potential financing include, but are not limited to, a combination of strategic partnerships, joint venture arrangements, project debt finance, issuance of equity and other capital markets alternatives. Management will pursue such additional sources of financing when required and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company and that they will be available on terms which are acceptable to the Company.

The issuance of common shares in the capital of the Company in the future could also result in further dilution to the Company's shareholders. There are also outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future which will result in dilution to the Company's shareholders.

Going Concern

There can be no assurance of the Company's success and, therefore, any investor in securities of the Company could potentially lose their entire investment. As disclosed in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2016 and in the "2016 COMMENTARY AND 2017 OUTLOOK" section of this MD&A, the Company believes that it has sufficient working capital resources for approximately the next 12 months. Beyond this point, we will need to secure new sources of working capital to continue operations.

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

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The 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 the consolidated financial statements could be required.

Dependence on Key Personnel

The Company is substantially dependent upon a number of key employees and consultants. The loss of any one or more of the Company's key employees or consultants could have a material adverse effect on its business. Additionally, the Company's ability to develop, manufacture and market its products and compete with current and future competitors depends, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel in the Company's industry may prove to be intense and it may have to compete for personnel with companies that have substantially greater financial and other resources than it does. Failure to attract and retain qualified personnel could have a material adverse effect on the Company's business operating results and financial condition.

Economic and Project Site Dependence

The Company currently derives its revenue from a limited number of sources (contracts). For certain contracts, the Company has made significant investments in fixed plants that are dependent on conditions at the project site that may be beyond the control of the Company. Changes in site conditions and/or the loss of any one contract could result in a materially adverse effect on the Company's financial condition.

Commodity Prices

For the Company's joint venture operations, it generates revenue by selling recovered copper obtained from treated water. These recovered metals face commodity price risks and thus their prices may vary based on world supply and demand. There can be no assurance that the price of copper will maintain at current buying rates.

Currency Risk

The Company conducts business in Canada, the United States, Mexico, Chile, China and Australia. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The Company's joint venture operations sell and incur costs mainly in Chinese RMB. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations. The Company is also exposed to currency risk through assets and liabilities denominated in currencies other than Canadian dollar.

Technology Risk

The Company has completed the construction and commissioning of a number of plants. The operating and engineering data from these plants is used in estimates for new projects under evaluation and/or in the design engineering stage. Notwithstanding the foregoing, each new commercial venture undertaken by the Company has the inherent technical risk of any continuous biological and/or chemical process, which could include the loss of the biological feedstock.

Intellectual Property Protection

The Company cannot provide any assurance that any further intellectual property applications will be approved. Even if they are approved, such patents, trademarks or other intellectual property registrations may be successfully challenged by others or invalidated. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies and processes which the Company will need to protect through a combination of patent, copyright, trade secret and trademark law.

The trademark, copyright and trade secret positions of the Company's business are uncertain and involve complex and evolving legal and factual questions. In addition, there can be no assurance that competitors will not seek to apply for and obtain trademarks and trade names that will prevent, limit or interfere with the Company's BioSulphide®, ChemSulphide®, Met-IX™, Sulf-IX™ and Selen-IX™ processes. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may also be necessary to enforce the intellectual property rights of the Company or to determine the scope and validity of other parties' proprietary rights. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks and copyrights from infringement or claims of invalidity.

The patent positions of emerging companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede the ability of the Company to do business or that third parties will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented product developed for the benefit of the Company.

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the inventors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

The Company is not currently aware of any claims asserted by third parties that the Company's intellectual property infringes on their intellectual property. However, in the future, a third party may assert a claim that the Company infringes on their intellectual property. If the Company is forced to defend against these claims, which may be with or without any merit or whether they are resolved in favour or against the Company, the Company may face costly litigation and diversion of management's attention and resources. As a result of such a dispute, the Company may have to develop costly non-infringement technology or enter into license agreements which may not be available at favourable terms.

Access to Proprietary Information

The Company generally controls access to and distribution of its technologies, documentation and other proprietary information. Despite efforts by the Company to protect its proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain or use its solutions or technologies. There can be no assurance that the steps the Company has taken or will be taking will prevent misappropriation of its solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in Canada or the United States.

Competition

The Company is aware of and does address existing competitors for metal removal opportunities. There is a possibility that other companies will enter these markets and compete with the Company. Such competitors could possess greater financial resources and technical facilities. Increased competition could result in significant price competition, reduced profit margins or loss of market share. The Company may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results and financial condition.

Environmental Regulation

The Company's business and operations are subject to environmental regulation in various jurisdictions in which it operates. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business and operations.

Management of Growth

The Company could experience growth that could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train and manage its employee base to manage growth. The Company might also establish additional water treatment facilities which would create additional operational and management complexities. In addition, the Company expects that its operational and management systems will face increased strain as a result of the expansion of the Company's technologies and services. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies and services. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition will suffer.

Conflicts of Interest

Certain directors, officers and other members of management of the Company and its subsidiaries serve (and may in the future serve) as directors, officers, promoters and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company or its subsidiaries and their duties as a director, officer, promoter or member of management of such other companies. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (British Columbia) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Possible Volatility of Share Price

The market price of the Company's common shares could be subject to wide fluctuations in response to, and may be adversely affected by, quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Company's common shares.

Lack of Dividends

No dividends have been paid to date on the Company's common shares. The Company anticipates that for the foreseeable future the Company's earnings, if any, will be retained for use in its business and that no cash dividends will be paid on the common shares.